

## LARA WEISIGER

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**From:** Jill Keimach  
**Sent:** Monday, September 18, 2017 11:40 AM  
**To:** CityCouncil-List  
**Cc:** Jennifer Ott; LARA WEISIGER; Liz Warmerdam; Nanette Mocanu  
**Subject:** Bladium Purchase Option  
**Attachments:** Appraisal - Smith Assoc - 800 Tower Ave Alameda.pdf; Appraisal Report 16asf092 City of Alameda (1).pdf; Bladium Lease - Amendment to Sublease.pdf

**Importance:** High

In response to a Council question regarding Item 6-D, we are providing the 2000 Amendment to the Bladium Lease that addresses the purchase option and the two appraisals performed to establish purchase price.



**AN APPRAISAL REPORT OF**

An Industrial Property  
800 W. Tower Avenue  
Alameda, CA 94501



File Number D165042

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May 31, 2016

Mr. Brad Shook  
President  
Bladium Sports & Fitness Club  
800 W. Tower Avenue  
Alameda, CA 94501

RE: An Appraisal Report of  
An Industrial Property  
800 W. Tower Avenue  
Alameda, CA 94501

Dear Mr. Shook:

This appraisal report is intended to comply with the reporting requirements set forth in the 2016-2017 Uniform Standards of Professional Appraisal Practice (USPAP). It contains all applicable approaches to value. The property rights appraised reflect the Leased Fee Interest. The intended use of this appraisal is to aid in negotiations to purchase the property. The intended user includes Mr. Brad Shook and his assigns in connection with this process only. This appraisal report is not authorized to any other user for any reason. The purpose of this report is to provide an opinion of value under the following premises.

- Hypothetical Market Value – Leased Fee assuming the interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements

The property being valued consists of Building 40 located at 800 W. Tower Avenue within the former Alameda Naval Air Station now known as Alameda Point. Historically the building was used as an airplane hangar being built in 1941 of concrete and steel frame construction reflecting overall average quality and condition. It contains 104,000 square feet and has been occupied by the current tenant since January 2000 being used as a sports and fitness club. The tenant is currently on their second lease extension which commenced July 1, 2015 and runs through June 30, 2025. Included in the lease is an option to purchase the property. The price is to be based on the fair market value assuming the interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements. The layout is assumed to consist of 87,516 square feet of light industrial space; 3,500 square feet of finished office and 12,984 square feet of unfinished office requiring new carpets, paint and a dropped ceiling.

Mr. Brad Shook  
President  
Bladium Sports & Fitness Club  
Page Two

Based on the analysis described in the attached report, in conjunction with the General Assumptions and Limiting Conditions, Extraordinary Assumptions and Hypothetical Conditions, it is our opinion that the subject values are as follows:

<b>VALUE PREMISES</b>	<b>EFFECTIVE DATE OF VALUE</b>	<b>OPINION OF VALUE</b>	<b>EXPOSURE PERIOD/ MARKETING PERIOD</b>
<b>Hypothetical Market Value - Leased Fee</b>	<b>March 9, 2016</b>	<b>\$7,500,000</b> (A)	3-6 Months/3-6 Months

(A) The above value conclusion is subject to the Hypothetical Conditions and Extraordinary Assumptions discussed on page 2 of this report.

The General Assumptions and Limiting Conditions, Extraordinary Assumptions, and Hypothetical Conditions are a vital part of this report. In addition to conforming with the 2016-2017 Uniform Standards of Professional Appraisal Practice (USPAP), the appraisal is also in conformance with FIRREA appraisal regulations, most notably 12CFR, part 34, section 34.44, and the Appraisal Standards of the Office of the Comptroller of the Currency (as modified December 10, 2010), and the client's Appraisal Guidelines.

We have the appropriate education to have completed this assignment in a competent manner. This appraisal assignment was not based on condition of loan approval or a requested minimum value. Please call if there are any questions regarding this assignment.

Respectfully Submitted,

SMITH & ASSOCIATES, INC.



Robin J. Schwedhelm, MAI  
Certified General Real Estate Appraiser  
AG029733, Expiration 11/26/2016



Dennis L. Smith, MAI  
Certified General Real Estate Appraiser  
AG002792, Expiration 02/01/2018

**SUBJECT PHOTOGRAPHS**



**View of Subject Building from Street**



**North Side of Subject Building**

**SUBJECT PHOTOGRAPHS**



**South Side of Subject Building**

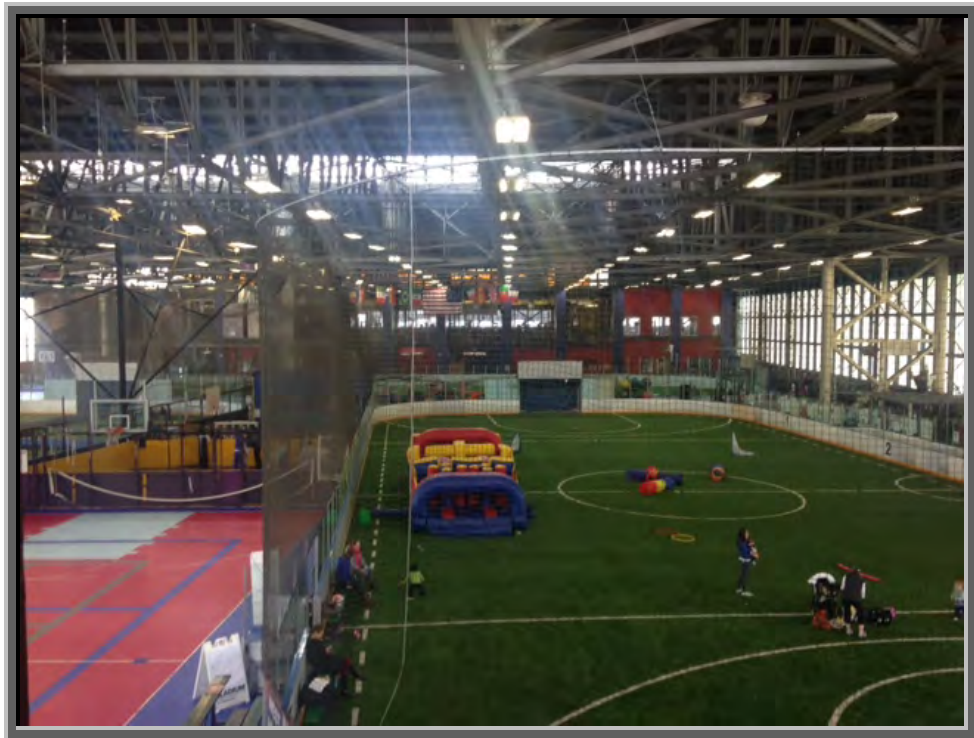


**East Side of Subject Building**

## SUBJECT PHOTOGRAPHS



West Side of Subject Building



View of Interior

**SUBJECT PHOTOGRAPHS**



**W. Tower Avenue Looking West**



**W. Tower Avenue Looking East**



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## SUMMARY OF SALIENT FACTS

<b>Property Type:</b>	Industrial
<b>Property Address:</b>	800 W. Tower Avenue Alameda, CA 94501
<b>APN(s):</b>	Portions of 074-1368-010-02 & 074-1368-002-04
<b>Total Proposed Land Area:</b>	287,496 square feet or 6.60 acres
<b>Total Building Area:</b>	104,000 square feet
<b>Year Built/Effective Age/REL:</b>	1941/20 years/30 years
<b>Zoning:</b>	AP-TC – Alameda Point Town Center
<b>General Plan:</b>	Mixed-Use – Marina
<b>Flood Zone:</b>	Zone D
<b>Earthquake Zone:</b>	Not located in Fault-Rupture Hazard Zone
<b>Present Use:</b>	Industrial
<b>Highest and Best Use:</b>	Present use
<b>Effective Date of Valuation:</b>	March 9, 2016
<b>Interests Appraised:</b>	
Hypothetical Market Value	Leased Fee
<b>Approaches To Value:</b>	
Cost Approach	N/A
Sales Comparison Approach	\$7,800,000
Income Approach	\$7,800,000
Discounted Rent Loss:	(\$290,000)
<b>Hypothetical Market Value:</b>	<b>\$7,500,000</b>

## SUMMARY OF SALIENT FACTS (Continued)

### Value Conclusions

VALUE PREMISES	EFFECTIVE DATE OF VALUE	OPINION OF VALUE	EXPOSURE PERIOD/ MARKETING PERIOD
Hypothetical Market Value - Leased Fee	March 9, 2016	\$7,500,000 (A)	3-6 Months/3-6 Months

(A) The above value conclusion is subject to the Hypothetical Conditions and Extraordinary Assumptions discussed on page 2 of this report.

### Income Summary – Fee Simple

POTENTIAL GROSS INCOME	\$561,600
LESS VACANCY AND COLLECTION LOSS	5.0% (\$28,080)
EFFECTIVE GROSS INCOME	\$533,520
TOTAL OPERATING EXPENSES	5.0% (\$26,676)
<b>NET OPERATING INCOME</b>	<b>\$506,844</b>

#### Appraisers:

Robin J. Schwedhelm, MAI  
Certified General Real Estate Appraiser  
State of CA #AG029733, exp. 11/26/2016

Dennis L. Smith, MAI  
Certified General Real Estate Appraiser  
State of CA #AG002792, exp. 2/1/2018

### EXTRAORDINARY ASSUMPTIONS

1. Alameda Point is in the process of being subdivided into individual parcels. It is an Extraordinary Assumption of this appraisal that the subdivision will be approved and the subject parcel will be consistent with the Conceptual Parcel Map indicating a site area of 6.60 acres.
2. As part of the redevelopment of Alameda Point a Master Infrastructure Plan (MIP) was approved which identified needed public infrastructure costs of \$594 million. The total impact fees per acre for commercial properties in Alameda Point are \$978,965 per acre. It is an Extraordinary Assumption of this report that these fees are adequate to cover the needed infrastructure.

### HYPOTHETICAL CONDITIONS

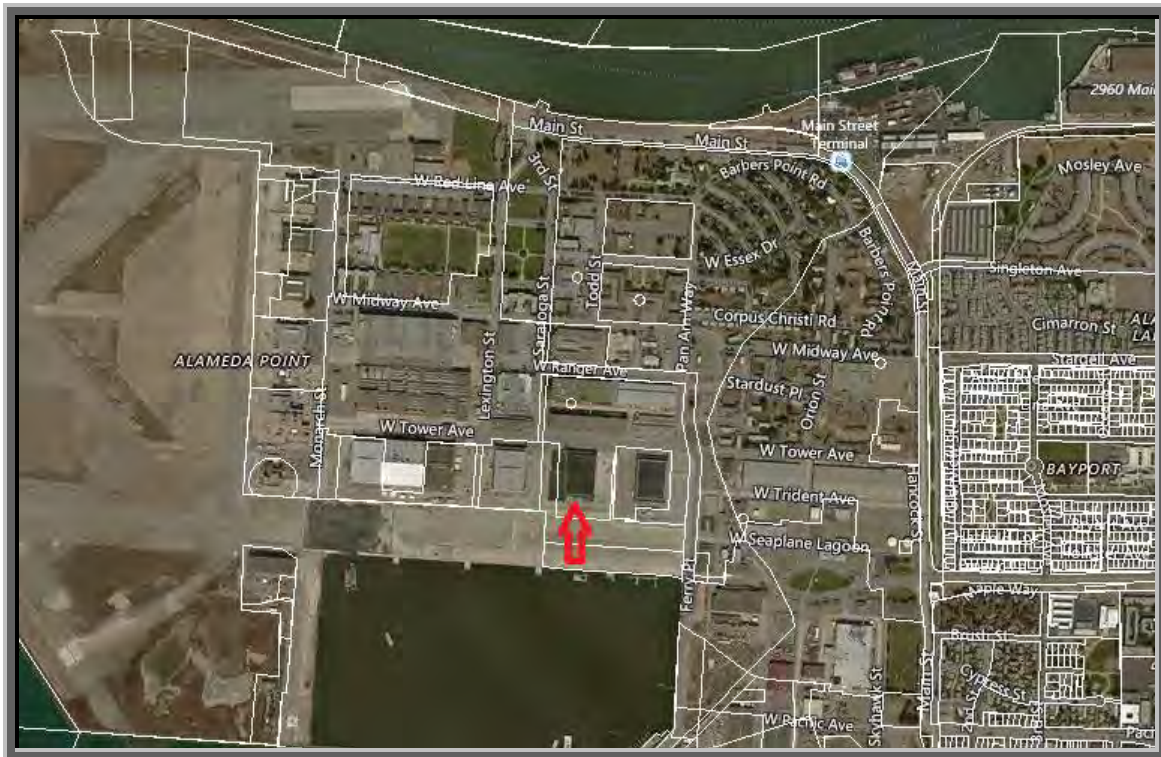
1. The appraisal and value conclusion are based on the Hypothetical Condition that the subject interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements. The layout is assumed to consist of 87,516 square feet of light industrial space; 3,500 square feet of finished office and 12,984 square feet of unfinished office requiring new carpets, paint and a dropped ceiling. It represents the condition of the property at the time of occupancy by the current tenant following receipt of a Certificate of Occupancy.

## PART 1 – INTRODUCTION

### IDENTIFICATION OF THE SUBJECT PROPERTY

The subject property is located at 800 W. Tower Avenue in Alameda, California. It is Building 40 of the former Alameda Naval Air Station, now known as Alameda Point. The project is in the process of being subdivided with the subject currently being a portion of parcel numbers 074-1368-010-02 and 074-1368-002-04. A legal description is not available.

### AERIAL MAP



### SCOPE OF WORK

This appraisal report is prepared in conjunction with the 2016-2017 Uniform Standards of Professional Appraisal Practice, FIRREA appraisal regulations, most notably 12CFR, part 34, section 34.44, and the Appraisal Standards of the Office of the Comptroller of the Currency (as modified December 10, 2010), and the client's Appraisal Guidelines. Elements inherent with this process include the following.

1. Review of all documents provided to determine the purpose, client, intended use and intended user of the appraisal report. Identify the appraisal problem and appropriate approaches of value necessary to provide credible results.
2. Complete a physical inspection including applicable photographs. The inspection included an interior and exterior inspection of the subject building.

3. Research of the neighborhood, city and county factors was based on neighborhood analysis, information from local government sources, and data sources utilized by Smith & Associates, Inc.
4. In developing the approaches to value, market data was used and verified. Data sources included in-house data files, brokers and agents, property owners, and other knowledgeable market participants. Data is believed reliable but not guaranteed (Refer to assumptions and limiting conditions).
5. Review and analyze all pertinent data to determine the subjects' highest and best use. Steps 1-4 noted above were considered with particular emphasis placed on current market conditions and trends.
6. Assemble and analyze the data outlined above and opinions of value formulated. In the case of the subject property, we have completed the Sales Comparison Approach and Income Approach to arrive at a Hypothetical Market Value.
7. Review the report for content and compliance with 2016-2017 USPAP, FIRREA, and client requirements.
8. Preparation of an appraisal report with information presented to the client that is adequate to allow for an understanding of the appraisal process and the opinion of value. The depth of discussion contained in this report is specific to the needs of the client and for the intended use.

## **PROPERTY RIGHTS APPRAISED**

The property rights appraised reflect the Leased Fee Interest. A definition of the individual property rights appraised is included in the Glossary contained in the addenda of this appraisal report.

## **PURPOSE, CLIENT, INTENDED USE, AND INTENDED USER OF THE APPRAISAL**

The purpose of this report is to provide an opinion of value under the following premise(s).

- Hypothetical Market Value – Leased Fee assuming the interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements

The client for this assignment is Mr. Brad Shook. The intended use of this appraisal is to aid in negotiations to purchase the property. The intended user includes Mr. Brad Shook and his assigns in connection with this process only. This appraisal report is not authorized to any other user for any reason.

## **DEFINITION OF MARKET VALUE**

The following definition of market value is used by agencies that regulate federally insured financial institutions in the United States.

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

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

(12 C.F.R. Part 24.42(g); 55 Federal Register 54696, August 24, 1990, as amended at 57 Federal Register 12201, April 9, 1992; 59 Federal Register 29499, June 7, 1994)

## **OWNERSHIP AND HISTORY OF THE PROPERTY**

Title to the property is vested in:

City of Alameda

The property has historically been under the ownership of the United States Government and used as the Alameda Naval Air Station until the closure in 1997. In June of 2013, the City of Alameda took title to approximately 1,400 acres of land and water. The City is in the process of subdividing the land to allow for their sale. The subject hangar, known as Building 40, has been occupied by the current tenant since January of 2000. They are currently on their second lease extension which commenced July 1, 2015 and runs through June 30, 2025. Included in the lease is an option to purchase the property. The price is to be based on the fair market value assuming the interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements and a Certificate of Occupancy. The layout is assumed to consist of 87,516 square feet of light industrial space; 3,500 square feet of finished office and 12,984 square feet of unfinished office requiring new carpets, paint and a dropped ceiling.

## **PART 2 – LOCATION AND PROPERTY DESCRIPTIONS**

### **CITY AND NEIGHBORHOOD DESCRIPTION**

The City of Alameda is situated on an island and a portion of a peninsula located 12 miles directly east of San Francisco and separated from the City of Oakland by the Inner Harbor Canal. City boundaries contain a land area of 12.4 miles over the entire main island and a portion of the peninsula referred to as Bay Farm Island, shared with the Oakland International Airport. The city is primarily residential in use; however, it also contains one regional and three community shopping centers, two large office parks and two neighborhood commercial districts.

Although first incorporated in 1884, the city grew most rapidly during the first half of the century when the island's shipyards were actively employed during both world wars. Until 1997, the ANAS (Alameda Naval Air Station) and neighboring naval supply center covered approximately one third of the main Alameda Island. In 1993, the Defense Base Realignment and Closure commission announced the closure of both the Alameda Naval Air Station along with the Oakland Army Base by April 1997. Various estimates suggest a minimum of 20,000 full-time service personnel and civilians relocated from the island as a result of these closures.

#### **Demographic Profile**

In terms of total population Alameda is the seventh largest city in Alameda County, behind Oakland, Fremont, Hayward, Berkeley, San Leandro and Livermore. According to the California Department of Finance, the city had a January 1, 2015 population of 76,638, which has increased by 0.9% since January 2014.

According to information obtained from the United States Census, the estimated mean household income in the city as of the year 2014 was \$76,439 with 32,166 housing units. This number will increase considerably once construction starts on the redevelopment of Alameda Point.

#### **Business Development**

Alameda has office, industrial and retail businesses. The largest private employers include Abbott Diabetes Care, Alameda Hospital, Bay Ship and Yacht Company, Safeway, VF Outdoors and Wind River Systems while the largest public employers include Alameda Unified School District, City of Alameda and College of Alameda. The city has been attracting biotechnology, health care technology, motion picture, distillers/brewers and technological/engineering innovators to both its business areas in Harbor Bay as well as the Alameda Point redevelopment area.

On the east side of the island is the Harbor Bay Business park, which is a master planned, self-contained community of Harbor Bay Isle including more than 80 companies, 3000 homes, a full-service fitness and tennis facility, the Harbor Bay Landing shopping center and high speed ferry service to San Francisco. The area is located just north of the Oakland International Airport and is accessible via Doolittle Drive and the Ron Cowan Parkway.

The park is home to several local and national companies who mainly own or occupy build to suits developed by SRM Associates. In June of 2012, SRM Associates delivered the new four-building, 160,000 square foot, VF Outdoor office headquarters campus.

This company controls the Jansport, Vans, Lucy and North Face brands with the headquarters bringing over 500 employees to the area. The reported cost for this sustainable and environmentally conscious campus was reported at \$235 per square foot.

### Subject Neighborhood

The subject property is located within Alameda Point, which is the former Alameda Naval Air Station on the west side of the island. The area features around 467 developable acres along with around 870 acres of submerged land. The city took title to the land in June of 2013 and most recently selected a developer for 'Site A' which is to be developed with up to 800 housing units and a mix of retail and office space, as well as a waterfront area in close proximity to the subject building. A veteran's outpatient clinic and columbarium will be constructed on the northwest end of the Point, with the remaining area to be preserved as open space and a nature reserve.

All of the former airplane hangars, including the subject, have been designated as historic properties and will remain untouched. Over the past few years they have been leased to various companies with many having options to purchase following the land subdivision. The redevelopment project discussed above is considered both an upside and downside for these hangars given the increased population and demand to come to the area, which will undoubtedly further hinder vehicular and truck access and congestion.

In summary, Alameda is an attractive and mature residential community, centrally located within the San Francisco Bay Area. Household incomes are marginally above-average for the County, with the employment sector expected to grow considerably over the next two decades. Since the closure of the Naval Air Station in 1997, the base has been leased to a variety of companies, with the redevelopment moving forward following the recent selection of a developer. Overall, no major adverse influences were noted.

### LOCATION MAP





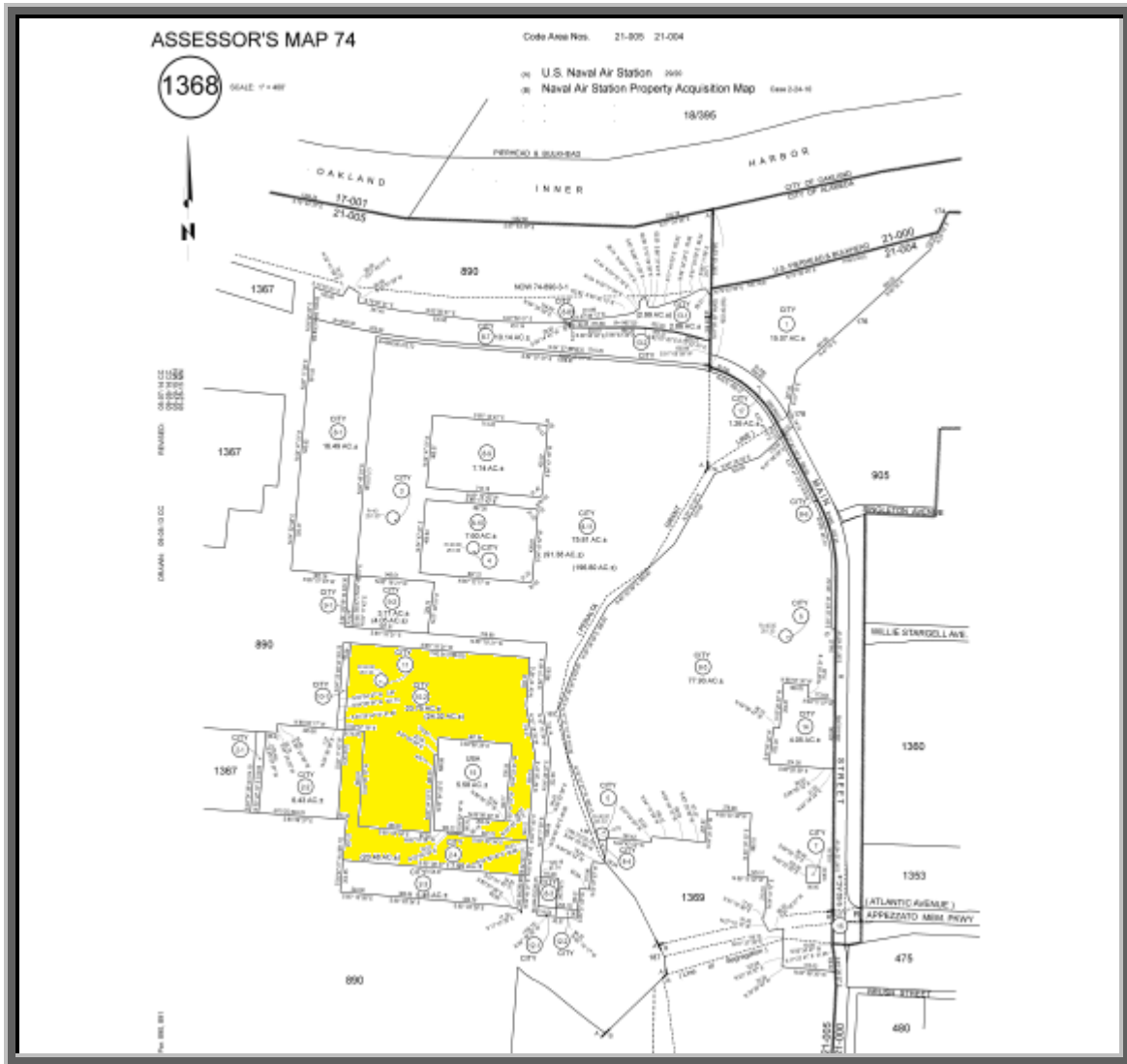
# SITE DESCRIPTION

## Location

The subject property is located at 800 W. Tower Avenue, Alameda, CA 94501

**APN(s)** The subject parcel is in the process of subdivision. It currently reflects a portion of parcel numbers 074-1368-010-02 and 074-1368-002-04.

## PARCEL MAP



### **Size, Shape, and Utility**

The subject parcel is currently in the process of being subdivided. Based on a Conceptual Parcel Map completed by Carlson, Barbee & Gibson, Inc., dated March 4, 2016, the subject site is to contain 6.60 acres or 287,496 square feet. It will feature approximately 600 lineal feet of frontage along W. Tower Avenue and be rectangular in shape. The overall utility is considered good.

### **Topography and Drainage**

The topography is generally level and at street grade. Drainage appears adequate.

### **Utilities**

All utilities are available to the site, including sewer, water, storm drainage, gas, electricity and telephone. Due to the age of the infrastructure, a Master Infrastructure Plan was approved in February of 2014 for Alameda Point, which identified \$594 million in needed public infrastructure. The estimated impact fee for commercial properties is \$978,965 per acre.

### **Soils Conditions**

No current Geotechnical Investigation Report or Soils Report was provided for review in preparation of this assignment. In the absence of a professional report provided for review, the opinions of value demonstrated in this report assume that the soils are capable of supporting the existing improvements for the subject property. The appraiser is not a recognized expert in this field and does not warrant any opinions regarding the soil conditions for this property. Please refer to the assumptions and limiting conditions of this report included in the addenda of this report.

### **Nuisances and Hazards**

It is noted that no current environmental report was provided for review in preparation of this assignment. The appraiser is not a recognized expert in this field and does not warrant any opinions regarding environmental hazards for this property. Please refer to the assumptions and limiting conditions of this report included in the addenda of this report.

### **Easements, Encroachments & Adverse Conditions**

A preliminary title report was not provided for review. It is an assumption of this report that no easements or encroachments exist which adversely affect the subject's marketability or value.

### **Flood Zone**

The subject site is located in a HUD Flood Hazard Zone "D", which is an area in which flood hazards are undetermined, but possible. The community panel number is #06001C0066G, Alameda County Unincorporated & Incorporated Areas, on the map dated August 3, 2009.

## **Earthquake Zone**

The subject is not located within the Fault-Rupture Hazard Zone (formerly referred to as an Alquist-Priolo Special Study Zone) as defined by Special Publication 42 of the California Department of Conservation, Division of Mines and Geology. The subject is not within a special study area.

## **ZONING**

The subject property is located within the AP-TC Town Center district with a general plan designation of Mixed-Use-Marina. Per the Alameda Zoning Code, this sub-district “provides lands for a mix of uses that include waterfront and visitor-serving uses, including retail, service, entertainment, lodging, recreational, and medium to high-density residential uses. Development standards are intended to create a pedestrian, bicycle, and transit supportive urban environment designed to de-emphasize the automobile and create a mixed-use environment that supports the emergence of a transit and pedestrian-friendly mixed-use waterfront neighborhood.” The Mixed Use – Marina General Plan designates the area for marina-related industry, office, commercial, residential, recreation and supporting retail.

The existing former airplane hangars are allowed a wide variety of uses including several types of manufacturing and R&D.

Parking requirements are 1 space for every 250 square feet of office and 1.25 spaces for every 1,000 square feet of manufacturing equating to 175 required spaces for the subject. The subject has a considerable number of on-site parking spaces and is considered conforming to the requirement.

## **TAXES AND ASSESSMENTS**

Due to its ownership by the City of Alameda, the subject’s common parcels are not assessed and in turn are not charged real estate taxes. Upon completion of the subdivision, the parcel will be assessed by the County and real estate taxes and special assessment charges will commence.

### **Projected Taxes**

Since the passage of Proposition 13, in June of 1978, upon the transfer of a property, projected real estate taxes are based on 1% of full cash value plus any amount necessary to satisfy general obligation bonds or other indebtedness approved by voters prior to July 1, 1978. Proposition 13 also maintains a maximum 2% annual increase in assessed value. Properties are reassessed to market value at transfer or can be increased upon construction of new improvements. This is a factor that a prudent buyer recognizes and considers when estimating what the future expenses would be in purchasing a property. Market value taxes are used in the analysis of the subject.

## **BUILDING DESCRIPTION**

The subject property consists of a single tenant, industrial building totaling 104,000 square feet which is currently used as a sports and fitness facility. The improvements are of concrete and steel frame construction with a built-up composition membrane roof and poured concrete slab foundation. The improvements were constructed in 1941 to be used as an airplane hangar and are considered to reflect average quality and condition.

This appraisal is to value the subject property assuming the interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements and Certificate of Occupancy. The layout is assumed to consist of 87,516 square feet of light industrial space; 3,500 square feet of finished office and 12,984 square feet of unfinished office requiring new carpets, paint and a dropped ceiling. The light industrial space is open featuring a 40 foot clear height and large hangar doors.

Based on Exhibit E which is located in the Addenda, the Qualified Shell Improvements generally consisted of abatement of hazardous materials and asbestos, minor interior and exterior demolition, some grading and paving/stripping of the site area, minor roof repairs, door and window repairs, interior office work, plumbing/fixture work, fire sprinkler upgrades and electrical upgrades. Completion of this work resulted in a certificate of occupancy.

In terms of the overall condition of the property for the basis of this valuation, Exhibit F reports the exterior of the building to be in overall good condition with no considerable deferred maintenance noted. The structural portion of the interior is assumed to be of average quality, with a portion of the office area being repaired per Exhibit E referenced above. The remainder of the office, or 12,984 square feet, is in need of new carpet, paint and ceilings tiles.

## PART 3 – MARKET ANALYSIS & HIGHEST AND BEST USE

### MARKET ANALYSIS

In order to grasp a better understanding of the industrial market in the East Bay and Alameda specifically, several market reports published quarterly by brokerage firms were reviewed. Given the small size of the Alameda industrial market, it is not directly addressed in local brokerage reports; however, the following reports are considered good indicators to the general market. The most recent East Bay Industrial Report from Cushman & Wakefield for the first quarter 2016 is quoted as follows:

#### Development Pipeline Continues to Surge

Job growth in the Bay Area has begun to flatten out relative to the enormous growth over the past several years. But employment is presently at a historical high, and unemployment stands at a scant 3.9%. The East Bay region, made up of Alameda and Contra Costa counties, posted healthy improvements to its unemployment rates over the past year, ending February 2016 at 4.3% and 4.5%, respectively. The labor force has ballooned in recent years with both in-migration to the Bay Area region in general, and migration of Bay Area residents to the East Bay. The East Bay has become an increasingly popular option for residents from other Bay Area cities thanks to its relatively lower home prices. We anticipate that these migration trends will persist as a lack of housing options and high housing costs continue throughout the Bay Area.

Vacancy in the I-80/I-880 Corridor industrial market closed the first quarter of 2016 at 2.1% overall, edging up over the last three months from the 1.9% rate that was in place at the end of 2015. However, this metric has remained below the 5.0% mark for eight consecutive quarters. The uptick in vacancy equated to 207,000 square feet (sf) of net occupancy loss. The loss occurred in the warehouse sector as a handful of sublease space came onto the market during the quarter. Conversely, direct warehouse occupancy increased in this time period by nearly 250,000 sf. Net absorption for manufacturing product was nearly flat at less than 5,000 sf.

Negative absorption figures brought on by the increase in sublease space are often cause to cast a wary eye. For the present, however, it is important to note that sublease vacancy is still notably lower than the historical average by approximately 35.7%. In some cases we are even seeing landlords recapture below market space. Deal velocity continues to be impacted by the lack of available space in the market. Despite the uptick in sublease space, overall market fundamentals remain strong, and demand for top quality, large blocks of space continue to outpace supply. In fact, there are presently only four spaces over 100,000 sf available in existing product, and we are presently tracking 14 tenant requirements in that size range. In all size ranges, we are tracking total market demand at over 4.0 million square feet (msf) with only 3.4 msf available in existing inventory. Over the next several months, we anticipate vacancy will plod along near its present low levels with absorption occurring primarily in new product, as there is not a significant amount of existing product left to absorb.

Rental rates continue to surge in the face of extreme and persistent supply constraints with the overall figure ending the first quarter of 2016 at \$0.67 per square foot per month (psf/mo) on a triple net basis, up 7.9% over the course of just three months

compared to \$0.62 psf/mo at year-end 2015. Rents have increased tremendously over the past several years from their trough of \$0.38 psf/mo at the midpoint of 2011. Individually, both warehouse and manufacturing rents have grown considerably this year to \$0.59 and \$0.76 psf/mo, respectively, from \$0.55 and \$0.69 psf/mo. We anticipate rental rates will continue to climb as the supply of available space remains scarce throughout the market. New product coming online over the course of the year is also likely to push rental rates upward.

The development story remains the highlight of the I-80/I-880 industrial market this cycle. The market has added over 3.4 msf of new warehouse product to date. There is currently almost 1.7 msf of speculative industrial product under construction throughout the corridor slated for delivery in the second half of 2016. In addition, several other planned projects will likely begin construction later this year. Development activity continues to be chiefly for warehouse product. Overton Moore's 143,000 sf project on Eureka Drive in Newark is the only manufacturing project to go forward this cycle. We anticipate that new projects will continue to lease as they near completion or lease quickly upon completion and additional projects will likely fill the pipeline over the next several months. For the foreseeable future, we continue to expect any large blocks of top quality space to lease quickly.

Below is a market summary of the nine submarkets making up the East Bay industrial market.

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVERAGE ASKING RENT*
Richmond	11,252,886	7,905	402,308	3.6%	185,609	185,609	0	\$0.57
Berkeley	6,097,518	0	30,373	0.5%	0	0	0	\$1.08
Emeryville	2,487,810	31,222	50,027	3.3%	3,612	3,612	0	\$0.57
Oakland	37,265,112	45,298	247,232	0.8%	305,837	305,837	0	\$0.66
San Leandro	27,110,812	51,681	248,530	1.1%	(36,534)	(36,534)	161,483	\$0.62
Hayward	36,967,879	380,854	602,166	2.7%	(180,678)	(180,678)	896,564	\$0.60
Union City	13,468,938	125,802	573,431	5.2%	(302,184)	(302,184)	0	\$0.63
Newark	8,479,650	53,292	232,851	3.4%	(140,417)	(140,417)	0	\$1.00
Fremont	19,722,097	91,712	239,645	1.7%	(41,837)	(41,837)	623,920	\$0.85
<b>SUBTYPE BREAKDOWN</b>								
Warehouse	76,151,153	615,377	1,181,172	2.4%	(211,171)	(211,171)	1,681,967	\$0.59
Light Industrial	86,701,549	172,389	1,445,391	1.9%	4,579	4,579	143,373	\$0.76
<b>TOTAL</b>	<b>162,852,702</b>	<b>787,766</b>	<b>2,626,563</b>	<b>2.1%</b>	<b>(206,592)</b>	<b>(206,592)</b>	<b>1,825,340</b>	<b>\$0.67</b>

\*Rental rates reflect asking \$psf/month converted to Triple Net

Vacancy in the 880 Corridor is very low at 2.1%, with the nine submarkets addressed having vacancy ranging between 0.8% and 5.2%. Overall asking rents ranged from \$0.57 to \$1.08 per square foot, NNN with a market average of \$0.67 per square foot, NNN. The immediate neighboring markets of Oakland and San Leandro finished the quarter with low vacancy rates of 0.8% and 1.1%, respectively. Their average asking rents were \$0.66 and \$0.62 per square foot, NNN, respectively.

The following chart displays the industrial statistics for the 80/880 Industrial market from the Colliers International Industrial Report for the First Quarter 2016.

Market Comparisons																
INDUSTRIAL MARKET																
SUBTYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETED CURRENT QTR SF	UNDER CONSTRUCTION SF	Leasing Activity Current Qtr	AVG ASKING NNN	
<b>RICHMOND</b>																
Industrial	225	4,920,275	116,878	2.4%	-	0.0%	116,878	2.4%	4.1%	86,160	86,160	-	-	47,000	\$0.59	
Warehouse	44	4,857,710	224,154	4.6%	-	0.0%	224,154	4.6%	5.1%	26,000	26,000	-	-	-	\$0.65	
R&D/Flex	100	3,393,153	52,939	1.6%	22,961	0.7%	75,900	2.2%	5.9%	123,620	123,620	-	-	-	\$0.72	
Total	369	13,171,138	393,971	3.0%	22,961	0.2%	416,932	3.2%	5.0%	235,780	235,780	-	-	47,000	\$0.65	
<b>OAKLAND</b>																
Industrial	834	22,664,359	324,134	1.4%	-	0.0%	324,134	1.4%	1.3%	(19,549)	(19,549)	-	-	61,252	\$0.68	
Warehouse	157	10,990,829	131,392	1.2%	-	0.0%	131,392	1.2%	1.8%	62,864	62,864	-	-	251,529	\$0.60	
R&D/Flex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	991	33,655,188	455,526	1.4%	-	0.0%	455,526	1.4%	1.5%	43,315	43,315	-	-	312,781	\$0.65	
<b>SAN LEANDRO</b>																
Industrial	460	11,661,810	127,491	1.1%	-	0.0%	127,491	1.1%	0.8%	(34,725)	(34,725)	-	-	79,706	\$0.68	
Warehouse	127	14,543,408	73,320	0.5%	57,624	0.4%	130,944	0.9%	0.7%	(35,964)	(35,964)	-	161,200	41,660	\$0.62	
R&D/Flex	52	847,380	12,882	1.5%	-	0.0%	12,882	1.5%	2.0%	3,773	3,773	-	-	3,773	\$0.91	
Total	639	27,052,598	213,693	0.8%	57,624	0.2%	271,317	1.0%	0.8%	(66,916)	(66,916)	-	161,200	125,139	\$0.66	
<b>HAYWARD</b>																
Industrial	786	16,581,585	466,452	2.8%	92,369	0.6%	558,821	3.4%	2.5%	(144,829)	(144,829)	-	-	151,389	\$0.76	
Warehouse	214	21,078,545	491,158	2.3%	-	0.0%	491,158	2.3%	3.9%	320,578	320,578	-	333,365	639,454	\$0.60	
R&D/Flex	105	4,502,794	156,613	3.5%	47,132	1.0%	203,745	4.5%	4.2%	(15,952)	(15,952)	-	-	87,665	\$0.87	
Total	1,105	42,162,924	1,114,223	2.6%	139,501	0.3%	1,253,724	3.0%	3.4%	159,797	159,797	-	333,365	876,508	\$0.72	
<b>UNION CITY</b>																
Industrial	162	7,883,678	137,116	1.7%	-	0.0%	137,116	1.7%	1.4%	(24,110)	(24,110)	-	-	61,992	\$0.62	
Warehouse	82	7,488,110	33,488	0.4%	-	0.0%	33,488	0.4%	1.9%	106,422	106,422	-	-	139,910	\$0.65	
R&D/Flex	14	870,672	10,320	1.2%	-	0.0%	10,320	1.2%	9.9%	76,214	76,214	-	-	129,674	\$1.20	
Total	258	16,242,460	180,924	1.1%	-	0.0%	180,924	1.1%	2.1%	158,526	158,526	-	-	331,576	\$0.66	
<b>NEWARK</b>																
Industrial	139	4,119,474	45,205	1.1%	1,860	0.0%	47,065	1.1%	1.1%	(1,500)	(1,500)	-	143,373	7,100	\$0.86	
Warehouse	29	3,923,778	152,648	3.9%	-	0.0%	152,648	3.9%	0.5%	(132,648)	(132,648)	-	-	121,250	\$0.60	
R&D/Flex	43	3,082,263	238,459	7.7%	-	0.0%	238,459	7.7%	7.7%	-	-	-	-	-	\$2.14	
Total	211	11,125,514	436,312	3.9%	1,860	0.0%	438,172	3.9%	2.7%	(134,148)	(134,148)	-	143,373	128,350	\$1.47	
<b>MARKET TOTAL</b>																
Industrial	2,606	67,831,181	1,217,276	1.8%	94,229	0.1%	1,311,505	1.9%	1.7%	(138,553)	(138,553)	-	143,373	408,439	\$0.71	
Warehouse	653	62,882,380	1,106,160	1.8%	57,624	0.1%	1,163,784	1.9%	2.4%	347,252	347,252	-	494,565	1,193,803	\$0.61	
R&D/Flex	314	12,696,262	471,213	3.7%	70,093	0.6%	541,306	4.3%	5.7%	187,655	187,655	-	-	221,112	\$1.42	
Total	3,573	143,409,822	2,794,649	1.9%	221,946	0.2%	3,016,595	2.1%	2.4%	396,354	396,354	-	637,938	1,823,354	\$0.80	
<b>QUARTERLY COMPARISONS AND TOTALS</b>																
Q1-16	3,573	143,409,822	2,794,649	1.9%	221,946	0.2%	3,016,595	2.1%	2.4%	396,354	396,354	-	637,938	1,823,354	\$0.80	
Q4-15	3,573	143,409,822	3,309,756	2.3%	103,193	0.1%	3,412,949	2.4%	3.0%	-	3,027,550	-	1,345,758	1,356,744	\$0.71	
Q3-15	3,573	143,409,822	4,188,625	2.9%	182,539	0.1%	4,371,164	3.0%	3.6%	-	2,069,335	107,024	1,202,385	-	\$0.68	
Q2-15	3,573	143,233,909	4,821,375	3.4%	326,478	0.2%	5,147,853	3.6%	3.9%	-	1,116,733	670,089	440,024	-	\$0.65	
Q1-15	3,569	142,563,820	4,628,639	3.2%	923,770	0.6%	5,552,409	3.9%	3.9%	-	42,088	-	1,107,634	-	\$0.65	

In this survey, the overall industrial vacancy was 1.9% with a slightly higher rate of 2.1% when warehouse and R&D are included. The average asking rate for industrial product was \$0.71 per square foot, NNN.

### Alameda Market

Based on the CoStar database, the current industrial vacancy rate in the subject's Alameda market is around 15%, the majority of which is located in the immediate Alameda Point area. Many of these marketed buildings are fairly obsolete and less desirable than the subject's more functional hangar style. Asking rates range between \$0.40 and \$0.58 per square foot, NNN with the listing broker reporting strong interest on the hangars based on the demand for clear height and large doors.

In conclusion, the East Bay industrial market is very tight with an overall vacancy around 2.0%. This rate has been compressing consistently over the course of the past few years. This has also been the case with the subject's immediate Alameda Point area. Although the reported vacancy in Alameda appears to hover around 15%, the demand for buildings in Alameda Point has increased considerably over the past couple years, especially for hangar style buildings. Current asking rents on similar hangar buildings generally range between \$0.50 and \$0.58 per square foot.

## HIGHEST AND BEST USE

### Definition

Highest and best use of vacant land may be defined as:

"The reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, and financially feasible, and that results in the highest value."

### Discussion

Highest and Best Use is an important and fundamental step in the valuation process. The conclusions in this section determine the type of comparable data gathered and procedures used in the valuation analysis. Accordingly, the market value estimate of a given property could be significantly impacted by a variance in the conclusion of highest and best use.

The following factors have been considered in analyzing the subject property's highest and best use:

- a. the subject's physical characteristics;
- b. the subject's location;
- c. the subject's current zoning;
- d. neighborhood and area trends;
- e. supply and demand; and
- f. motivation of the probable purchaser.

### As Though Vacant

Highest and best use of land or a site as though vacant assumes that a parcel of land is vacant or can be made vacant by demolishing the improvements. With this assumption, uses that create value can be identified, and the appraiser can begin to select comparable properties and estimate land value. Land as though vacant is a fundamental concept of valuation theory and is the basis for the cost approach. Because many appraisals include an allocation of value between the land and the buildings associated with it, a highest and best use analysis of the land as though vacant is frequently performed.

The most constrictive use of the subject as a vacant site is the zoning. The subject carries a Town Center zoning and Mixed Use general plan designation which provides for a wide variety of industry, office, commercial and residential/lodging. Physically, the subject site is of adequate size to support a variety of uses, having ample street frontage and good utility. It is located in an established former naval base, which has plans for redevelopment including high-density residential, office, commercial and retail uses. The best utilization of the property, when considering compatibility, is for office/commercial/residential use. This is consistent with redevelopment plans and the zoning/general plan.

The subject site, as vacant, appears suitable for an owner/user or an investor. Most purchasers of commercial real estate are motivated by the potential for profit. That potential is probable for the subject property once redevelopment of the area has commenced, however, development at this time is likely not feasible unless on a build-to-suit basis.



In conclusion, potential uses of the subject are most restricted by the zoning/general plan ordinance that generally dictates an office/commercial/residential use of the site. The subject site can function well for these uses being fully usable. Office/commercial/residential use approximates highest and best use for the subject site, however, development is not considered feasible at this time unless on a build-to-suit basis.

### **Highest and Best Use as Improved**

The subject building consists of a 104,000 square foot former airplane hangar which carries a Historical designation. As such, the building cannot be demolished with only minor modifications allowed on the exterior elevations and only with approval from the Historic Advisory Board. Although the overall value of the land could increase considerably over the next several years following commencement of the redevelopment plan, the Historic designation prohibits redevelopment of the subject site. As such, the existing improvements are considered the highest and best use as they are legal, physically possible, financially feasible and appear to provide a maximum return to the property.

## PART 4 – METHODOLOGY AND VALUATION

### METHODOLOGY

The valuation process is the orderly program in which the data used to derive an opinion of value for the subject property as it is acquired, classified, analyzed and presented. The first step in the process is to define the appraisal problem, i.e., identify the real estate, the effective date of the value estimate, the property rights being appraised, and the type of value sought. Once this has been accomplished, the appraiser collects and analyzes the factors that affect the market value of the subject property. These factors are addressed in the area and neighborhood analysis, the site and improvement analysis, and the highest and best use analysis, and in the application of the three approaches to value. Appraisers generally use three approaches to value; the Cost Approach, the Sales Comparison Approach and the Income Approach. The final step in the valuation process is the reconciliation or correlation of the value indications. In the reconciliation, the appraiser considers the relative applicability of each of the approaches used, examines the range of the value indications, and gives most weight to the approach or approaches that appear to produce the most reliable solution to the appraisal problem.

In the **Cost Approach**, the reproduction or replacement cost of the building and land improvements, as the date of the appraisal, is developed together with an estimate of the losses in value (depreciation) that have taken place due to wear and tear, design and plan, or neighborhood influences. To the depreciated building cost estimate is added the value of the land. The total represents the value indicated by the cost approach. This approach assumes that the site is developed to its highest and best use. It is also a good test of project feasibility in the case of proposed projects. This approach to value is based on a comparison that a prudent investor would pay no more for a property than the amount the investor can obtain a comparable site and construct a building of equal desirability and utility without undue delay. This approach is most applicable when a property is new or relatively new, and sufficient comparable land sales are available to support a reasonable conclusion of land value.

In the **Sales Comparison Approach**, the subject property is compared to similar properties that have been sold recently or for which listing prices or offering figures are known. Data for generally comparable properties are used and comparisons are made to demonstrate a probable price at which the subject property would sell if offered in the open market. This is a good indication of value assuming the market data considered is recent and reliable.

In the **Income Approach**, value is based on the present value of the anticipated net income stream from the subject property. Two common techniques are typically utilized, direct capitalization and yield capitalization. In direct capitalization, the current or estimated rental income is projected with deductions for vacancy and collection loss and operating expenses. A conclusion about the prospective net operating income of the property is developed. In support of this net operating income estimate, operating statements for previous years may be reviewed, together with available operating cost estimates of similar properties. An applicable capitalization method and appropriate capitalization rates are developed for use in computations that lead to an indication of value by the Income Approach. In yield capitalization (or discounted cash flow analysis), the net income stream is projected over a typical investment holding period for the property type being appraised, with a reversion at the end of the holding period. The income stream and reversion are then discounted to a present value utilizing a discount rate, typically derived from market analysis and investor surveys. In most cases, the Income Approach is considered to be the best method of estimating value for an income producing property.

After an indication of value is achieved in each of the approaches, the applicability and reliability of each approach is then evaluated and weighed by the appraiser. Through physical inspection of the property and the appraiser's analysis, judgment, and experience, a final opinion of value is then made for the subject property.

### **Subject Property Valuation**

Specific valuation for the subject property includes application of the Sales Comparison Approach and Income Approach to value. The Cost Approach was not utilized as it is not considered to be a realistic alternative for prospective purchasers in the current market. Additionally, the Cost Approach was not necessary to produce credible results.

**The subject property has been valued on a leased fee basis with consideration for the current lease agreement. Based on review of the Option to Purchase clause in the Addendum to Sublease, there does not appear to be any direct specification on whether to value the subject on a fee simple or leased fee basis in the main paragraph C, however, a sentence in section C (3) points towards a leased fee valuation. It states "The average of the two appraiser's assessments closest to one another shall constitute the appraised fair market value of the Leased Premises, subject to the terms of the sublease, as amended." The referenced addendum is located in the addenda of the report.**

### **SALES COMPARISON APPROACH**

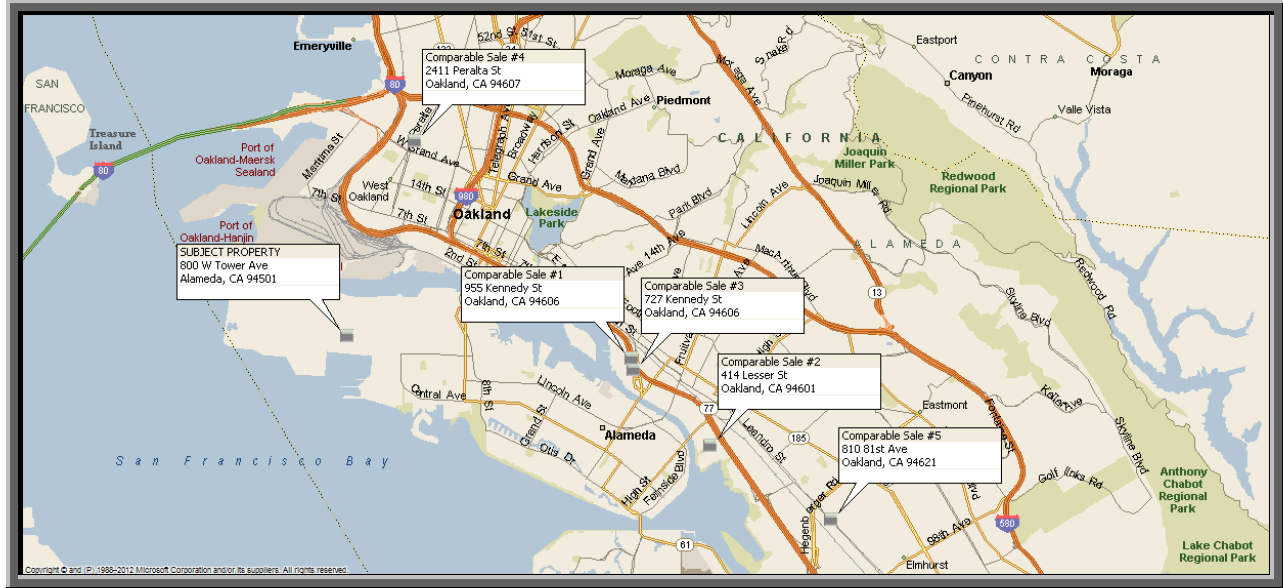
The Sales Comparison Approach involves a comparison of the subject with other properties which have been sold or have been offered for sale in the open, competitive market. These transactions serve the primary function of providing a unit comparison used to estimate an independent opinion of value by this approach. The reliability of the value estimate depends upon the degree of similarity between the properties being appraised and the comparables. Adjustments are made to the comparables to reflect their differences from the subject.

The unit of comparison that was determined most applicable in the valuation of the subject property was the price per square foot. Please see the following page for the Comparable Sales chart. Due to the lack of sales in Alameda, all of the sales used are located in the neighboring market of Oakland and all represent investment motivation.

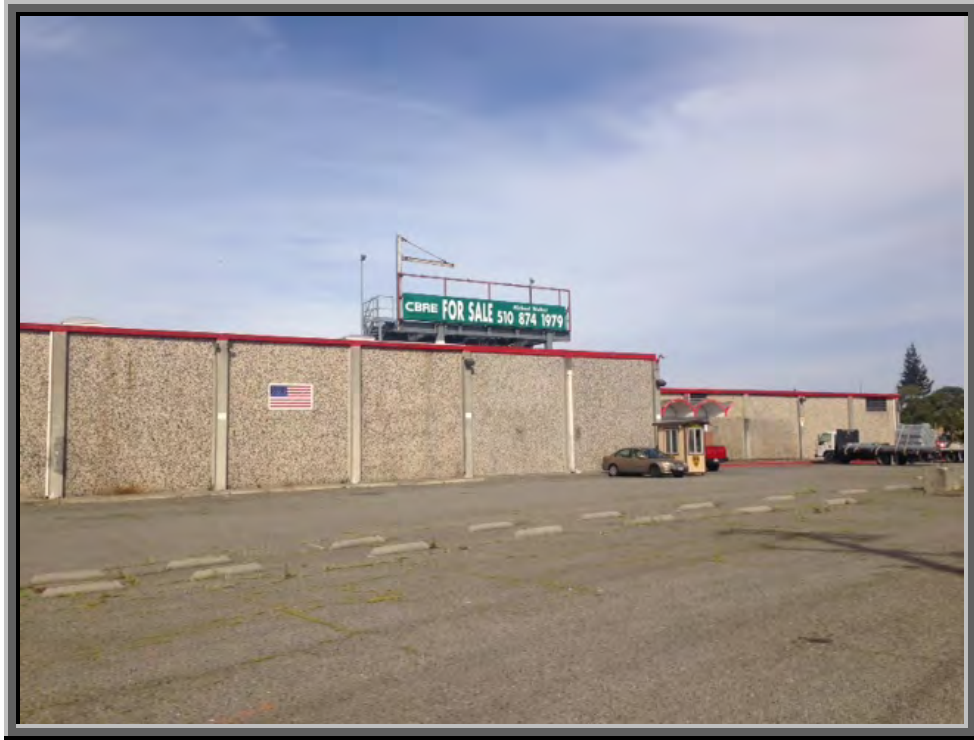
### COMPARABLE SALES

PROPERTY ADDRESS APN	SALES PRICE SALE DATE	BUYER SELLER DOCUMENT NO.	BUILDING AREA (SF) SITE AREA (SF) FAR	YEAR BUILT CONSTRUCTION QUALITY/CONDITION	% OFFICE CLEAR HEIGHT LOADING RATIO	BUYER TYPE CAP RATE	PRICE PER SF
1 955 Kennedy Street Oakland 019-0058-001-01	<b>\$7,650,000</b> March 4, 2016	Del Norte Plaza, LLC Earthgrains Baking Companies, Inc. Unknown	111,697 201,400 55%	1960 Concrete Tilt-up Average/Average	9% 18-24 Feet Dock & Grade Level	Investor N/A	<b>\$68</b>
<p>Comments: Investment purchase of a vacant industrial building located east of the subject in Oakland. The overall location and accessibility are considered superior. The property was not actively marketed with the sale reflecting an all-cash transaction with broker representation. The building is in the process of being renovated and is listed for lease at an asking rate of \$0.65 per square foot, NNN.</p>							
2 414-420 Lesser Street Oakland 034-2304-015-00	<b>\$3,875,000</b> December 21, 2015	Srg 414 Lesser, LLC Z Square Properties Co, LLC 332378	40,000 50,000 80%	1970 Concrete Tilt-up Average/Average	6% 12-22 Feet Dock & Grade Level	Investor N/A	<b>\$97</b>
<p>Comments: All-cash, investment purchase of an industrial building located southeast of the subject in close proximity to the High Street Bridge. The building was constructed for single tenant occupancy, however, is fully leased to several small tenants. The interior includes 21,500 square feet of unfinished mezzanine area, which is not part of the stated building area. The property was listed at \$4,200,000 for around 8 months. The broker stated that there wasn't really a cap rate to be reported.</p>							
3 727 Kennedy Street Oakland 019-0066-007-04 & 019	<b>\$13,850,000</b> July 1, 2015	Westcore Kennedy, LLC Hornstein M & E 1998 Trust 180325	234,877 383,763 61%	1952 Concrete Tilt-up Average/Average	1% 24 Feet Dock & Grade Level	Investor 6.60%	<b>\$59</b>
<p>Comments: Investment purchase of a fully leased warehouse building located east of the subject in Oakland. The property is leased to Pitco Foods and Sara Lee at a reported 6.6% cap rate at the time of sale. It was not actively marketed with the buyer making an unsolicited offer with broker representation. This was an all cash sale.</p>							
4 2411-2471 Peralta Street Oakland 007-0578-001-06 & 007-0577-002-02	<b>\$4,700,000</b> April 1, 2015	11 West 2431, LLC PSAI Properties I, LLC 85254	74,400 79,279 94%	1940 Masonry Average/Average	Approx. 20% 16-18 Feet Dock & Grade	Investor 7.00%	<b>\$63</b>
<p>Comments: All-cash, investment sale of a multi-tenant industrial building located northeast of the subject in the superior area of West Oakland. Based on conversations with the broker involved, the property was fully leased at the time of sale with a cap rate of 7.0% based on income at that time. The buyer is a local investor/developer who plans on re-working the building.</p>							
5 810 81st Avenue Oakland 041-4207-003-01	<b>\$10,300,000</b> February 2, 2015	901 Jefferson Street, LLC CEP Coliseum Investors LLC 27457	188,964 424,806 44%	1949, Renovated 2007 Metal/Concrete/Masonry Average/Average	7% 18-26 Feet Dock & Grade	Investor N/A	<b>\$55</b>
<p>Comments: Investor sale of a partially leased industrial building located to the southeast of the subject on the east side of 880. The building was 36% leased at the time of sale with the remainder being the former Do-Bake space which was in need of work. The property was listed for 1 month having 15 offers, 5 to 6 of which were around the same price from both owner users and investors. Down payment and financing information are unknown and assumed to be at market terms. The appraiser valued for the escrow.</p>							
<p><b>Subject Property</b> 800 W. Tower Avenue Alameda Portion of 074-1368-010-02 &amp; 074-1368-002-04</p>							
			104,000 287,496 36%	1941 Concrete & Steel Frame Average/Average	16% 40 Feet Grade Level		

# LOCATION MAP – COMPARABLE SALES



**COMPARABLE SALE PHOTOGRAPHS**



**Comparable Sale Number 1**



**Comparable Sale Number 2**

**COMPARABLE SALE PHOTOGRAPHS**



**Comparable Sale Number 3**



**Comparable Sale Number 4**

**COMPARABLE SALE PHOTOGRAPHS**



**Comparable Sale Number 5**



## **Application of Adjustments – Sales Comparison Approach**

Prior to adjustments, the comparable sales ranged from \$55 to \$97 per square foot. The comparable sales selected vary in similarity to the subject given its location in the limited market of Alameda and unique nature. The following is a brief discussion of the adjustments made to the comparable sales.

**Market Conditions:** Based on improved market conditions, upward adjustments were made to comparables 3 through 5.

**Location/Exposure/Access:** The subject's location/access in Alameda is considered inferior to all of the comparables. Oakland is far more accessible to transportation routes having many access points and in turn, all five comparables were adjusted down. A larger adjustment was made to comparable 4 as it is in West Oakland in close proximity of the Bay Bridge. Its location east of 880 warranted a smaller adjustment to comparable 5.

**Building Area:** Differences in size resulted in adjustments to comparables 2 through 5.

**Quality/Condition/Age:** Superior quality resulted in downward adjustments to comparables 1, 2 and 3.

**FAR:** Due to their inferior floor area ratios, comparables 1, 2, 3 and 4 were adjusted up.

**Utility/Appeal:** Comparables 1 and 5 were purchased vacant or partially vacant requiring renovation and lease-up costs. Both were adjusted up given the subject's stabilized occupancy. Comparable 2 features extensive mezzanine area resulting in a downward adjustment. Based on its superior warehouse appeal, comparable 3 was adjusted down. Although all of the comparables feature superior dock-high loading capabilities, the subject's far superior clear height and large hangar doors is thought to off-set the adjustment.

**Tenant Improvements:** Given its inferior amount of office space, comparable 3 was adjusted up. On the contrary, comparable 4 required a downward adjustment. Note that only 3% of the subject's office area is assumed to be finished, with the remainder requiring new carpet, paint and dropped ceilings.

Please refer to the following adjustment grid for a summary of the adjustments.

### COMPARABLE SALE ADJUSTMENTS

ELEMENTS OF COMPARISON	SUBJECT	SALE 1	SALE 2	SALE 3	SALE 4	SALE 5
<b>Price Per SF (Unadjusted)</b>		<b>\$68</b>	<b>\$97</b>	<b>\$59</b>	<b>\$63</b>	<b>\$55</b>
Property Rights Appraised						
----Adjusted Value		<b>\$68</b>	<b>\$97</b>	<b>\$59</b>	<b>\$63</b>	<b>\$55</b>
Financing Terms						
----Adjusted Value		<b>\$68</b>	<b>\$97</b>	<b>\$59</b>	<b>\$63</b>	<b>\$55</b>
Conditions of Sale						
----Adjusted Value		<b>\$68</b>	<b>\$97</b>	<b>\$59</b>	<b>\$63</b>	<b>\$55</b>
Expenditures After Purchase						
----Adjusted Value		<b>\$68</b>	<b>\$97</b>	<b>\$59</b>	<b>\$63</b>	<b>\$55</b>
Market Conditions		Mar-16	Dec-15	July-15	Apr-15	Feb-15
Adjustment				8%	10%	12%
----Adjusted Value		<b>\$68</b>	<b>\$97</b>	<b>\$64</b>	<b>\$69</b>	<b>\$61</b>
<b>PHYSICAL CHARACTERISTICS</b>						
Location/Exposure/Access		Superior -10%	Superior -10%	Superior -10%	Superior -15%	Superior -5%
Building Area (SF)	104,000	111,697	40,000 -10%	234,877 10%	74,400 -2.5%	188,964 7.5%
Quality/Condition/Age		Superior -5%	Superior -10%	Superior -5%	Similar	Similar
FAR	36%	55% 10%	80% 20%	61% 10%	94% 35%	44%
Utility/Appeal		Inferior 20%	Superior -15%	Superior -5%	Similar	Inferior 20%
Tenant Improvements	16%	9%	6%	1% 3%	20% -5%	7%
<b>NET ADJUSTMENTS</b>		<b>15%</b>	<b>-25%</b>	<b>3%</b>	<b>13%</b>	<b>23%</b>
<b>ADJUSTED PRICE/SF</b>		<b>\$79</b>	<b>\$73</b>	<b>\$66</b>	<b>\$78</b>	<b>\$75</b>

#### Conclusion – Sales Comparison Approach

The five comparables demonstrate an adjusted price per square foot range from \$66 to \$79. They consist of five closed sales from the subject's neighboring Oakland market given the lack of comparable sales in Alameda. Each represents investment motivation and required generally reasonable net and gross adjustments. Comparables 1 and 5 were purchased vacant or highly vacant and in turn were adjusted up to account for the subject's superior stabilized occupancy. The remaining sales were at stabilized occupancy at the time of purchase. With consideration for the subject's overall quality, older age, Alameda location and the immense lack of for-sale leased investments, correlation towards the mid-point of the adjusted range at \$75 per square foot is considered reasonable and assigned. The resulting Hypothetical Market Value per the Sales Comparison Approach is **\$7,800,000, rounded** (\$75 x 104,000 sf).

## INCOME APPROACH

The Income Approach is based on the assumption that there is a direct relationship between income producing capability and value. In this approach, the current or estimated rental income is developed with deductions for vacancy and collection loss and operating expenses leading to an opinion of the net operating income. In support of this net operating income, operating statements for previous years may be reviewed along with other operating expenses for similar properties. An applicable capitalization method and appropriate capitalization rate are developed for use in computations that lead to an opinion of value by the Income Approach.

### Subject Occupancy

The subject property is 100% leased with the terms summarized on the following chart.

#### SUMMARY OF SUBJECT LEASE

Tenant	Start Date	End of Term	Building Size (SF)	Rental Rate Per Month	Rental Rate (sf/month)	Expenses	Comments
Bladium, Inc.	7/1/2015	6/30/2025	104,000	\$43,160	\$0.415	NNN	Reflects second renewal Annual CPI increases One remaining 10-year renewal option at 90% of FMR

### Market Rent

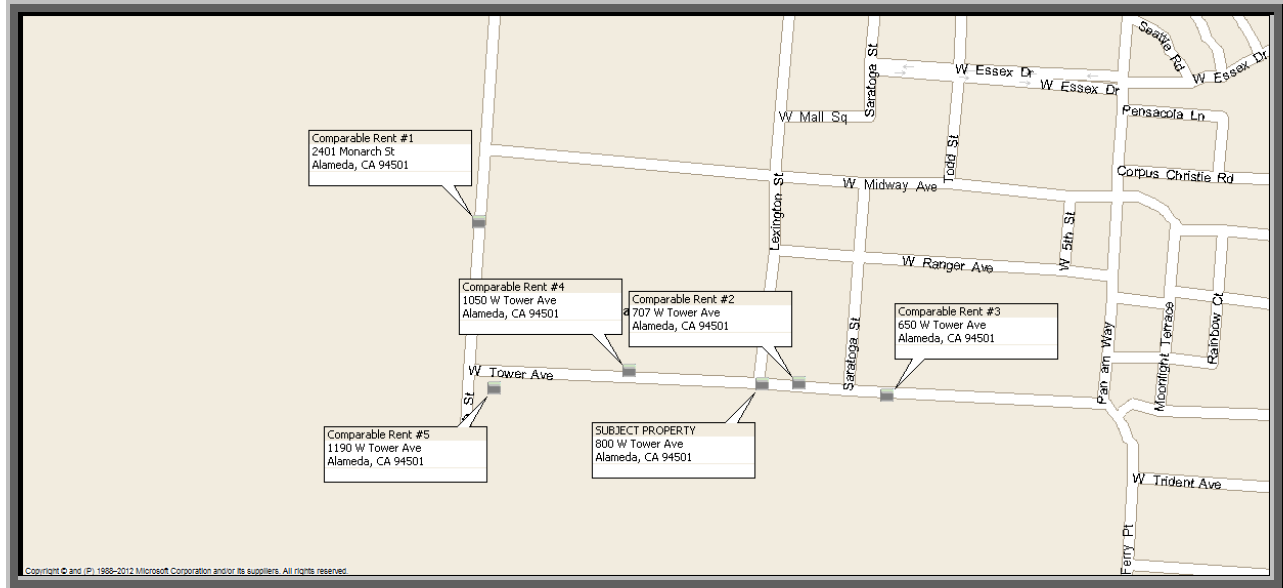
The Income Approach includes an analysis of market rent for the subject. The analysis is based on a market area survey of rents in and around the subject's immediate and general location for similar properties. Pertinent data on each comparable is displayed on the following chart. A map, photograph and discussion of adjustments are included after the chart.

As is evidenced by the comparables, triple net lease terms are common in the market for this product type with the subject currently leased under triple net terms. As such, it has been valued assuming a triple net expense basis.

**COMPARABLE RENTS**

TENANT PROPERTY ADDRESS	DATE OF LEASE LEASE TERM	UNIT AREA (SF) SITE AREA (SF) FAR	TENANT IMP. CONCESSIONS ESCALATIONS	YEAR BUILT CONSTRUCTION QUALITY/CONDITION	EXPENSE BASIS	RENT/SF/MO.
1 Natel Energy, Inc. 2401 Monarch Street Alameda	November-15 120 Months	65,000 230,868 28%	None 8 Months 3%/Year	1941 Concrete/Steel Frame Average/Average	NNN	\$0.54
Comments: Represents a new lease agreement of Building 23. The lease commenced in February 2016 with the tenant having one 5-year option to renew at FMR. The building had a certificate of occupancy prior to its leasing. The tenant has an option to purchase the property within the initial 12 months of the lease at a predetermined price of \$8,000,000.						
2 707 W. Tower Avenue, LLC 707 W. Tower Avenue Alameda	October-15 120 Months	80,907 182,952 44%	\$436,898 None 3%/Year	1941 Concrete/Steel Frame Average/Average	NNN	\$0.45
Comments: This comparable reflects Building 9 located across the street from the subject. The lease includes two 10-year options to renew at FMR, with the stated TI allowance needed to acquire a Certificate of Occupancy. It also includes a predetermined purchase option of \$5,500,000, which is good for the first 3 years of the agreement.						
3 Wrightspeed, Inc. 650 W. Tower Avenue Alameda	December-14 84 Months	109,293 226,512 48%	\$1,882,641 4 Months 3%/Year	1941 Concrete/Steel Frame Average/Average	NNN	\$0.43
Comments: New lease of Building 41 located adjacent to the subject to the east. The lease includes two 5-year options at FMR as well as a purchase option for the first 5-years at \$8,000,000. The tenant was provided with a larger TI allowance, which includes a new roof.						
4 Artemis Racing, Inc. 1050 W. Tower Avenue Alameda	May-14 24 Months	110,561 Approx. 150,000 74%	None None 3%/Year	1941 Concrete/Steel Frame Average/Average	NNN	\$0.43
Comments: Lease renewal of Building 12. The tenant is on their third lease renewal, with two more short-term options. The tenant has limited parking and yard area, which is inferior to the subject. They have no purchase option.						
5 Google, Inc. 1190 W. Tower Avenue & 2175 Monarch Street Alameda	March-14 72 Months	131,442 Approx. 380,000 35%	None 12 Months 3%/Year	1941 Concrete/Steel Frame/Wood Frame Average/Average	NNN	\$0.42
Comments: New lease of Buildings 11 and 19, as well as a small storage shed. Building 11 at 1190 W. Tower is a 110,561 square feet hangar structure and Building 19 is a 16,888 square foot office building. The lease includes five 3-year options at FMR, as well as an option to purchase. There is no set price.						
<b>Subject Property</b> Bladium, Inc. 800 W. Tower Avenue Alameda	July-15 120 Months	104,000 287,496 36%	None None CPI/Year	1941 Concrete & Steel Frame Average/Average	NNN	\$0.415

## LOCATION MAP – COMPARABLE RENTS



**COMPARABLE RENT PHOTOGRAPHS**



**Comparable Rent Number 1**



**Comparable Rent Number 2**

**COMPARABLE RENT PHOTOGRAPHS**



**Comparable Rent Number 3**



**Comparable Rent Number 4**

**COMPARABLE RENT PHOTOGRAPHS**



**Comparable Rent Number 5**



## **Application of Adjustments**

Prior to adjustments, the comparable rents ranged from \$0.42 to \$0.54 per square foot. The comparable rents selected reflect very similar spaces within the subject's immediate Alameda Point area. The following is a brief discussion of the adjustments made to the comparable rents.

**Concessions:** Due to their free rent, comparables 1, 3 and 5 were adjusted down. The TI allowance for comparable 2 was not adjusted for as the buildings are in need of the funds to receive a Certificate of Occupancy. The allowance provided to comparable 3 will be addressed in the tenant improvements adjustment.

**Market Conditions:** Increasing rental rates resulted in upward adjustments to comparables 3, 4 and 5.

**Size:** Comparable 1 is smaller and in turn was adjusted down.

**Quality/Condition/Age:** Based on its partial inferior condition (651 W. Tower Avenue), an upward adjustment was made to comparable 2.

**FAR:** Comparable 4 has very limited exclusive parking/yard area and in turn was adjusted up.

**Tenant Improvements:** The majority of the improvement allowance provided for comparable 3 is needed to bring the structure to similar condition to the subject, however, the building will be getting a new roof, which is superior. As a result, a downward adjustment was made. Given its superior office structure, comparable 5 was adjusted down.

Please refer to the following adjustment grid for a summary of the adjustments.

### COMPARABLE RENT ADJUSTMENTS

ELEMENTS OF COMPARISON	SUBJECT	RENT 1	RENT 2	RENT 3	RENT 4	RENT 5
<b>RENT/SF/MO</b>	<b>\$0.415</b>	<b>\$0.54</b>	<b>\$0.45</b>	<b>\$0.43</b>	<b>\$0.43</b>	<b>\$0.42</b>
Conditions Of Lease						
<b>----Adjusted Rent</b>		<b>\$0.54</b>	<b>\$0.45</b>	<b>\$0.43</b>	<b>\$0.43</b>	<b>\$0.42</b>
Concessions		-7%		-5%		-17%
<b>----Adjusted Rent</b>		<b>\$0.50</b>	<b>\$0.45</b>	<b>\$0.41</b>	<b>\$0.43</b>	<b>\$0.35</b>
Market Conditions	Jul-15	Nov-15	Oct-15	Dec-14	May-14	Mar-14
Adjustment				15%	20%	20%
<b>----Adjusted Rent</b>		<b>\$0.50</b>	<b>\$0.45</b>	<b>\$0.47</b>	<b>\$0.52</b>	<b>\$0.42</b>
<b>PHYSICAL CHARACTERISTICS</b>						
Location/Exposure/Access		Similar	Similar	Similar	Similar	Similar
Unit Area (SF)	104,000	65,000 -5%	80,907	109,293	110,561	131,442
Quality/Condition/Age		Similar	Similar	Similar	Similar	Similar
FAR	36%	28%	44%	48%	74% 10%	35%
Utility/Appeal		Similar	Similar	Similar	Similar	Similar
Tenant Improvements		Similar	Similar	Superior -7%	Similar	Superior -7%
<b>NET ADJUSTMENTS</b>		<b>-5%</b>	<b>0%</b>	<b>-7%</b>	<b>10%</b>	<b>-7%</b>
<b>ADJUSTED RENT/SF/MO</b>		<b>\$0.48</b>	<b>\$0.45</b>	<b>\$0.44</b>	<b>\$0.57</b>	<b>\$0.39</b>

#### Conclusion of Market Rent

As a result of the adjustment process, the indicated range of rents is between \$0.39 and \$0.57 per square foot, NNN. The comparables are considered good indicators to market rent and are all located in the subject's immediate Alameda Point area. Comparable 4 reported a rent outside the tighter range of the other comparables. The tenant is on their third, short-term option to renew and in turn limited weight has been placed on this comparable. The subject property is currently leased at \$0.415, which although bracketed, is at the low end of the adjusted range. The most recent lease deals in the area are being signed at higher rates, which is evidenced by comparables 1 and 2. As such, a higher market rent towards the middle of the more consistent adjusted rents at \$0.45 per square foot, NNN is considered well supported and assigned. The resulting rent loss will be addressed at the conclusion of the report.

#### Potential Gross Income

The total potential gross income for the subject building is **\$561,600**.

## **Vacancy and Collection Loss**

As stated previously, the industrial vacancy level within the overall East Bay market is around a low 2% in both surveys. The rate is higher in the subject's immediate Alameda Point area, however, much of this vacancy rests in far less functional and obsolete buildings. The majority of the hangar buildings have been leased with the broker reporting strong interest on the remainder. Given the subject's size, single tenant layout and large amount of site area for parking/yard, I have concluded to a stabilized vacancy and collection loss allowance of 5%. It is important to note that this represents the anticipated average vacancy over a typical holding period for the property, not simply a reflection of the current market vacancy.

## **Operating Expenses**

These costs are the ongoing costs of operation of the property. The subject was valued based on its current triple net expense structure. Operating expenses for the subject property include the following.

### **General Administration and Management:**

This expense represents the expenses incurred to obtain quality management for the property. Quoted ranges for property management range from as low as 3% to 5% of effective gross income. Given the single tenant layout of the building and overall size, we have used 3% and consider this to be reasonable.

### **Reserves for Replacement:**

This expense is the yearly allowance that provides for the replacement of short-lived items. Typically reserve allowances are seen in the 1% to 2% of effective gross income range. Given the older age of the subject building and quality, reserves for replacement are assigned at 2.0% of effective gross income as a form of contingency against future expenses.

The total operating expense for the subject building is estimated at 5.0% of effective gross income and this is considered reasonable for a property leased under comparable triple net terms.

## **Overall Capitalization Rate (OAR) Analysis**

The capitalization rate for the subject property is based on the quality, quantity and durability of the projected income stream, the demand for and supply of competitive space, the relative stability of the expense projection, and the age, size and quality of the subject property in comparison to similar properties. The capitalization rate is typically extracted from the comparable improved sales in the Sales Comparison Approach. All of the comparables used were of an investment nature, however, only two reported capitalization rates at the time of sale. Comparables 3 and 4 reported rates of 6.6% and 7.0%, respectively, with the latter being purchased with short term leases and as a repositioning deal. As a result, the market was surveyed for investment sales throughout Alameda County which reported capitalization rates. Those sales found are displayed on the following chart:

## OVERALL RATE SUMMARY CHART

NO.	LOCATION	SALE PRICE	SALE YEAR	BLDG. SIZE	TYPE USE	INDICATED OAR
1	5555 Auto Mall Parkway Fremont	\$28,500,000	2016	177,041	Warehouse	<b>4.50%</b>
2	30526 San Antonio Street Hayward	\$14,300,000	2016	149,136	Industrial	<b>5.90%</b>
3	1964-1976 Williams Street San Leandro	\$9,501,500	2015	121,890	Warehouse	<b>6.00%</b>
4	8350 Pardee Drive Oakland	\$55,834,025	2015	374,725	Warehouse	<b>4.55%</b>
5	30180 Ahern Avenue Union City	\$7,400,000	2015	65,000	Industrial	<b>5.50%</b>
6	14700 Doolittle Dr. San Leandro	\$4,100,000	2014	45,200	Industrial	<b>6.00%</b>
7	2054 & 2070 Burroughs Avenue San Leandro	\$13,300,000	2014	129,000	Warehouse	<b>5.28%</b>
8	1700-1788 Fairway Drive San Leandro	\$28,150,000	2013	524,716	Industrial	<b>6.50%</b>

Published surveys were also referenced. Information published in The Peter F. Korpacz, MAI & Associates, Real Estate Investor Survey, First Quarter 2016, indicates that Pacific warehouse market rates generally ranged between 3.75% and 7.00% with an average of 5.28% while the national average was higher at 5.52%. Based on the rates reported above, it appears the Bay Area is towards the lower end of the Korpacz range.

### Market Participant Interviews

Several brokers and developers were also interviewed to receive opinions on a likely capitalization rate for the subject property as a leased investment. All of the brokers interviewed reported a very strong presence from investors in the current market, ranging from institutional funds to smaller, local investors, as well as overseas players. Although the majority of the brokers felt that Alameda Point would be a less desirable investment location in comparison to other parts of 880, they stated that given the lack of available investment options there would be demand. Estimated capitalization rates for the subject property generally ranged between 6.0% up to 7.5%, with the majority in the 6.0% to 7.0% range.

Several items were considered when selecting an appropriate capitalization rate to be assigned to the subject property. First of all, the subject building reflects overall average condition having a remaining economic life estimated at 30 years. It is assumed to feature an open industrial layout having a portion of finished office space which would be conducive to a variety of light industrial, manufacturing and R&D tenants, especially those in need of ample clear height and large hangar doors.

Based on the rent analysis, the current contract rent is considered to be below market resulting in a market rent being assigned implying market risk. With consideration for the subject's overall age and condition, Alameda Point location which is considered secondary to other parts of the 880 Corridor and considerable remaining lease term, correlation towards the upper end of the rates reported by the market sales and towards the middle of the broker range at 6.5% is reasonable and assigned.

**Conclusion – Income Approach**

Applying the selected capitalization rate to the subject's projected net operating income results in a Hypothetical Market Value –per the Income Approach of \$7,800,000.

Calculations are as follows.

**DIRECT CAPITALIZATION APPROACH**

SF		MONTHLY RENT/SF	MONTHLY RENT	ANNUAL RENT
104,000	x	\$0.45	= \$46,800	\$561,600
<b>POTENTIAL GROSS INCOME</b>				<b>\$561,600</b>
<b>LESS VACANCY AND COLLECTION LOSS</b>			<b>5.0%</b>	<b>(\$28,080)</b>
<b>EFFECTIVE GROSS INCOME</b>				<b>\$533,520</b>
<b>LESS OPERATING EXPENSES</b>				
		Management	3.0%	\$16,006
		Reserves	2.0%	\$10,670
<b>TOTAL OPERATING EXPENSES</b>			<b>5.0%</b>	<b>(\$26,676)</b>
<b>NET OPERATING INCOME</b>				<b>\$506,844</b>
<b>CAPITALIZATION RATE</b>				<b>6.50%</b>
<b>INDICATED VALUE - INCOME APPROACH</b>				<b>\$7,797,600</b>
<b>ROUNDED</b>				<b>\$7,800,000</b>

## RECONCILIATION

The approaches to value utilized to provide credible results are summarized below. These approaches to value were utilized in the analysis of the Hypothetical Market Value of the Fee Simple Estate assuming the interior is of similar build-out, type of use and condition at the time of the tenant's occupancy following the completion of all Qualified Shell Improvements:

### Approaches To Value:

Sales Comparison Approach	\$7,800,000
Income Approach	\$7,800,000

Both approaches were based on adequate quality data to produce credible results. The Cost Approach was not completed as typical buyers and sellers would not utilize this method due to the age of the improvements and accuracy in deriving all factors of depreciation. Furthermore, it is not needed to produce credible results.

The Sales Comparison Approach was based on closed investment sales from the subject's neighboring Oakland market due to the lack of sales in Alameda. After adjustments, the indicated range in value was fairly consistent with the assigned value having reasonable support. This approach is most popular with owner user buyers, which given the subject's leased nature into 2025 does not reflect a likely buyer.

The Income Approach was based on estimated market rent and expenses for the property. The basis for the market rent was considered reasonable and supported by actual leases in the subject's immediate Alameda Point area. The current contract rent was determined to be below market resulting in a higher market rent being applied. The cap rate assigned was supported by actual investment sales in the 880 Corridor, as well as interviews with several brokers and developers who are familiar with the subject market. This approach is most popular with investor type buyers which given the subject's long-term lease reflects the most likely buyer.

Given the subject's long-term lease encumbrance into 2025, the most likely buyer is considered an investor who would place most weight on the Income Approach for a final value conclusion of \$7,800,000. Although concurring, the Sales Comparison Approach was not weighted in our conclusion.

### Discounted Rent Loss

The value conclusion above reflects a fee simple value without consideration for the rent loss attributable to the subject's below market lease. The current contract rent is \$43,160 per month resulting in a monthly loss of \$3,640 (\$46,800 - \$43,160). Discounted at a safe rate of 7% for the remaining 109 months of the lease, the discounted rent loss equates to \$292,985 or \$290,000, rounded. When deducted from the fee simple value of \$7,800,000, the indicated leased fee value is \$7,510,000 or **\$7,500,000, rounded.**

The value conclusion is summarized below:

<b>VALUE PREMISES</b>	<b>EFFECTIVE DATE OF VALUE</b>	<b>OPINION OF VALUE</b>	<b>EXPOSURE PERIOD/ MARKETING PERIOD</b>
<b>Hypothetical Market Value - Leased Fee</b>	<b>March 9, 2016</b>	<b>\$7,500,000</b> (A)	3-6 Months/3-6 Months

(A) The above value conclusion is subject to the Hypothetical Conditions and Extraordinary Assumptions discussed on page 2 of this report.

### **ESTIMATE OF PROBABLE EXPOSURE PERIOD / REASONABLE MARKETING PERIOD**

For federally related transactions, all appraisals are required to report reasonable exposure and marketing times for the subject property. The Appraisal Standards Board of the Appraisal Foundation defines exposure time as follows: The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at a market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events, assuming a competitive and open market. It should be noted that exposure time is different for various types of real estate and under various market conditions. Moreover, the overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time, but also adequate, sufficient, and reasonable effort. Consequently, based on its location, quality/condition, occupancy characteristics, and the current market, the subject’s exposure time is estimated to be three to six months.

Marketing time is the length of time necessary to expose a property to the open market in order to achieve a sale. Implicit in this definition are the following assumptions: 1) the property will be actively exposed and aggressively marketed to potential purchasers through marketing channels commonly used by sellers of similar properties, 2) a sale will be consummated under the terms and conditions of the definition of market value as stated in this report, and 3) the property will be offered at a price reflecting the most probable markup over market value used by sellers of similar properties. Therefore, based on the reported marketing times of comparable properties, the subject’s marketing time is also estimated to be three to six months.

# **ADDENDA**

**Assumptions and Limiting Conditions**

**Certification of the Appraisers**

**Glossary**

**Qualifications of the Appraisers**

**Engagement Letter**



## GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

The Certification of the appraiser(s) appearing in this report is subject to the following assumptions and limiting conditions.

1. The appraisers assume no responsibility for the legal description provided for matters pertaining to the legal or title considerations. Title is assumed to be good and marketable and the property is appraised free and clear of any encumbrances, unless otherwise stated. It is assumed that the property is under responsible ownership and management.
2. Information, estimates and opinions furnished to the appraiser(s) and contained in this report were obtained from sources considered reliable and believed to be true and correct. However, the appraisers give no warranty of the accuracy of such items furnished by others.
3. The appraisers are not required to give testimony or appear in court in connection with this appraisal unless prior arrangements have been made.
4. The sketches, maps, plats and exhibits in this report are included to assist the reader in visualizing the property. The appraisers have made no survey of the property and assumes no responsibility in connection with such matters.
5. The appraisers assume that there are no hidden or unapparent conditions of the property, subsoil or structures, which would render it more or less valuable. The appraisers assume no responsibility for such conditions or for engineering which might be required to discover such factors.
6. The appraisers assume the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless non-compliance is stated, defined, and considered in the appraisal. The appraisers assume the property contains no hazardous materials or substances.
7. The appraisers assume all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinions contained in the report are based.
8. The appraisers assume that the property complies with applicable zoning requirements, use regulations and other restrictions, unless a lack of conformity has been stated, defined, and considered in the appraisal report.
9. Any allocation of the total value opinion stated in this report between the site and improvements applies only under the stated program of use. The separate values allocated to the site and improvements may not be used in connection with any other appraisal and are invalid if so used. Any value opinions provided in the appraisal report apply to the entire property and any proration or division of the total into fractional interests will invalidate the value opinion unless such proration or division of interests has been stated in the report.
10. Disclosure of the contents of the appraisal report is governed by the Code of Professional Ethics of the Appraisal Institute and is subject to peer review.

## **GENERAL ASSUMPTIONS AND LIMITING CONDITIONS (Continued)**

11. The appraisers assume that the site and improvements are contained within the boundaries or property lines of the property described and that there are no encroachments unless noted in this report.
12. If only preliminary plans and specifications were available for use in the preparation of this assignment, then this appraisal is subject to a review of the final plans and specifications when available (at additional cost) and the appraisers reserve the right to amend this appraisal if substantial deviations exist.
13. The dates of value to which the opinions expressed in this report apply are set forth in this report. The appraisers assume no responsibility for economic or physical factors occurring at some point at a later date, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors and are subject to change with future conditions.
14. This appraisal was prepared for the sole and exclusive use of the client for the intended use outlined in this report. Any party who is not the client or intended user identified in the appraisal or the engagement letter is not entitled to rely upon the contents of this appraisal without the express written consent of Smith & Associates, Inc. The appraisers assume no obligation, liability, or accountability to any third party.
15. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraisers have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative impact upon the value of the property. Since the appraisers have no direct evidence relating to this issue, possible non-compliance was not considered in estimating the value of the property.
16. No part of the appraisal report (nor any copy of it) shall be used for any purpose by any party except the client without the previous written consent of the appraisers. No portion of the appraisal report may be reproduced. The report shall not be used for advertising, public relations, news, or other media without the consent of the appraisers.
17. Acceptance and/or use of this appraisal report by the client or any third party constitutes acceptance of the previously stated assumptions and limiting conditions.
18. Any estimate of the Insurable Replacement Costs, if included within the scope of work and presented herein, is based on figures developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from estimates noted in this report and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. It is highly recommended that the client obtain estimates from professionals experienced in providing insurance coverage. The appraisers make no warranties regarding the accuracy of estimates for Insurable Replacement Costs noted in this report.

## CERTIFICATION

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

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and is my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have performed no services in regards to the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
9. I, Robin Schwedhelm, MAI, have made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to the person signing this certification.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Dennis L. Smith, MAI, and Robin J. Schwedhelm, MAI have completed the continuing education program for Designated Members of the Appraisal Institute.



Robin J. Schwedhelm, MAI  
State Certified General Real Estate Appraiser  
State of CA #AG029733, Expiration 11/26/2016



Dennis L. Smith, MAI  
State Certified General Real Estate Appraiser  
State of CA #AG002792, Expiration 2/1/2018

# GLOSSARY

Definitions are taken from the Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition, the Uniform Standards of Professional Appraisal Practice (USPAP) and Building Owners and Managers Association International (BOMA)

## **ABSOLUTE NET LEASE**

A lease in which the tenant pays all operating expenses including structural maintenance, building reserves, and management, often a long-term lease to a credit tenant. **(Dictionary)**

## **AGGREGATE OF RETAIL VALUES (ARV)**

The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions. **(Dictionary)**

## **AS-IS MARKET VALUE**

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date. **(Dictionary)**

## **ASSUMPTION**

That which is taken to be true. **(USPAP)**

## **BUILDING RENTABLE AREA**

The sum of all floor rentable areas. Floor rentable area is the result of subtracting from the gross measured area of the floor the major vertical penetrations on the same floor. It is generally fixed for the life of the building and is rarely affected by changes in corridor size or configuration. **(BOMA)**

## **CASH EQUIVALENCY**

An analytical process in which the sale price of a transaction with nonmarket financing or financing with unusual conditions or incentives is converted into a price expressed in terms of cash. **(Dictionary)**

## **CLIENT**

The party or parties who engage, by employment or contract, an appraiser in a specific assignment. The client may be an individual, group, or entity, and may engage and communicate with the appraiser directly or through an agent. **(USPAP)**

## **CONDOMINIUM**

A form of ownership in which each owner possesses the exclusive right to use and occupy an allotted unit plus an undivided interest in common area. A multi-unit structure or a unit within such a structure with a condominium form of ownership. **(Dictionary)**

## **COVERAGE**

The proportion of the net or gross land area of a site that is occupied by a building or buildings. **(Dictionary)**

## **DEED RESTRICTON**

A provision written into a deed that limits the use of land. Deed restrictions usually remain in effect when title passes to subsequent owners. **(Dictionary)**

## **DEPRECIATION**

1) In appraising, the loss is a property value from any cause; the difference between the cost of an improvement on an effective date of the appraisal and the market value of the improvement on the same date. **(Dictionary)**

## **DISPOSITION VALUE**

The most probable price that a specified interest in real property is likely to bring under the following conditions:

- Consummation of a sale within an exposure time specified by the client;
- The property is subjected to market conditions prevailing as of the date of valuation;
- Both the buyer and seller are acting prudently and knowledgeably;
- The seller is under compulsion to sell;
- The buyer is typically motivated;
- Both parties are acting in what they consider to be their best interests;
- An adequate marketing effort will be made during the exposure time specified by the client;
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. **(Dictionary)**

## **EASEMENT**

The right to use another's land for a stated purpose. **(Dictionary)**

## **EFFECTIVE AGE**

The age of property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age. **(Dictionary)**

## **EFFECTIVE DATE**

1) The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service apply. 2) In a lease document, the date upon which the lease goes into effect. **(Dictionary)**

**EFFECTIVE RENT**

The rental rate net of financial concessions such as periods of no rent during the lease term and above- or below-market tenant improvements (TIs). **(Dictionary)**

**EXCESS LAND**

Land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately and is valued separately. **(Dictionary)**

**EXPOSURE TIME**

Estimated length of time that the property interest being appraised would have been on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market. **(USPAP)**

**EXTRAORDINARY ASSUMPTION**

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis. **(USPAP)**

**EXTERNAL OBSOLESCENCE**

An element of depreciation; a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord, or tenant. **(Dictionary)**

**FEE SIMPLE ESTATE**

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

**FLOOR AREA RATIO (FAR)**

The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area. **(Dictionary)**

**FULL SERVICE GROSS LEASE**

A lease in which the landlord receives stipulated rent and is obligated to pay all of the property's operating and fixed expenses; also called a full service lease. **(Dictionary)**

**FUNCTIONAL OBSOLESCENCE**

The impairment of functional capacity of a property according to market tastes and standards. **(Dictionary)**

**GOING CONCERN VALUE**

1) The market value of all of the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the market value of the going concern. 2) The value of an operating business enterprise. Goodwill may be measured separately but is an integral component of going-concern value when it exists and is recognizable. **(Dictionary)**

**GROSS BUILDING AREA**

The total constructed area of a building. It is generally not used for leasing purposes. **(BOMA)**

**GROUND LEASE**

A lease that grants the right to use and occupy land. Improvements made by the ground lease typically revert to the ground lessor at the end of the lease term. **(Dictionary)**

**HIGHEST & BEST USE**

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are 1) legal permissibility; 2) physical possibility; 3) financial feasibility; and 4) maximally profitability. Alternatively, the probable use of land or improved property-specific with respect to the user and timing of the use – that is adequately supported and results in its highest present value. **(Dictionary)**

**HYPOTHETICAL CONDITION**

A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of the analysis. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions or trends; or about the integrity of data used in an analysis. **(USPAP)**

**INTENDED USE**

The use or uses of an appraiser's reported appraisal or appraisal review assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment. **(USPAP)**

**INTENDED USER**

The client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser on the basis of communication with the client at the time of the assignment. **(USPAP)**

**INDUSTRIAL GROSS LEASE**

A lease of industrial property in which the landlord and tenant share expenses. The landlord receives stipulated rent and is obligated to pay operating expenses, often structural maintenance, insurance and real estate taxes as

specified in the lease. There are significant regional and local differences in the use of this term. **(Dictionary)**

#### **INSURABLE VALUE**

A type of value used for insurance purposes. **(Dictionary)**

#### **LEASED FEE INTEREST**

A freehold (ownership-interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease). **(Dictionary)**

#### **LEASEHOLD INTEREST**

The tenant's possessory interest caused by a lease. **(Dictionary)**

#### **LESSEE (TENANT)**

One who has the right to occupancy and use of the property for a period of time according to a lease agreement. **(Dictionary)**

#### **LESSOR (LANDLORD)**

One who conveys the right of occupancy and use to others under a lease agreement. **(Dictionary)**

#### **LIMITING CONDITIONS**

Constraints which are imposed on valuations by clients, the Valuer, or local statutory law. **(Dictionary)**

#### **LIQUIDATION VALUE**

The most probable price that a specified interest in real property should bring under the following conditions:

- Consummation of a sale within a short period;
- The property is subjected to market conditions prevailing as of the date of valuation;
- Both the buyer and seller are acting prudently and knowledgeably;
- The seller is under extreme compulsion to sell;
- The buyer is typically motivated;
- Both parties are acting in what they consider to be their best interests;
- A normal marketing effort is not possible due to the brief exposure time;
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto;
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. **(Dictionary)**

#### **MARKET ANALYSIS**

A process for estimating the productive attributes of a specific property, its demand and supply, and its geographic market area. Marketability analysis (often referred to erroneously as market analysis) is an essential part of the highest and best use for every valuation assignment. **(Dictionary)**

#### **MARKET RENT**

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement including permitted uses, use restrictions, expense obligations; term, concessions, renewal and purchase options and tenant improvements (TIs). **(Dictionary)**

#### **MARKET VALUE**

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

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

#### **MARKET VALUE "AS IF COMPLETE"**

A hypothetical scenario representing the market value of the property with all proposed construction, conversion or rehabilitation completed under specified hypothetical conditions as of the date of the appraisal.

#### **MARKET VALUE "AS IF STABILIZED"**

A hypothetical scenario representing the market value of the property at a current point in time when all improvements have been physically constructed and the property has been leased to its optimum level of long term occupancy under specified hypothetical conditions as of the date of the appraisal.

#### **MARKETING TIME**

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level immediately after the effective date of the appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of the Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions" address the determination of reasonable exposure and marketing time.) **(Dictionary)**

**MODIFIED GROSS LEASE**

A lease in which the landlord receives stipulated rent and is obligated to pay some, but not all, of the property's operating and fixed expenses. Since assignment of expenses varies among modified gross leases, expense responsibility must always be specified. In some markets, a modified gross lease may be called a double net lease, net net lease, partial net lease, or semi-gross lease. **(Dictionary)**

**PARTIAL INTEREST**

Divided or undivided rights in real estate that represent less than the whole (a fractional interest). **(Dictionary)**

**PHYSICAL DETERIORATION**

The wear and tear that begins when a building is completed and placed into service. **(Dictionary)**

**PROSPECTIVE OPINION OF VALUE**

A value opinion effective as of a specified date in the future. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy. **(Dictionary)**

**REMAINING ECONOMIC LIFE (REL)**

The estimated period during which improvements will continue to represent the highest and best use of the property; an estimate of the number of years remaining in the economic life of the structure of structural components as of the date of the appraisal; used in the economic age-life method of estimating depreciation. **(Dictionary)**

**REPLACEMENT COSTS**

The estimated cost to construct, at current prices as of the effective appraisal date, a substitute for the building being appraised, using modern materials and current standards, design, and layout. **(Dictionary)**

**REPRODUCTION COSTS**

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same

materials, construction standards, design, layout, and quality of workmanship and embodying all of the deficiencies, super-adequacies, and obsolescence of the subject building. **(Dictionary)**

**RETROSPECTIVE VALUE OPINION**

A value opinion as of a specified historical date. The term does not define a type of value. Instead, it identifies a value as being effective at some specific prior date. Value as of a historic date is frequently sought in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., "retrospective market value opinion." **(Dictionary)**

**SANDWICH LEASEHOLD ESTATE**

The interest held by the original lessee when the property is subleased to another party; a type of leasehold estate. **(Dictionary)**

**SCOPE OF WORK**

The type and extent of research and analyses in an appraisal or appraisal review assignment. **(USPAP)**

**SURPLUS LAND**

Land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute value to the improved property. **(Dictionary)**

**TRIPLE NET (NET NET NET) LEASE**

A lease in which the tenant assumes all expenses (fixed and variable) of operating a property except that the landlord is responsible for structural maintenance, building reserves, and management. Also called NNN, triple net lease, or fully net lease. **(Dictionary)**

**USABLE AREA**

The measured area of an office area, store area, or building common area on a floor. The total of all of the useable areas of a floor shall equal floor usable area of that same floor. The amount of floor usable area can vary over the life of a building as corridors expand and contract and as floors are remodeled. **(Dictionary)**

# Dennis L. Smith, MAI

## California State Certification #AG002792

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### SUMMARY

Over forty two years of appraisal experience in Northern California. Areas of emphasis include Alameda, Contra Costa, Santa Clara, Solano and Sacramento Counties. Property types valued and analyzed include the following:

- \* *Single and Multi-Family Residential*
- \* *Vacant Land (Improved and Unimproved)*
- \* *Commercial (Retail, Industrial and Office)*
- \* *Subdivision (Feasibility and Valuation)*
- \* *Rental and Market Surveys*
- \* *Base Closure Appraisals*
- \* *Litigation Support & Expert Witness Testimony*

### WORK HISTORY

1998 - Present	Owner	Smith & Associates, Inc.
1985 - 1998	Owner/Partner	Smith Denton Associates, Inc.
1983 - 1985	Owner/Partner	Cypress Valuation Group, Inc.
1980 - 1983	Owner	Smith Associates
1979 - 1980	Staff Appraiser	T.A. Burns Company
1972 - 1979	Asst. V.P.	Bank of America, Appraisal Dept.

### EDUCATION

*Bachelor of Arts, Industrial Technology*      *Cal. State University, Chico*

*Appraisal Institute / AIREA Courses:* *Principals and Practice of Real Estate; Capitalization Theory Part B (Exam 1B-B); Case Studies in Real Estate Valuation; Industrial Valuation; Valuation Analysis & Report Writing (Exam 2-2); Demonstration Appraisal Report; Preparation and Use of the UCIAR Form; Valuation of Leases; Subdivision Analysis; Easement Valuation; Appraisal Regulations of the Federal Banking Agencies; Standards of Professional Practice, Parts A & B; Highest and Best Use and Market Analysis - course 520; Appraisal Practices for Litigation; Eminent Domain; Federal and State Laws and Regulations Workshop*

*SREA and College Coursework:* *Introduction to Appraising Real Property; Principles of Income Property Appraising; Legal Aspects of Real Estate; Real Estate Economics; Real Estate Financing*

### AFFILIATIONS

The Appraisal Institute, MAI #7954  
FNMA Level IV Classification #1131111  
Approved by the Department of Corporation, State of California  
Qualified as Legal Expert Witness - Contra Costa, Alameda, Napa and Sacramento Counties





Business, Consumer Services & Housing Agency  
**BUREAU OF REAL ESTATE APPRAISERS**  
**REAL ESTATE APPRAISER LICENSE**

**Dennis L. Smith**

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 002792

Effective Date: February 2, 2016  
Date Expires: February 1, 2018

  
Jim Martin, Bureau Chief, BREA

3024389

# **Robin J. Schwedhelm, MAI**

California State Certification #AG029733

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## **SUMMARY**

Over 13 years of appraisal experience.

Property types valued and analyzed include the following:

- *Industrial (Warehouse, Manufacturing, R & D)*
- *Commercial (Retail, Office)*
- *Vacant Land (Industrial, Commercial)*
- *Rental and Market Surveys*
- *Special Purpose Properties*
- *Litigation & Expert Witness Testimony*

## **WORK HISTORY**

2001 - Present      *Staff Appraiser/ Manager*      *Smith & Associates, Inc.*

## **EDUCATION**

*Bachelor of Science, Finance – Magna Cum Laude*      *University of Arizona*

### *Appraisal Institute Courses:*

*Appraisal Principles; Appraisal Procedures; Uniform Standards of Professional Appraisal Practice; Basic Income Capitalization; Advanced Income Capitalization; Market Analysis & Highest and Best Use; Advanced Concepts and Case Studies; General Appraiser Report Writing and Case Studies*

## **AFFILIATIONS**

Member of the Appraisal Institute  
Qualified as Legal Expert Witness – Alameda County  
State of California Certified General Real Estate Appraiser, No. AG029733



Business, Consumer Services & Housing Agency  
BUREAU OF REAL ESTATE APPRAISERS  
REAL ESTATE APPRAISER LICENSE

Robin J. Schwedhelm


has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 029733

Effective Date: November 27, 2014  
Date Expires: November 26, 2016

  
Jim Martin, Bureau Chief, BREA

3016519

# SMITH ASSOCIATES

February 22, 2016

Mr. Brad Shook  
800 Tower Avenue  
Alameda, CA

RE: Proposal for appraisal services for the property located at:  
  
800 Tower Avenue, Alameda, CA (Industrial Building)

Dear Mr. Shook:

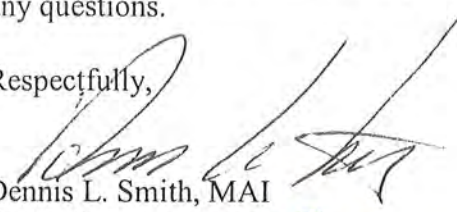
Please accept this proposal for appraisal services on the above referenced property. The purpose of the assignment will be for us to provide you with our opinion as to the current market value for the property referenced above. The concluded value will consider the property in its original condition and layout as of, February 1, 2000, the initial start date of the lease. We will submit our findings in an appraisal report presented in a narrative format. The intended use of the appraisal is to aid in negotiations to purchase the property. You and your assigns in connection with this process are the only authorized users of the report without written consent from the appraisers

The total fee to complete the appraisal is \$5,000. Payment is to include a retainer in the amount of \$3,000 with the balance due prior to delivery of the final report. I anticipate completion of the assignment within about 4 weeks from our engagement.

Note the above fee is for completion and delivery of the report. Any additional services requested will be bill on an hourly basis. *#200/hr standard #300 Rpt*

After reviewing this proposal and assuming you accept the terms please sign and date *#350 cost* below and return via e-mail to me. The retainer check should be made out to Smith Associates, Inc. and mailed to my attention to my Danville office. Please contact me with *1/2 day* any questions. *min*

Respectfully,

  
Dennis L. Smith, MAI  
Smith & Associates, Inc.

Accepted:  Date: 2-23-16

East Bay - Corporate Office  
130 Town & Country Drive, Suite 1  
Danville, CA 94526  
Phone 925 855 4950  
Fax 925 855 4951

Silicon Valley - San Francisco Office  
520 S. El Camino Real, Suite 342  
San Mateo, CA 94402  
Phone 650 627 4379  
Fax 925 855 4951

Sacramento - Central Valley Office  
111 Woodmere Road, Suite 110  
Folsom, CA 95630  
Phone 916 357 5860  
Fax 916 357 4868

**APPRAISAL OF:**  
**800 W. TOWER AVENUE**  
**ALAMEDA, CALIFORNIA**

**PREPARED FOR:**  
**CITY OF ALAMEDA**  
**ALAMEDA, CALIFORNIA**

**APRIL 2016**

**16-ASF-092**

April 29, 2016

Ms. Nanette Mocanu  
City of Alameda  
Community Development Department  
2263 Santa Clara Avenue, Room 190  
Alameda, CA 94501  
510-747-6886  
nmocanu@alamedaca.gov

Re: 16-ASF-092, Appraisal  
800 W. Tower Avenue  
Alameda, California

Dear Ms. Mocanu:

At your request and authorization, Carneghi & Partners, Inc. has prepared an appraisal of the above-referenced property. The subject property appraised is located at 800 W. Tower Avenue in the City of Alameda, Alameda County, California. The subject property is commonly known as Building 40 and was originally constructed for use as a seaplane airplane hangar on the Alameda Naval Air Station in the 1940s. The improvements consist of a 104,000 square foot building, according to the subject lease. The building construction is steel frame and concrete. According to a tentative parcel map provide by the City of Alameda, the subject parcel size is approximately 6.6 acres, or 287,496 square feet, indicating a floor area ratio of 58 percent. The subject is striped with approximately 370 parking spaces, indicating a parking ratio of 3.6 parking spaces per 1,000 square feet of building area. The building is currently leased to Bladium, a sports facility.

The purpose of this assignment is to appraise the subject property as described in the Purchase Option Addendum to the subject lease. The instructions to the appraiser are as follows:

The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and dropped ceiling. The build-out, type of use and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building code.

The hypothetical quality and condition of the subject are further discussed in the improvements description of this report. This appraisal addresses the fee simple market value of the subject property.

The purpose of this appraisal is to estimate the current market value of the fee simple interest in the subject property in the hypothetical condition described in the lease purchase option. It is our understanding that the intended use/user of this appraisal is for the exclusive use City of Alameda for assistance with negotiations relating to the sale of the subject property. ***This report should not be used or relied upon by any other parties for any reason.***

#### **EXTRAORDINARY ASSUMPTIONS AND HYPOTHETICAL LIMITING CONDITIONS**

1. The purpose of this assignment is to appraise the subject property as described in the Purchase Option Addendum to the subject lease. The instructions to the appraiser are as follows:

The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and dropped ceiling. The build-out, type of use and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building code.

The hypothetical quality and condition of the subject are further discussed in the improvements description of this report.

2. A preliminary title report was not provided for review. This appraisal assumes that no easements or exceptions to title exist that would adversely affect utility or marketability of the property.
3. This appraisal assumes the subject property is a discreet legal parcel as described in the tentative map provided for review, and that it can be transferred independently of the larger surrounding parcels.

**VALUE CONCLUSION**

Based on the research and analyses contained in this report, and subject to the assumptions and limiting conditions contained herein, it is the opinion of the appraisers that the current market value of the fee simple interest in the subject property in the hypothetical condition described in the lease purchase option, as of April 13, 2016, is estimated to be:

**EIGHT MILLION THREE HUNDRED THOUSAND DOLLARS**

**(\$8,300,000)**

It is our opinion that the above value could be achieved within a 12-month exposure period.

This letter must remain attached to the appraisal report, which is identified on the footer of each page as 16-ASF-092 plus related exhibits, in order for the opinion of value set forth to be considered valid.

**CERTIFICATION OF THE APPRAISERS**

We, the undersigned, hereby certify that, to the best of our knowledge and belief: the statements of fact contained in this report are true and correct; 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; we have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved; we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment; our engagement in this assignment was not contingent upon developing or reporting predetermined results, our compensation is not contingent upon the 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; the appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan; our analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice, Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute, and is in compliance with FIRREA; Kathleen McCormack and Timothy Runde have made a personal inspection of the property that is the subject of this report; no one provided significant real property appraisal assistance to the persons signing this report. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. As of the date of this report Timothy Runde has completed the requirements under the continuing education program of the Appraisal Institute. In accordance with the Competency Provision in the USPAP, we certify that our education, experience and knowledge are sufficient to appraise the type of property being valued in this report. We have not provided services regarding the property that is the subject of this report in the 36 months prior to accepting this assignment.



We are pleased to have had this opportunity to be of service. Please contact us if there are any questions regarding this appraisal.

Sincerely,

CARNEGHI AND PARTNERS, INC.



Timothy P. Runde, MAI, LEED AP  
Certified General Real Estate Appraiser  
State of California No. AG011358



Kathleen A. McCormack  
Trainee Real Estate Appraiser  
State of California No. 3000844

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<b>Table 2 - Comparable Building Sales Adjustment Grid</b>	<b>21.1</b>
<b>Table 3 - Comparable Leases</b>	<b>24.1</b>
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**LIST OF EXHIBITS**

<b>Regional Map</b>	<b>following</b>	<b>6</b>
<b>Neighborhood Area Map</b>	<b>following</b>	<b>7</b>
<b>Tentative Parcel Map</b>	<b>following</b>	<b>11</b>
<b>Subject and Neighborhood Photographs</b>	<b>following</b>	<b>13</b>
<b>Comparable Building Sales Map</b>	<b>following</b>	<b>20.1</b>
<b>Comparable Leases Map</b>	<b>following</b>	<b>24.1</b>

**ADDENDA**

**Comparable Photographs  
Tax Bill  
Subject Lease  
Subject Purchase Option Lease Amendment  
Engagement Letter  
Qualifications and License of Appraiser**

**I. REPORT SUMMARY**

**A. Property Appraised**

The subject property appraised is located at 800 W. Tower Avenue in the City of Alameda, Alameda County, California. The subject property is commonly known as Building 40 and was originally constructed for use as a seaplane airplane hangar on the Alameda Naval Air Station in the 1940s. The improvements consist of a 104,000 square foot building, according to the subject lease. The building construction is steel frame and concrete. According to a tentative parcel map provide by the City of Alameda, the subject parcel size is approximately 6.6 acres, or 287,496 square feet, indicating a floor area ratio of 58 percent. The subject is striped with approximately 370 parking spaces, indicating a parking ratio of 3.6 parking spaces per 1,000 square feet of building area. The building is currently leased to Bladium, a sports facility.

**B. Appraiser Instructions**

The purpose of this assignment is to appraise the subject property as described in the Purchase Option Addendum to the subject lease. The instructions to the appraiser are as follows:

The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and dropped ceiling. The build-out, type of use and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building code.

The hypothetical quality and condition of the subject are further discussed in the improvements description of this report. This appraisal addresses the fee simple market value of the subject property.

**C. Property Identifications**

Assessor's Parcel No.	74-1368-15
Zoning	AP – WTC, Waterfront Town Center
Zip Code	94501

**D. Client, Purpose, Intended Use and Intended User**

The client for this appraisal is Ms. Nanette Mocanu with the City of Alameda. The purpose of this appraisal is to estimate the current market value of the fee simple interest in the subject property in the hypothetical condition described in the lease purchase option. It is our understanding that the intended use/user of this appraisal is for the exclusive use City of Alameda for assistance with negotiations relating to the sale of the subject property. *This report should not be used or relied upon by any other parties for any reason.*

**E. Scope of Work**

The scope of work for this appraisal assignment report is to utilize the appropriate approaches to value in accordance with Uniform Standards of Professional Appraisal Practice (USPAP) to arrive at a market value conclusion. Specific steps include the inspection of the subject property (interior and exterior) and the research, analysis and verification of comparable data to arrive at a value indication as put forth in this report. The Sales Comparison and Income Approaches are the most reliable methods for valuing development sites such as the subject. The Cost Approach is not considered reliable for older, historic buildings and therefore it is not included.

**F. Reporting Format**

This is an appraisal report.

**G. Date of Appraisal and Date of Report**

The effective date of valuation is April 13, 2016.

The date of this appraisal report is April 29, 2016.

**H. Definition of Terms**

**1. Market Value (OCC 12 CFR 34.42 (g)) (OTS 12 CFR, Part 564.2 (g))**

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

- a. Buyer and seller are typically motivated;

- b. Both parties are well informed or well advised, and acting in what they consider their own best interests;
  - c. A reasonable time is allowed for exposure in the open market;
  - d. Payment is made in terms of cash in US dollars or in terms of financial arrangements comparable thereto; and
  - e. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
2. **Fee Simple Interest** (*The Appraisal of Real Estate, 13th Edition, 2008, p.114*)

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

**I. Value Conclusion**

Based on the research and analyses contained in this report, and subject to the assumptions and limiting conditions contained herein, it is the opinion of the appraiser that the current market value of the fee simple interest in the subject property in the hypothetical condition described in the purchase option of the lease, as of April 13, 2016, is estimated to be:

**EIGHT MILLION THREE HUNDRED THOUSAND DOLLARS**

**(\$8,300,000)**

It is our opinion that the above value could be achieved within a 12-month exposure period.

**J. Assumptions and Limiting Conditions**

*Extraordinary Assumptions and Hypothetical Conditions*

- 1. The purpose of this assignment is to appraise the subject property as described in the Purchase Option Addendum to the subject lease. The instructions to the appraiser are as follows:

The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished

office space and 12,984 square foot of unfinished office space requiring new carpets, paint and dropped ceiling. The build-out, type of use and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building code.

The hypothetical quality and condition of the subject are further discussed in the improvements description of this report.

2. A preliminary title report was not provided for review. This appraisal assumes that no easements or exceptions to title exist that would adversely affect utility or marketability of the property.
3. This appraisal assumes the subject property is a discreet legal parcel as described in the tentative map provided for review, and that it can be transferred independently of the larger surrounding parcels.

The use of any hypothetical conditions or extraordinary assumptions in this report might have affected the assignment results.

***General Limiting Conditions***

4. It is the client's responsibility to read this report and to inform the appraiser of any errors or omissions of which he/she is aware prior to utilizing this report or making it available to any third party.
5. No responsibility is assumed for legal matters. It is assumed that title of the property is marketable and it is free and clear of liens, encumbrances and special assessments other than as stated in this report.
6. Plot plans and maps are included to assist the reader in visualizing the property. Information, estimates, and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the appraiser is assumed by the appraiser.
7. All information has been checked where possible and is believed to be correct, but is not guaranteed as such.



8. The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors. It is assumed that no additional soil contamination exists, other than as outlined herein, as a result of chemical drainage or leakage in connection with any production operations on or near the property.
9. In this assignment, the existence (if any) of potentially hazardous materials used in the construction or maintenance of the improvements or disposed of on the site has not been considered. These materials may include (but are not limited to) the existence of formaldehyde foam insulation, asbestos insulation, or toxic wastes. The appraiser is not qualified to detect such substances. The client is advised to retain an expert in this field.
10. Any projections of income and expenses in this report are not predictions of the future. Rather, they are an estimate of current market thinking of what future income and expenses will be. No warranty or representation is made that these projections will materialize.
11. The appraiser is not required to give testimony or appear in court in connection with this appraisal unless arrangements have been previously made.
12. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with the proper written qualification, only in its entirety, and only for the contracted intended use as stated herein.
13. Neither all nor part of the contents of this report shall be conveyed to the public through advertising, public relations, news sales, or other media without the written consent and approval of the appraiser, particularly as to the valuation conclusions, the identity of the appraiser, or any reference to the Appraisal Institute or the MAI designation.
14. Information regarding any earthquake and flood hazard zones for the subject property was provided by outside sources. Accurately reading flood hazard and earthquake maps, as well as tracking constant changes in the zone designations, is a specialized skill and outside the scope of the services provided in this appraisal assignment. No responsibility is assumed by the appraiser in the misinterpretation of these maps. It is strongly recommended that any lending institution reverify earthquake and flood hazard locations for any property for which they are providing a mortgage loan.

## II. AREA AND NEIGHBORHOOD DESCRIPTION

### A. Alameda County

Alameda County is one of the five counties of metropolitan San Francisco, also known as the San Francisco-Oakland Standard Metropolitan Statistical Area. The western portion of the county, which contains most of the population and economic activity, is situated on the flatland adjacent to San Francisco Bay. The northwestern cities of Alameda including Berkeley, Oakland and San Leandro, are older and most of the growth in the 1980s and early 1990s has occurred in the southern and central cities of Alameda County. The eastern portion of the county is mountainous and largely undeveloped.

Alameda County is the traditional manufacturing, transportation and warehousing center for the San Francisco Bay Area. The county has an advantageous location on the eastern side of San Francisco Bay. Transportation facilities include three transcontinental railroads, the Port of Oakland, extensive freeways, and the Bay Area Rapid Transit (BART) system. The county is linked to San Francisco and the west side of the bay by three bridges.

The population of Alameda County continues to grow. The 2010 Census reported the Alameda County population to be 1,510,271, an increase of 4 percent over the 2000 population. The California Department of Finance (DOF) estimated the population of Alameda County to be 1,594,569 as of January 1, 2015 (most recent available), an increase of 1.3 percent from 2014. According to the California Employment Development Department, unemployment was 4.3 percent in Alameda County in March 2016 (most recent available), compared to 5.6 percent for the State of California. This compares to unemployment rates of 4.9 percent for Alameda County and 6.7 percent for the State of California from one year prior.

### B. City of Alameda

Alameda is a community situated directly south and west of Oakland, approximately 12 miles east of San Francisco. The northern portion of Alameda is a large island, approximately 10 square miles in size, which is separated from Oakland by a deep water estuary. The southern portion of Alameda is the northern portion of a peninsula located south of the main island. This area, known as Bay Farm Island, is located directly north of the Oakland airport, and consists of residential uses and the Harbor Bay Isle Business Park Development.

Alameda is predominantly a residential community with commercial development along the major traffic arterials. In the 1980s, two office/R&D parks were developed; one along Webster Street in northern Alameda (Marina Village) and Harbor Bay Isle near the Oakland Airport. The former U.S. Naval Air Station, now known as Alameda

# REGIONAL MAP



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Certain mapping and direction data © 2009 NAVTEQ. All rights reserved. The Data for areas of Canada includes information taken with permission from Canadian authorities, including: © Her Majesty the Queen in Right of Canada, © Queen's Printer for Ontario. NAVTEQ and NAVTEQ ON BOARD are trademarks of NAVTEQ. © 2009 Tele Atlas North America, Inc. All rights reserved. Tele Atlas and Tele Atlas North America are trademarks of Tele Atlas, Inc. © 2009 by Applied Geographic Systems. All rights reserved.

Point, occupies much of the northern portion of the island, while most industrial development is located along the estuary in the eastern section of Alameda.

Alameda is a well-established community that was initially settled before 1900. Most of Alameda consists of older homes built in the first half of the 20th century, although the Bay Farm Island portion to the south is developed largely with modern townhouses, condominiums and single-family house neighborhoods.

The 2010 U.S. Census reports a population of 73,812 inhabitants in Alameda, an increase of approximately 2.1 percent from the 2000 Census estimate. The California Department of Finance reports a January 1, 2014 population of 75,988 persons. This represents a 1.1 percent increase over the comparable 2013 figure.

The mean household income for the City of Alameda was estimated by ABAG at \$91,200 as of 2010. Current income levels are at or slightly below the county average. ABAG projects mean household income to increase to \$94,800 by 2015, and then continue to \$98,700 as of 2020. With respect to other communities in Alameda County, seven cities/communities have higher levels of mean household income, while nine cities/communities have lower levels.

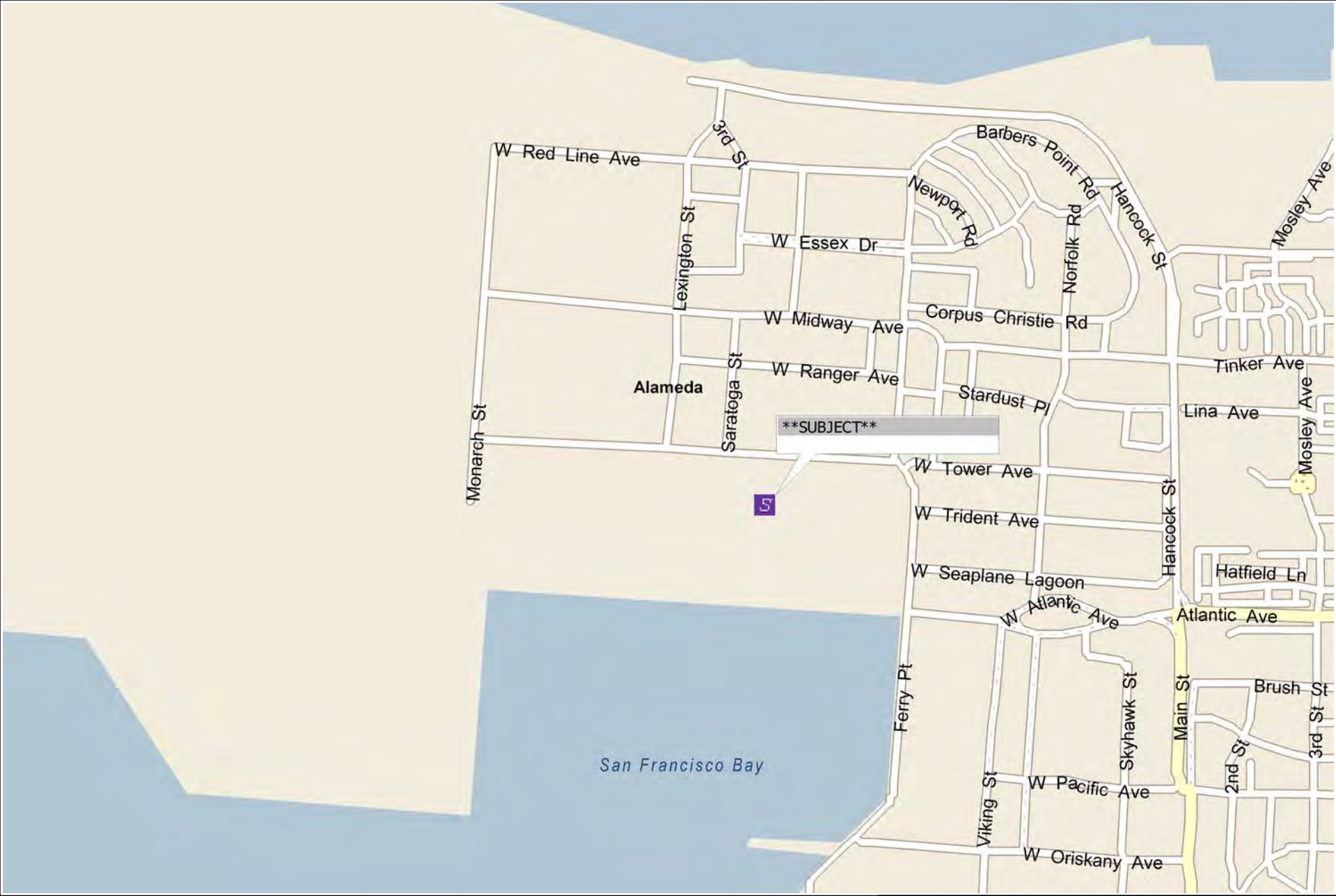
Interstate Highway 880 is directly across the estuary from Alameda and is accessible via three bridges and one underwater tunnel. The three bridges are in the southeastern portion of the island, at Park Street, and at High Street. The southern crossing extends from Otis Drive in Alameda to the Metropolitan Oakland International Airport (Doolittle Drive) to the south. The Posey Tube and Webster Street Tunnel comprise a four-lane, two directional traffic arterial extending beneath the estuary at the northern end of Alameda.

### **C. Neighborhood Description**

The subject property is located on the former Alameda Naval Air Station (NAS). The NAS closed in 1997 and in 2013 a portion of the NAS was transferred to the City of Alameda. The subject building is located on the portion of the NAS that is owned by the City of Alameda. This area has been renamed Alameda Point and in 2014 the city amended its General plan to include a new development plan for Alameda Point.

Alameda Point is located on the western portion of the island of Alameda. The general subject neighborhood is bound by Main Street in the east, Monarch Street to the west, the Oakland Estuary to the north and the Seaplane Lagoon to the south. The subject property is located at 800 W. Tower Avenue, on the south side of Tower Avenue between Ferry Point and Monarch Street. The subject building is a former airplane hangar building built in the 1940s. It is located on the south side of W. Tower Avenue in a row of five historic seaplane hangar buildings.

# AREA MAP



Copyright © and (P) 1988–2009 Microsoft Corporation and/or its suppliers. All rights reserved. <http://www.microsoft.com/streets/>  
Certain mapping and direction data © 2009 NAVTEQ. All rights reserved. The Data for areas of Canada includes information taken with permission from Canadian authorities, including: © Her Majesty the Queen in Right of Canada, © Queen's Printer for Ontario. NAVTEQ and NAVTEQ ON BOARD are trademarks of NAVTEQ. © 2009 Tele Atlas North America, Inc. All rights reserved. Tele Atlas and Tele Atlas North America are trademarks of Tele Atlas, Inc. © 2009 by Applied Geographic Systems. All rights reserved.

The Alameda Point redevelopment plan includes commercial and residential uses. Reportedly, the final development of Alameda Point will include approximately 1,425 residential units and approximately 5.5 million square feet of commercial space.

### III. MARKET OVERVIEW

#### A. Industrial Market Overview

The subject property consists of a single tenant industrial building located in Alameda. It is located in the Eastbay I-80/880 Corridor industrial market which stretches from Richmond to the north and to Fremont in the south. The subject is in the Alameda submarket. Data specifically for the Alameda submarket is not published; however, data for the larger East Bay Oakland industrial market is analyzed.

The East Bay industrial market totals 163,359,768 square feet according to the 3rd Quarter 2015 (most recent available) Industrial Market Snapshot prepared by Cushman & Wakefield Commercial Real Estate. The overall vacancy rate for industrial space in the East Bay (considered to be represented by the cities of Richmond, Berkeley, Emeryville, Oakland, San Leandro, Hayward, Union City, Newark and Fremont) is 2.5 percent. The vacancy rate for this quarter is at a historical low, but close to the 2.6 percent and 3.7 percent vacancy rates recorded in the first two quarters of 2015. Year-to-date net absorption is positive 1,854,727 square feet. There is 1.3 million square feet of industrial product under construction.

The 3rd Quarter 2015 average asking rental rate for industrial space in the East Bay was reported to be \$0.58 per square foot, triple net and ranged from \$0.47 to \$0.89 per square foot, triple net across all submarkets. According to the report, the average rental rate has remained the same year over year, and remains slightly below the peak average market rent of 2007 (\$0.60 per square foot, triple net).

The city of Alameda is typically not included in the broker market reports due to its small market size. Based on discussions with area brokers and observations of deal activity and vacancy levels in the area industrial buildings, the vacancy rate in Alameda is slightly higher than the East Bay market. The overall industrial vacancy in Alameda is estimated in the 5.0 percent range. Asking rents typically range from \$0.40 to \$0.55. The industrial market in Alameda is typically stable and has been stable for the last several years. However, the location is considered ancillary and access is inferior compared to the industrial markets of Oakland and Hayward.

Overall, the outlook for the Alameda industrial market is generally positive. Reportedly, there is an increased demand for warehouse space due to e-commerce distribution. According to market reports, demand for any type of industrial space near major population centers will remain stable and possibly increase. The demand for space is stronger than the current supply. The report also states that asking rental rates have increased rapidly, in core markets, and will continue to rise, particularly for high demand, high cube, large Class A warehouse space.

## **B. Marketing and Exposure Period Analysis**

In concluding the market value of the subject property, marketing and exposure periods are concluded. The exposure period is defined as "the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal." Thus it is assumed to have occurred prior to the appraisal date. In contrast the marketing period is the estimated time that it would take to consummate the sale after the appraisal date.

For the subject property, a marketing period of 12 months is concluded. This allows time for marketing, due diligence, and close of escrow. The same period is concluded for exposure period.



#### IV. PROPERTY IDENTIFICATION AND DESCRIPTION

##### A. Site Description

The subject property has a street address of 800 W. Tower Avenue in the City of Alameda, County of Alameda, California. A tentative parcel map is included on the following page. According to the tentative parcel map, the proposed subject parcel will contain approximately 6.6 acres, or 287,496 square feet. The subject proposed parcel is rectangular in shape with frontage on Tower Avenue. The site is level and at street grade. The subject is further identified by the Alameda County Assessor's Office as Assessor's Parcel Number 74-1368-15. A parcel map was not available in the public record.

Tower Avenue is a two-lane, two-way street in the vicinity of the subject. All streets are paved with curbs, gutters and sidewalks.

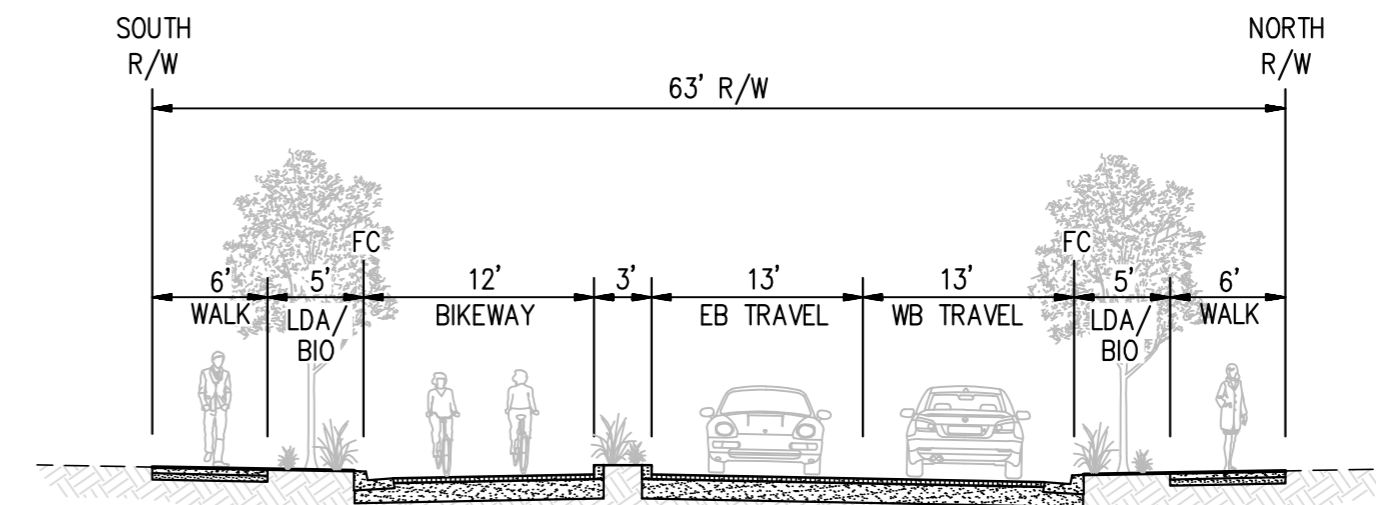
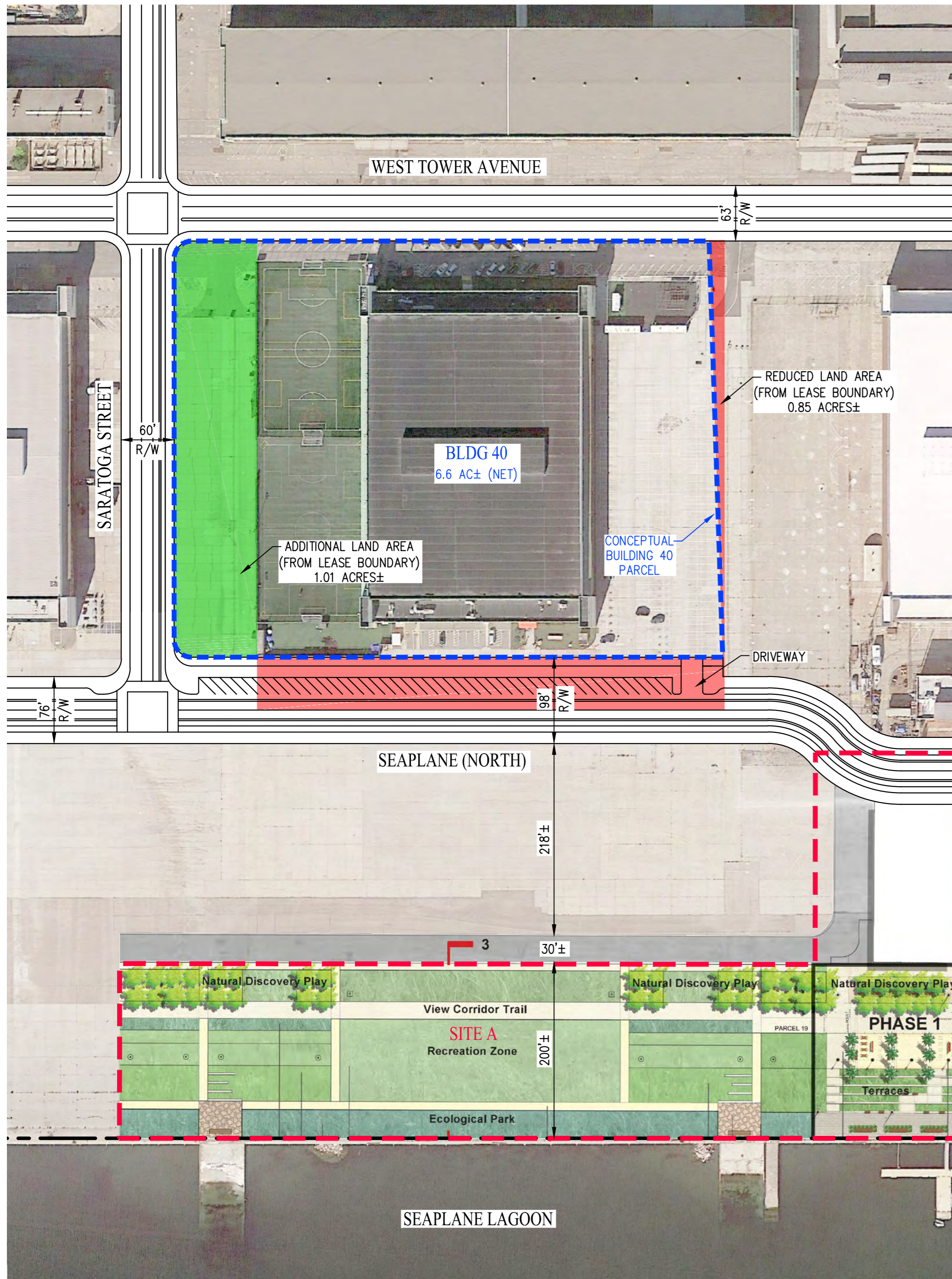
All utilities are available to the subject site. These include natural gas, electricity, water, sewer and telephone. It appears that each is available in sufficient quantity and has an adequate service capacity for any type usage allowed on the site.

##### B. Ownership and Sales History

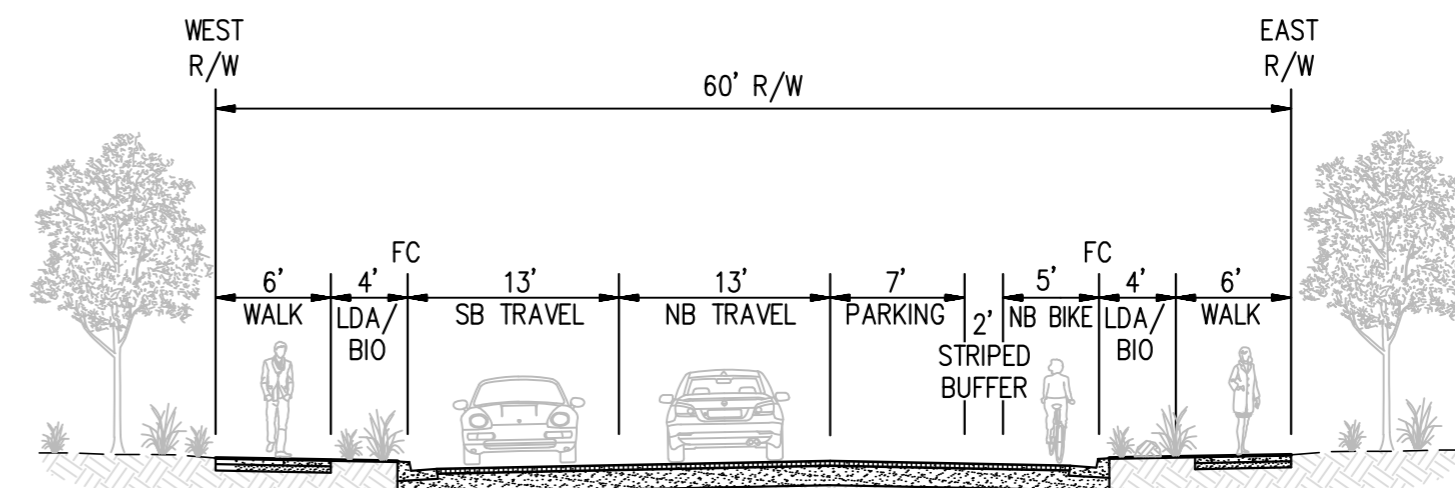
The subject is currently owned by the City of Alameda, according public record. The subject lease includes a first amendment with a purchase option dated June 2000. The subject is currently in negotiations to be purchased by the tenant of the subject real estate. The subject ownership was transferred to the City of Alameda in 2013, according to public record. No further transfers of the subject were noted in the last three years, according to our research.

##### C. Environmental Observations

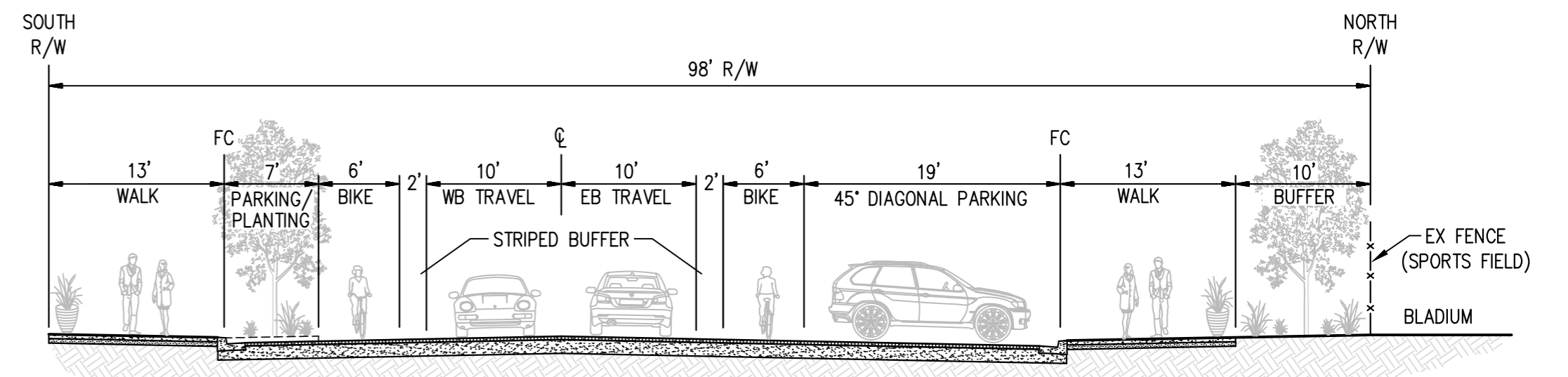
No environmental reports were provided for review. A representative of the subject property reported no knowledge of site contamination. A representative of the subject property reported no underground storage tanks. In addition, there was no evidence of drainage problems or wetland vegetation. The appraisers are not qualified to assess environmental matters, and the reader is advised to seek the advice of a qualified environmental expert to assess the impact of this reported known environmental condition. For purposes of the appraisal, the site is assumed to be clean. The reader is directed to the limiting condition in Chapter I of this report, which assumes that the site is clean.



WEST TOWER AVENUE  
NOT TO SCALE



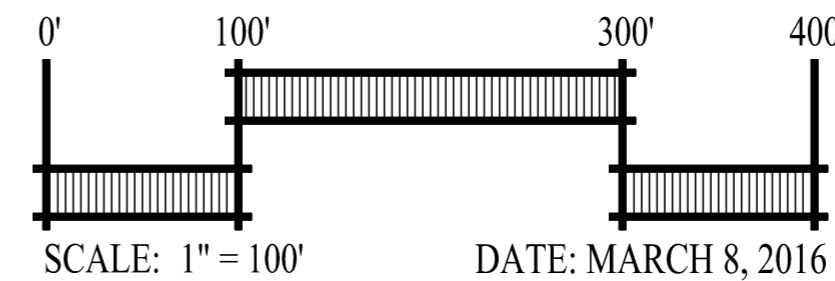
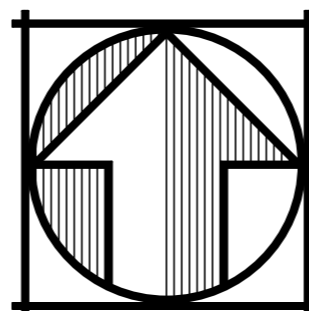
SARATOGA STREET  
NOT TO SCALE



SEAPLANE (NORTH)  
NOT TO SCALE

# ALAMEDA POINT BUILDING 40 CONCEPTUAL PARCEL

CITY OF ALAMEDA ALAMEDA COUNTY CALIFORNIA



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**D. Easements and Restrictions**

A preliminary title report was not available for review. This appraisal assumes no adverse easements or encumbrances exist that would have an adverse impact on the marketability of the subject.

**E. Assessed Valuation and Real Estate Taxes**

The subject property has been assessed for possessory tax purposes for the current fiscal year at \$661,826. Approximately \$228,000 represents land, \$228,000 represents improvements, \$4,086 represents fixtures, \$201,740 represents personal property, and \$205,826 represents gross assessments and tax.

The current tax rate for the subject is 1.1342 percent. The possessory tax amount is \$7,506.42. There are no charges for special assessments. The total taxes for 2015-2016 are \$7,506.42. Under California law, property assessments can increase a maximum of two percent per year. Reassessment is permitted upon change of ownership, or upon improvement of the property, and is typically based on the estimated market value. Since market value estimation assumes a change of ownership, reassessment is assumed in valuation. A copy of the most recent taxbill is included in the addenda of the appraisal report.

**F. Flood Zone and Seismic Information**

The According to Flood Insurance Rate Map Community Panel No. 06001C0066G, effective August 3, 2009, the subject is located in Flood Zone D, an area of possible but undetermined flood hazard. Flood insurance is not required by law in this zone.

The subject property does not appear to be located in a seismic hazard (Alquist Priolo) special studies seismic zone.

**G. Zoning and Land Use Restrictions**

The subject is zoned Alameda Point – Waterfront Town Center (WTC) and the general plan designation is mixed used, according to planners with the Alameda Planning Division. The purpose of the Alameda Point zoning district is to provide “lands for a mix of uses that include waterfront and visitor-serving uses, including retail, service, entertainment, lodging, recreational, and medium to high-density residential uses. Development standards are intended to create a pedestrian, bicycle, and transit supportive urban environment designed to de-emphasize the automobile and create a mixed-use environment that supports the emergence of a transit and pedestrian-friendly mixed-use waterfront neighborhood. To ensure that the development of this area achieves these purposes, a master plan is required for this sub-district.”

Under the Alameda Point – WTC zoning designation residential and commercial uses are permitted. Light industrial uses are permitted but there are restrictions with most uses requiring a use permit. Health and fitness facilities, like the subject use, are permitted under the Alameda Point – WTC zoning.

The off-street parking requirement for a sports facility use under the Alameda Point – WTC zoning is 2.0 spaces per 1,000 square feet of building area. The parking ratio for the subject is currently 3.6 spaces per 1,000 square feet of building area.

According to planners with the Alameda Planning Division, the subject is considered to be a legal, conforming use of the subject site.

## **H. Improvements Description**

The subject site is improved with a former seaplane hangar building that has been converted for use as a sports facility. The purpose of this assignment is to appraise the subject property as described in the Purchase Option Addendum to the subject lease. The instructions to the appraiser are as follows:

The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and dropped ceiling. The build-out, type of use and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building code.

The subject building contains approximately 104,000 square feet. According to the instructions given to the appraiser, the subject building contains 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and dropped ceiling. The foundation of the subject building appears to be concrete slab on grade. The building construction is of steel reinforced concrete. The wood roof is supported by steel truss supports and is covered with membrane roofing. The subject was originally constructed in the 1940s for use as a seaplane hangar and large metal doors are on the east and west sides of the improvements.

According to Exhibit F of the subject lease, the exterior of the building is in good condition, the structural interior of the building is in average condition and the interior tenant improvements are in poor condition.

## SUBJECT & NEIGHBORHOOD PHOTOGRAPHS



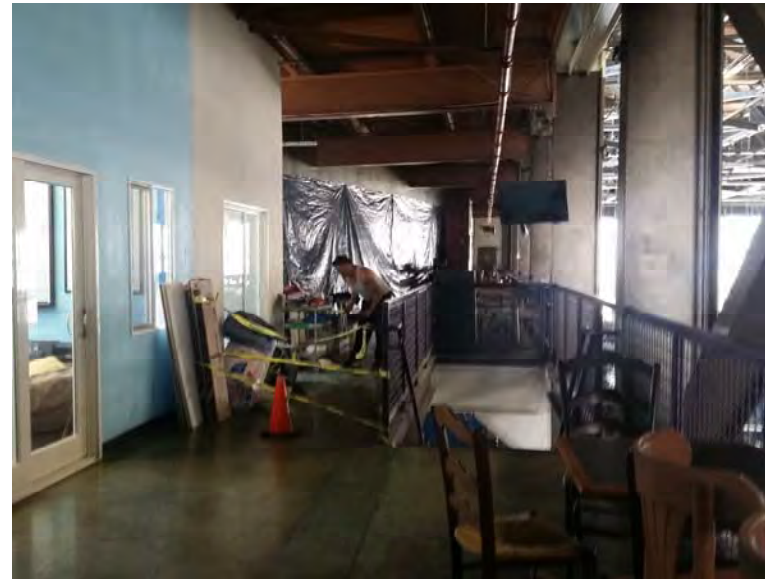
Subject view northwest from parking lot



Subject view from Tower Avenue



Interior entrance



Mezzanine

## SUBJECT & NEIGHBORHOOD PHOTOGRAPHS



Open hangar area



Open hangar area



Neighborhood view west along Tower Avenue



Neighborhood view east along Tower Avenue

Exhibit E details Qualified Shell Improvements undertaken by the tenant for the subject building. According to Section 3.2 of the subject lease, the tenant received a rent abatement from the landlord to offset the shell improvement costs. According to the subject lease, the first year of rent was abated to pay for the costs. In addition, the landlord agreed to reimburse the tenant an additional \$975,000 for shell improvement costs and an additional \$25,000 for any interest paid on a loan acquired to pay for the shell improvements.

According to Exhibit E, the qualified shell improvements brought the subject property up to “general requirements for use and occupancy.” This work included the removal of hazardous materials, including lead abatement in fixed glazing. The roof was patched and repaired and ordered to be replaced if necessary. All broken and leaking windows were repaired or replaced and the windows and doors were sealed. Portions of the subject were demolished including “structures, fencing and equipment” in the open hangar space. Demolition occurred to “remove partitions, walls, ceilings and fixtures in the two story structure located on the south and north side of the Building.” Ingress and egress to the building were brought up to code, including the installation of ADA ramps. New bathrooms and new fixtures were installed. New plumbing and electrical was installed. A new gas-fired heating system was installed. Fire sprinklers were installed. The parking lot was graded, paved, striped for parking and fenced and is striped for 370 parking spaces, a ratio of 3.6 stalls per 1,000 square feet of building area.

Including the shell improvements with consideration to the conditions report provided, the subject is appraised as an industrial building in average to good condition for its age. The poor quality interior tenant improvements were demolished, according to Exhibit E. The subject therefore represents an industrial building with an exterior in average to good condition, a structural interior in average to good condition after completion of the shell improvements, and an interior tenant improvement in average condition, with consideration of the hypothetical unfinished 12,984 square feet of office space. The improvements exhibit good functional utility and meet the needs of the market. Any deferred maintenance is assumed to have been cured during the shell improvement renovations.

In conclusion, the subject is considered to be in average to good condition, considering its age. The subject contains 104,000 square feet, according to the subject lease. The subject interior is built-out with 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space. The subject contains approximately 16 percent office; the office consists of 3 percent finished office and 12 percent unfinished office.

**I. ADA Compliance**

An ADA compliance survey was not provided for review, nor was one performed by the appraiser. The reader is directed to the limiting condition in Chapter I of this report, which states that any effect on value of potential ADA noncompliance has not been considered in this appraisal.



## V. HIGHEST AND BEST USE AND VALUATION METHODOLOGY

### A. Highest and Best Use

Highest and best use is the reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value.<sup>1</sup>

The four criteria the highest and best use must meet are physical possibility, legal permissibility, financial feasibility, and maximum productivity. Analysis of the subject's highest and best use is made as if the site were vacant, and as improved with the existing improvements.

<sup>1</sup>The Appraisal of Real Estate, 13th Edition, 2008, p.277-278

In determining the highest and best use of the subject site as if vacant, the four tests are applied to the subject. These include: legal permissibility, physical possibility, financial feasibility and maximum productivity.

#### *1. As If Vacant*

##### *a. Physically Possible*

The subject site is a functional mid-block site with street frontage on W. Tower Avenue. The site is level and at street grade. Physical characteristics do not adversely affect the potential uses of the subject site.

##### *b. Legally Permissible*

The subject property proposed zoning allows for residential, commercial, institutional, recreational and some industrial uses. The zoning restrictions do not significantly restrict the potential uses of the subject site.

##### *c. Financially Feasible*

Currently, speculative uses would not likely be financially feasible. Build-to-suit activity continues, and owner-users remain active. If the site were vacant today, speculative development would not likely be financially feasible, but a build-to-suit development could be viable if a user is identified.

d. *Maximally Productive*

The maximally productive use is that use, from among financially feasible uses, that provides the highest rate of return or value. In the current market, the highest and best use of sites like the subject is to hold the site for future development, develop as a build-to-suit, or sell the site to a user.

2. *As Improved*

The subject property is presently improved with a 104,000 square foot seaplane hangar building adapted for use as a sports facility. The facility is functional, of average construction quality and in average to good condition for its age.

Overall, the highest and best use of the subject property as-improved is considered to be the existing use. Based on discussions with market participants, the most likely buyer of a building such as the subject is an owner-user.

**B. Methodology**

The valuation of any parcel of real estate is derived principally through three approaches to the market value. From the indications of these analyses, and the weight accorded to each, an opinion of value is reached. Each approach is more particularly described below.

1. *Cost Approach*

This approach is the summation of the estimated value of the land, as if vacant, and the reproduction of replacement cost of the improvements. From these are deducted the appraiser's estimate of physical deterioration, functional obsolescence and economic obsolescence, as observed during inspection of the property and its environs. The Cost Approach is based on the premise that, except under most unusual circumstances, the value of a property cannot be greater than the cost of constructing a similar building on a comparable site.

2. *Sales Comparison Approach*

This approach is based on the principal of substitution, i.e., the value of a property is governed by the prices generally obtained for similar properties. In analyzing the market data, it is essential that the sale prices be reduced to common denominators to relate the degree of comparability to the property under appraisal. The difficulty in this approach is that two properties are never exactly alike.

### 3. *Income Approach*

An investment property is typically valued in proportion to its ability to produce income. Hence, the Income Approach involves an analysis of the property in terms of its ability to provide a net annual income. This estimated income is then capitalized at a rate commensurate with the risks inherent in ownership of the property, relative to the rate of return offered by other investments.

The subject will be valued by the Sales Comparison and Income Approaches. The Cost Approach is not reliable for older, historic buildings and is not used in this analysis.

## VI. VALUATION BY THE SALES COMPARISON APPROACH

The approach utilized in estimating the current market value of the subject property is the Sales Comparison Approach. In this analysis, value is estimated by comparing the subject to similar properties that have transferred prior to the effective date of appraisal. The index properties show characteristics which are similar to the property being appraised.

Those transactions which are considered appropriate to indexing the value of the subject are summarized on the table on the following page. The prices paid for the comparable properties are shown on an absolute basis and on a price per square foot of building area basis, which is the most common unit value used for industrial land.

The comparables were selected based on their appeal to a similar market.

### A. Comparable Building Sales

*Comparable 1* is the most recent sale of a single-tenant, light industrial building located at 30526 San Antonio Street in Hayward. The concrete tilt-up building was constructed in 1977. The comparable contains approximately 149,136 square feet of building area. The building was renovated in 2005 and in good condition. It has approximately 4 percent office build-out. The site area is 257,980 square feet, indicating a floor area ratio is 58 percent. The parking ratio is 1.0 per 1,000 square feet of building area.

In February 2016, the comparable sold for \$14,300,000, or \$96 per square foot. The comparable recently leased to Rapid Displays for \$0.52 per square foot. Based on market rent and estimated expenses, the actual capitalization rate is 5.9 percent.

*Comparable 2* is located at 336 Magnolia Street in Oakland. It was built in the 1950s and is constructed of metal and masonry. It was formerly Svenhards Bakery. Seven percent of the building area is office space. The comparable was reportedly in fair condition. The building area is an estimated 115,360 square feet. The lot area is an estimated 223,898 square feet. The estimated floor area ratio is 52 percent. The property has parking capacity, although it is not striped for parking and no parking ratio was reported.

In June of 2015 this property sold for \$8,000,000, or \$69 per square foot. The property sold to an investor with plans to reposition the property. The purchase included a sale-leaseback to the seller that expires in June 2016. Details regarding the leaseback were not reported. Based on market rent and estimated expense, the overall rate is 6.3 percent.

*Comparable 3* is the sale of an industrial building located at 2561 Grant Avenue in San Leandro. The total building area is approximately 101,920 square feet, which includes approximately 8 percent office space. The comparable has 22 loading doors and reportedly has cross dock loading capacity. The improvements were built in 1982 and are reportedly in average condition. The improvements are situated on a site containing 4.08 acres. The floor area ratio is approximately 57 percent and the parking ratio is 0.3 percent per 1,000 square feet of building area.

In April 2015, an investor purchased the comparable for \$7,983,000, or \$78 per square foot of building area. The property was 63 percent leased at sale. Based on actual income with market rent substituted for vacancy and a deduction for estimated expenses, the indicated overall rate is 5.7 percent.

*Comparable 4* is located at 1964-1976 Williams Street in San Leandro. This is a 122,075 square foot, one story, masonry industrial building that was constructed in 1968. The interior contains 8 warehouse units with approximately 2 to 5 percent office space each. The property was reportedly in average condition but was in need of cosmetic updates. The existing building improvements are located on a 6.90 acre site and reflects a floor area ratio of approximately 41 percent. Based on market rent with deductions for estimated expenses, the indicated capitalization rate is 6.3 percent.

In March 2015 the property was purchased by an investor for \$9,501,500, or \$78 per square foot of building area. The property was reportedly fully occupied and the reported overall rate for this transaction was 6.3 percent.

*Comparable 5* is the industrial building for sale located at 2756 Alvarado Street in San Leandro. The comparable contains approximately 132,758 square feet of building area. The improvements are of masonry construction and were built in 1962 and is in average condition. The site area is 5.92 acres, indicating a floor area ratio of 51 percent.

The property is currently for sale for \$10,600,000, or \$80 per square foot of building area. The broker reported a proforma capitalization rate is 6.5 percent.

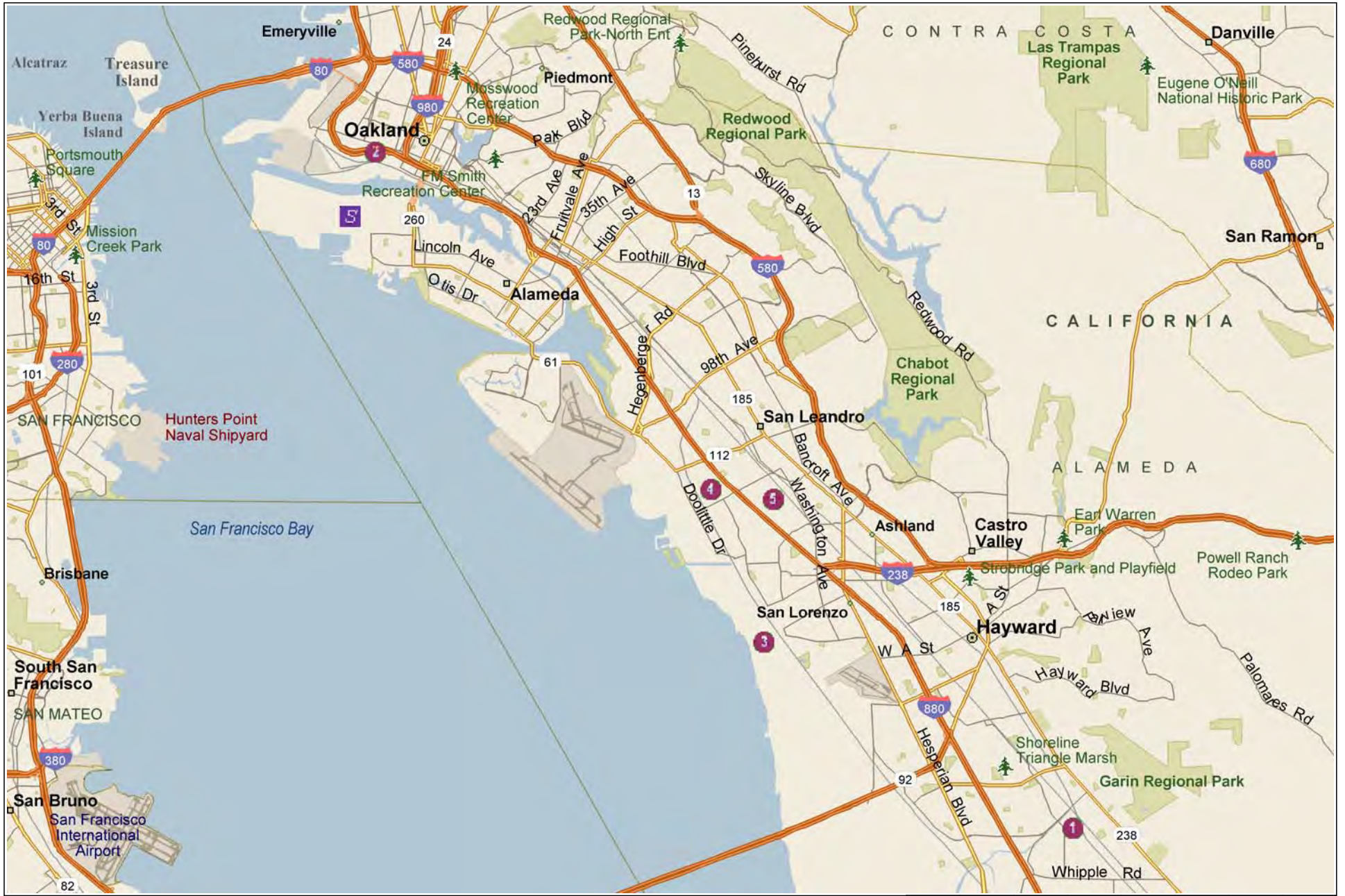
## **B. Analysis**

The comparables indicate an unadjusted range of unit values of \$69 to \$96 per square foot of building area. They range in size from 101,920 to 149,136 square feet. The comparables sold between March 2015 and February 2016 with one listing. During that time period, economic conditions, and the general real estate market have remained stable.

**COMPARABLE BUILDING SALES**  
 Appraisal of 800 W. Tower Avenue  
 Alameda, California

No.	Location/APN:	Sale Date	Sale Price	Bldg Area Land Area SF/AC Floor Area Ratio	Price/SF of Bldg Area	NOI NOI/SF OAR	Construction Type / Year Built / % Office / Clear Height / Parking Ratio	Grantor / Grantee / Doc. No.	Comments	
1	30526 San Antonio Street Hayward APN: 475-0021-036	2/16	\$14,300,000	149,136 SF 257,980 SF 5.92 AC 58% FAR	<b>\$96</b>	\$848,715 \$5.69 5.9% <i>Actual</i>	CTU 1977 4% / 22' 150 Parking Spaces (1.0/1,000)	Prologis USLV TRS CA SUB LLC PPF Industrial 30526 San Anton #47722	Recently leased to Rapid Displays for \$0.52/PSF, triple net.	
2	336 Magnolia Street Oakland APN: 004-0045-004-03;-006-02;-004-03 APN: 004-0027-004-07;-006-00;-003-02 -009-00;-010-00;-008-00	6/15	\$8,000,000	115,360 SF 223,898 SF 5.14 AC 52% FAR		<b>\$69</b>	\$505,000 \$4.38 6.3% <i>Market</i>	Metal & Masonry 1950s 7% / 24' NA	Svenhards Ptshp LP/ Edward Kwun #176253	Nine interconnected industrial buildings on nine parcels. Former Svenhards Bakery. Sale leaseback expires in June 2016.
3	2561 Grant Avenue San Leandro APN: 080G-0910-016	4/15	\$7,983,000	101,920 SF 177,752 SF 4.08 AC 57% FAR		<b>\$78</b>	\$452,772 \$4.44 5.7% <i>Market</i>	Masonry 1982 8% / 21' 30 Parking Spaces (0.3/1,000)	2561 Grant/ 1675 Fulton Street Associates LP #113627	22 loading docks. Column spacing is 24' x 48'. Functional for cross dock loading. 63% leased at sale.
4	1964-1976 Williams Street San Leandro APN: 079A-0375-007-17	3/15	\$9,501,500	122,075 SF 300,643 SF 6.90 AC 41% FAR		<b>\$78</b>	\$601,195 \$4.92 6.3% <i>Market</i>	Masonry 1968 5% / 28' 50 Parking Spaces (0.4/1,000)	WS Associates LP/ KTR Bay East VIII LLC #69404	Multi-tenant industrial building with dock high and drive in doors.
5	2756 Alvarado Street San Leandro APN: 077B-0800-014	For Sale	\$10,600,000	132,758 SF 257,980 SF 5.92 AC 51% FAR		<b>\$80</b> <i>Asking</i>	\$689,000 \$5.19 6.5% <i>Proforma</i>	Reinforced Concrete 1962 4% / 22' 120 Parking Spaces (0.8/1,000)	St Onge Eugene E Trust/ Yi Noel and Meil #329959	For sale. Occupied by 8 tenants on short-term leases.
	<b>Subject</b>			104,000 SF 287,496 SF 6.60 AC 36% FAR			Steel Frame and Concrete 1940s 16% / 40' 370 Parking Spaces (3.6/1,000)			

# COMPARABLE BUILDING SALES MAP



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With regard to the comparables, the subject building has 3 percent finished office space and 12 percent unfinished office space. Discussions with market participants indicate a lack of demand for office space above 5 to 10 percent in industrial properties. In regards to the comparables, a negative adjustment is made for the condition of the office as well as the amount of office space, which is a weakness of the subject property. The subject floor area ratio is lower than the comparable floor area ratios, which is consider superior and adjustments for floor area ratio are indicated. The subject also has an abundance of parking relative to the comparables, however, the off-street parking requirement for industrial uses is significantly lower than the existing subject parking ratio, which exceeds the required parking for the existing use, and parking adjustments are not required.

The adjustments to the comparables are summarized in the grid reproduced on the following page.

Comparable 1 is the industrial property located in Hayward. The location Hayward is considered significantly superior and a negative adjustment is made. The comparable is in good condition and was built in in 1977 of CTU construction. A negative adjustment is made for superior age, quality and condition. The office build out is superior and a downward adjustment is indicated. The size and investment magnitude of the property is larger than the subject and an offsetting upward adjustment is applied for size. An offsetting upward adjustment is also made for inferior floor area ratio. The adjusted unit value is \$84 per square foot.

Comparable 2 is the sale of the former Svenhards Bakery in Oakland. The location is superior and requires downward adjustment. The age, quality and condition of the property is inferior to the subject and an upward adjustment is applied. The comparable consists of nine interconnected buildings and an adjustment for inferior functional utility is made. A further upward adjustment for inferior floor area ratio is also applied. A slightly offsetting downward adjustment for office build out is required. The adjusted unit value is \$82 per square foot.

Comparable 3 is the sale of an industrial building on Grant Street in San Leandro. The location is considered slightly superior to the subject Alameda location. The age, quality and condition, as well as the office build-out, are superior. These adjustments are slightly offset by the inferior floor area ratio. The adjusted unit value is \$76 per square foot.

Comparable 4 is the comparable located on Williams Street in San Leandro. A negative adjustment is applied for superior location and superior office build out. The comparable was in average condition at the time of sale and a slight upward adjustment is made. A negative adjustment for superior office build out is indicated. The adjusted unit value is \$78.



**COMPARABLE BUILDING SALE ADJUSTMENT GRID**

Appraisal of 800 W. Tower Avenue  
Alameda, California

	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
Bldg. Address:	30526 San Antonio Street Hayward	336 Magnolia Street Oakland	2561 Grant Avenue San Leandro	1964-1976 Williams Street San Leandro	2756 Alvarado Street San Leandro
Building Size:	149,136	115,360	101,920	122,075	132,758
FAR	58%	52%	57%	41%	51%
Sale Date:	2/16	6/15	4/15	3/15	For Sale
Transaction Price:	\$14,300,000	\$8,000,000	\$7,983,000	\$9,501,500	\$10,600,000
Unadjusted Price/Sq. Ft.:	\$96	\$69	\$78	\$78	\$80
Financing Terms:	0%	0%	0%	0%	0%
Property Rights:	0%	0%	0%	0%	0%
Conditions of Sale:	0%	5%	5%	5%	-5%
Adjusted Sale Price:	\$14,300,000	\$8,400,000	\$8,382,150	\$9,976,575	\$10,070,000
Adjusted Price/Sq. Ft.:	\$96	\$73	\$82	\$82	\$76
Market Conditions:	0%	0%	0%	0%	0%
Price Adj. For Mkt. Cond.	\$96	\$73	\$82	\$82	\$76
Location:	-10.0%	-5.0%	-5.0%	-5.0%	-5.0%
Size:	5.0%	0.0%	0.0%	0.0%	0.0%
Age/Quality/Condition:	-10.0%	10.0%	-5.0%	2.5%	2.5%
Build-Out	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Functional Utility:	0.0%	5.0%	0.0%	0.0%	0.0%
FAR/Parking	5.0%	5.0%	5.0%	0.0%	5.0%
Income/Leasing Status	0.0%	0.0%	0.0%	0.0%	0.0%
Total Adjusted %:	<b>-12.5%</b>	<b>12.5%</b>	<b>-7.5%</b>	<b>-5.0%</b>	<b>0.0%</b>
Adjusted Unit Value for the Subject:	<b>\$84</b>	<b>\$82</b>	<b>\$76</b>	<b>\$78</b>	<b>\$76</b>

Carneghi and Partners, 16gasf092, April 2016

Comparable 5 is the property available for sale on Alvarado Street in San Leandro. Slight downward adjustment is applied for conditions of sale. The location is slightly superior. A slight upward adjustment for inferior condition of the comparable is made. The subject's inferior floor area ratio is inferior, which is offset by its superior office. The adjusted unit value is \$76 per square foot.

**C. Value Conclusion**

After adjustment, the comparables reflect a unit value range of \$76 to \$84 per square foot. Considering the location, age, and condition, a unit value of \$80 per square foot, is concluded for the subject and used in this analysis. When applied to the subject's building area, the following as-is fee simple market value results:

$$104,000 \text{ Square Feet} \times \$80 / \text{SF} = \$8,320,000$$

## VII. VALUATION BY THE INCOME APPROACH

In the Income Approach, property is valued by estimating a stabilized net operating income for the subject and then applying an overall capitalization rate commensurate with the risk inherent in the ownership of the property.

### A. Current Leased Status

The subject is currently leased to the Bladium sports facility. The subject tenant leased the property in February 2000. The current rent is reportedly \$43,160 per month, triple net. This equated to approximately \$0.42 per square foot, per month. The lease includes an option to purchase the property by the tenant no earlier than the fourth year of the lease and contingent on the acquisition of the fee title by the City of Alameda. The subject is reportedly subleased to a spa user for a rent of \$250 per month, no documentation was provided by the tenant regarding this lease.

The existing Bladium lease is not considered for purposes of this appraisal, and market rent is used for purposes of direct capitalization.

### B. Economic Rent Estimate

Economic, or market rent, is the rent achievable for the property in the current market assuming it is vacant and available for lease. Our research disclosed a number of comparable leases which are summarized in the table on the following page and briefly discussed below.

The lease comparables range in size from 18,131 to 270,000 square feet. The rental rate range is \$0.39 to \$0.55 per square foot, triple net. The leases were signed between June 2012 and February 2016, and market conditions have improved over that time frame. The lease comparables are leases of similar buildings located in the subject neighborhood of Alameda Point. Many of the buildings on Alameda Point have been vacant for some time and require major base building work to occupy. These buildings are leased to tenants willing to pay for base building improvements and these improvements are then reimbursed to the tenant either through rent abatement or direct payment from the landlord. Often the base building costs are capped but are significant and range from approximately \$1 million to \$2 million.

At the low end of the range is Comparable 6. This lease was signed in 2012 and the market has improved since this time.

Comparable 1 is a lease recently signed by Alameda Point Redevelopers. The lease is for \$0.17 per month, triple net. This is a below market lease agreement that is set to achieve market rent in Year 5 of the lease. At that time, market rent is considered to be \$0.47 per square foot. The lease includes approximately \$1 million in building improvements that will be reimbursed by the landlord. The lease also includes an option to purchase the property for \$38 per square foot. This is a large building of 270,000 square feet, indicating a higher price per square foot for the subject property. However, this is offset by the nature of the projected market rent, which indicates a lower present day rent for the subject.

Comparable 2 is a recent lease to Google of a separate warehouse and office building totaling 131,442 square feet. The first year of rent is free. Commencing in Year 2 the base rent is \$0.42 per square foot, triple net. For this lease, no tenant improvement allowance was granted. The lease includes a first right of offer for any additional space in Alameda Point and the first right to negotiate any property offered for purchase by the City of Alameda on Alameda Point. Due to the size of the subject, a slightly higher rent is indicated.

The remaining comparables range from \$0.39 to \$0.45 per square foot. Considering the size and condition of the property, a rent at the high end is indicated. Comparable 3 and Comparable 4 also include options to purchase the property for \$68 and \$73 per square foot of building area.

There are currently three lease listings for industrial space on Alameda Point. Comparable 7 is an asking for a unit with a bay view and it is marketed for use as a tasting room for a beverage maker. A lower unit value is indicated for the subject. Comparable 8 is also for lease at an asking price of \$0.45 per square foot. A lower unit value is indicated due to the size, however, this is offset by the inferior quality and condition of the unit and a similar rent is indicated for the subject. Comparable 9 is an 82,251 concrete tilt-up building available for lease. Due to the superior quality and condition, a lower rent is indicated for the subject.

Based on the comparables, market rent is concluded at \$0.45 per square foot, triple net, considering the subject's size, location and its hypothetical condition.

**COMPARABLE LEASES**  
Appraisal of 800 W. Tower Avenue  
Alameda, California

No.	Tenant	Sign Date/ Commencement Date	Size	Term	Monthly Rent	Escalations	Free Rent/ TI's	Notes
1	Alameda Point Redevelopers, LLC 2350 Saratoga Street, Bldg 8 Alameda	S - 2/16 C - 4/16	270,000 SF	120 Months	\$0.17 NNN \$0.47 NNN Year 5 Market	Years 1 and 2: Flat Year 3: 29% to \$0.24 Year 4: 33% to \$0.37 Year 5: 22% to \$0.47 Years 6 to 10: 4% Annual	None \$3.70/SF	Rent increases to market in year 5. LL reserves right to adjust rent upward for Years 3 and 4. Year 1 and 2 rent will be abated if Capital Repairs are constructed as agreed. Option to purchase for \$10.3m or apx. \$38 PSF. Capital Improvements repairs are at least \$1m.
2	Google, Inc. 1190 W. Tower Avenue, Bldg 11 (Warehouse) and 2175 Monarch Street, Bldg 19 (Office Building and Shed) Alameda	S - 10/15 C - 1/16	131,442 SF	72 Months	\$0.42 NNN Year 2	Annual 3%	Months 1 to 12 None	No capital expense reimbursements. Tenant has right of first offer for additional space and right of first negotiation to purchase any marketable parcel owned by the landlord.
3	707 West Tower Avenue, LLC 707 W. Tower Avenue, Bldg 9 Alameda	S - 10/15 C - 1/16	80,907 SF	120 Months	\$0.45 NNN	Annual 3%	None \$5.40/SF	Includes a capital repair credit of \$436,898. Includes purchase option for \$5.5m or apx. \$68 PSF.
4	Wrightspeed, Inc. 707 W. Tower Avenue, Bldg 41 Alameda	S - 12/14 C - 1/15	109,293 SF	84 Months	\$0.43 NNN	Annual 3%	None \$17.23/SF	Includes a capital repair credit of \$1,882,641. Includes purchase option for \$8m or apx. \$73 PSF.
5	Artemis Racing USA, Inc. 1050 W. Tower Avenue, Bldg 12 Alameda	C - 4/14 Renewal	110,561 SF	2 Years	\$0.43 NNN	Annual 3%	None As-Is	Two options to renew for 18 months and 6 months.
6	Delphi Productions, Inc. 950 W. Tower Avenue, Bldg 39 Alameda	S - 6/12 C - 4/12	106,000 SF	5 Years	\$0.39 NNN	Annual 3%	None As-Is	Two options to renew for 18 months and 6 months. Leased signed after commencement date, refer to Exhibit D.
7	For Lease 1951 Monarch Street, Bay 3 Alameda	Available	18,160 SF	Neg.	\$0.55 NNN	Annual 3%	None As-Is	End cap unit in Building 25. Bay 2 is occupied. Hangar building. Unit has view of SF Bay and is marketed for use by a beverage producer with a tasting room.
8	For Lease 1951 Monarch Street, Bay 1 Alameda	Available	18,131 SF	Neg.	\$0.45 NNN	Neg.	Neg. Neg.	End cap unit in Building 25. Bay 2 is occupied. Hangar building.
9	For Lease 120 W. Oriskany Avenue, Bldg 530 Alameda	Available	82,251 SF	Neg.	\$0.48 NNN	Annual 3%	None As-Is	CTU light industrial building. Includes 3,300 SF of office. 4 ground level roll-up doors. Fire/life safety systems in place.

Carneghi and Partners, 16asf092, April 2016

# COMPARABLE LEASES MAP



## C. Stabilized Net Operating Income Estimate

### 1. *Gross Potential Income*

The table on the following page contains stabilized net operating income projection for the subject property. Market rent as concluded above is applied. The gross potential income is estimated on Table 4.

### 2. *Vacancy and Credit Loss*

A stabilized annual vacancy and credit loss allowance is considered warranted for tenant turnover, uncollectible rent and the potentially unoccupied periods during the investment term. In order to account for changes in market conditions over a typical holding period, a five percent deduction for vacancy and credit loss is typically used. Applying a 5.0 percent vacancy and credit loss deduction results in an effective gross income shown on Table 4.

### 3. *Operating Expenses*

Operating expenses for the subject property are estimated based on market information derived from similar properties. The subject is a single tenant triple net leased property. Under a triple net lease agreement, the tenant is responsible for all expenses, including utilities, repairs and maintenance, property taxes and insurance. The landlord is responsible for management and reserves.

Management is included at 3.0 percent of EGI. Management for this type of property typically ranges from 2.0 to 5.0 percent, depending on the size and tenancy in the property.

Reserves for structural repairs and landlord maintenance items are included at 1.0 percent of effective gross income.

Management and reserves are not reimbursed by the tenant(s).

The expenses are considered reasonable based on market information.

### 4. *Stabilized Net Operating Income*

Deducting the expenses from the effective gross income results in a stabilized net operating income estimate for the subject of \$512,179.

#### D. Overall Rate Selection

The appropriate rate of capitalization for the subject is based on the quantity, quality, durability and general risk associated with the projected stabilized net income. Also considered is demand for and supply of competing properties and the location, size and quality of the subject in comparison to other office projects within the market area. The most effective method of derivation of the capitalization rate is abstraction from the comparable sales data.

An overall capitalization rate of 6.25 percent is selected for this analysis. Support for selection of this rate is derived from market data and the comparable sales in the Sales Comparison Approach in this report.

Sale Comparable 5 is the property available for sale, and based on the asking nature of the price less weight is afforded this comparable. Sale Comparable 1 sold at an overall rate of 5.9 percent based on actual income. It recently leased to Rapid Display for \$0.52 per square foot, triple net. The comparable is superior in location and age, quality and condition. A slightly higher rate is indicated for the subject. Comparables 2 and 4 reflect overall rates of 6.3 percent, and are considered reasonable indicators for the subject.

In the local subject market, the industrial market is dominated by owner-users and there are very few recent sales of leased industrial properties. Investment sales of industrial properties in nearby markets can provide insight into the current state of the local industrial investment market. In March 2015, an industrial property located at 30180 Ahern Avenue in Union City sold for \$7,400,000. The property contains approximately 65,000, equating to a purchase price of \$114 per square foot. The property is fully leased to one tenant. Based on actual income and expenses the overall rate is 5.8 percent. The property is located in Union City, which is a slightly superior location. The investment magnitude is smaller than the subject. A slightly higher overall rate is indicated for the subject based on location and size.

In June 2015, a two building industrial property totaling 123,595 square feet sold to an investor for \$12,900,000, or \$104 per square foot. The property was fully occupied at the time of sale and sold at an overall rate of 6.60 percent. The sale included a Class B distribution building constructed in 2015 and a Class C warehouse built in 1963. The property is slightly superior in age, quality and condition, which is offset by the size and a slightly inferior location. A slightly lower overall rate is indicated.

Support for the overall capitalization rate is provided by Korpacz Real Estate Investor Survey published by Pricewaterhouse Coopers, According to the First Quarter 2016 report, overall rates for the Pacific Region warehouse market average is 5.15 percent within a range from 3.75 to 8.00 percent. This is unchanged from the previous quarter and 2 basis points above the previous year. According to the report, investors are anticipating a rise in rents for industrial properties. The report states that there is a lack



**Stabilized Income Statement**  
Appraisal of 800 W. Tower Avenue  
Alameda, California

Income	NRA SF	Rent (NNN)	Rent / SF	Annual Rent
Building 40	104,000 SF	\$46,800	\$0.45 Market	\$561,600
				\$561,600
<b>Potential Gross Rental Income</b>	<b>104,000 SF</b>	<b>\$46,800</b>	<b>\$5.40 per SF/Yr.</b>	<b>\$561,600</b>
Less Vacancy/Bad Debt Expense		5.0%		\$28,080
<b>Effective Gross Income</b>				<b>\$533,520</b>
<b>Expenses</b>			<i>Stabilized</i>	
Management Fees			3.0% of EGI	\$16,006
Reserves			1.0% of EGI	\$5,335
Total Expenses			\$0.21 per SF	\$21,341
<b>Net Operating Income</b>			<b>\$4.92 per SF</b>	<b>\$512,179</b>
Overall Rate				6.25%
<b>Stabilized Value Indication</b>				<b>\$8,194,867</b>
<b>Rounded:</b>			<b>\$79 per SF</b>	<b>\$8,190,000</b>

*Carneghi and Partners, 16asf092, April 2016*

of quality product and some investors are investing in development opportunities. Investors are expecting values to rise in the Pacific Region as much as 10 percent, with an average anticipation of 4 percent, which is similar to the appreciation anticipated in the national market.

Based on these comparables, and considering the subject's location, age and hypothetical condition, an overall rate of 6.25 percent is concluded and used in this analysis.

**E. Value Conclusion**

When applied to the stabilized NOI, the concluded overall rate reflects a market value for the subject as follows:

$\$512,179 \div 6.25\% =$	\$8,194,867
As-Is Value (Rounded):	\$8,190,000

**VIII. RECONCILIATION AND VALUE CONCLUSION**

The market values of the fee simple interest in the subject property as indicated by the approaches used in this assignment are as follows:

Sales Comparison Approach	\$8,320,000
Income Approach	\$8,190,000

In the Sales Comparison Approach, the subject was valued using recent sales of properties in the surrounding area, with adjustments for various factors including location, size, age, quality, condition, functional utility and floor area ratio. The quality of the data is good and this approach is considered the primary indicator for the subject, considering the most likely buyer of the subject is an owner user.

The Income Approach was based on direct capitalization of the projected net operating income for the property at market rent. Market rent was estimated based on educational, institutional and other non-commercial/non-profit uses in the area. Direct Capitalization used a 6.25 percent overall rate extracted from the market. This approach is considered a reliable indicator for investor properties, but less so for owner-user properties like the subject.

Both approaches are considered in the final reconciliation. Due to the owner-user appeal of the subject property, the Sales Comparison Approach is given the most weight.

Based on the research and analyses contained in this report, and subject to the assumptions and limiting conditions contained herein, it is the opinion of the appraiser that the current market value of the fee simple interest in the subject property in the hypothetical condition as described in the purchase option to the lease, as of April 13, 2016, is estimated to be:

**EIGHT MILLION THREE HUNDRED THOUSAND DOLLARS**

**(\$8,300,000)**

It is our opinion that the above value could be achieved within a 12-month exposure period.

# **ADDENDA**

# COMPARABLE BUILDING SALES PHOTOGRAPHS



Building Sale 1



Building Sale 2



Building Sale 3



Building Sale 4

## COMPARABLE BUILDING SALES PHOTOGRAPHS



Building Sale 5

2015-16

For Fiscal Year Beginning July 1, 2015 and Ending June 30, 2016

ALAMEDA COUNTY UNSECURED PROPERTY TAX STATEMENT

Donald R. White, Treasurer and Tax Collector
1221 Oak Street
Oakland, California 94612-4285
(510) 272-6800

Table with 3 columns: Assessee Account Number, Parcel number, Tax Rate Area. Values: 30-269158-95-000-15-00-00, 74-1368-10-2, 21-005

Location of Property
BLDG 40
Assessed to on January 1, 2015
BLADIUM INC

BLADIUM INC
AGENCY ALAMEDA REUSE/REDVLP AUTH
800 WEST TOWER AV
ALAMEDA CA 94501-5048



Table: Fixed Charges and/or Special Assessments. Columns: Description, Phone, Amount.

Table: Other Charges. Columns: Description, Amount.

Table: Tax Computation Worksheet. Columns: Description, Full Valuation, x Tax Rate, = Tax Amount. Includes rows for LAND IMPROVEMENTS, FIXTURES, TOTAL REAL PROPERTY, etc.

Table: Tax-Rate Breakdown. Columns: Taxing Agency, Tax Rate, Tax Amount. Includes rows for COUNTYWIDE TAX, CITY OF ALAMEDA, SCHOOL UNIFIED, etc.

PLEASE READ IMPORTANT MESSAGES
Tax bill is for possessory interest in real property.
Date: 8/11/15 Appr: SL
Loc: AL Dept: Corp
GL: 7703 \$: 5171.95
Desc:
Paid: Scanned:
E CHECK ACCEPTED ONLINE @ www.acgov.org/propertytax/
VISA, MASTERCARD, DISCOVER OR AMERICAN EXPRESS CREDIT CARDS ACCEPTED ONLINE @ www.acgov.org/propertytax/ OR BY PHONE (510) 272-6800. A CONVENIENCE FEE EQUAL TO 2.5% OF THE TAX AMOUNT DUE WILL BE ADDED TO YOUR TOTAL PAYMENT.
SUBSCRIBE TO RECEIVE E-MAIL ALERTS ABOUT IMPORTANT PROPERTY TAX DATES ONLINE @ www.acgov.org/propertytax/
PLEASE SEE REVERSE FOR MORE INFORMATION

General Information
Ownership of property on the January 1 lien date preceding the fiscal year for which the property is taxed determines the obligation to pay taxes; the disposal of property after the lien date does not relieve the assessee from the liability for payment of taxes.
The TOTAL AMOUNT DUE must be paid by the date indicated on the payment remittance stub attached to this bill. If the taxes are not paid, a 10% delinquent penalty and a \$ 50.00 delinquent fee attaches at 5 p.m. on the date indicated on the stub. If the taxes are unpaid by 5 p.m. on the last day of the second succeeding month after the 10% attaches, an additional penalty of 1.5% attaches to them on the first day of each month thereafter to the time of payment or until a court judgment is entered for the amount of unpaid taxes penalties and costs whichever comes first. In addition to the penalties, the actual costs of collection incurred by the County up to the time the delinquency is paid may be collected by the Tax Collector.
When submitting payment, detach the UNSECURED ROLL TAX PAYMENT STUB and send it with your payment to assure proper credit. Do not mail cash.
A fee of \$ 61.00 will be imposed on all returned or dishonored payments.
Delinquent tax bills will automatically have a CERTIFICATE OF LIEN FOR UNSECURED PROPERTY TAXES recorded against the assessee at the County Recorder's Office immediately after delinquency occurs. The certificate constitutes a lien upon all personal and real property owned or that may subsequently be acquired before the date on which the lien expires, by the assessee named. The lien has the force, effect and priority of a judgment lien for a period of ten years from the date of recordation, or any extension thereof.
PLEASE SEE BACK FOR MORE INFORMATION

UNSECURED ROLL TAX PAYMENT STUB
FISCAL YEAR 2015-16
ASSESSEE ACCOUNT NUMBER 30-269158-95-000-15-00-00
PARCEL NUMBER 74-1368-10-2
PAY THIS AMOUNT BY AUG 31, 2015 \$5,171.95

If payment is submitted after this date, telephone the payments number provided to the left for the correct amount due.

Make checks payable to: Donald R. White, Tax Collector, Alameda County

31507 92691583095 8000150000 40000517195 4

2015-16

For Fiscal Year Beginning July 1, 2015 and Ending June 30, 2016

**ALAMEDA COUNTY**  
**UNSECURED PROPERTY TAX STATEMENT**  
 Donald R. White, Treasurer and Tax Collector  
 1221 Oak Street  
 Oakland, California 94612-4285  
 (510) 272-6800

Assessee Account Number	Parcel number	Tax Rate Area
00-277520-00-000-15-00-00	74-1368-15	21-005

Location of Property  
 800 W TOWER AV BLDG 40 ALAMEDA CA  
 Assessed to on January 1, 2015  
 BLADIUM SPORTS CLUB

BLADIUM SPORTS CLUB  
 800 W TOWER AV #BLDG 40  
 ALAMEDA CA 94501-5048



Tax Rate Breakdown		
Taxing Agency	Tax Rate	Tax Amount
COUNTYWIDE TAX	1.0000%	2,058.26
CITY OF ALAMEDA	.0250%	51.46
SCHOOL UNIFIED	.0503%	103.53
SCHOOL COMM COLL	.0412%	84.80
BAY AREA RAPID TRANSIT	.0045%	9.26
EAST BAY REGIONAL PARK	.0085%	17.49
EBMUD SPEC DIST 1	.0047%	9.67
<b>TOTAL</b>	<b>1.1342%</b>	<b>2,334.47</b>

Fixed Charges and/or Special Assessments		
Description	Phone	Amount

Other Charges	
Description	Amount

Tax Computation Worksheet			
Description	Full Valuation	x Tax Rate	= Tax Amount
LAND IMPROVEMENTS	4,086		
FIXTURES	4,086		
TOTAL REAL PROPERTY	201,740		
PERSONAL PROPERTY	205,826	1.1342%	2,334.47
GROSS ASSESSMENT & TAX			
HOMEOWNERS EXEMPTION			
OTHER EXEMPTION			
NET ASSESSMENT & TAX	205,826	1.1342%	2,334.47
			<b>2,334.47</b>
<b>SUBTOTAL</b>			<b>2,334.47</b>
<b>TOTAL AMOUNT DUE</b>			<b>\$2,334.47</b>

**PLEASE READ IMPORTANT MESSAGES**

Tax bill is for business/personal property and/or trade fixtures.

Date: 8/7/15 Appr: SL  
 Loc: AL Dept: Corp  
 GL: 7703 \$: 2334.47  
 Desc: \_\_\_\_\_  
 Paid: \_\_\_\_\_ Scanned: \_\_\_\_\_

**E CHECK ACCEPTED**  
 ONLINE @ [www.acgov.org/propertytax/](http://www.acgov.org/propertytax/)

VISA, MASTERCARD, DISCOVER OR AMERICAN EXPRESS CREDIT CARDS ACCEPTED ONLINE @ [www.acgov.org/propertytax/](http://www.acgov.org/propertytax/) OR BY PHONE (510) 272-6800. A CONVENIENCE FEE EQUAL TO 2.5% OF THE TAX AMOUNT DUE WILL BE ADDED TO YOUR TOTAL PAYMENT.

SUBSCRIBE TO RECEIVE E-MAIL ALERTS ABOUT IMPORTANT PROPERTY TAX DATES ONLINE @ [www.acgov.org/propertytax/](http://www.acgov.org/propertytax/)

**PLEASE SEE REVERSE FOR MORE INFORMATION**

**General Information**

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The TOTAL AMOUNT DUE must be paid by the date indicated on the payment remittance stub attached to this bill. If the taxes are not paid, a 10% delinquent penalty and a \$ 50.00 delinquent fee attaches at 5 p.m. on the date indicated on the stub. If the taxes are unpaid by 5 p.m. on the last day of the second succeeding month after the 10% attaches, an additional penalty of 1.5% attaches to them on the first day of each month thereafter to the time of payment or until a court judgment is entered for the amount of unpaid taxes penalties and costs whichever comes first. **In addition to the penalties, the actual costs of collection incurred by the County up to the time the delinquency is paid may be collected by the Tax Collector.**

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Delinquent tax bills will automatically have a CERTIFICATE OF LIEN FOR UNSECURED PROPERTY TAXES recorded against the assessee at the County Recorder's Office immediately after delinquency occurs. The certificate constitutes a lien upon all personal and real property owned or that may subsequently be acquired before the date on which the lien expires, by the assessee named. The lien has the force, effect and priority of a judgment lien for a period of ten years from the date of recordation, or any extension thereof.

PLEASE SEE BACK FOR MORE INFORMATION

**UNSECURED ROLL TAX PAYMENT STUB**  
**FISCAL YEAR 2015-16**



ASSESSEE ACCOUNT NUMBER 00-277520-00-000-15-00-00  
 PARCEL NUMBER 74-1368-15

PAY THIS AMOUNT BY **AUG 31, 2015** **\$2,334.47**

If payment is submitted after this date, telephone the payments number provided to the left for the correct amount due.

Make checks payable to: Donald R. White, Tax Collector, Alameda County

31507 32775200000 8000150000 20000233447 4



**AMENDMENT TO THE SUBLEASE  
BETWEEN  
THE ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY  
AND  
BLADIUM, INC.  
FOR THE SUBLEASE OF CERTAIN PORTIONS OF  
NAVAL AIR STATION ALAMEDA  
LOCATED IN ALAMEDA, CALIFORNIA**

**THIS AMENDMENT** ("Amendment") to the Sublease ("Sublease") by and between the Alameda Reuse and Redevelopment Authority, a Joint Powers Authority established by the City of Alameda and the City Improvement Commission under the California Joint Exercise of Powers Act as set forth in Title 1, Division 7, Chapter 5, Article 1 of the Government Code of the State of California (Government Code Section 6500 *et seq.*) ("Sublessor"), and Bladium, Inc., a California corporation, ("Sublessee"), is made as of the 16th day of June, 2000, under the following circumstances:

**RECITALS**

**WHEREAS**, the United States of America is the owner of certain portions of the Naval Air Station, Alameda, ("NAS Alameda Property") that is the subject of the Sublease and this Amendment;

**WHEREAS**, Sublessor is the current tenant of those portions of Naval Air Station Alameda, that are the subject of the Sublease, under certain Large Parcel Lease, Naval Air Station, Alameda, between United States of America and Alameda Reuse and Redevelopment Authority (the "Master Lease") dated as of March 24, 1997;

**WHEREAS**, the Sublessor has entered into a Memorandum of Agreement to purchase the Naval Air Station, Alameda, from the United States of America through a no-cost Economic Development Conveyance pursuant to Section 2905 (b)(4) of the Defense Base Closure and Realignment Act of 1990, as amended;

**WHEREAS**, the Sublessor has entered into a Lease in Furtherance of Conveyance with the United States of America as part of the purchase of the Naval Air Station, Alameda, to restate and replace the Master Lease, and

**WHEREAS**, the parties intend the Sublease to remain in full force and effect until such time as the NAS Alameda Property is conveyed by the United States to the Sublessor.

**AGREEMENTS**

**NOW, THEREFORE**, in consideration of the premises and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties hereto agree as follows:

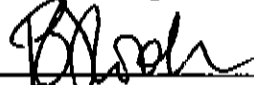
1. The Sublessor and the Sublessee agree that the Sublease shall continue in full force and effect pursuant to the terms and conditions of the of the Lease in Furtherance of Conveyance (a copy of which is attached as Exhibit 1), but in no event shall the term of the Sublease be greater than the existing term of the Sublease as subject to the Master Lease.

2. This Amendment shall be binding upon and shall operate to the benefit of the Sublessor and the Sublessee and their respective successors and assigns.

IN WITNESS WHEREOF, the Sublessor and Sublessee have executed this Amendment effective as of the 25 day of AUGUST, 2000.

**SUBTENANT:**

**Bladium, Inc.**  
a California Corporation

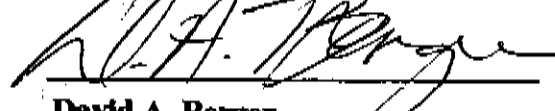
By   
Its PPES  
and  
By \_\_\_\_\_  
Its \_\_\_\_\_

**SUBLESSOR:**

**ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY, AN AGENCY OF THE CITY OF ALAMEDA, a political subdivision of the State of California**

By   
**James M. Flint**  
**Executive Director**


**RECOMMENDED FOR APPROVAL:**

  
**David A. Berger**  
**Assistant City Manager**  
**Community & Economic Development**

**RECOMMENDED FOR APPROVAL:**

  
**Edward S. Levine**  
**Facilities and Property Manager**

**Approved as to form:**

  
**Maria Shanle**  
**Deputy General Counsel**

**ADDENDUM TO SUBLEASE**

This Addendum to Sublease, entered into this 1<sup>st</sup> day of ~~FEBRUARY~~ <sup>2000</sup> 1999, by and between the CITY OF ALAMEDA, a municipal corporation (hereinafter "City"); and Bladium Inc., a California corporation (hereinafter "Bladium"); and the Alameda Reuse and Redevelopment Authority, a Joint Powers Authority established by the City of Alameda and the County of Alameda under the California Joint Exercise of Powers Act as set forth in Title 1, Division 7, Chapter 5, Article 1 of the Government Code of the State of California (Government Code § 6500 et seq.) (hereinafter "ARRA").

RECITALS:

The parties enter into this Addendum on the basis of the following facts, understandings, and intentions.

A. On ~~January~~ <sup>FEBRUARY</sup> 1<sup>st</sup>, 2000, a Sublease was entered into by and between ARRA as sublessor and Bladium as Subtenant (hereinafter the "Sublease") with respect to Building 40, certain Land under and adjacent to the Building and the right of ingress and egress thereto at the Former Alameda Naval Air Station (collectively, the "Leased Premises").

B. Bladium desires an option to purchase the Leased Premises, and City and ARRA desire to grant such option to purchase pursuant to the terms and conditions contained herein.

C. The parties further desire that, in the event that the City obtains fee title to the Leased Premises, the City will be granted an assignment of the ARRA's interest in the Sublease between the ARRA and Bladium, so that the City will continue to maintain a lease with Bladium under the terms and conditions contained in the Sublease.

D. The Leased Premises under the Sublease are currently owned by the Department of the Navy, which has declared the Leased Premises to be surplus property.

E. The parties hereto anticipate that fee title in the Leased Premises will be conveyed from the Department of the Navy to the ARRA, and then promptly from the ARRA to the City. The parties intend for the assignment of interest and option to purchase described below to be triggered only in the event that the City obtains fee title to the Leased Premises.

F. The parties now wish to enter into the following agreement as set forth below.

NOW, THEREFORE, in consideration of the foregoing, the execution and delivery of the Sublease, this Addendum, and other good and valuable consideration, the receipt and sufficiency for which is hereby acknowledged and agreed, the parties as follows.

## AGREEMENT

### 1. Assignment of Interest.

In the event that the Department of the Navy conveys fee title to the Leased Premises to the ARRA, and the ARRA conveys fee title to the Leased Premises to the City, for value received, the ARRA does hereby agree to automatically transfer, assign and set over to City all of its right, title and interest in and to the Sublease between the ARRA and Bladium for use of the Leased Premises. In this event, the City and Bladium agree to be bound to a continuing lease agreement pursuant to the terms and conditions set forth in the Sublease and this Addendum.

### 2. Option to Purchase.

Bladium shall have the option to purchase the Leased Premises on the following terms and conditions:

A. **Effective Date.** This option to purchase will be effective only upon acquisition of fee title to the Leased Premises by the City, pursuant to a conveyance of the from the Department of the Navy to ARRA, and from ARRA to the City. In addition, this option to purchase will not be effective until all restrictions on use and ownership of the Leased Premises imposed by the State of California Lands Commission on Tidelands Trust Property are removed.

B. **Purchase Date.** The Leased Premises shall be made available for sale no earlier than the end of Year 4 of the lease term.

C. **Purchase Price.** The option purchase price of the Leased Premises shall be based on and equal to (I) the appraised fair market value of the Leased Premises as determined pursuant to this Section C.1., 2. And 3., inclusive, less (ii) the amount of all unamortized Qualified Shell Improvement Costs at the time of sale, as set forth in Section C.4. and the present value of the projected assessment at the time of sale, as set forth in Section C.5. below. The present value of the projected assessment shall be deducted from the appraised market value if, and only if, the ARRA requires Bladium to enter into an agreement and covenant, as set forth in Section C.5, that neither Bladium nor its successors in interest shall protest any form of public financing for Alameda Point infrastructure which may, in the future, be imposed on the property.

1. The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and a dropped ceiling. The build-out, type of use, and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building codes.

2. The appraiser may consider comparable values of similar property at both Alameda Point and in the adjacent East Bay market.

3. The appraised fair market value of the Leased Premises will be based on appraisals by MAI appraisers retained by City and Bladium based upon the provisions of this Addendum. If the lower appraisal is not less than 90% of the higher appraisal, the appraised fair market value of the Leased Premises shall be the average of the two appraisals. If the lower appraisal is less than 90% of the higher appraisal, the two appraisers shall select a third independent MAI appraiser who will appraise the Leased Premises based upon the provisions of this Addendum. If the two appraisers fail to select a third appraiser within ten (10) days after the dates their appraisals are compared, the third appraiser shall be selected by the American Arbitration Association within fifteen (15) days after the appraisals are compared at the request of either party or, if there is then no American Arbitration Association or if it refuses to perform this function, then at the request of either Sublessor or Subtenant, the third appraiser shall be appointed by the presiding judge of the Superior Court for the County of Alameda County. The third appraiser shall promptly make his or her assessment of the appraised fair market value of the Leased Premises and provide supporting materials for that assessment. The three appraisers shall within forty-five (45) days of the appointment of the third appraiser reach a decision as to what the appraised fair market value of the Leased Premises is by determining which two of the three appraisers assessments of such appraised fair market value are closest to one another and calculating the average of those two appraisers' assessments. That average of the two appraisers' assessments closest to one another shall constitute the appraised fair market value of the Leased Premises, subject to the terms of the Sublease, as amended. The appraisers shall have no power to modify the provisions of this Addendum and their sole function shall be to determine the fair market value of the Leased Premises pursuant to the terms of this Addendum. Each party shall pay the fees and expenses of their own appraiser and fifty percent (50%) of the fees and expenses of, and the cost of appointing, if any, the third appraiser.

4. The amount of all unamortized Qualified Shell Improvement Costs at the time of sale shall be deducted from the appraised fair market value of the Leased Premises as determined under Section C.1., 2., and 3., inclusive, in determining the option purchase price.

5. As a prerequisite to the exercise of the Option to Purchase, ARRA may require Bladium to enter into a separate agreement and covenant on the property that neither Bladium nor its successors in interest shall protest any form of public financing for Alameda Point infrastructure which may, in the future, be imposed on the property. If, and only if, the ARRA requires Bladium to enter into this agreement, the present value of the projected assessment at the time of sale shall be deducted from the appraised fair market value of the Leased Premises in determining the option purchase price.

6. Closing. The closing on the purchase of the Leased Premises shall take place not later than ninety (90) days after the date that Bladium notifies the City that it wishes to exercise its option to purchase or such later dates as the parties may mutually agree.

D. Closing Costs. Closing costs and proration shall be paid by the parties in accordance with the custom for Alameda County.


E. Memorandum. At such time as the City acquires fee title to the Leased Premises and all restrictions on use and ownership of the Leased Premises imposed by the State of California Lands Commission on Tidelands Trust property are removed, Bladium shall have the right to require the parties to execute, acknowledge, and record a memorandum of the Purchase Option in the official records of the County Recorder for Alameda County.

F. Termination. This option to purchase shall terminate upon the termination or expiration of the Sublease prior to the exercise of the option to purchase.

3. Ratification. The Sublease, as modified by this Addendum, is hereby ratified in all respects and shall be and remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have each caused their duly authorized representatives to execute and deliver this Addendum to Sublease for and on their behalf as of the day and year first above written.

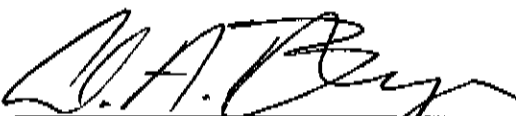
**Bladium, Inc.**  
A California Corporation

By   
\_\_\_\_\_  
Brad Shook  
Chief Executive Officer

**CITY OF ALAMEDA**  
A Municipal Corporation

By   
\_\_\_\_\_  
James M. Flint  
City Manager

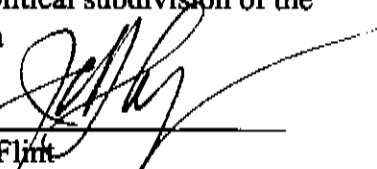
RECOMMENDED FOR APPROVAL:

  
\_\_\_\_\_  
David A. Berger, Deputy City Manager

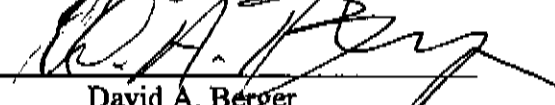
APPROVED AS TO FORM:

  
\_\_\_\_\_  
Maria Shanle, Deputy General Counsel

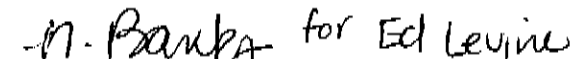
**ALAMEDA REUSE AND  
REDEVELOPMENT AUTHORITY, AN  
AGENCY OF THE CITY OF  
ALAMEDA, a political subdivision of the  
State of California**

By   
James M. Flint  
Executive Director


**RECOMMENDED FOR APPROVAL:**

  
David A. Berger  
Deputy City Manager

**RECOMMENDED FOR APPROVAL:**

 for Ed Levine  
Ed Levine  
Facilities Manager

**APPROVED AS TO FORM:  
General Counsel**

  
Maria Shanle  
Deputy General Counsel

ORIGINAL

**AGREEMENT OF SUBLEASE**

**SUBLEASE OF BUILDING 40**

**AT THE  
FORMER ALAMEDA NAVAL AIR STATION**

**BETWEEN**

**ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY,  
A JOINT POWERS AUTHORITY ESTABLISHED BY THE CITY OF ALAMEDA  
AND THE COUNTY OF ALAMEDA  
UNDER THE CALIFORNIA JOINT EXERCISE OF POWERS ACT  
AS  
SUBLESSOR**

**AND**

**BLADIUM, INC.,  
A CALIFORNIA CORPORATION  
AS  
SUBTENANT**



AGREEMENT OF SUBLEASE  
 SUBLEASE OF BUILDING 40 at the  
 FORMER ALAMEDA NAVAL AIR STATION  
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AGREEMENT OF SUBLEASE

BETWEEN

THE ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY  
AND  
BLADIUM, INC.

FOR THE  
SUBLEASE OF BUILDING 40

AT THE  
FORMER ALAMEDA NAVAL AIR STATION

THIS SUBLEASE is made this 1<sup>ST</sup> <sup>FEBRUARY</sup> ~~day of January~~, 2000 (the "Sublease Execution Date"), by and between the Alameda Reuse and Redevelopment Authority, a Joint Powers Authority established by the City of Alameda and the County of Alameda under the California Joint Exercise of Powers Act as set forth in Title 1, Division 7, Chapter 5, Article I of Government Code of the State of California (Government . Code §6500 *et seq.*) ("Sublessor") and Bladium, Inc., a California corporation ("Subtenant").

RECITALS:

WHEREAS, the UNITED STATES OF AMERICA, acting by and through the Department of the Navy, hereinafter called the "Government", has declared certain facilities surplus at the Naval Air Station, Alameda, California (the "Station"), and Sublessor has immediate need to use certain of these facilities; and

WHEREAS, such surplus property may be leased to state or local governments pending final disposition of such property pursuant to the provisions of Public Law 94-107, 10 U.S.C. 2667(f); and

WHEREAS, Government made and entered into that certain Large Parcel Lease with Sublessor dated March 24, 1997 (the "Prime Lease") to accomplish such result and has leased the Leased Premises (as hereinafter defined) herein described to Sublessor, as Lessee, upon the terms and conditions set forth in the Prime Lease.

WHEREAS, Sublessor is willing to lease the Leased Premises herein described from Government under the Prime Lease in order to be able to sublease the Leased Premises to Subtenant;

WHEREAS, on September 22, 1997, the City of Alameda Planning Board approved a Master Use Permit (UP97-1) for interim uses at the Station (the "**Master Permit**"); and

WHEREAS, on October 25, 1999 the City of Alameda Planning Board approved a Use Permit (UP-99-17) for interim use of the Leased Premises by Subtenant ("**Use Permit**").

WHEREAS, Sublessor and Subtenant have agreed to make and enter into this Sublease, whereby Subtenant will lease from Sublessor the Leased Premises (as hereinafter defined).

NOW, THEREFORE, in consideration of the terms, covenants and conditions hereinafter set forth, Sublessor and Subtenant hereby agree as follows:

1. **LEASED PREMISES.** Sublessor does hereby lease, rent, and demise to Subtenant and Subtenant does hereby hire and rent from Sublessor those certain premises known as Building 40, containing approximately 104,000 square feet, together with the improvements and fixtures situated therein (the "**Building**") and certain land including parking area under and adjacent to the Building, (the "**Land**") as shown and described on Exhibit A. The Building, the Land, all improvements thereon as shown and described in Exhibit A, and the right of ingress and egress thereto are collectively referred to in this sublease as the "**Leased Premises.**"

1.1 **Subordinate to Prime Lease.** This Sublease is subject and subordinate to the Prime Lease between Government, a signed copy of which is attached hereto as Exhibit B. Subtenant acknowledges that Sublessor's rights to the Leased Premises arise solely under the Prime Lease. In the event that Sublessor obtains fee title to the premises, this Sublease shall be revised in accordance with attached Exhibit "G."

1.2 **Relationship to Prime Lease.** Notwithstanding any provision of this Sublease, Sublessor and Subtenant hereby agree as follows: (i) Subtenant will not do or permit anything to be done in or on the Leased Premises which will cause the occurrence of a default by Sublessor under the Prime Lease; (ii) if the Prime Lease expires or is terminated for any reason, then this Sublease shall thereupon terminate, without any liability to Sublessor (unless such expiration or termination is caused by a material default of Sublessor under the Prime Lease), as if such date were the scheduled expiration date of the Term, as defined in Section 2. Sublessor shall take all necessary actions within Sublessor's control to keep the Prime Lease in full force and effect during the term of this Sublease and any extensions thereto.

1.3 **Compliance with Prime Lease.** Sublessor covenants and agrees that it shall comply with all the terms of the Prime Lease if the failure to so comply would adversely affect the rights of Subtenant under the Sublease or would provide Government under the Prime Lease with



any right of cancellation or termination of the Prime Lease or the Sublease, or any termination, cessation or interruption of any rights or services to Subtenant under the Sublease.

1.4 Default in Prime Lease. Sublessor shall have no liability to Subtenant for Government's defaults under the Prime Lease. Subtenant agrees that Sublessor shall not be obligated to perform any of Government's obligations under the Prime Lease, except to the extent that such obligations are expressly made obligations of Sublessor under this Sublease. Subtenant further agrees that neither this Sublease nor any obligation hereunder, including the payment of Base Rent or Additional Rent (each as hereinafter defined), shall be affected by Government's default under the Prime Lease, except to the extent that the Prime Lease is terminated, or unless such default causes Sublessor to breach the covenant of quiet enjoyment in favor of Subtenant contained herein, provided however, that if as a result of Government's default Subtenant's use of the Leased Premises is materially adversely affected for a period of five (5) or more business days, all rent payable hereunder shall abate from the date of adverse impact until Subtenant's use is no longer so materially adversely affected. Sublessor shall make diligent efforts to enforce Government's obligations under the Prime Lease, however, Subtenant shall have the ability to enforce all rights of Sublessor under the Prime Lease, or cause Sublessor to enforce all such rights.

1.5 Prime Lease Controls. In the event of any conflict in the rights of Subtenant under this Sublease and the rights of Sublessor under the Prime Lease, the terms, conditions and covenants of the Prime Lease shall control.

1.6 Copy of Prime Lease. Subtenant represents that it received, read and is familiar with the terms of the copy of the Prime Lease delivered to it by Sublessor. Sublessor represents that the document attached hereto as Exhibit B is a true, correct and complete copy of the Prime Lease. Notwithstanding the foregoing, or anything otherwise stated herein, it is expressly understood that all obligations of Subtenant relative to this Sublease and Subtenant's use and occupancy of the Leased Premises are contained in this Sublease, and that Subtenant shall have no other or further obligations to Sublessor or to Government which are not expressly set forth in this Sublease.

2. **TERM.** Subject to Sections 2.1, 2.2, 2.3, 2.4 and 2.5 hereof, the term of this Sublease (the "**Term**") shall commence January 1, 2000 ("**Sublease Commencement Date**") and end on June 30, 2010 ("**Initial Term**") unless sooner terminated or extended as provided herein.

2.1 Joint Inspection. Notwithstanding anything stated in the preceding paragraph, prior to the use and occupancy of the Leased Premises by Subtenant, a joint inspection of the Leased Premises shall be conducted pursuant to Section 6 of the Prime Lease and Section 6 of this Sublease (the "**Joint Inspection**").

2.2 Commencement of Possession. Commencement of Possession. If Sublessor is unable to give possession of the Leased Premises on the Sublease Commencement Date because Government has not yet consented to this Sublease despite the exercise of Sublessor's diligent efforts

to obtain such consent, Sublessor shall not be subject to any liability for the failure to give possession on said date. Under such circumstances, unless the delay is the fault of Subtenant, the Rent (as defined herein) shall not commence until the Rent Commencement Date (as defined herein) and no such failure to give possession on the Sublease Commencement Date shall in any way affect the validity of this Sublease or the obligations of Subtenant hereunder, provided, however, that the Term shall be extended for the period of the delay. Notwithstanding the foregoing, if Sublessor is unable to provide Subtenant possession of the Leased Premises by January 30, 2000, then Subtenant shall be entitled to terminate this Sublease by providing fifteen (15) calendar days advance written notice to Sublessor stating that Subtenant is terminating the Sublease based upon failure of Sublessor to provide possession to Subtenant.

2.3 Extension of Term. Upon expiration of the Term of this Sublease, Subtenant shall have the right and option to extend the Initial Term for five (5) additional years ("**First Renewal Term**") as hereinafter provided. Tenant shall exercise said option by giving Sublessor written notice prior to March 31, 2010 ("**First Renewal Notice Date**"). If such notice is not given by Subtenant prior to such First Renewal Notice Date, such right and option to extend this Sublease shall terminate. If Subtenant exercises such option as provided herein, the respective rights, duties and obligations of Government, Sublessor and Subtenant during the First Renewal Term shall be governed by the terms and conditions of the Sublease with no increase in rent other than normal CPI adjustments as defined in Section 3.10 hereof.

2.4 Second Extension of Term. Upon expiration of the First Renewal Term of this Sublease, and provided Subtenant is not in default under the Sublease at the time of exercising its rights under this Section, Subtenant shall have the right and option to extend the Sublease Term for ten (10) additional years ("**Second Renewal Term**") as hereinafter provided. Tenant shall exercise said option by giving Sublessor written notice prior to March 31, 2015 ("**Second Renewal Notice Date**"). If such notice is not given by Subtenant prior to such Second Renewal Notice Date, such right and option to extend this Sublease shall terminate.

If Subtenant exercises such option as provided herein, the respective rights, duties and obligations of Government, Sublessor and Subtenant during the Second Renewal Term shall be governed by the terms and conditions of the Sublease.

Subtenant's rent in the first year of the Second Renewal Term shall be adjusted to equal ninety percent (90%) of the fair market rental value for monthly Base Rent for the Leased Premises ("**FMRV**") for the Second Renewal Term, as extended. The FMRV shall be based upon viewing the Building as 87,516 square feet of light industrial space; 3,500 square feet of finished office space and 12,984 square feet of unfinished office space (requiring new carpets, paint, HVAC, telecommunications ducts, lighting and a dropped ceiling), with appropriate adjustments for location and other factors that affect value. The build-out, type of use, and condition of the building shall be as described in Exhibit F hereto, but including all Qualified Shell Improvements (as described herein). The appraiser shall assume that the Building complies with all applicable building codes. Sublessor shall cause Exhibit F to be prepared by an MAI appraiser and addressed to Sublessor and

Subtenant ("**Initial MAI Report**") and incorporated into the Sublease within sixty (60) calendar days of the Sublease Execution Date.

Upon Subtenant's exercise of the right to extend the Initial Term, each party shall jointly retain an MAI appraisal to determine the FMRV for the Leased Premises during the Second Renewal Term utilizing the instructions included herein ("**Future Appraisal**"). The cost of such appraisal shall be shared equally. In the event Sublessor and Subtenant cannot agree on the FMRV, then Sublessor and Subtenant shall each retain another MAI appraiser at their own costs to determine the FMRV as specified herein. If the lower appraisal is not less than 90% of the higher appraisal, FMRV shall be the average of the two appraisals. If the lower appraisal is less than 90% of the higher appraisal, the two appraisers shall select a third independent MAI appraiser who will appraise the FMRV. In this event, the FMRV shall equal the average of the two closest of the three appraisers.

The rent during years two through ten of the Second Renewal Term shall be subject to normal CPI adjustments as defined in Section 3.10 hereof.

2.5 Third Extension of Term. Upon expiration of the Second Renewal Term of this Sublease, and provided Subtenant is not in default under the Sublease at the time of exercising its rights under this Section, Subtenant shall have the right and option to extend the Sublease Term for an additional ten (10) years ("**Third Renewal Term**") as hereinafter provided. Tenant shall exercise said option by giving Sublessor written notice prior to March 31, 2025 ("**Third Renewal Notice Date**"). If such notice is not given by Subtenant prior to such Third Renewal Notice Date, such right and option to extend this Sublease shall terminate.

If Subtenant exercises such option as provided herein, the respective rights, duties and obligations of Government, Sublessor and Subtenant during the Second Renewal Term shall be governed by the terms and conditions of the Sublease.

Subtenant's rent in the first year of the Third Renewal Term shall be adjusted to equal ninety percent (90%) of the fair market rental value for monthly Base Rent for the Leased Premises ("**FMRV**") for the Third Renewal Term, as extended. The FMRV shall be determined in the same manner as described in Section 2.4.

The rent during years two through ten of the Third Renewal Term shall be subject to normal CPI adjustments as defined in Section 3.10 hereof.

2.6 Early Termination. In the event that at any time during the Term, Subtenant is unable to obtain permits required by it to carry on fully its business activities at the Leased Premises, Subtenant may terminate this Sublease upon sixty (60) calendar days prior written notice to Sublessor. In addition, (i) if as a result of the expiration or termination of, or a material change to, either the Master Permit or the Use Permit, Subtenant is unable to carry on fully its business activities at the Leased Premises, (ii) if the cost of the qualified shell improvements (as set forth on

Exhibit E attached hereto) significantly exceeds the Maximum Qualified Shell Improvement Costs, as defined herein, or (iii) if Subtenant's Lender, as defined herein, is unwilling to finance subtenant's improvements, Subtenant may terminate this Sublease on thirty (30) calendar days prior written notice to Sublessor.

**3. CONSIDERATION.**

3.1 **Base Rent.** Subtenant shall pay to Sublessor as "**Base Rent**" an amount as indicated hereiu. **Base Rent** shall commence on the date that is thirty (30) calendar days after issuance of a Temporary Certificate of Occupancy for the Leased Premises by the City of Alameda Building Department ("**Rent Commencement Date**"). Each monthly payment of Base Rent shall be paid in advance promptly on the first day of every calendar month of the Term. The Base Rent shall be paid without prior notice or demand, and, except as may be authorized under Sections 3.2, 3.3, 3.4 and 3.5 hereof, without any setoff, counterclaim or deduction whatsoever, except as provided for herein. The Base Rent shall be paid at Sublessor's offices, or such other place, as Sublessor shall direct. If the Base Rent commences on a day other than the first day of the calendar month or ends ou a day other than the last day of the calendar month, Base Rent for any such partial month shall be prorated at the rate of one-thirtieth of the monthly Base Rent for each day of the period. As an additional part of Base Rent and consideration for this Sublease, Subtenant shall pay any and all Taxes levied or imposed against the Leased Premise in accordance with the provisions of Section 27.

Year	Base Rent Per Square Foot	Monthly Rent
1	\$0.27	\$28,080
2	\$0.27	\$28,080
3	\$0.28	\$29,120
4	\$0.30	\$31,200
5	\$0.32	\$33,280
6-10	Annual CPI increase as per Section 3.10	Annual CPI increase as per Section 3.10

3.2 **Base Rent Offset.** Sublessor shall permit Subtenant to receive an offset from payment of Base Rent equal to the actual cost of certain physical improvements made by Subtenant to the Building and Land ("**Qualified Shell Improvement Costs**") as further defined in **Exhibit E** attached hereto. The offset shall be in the amount of 100% of the Base Rent during the first year of the Initial Term on a monthly basis. The outstanding balance of the Qualified Shell Improvement Costs shall accrue interest payable to Subtenant beginning on the Sublease Commencement Date. The interest rate will be a variable rate based on the prime lending rate as published by the Wall Street Journal plus 2.00 percentage points, adjusted quarterly. Interest will be calculated on the basis of a 360-day year and actual days elapsed. Sublessor shall also reimburse Subtenant for actual loan

fees up to a maximum of \$25,000, which may be added to the outstanding balance of the Qualified Shell Improvement Costs.

Subtenant shall provide to Sublessor an itemized statement of the Qualified Shell Improvement Costs along with such documentation as reasonably required by Sublessor evidencing and verifying that Subtenant has completed the work and that Subtenant has expended the funds for such Qualified Shell Improvement Costs. Notwithstanding any of the foregoing, the total Qualified Shell Improvement Costs shall be the actual costs of improvements described in Exhibit E but shall not exceed nine hundred and seventy five thousand dollars (\$975,000) ("**Maximum QSIC**"). Notwithstanding the foregoing, the Maximum QSIC shall be increased by actual loan fees and interest accrual as described above. Also notwithstanding any of the foregoing, the Maximum QSIC may be increased upon Sublessor's sole discretion. Also notwithstanding the foregoing, certain other provisions of the Sublease provide for additions to the amount of the Maximum QSIC.

Notwithstanding anything contained in this Sublease to the contrary and in addition to Subtenant's rights and remedies under the Sublease, should Sublessor default under the Sublease, Sublessor, its successor and assigns, shall promptly pay Subtenant for all unamortized Qualified Shell Improvement Costs as of the date of default or termination, as the case may be. In the event that Subtenant shall purchase the Leased Premises at a time when the Qualified Shell Improvement Costs have not been fully paid by Sublessor to Subtenant, the unpaid portion of the Qualified Shell Improvement Costs shall be deducted from the purchase price.

3.3 Discounts For Use By Community Groups. As part of Bladium's community outreach program ("**COP**"), Bladium will make certain areas of the facility available at no charge for not less than four (4) hours per month to qualified youth groups and organizations. Qualified youth groups and organizations ("**QYG**") must be non-profit entities based in Alameda and established to serve the Alameda community and shall be certified as QYGs by the City of Alameda. QYG must have adequate insurance coverage and adult supervision. Bladium reserves the sole right to approve all QYG. Bladium shall not be obligated to provide staff, supervision, or equipment for any COP, QYG or any program contemplated herein. Bladium shall in its sole and absolute discretion determine the time(s), day(s), and activities in which this program may be utilized. During this program, the QYG may share areas of the facility with other Bladium programs, activities and guests. The number of hours per month is not cumulative and will expire after each month. This program is intended to provide youth groups with recreational services.

3.4 No Security Deposit. A security deposit securing Subtenant's obligations under this Sublease is waived.

3.5 Additional Rent. All sums payable by Subtenant to Sublessor under this Sublease not otherwise payable as Base Rent, including but not limited to the sums payable pursuant to Sections 12 and 27 of this Sublease, shall be deemed additional rent ("**Additional Rent**"). For the purposes of this Sublease, Base Rent and Additional Rent are hereinafter collectively referred to as "**Rent**".

3.6 Default Rate. If any portion of Rent shall be due and unpaid for more than ten (10) business days, it shall thereafter bear interest at the per annum rate equal to 2% per annum greater than the prime rate of interest announced from time to time by the Wall Street Journal, as the same may change from time to time (the "Default Rate"), from the due date until the date of payment thereof by Subtenant.

3.7 Late Charge. If any payment of Rent or any part thereof to be made by Subtenant to Sublessor pursuant to the terms of this Sublease shall become overdue for a period in excess of ten (10) business days after written notice from Sublessor that the same is past due, a late charge of five cents for each dollar overdue shall be paid by Subtenant for the purpose of defraying the expense incident to handling such delinquent payment, together with interest from the date such payment or part thereof was due, at the Default Rate. Nothing herein or in the imposition or acceptance of a late charge by Sublessor shall be construed as a waiver of any rights of Sublessor arising out of any default of Subtenant; the right to collect any late charge or interest is separate and apart from any rights or remedies of Sublessor relating to any default by Subtenant.

3.8 Survival. The obligation of Subtenant with respect to the payment of Rent shall survive the termination of this Sublease, subject to the terms and conditions of the Sublease.


3.9 Net Lease. Subtenant hereby acknowledges and agrees that this Sublease is intended to be a triple net lease to Sublessor, as such term is commonly used for the leasing of industrial properties, except as expressly herein set out, such that Sublessor is not responsible for any costs, charges, expenses and outlays of any nature whatsoever arising from or relating to the Leased Premises, or the use and occupancy thereof, or the consents thereof or the business carried on therein, and that Subtenant shall pay all charges, impositions, costs and expenses of every nature and kind relating to the Leased Premises except as expressly otherwise agreed herein. As set forth in this Sublease, all costs of maintenance and repair of the Leased Premises, all costs of insuring the Leased Premises, and all taxes, as that term is defined in Section 27 of this Sublease, allocated to the Leased Premises shall be paid by Subtenant. Notwithstanding anything contained in this Sublease to the contrary, Subtenant shall have no obligation to make any capital or extraordinary improvements or repairs to the Leased Premises or to perform any environmental remediation of or at the Leased Premises, except as and to the extent provided in Section 12 hereof, or to the extent any of the same is necessitated by Subtenant's negligence or willful misconduct or results from Subtenant's misuse of hazardous materials.

3.10 CPI Adjustments to Rent. The rent adjustments paid by Subtenant during years six through ten of the Initial Term, years two through ten of each year of the First Renewal Term, years two through ten of the Second Renewal Term and years two through ten of the Third Renewal Term shall be adjusted according to the following formula:

$$\text{Adjusted rent} = \text{prior year's annual rent} \times \frac{\text{Preceding year's Index (as defined below)}}{\text{Index for the year prior to preceding year}}$$

Such adjusted rent shall be payable in twelve (12) equal monthly installments; provided, however, that in no event shall the Base Rent be increased due to CPI adjustments by more than 5% or less than 2% per annum during years 6-10 of the Initial Term or by not more than 8% or less than 2% during the First Renewal Term and subsequent renewal terms.

Index ("**Index**") shall mean the Consumer Price Index ("**CPI**") for all items and all Consumers for Alameda County, as published by the United States Department of Labor, Bureau of Labor Statistics, or its successor index for the six month average for months July through December issued in February of the following year. In the event that the United States Bureau of Labor Statistics shall discontinue the issuance of the Index, then the rental adjustments provided for in this Sublease shall be made on the basis of changes in the most comparable and recognized cost of living index then issued and available which is published by the United States Government.

 4. **USE OF LEASED PREMISES.** The sole purpose for which the Leased Premises may be used, by Subtenant or authorized contractors, subcontractors or licensees of Subtenant, is for light industrial use or general warehouse, office and/or recreational uses including but not limited to arena soccer, in-line hockey, rock climbing, fitness center, group exercise, baseball, golf, basketball, volleyball, food and beverage service, go cart racing, sports tournaments, gymnastics, video games, boxing, special events and parties, retail sales and any other related uses.

4.1 **No Other Uses.** The Leased Premises shall not be used for any other purposes, which are substantially different than the uses listed in Section 4 without the prior written approval of Government and Sublessor, which shall not be unreasonably withheld.

4.2 **Compliance With FOSL and Other Governmental Documents.** Any use or uses of the Leased Premises shall comply with all terms and conditions of this Sublease and with the Findings for Suitability to Lease ("**FOSL**") for the Leased Premises under the Prime Lease and all conditions expressed therein as well as all conditions expressed in any Categorical Exclusion or other environmental action with respect to the uses of the Leased Premises prepared for compliance with the National Environmental Protection Act. A copy of the Categorical Exclusion is attached as Exhibit C. A copy of the FOSL is available for review at Sublessor's offices during normal business hours.

4.3 **Use of Hazardous or Toxic Materials.** Pursuant to 10 U.S.C. 2692, Subtenant is prohibited from storing or disposing non-DOD-owned toxic or hazardous materials, which includes materials that are of an explosive, flammable, or pyrotechnic nature, on a military installation, except to the extent authorized by a statutory exception to 10 U.S.C. 2692 or as authorized by the Secretary of Defense or his or her designee. In the event that Subtenant desires to store or dispose of any such non-DOD-owned toxic or hazardous materials, which includes materials that are of an explosive, flammable, or pyrotechnic in nature, on a military installation, except to the extent authorized by a statutory exception to 10 U.S.C. 2692, Subtenant shall contact Sublessor in writing and Sublessor shall coordinate with Government the obtaining of any approvals required to be obtained from the Secretary of Defense or his or her designee.

4.4 Exclusive Use Provision. Sublessor agrees that it will not lease or sell any property at the Station to any other private party, person, entity or company to utilize such property that would compete with Subtenant's Leased Premises, products or services. Competition includes and is limited to in-line hockey, arena soccer, fitness center, rock climbing, gymnastics, martial arts or any other recreational use offered by Subtenant. This provision does not apply to public parks or facilities owned and operated by the City of Alameda. Sublessor specifically reserves the right to sublease other properties within the Station for a privately owned ice skating facility.

4.5 Hours of Operation. Sublessor acknowledges and agrees that the Leased Premises will be open for business Monday through Sunday from 6:00 AM to 1:00 AM. These hours may be modified to accommodate for increased or decreased demand.

4.6 Confidential. Sublessor agrees that it shall keep the terms and conditions of this Sublease and any other information relating to Subtenant confidential and shall ensure that its agents, employees and representatives will not disclose in any manner whatsoever, in whole or in part, any information relating to this proposal, except as may be required by law.

## 5. ASSIGNMENT AND SUBLETTING.

5.1 No Assignment or Subletting. Subtenant shall not, without Sublessor's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed (i) except as otherwise provided herein, assign, convey, mortgage, pledge, encumber or otherwise transfer (whether voluntarily or otherwise) this Sublease or any interest under it; (ii) allow any transfer of or any lien upon Subtenant's interest by operation of law; (iii) sublet more than 5,000 square feet of space within the Leased Premises or any part thereof, or (iv) permit the use or occupancy of the Leased Premises or any part thereof by anyone other than Subtenant and its employees. Notwithstanding anything in Sections 5.1, 5.2 and 5.3 to the contrary, Sublessor agrees to cooperate and allow Subtenant to use this Sublease as security for a loan ("Loan"). The Loan proceeds will be used to complete the improvements to the Leased Premises and the Lender (as defined herein) will have a security interest in Subtenant's leasehold estate and assets of Subtenant located within the Leased Premises to be used exclusively for the uses permitted herein. Sublessor further agrees to refinancing of the Loan at future dates. Sublessor agrees to reasonably cooperate and work with Subtenant's lender ("Lender") on any financing issues or documents required by Lender.

5.2 Request for Assignment or Subletting. Subtenant's request for consent to any subletting or assignment shall be in writing and shall contain the name, address, and description of the business of the proposed assignee or subtenant, its most recent financial statement and other evidence of financial responsibility, its intended use of the Leased Premises, and the terms and conditions of the proposed assignment or subletting. Within thirty (30) calendar days from receipt of such request, Sublessor shall either grant or refuse consent, which consent shall not be unreasonably withheld, conditioned or delayed. Failure to respond within thirty (30) calendar days shall be deemed approval. Notwithstanding anything in Sections 5.1, 5.2 and 5.3 to the contrary,



Sublessor agrees to allow Subtenant the ability to sublease or grant concessions to operate up to 10,000 square feet of office space in the Leased Premises for general office use, provided Subtenant remains fully liable to Sublessor under the terms of this Sublease.

5.3 Change in Control. For purposes of this section, any transfer or change in control of Subtenant by operation of law or otherwise shall be deemed an assignment hereunder, including, without limitation, any merger, consolidation, dissolution or any change in more than 50 percent of the interests of Subtenant, whether in a single transaction or a series of related transactions. Notwithstanding the forgoing, Subtenant shall have the right, without Sublessor's consent but upon notice in writing to Sublessor, to transfer and assign Subtenant's rights, title and interest under this Sublease to any of its subsidiaries, affiliates (an entity which is controlled by, controls, or is under common control with Subtenant or Subtenant's shareholders), or successor legal entities or to any entity acquiring substantially all of the assets of Subtenant provided such party's net worth, computed in accordance with the generally accepted accounting principals, is not less than the net worth of Subtenant as of the date of the Sublease Execution Date or to a wholly-owned subsidiary of a holding company which is under the same control and ownership as Subtenant. The term controls (including the terms "controlled", "controlled by", and "under common control with") means the possession, direct or indirect, of power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract, or otherwise. Notwithstanding anything in Sections 5.1, 5.2 and 5.3 to the contrary, Sublessor shall consent to an assignment of this Sublease if the proposed assignee meets the following criteria: (i) the proposed assignee has demonstrated financial resources equal to or greater than those of Subtenant and (ii) the proposed assignee agrees to assume all obligations of Subtenant under the Sublease and be bound by all the terms and conditions of the Sublease.

5.4 Requirements for Assignment or Subletting. If, with the consent of Sublessor, this Sublease is assigned or if the Leased Premises or any part thereof is sublet or occupied by anybody other than Subtenant (except as set forth herein), Sublessor may, after default by Subtenant, collect rent from the assignee, subtenant, or occupant, and apply the net amount collected to the Rent herein reserved. If Sublessor consents to any such subletting or assignment, it shall nevertheless be a condition to the effectiveness thereof that a fully executed copy of the sublease or assignment be furnished to Sublessor and that any assignee assumes in writing all obligations of Subtenant hereunder. No consent to any assignment, subletting or occupancy shall be deemed a waiver of any of Subtenant's covenants contained in this Sublease nor the acceptance of the assignee, subtenant or occupant as Subtenant, nor a release of Subtenant from further performance of any covenants and obligations under this Sublease.

5.5 Consent. Any consent given by Sublessor to an assignment or subletting of this Sublease shall not constitute a waiver of the necessity of such consent to any subsequent assignment or subletting.

6. JOINT INSPECTION REPORT. Prior to execution of this Sublease, a joint inspection of the Leased Premises shall be conducted by representatives of Sublessor, Subtenant and

Government ("**Joint Inspection**"). The Joint Inspection report shall be prepared at the sole cost and expense of Sublessor to document the existing condition of the Leased Premises, including any deficiencies, which may exist. The Joint Inspection Report is attached as Exhibit C to the Prime Lease and as Exhibit D to this Sublease, and shall be incorporated into this Sublease by this reference along with the videotape footage of the Leased Premises, a copy of which will be held by each of Sublessor and Subtenant.

6.1 Corrections. Any safety or health hazards identified during the above said Joint Inspection shall be corrected prior to the use and occupancy of the Leased Premises. Responsibility and expense for correcting any such hazards shall have been determined by mutual agreement between Sublessor, Government and Subtenant prior to commencement of the Sublease. Subtenant shall have the option, but not the obligation, to correct any condition identified in the Joint Inspection Report, on behalf of Sublessor, so as to avoid any termination of the Prime Lease pursuant to Section 14.3 thereof.

6.2 Termination for Condition of Leased Premises. If, prior to construction of the Qualified Shell Improvements, Subtenant finds that the Leased Premises is not in fact in a condition suitable for the use intended by Subtenant, and will not for whatever reason be rendered suitable for such use by Government, Sublessor, or Subtenant; then Subtenant may terminate this Sublease, without incurring any liability to Sublessor, upon ten (10) days written notice to Sublessor.

6.3 No Warranty by Government or Sublessor. Except as otherwise set forth in this Sublease, the Leased Premises will be delivered to Subtenant by Sublessor "as is, where is," and, as such, Sublessor makes no warranty as to such facilities and property either as to their usability generally or as to their fitness for any particular purpose except as made in the Prime Lease. Without limiting application of the foregoing, Subtenant specifically acknowledges that the roof of the Building may be defective and may leak and require repair during the Term of this Sublease. In addition to the hold-harmless and indemnification provisions contained elsewhere in this Sublease, Subtenant agrees to hold Sublessor harmless for any damage to any property resulting from or related in any way to the defective roof, including but not limited to damage from water and other elements leaking through the roof and into the Building, and from any interruption of its business, loss of income or other financial loss resulting from or related in any way to Sublessor's decision to, and Sublessor's actual repair of, the roof. Should this Sublease terminate and not be succeeded by either another lease or sublease, or a conveyance of title to the Leased Premises, or by active negotiation for either lease or conveyance, Subtenant shall turn over to Government the Leased Premises in the same condition in which they were received, reasonable wear and tear excepted and subject to the approved or allowed alterations and modifications of the Leased Premises made by Subtenant. Sublessor acknowledges and agrees that Subtenant plans to complete a significant amount of work required to convert the Leased Premises into a new recreational sports facility and that Sublessor shall accept the Property back as improved by Subtenant less Subtenant's office furniture, trade fixtures, permanent fixtures, sports equipment, rock wall, arena lighting, bleachers, mezzanines, kitchen equipment and any other of Subtenant's property ("**Subtenant's Property**") upon termination. The Joint Inspection Report attached hereto as Exhibit D shall be used as the

measurement with respect to any pre-existing contamination of the Leased Premises and the initial condition of the Lease Premises.

6.4 Possession as Evidence of Conditions. Subtenant's taking possession of the Leased Premises shall be conclusive evidence that the Leased Premises were in satisfactory condition when Subtenant took possession, except as to latent defects and as otherwise may be set forth in the Joint Inspection Report. No promises of Sublessor to alter, remodel, repair or improve the Leased Premises and no representation respecting the condition of the Leased Premises have been made by Sublessor to Subtenant, except as expressly stated in this Sublease.

## 7. ALTERATIONS.

7.1 No Alterations. Subtenant shall not make any substantial alterations, improvements, or additions to the exterior or interior of the Leased Premises (collectively the "Work") other than the Qualified Shell Improvements and any other work or improvements made to the Leased Premises required to convert the Leased Premises into a recreational sports facility, without prior written consent of Sublessor's Facilities Manager in each and every instance, which consent shall not be unreasonably withheld, conditioned or delayed. Substantial shall mean costing in excess of \$25,000 in any twelve (12) month period. Any Work which adds to, removes, or otherwise alters, the structural components of the Building, including the roof, any support structures, foundations, the exterior of the Building, and the fire retardant and other life safety systems of the Building, shall be deemed to be substantial unless Sublessor states in writing otherwise. In the event Subtenant desires to perform any Work, Subtenant shall first submit to Sublessor a written description of the proposed Work, and, if Sublessor requires, plans and specifications relating thereto, and obtain Sublessor's written approval, which approval shall not be unreasonably withheld, conditioned or delayed prior to commencing it. Approval of Work may be conditioned upon providing Sublessor with a performance and payment bond satisfactory to them in all respects in addition to other requirements deemed reasonably necessary to protect the interests of Sublessor. In the event Sublessor does not respond to Subtenant's request for written approval within twenty (20) business days of such request, Sublessor shall be deemed to have given such approval. Requests for approval shall be made to Sublessor's Facilities Manager.

7.2 City of Alameda Building Department. Because of the possibility that the Leased Premises will ultimately be under the jurisdiction of the City of Alameda for compliance with health and safety regulations and requirements, prior to undertaking or doing any Work on the Leased Premises, or any portion thereof, Subtenant agrees to submit an application to the City of Alameda Building Department, and, if required by the City, to other City departments, for review and obtaining approval of such plans and proposals for such Work to the Leased Premises, whether or not such are at such time is under the legal Jurisdiction of the City for such review and approval, unless such review and approval process is expressly waived in writing by such City Department. In addition to the application to the City of Alameda Building Department, Subtenant shall also submit a narrative description of all proposed Work on the Leased Premises, with the projected schedule and costs thereof, and an analysis as to how and why such Work will or will not be visible

for the exterior of the Building, or affect any historically significant features, or be substantially likely to adversely affect the environmental cleanup of the Station, human health, or the environment, or adversely impact the structure of the Building. All Work shall be done at the expense of Subtenant without any costs or obligation to Sublessor. No Work shall be undertaken by Subtenant on the Leased Premises, unless such Work has been approved by the City Building Department (such approval shall not be unreasonably withheld, conditioned or delayed) or such review has been waived in writing. In addition, there shall be no Work performed on the Leased Premises other than the Qualified Shell Improvements and any other work or improvements required to convert the Building and Land into a recreational sports facility without prior written authorization from Government under the Prime Lease to the extent required, and in the manner set forth, in Section 8 thereof, which consent shall not be unreasonably withheld, conditioned or delayed.

7.3 Improvements at End of Lease Term. At the termination of this Sublease, all fixed and permanent improvements made by Sublessor or Subtenant in or upon the Leased Premises shall become Sublessor's property and shall remain upon the Leased Premises at the termination of this Sublease without compensation to Subtenant (excepting only Subtenant's movable office furniture, trade fixtures, permanent fixtures, sports equipment, arena lighting, mezzanines, kitchen equipment, manufacturing, office and professional equipment, and any Work approved by Sublessor as to which, at the time of such approval, Sublessor stated, in writing, that such Work had to be removed at the termination of the Sublease).

7.4 Asbestos. Government has provided to Sublessor an asbestos survey for the Building. Before Subtenant undertakes any alterations, modifications or any other Work which will disturb any known friable or non-friable asbestos in the Building, Subtenant shall set forth a plan stating how it will handle any such asbestos, which plan shall be reviewed and approved by Sublessor. Notwithstanding the foregoing, any work relating to the removal of asbestos shall be approved by Sublessor if the plan to remove is in conformance with the current laws and regulations regarding the removal of such materials. All work associated with removing any asbestos shall qualify as additional Qualified Shell Improvement Costs. Government's asbestos survey for the Building is available for review by Subtenant at Sublessor's offices during normal business hours.

8. ACCESS BY GOVERNMENT AND SUBLESSOR. In addition under Sections 12.5 and 12.9, Government and Sublessor shall be allowed access to the Leased Premises at all reasonable times throughout the term of this Sublease, for any reasonable purposes upon prior written notice to Subtenant. Government and Sublessor will normally give Subtenant a minimum 24-hour prior notice of an intention to enter the Leased Premises, unless the entry is required on an emergency basis for safety, environmental, operations or security purposes. Unless an emergency situation, all such entry by Government and Sublessor shall be accompanied by an authorized representative of Subtenant. Subtenant shall ensure that a telephone roster is maintained at all times for on-call persons representing Subtenant who will be available on short notice, 24 hours a day, 365 days per year, and possess and have authority to use all keys necessary to gain access to the Leased Premises, to facilitate entry in time of emergency. Subtenant shall ensure that Sublessor has a

current roster of such on-call personnel and their phone numbers. Subtenant shall have no claim against Government or Sublessor for exercise of their rights of access hereunder.

8.1 Utilities Access. Portions of Government's utilities systems serving the Station may be located within the Leased Premises and if so are reserved for use by Government under the Prime Lease. Subtenant agrees to allow Government and its utility suppliers reasonable access to the Leased Premises for operation, maintenance, repair and replacement of these utilities systems as may be required, provided such operation, maintenance, repair and replacement of these utilities systems does not significantly interfere with Subtenant's operations. In executing operation, maintenance, repair or replacement of these systems, Government has agreed in the Prime Lease to take all reasonable steps to limit interference with the use of the Leased Premises by Sublessor and its sublessees, including Subtenant.

## 9. UTILITIES

9.1 Provision of Utilities. Utilities will not be furnished to Subtenant by Sublessor. Sublessor will assist Subtenant in obtaining utilities from Government, as long as Government is providing utilities to occupants of the Station, other than Government's operations, or from other sources. Subtenant acknowledges that Government may terminate providing such utility services, that Sublessor is not obligated to provide utilities to Subtenant after Government ceases to provide any such utility services to the Leased Premises, and that the obtaining of such utility services after termination of providing of the same by Government is solely the responsibility of Subtenant. Sublessor will assist Subtenant in obtaining utilities should Government cease to provide such utilities to the Leased Premises. Any separate metering of utilities required by Government or by any utility provider shall be the responsibility of Subtenant. In the event that Subtenant is unable to obtain reasonable costs and rates, then Subtenant shall have the right to terminate this Sublease upon prior ten (10) day written notice to Sublessor. In the event that Subtenant is required by any utility provider or governmental authority to install or pay for any separate utility meters to the Leased Premises, the cost of the same plus the costs required to obtain and install any new utility shall constitute Qualified Shell Improvement Costs pursuant to Section 3 of this Sublease.

9.2 Payment for Utility Consumption. Subtenant shall pay for the consumption of all utilities used at or on the Leased Premises, including, but not limited to, electricity, gas, water, sewer and phone. Subtenant acknowledges that any one or more such services may be suspended by reason of accident or of repairs, alterations, or improvements necessary to be made, or by strikes or lockouts, or by reason of operation of law, or causes beyond the reasonable control of Sublessor. If any such utility services are interrupted for a period of time exceeding seven (7) calendar days, and such interruption in service materially and adversely interferes with the operations of Subtenant or its clients or guests, then Subtenant shall be entitled to abate all Rent until such time as said utilities are again restored to the Leased Premises. If such interruption continues for thirty (30) or more calendar days, then Subtenant can terminate this Sublease, if such utility service is not restored

within ten (10) calendar days after written notice to Sublessor of Subtenant's intention to so terminate.

9.3 Heating of Leased Premises. Subtenant acknowledges that Government's pre-existing steam heating facilities will not be operable for the Building during the entire Term of this Sublease. Subtenant acknowledges that Subtenant will be responsible for providing such heating to the Leased Premises as Subtenant desires when the current steam heating facilities are no longer operable.

9.4 Adjustment to Utility System. Subtenant acknowledges that pursuant to the provisions of the Prime Lease, Government in no way warrants the conditions or adequacy of its utility systems for the purposes intended by Subtenant. Subtenant may ask Sublessor to seek authorization from Government to replace, remove, or relocate utility systems on the Leased Premises in order to use the Leased Premises, so long as there is no unreasonable interference with use by Sublessor or Government, or with use by contractors of Sublessor or Government, of the utility systems, provided Subtenant bears all costs of the work, and provided Sublessor and Government have approved the replacement, removal or relocation in advance and in writing.

9.5 Non-Government Utility Providers. Subtenant agrees that it will accept needed utility services from any private or municipal supplier, who should during the term of this Sublease, become capable of delivering such services to the Leased Premises at competitive commercial rates and without substantial conversion costs. Subtenant agrees that it will investigate the feasibility of obtaining needed utility services directly from private or municipal suppliers prior to arranging for service from Government, and agrees that it will, during the term of this lease, continue to work toward obtaining direct services from non-Government utility suppliers at the earliest possible date in anticipation of the date beyond which Government will no longer provide utility services hereunder.

10. NO INTERFERENCE WITH GOVERNMENT OPERATIONS. Subtenant shall not conduct operations, nor make any alterations, that would interfere with or otherwise restrict Government operations or environmental clean-up or restoration actions by Government, Environmental Protection Agency ("EPA"), State of California, or their contractors. Environmental clean-up, restoration, or testing activities by these parties shall take priority over Subtenant's use of the Leased Premises in the event of conflict. In the event that any such activities substantially interfere with Subtenants use of the Leased Premises for a period of five (5) or more consecutive days, then all Rent payable hereunder shall abate until such interference ceases.

11. PROTECTION AND MAINTENANCE SERVICES. The services to be provided by Subtenant hereunder shall include the furnishing of all labor, supervision, materials, supplies, and equipment necessary to furnish the reasonable structural (including roof) maintenance; fencing maintenance; plumbing maintenance; electrical maintenance; maintenance of any new heating and cooling systems installed by Subtenant; exterior utility systems maintenance; pavement and grounds maintenance (including grass cutting, shrub trimming and tree removal); pest control; security within

the Leased Premises; refuse collection, removal, and disposal; and utilities maintenance on the Leased Premises reasonably necessary for the protection of Government property. For specifics as to such reasonable protection and maintenance required to be provided by Subtenant hereunder the following provisions shall apply.

11.1 Maintenance. The degree of reasonable maintenance services to be furnished by Subtenant hereunder shall be that which is reasonably sufficient to maintain weather tightness, structural stability, protection from fire hazards or erosion, and elimination of safety and health hazards, which arise during the term of the Sublease and which are not caused by the actions of Sublessor, Government or their employees, contractors, or agents, so that the Leased Premises being serviced will remain in the condition in which they exist at the commencement of the Sublease as documented in the Joint Inspection Report prepared pursuant to Section 6, ordinary wear and tear and damages due to casualty excepted. Both Sublessor and Government, upon due notice, may inspect the Leased Premises to insure performance of the reasonable maintenance set forth herein. Should this Sublease terminate and not be succeeded by either another lease, or a conveyance of title to the premises, or by active negotiation for either lease or conveyance, Subtenant shall turn over to Sublessor the Leased Premises in the same condition in which they were received, reasonable wear and tear and damages due to casualty excepted. Notwithstanding anything contained in this Sublease to the contrary, Subtenant shall have no obligation to make any capital or extraordinary improvements or repairs to the Leased Premises, except as and to the extent provided in Section 17 hereof, or to the extent any of the same is necessitated by Subtenant's negligence or willful misconduct or results from Subtenant's misuse of hazardous materials.

11.2 Housekeeping. Subtenant agrees that it will keep the Leased Premises in a safe, sanitary and orderly condition at all times, except during construction, and further agrees that it will keep the outside of the Leased Premises free of unused and unwanted materials at all times. At completion of the Sublease, the Leased Premises shall be left without containers, Subtenant's equipment, and other undesirable materials, and in a reasonably clean condition.

11.3 Security Protection. Subtenant shall provide for all reasonable security and safety within the Leased Premises.

11.4 Services. Subtenant shall be responsible, at its cost and expense, for obtaining and providing any and all other services which may be required in connection with Subtenant's use or occupancy of the Leased Premises.

## 12. ENVIRONMENTAL PROTECTION PROVISIONS.

12.1 Environmental Compliance. Subtenant, its contractors, assigns or subtenants shall comply with all applicable federal, state, and local laws, regulations, and standards that are or may become applicable to Subtenant's activities on the Leased Premises.

12.2 Environmental Permits. Subtenant, its contractors, assigns or subtenants shall be responsible for obtaining, except as provided in this Sublease, at its cost and expense, any environmental permits required for its operations under this Sublease for the Leased Premises.

12.3 Environmental Indemnification by Subtenant. In addition to the provisions of Section 15, Subtenant shall, and does hereby agree to, indemnify and hold harmless Government and Sublessor, from any costs, expenses, liabilities, fines, or penalties resulting from discharges, emissions, spills, storage, disposal, occurring during the Term of this Sublease, resulting from any action by Subtenant or its contractors, employees or agents, or any parties using or occupying the Leased Premises by or through Subtenant, or any other action by Subtenant, its contractors, assigns, subtenants, or any parties using or occupying the Leased Premises by or through Subtenant, giving rise to Sublessor or Government liability, civil or criminal, or responsibility under federal, state, or local environmental laws. This provision shall survive the expiration or termination of this Sublease, and Subtenant's obligations hereunder shall apply whenever Government or Sublessor incurs costs or liabilities for Subtenant's actions.

12.4 Environmental Issues Under Prime Lease. Subtenant acknowledges that Government's rights under the Prime Lease specifically include the right for Government officials to inspect upon reasonable notice the Leased Premises for compliance with environmental, safety, and occupational health laws and regulations, whether or not Government is responsible for enforcing them. Such inspections are without prejudice to the right of duly constituted enforcement officials to make such inspections. Sublessor shall also have the right to inspect upon reasonable notice the Leased Premises for compliance with environmental, safety, and occupational health laws and regulations, whether or not Government or Sublessor is responsible for enforcing or complying with them. Government has agreed, and Sublessor hereby agrees, that it will give Sublessor or Subtenant 24 hours prior written notice of its intention to enter the Leased Premises unless it determines the entry is required for safety, environmental, operations, or security purposes. Subtenant shall not have any claim against Government on account of any entries, nor any officer, agent, employee, or contractor thereto. Subtenant shall not have any claim against Sublessor on account of any entries, nor any officer, agent, employee, or contractor thereto, except for gross negligence or willful misconduct.

12.5 Hazardous Waste Requirements. Subtenant shall strictly comply with the hazardous waste permit requirements under the Resource Conservation and Recovery Act ("RCRA"), or its state equivalent, and any other applicable environmental laws, rules or regulations, with respect to Subtenant's handling, storage and disposal of hazardous waste generated by Subtenant or its clients or contractors at the Leased Premises. Except as specifically authorized by Government and Sublessor in writing, Subtenant must provide at its own expense such hazardous waste management facilities, and hazardous waste storage facilities as it may need, complying with all laws and regulations. Government hazardous waste management facilities will not be available to Subtenant.



12.6 Hazardous Waste Plan. If applicable, Subtenant shall have a Government approved plan for responding to hazardous waste, fuel, and other chemical spills prior to the commencement of operations on the Leased Premises. Such plans shall be independent of any Government Spill Prevention and Countermeasures Control Plan and shall not rely on use of Government personnel or equipment, nor the equipment or personnel of Sublessor. Should Government provide any personnel or equipment, whether for initial fire response and/or spill containment, or otherwise on request of Sublessor or Subtenant, or because Sublessor or Subtenant was not, in the opinion of the contracting officer, conducting timely response actions, Subtenant agrees to reimburse the Government for its reasonable costs.

12.7 Hazardous Waste Reporting. Subtenant shall be responsible for reporting, containment, removal and clean-up of any land, air or water pollution to the extent required by applicable laws that emanates from any of the Leased Premises due to the actions of Subtenant, its agents, employees, contractors, subcontractors, subtenants or assigns.

12.8 Entry for Testing. Government, EPA, and the State of California and their officers, agents, employees, contractors, and subcontractors have the right, upon reasonable written notice to Sublessor and to Subtenant, to enter upon the Leased Premises for the purposes enumerated in the following subparagraphs.

12.8.1 To conduct investigations and surveys, including, where necessary, drilling, soil and water sampling, test pitting, testing soil borings and other activities related to the Installation Restoration Program ("IRP").

12.8.2 To inspect field activities of Government and its contractors and subcontractors in implementing the IRP.

12.8.3 To conduct any test or survey relating to the implementation of the IRP or environmental conditions at the Leased Premises or to verify any data submitted to the EPA or the State of California by Government relating to such conditions.

12.8.4 To construct, operate, maintain, or undertake any other response or remedial action as required or necessary under the IRP including, but not limited to, monitoring wells, pumping wells, and treatment facilities. Sublessor will endeavor to assure that any entry undertaken hereunder shall be undertaken in a manner as to not unreasonably or unnecessarily interfere with Subtenant's business and work under its contractual obligations.

12.9 Comply with Health and Safety Plans. Subtenant agrees to comply with the provisions of any health or safety plan in effect under the IRP during the course of any of the above described response or remedial actions. Any inspection, survey, investigation, or other response or remedial action, to the extent practicable, shall be coordinated with representatives designated by Sublessor and Subtenant. Neither Sublessor nor any Subtenant shall have any claim on account of

such entries against Government or any officer, agent, employee, contractor, or subcontractor thereof.

12.10 No Excavation. Subtenant shall not conduct or allow any subtenant, contractor, agent or employee to undertake any subsurface excavation, digging, drilling or other disturbance of the surface without the prior written approval of Sublessor and the Contracting Officer of Government, which approval shall not be unreasonably withheld, conditioned or delayed.

12.11 Supply Addresses. Subtenant shall provide to Sublessor, in the event of any assignment or further sublease of the Leased Premises, which requires Sublessor approval, and in order that Sublessor may provide to the EPA Region 9 CERCLA Federal Facilities Section, and the State of California Department of Toxic Substances Control, at addresses which will be supplied and maintained by Government, by certified mail, a copy of the agreement or sublease (as the case may be), dispatched within fourteen (14) calendar days after the effective date of such transaction. Sublessor and Subtenant may delete the financial terms and any other proprietary information from the copy of any agreement of assignment or sublease furnished pursuant to this condition.

12.12 Disposal of Hazardous Waste. DOD component accumulation points for hazardous and other wastes will not be used by Subtenant. Neither will Subtenant permit its hazardous wastes to be commingled with hazardous waste of the DOD component.

12.13 Governmental Indemnity. It is understood that the responsibility of Government to indemnify and hold harmless Sublessor and Subtenant against toxic torts and other environmental claims shall be in accordance with Public Law 102-484, the National Defense Authorization Act for Fiscal Year 1993, Section 330, as amended.

12.14 Minimize Disruption. Government has agreed in the Prime Lease to use its best efforts to minimize disruption of Subtenant's operations. Government shall also maintain the confidentiality of any proprietary information which comes into its possession as a result of inspections or entries upon the Leased Premises or examinations of the records of Subtenant.

12.15 Government Permits. Government has agreed in the Prime Lease to undertake a timely review with Sublessor of those permits which Government holds or will likely come to hold, in order to determine which permits may be, to the fullest extent allowed under state and federal law, transferred to Sublessor as Lessee. At Subtenant's request, all of such permits shall be made available to Subtenant by Sublessor to the fullest extent allowed under state and federal law. Subtenant shall be fully liable for its compliance with such permits as are made available to it, including payment of fines and penalties incurred due to its actions.

12.16 Notice of Governmental Action. To minimize interference in the use of the Leased Premises caused by implementation of response actions, Government has agreed to provide Sublessor with timely written notice and opportunity to comment upon any proposed response actions, which may interfere with use of the Leased Premises. Government shall consider timely

comments of Sublessor concerning the potential interference of any proposed response actions and will make a good faith effort to make adjustments to proposed response actions, with the goal of reconciling or minimizing any possible conflicts between Subtenant's use of the Leased Premises and the implementation of response actions. Sublessor agrees to communicate with Subtenant regarding the foregoing and to promptly transmit to Government all comments with respect thereto submitted to it by Subtenant. In the event that Subtenant is required to vacate the Leased Premises or a portion of the Leased Premises, or unable to conduct regularly scheduled activities caused by implementation of response actions all or the appropriate portion of Rent shall be abated for the period of such vacation.

12.17 Exceptions. The provisions of Section 12 do not prohibit Sublessor or Subtenant from independently contracting for transportation, treatment, storage or disposal of hazardous wastes with the same company which may have a contract with Government for transportation, treatment, storage or disposal of hazardous wastes generated at the Station, nor do they prohibit the carriage of properly manifested, marked and otherwise lawful containers of hazardous waste generated by Sublessor or Subtenant upon the same conveyance as hazardous waste generated by Government.

12.18 Pre-existing Conditions. If Subtenant, during the performance of Work to the Leased Premises that have been approved pursuant to Section 7 of this Sublease, encounters pre-existing conditions which require Government to take action in accordance with federal, state or local law to remove, remediate, correct, or abate hazardous substances, pollutants or contaminants, Subtenant shall promptly notify Government, cease performance, and secure the work site. Government has agreed to promptly survey the conditions and consult with Sublessor or Subtenant on a proposed course of action. Vacation of the Leased Premises, or any part thereof, will be directed pursuant to the provisions of Section 15 of the Prime Lease. Government will take necessary and appropriate actions, as required by federal, state or local law, and bear the cost of such removal, remediation, corrective action, or abatement, subject to the availability of funds for such purpose. In the event that Subtenant is required to vacate the Leased Premises, all Rent shall be abated for the period of such vacation.

12.19 Environmental Baseline Survey. Subtenant acknowledges that Sublessor has informed Subtenant of the availability of an Environmental Baseline Survey ("EBS") with respect to the Leased Premises, prepared on behalf of Government, in which EBS specifies that the Leased Premises, and the lands underlying the Leased Premises contain certain described hazardous waste. Sublessor has no other knowledge of any hazardous waste or any other hazardous substances, pollutants or contaminants with respect to the Leased Premises. The EBS is available for review by Subtenant at Sublessor's offices during normal business hours.

### 13. TERMINATION.

13.1 Termination by Government of the Prime Lease for Breach. Under certain circumstances, Government has the right to terminate the Prime Lease on account of the breach by

Sublessor, as the Lessee thereunder of any of the terms and conditions of the Prime Lease. In the event of a breach involving the performance of any obligation under the Prime Lease, the Prime Lease provides that Sublessor, as the Lessee thereunder, shall be afforded ten (10) working days from the receipt of Government's notice of intent to terminate, to commence action to complete the performance of the obligation or otherwise cure the subject breach and avoid termination of the Prime Lease, which action to cure is to be completed within a reasonable period of time. Within said ten (10) working days, Sublessor thereunder is required to advise Government of Sublessor's intended course of action to cure and the estimated date as to when said action will be completed. Sublessor agrees to immediately, and in any event within 24 hours after Sublessor's receipt, except when it arrives on a weekend or holiday, in which event it shall be delivered by the next business day, provide a copy of any such notice to Subtenant. In the event that any such notice is delivered to Sublessor as the Lessee under the Prime Lease, for any such breach occasioned or caused by the action, negligence or inaction of Subtenant, or any party acting on behalf of or through Subtenant, for an obligation, covenant or undertaking of Subtenant under this Sublease, then Subtenant shall either commence action to complete the performance of the obligation or otherwise cure the subject breach and avoid termination of this Sublease and the Prime Lease, which action to cure is to be completed within a reasonable period of time, or immediately advise Sublessor of Subtenant's intended course of action to cure the breach if it cannot be reasonably cured within the ten (10) working day period specified and the estimated date as to when said action will be completed. Subtenant shall either cure such breach within ten (10) working days from the date of receipt of Government's notice of intent to terminate by Sublessor, or Subtenant shall provide its plan and program in writing as to its proposed action to complete the performance of the obligation and shall commence such cure of the breach as soon as reasonable and possible under the circumstances and complete such action to cure within a reasonable period of time in light of the nature of the breach and any circumstances beyond Subtenant's reasonable control. If Subtenant should fail to cure within the grace periods provided above, and Government does not terminate the Lease under the provisions of the Prime Lease, then Sublessor shall have the option to terminate this Sublease, without the necessity of providing further notice or rights of cure to Subtenant. In the event that any such notice is delivered to Sublessor and the Lessee under the Prime Lease, for any such breach occasioned or caused by the action, negligence or inaction of Sublessor, or any party acting on behalf of or through Sublessor, for an obligation, covenant or undertaking of Sublessor under the Prime Lease, then Sublessor shall either commence action to complete the performance of the obligation or otherwise cure the subject breach and avoid termination of the Prime Lease, which action to cure is to be completed within a reasonable period of time, or immediately advise Subtenant regarding Sublessor's intended course of action to cure the breach if it cannot be reasonably cured within the ten (10) working day period specified and the estimated date as to when said action will be completed. Sublessor shall either cure such breach within ten (10) working days from the date of receipt of Government's notice of intent to terminate, or Sublessor shall provide its plan and program in writing as to its proposed action to complete the performance of the obligation and shall commence such cure of the breach as soon as reasonable and possible under the circumstances and complete such action to cure within a reasonable period of time in light of the nature of the breach and any circumstances beyond Sublessor's reasonable control.

13.2 Termination of Prime Lease Due to Subtenant Default. In the event that Government shall elect to terminate the Prime Lease on account of the breach by Subtenant of any of the terms and conditions hereof or of the Prime Lease to be performed by Subtenant, Subtenant shall indemnify Sublessor against any claims Government may have against Sublessor for any of the following under the Prime Lease:

13.2.1 The costs incurred by Government in resuming possession of the Leased Premises.

13.2.2 The costs incurred in performing by Government of any of Subtenant's obligations under this Sublease.

13.2.3 An amount equal to the aggregate of any maintenance obligations, and charges assumed hereunder and not therefore paid or satisfied, which amounts shall be due and payable at the time when such obligations, and charges would have accrued or become due and payable under this Sublease.

13.3 Termination of Sublease due to Sublessor Default. In the event that Government shall elect to terminate the Prime Lease on account of the breach by Sublessor of any of the terms and conditions of the Prime Lease to be performed by Sublessor, Sublessor shall reimburse Subtenant the unamortized costs of the Qualified Shell Improvement Costs and any costs associated with work or improvements made to convert the Leased Premises into a recreational sports facility, not to exceed an additional \$1,000,000.

13.4 Termination by Government for Other Than Breach. In addition to the right to terminate the Prime Lease for breach, Government is entitled to terminate the Prime Lease for its convenience under the following terms and conditions:

13.4.1 Upon reasonable determination that the interim uses of the Lessee under the Prime Lease or the interim uses of Subtenant under this Sublease for the remaining duration of the Sublease term are incompatible with Government's final disposal decision as embodied in the NEPA Record of Decision, with respect to the required subsequent uses of the Leased Premises after said final disposal decision is made, which subsequent uses must be effected during the balance remaining on the Term of this Sublease, and a finding is made that the continued use and occupation of the Leased Premises through the end of the remaining Sublease Term cannot be permitted because of such irreconcilable incompatibility, unless the parties to this Sublease make such modifications to this Sublease as are reasonably required to make the uses compatible for the period of time remaining on the Sublease Term. Sublessor acknowledges that Subtenant's proposed use of the Leased Premises, as a public recreational facility is consistent with the uses approved for the Leased Premises in the Alameda Community Reuse Plan.

13.4.2 In the event of a National Emergency as declared by the President or the Congress of the United States and Government makes a reasonable determination that such

National Emergency requires the use by the United States of America of the Leased Premises, or such National Emergency otherwise necessitates the use of the Station and such use will materially interfere with the Lessee's use under the Prime Lease or any Subtenant's use of the Leased Premises.

13.4.3 In the event of a termination for Government's convenience as set forth in the Prime Lease, Sublessor as Lessee under the Prime Lease, is to be provided with no less than thirty (30) calendar days written notice of such termination and shall immediately provide Subtenant with a copy of any notification it receives from Government relative to such termination. Sublessor shall meet and confer with Subtenant and Government to determine what is a reasonable time for Subtenant to vacate the Leased Premises, considering the factors of the nature of the exiting uses of Subtenant, the consequences which would be affected if such termination is required and the losses and penalties which would be engendered if such termination is required. Sublessor shall provide Subtenant with as long and reasonable time as are under the facts and circumstances acceptable to Government relative to such termination. In the event of such termination, Subtenant and Sublessor as Lessee under the Prime Lease shall have only such remedies as are otherwise available under the law with respect to compensation from Government for such termination. Subtenant shall not seek and shall not have any claim against Sublessor for any such termination for convenience by Government, except to the extent that Sublessor obtains recovery therefor from Government for itself or on behalf of Subtenant.

13.5 Termination by Subtenant. The following provisions shall apply in the event of termination by Subtenant.

13.5.1 Damage and Destruction. Subtenant shall have the right to terminate this Sublease upon thirty (30) calendar days written notice to Sublessor in the event of damage to or destruction of all of the improvements on the Leased Premises or such a substantial portion thereof as to render the Leased Premises incapable of use for the purposes for which it is leased hereunder, provided that the cost of the repair, rebuilding, or replacement of the Building is in excess of the amounts of insurance carried therefor by Subtenant, as required under Section 17 of this Sublease or such damage or destruction was not occasioned by the willful misconduct or gross negligence of Subtenant or any of its officers, agents, servants, employees, subtenants, licensees, or invitees; or the damage or destruction was not occasioned by any failure or refusal on the part of Subtenant to fully perform its obligations under this Sublease.

13.5.2 Termination for Lack of Utility Service. Subtenant may terminate this Sublease upon thirty (30) calendar days notice if domestic water, waste water, electrical, gas, or telephone service is not available to it from government or non-Government. Subtenant may also terminate if, upon abandonment of the base-wide fire protection system, Subtenant cannot retrofit building sprinkler system or provide other measures to comply with fire code requirements applicable to its use. The cost of such retrofit or other measures shall be the sole responsibility of Subtenant, which costs are considered an addition to Maximum QSIC.

14. **VACATION OF LEASED PREMISES.** In the event environmental contamination is discovered on the Leased Premises which creates, in Government's reasonable determination, an imminent and substantial endangerment to human health or the environment, then notwithstanding any other termination rights and procedures contained in this Sublease, Government may require Sublessor to require that Subtenant vacate the Leased Premises for such period of time, and to such extent, as Government determines in good faith is necessary to abate the danger. Government shall use its best efforts to minimize disruption of Subtenant's operations. Government will also use its best efforts to provide temporary accommodations for use by Subtenant during the period of such vacation action. Government shall not be liable for the exercise of authority, which is in conformity with this subsection, but Government nevertheless shall not be relieved of any liability it may have under the Federal Tort Claims Act, the Comprehensive Environmental Response, Compensation and Liability Act, and other statutory and common law, if it would be liable in its role as the generator or disposer of the environmental contamination, or as the present, or former, owner or operator of the Leased Premises. In the event that Subtenant is required to vacate the Leased Premises or a portion of the Leased Premises, or unable to conduct regularly scheduled activities caused by such vacation, all or the appropriate portion of Rent shall be abated for the period of such vacation.

15. **INDEMNIFICATION BY SUBTENANT AND OF SUBTENANT.**

15.1 **Indemnification By Subtenant of Sublessor.** Subtenant shall hold harmless, indemnify and defend Sublessor, its officers, directors, agents, employees and representatives, from and against any suit, claim, demand, action, liability, judgment, cost, expenses or other fee arising out of any claim for injury or damage ("Claim") that results from, or is in any manner predicated upon activities of Subtenant on the Leased Premises during the Term of this Sublease, except to the extent that such Claim arises from and is attributable to the willful misconduct or negligence of Sublessor, its officers, directors, agents, employees and representatives, or Government, or its officers, directors, agents, employees and representatives.

15.2 **Indemnification By Subtenant of Government.** Subtenant shall hold harmless, indemnify, and defend Government from and against any suit, claim, demand or action, liability, judgment, cost or other fee arising out of any claim for injury or damage that results from, or is in any manner, predicated upon activities of Subtenant on the Leased Premises during the Term of this Sublease, except to the extent that such Claim arises from and is attributable to the willful misconduct or negligence of Sublessor or Government.

15.3 **Indemnification By Sublessor of Subtenant.** Sublessor shall hold harmless, indemnify and defend Subtenant, its officers, directors, agents, employees and representatives, from and against any Claim that results from, or is in any manner predicated upon activities of Sublessor on the Leased Premises or the Station during the Term of this Sublease, except to the extent that such Claim arises from and is attributable to the willful misconduct or negligence of Subtenant or Government.

16. **SUBTENANT'S LIABILITY EXTENDS TO ITS CONTRACTORS AND SUBLESSEES.** Subtenant's liability shall extend to the performance of work or the use of the Leased Premises by any contractor or sublessee of Subtenant under this Sublease.

17. **SUBTENANT TO BEAR ALL RISK: INSURANCE PROVISIONS.**

17.1 **All Risk.** Subtenant shall, in any event and without prejudice to any other rights of the Government and Sublessor, bear all risk of loss or damage to any structures or improvements situated upon the Leased Premises, that are occupied or used by Subtenant or any of its subtenants or assigns, arising from any cause whatsoever, or in any manner connected with the occupation or use by Subtenant, its subtenants or its assigns, or by a risk customarily covered by insurance in the locality in which the Leased Premises is situated, even where such loss or damage stems from causes beyond Subtenant's control, with the understanding that insurance coverage for earthquake loss is not required under this Sublease. In the event of such loss or damage, the parties shall follow Section 17.6 below.

17.2 **Subtenant's Insurance.** During the entire period this Sublease is in effect, Subtenant shall at its expense carry and maintain:

17.2.1 Standard risk property and casualty insurance against the risks enumerated in Subsection 17.1 above in an amount equal to an amount reasonably calculated to cover the demolition work described in Section 18.6.4 of the Prime Lease, but not less than \$1,000,000. Provided however, in the event that the estimate for the cost of such demolition, as approved by Government pursuant to Section 18.2.1 of the Prime Lease, on which the amount of insurance coverage is based, is less than \$1,000,000, the required amount of insurance coverage hereunder may be reduced by Government in its sole discretion. Subtenant reserves the right to obtain such additional casualty insurance, as it may desire.

17.2.2 Public liability and property damage insurance, including but not limited to, insurance against assumed or contractual liability under this Sublease, with respect to the Leased Premises and improvements thereon, to afford protection with limits of liability in amounts, approved from time to time by Government and Sublessor, but not less than \$3,000,000 in the event of bodily injury and death to any number of persons in any one accident, and not less than \$1,000,000 for property damage. Such insurance shall name Sublessor and Government as additional loss payees or additionally named insured.

17.2.3 If and to the extent required by law, workers' compensation or similar insurance in the form and amounts required by law.

17.3 **Subtenant's Contractor's Insurance.** During the entire period this Sublease shall be in effect, any contractor performing work on the Leased Premises shall carry and maintain the insurance required below:



17.3.1 Comprehensive general liability insurance, including, but not limited to, contractor's liability coverage and contractual liability coverage, of not less than \$500,000 per occurrence with respect to personal injury or death, and with respect to property damage.

17.3.2 Automobile liability coverage of not less than \$200,000 per person and not less than \$500,000 per occurrence, and not less than \$20,000 per occurrence for property damage.

17.3.3 Workers' compensation or similar insurance in the form and amounts required by law.

17.4 Policy Provisions. All insurance which this Sublease requires Subtenant to carry and maintain or cause to be carried or maintained shall be in such form, for such amounts, for such periods of time, and with such insurers as Government and Sublessor may reasonably require or approve. All policies or certificates issued by the respective insurers for public liability and all-risks property insurance shall name each Sublessor and Government as an additional insured or loss payee, provide that any losses shall be payable notwithstanding any act or failure to act or negligence of Government, provide that no cancellation, reduction in amount, or material change in coverage thereof shall be effective until at least thirty (30) calendar days after receipt by Sublessor and Government of written notice thereof, provide that the insurer shall have no right of subrogation against Government or Sublessor, except, as to Sublessor, to the extent that bodily injury, including death, or property damage is caused by the acts or omissions of Sublessor, and be reasonably satisfactory to Sublessor and Government in all other respects. In no circumstances will Subtenant be entitled to assign to any third party rights of action, which Subtenant may have against Government.

17.5 Delivery of Policies. Subtenant shall deliver or cause to be delivered promptly to Sublessor and Government a certificate of insurance evidencing the insurance required by this Lease and shall also endeavor to deliver no later than thirty (30) calendar days prior to the expiration of any such policy, a certificate of insurance evidencing each renewal policy covering the same risks.

17.6 Damage and Destruction and Use of Insurance Proceeds. In the event of damage or loss to the Buildings or improvements situated on the Leased Premises, the following shall apply:

17.6.1 Subtenant shall take all appropriate steps to erect necessary structures to preclude, unauthorized access to the Leased Premises and otherwise mitigate hazardous and unsafe conditions within the Leased Premises caused by the damage and destruction.

17.6.2 Subtenant shall proceed to repair and replace the damaged and destroyed structures and improvements on the Leased Premises, utilizing the proceeds of the

insurance policies required above, except in the event Subtenant has the right to terminate this Sublease pursuant to Section 13.6 hereof and has elected to exercise such right.

17.6.3 If Subtenant elects to terminate the Sublease in accordance with Section 13.6 and so notifies Sublessor, Sublessor shall then have the option, to be exercised by notice to Subtenant within thirty (30) calendar days of receipt of the Notice of Termination, of accepting an assignment of the proceeds of the insurance policy in lieu of any obligation of Subtenant to either repair, or replace, the improvements or to perform demolition as set out below less the unamortized Maximum QSIC plus other costs required to convert the Leased Premises into a recreational sports facility (which shall not exceed an additional \$1,000,000), and, effective upon notification of Sublessor's exercise of that option, Subtenant shall be released from further obligation to repair, replace or demolish improvements on Leased Premises.

17.6.4 If Sublessor does not then exercise the option to terminate, Subtenant shall promptly obtain all necessary permits for, and carry out, the complete demolition of the damaged improvements and structures within the Leased Premises, remove all debris from the Leased Premises, clear the Leased Premises of all damaged improvements, remove all safety hazards caused by the calamity and demolition, and return the damaged portion of the Leased Premises to a level grade.

17.6.5 In the event that damage and destruction to the Leased Premises is the result of an event for which insurance coverage is not required hereunder, Subtenant shall have the option to repair the Leased Premises, or if such damage and destruction render the Leased Premises unusable for their intended purposes, to terminate this Sublease in accordance with applicable provisions herein by written notice to Government. In the event Subtenant elects to terminate this Sublease under this section, Subtenant shall be responsible for compliance with Section 17.6.1 above and for removing its property from the Leased Premises including all hazardous materials attributable to Subtenant's use of the Leased Premises and not any pre-existing hazardous materials, and for reporting, containing, removing and cleaning up any land, air and water pollution resulting from the damage and destruction which is attributable to Subtenant's use of the Leased Premises. Such responsibilities will be carried out by Subtenant in a timely manner in compliance with Section 12 and other applicable provisions of this Sublease with due consideration for human health and safety and the protection of the environment.

## 18. LABOR PROVISIONS.

18.1 Equal Opportunity. During the Term of this Sublease, and with respect only to employment or employees at the Leased Premises, Subtenant agrees as follows:

18.1.1 Subtenant will not discriminate against any employee of Subtenant or applicant for employment because of race, color, religion, sex, or national origin. The employees of Subtenant shall be treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: employment,

upgrading, demotion, or transfer, recruitment or recruitment advertising, layoff or termination, rate of pay or other forms of compensation, selection for training, including apprenticeship. Subtenant agrees to post in conspicuous places, notices required by law, which are to be provided by the applicable government agencies, setting forth the provisions of this nondiscrimination provision.

18.1.2 Subtenant will to the extent required by law, in all solicitations or advertisements for employees placed by or on behalf of Subtenant, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

18.1.3 If applicable, Subtenant will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding a notice to be provided by Government, advising the labor union or worker's representative of Subtenant's commitments under this Equal Opportunity Clause and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

18.1.4 Subtenant will comply with all provisions of Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and of the rules, regulations, and relevant orders of the Secretary of Labor of the United States of America.

18.1.5 Subtenant will furnish all information and reports required by Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and by the rules, regulations, and orders of the Secretary of Labor or pursuant thereto, and will permit access to its books, records, and accounts by Government and the Secretary of Labor for purposes of investigating to ascertain compliance with such rules, regulations, and orders.

18.1.6 In the event Subtenant has been found by a court of law to be in noncompliance with the Equal Opportunity Clause of this Sublease or with any said rules, regulations, or orders, this Sublease may be canceled, terminated or suspended in whole or in part and Subtenant may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

18.1.7 Subtenant will include the above provisions in every sublease or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, so that such provisions will be binding upon each sublessee or vendor. Subtenant will take such action with respect to any sublessee or purchase order as Government may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event Subtenant becomes involved in, or is threatened

with, litigation with the sublessee or vendor as a result of such direction by Government, Subtenant may request the United States to enter into such litigation to protect the interests of the United States.

18.2 Convict Labor. In connection with the performance of work required by this Lease, Subtenant agrees not to employ any person undergoing a sentence of imprisonment at hard labor.

18.3 Labor Provisions. Equal Opportunity. During the Term of this Sublease, and with respect only to employment or employees at the Leased Premises, Subtenant agrees as follows: Subtenant will not discriminate against any employee of Subtenant or applicant for employment because of race, color, religion, sex, or national origin. The employees of Subtenant shall be treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not

19. SUBMISSION OF NOTICES. All notices, demands, requests, consents, or approvals which may or are required to be given by either party to the other shall be in writing and shall be deemed given when sent by United States Certified or Registered Mail, postage prepaid, or by reputable overnight delivery service or personal delivery as follows:

19.1 Subtenant. If for Subtenant, addressed to Subtenant at the Building, or at such other place as Subtenant may from time to time designate by notice to Sublessor.

Bladium, Inc.  
8797 Montview Boulevard  
Building #6  
Denver, Colorado 80220

19.2 Sublessor. If for Sublessor, addressed to Sublessor at

Executive Director  
Alameda Reuse and Redevelopment Authority  
950 W. Mall Square, Suite 100  
Alameda, CA 94501

19.3 Government. If for Government, addressed to

Commanding Officer (Code 24)  
Engineering Field Activity West  
Naval Facilities Engineering Command  
900 Commodore Drive  
San Bruno, CA 94066-5006

19.4 Change of Address. Notwithstanding the addresses provided in Subsections 19.1 through 19.3 of this section, any party may from time to time designate an alternate address by notice.

20. AUDIT. This Sublease shall be subject to audit by Sublessor and by any and all cognizant Government agencies. Subtenant shall make available to such agencies for use in connection with such audits all records, reports, reviews, audits, documents or other material which it maintains with respect to this Sublease and copies of all reports required to be filed hereunder. Subtenant will make these materials available for a period of three years after termination or expiration of this Sublease.

21. AGREEMENT. This Sublease, including all referenced Exhibits to this Sublease (whether or not completed and incorporated in this Sublease as of the Sublease Execution Date) and the parties' Addendum with respect to Subtenant's option to purchase the Leased Premises, constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements of such parties in that connection. All such referenced Exhibits are hereby incorporated by reference into and made a part of this Sublease in full. This Sublease shall not be modified unless modified in writing and signed by both parties. No oral statements or representation made by, or for, or on behalf of either party shall be a part of this Sublease. This Sublease agreement shall not be modified unless in writing and signed by both parties. No oral statements or representation made by, or for, on behalf of either party shall be a part of this Sublease.

22. FAILURE TO INSIST ON COMPLIANCE. The failure of Sublessor to insist, in any one or more instances, upon performance of any of the terms, covenants, or conditions of this Sublease shall not be construed as a waiver or relinquishment of Sublessor's right to the future performance of any such terms, covenants, or conditions and Subtenant's right to the future performance of any such terms, covenants, or conditions and Subtenant's obligations in respect of such future performance shall continue in full force and effect. Whenever the terms of this Sublease call for one party to approve an action or make a determination before the other party may undertake or perform such action, said approval or determination shall not be unreasonably denied or delayed.

23. DISPUTE RESOLUTION. Any disputes arising under this Sublease that involve or relate to Government or Government's interpretation of the Prime Lease that are subject to resolution under the Contracts Disputes Act, 431 U.S.C. section 601 et seq. pursuant to the provisions of Section 24 of the Prime Lease shall be resolved under that Act. All other disputes that may arise under this Sublease shall be resolved in accordance with the provisions of the laws of the State of California.

24. COVENANT AGAINST CONTINGENT FEES. Subtenant warrants that no person or agency has been employed or retained to solicit or secure this Sublease upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial agencies maintained by Sublessor for the purpose

of securing business. For breach or violation of this warranty, Sublessor shall have the right to annul this Sublease without liability or in its discretion to require Subtenant to pay, in addition to the rental or consideration, the full amount of such commission, percentage, brokerage, or contingent fee.

24.1 **No Additional Fees.** Sublessor agrees and warrants to Subtenant that there are no additional fees, levies, charges, bonds, assessments and/or taxes other than those specifically contained within this Sublease that could be levied against the Leased Premises and/or Subtenant.

25. **OFFICIALS NOT TO BENEFIT.** No member of or delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this Sublease or to any benefit to arise there from, but this proviso shall not be construed to extend to this Sublease is made with corporation for its general benefit.

26. **LIENS.** Subtenant shall promptly discharge or cause to be discharged any valid lien, right in rem, claim, or demand of any kind on the Leased Premise, except one in favor of Government, or Sublessor, which at any time may arise or exist with respect to the Leased Premises or materials or equipment furnished therefor, or any part thereof, and if the same shall not be promptly discharged by Subtenant, or should Subtenant or Subtenant be declared bankrupt or make an assignment on behalf of creditors, or should the leasehold estate be taken by execution, Sublessor reserves the right to take immediate possession without any liability to Subtenant or any subtenant thereof. If Subtenant breaches the foregoing, Subtenant and any subtenant thereof shall be responsible for any costs incurred by Government in securing clear title to its property. Notwithstanding the foregoing, Sublessor and Government acknowledge and approve Subtenant granting a security interest and lien in Subtenant's leasehold estate to a creditor for the purpose of securing a Loan, the proceeds of which will be utilized to fund the Qualified Shell Improvements Costs and other work or improvements made to the Leased Premises required to occupy the Leased Premises and convert the Leased Premises from a former maintenance hangar into a recreational sports facility.

27. **TAXES.** Subtenant shall pay all Taxes (as hereinafter defined) levied or imposed against the Leased Premises during the Term. Taxes shall mean all taxes, assessments and governmental charges, whether federal, state, county or municipal, and whether general or special, ordinary or extraordinary, foreseen or unforeseen, imposed upon the Rent, the Leased Premises, the Building, any possessory interest therein, or their operation, whether or not directly paid by Sublessor. Taxes shall not include any assessment resulting from the costs to clean up the pre-existing environmental contamination on the Station caused by Government, any assessment resulting from Station and/or City of Alameda infrastructure costs and expenses associated with the redevelopment of the Station, any assessments resulting from traffic mitigation measures, open space fees, public art fees, affordable housing fees/subsidy, transit fees, transfer tax/fees, City impact fees, fire and police protection fees, road maintenance fees, school fees, emergency medical fees, landscape maintenance fees, storm water drainage fees, income taxes, excess profit taxes, franchise taxes, or other taxes imposed or measured on or by the income of Sublessor from the operation of the Leased Premises, provided, however, that if, due to a future change in the method of taxation or

assessment, any income, profit, franchise or other tax, however designated, shall be imposed in substitution, in whole or in part, for (or in lieu of) any tax, assessment or charge which would otherwise be included within the definition of Taxes, such other tax shall be deemed to be included within Taxes as defined herein to the extent of such substitution, or any other special assessments that may be imposed or levied on the Leased Premises. There shall be added to Taxes the expenses of any contests (administrative or otherwise) of Taxes incurred during the taxing year, but only to the extent such contests result in a reduction of Taxes for such year or any other year during the Term. Subtenant shall pay to the appropriate governmental authority any use, possessory interest, and/or occupancy tax applicable to the Leased Premises. In the event that Sublessor is required by law to collect such tax, Subtenant shall pay such use and occupancy tax to Sublessor as Additional Rent within thirty (30) calendar days of demand and Sublessor shall remit any amounts so paid to Sublessor to the appropriate governmental authority.

27.1 Property Taxation. The interest created by this Sublease may at some time be subject to property taxation under the laws of the State of California. If property taxes are imposed, the party in whom the possessory interest is vested may be subject to the payment of the taxes levied on such interest. This notice is included in this Sublease pursuant to the requirements of section 107.6 (a) of the Revenue and Taxation Code of the State of California.

27.2 Payment of Taxes. Subtenant shall pay the Taxes directly imposed upon it in accordance with the instructions of the taxing entity. Subtenant shall pay the Taxes originally imposed upon Sublessor, upon Sublessor's election, either (i) annually within thirty (30) calendar days after the date Sublessor provides Subtenant with a statement setting forth in reasonable detail such Taxes (which statement shall not be provided to Subtenant more than sixty (60) calendar days before such Taxes are due), or (ii) monthly in advance based on estimates provided by Sublessor based upon the previous year's tax bill. Other than for possessory interest tax Sublessor is not aware of any Taxes or assessments currently or proposed to be imposed upon it or the Leased Premises.

27.3 Proration of Taxes. All Taxes originally imposed upon Sublessor and payable by Subtenant with respect to the Leased Premises shall be prorated on a per them basis for any partial tax year included in the Term. Subtenant's obligation to pay Taxes during the final year of the Term shall survive the termination of this Sublease.

28. **SUBJECTION TO EXISTING AND FUTURE EASEMENTS AND RIGHTS-OF-WAY.**

28.1 Existing Easements. Subtenant acknowledges that the Prime Lease, and this Sublease, are subject to all outstanding easements and rights-of-way for location of any type of facility over, across, in, and upon the Leased Premises or any portion thereof. Notwithstanding the foregoing, Sublessor has no knowledge of any outstanding easements and rights-of-way for location of any type of facility over, across, in, and upon the Leased Premises or any portion thereof that would unreasonably interfere with the access to, and the use and possession of, the Leased Premises

by Sublessor or any sublessees, or other occupants who are legitimately in possession or occupancy of the Leased Premises through Sublessor or any sublessee of Sublessor.

28.2 Future Easements. Subtenant further acknowledges that Government is entitled, under Section 29 of the Prime Lease, to grant such additional easements and rights-of-way over, across, in and upon the Leased Premises as it shall reasonably determine to be in the public interest; provided that any such additional easement or right-of-way shall not unreasonably interfere with the access to, and the use and possession of, the Leased Premises by Sublessor or any sublessees, or other occupants who are legitimately in possession or occupancy of the Leased Premises through Sublessor or any sublessee of Sublessor, and shall be conditioned on the assumption by the grantee thereof of liability to Sublessor for such damages as Sublessor shall suffer for property destroyed or property rendered unusable on account of the grantee's exercise of its rights thereunder.

29. INGRESS AND EGRESS. Subtenant, its agents, employees and members, have a nonexclusive right of ingress to and egress from the Leased Premises to public rights of way as shown on Exhibit H. Subtenant acknowledges that Section 30 of the Prime Lease provides for reasonable access being granted by Government to the Leased Premises, with such access being coordinated with the local representative of Government. As required under the Prime Lease, Subtenant agrees to adhere to all base rules and regulations regarding Station security, ingress, egress, safety and sanitation as may be prescribed from time to time by Government, with the understanding that such base rules and regulations regarding Station security, ingress, egress, safety and sanitation shall not, except for military security and emergency situations, unreasonably interfere with reasonable use and access of Subtenant, its employees, contractors, invitees in the normal activities and uses permitted under this Sublease and the Prime Lease. In the event Sublessor or Government modifies the existing means of ingress and egress to the Leased Premises, Sublessor shall provide an acceptable alternative means of ingress and egress and cooperate with Subtenant to provide locations for Subtenant to place appropriate signage within the Station directing users to the Leased Premises provided Sublessor has the legal right to do so.

30. ADMINISTRATION. Except as may be otherwise provided in the Prime Lease or this Sublease, Government's point of contact, as identified in Section 20 of the Prime Lease and Section 20 of this Sublease, shall, under the direction of the Commander, Naval Facilities Engineering Command, have complete charge of the administration of the Prime Lease and any interests Government has under this Sublease, and shall exercise full supervision and general direction thereof insofar as the interest of Government are affected. Day-to-day administration of the Prime Lease and any interest Government has under this Sublease shall be under the supervision and direction of the Director, Real Estate Center (Code 24), Engineering Field Activity West, San Bruno, CA 94066-5006.

31. SURRENDER. Upon the expiration of this Sublease or its prior termination by Subtenant, Subtenant shall quietly and peacefully remove itself and its property from the Leased Premises and surrender the possession thereof to Sublessor on the expiration date, or the date of such



prior termination by Subtenant; provided, in the event Sublessor terminates this Sublease for a breach of this Sublease by Subtenant, or because of a termination of the Prime Lease not caused by Sublessor, Subtenant shall be allowed a reasonable period of time, as determined by the Local Government Representative, but in no event less than ninety (90) calendar days from receipt of notice of termination, in which to remove all of its property from and terminate its operations on the Leased Premises. During such period prior to surrender, all obligations assumed by Subtenant under this Lease shall remain in full force and effect. Sublessor or Government may, in its discretion, declare any property, which has not been removed from the Leased Premises upon termination provided for above, as abandoned property upon an additional thirty (30) calendar days notice.

32. **QUIET POSSESSION.** Upon Subtenant paying the rent reserved hereunder and observing and performing all of the covenants, conditions and provisions on Subtenant's part to be observed and performed hereunder, Subtenant shall have quiet possession of the Leased Premises and shall not be unreasonably disturbed or interfered with by Sublessor or Government or by any person claiming by, through or under Sublessor or Government for the entire Term hereof, subject to all the provisions of this Sublease.

33. **CERTAIN RIGHTS RESERVED TO SUBLESSOR.** Sublessor reserves the following rights:

33.1 **Keys.** To hold copies of all keys and passkeys to the Leased Premises, other than to vaults, safes, or restricted areas within the Leased Premises.

33.2 **Inspections and Showings.** On reasonable prior written notice to Subtenant, no less than forty-eight (48) hours in advance, to show the Leased Premises to prospective tenants during the last six months of the Term, and to any prospective purchaser, mortgagee, or assignee of any mortgage or ground lease on the Leased Premises and to others having a legitimate interest in the Leased Premises at any time during the Term.

33.3 **Entry.** At any time in the event of an emergency, and otherwise at reasonable times by giving Subtenant forty-eight (48) hour advance written notice, to take any and all measures, including making any inspections, repairs, alterations, additions, and improvements to the Leased Premises, as may be necessary or desirable for the safety, protection, or preservation of the Leased Premises, or Sublessor's interests, or as may be necessary or desirable in the operation or improvement of the Leased Premises, or in order to comply with all laws, orders, and requirements of governmental or other authorities, using reasonable efforts not to interfere with the use and occupancy of the Leased Premises by Subtenant. Sublessor shall not be in default hereunder nor have any liability to Subtenant, nor shall Subtenant have any right to terminate this Sublease or claim an offset against or reduction in Rent payable hereunder, due to any damage, annoyance or inconvenience resulting from any such inspections, repairs, alterations, additions or improvements, or the failure of Sublessor to make any such inspections, repairs, alterations, additions or improvements; provided however that Sublessor shall be liable for its gross negligence or willful misconduct. In the event Subtenant is unable to use all or a portion of the Leased Premises or

conduct regularly scheduled programs and activities due to any such inspections, repairs, alterations, additions or improvements, then Subtenant shall have the right to offset against or reduction in Rent payable hereunder, due to any damage, annoyance or inconvenience resulting from any such inspections, repairs, alterations, additions or improvements. Subtenant shall reasonably cooperate with Sublessor or Sublessor's agents or contractors in carrying out any such inspections, repairs, alterations, additions or improvements.

34. **COVENANTS OF SUBTENANT.**

34.1 **Use of the Leased Premises.** Subtenant shall not make or permit to be made any use of the Leased Premises or any part thereof (i) which would directly or indirectly violate any federal, state or local law, ordinance, rule or governmental regulation; (ii) which would invalidate or unreasonably increase the premium cost of any policy of insurance carried on the Leased Premises or covering its operation (unless such increase is paid for by Subtenant); or (iii) which will suffer or permit the Leased Premises or any part thereof to be used in any manner or permit anything to be brought into or kept therein which, in the reasonable judgment of Sublessor, shall unreasonably impair or interfere with any of the services required to be performed by Sublessor, if any, for the Leased Premises.

34.2 **Exterior Signs.** Subtenant shall not display, inscribe, print, maintain or affix on any place on or about the exterior of the Buildings any sign, notice, legend, direction, figure or advertisement, except similar sign, notice, legend, direction, figure or advertisement completed by other Subtenants at the Station or as may be approved by Sublessor in writing (which approval Sublessor shall not unreasonably withhold, condition or delay) and, if required, by local governing authorities. Notwithstanding the forgoing Sublessor and Government shall not interfere with Subtenant's ability to install directional signs to the Facility within the Station and at the front entrance to the Station directing traffic to the Leased Premises. All signs will comply with existing code requirements.

34.3 **Locks.** Subtenant shall not change any existing locks, or attach any additional locks or similar devices to any door or window, change any locks, without providing to Sublessor one set of keys therefore. All keys must be returned to Sublessor at the expiration or termination of this Sublease.

34.4 **Overloading.** Subtenant shall not overload any floor.

34.5 **Machinery.** Subtenant shall not install or operate any machinery, refrigerating or heating device or air conditioning apparatus in or about the Leased Premises, which would impose unreasonable substantial additional loads on the facilities of the buildings. Machinery expressly authorized by ARRA shall not be deemed to violate this provision.

34.6 **No Obstruction.** The exits, entrances, elevators and stairways of the Buildings shall not be obstructed by Subtenant or used for any purpose other than for ingress to and egress

from the Leased Premises. Subtenant and its employees or invitees shall not go upon the roof of the Buildings without Sublessor's prior consent, except for repairs, regular maintenance or inspections, which approval is not required.

34.7 No Animals. Subtenant shall not permit any animals, except those required to be allowed by law, such as guide dogs, to be brought in or kept in or about the Leased Premises without Sublessor's prior written consent.

34.8 Rules. Subtenant shall comply with the rules and regulations referred to in Section 35. Subtenant shall comply with all reasonable rules and regulations of Sublessor and Government.

34.9 Compliance with Laws. Subtenant shall comply, in all material respects, with all laws, enactments, rules, ordinances and regulations of all governmental authorities relating or applicable to Subtenant's occupancy of the Leased Premises and all covenants, easements and restrictions governing the Leased Premises.

34.10 Outside Storage Prohibited. Outside storage or activities are not permitted unless expressly authorized in writing by Sublessor. Any outside storage authorized by Sublessor shall be properly screened.

35. **RULES AND REGULATIONS**. Sublessor shall have the right to make such rules and regulations as in the reasonable judgment of Sublessor may from time to time be necessary for the safety, appearance, care and cleanliness of the Leased Premises and for the preservation of good order therein, provided that such rules do not unreasonably interfere with the operations of Subtenant which otherwise comply with the terms of this Sublease.

36. **HOLDING OVER**. If Subtenant retains possession of the Leased Premises or any part thereof after the expiration or termination of the Term, Subtenant shall pay to Sublessor immediately on demand, a monthly sum equal to 120 percent of the amount of the monthly Base Rent and Additional Rent for the last full calendar month of the Term for the time Subtenant thus remains in possession and, in addition thereto, shall pay Sublessor for all direct damages sustained by reason of Subtenant's retention of possession. The provisions of this section do not exclude Sublessor's rights to re-entry or any other right under this Sublease.

37. **DEFAULT**. It shall constitute an event of default ("**Event of Default**") under this Sublease if any of the events describes in the following subsections occurs:

37.1 Rent. Subtenant fails to pay when due Base Rent, Additional Rent, or other amounts due hereunder and such failure continues for a period of ten days after written notice to Subtenant from Sublessor.

37.2 Assignment/Subletting. Subtenant assigns or sublets, or purports to assign or sublet the Leased Premises or any part thereof other than in the manner and upon the conditions set forth herein.

37.3 Other Agreements. Subtenant fails to perform or observe any of its other obligations, covenants or agreements hereunder within fifteen (15) calendar days after written notice of any such failure has been given by or on behalf of Sublessor, or, if more than fifteen (15) calendar days are required to cure such failure, within said fifteen working days, Subtenant shall advise Sublessor in writing of Subtenant's intended course of action to cure and the estimated date as to when said action will be completed, and if Subtenant fails to commence such cure as promptly as practical as stated in its notice to Sublessor and thereafter diligently to pursue such cure and thereafter fails to diligently pursue such a cure and complete such cure within a reasonable time thereafter, or within the period of time as may be otherwise required under the Prime Lease.

37.4 Bankruptcy. Subtenant liquidates its business, becomes insolvent, makes an assignment for the benefit of creditors, files or has filed against it a petition of bankruptcy, bill in equity, or other proceedings for the appointment of a receiver or other custodian for its property, or if proceedings for reorganization or composition with creditors under any law are instituted by or against Subtenant or if any levy or sale or execution of any kind is made upon or of any property of Subtenant in the Leased Premises.

37.5 Vacation/Abandonment. Subtenant abandons or vacates the Leased Premises or Subtenant removes or attempts to remove or manifests an intention to remove Subtenant's goods or property from or out of the Leased Premises otherwise than in the ordinary and usual course of business.

37.6 Fail to Locate. Subtenant fails to vacate the Leased Premises at the end of the Term of this Sublease unless this Sublease is otherwise renewed or extended.

## 38. SUBLESSOR'S REMEDIES.

38.1 Sublessor's Options. If an Event of Default hereunder shall have occurred, Sublessor may, at its option, exercise any one or more of the following remedies:

38.1.1 Termination of Sublease. Sublessor may terminate this Sublease, by written notice to Subtenant. Upon such termination, Subtenant shall immediately surrender possession of the Leased Premises to Sublessor, and Sublessor shall immediately become entitled to receive from Subtenant an amount equal to the worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of the award exceeds the amount of rental loss for the same period that Subtenant proves could be reasonably avoided, as computed pursuant to subsection (b) of section 1951.2 of the California Civil Code.

38.1.2 Reletting. With or without terminating this Sublease, as Sublessor may elect, Sublessor may re-enter and repossess the Leased Premises, or any part thereof, and lease them to any other person upon such terms as Sublessor shall deem reasonable, for a term within or beyond the Term; provided, that any such reletting prior to termination shall be for the account of Subtenant, and Subtenant shall remain liable for (i) all Base Rent, Additional Rent and other sums which would be payable under this Sublease by Subtenant in the absence of such expiration, termination or repossession, less (ii) the net proceeds, if any, of any reletting effected for the account of Subtenant after deducting from such proceeds all of Sublessor's expenses, reasonable attorneys' fees and expenses, employees' expenses, alteration costs, expenses of preparation for such reletting and all costs and expenses, incurred as a result of Subtenant's breach of this Sublease. If the Leased Premises are, at the time of default, sublet or leased by Subtenant to others, Sublessor may, as Subtenant's agent, collect rents due from any subtenant or other tenant and apply such rents to the Rent and other amounts due hereunder without in any way affecting Subtenant's obligation to Sublessor hereunder. Such agency, being given for security, is hereby declared to be irrevocable.

38.1.3 Removal of Contents by Sublessor. With respect to any portion of the Leased Premises which is vacant or which is not physically occupied by Subtenant, Sublessor may remove property therefrom, and store such property in a public warehouse or elsewhere at the cost of and for the account of Subtenant, in such manner as may be permitted by applicable law, without being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby.

38.2 Survival of Subtenant's Obligations. No early expiration or termination of this Sublease (except as expressly provided herein) and no repossession of the Leased Premises or any part thereof shall relieve Subtenant of its liabilities and obligations to pay rent hereunder, all of which shall survive such expiration, termination or repossession, and Sublessor may, at its option, sue for and collect all Rent and other charges due hereunder at any time as when such charges accrue.

38.3 Not Exclusive. No right or remedy herein conferred upon or reserved to Sublessor is intended to be exclusive of any other right or remedy herein or by law provided, but each shall be cumulative and in addition to every other right or remedy given herein or now or after existing at law or in equity or by statute.

38.4 Expenses. In the event that Sublessor commences suit for the repossession of the Leased Premises, for the recovery of Rent or any other amount due under the provisions of this Sublease, or because of the breach of any other covenant herein contained on the part of Subtenant to be kept or performed, and a breach shall be established, Subtenant shall pay to Sublessor all expenses incurred in connection therewith, including reasonable attorneys' fees. In the event that Subtenant commences suit because of the breach of any covenant herein contained on the part of Sublessor to be kept or performed, and a breach shall be established, Sublessor shall pay to Subtenant all expenses incurred in connection therewith, including reasonable attorneys' fees.

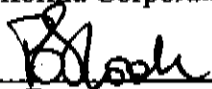
39. **SEVERABILITY.** If any of the provisions of this Sublease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Sublease, or the application of such provision or provisions to persons or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected thereby, and every provision of this Sublease shall be valid and enforceable to the fullest extent permitted by law.

40. **TRAFFIC MITIGATION FEES.** The Traffic Mitigation Fees set forth in the Use Permit shall not be paid by Subtenant.

IN WITNESS WHEREOF, Sublessor and Subtenant have respectively signed and sealed this Sublease as of the day and year first above written.

SUBTENANT:

Bladium, Inc.  
a California Corporation

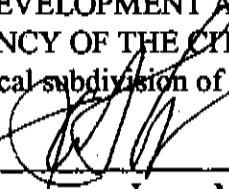
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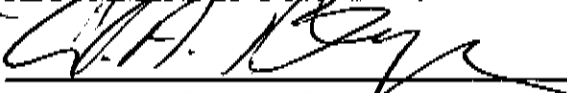
By \_\_\_\_\_  
Its \_\_\_\_\_

SUBLESSOR:

ALAMEDA REUSE AND  
REDEVELOPMENT AUTHORITY, AN  
AGENCY OF THE CITY OF ALAMEDA, a  
political subdivision of the State of California

By   
James M. Flint  
Executive Director


RECOMMENDED FOR APPROVAL:

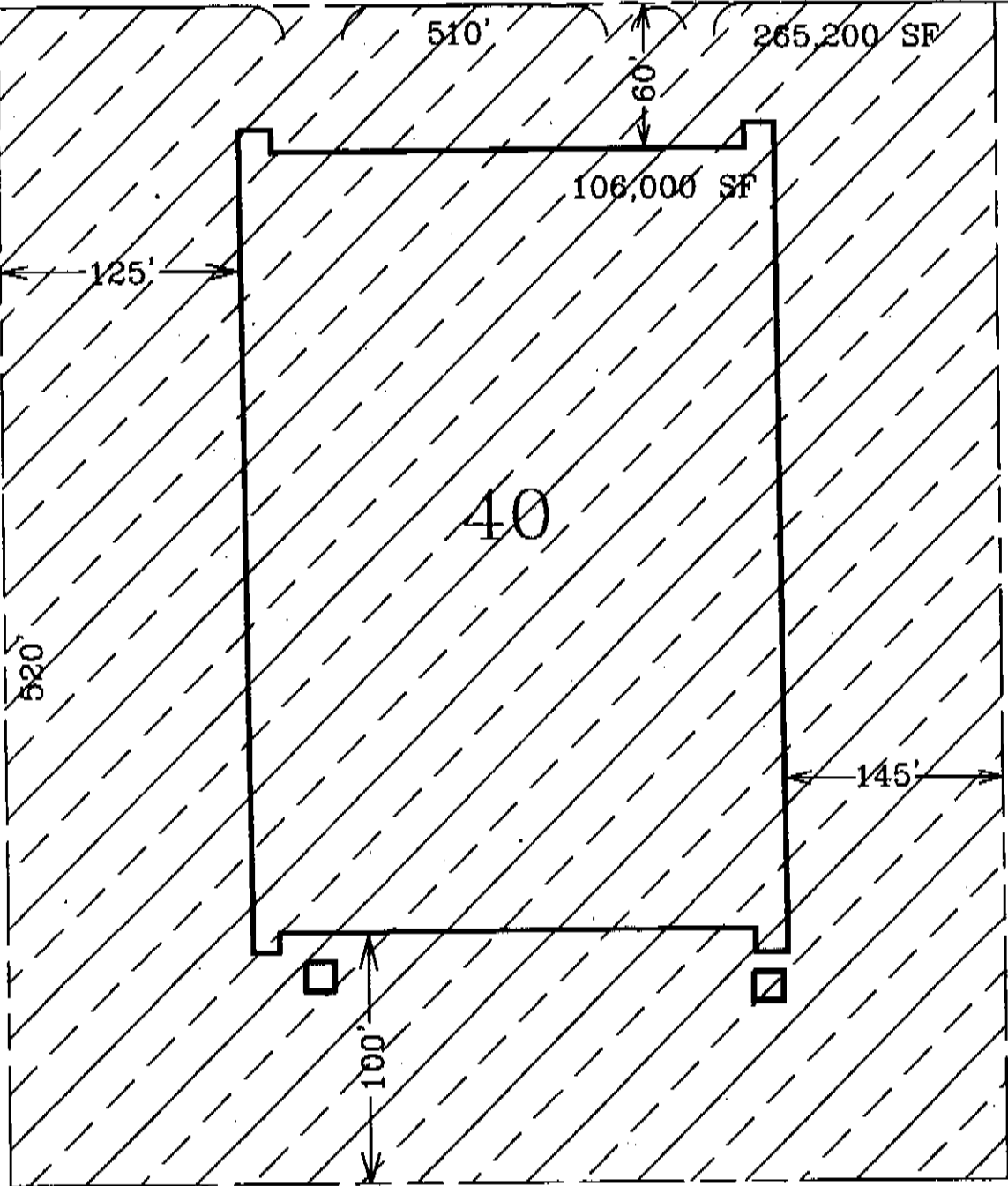
  
David A. Berger  
Deputy City Manager

RECOMMENDED FOR APPROVAL:

  
Ed Levine  
Facilities Manager

Approved as to form:

  
Maria Shanle  
Deputy General Counsel



**EXHIBIT A**

**Exhibits B and C**

Copies available at ARRA office.



## NAVY/ARRA JOINT INSPECTION

**Facility Address:** 800 W. Tower Avenue  
(formerly Building 40)

**Date of Inspection:** 15 November 1999

**Tenant:** Bladium

### **Building Description:**

The ARRA is securing a lease of 800 W. Tower Avenue (Building 40) on board Alameda Point (formerly Naval Air Station Alameda). Building 40 was built in 1941 and has approximately 118,190 square feet of aircraft hangar and office spaces. It is a two-story concrete and steel-framed structure constructed on concrete slab on grade, with steel framed windows and hangar doors, and ethylene propylene diene monomer (EPDM) membrane roofing (main roof), and sheet metal roofing (above the hangar doors) over wooden roof decking. It was used primarily as an aircraft maintenance hangar.

### **Building Condition:**

#### **Interior:**

The interior of the building is in fair condition with the following items being noted for the record:

1. Sections of the interior wall finishes including plaster, sheet-rock, fiberboard panels, wood paneling, metal panels, and concrete, have a number of nicks, holes, gouges, cracks, dirt and rust stain, dents, and scratch marks. The plaster walls in several locations are damaged, and sections of the wood paneling are loose, missing, and are also damaged.
2. Pieces of 6" x 6", 9" x 9", and 12" x 12" asphalt floor tiles are missing, chipped, broken, loose, cracked, stained, and dirty. White powdery residue and staining is seeping out of the asphalt tile joints in several locations. Sections of the flooring have water/rusty stain from moisture intrusion, possibly from previous window leaks, cracks in the walls, utility pipe and roof/roof drain leaks.
3. Several office spaces have carpeting over asphalt floor tiles. The carpeting is heavily stained and dirty with several tears, holes, and excessive wear. Sections of the carpet tiles in various locations are also missing, stained, and lifting at the seams.
4. Pieces of ceiling tiles (drop-in tiles and glued type) are missing, loose, broken, bowed, and cracked. A number of light fixture diffusers are also missing and broken. Sections of the ceiling tees are missing and bent.
5. Paint on walls, ceilings, and doors are peeling, flaking, blistering, and cracking. There are also signs of moisture damage in several locations.
6. Plumbing systems in the bathrooms were not checked but most of the fixtures and plumbing are old and show evidence of previous leaks. Parts of the valves and fittings are broken, missing and appear to be inoperative. The terrazzo floor in the rest room on the north side of the building has minor cracks and stain.

**EXHIBIT D**

7. A number of electrical fixture covers are missing, broken, and chipped. There are exposed wires from disconnected lighting fixtures, outlets, and equipment.

8. A number of the steel-framed window locks are missing and inoperative. Some of the handlebars are broken and missing, and a few windowpanes are also cracked. Bottom sections of the window frames and mullions, particularly in the south side of the building, are corroded in several locations. Sections of the caulking and glazing are also deteriorated and crumbling.

9. The wooden structure in the center section of the hangar, separating the north and south halves of the hangar bay, is in poor condition. Sections of the transite siding and fiberboard panels are damaged, and have a number of large holes, nicks, and gouges. Sections of the flooring are also badly deteriorated.

10. A number of personnel doors have nicks, dents, scratch marks, and have broken, missing, and or inoperative locks and hardware.

11. The modular building located in the north half of the hangar bay is in good condition with minor nicks, and dents on wall surfaces. A few pieces of the ceiling tiles are broken and missing. The chain link fencing on the north side of the modular building is in good condition.

12. The concrete floor has many nicks and gouges, and sections of the joint sealant in the concrete floor joints are deteriorated. The asphalt paving outside the office spaces and adjacent to the hangar doors has many dips, nicks, cracks, and gouges, and is unraveling in several locations.


**Exterior:**

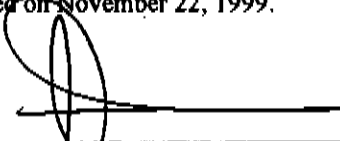
The exterior of the building is in fair condition with the following items being noted for the record:

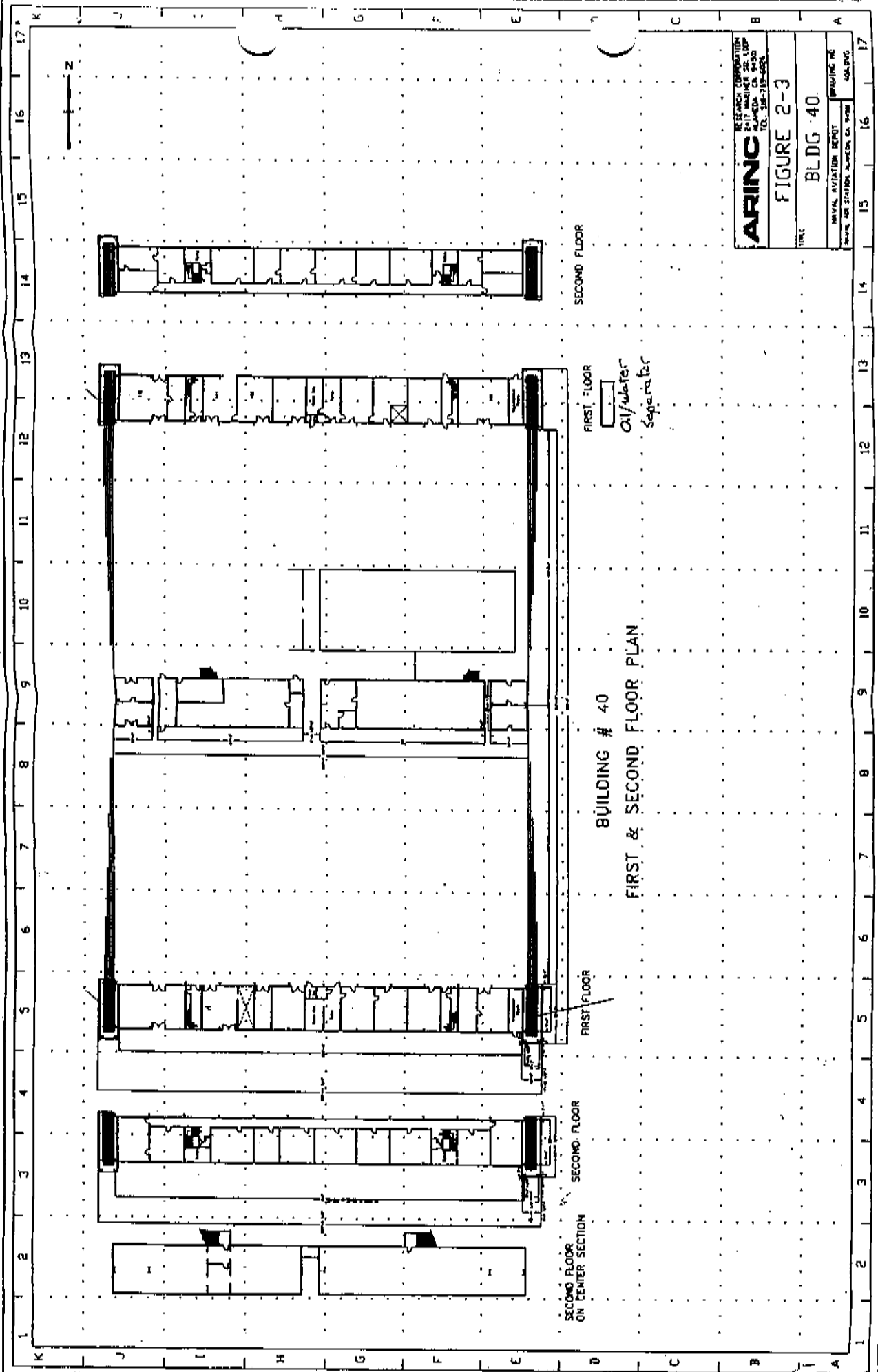
1. The exterior metal surfaces particularly the steel-framed windows and hangar doors, show sign of corrosion.
2. The asphalt pavement on the north and south sides the building has cracks.

**Additional Notes For The Record:**

1. The membrane roofing appears to be in good condition, although, there are signs of moisture intrusion from previous roof leaks, roof drain and pipe leaks. An eight-foot section of roof cap flashing over the westside parapet wall is peeled off and folded at the lap joint.
2. The hangar bay, second floor hallways, and a few of the office spaces on the north side and center section of the hangar are provided with fire sprinkler systems.
3. The building is equipped with a 400 Hz. cycle power converter.
4. A building floor plan, Exhibit (A), and site plan, Exhibit (B) are attached for reference purposes only.
5. The joint inspection was performed by M. Hampen (ARRA), D. DeLong, and M. Asuncion (Alameda Point NTO). The videotape inspection was conducted on November 22, 1999.

 11/23/99  
\_\_\_\_\_  
Signature Date  
M. Asuncion  
NAVY

 11/24/99  
\_\_\_\_\_  
Signature Date  
M. Hampen  
ARRA

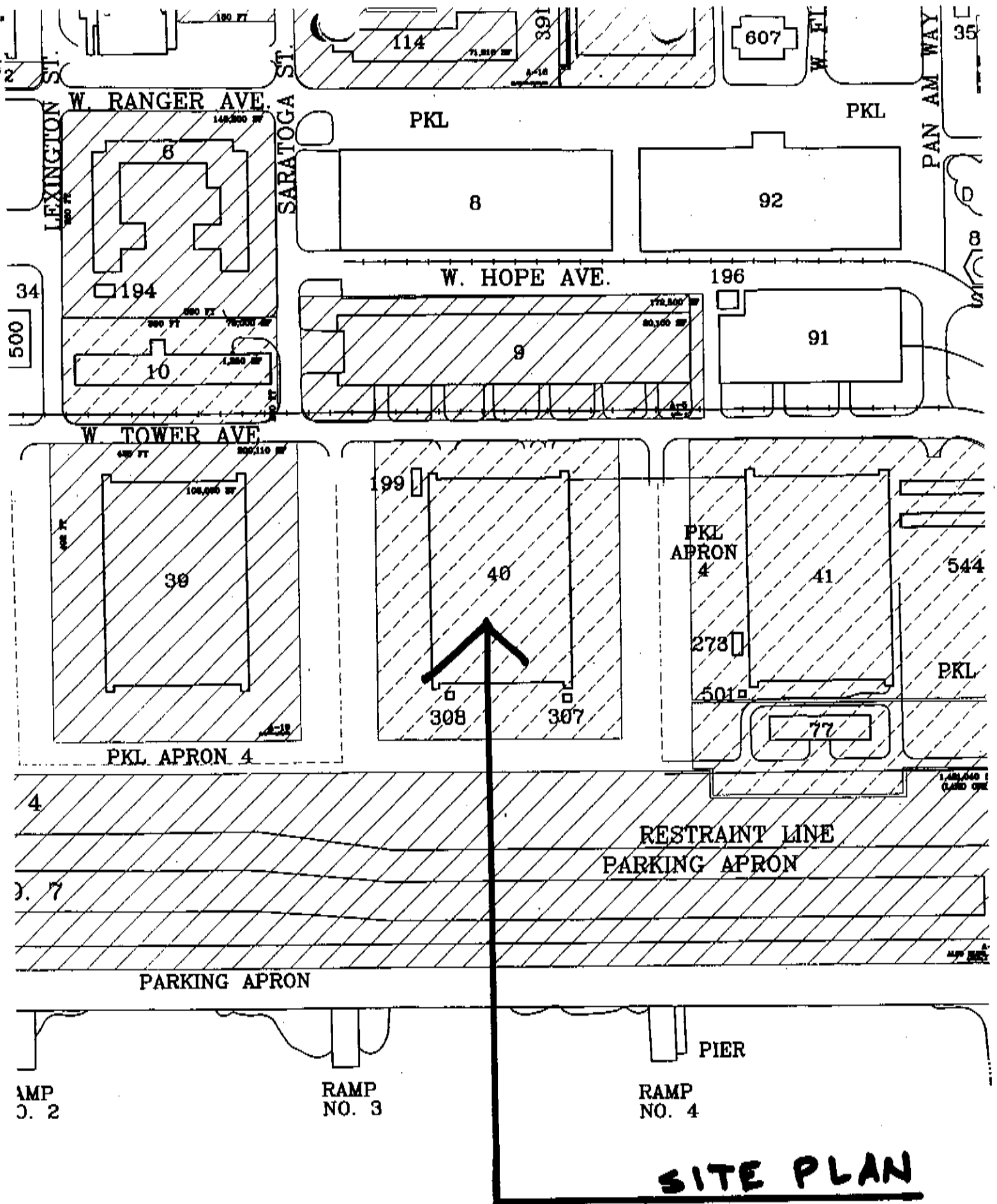


**ARINC**  
 RESEARCH CORPORATION  
 2417 MARINE ST. LDP  
 ALHAMBRA, CA 91801  
 TEL. 323-271-0000

TITLE: **FIGURE 2-3**  
**BLDG 40**

DRAWING NO. \_\_\_\_\_  
 NAVAL AVIATION DEPOT  
 NAVAL AIR STATION, ALHAMBRA, CA 91801

**BUILDING # 40**  
**FIRST & SECOND FLOOR PLAN**



**SITE PLAN**  
**EXHIBIT (B)**

**EXHIBIT E**  
Sublease of Building 40  
Qualified Shell Improvement Costs

The cost of the following items of work performed by Subtenant shall qualify as Qualified Shell Improvement Costs ("QSIC") and deemed to be part of Leased Premise shell improvements related to general requirements for use and occupancy of the Leased Premises.

**Hazardous Materials and Asbestos Abatement**

- Remove and dispose of any hazardous materials, including but not limited to asbestos insulation, PCB transformers, lead paint, asbestos floor and ceiling tile.
- Supervision, certification and testing fees relating to such abatement.

**Demolition**

- Remove and dispose of structures, fencing and equipment in the open hangar space.
- Remove partitions, walls, ceilings and fixtures in the two story structure located on the south and north side of the Building.
- Saw cut, break and remove concrete for handicap entrances.
- Saw cut, break and remove asphalt for electrical, gas, water and fire sprinkler services.
- Any exterior modifications required for exiting.

**Grading and Paving**

- Compact, base rock and patch pave parking lot for water service, fire service and electrical service.

**Site Work, Stripes & Bumpers**

- Parking stalls, sign and parking lot striping.
- Provide clear pedestrian routes from north edge of leased area to entry on south side of building as required by City of Alameda Planning Dept.
- Furnish and install perimeter fence around the Building as required by the City of Alameda Planning Dept.

**Concrete Work**

- Form, reinforce, place and finish handicap ramps and any interior and exterior sloping.
- Dowel and patch plumbing trenches.
- Form, reinforce, place and finish electrical transformer pads and other utility pads.
- Form, reinforce, place level landings at door exists to meet code.

### Miscellaneous Iron

- Bollards.
- Railing at handicap ramps.
- Handrails and railing at stairs.

### Carpentry

- Structure and framing for hot water/boiler rooms.
- Backing for handrails.
- Backing for toilet partitions and equipment.
- Replace front counter reception area.
- Repair/replace second story railing.

### Roofing

- Patch and repair existing roof to ensure no leaks.
- Provide roof penetrations for necessary equipment.
- Work required to repair, maintain replace the roof, if required.

### Caulking & Sealants

- Allowance for fire caulking penetrations in fire rated areas.

### Doors/Frames/Hardware

- Remove and/or replace doors to meet ADA and Title 24 requirements.
- Door hardware to meet ADA and Title 24 requirements.
- Furnish, install or repair exit doors as required.

### Glass, Glazing and Weatherproofing

- Replace all broken and leaking windows.
- Replace glazing subject to lead abatement.
- Seal and repair windows and doors.
- Repair and/or replace existing roof drains.
- Install tempered glazing as required by code.

### Drywall

- Replace sheet rock in restrooms.
- Cased opening for handicap access.
- Patching throughout areas for existing conditions and repair of new construction.

### Walls and Flooring

- Furnish and install tile in toilet areas.
- Provide and install FRP in janitor's closets.
- Provide floor covering in north and south two story areas.
- Paint interior of north and south two story areas.
- Paint as required repairing and or maintaining any of the buildings exterior walls.

### Toilet Partitions and Accessories

- Repair and/or replace toilet partitions.
- Furnish and install Bobrick or equivalent; soap dispensers, seat cover dispensers, grab bars, toilet paper dispensers and feminine sanitary products dispensers and receptacles.

### Fire and Life Safety

- Furnish and install fire alarm, life safety system, and security systems.
- Furnish and install rechargeable hand held fire extinguishers as required.

### Hangar Doors

- Allowance to seal and waterproof hangar doors and tracks.

### Plumbing

- Replace plumbing and fixtures in restrooms.
- Provide new domestic water service and distribution.
- Provide new gas service and distribution.
- Replace flushometers in existing fixtures.
- Replace handicap water fountains.
- New hot water heaters (Qty 2).
- If required by EBMUD to reduce water connection from two to one, then provide water supply to opposite side of building from supply source.

### Fire Sprinklers

- Remove existing risers.
- Upgrade and convert existing deluge system to wet pipe system including any modifications.
- Upgrade existing hangars and bracing to seismic code requirements.

### Mechanical

- Rework existing steam heat system to gas system including piping, heating, and conditioning units.
- Provide air balance, make up air units and start up.
- Controls, Thermostats and power to units.

### Electrical

- Demo existing electrical system.
- Furnish and install new electrical service.
- Saw cut, core drilling, removal, trenching and finish.
- Electrical distribution and panels.
- Repair, replace and add where missing high bay fixtures including wire and conduit.
- Furnish and install 1 outlet per 300-sf for north and south two story area.
- Furnish and install 1 light fixture per 90-sf for north and south two story area.
- Furnish and install exist and emergency lights as required.
- Repair, replace and add where missing exterior security lighting including timer.
- Replace any unsafe wire as required by code.

### Temporary Utilities

- Installation of temporary utilities.

### Utilities and Metering

- All work to verify, establish and repair utilities and distribution including water, gas, sewer, electrical and telephone and communications.
- Any trenching.
- Separate utility meters, if applicable pursuant to the Sublease.



### Permits and Fees

- Costs of any special studies, reports or other fees and expenses that may be required in order to occupy the Building including but not limited to traffic impact study, ongoing traffic monitoring, soils report, use permit, inspection, legal expenses, initial study and any performance and payment bonding requirements.

### Architectural, Engineering and Construction Management

- All architectural, construction management, consultant's fees, design, plan, permit and inspection fees and expenses.

### Equipment Rental

- Equipment rentals.

### Americans with Disabilities Act

- All costs of upgrades and compliance with current uniform building code under the Americans with Disabilities Act, as required by the City of Alameda Building Department.

### Joint Inspection Report

- All work within the Leased Premises, to correct safety or health hazards, identified in the Joint Inspection, required as part of the Sublease.

### Structural Improvements

- Structural or seismic upgrade work as required by the Government or the City of Alameda Building Department.



# SMITH ASSOCIATES

March 27, 2000

Mr. Mike Hampen  
Alameda Point Assistant Facilities & Property Manager  
950 West Mall Square  
Building One, Suite 100  
Alameda, Ca. 94501-7552

RE: Hanger #40 Condition Inspection

Dear Mr. Hampen:

At your request, the subject property was inspected. The inspection date was March 23, 2000. The purpose of the inspection was to establish the exact condition of the building and interior improvements at that time.

As a result of the inspection, it was noted that some demolition of the interior improvements had begun. This consisted primarily in removal of the electrical wiring, circuit breakers and circuit breaker boxes.

A general description of the building improvements is as follows:

**Exterior:** The exterior reflected generally good condition with no considerable deferred maintenance noted. The parking area and yard area are of concrete slab and are also in good condition. There is a cyclone fence with gates separating the building and parking/storage yard from the street. It is also in average to good condition.

**Interior:** The interior condition and related tenant improvements was broken into two categories, Structural and Tenant Improvements. The structural portion of the building reflected generally average condition. It consists of a slab foundation with steel truss roof support and wood sub-roof decking. Each end is access with floor to ceiling rolling hanger doors. Overall the structure appears to be in average condition considering the age of the improvements.

The interior improvements consist of mostly areas that have been previously used as office and or shop. The interior of this space is in poor condition and has suffered considerable deferred maintenance. Walls have been kicked in, ceiling tiles have been removed or fallen out, carpet or vinyl floors have been partially or totally removed etc. The restrooms appear to be generally in tact but have been "secured". It is clear if the plumbing and fixtures are still operable.

As they exist, the office improvements have finishes that include the following:

Floors:	Vinyl and carpet.
Walls:	Wood Panel, Sheet Rock and Wallboard.
Ceilings:	Sheet Rock, Acoustical Panels
Lighting:	Fluorescent
Heat:	Steam Radiators


## EXHIBIT F

Mike Hampen  
March 26, 2000  
Page Two

The attached Photo Key provides location and direction of the photos taken during the inspection. They should provide a good example of the actual materials and condition of the improvements as of the date of inspection.

Please call with any questions.

Respectfully,

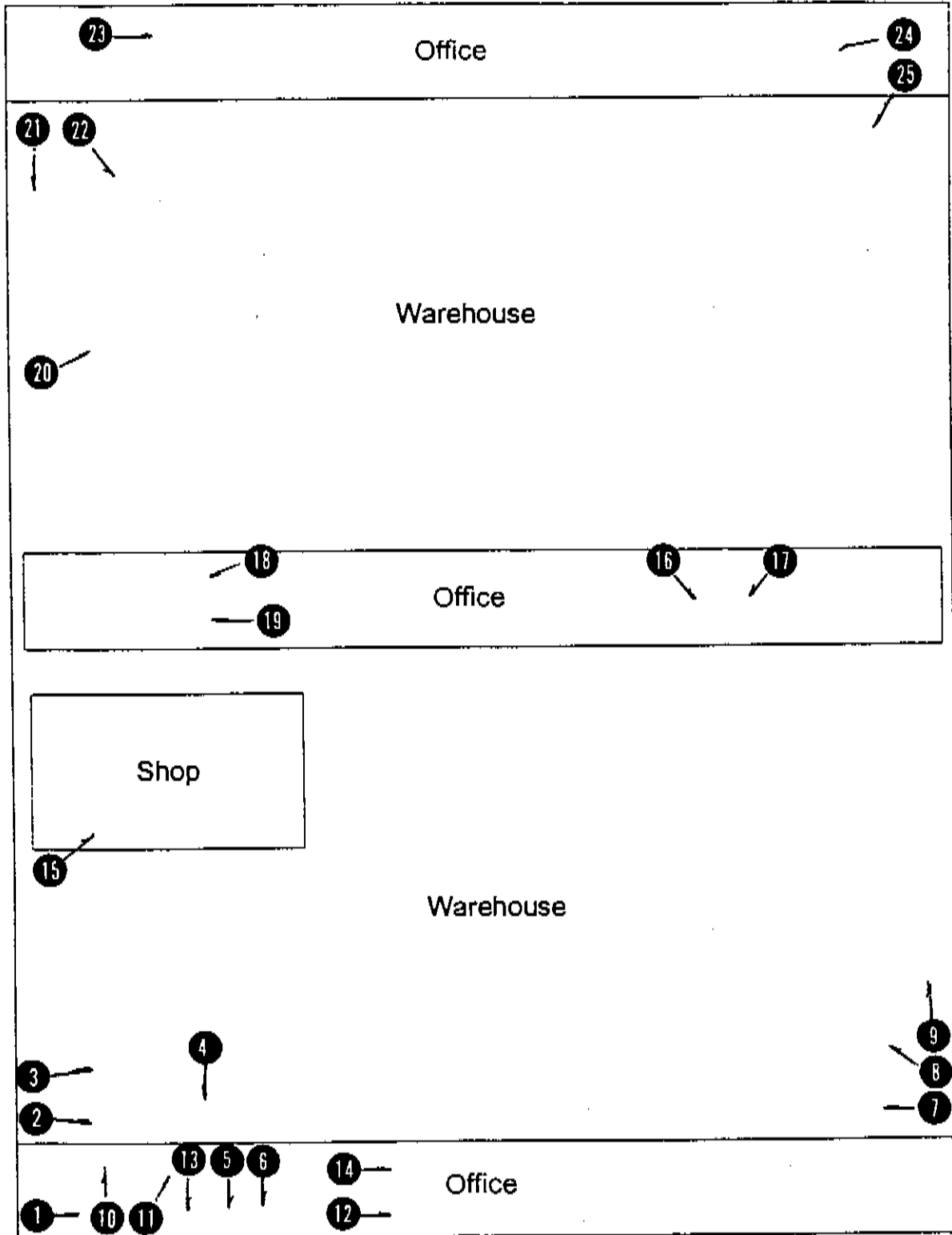


Dennis L. Smith, MAI  
Smith & Associates, Inc.

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# AIRCRAFT HANGER #40, ALAMEDA PHOTO KEY / LAYOUT



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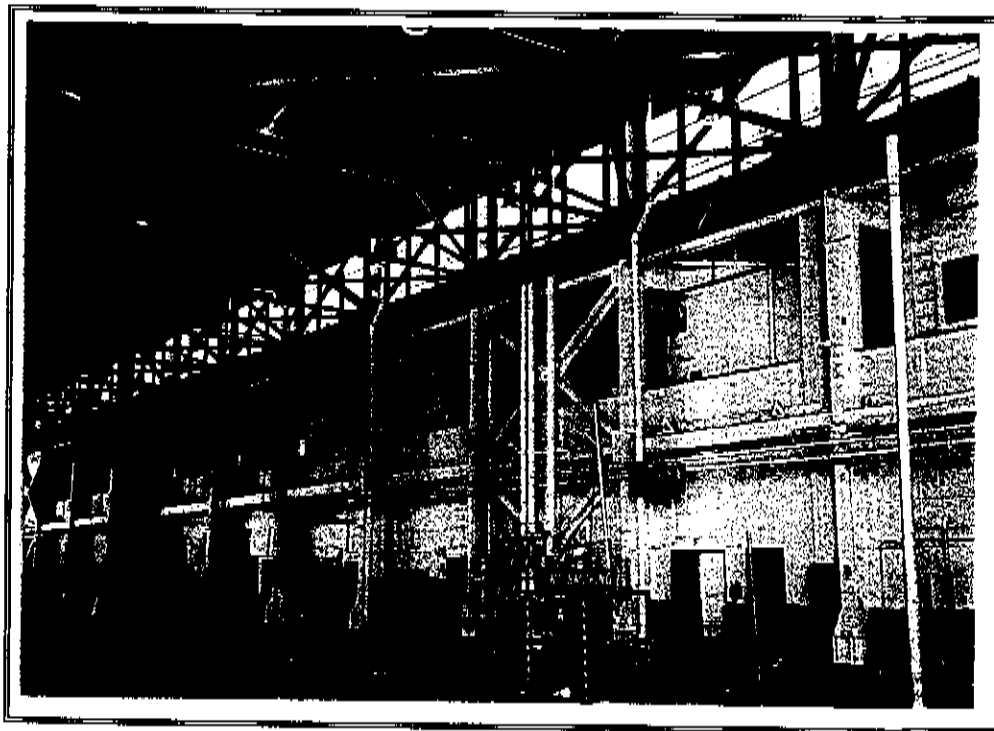
32

Avenue F

**Hanger #40 Condition Inspection**

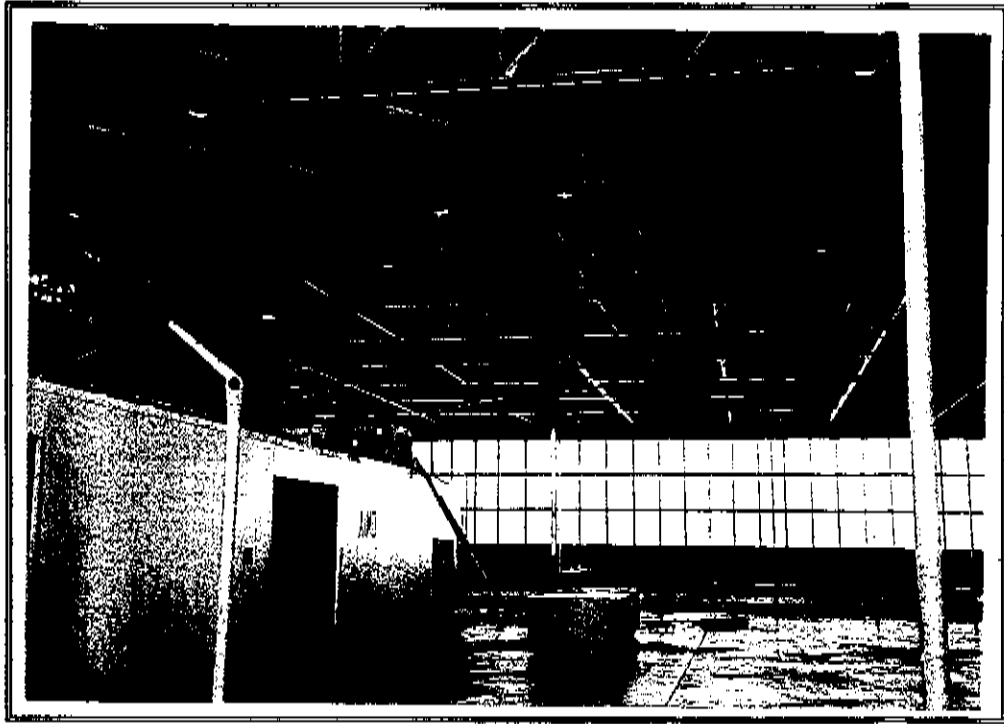


**Photograph #1**

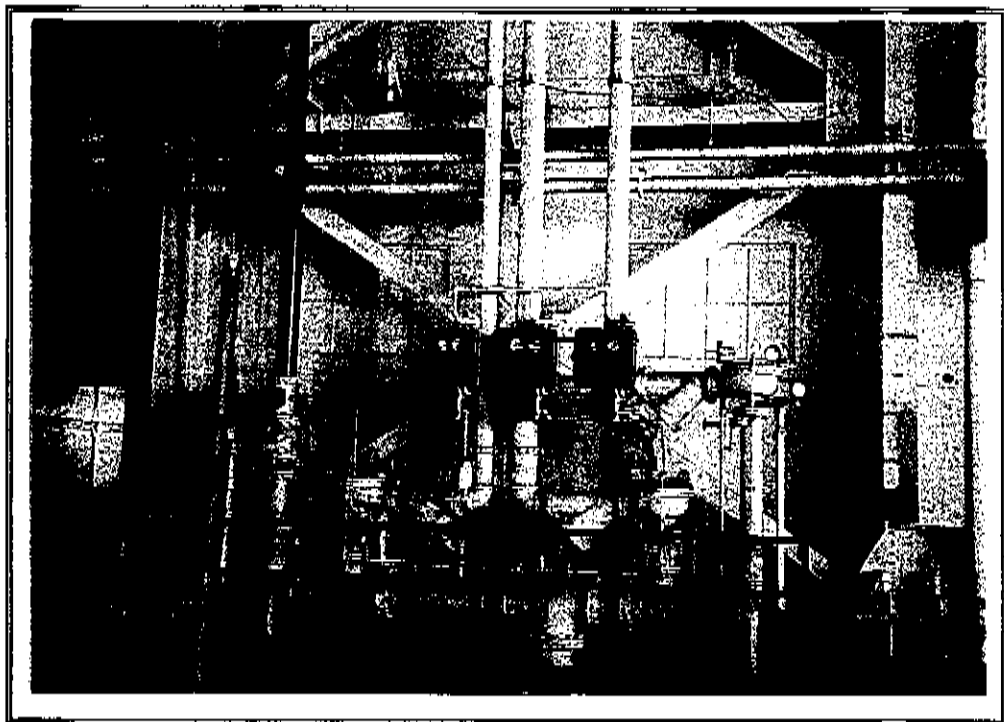


**Photograph #2**

**Hanger #40 Condition Inspection**

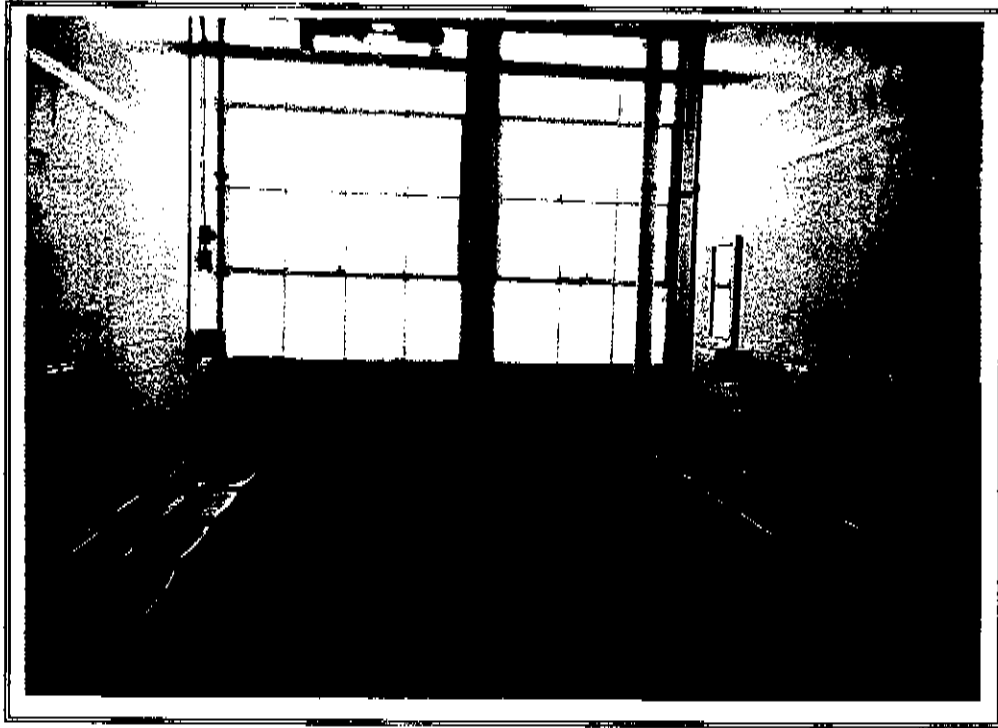


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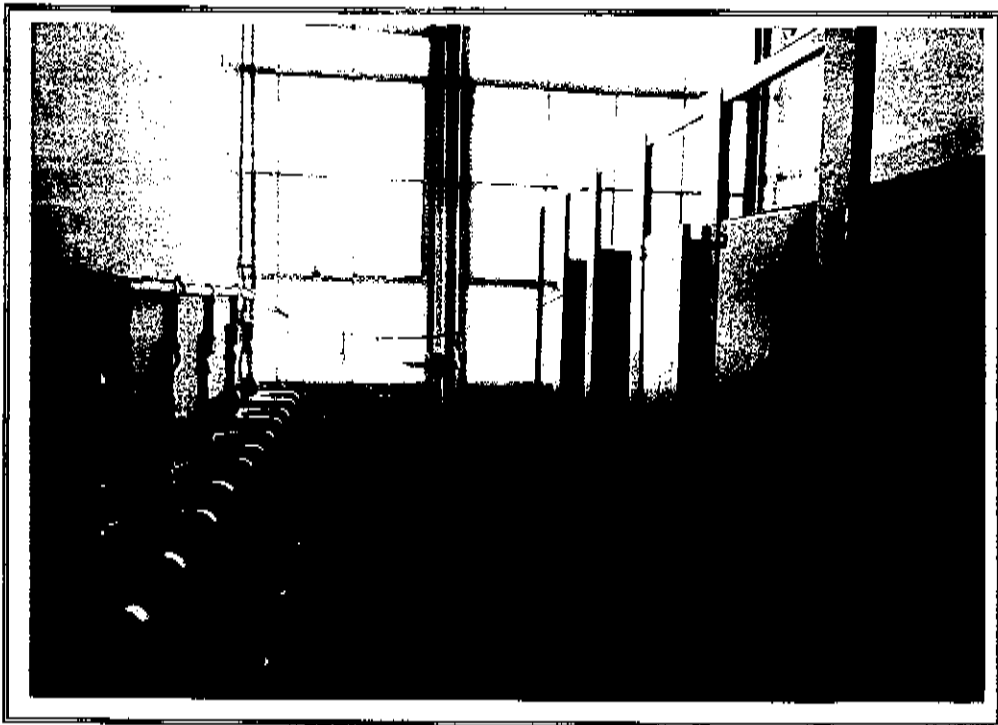


**Photograph #4**

**Hanger #40 Condition Inspection**

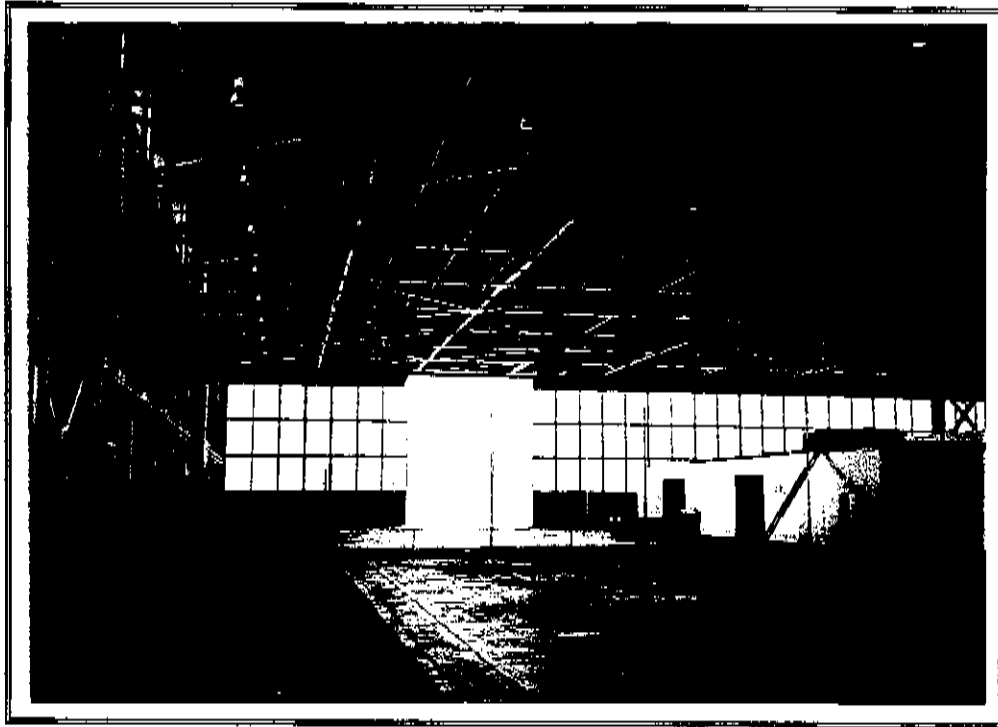


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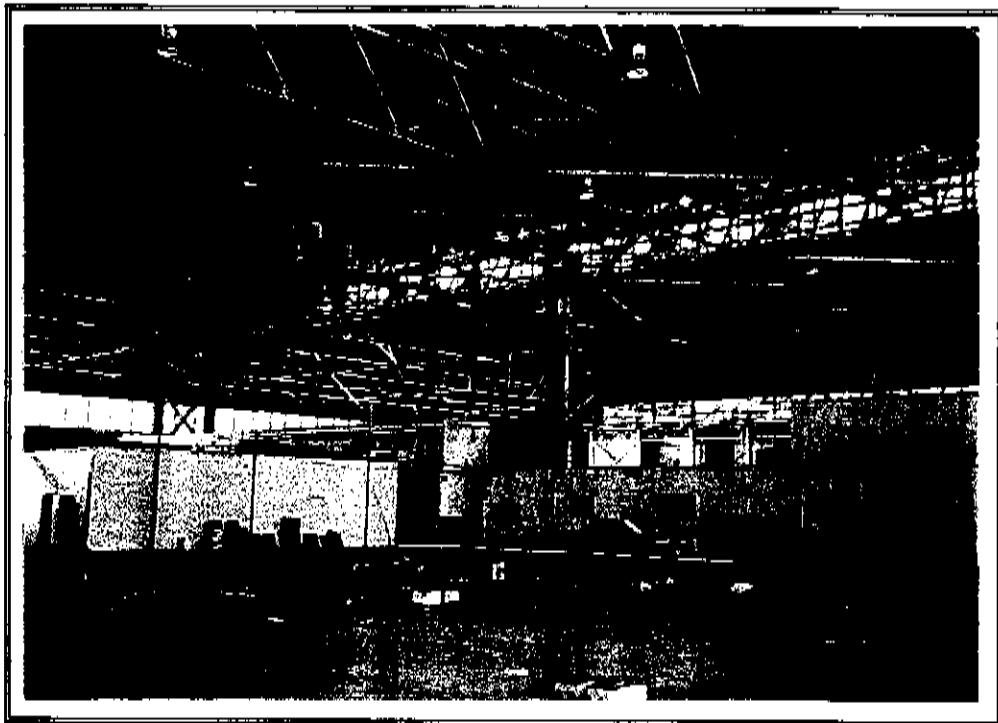


**Photograph #6**

**Hanger #40 Condition Inspection**



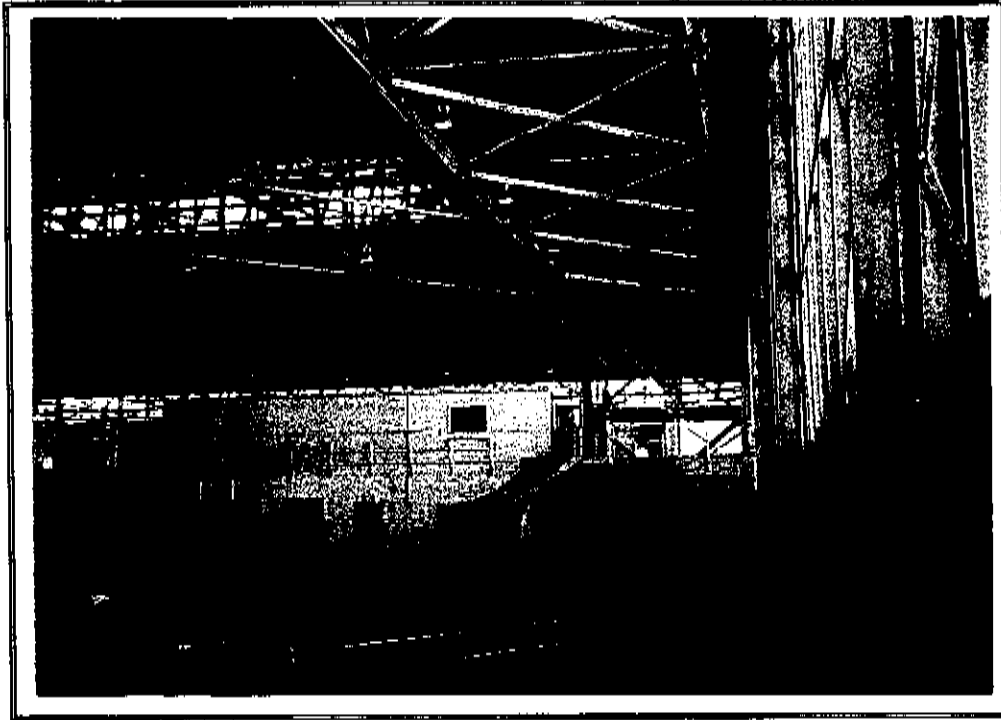
**Photograph #7**



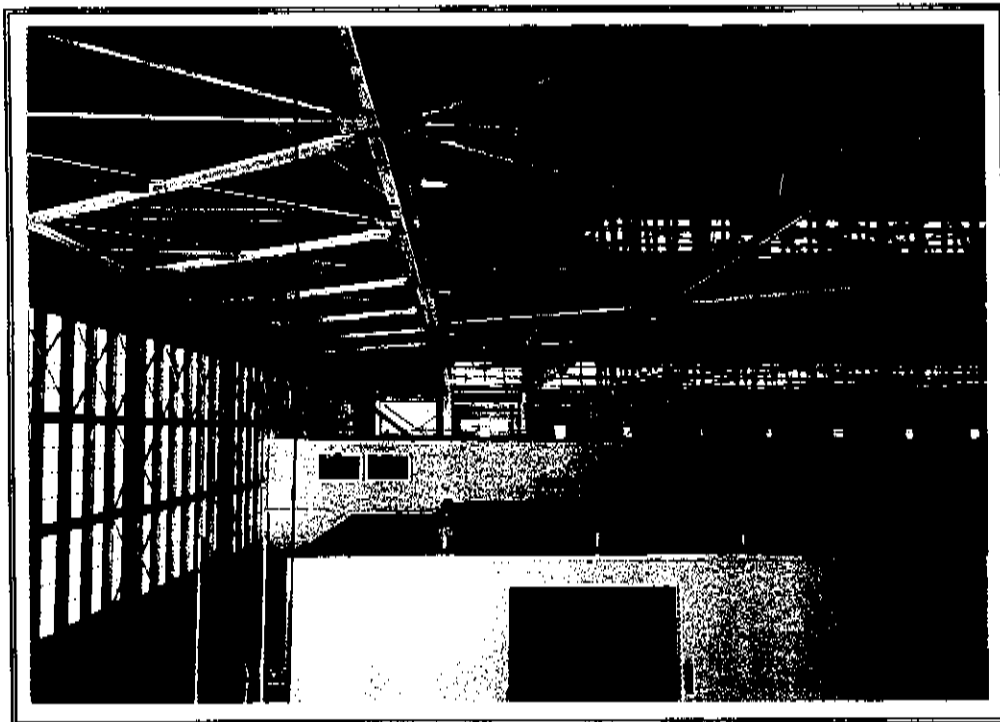
**Photograph #8**



**Hanger #40 Condition Inspection**

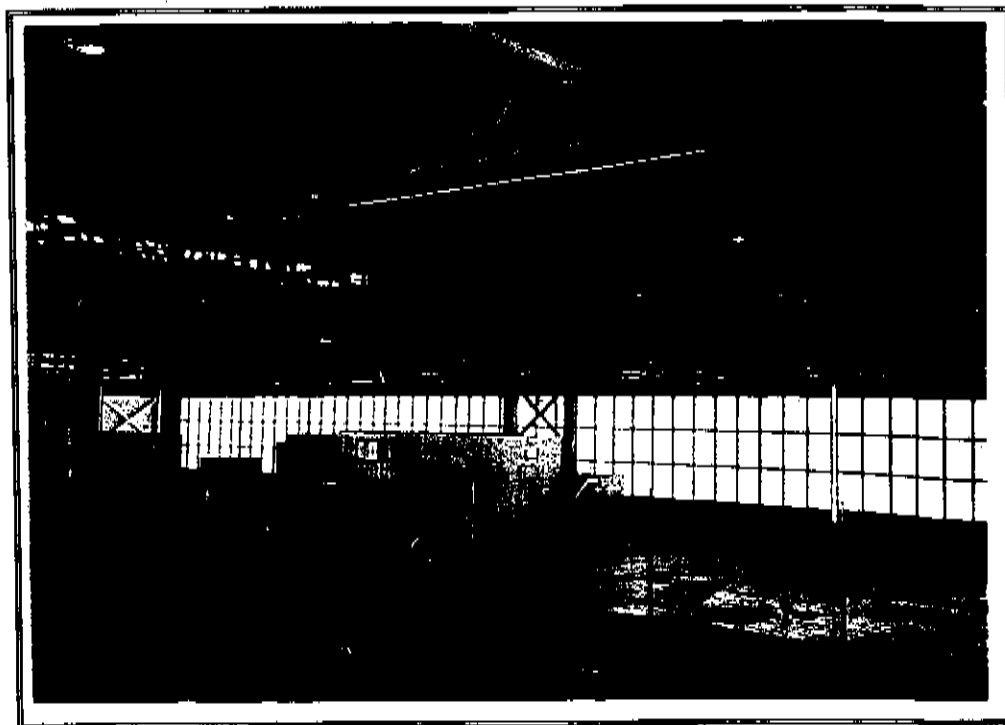


**Photograph #9**



**Photograph #10**

**Hanger #40 Condition Inspection**

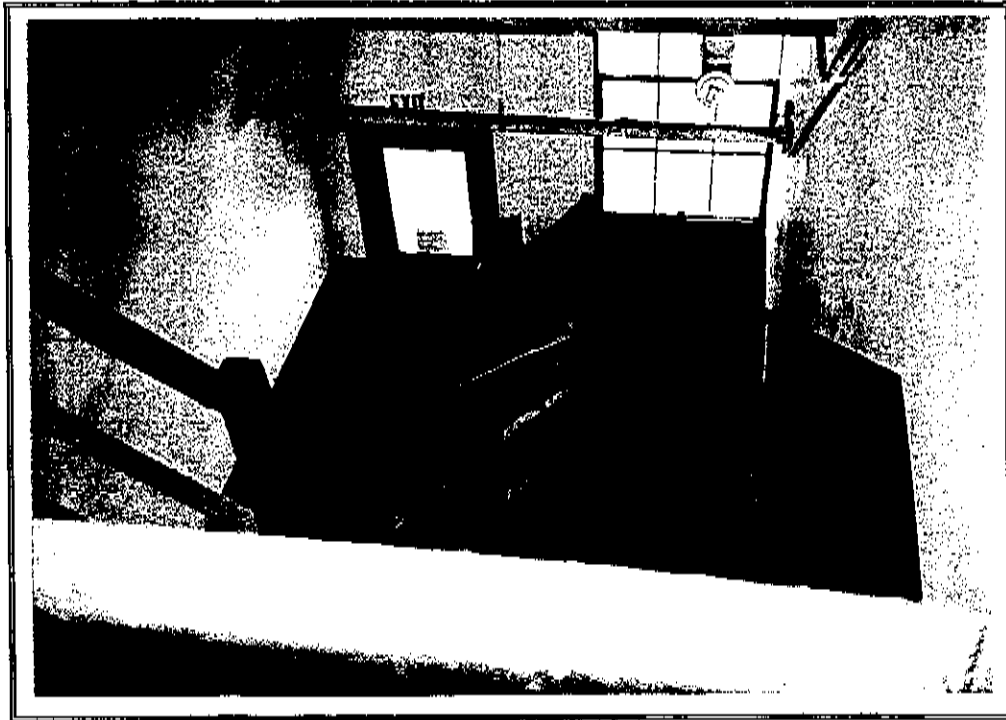


**Photograph #11**



**Photograph #12**

**Hanger #40 Condition Inspection**



**Photograph #13**

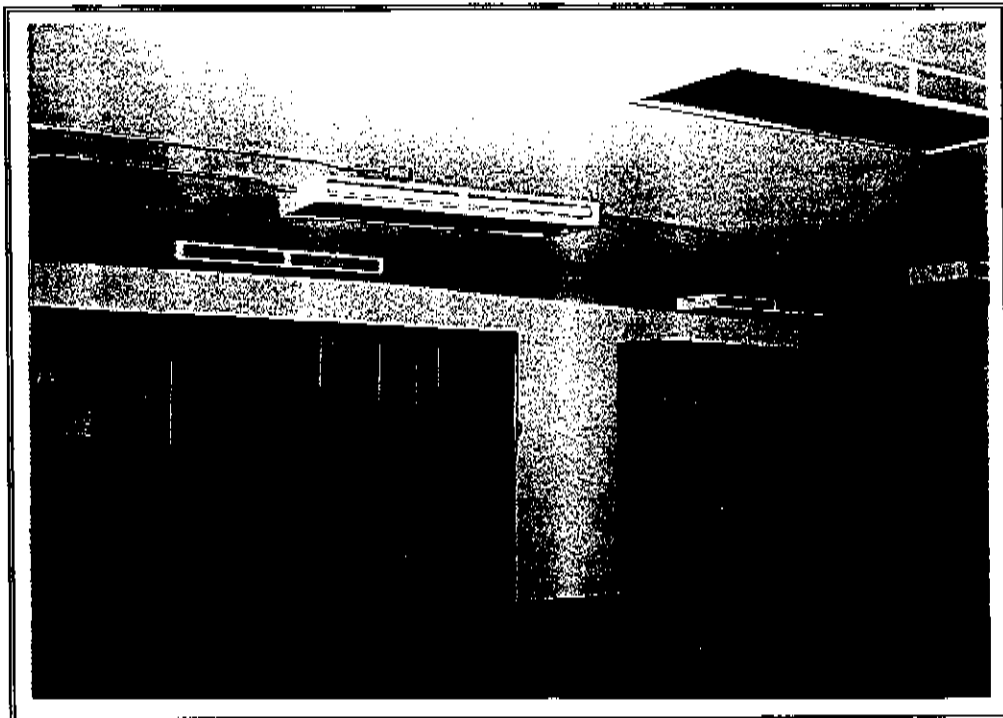


**Photograph #14**

**Hanger #40 Condition Inspection**

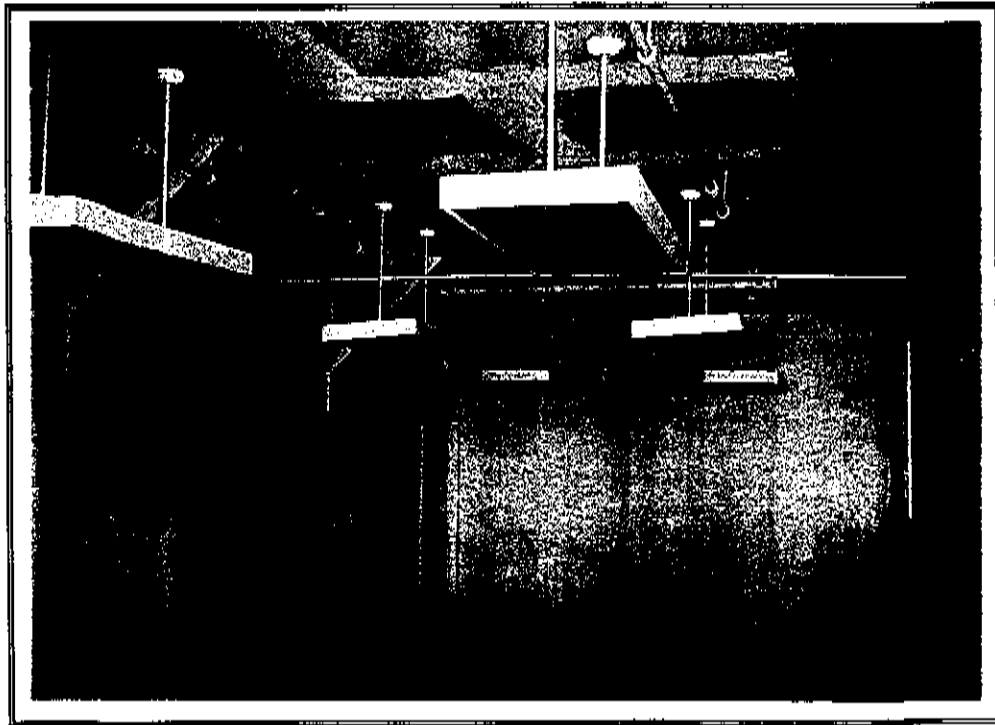


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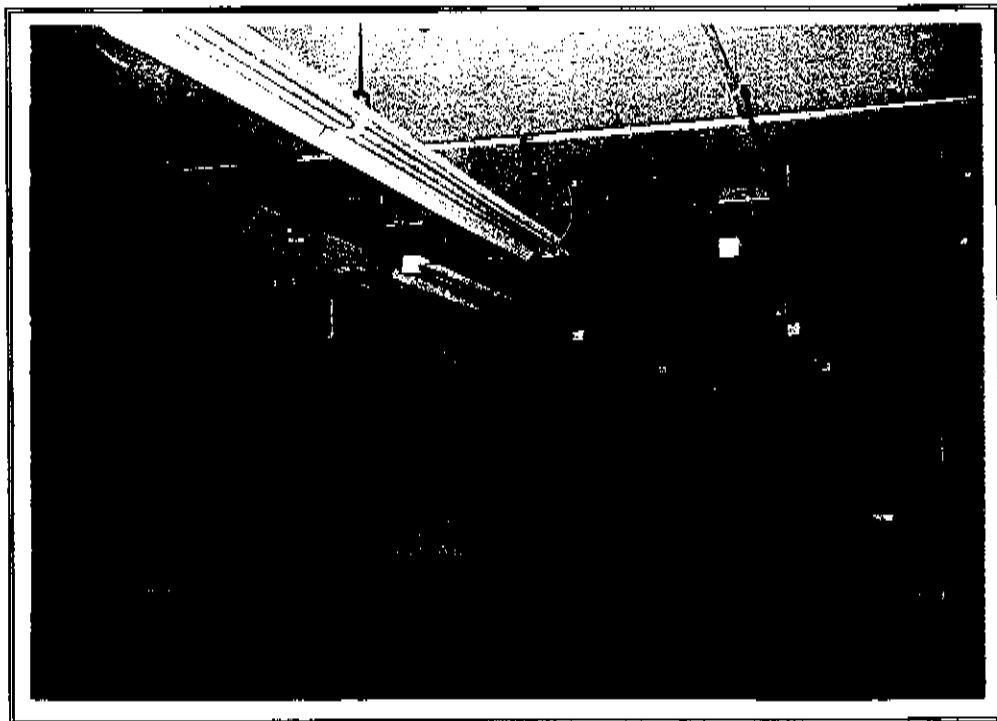


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**Hanger #40 Condition Inspection**

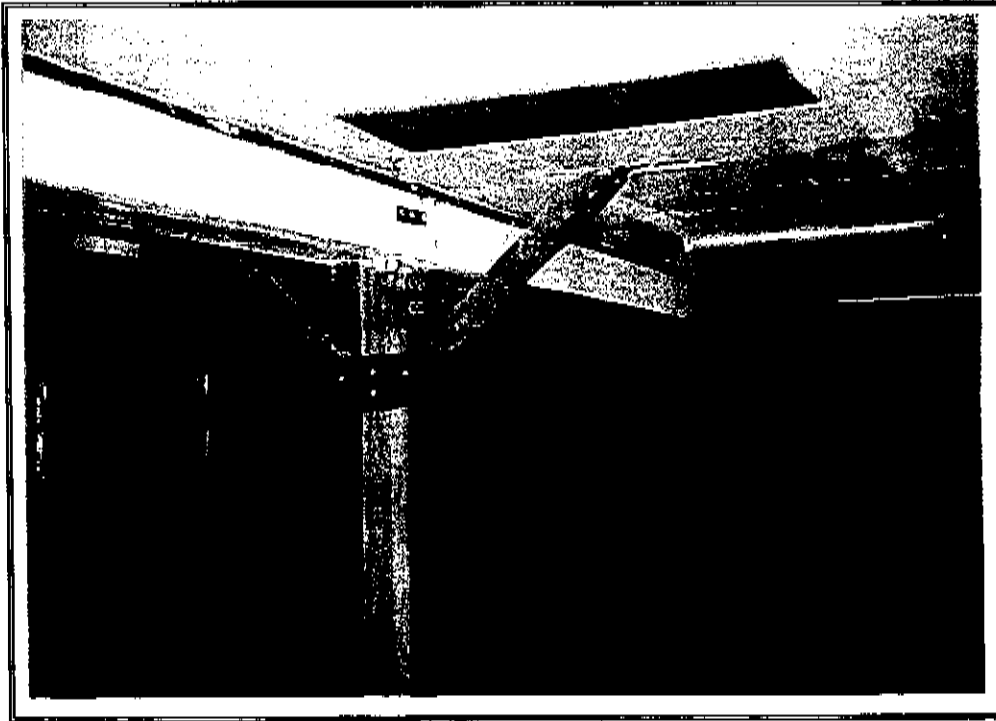


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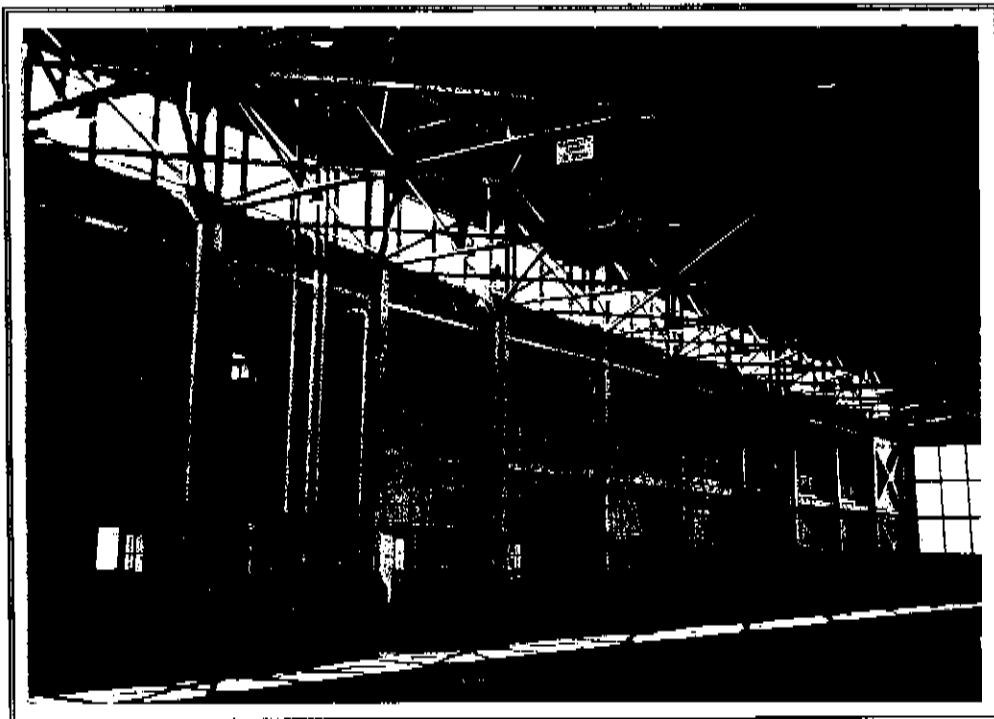


**Photograph #18**

**Hanger #40 Condition Inspection**



**Photograph #19**



**Photograph #20**

**Hanger #40 Condition Inspection**



**Photograph #21**

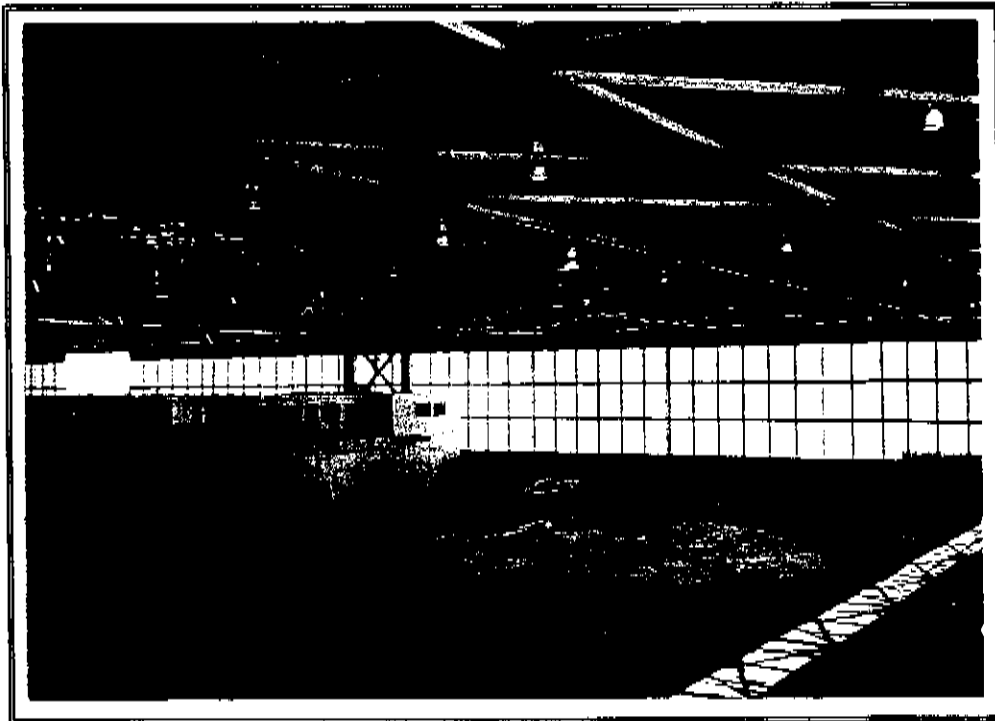


**Photograph #22**

**Hanger #40 Condition Inspection**



**Photograph #23**



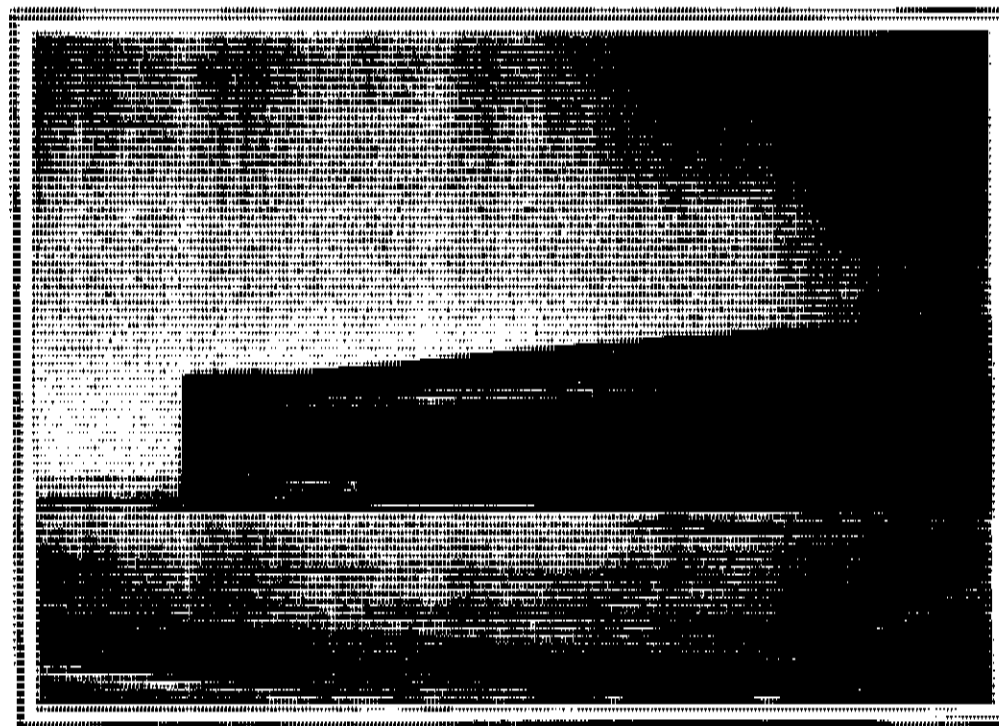
**Photograph #24**



# Hanger #40 Condition Inspection

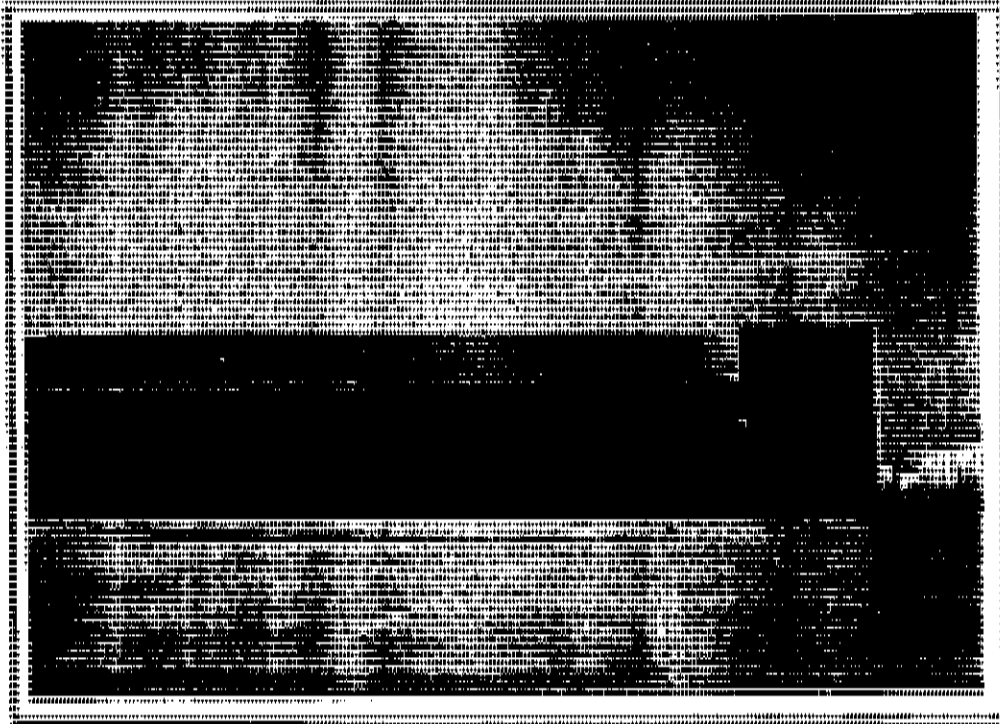


Photograph #25

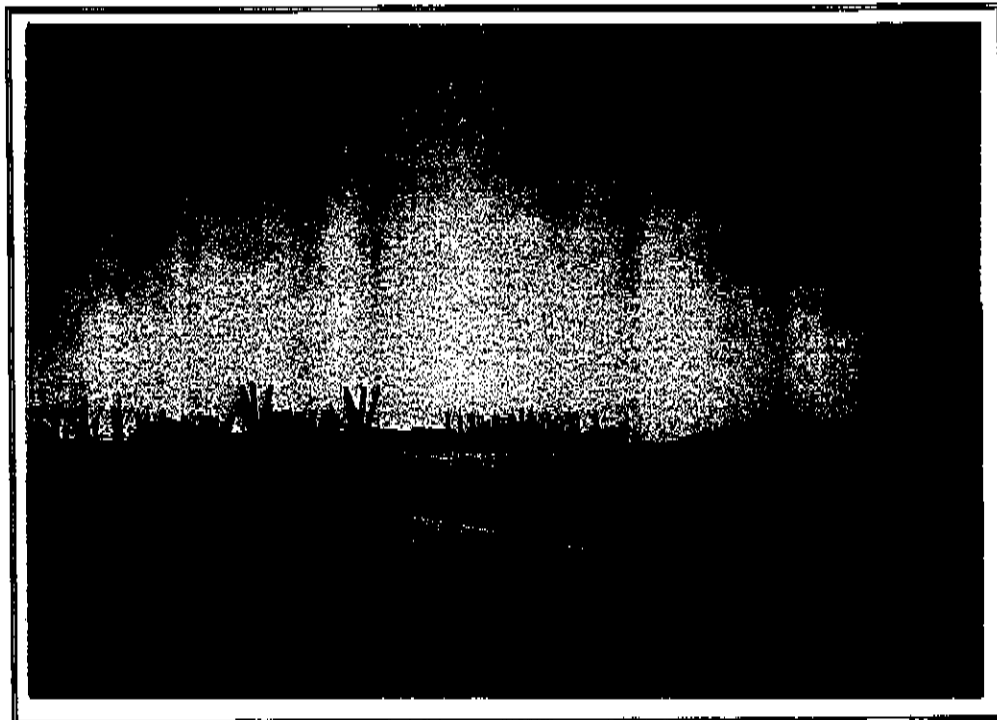


Photograph #26

**Hanger #40 Condition Inspection**

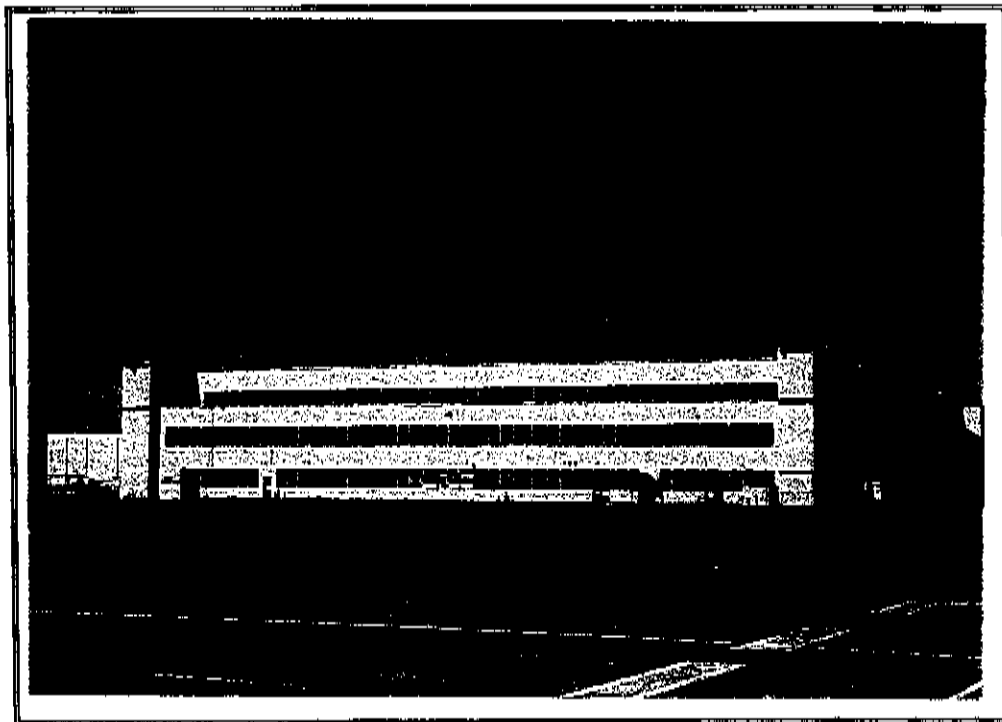


**Photograph #27**



**Photograph #28**

**Hanger #40 Condition Inspection**

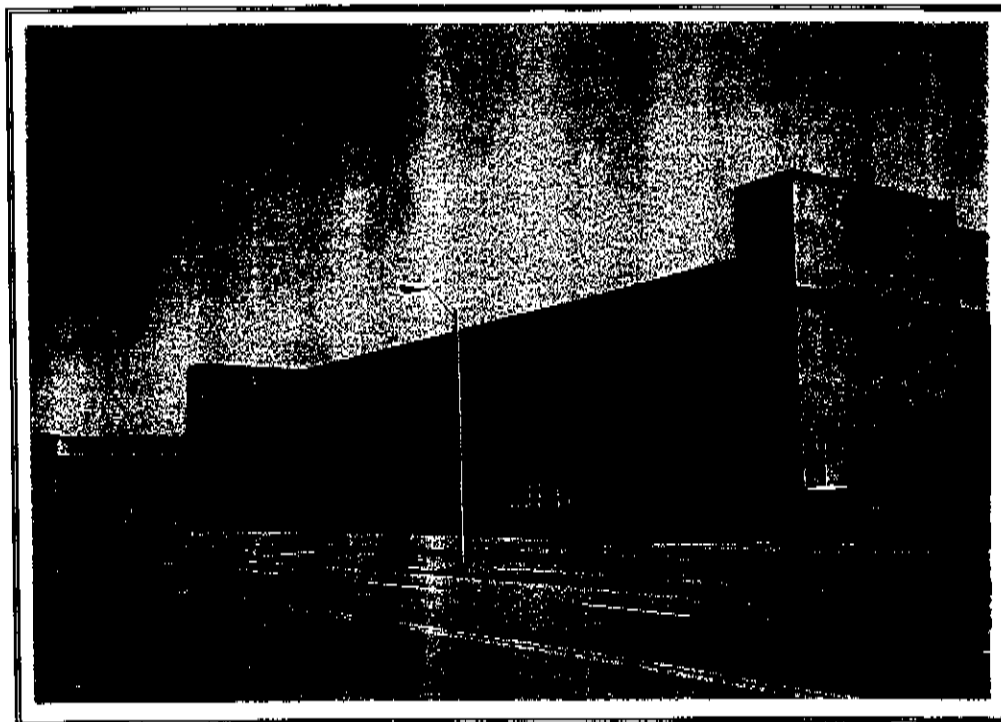


**Photograph #29**



**Photograph #30**

**Hanger #40 Condition Inspection**

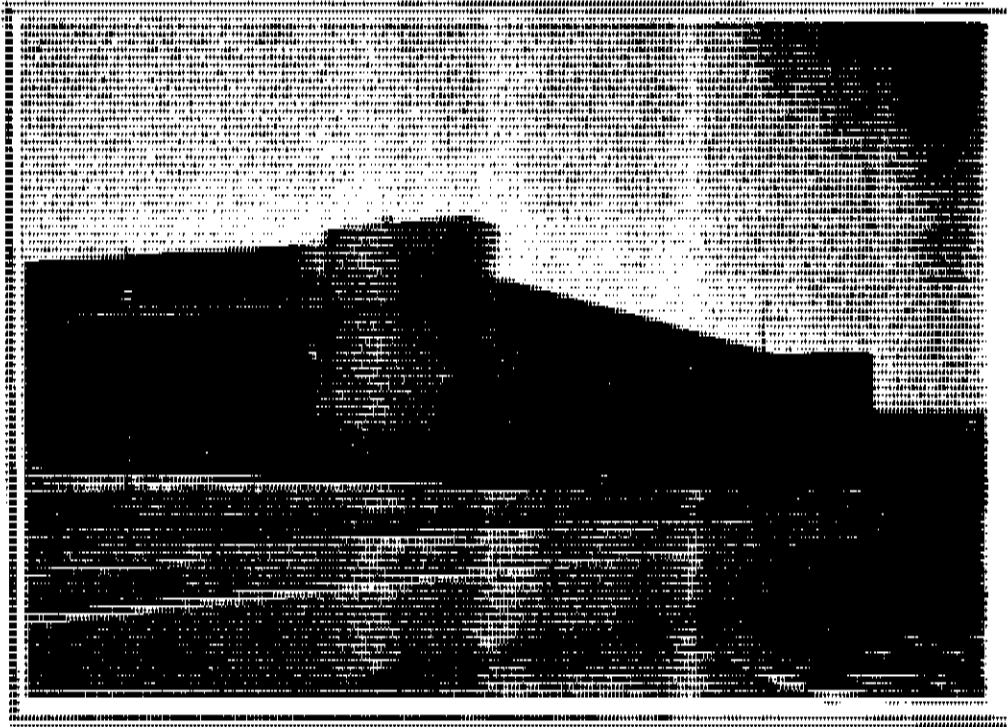


**Photograph #31**



**Photograph #32**

Hanger #40 Condition Inspection



Photograph #33



Photograph #34

**Exhibit G**  
**Sublease Revisions in the**  
**Event of Transfer of Fee Title to the Sublessor**

This Exhibit G is attached to the Sublease by and between the Alameda Reuse and Redevelopment Authority ("Sublessor") and Bladium, Inc. ("Subtenant") (the, "Sublease") to document the revisions that shall be made to the Sublease upon the transfer of the Leased Premises from Government to Sublessor and/or the City of Alameda ("City") ("Transfer"). All defined terms provided for herein shall be consistent with the definitions included in the Sublease. The following modifications shall be made to the terms, conditions, provisions and covenants of the Sublease upon Transfer of the Leased Premises:

1. The Sublease shall become the primary agreement between Sublessor and Subtenant.
2. The Sublease shall no longer be subject to or subordinate to the Prime Lease.
3. Other than the rights expressly identified in the Sublease, Sublessor shall not have or assume the same rights as the Government as described in the Sublease or Prime Lease.
4. The terms, conditions, provisions and covenants of the Sublease shall be modified to delete any reference to the Prime Lease, the Government, Department of Defense and the Secretary of Defense. Notwithstanding the foregoing, Section 13.14 of the Sublease shall remain in effect in which the Government shall remain liable and indemnify and hold harmless the Subtenant for any toxic or other environmental claims in accordance with Public Law 102-484, the National Defense Authorization Act for Fiscal Year 1993, Section 330, as amended.
5. Sections 1.1 through 1.6 shall be deleted.
6. Section 10: No Interference With Navy Operations shall be deleted.
7. Sections 12.5 and 12.7 shall be deleted.
8. Sections 12.15 shall be modified to replace the Government with the ARRA and/or City.
9. Sections 13.1, 13.2, 13.3, 13.4 shall be deleted.
10. Section 14 shall be deleted.
11. Section 15.2 and Section 15.4 shall be deleted.
12. Section 18.1.2 through 18.1.7 shall be deleted.
13. Section 19.3 shall be deleted.
14. Section 28.2 shall be deleted.
15. Section 30 Administration shall be deleted.

1100 1000 900 800 700 600 500 400 300 200 100 0

OAKLAND INNER HARBOR

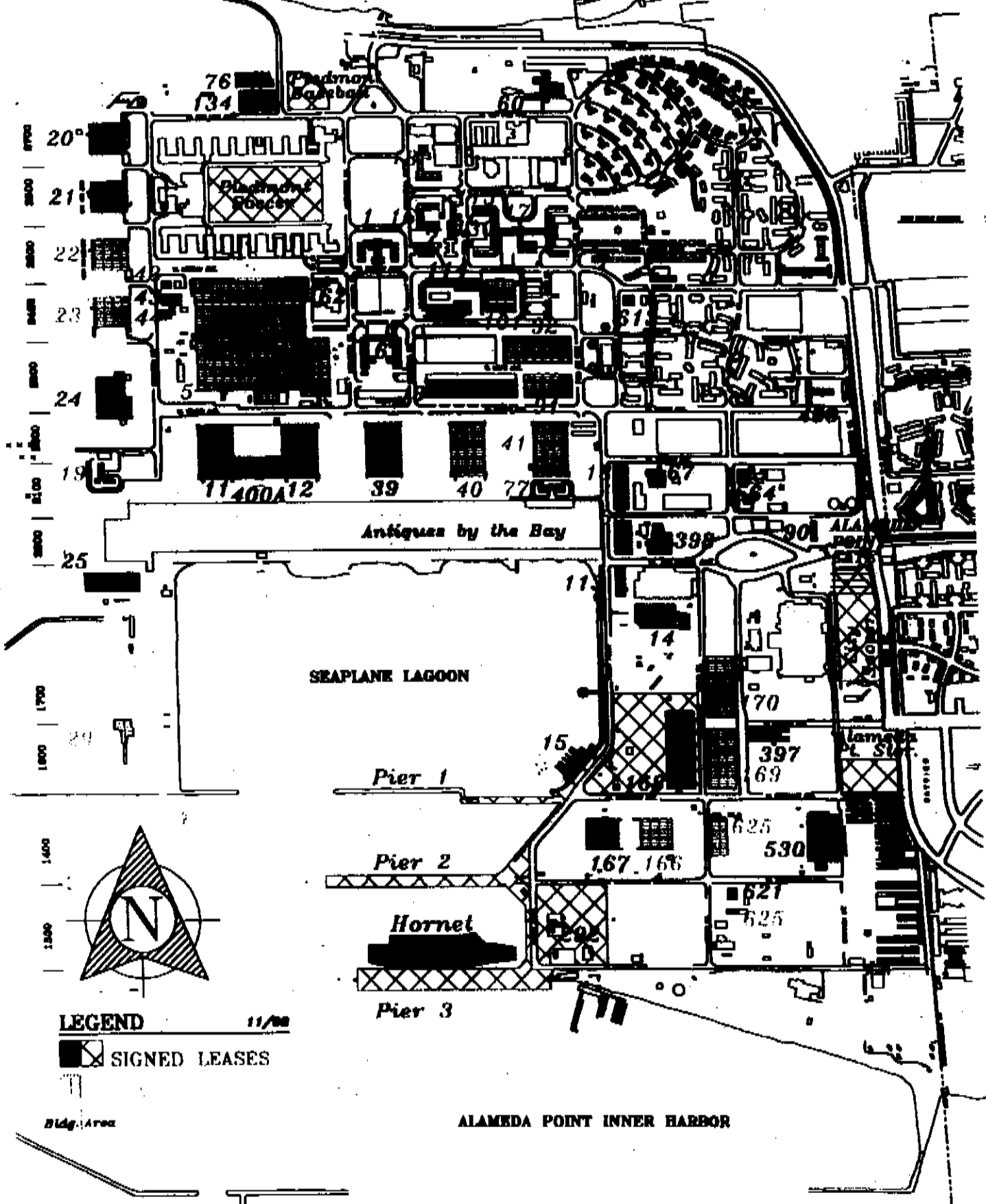


Exhibit H

**SERVICE PROVIDER AGREEMENT**

THIS SERVICE PROVIDER AGREEMENT (“**Agreement**”) is entered into this 18 day of March, 2016, by and between CITY OF ALAMEDA, a municipal corporation (the “**City**”), and CARNEGHI AND PARTNERS, INC., (a California corporation), whose address is 1602 The Alameda, Suite 205, San Jose, CA 95126, (the “**Provider**”), in reference to the following:

**RECITALS:**

- A. City is a municipal corporation duly organized and validly existing under the laws of the State of California with the power to carry on its business as it is now being conducted under the statutes of the State of California and the Charter of the City.
- B. The City is in need of the following services: Real Estate Appraisal Services City staff reached out to selected service providers in an informal solicitation process; service providers responded with their proposed budget and time needed to complete the market value appraisal of 800 West Tower Avenue; and, finally, a service provider was selected that best met the City’s needs.
- C. Provider is specially trained, experienced and competent to perform the special services which will be required by this Agreement. Provider possesses the skill, experience, ability, background, certification and knowledge to provide the services described in this Agreement on the terms and conditions described herein.
- D. City and Provider desire to enter into an agreement for the market value appraisal of the building at 800 West Tower Avenue, located at Alameda Point, upon the terms and conditions herein.

NOW, THEREFORE, it is mutually agreed by and between the undersigned parties as follows:

1. **TERM:**

The term of this Agreement shall commence on the 18 day of March 2016, and shall terminate on the 30 day of April 2016, unless terminated earlier as set forth herein.

2. **SERVICES TO BE PERFORMED:**

Provider agrees to do all necessary work at its own cost and expense, to furnish all labor, tools, equipment, materials, except as otherwise specified, and to do all necessary work included in Exhibit A as requested. The Provider acknowledges that the work plan included in Exhibit A is tentative and does not commit the City to request Provider to perform all tasks included therein.

3. **COMPENSATION TO PROVIDER:**

- a. By the 7<sup>th</sup> day of each month, Provider shall submit to the City an invoice for the total amount of work done the previous month. Pricing and accounting of charges are to be according to the fee schedule as set forth in this Section 3. Extra work must be approved in writing



# 16-ASF-92

by the City Manager or his/her designee prior to performance and shall be paid on a Time and Material basis as set forth in this Section 3.

b. The total compensation for the work under this Agreement is not to exceed \$4,500.00.

**4. TIME IS OF THE ESSENCE:**

Provider and City agree that time is of the essence regarding the performance of this Agreement.

**5. STANDARD OF CARE:**

Provider agrees to perform all services hereunder in a manner commensurate with the prevailing standards of like professionals or service providers, as applicable, in the San Francisco Bay Area and agrees that all services shall be performed by qualified and experienced personnel who are not employed by the City.

**6. INDEPENDENT PARTIES:**

Provider hereby declares that Provider is engaged as an independent business and Provider agrees to perform the services as an independent contractor. The manner and means of conducting the services and tasks are under the control of Provider, except to the extent they are limited by statute, rule or regulation and the express terms of this Agreement. No civil service status or other right of employment will be acquired by virtue of Provider's services. None of the benefits provided by City to its employees, including but not limited to unemployment insurance, workers' compensation plans, vacation and sick leave are available from City to Provider, its employees or agents. Deductions shall not be made for any state or federal taxes, FICA payments, PERS payments, or other purposes normally associated with an employer-employee relationship from any compensation due to Provider. Payments of the above items, if required, are the responsibility of Provider.

**7. IMMIGRATION REFORM AND CONTROL ACT (IRCA):**

Provider assumes any and all responsibility for verifying the identity and employment authorization of all of its employees performing work hereunder, pursuant to all applicable IRCA or other federal, or state rules and regulations. Provider shall indemnify, defend, and hold City harmless from and against any loss, damage, liability, costs or expenses arising from any noncompliance of this provision by Provider.

**8. NON-DISCRIMINATION:**

Consistent with City's policy and state and federal law that harassment and discrimination are unacceptable conduct, Provider agrees that harassment or discrimination directed toward a job applicant, a City employee, or a citizen by Provider or Provider's employee on the basis of race, religious creed, color, national origin, ancestry, handicap, disability, marital status, pregnancy, sex, age, or sexual orientation will not be tolerated. Provider agrees that any and all violations of this provision shall constitute a material breach of this Agreement.

9. **HOLD HARMLESS:**

a. Provider shall indemnify, defend, and hold harmless the City, its City Council, boards, commissions, officials, employees, and volunteers ("**Indemnitees**") from and against any and all loss, damages, liability, claims, suits, costs and expenses whatsoever, including reasonable attorneys' fees ("**Claims**"), arising from or in any manner connected to Provider's negligent act or omission, whether alleged or actual, regarding performance of services or work conducted or performed pursuant to this Agreement. If Claims are filed against Indemnitees which allege negligence on behalf of the Provider, Provider shall have no right of reimbursement against Indemnitees for the costs of defense even if negligence is not found on the part of Provider. However, Provider shall not be obligated to indemnify Indemnitees from Claims arising from the sole negligence or willful misconduct of Indemnitees.

b. **Indemnification for Claims for Professional Liability Only:** As to Claims for professional liability only, Provider's obligation to defend Indemnitees (as set forth above) is limited to the extent to which its professional liability insurance policy will provide such defense costs.

c. Provider's obligation to indemnify, defend and hold harmless Indemnitees shall expressly survive the expiration or early termination of this Agreement.

10. **INSURANCE:**

a. On or before the commencement of the terms of this Agreement, Provider shall furnish the City's Risk Manager with certificates showing the type, amount, class of operations covered, effective dates and dates of expiration of insurance coverage in compliance with subsections 10A, B, C and D. Such certificates, which do not limit Provider's indemnification, shall also contain substantially the following statement:

"Should any of the above insurance covered by this certificate be canceled or coverage reduced before the expiration date thereof, the insurer affording coverage shall provide ten (10) days' advance written notice to the City of Alameda. Attention: Risk Manager."

b. It is agreed that Provider shall maintain in force at all times during the performance of this Agreement all appropriate coverage of insurance required by this Agreement with an insurance company that is acceptable to City and licensed to do insurance business in the State of California. Endorsements naming the City, its City Council, boards, commissions, officials, employees, and volunteers as additional insured shall be submitted with the insurance certificates.

# 16-ASF-92

## A. COVERAGE:

Provider shall maintain the following insurance coverage:

(1) Workers' Compensation:

Statutory coverage as required by the State of California.

(2) Liability:

Commercial general liability coverage in the following minimum limits:

Bodily Injury:                   \$1,000,000 each occurrence  
  \$2,000,000 aggregate - all other

Property Damage:               \$1,000,000 each occurrence  
  \$2,000,000 aggregate

If submitted, combined single limit policy with aggregate limits in the amounts of \$2,000,000 will be considered equivalent to the required minimum limits shown above.

(3) Automotive:

Comprehensive automobile liability coverage (any auto) in the following minimum limits:

Bodily injury:                   \$1,000,000 each occurrence  
Property Damage:               \$1,000,000 each occurrence

or

Combined Single Limit:       \$2,000,000 each occurrence

(4) Professional Liability:

Professional liability insurance which includes coverage for the professional acts, errors and omissions of Provider in the amount of at least \$2,000,000.

## B. SUBROGATION WAIVER:

Provider agrees that in the event of loss due to any of the perils for which it has agreed to provide comprehensive general and automotive liability insurance, Provider shall look solely to its insurance for recovery. Provider hereby grants to City, on behalf of any insurer providing comprehensive general and automotive liability insurance to either Provider or City with respect to the services of Provider herein, a waiver of any right to subrogation which any such insurer of said Provider may acquire against City by virtue of the payment of any loss under such insurance.

## C. FAILURE TO SECURE:

If Provider at any time during the term hereof should fail to secure or maintain the foregoing insurance, City shall be permitted to obtain such insurance in the Provider's name or as an agent of the Provider and shall be compensated by the Provider for the costs of the insurance

# 16-ASF-92

premiums at the maximum rate permitted by law and computed from the date written notice is received that the premiums have not been paid.

## D. ADDITIONAL INSURED:

City, its City Council, boards, commissions, officials, employees, and volunteers shall be named as an additional insured under all insurance coverages, except worker's compensation and professional liability insurance. The naming of an additional insured shall not affect any recovery to which such additional insured would be entitled under this policy if not named as such additional insured. An additional insured named herein shall not be held liable for any premium, deductible portion of any loss, or expense of any nature on this policy or any extension thereof. Any other insurance held by an additional insured shall not be required to contribute anything toward any loss or expense covered by the insurance provided by this policy.

## E. SUFFICIENCY OF INSURANCE:

The insurance limits required by City are not represented as being sufficient to protect Provider. Provider is advised to consult Provider's insurance broker to determine adequate coverage for Provider.

## 11. CONFLICT OF INTEREST:

Provider warrants that it is not a conflict of interest for Provider to perform the services required by this Agreement. Provider may be required to fill out a conflict of interest form if the services provided under this Agreement requires Provider to make certain governmental decisions or serve in a staff capacity as defined in Title 2, Division 6, Section 18700 of the California Code of Regulations.

## 12. PROHIBITION AGAINST TRANSFERS:

a. Provider shall not assign, sublease, hypothecate, or transfer this Agreement, or any interest therein, directly or indirectly, by operation of law or otherwise, without prior written consent of the City Manager. Provider shall submit a written request for consent to transfer to the City Manager at least thirty (30) days in advance of the desired transfer. The City Manager may consent or reject such request in his/her sole and absolute discretion. Any attempt to do so without said consent shall be null and void, and any assignee, sublessee, hypothecate or transferee shall acquire no right or interest by reason of such attempted assignment, hypothecation or transfer. However, claims for money against the City under this Agreement may be assigned by Provider to a bank, trust company or other financial institution without prior written consent.

b. The sale, assignment, transfer or other disposition of any of the issued and outstanding capital stock of Provider, or of the interest of any general partner or joint venturer or syndicate member or cotenant, if Provider is a partnership or joint venture or syndicate or cotenancy, which shall result in changing the control of Provider, shall be construed as an assignment of this Agreement. Control means fifty percent or more of the voting power of the corporation.

## 13. APPROVAL OF SUB-PROVIDERS:

a. Only those persons and/or businesses whose names and resumes are attached to this Agreement shall be used in the performance of this Agreement. However, if after the start of this Agreement, Provider wishes to use sub-providers, at no additional costs to the City, then Provider shall submit a written request for consent to add sub-providers including the names of the sub-providers and the reasons for the request to the City Manager at least five (5) days in advance. The City Manager may consent or reject such requests in his/her sole and absolute discretion.

b. Each sub-provider shall be required to furnish proof of workers' compensation insurance and shall also be required to carry general, automobile and professional liability insurance (as applicable) in reasonable conformity to the insurance carried by the Provider. In addition, any tasks or services performed by sub-providers shall be subject to each provision of this Agreement.

c. The requirements in this Section 13 shall not apply to persons who are merely providing materials, supplies, data or information which the Provider then analyzes and incorporates into its work product.

## 14. PERMITS AND LICENSES:

Provider, at its sole expense, shall obtain and maintain during the term of this Agreement, all appropriate permits, certificates and licenses, including a City Business License that may be required in connection with the performance of the services and tasks hereunder.

## 15. REPORTS:

a. Each and every report, draft, work product, map, record and other document produced, prepared or caused to be prepared by Provider pursuant to or in connection with this Agreement shall be the exclusive property of City.

b. No report, information or other data given to or prepared or assembled by Provider pursuant to this Agreement shall be made available to any individual or organization by Provider without prior approval of the City Manager or his/her designee.

c. Provider shall, at such time and in such form as City Manager or his/her designee may require, furnish reports concerning the status of services and tasks required under this Agreement.

## 16. RECORDS:

a. Provider shall maintain complete and accurate records with respect to the services, tasks, work, documents and data in sufficient detail to permit an evaluation of the Provider's performance under the Agreement, as well as maintain books and records related to sales, costs, expenses, receipts and other such information required by City that relate to the performance of the services and tasks under this Agreement (collectively the "Records").

b. All Records shall be maintained in accordance with generally accepted accounting principles and shall be clearly identified and readily accessible. Provider shall provide free access to the Records to the representatives of City or its designees during regular business hours upon

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reasonable prior notice. The City has the right to examine and audit the Records, and to make copies or transcripts therefrom as necessary, and to allow inspection of all proceedings and activities related to this Agreement. Such Records, together with supporting documents, shall be kept separate from other documents and records and shall be maintained by Provider for a period of three (3) years after receipt of final payment.

c. If supplemental examination or audit of the Records is necessary due to concerns raised by City's preliminary examination or audit of records, and the City's supplemental examination or audit of the records discloses a failure to adhere to appropriate internal financial controls, or other breach of this Agreement or failure to act in good faith, then Provider shall reimburse the City for all reasonable costs and expenses associated with the supplemental examination or audit.

## 17. NOTICES:

a. All notices shall be in writing and delivered: (i) by hand; or (ii) sent by registered, express, or certified mail, with return receipt requested or with delivery confirmation requested from the U.S. postal service; or (iii) sent by overnight or same day courier service at the party's respective address listed in this Section.

b. Each notice shall be deemed to have been received on the earlier to occur of: (x) actual delivery or the date on which delivery is refused; or (y) three (3) days after notice is deposited in the U.S. mail or with a courier service in the manner described above (Sundays and City holidays excepted).

c. Either party may, at any time, change its notice address (other than to a post office box address) by giving the other party three (3) days prior written notice of the new address.

d. All notices, demands, requests, or approvals from Provider to City shall be addressed to City at:

City of Alameda  
Base Reuse Department  
2263 Santa Clara Avenue, Room 120  
Alameda, CA 94501  
ATTENTION: Nanette Mocanu, Assistant Community Development Director  
Ph: (510) 747-6886

e. All notices, demands, requests, or approvals from City to Provider shall be addressed to Provider at:

Carneghi and Partners, Inc.  
456 Montgomery Street, Suite 488  
San Francisco, CA 94104  
ATTENTION: Timothy P. Runde  
Ph: (415) 777-2666 x110

**18. SAFETY:**

a. The Provider will be solely and completely responsible for conditions of all vehicles owned or operated by Provider, including the safety of all persons and property during performance of the services and tasks under this Agreement. This requirement will apply continuously and not be limited to normal working hours. In addition, Provider will comply with all safety provisions in conformance with U.S. Department of Labor Occupational Safety and Health Act, any equivalent state law, and all other applicable federal, state, county and local laws, ordinances, codes, and any regulations that may be detailed in other parts of the Agreement. Where any of these are in conflict, the more stringent requirements will be followed. The Provider's failure to thoroughly familiarize itself with the aforementioned safety provisions will not relieve it from compliance with the obligations and penalties set forth herein.

b. The Provider will immediately notify the City within 24 hours of any incident of death, serious personal injury or substantial property damage that occurs in connection with the performance of this Agreement. The Provider will promptly submit to the City a written report of all incidents that occur in connection with this Agreement. This report must include the following information: (i) name and address of injured or deceased person(s); (ii) name and address of Provider's employee(s) involved in the incident; (iii) name and address of Provider's liability insurance carrier; (iv) a detailed description of the incident; and (v) a police report.

**19. TERMINATION:**

a. In the event Provider fails or refuses to perform any of the provisions hereof at the time and in the manner required hereunder, Provider shall be deemed in default in the performance of this Agreement. If such default is not cured within two (2) business days after receipt by Provider from City of written notice of default, specifying the nature of such default and the steps necessary to cure such default; City may thereafter immediately terminate the Agreement forthwith by giving to the Provider written notice thereof.

b. The foregoing notwithstanding, City shall have the option, at its sole discretion and without cause, of terminating this Agreement by giving seven (7) days' prior written notice to Provider as provided herein.

c. Upon termination of this Agreement either for cause or for convenience, each party shall pay to the other party that portion of compensation specified in this Agreement that is earned and unpaid prior to the effective date of termination. The obligation of the parties under this Section 19.c. shall survive the expiration or early termination of this Agreement.

**20. ATTORNEY'S FEES:**

In the event of the bringing of any action or suit by a party hereto against the other party by reason of any breach of any covenants, conditions, obligation or provision arising out of this Agreement, the prevailing party shall be entitled to recover from the non-prevailing party all of its costs and expenses of the action or suit, including reasonable attorneys' fees, experts' fees, all court costs and other costs of action incurred by the prevailing party in connection with the prosecution or defense of such action and enforcing or establishing its rights hereunder (whether or not such action is prosecuted to a judgment). For the purposes of this Agreement, reasonable fees of attorneys of the Alameda City Attorney shall be based on the fees

regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the Alameda City Attorney's services were rendered who practice in Alameda County in law firms with approximately the same number of attorneys as employed by the Alameda City Attorney's Office.

**21. COMPLIANCE WITH ALL APPLICABLE LAWS:**

During the Term of this Agreement, Provider shall keep fully informed of all existing and future state and federal laws and all municipal ordinances and regulations of the City of Alameda which affect the manner in which the services or tasks are to be performed by the Provider, as well as all such orders and decrees of bodies or tribunals having any jurisdiction or authority over the same. Provider shall comply with all applicable laws, state and federal and all ordinances, rules and regulations enacted or issued by City.

**22. CONFLICT OF LAW:**

This Agreement shall be interpreted under, and enforced by the laws of the State of California without regard to any choice of law rules which may direct the application of laws of another jurisdiction. The Agreement and obligations of the parties are subject to all valid laws, orders, rules, and regulations of the authorities having jurisdiction over this Agreement (or the successors of those authorities.) Any suits brought pursuant to this Agreement shall be filed with the courts of the County of Alameda, State of California.

**23. WAIVER:**

A waiver by City of any breach of any term, covenant, or condition contained herein shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant, or condition contained herein, whether of the same or a different character.

**24. INTEGRATED CONTRACT:**

The Recitals and Exhibits are a material part of this Agreement and are expressly incorporated herein. This Agreement represents the full and complete understanding of every kind or nature whatsoever between the parties hereto, and all preliminary negotiations and agreements of whatsoever kind or nature are merged herein. No verbal agreement or implied covenant shall be held to vary the provisions hereof. Any modification of this Agreement will be effective only by written execution signed by both City and Provider.

**25. CAPTIONS:**

The captions in this Agreement are for convenience only, are not a part of the Agreement and in no way affect, limit or amplify the terms or provisions of this Agreement.

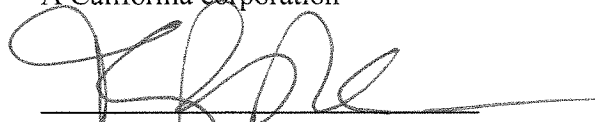
*Signatures on next page*



# 16-ASF-92

IN WITNESS WHEREOF, the parties have caused the Agreement to be executed on the day and year first above written.

CARNEGHI AND PARTNERS, INC.  
A California corporation

  
\_\_\_\_\_  
Timothy P. Runde  
Partner

CITY OF ALAMEDA  
A Municipal Corporation

\_\_\_\_\_  
Jill Keimach  
City Manager

  
\_\_\_\_\_

Name: Bradley Carneghi

Title: Secretary

RECOMMENDED FOR APPROVAL

\_\_\_\_\_  
Jennifer Ott  
Chief Operating Officer – Alameda Point

APPROVED AS TO FORM:  
City Attorney

\_\_\_\_\_  
Farimah Brown  
Senior Assistant City Attorney

### PROPOSAL SUMMARY HIGHLIGHTS

**Total Cost of the Project: \$4,500.00**

**Time to Complete Project: 30 Days**

#### PROJECT SCOPE:

Carneghi and Partners, Inc. to appraise 800 West Tower Avenue, a building located at Alameda Point. Appraisal is for sale to current tenant of 800 West Tower Avenue.

#### PROJECT SERVICES:

1. Carneghi and Partners, Inc. to appraise 800 West Tower Avenue, a building located at Alameda Point. Instructions are that the building is to be appraised as 87,514 square feet of light industrial; 3,500 square feet of finished office space; and, 12,984 square feet of unfinished office space

#### FEE PROPOSAL:

Project budget is proposed for \$4,500.00. A projected number of 30 days is expected to complete to project.

**QUALIFICATIONS OF TIMOTHY P. RUNDE, MAI, LEED AP**  
California Certified General Real Estate Appraiser No. AG011358

**EXPERIENCE & EDUCATION**

Tim Runde, MAI, LEED AP, is a Partner with Carneghi and Partners, Inc. in San Francisco, California.

Tim has over 20 years of commercial real estate appraisal experience encompassing a wide range of property types, including commercial office, industrial, retail and multi-family assignments. Areas of special expertise include green, high-performance and sustainable real estate, Net Zero Energy (NZE) buildings, health care properties, complex highest and best use analysis, urban land and infill redevelopment sites, leasehold valuations, ground leases and ground rent determinations, auto dealerships, schools and religious facilities. He has also provided litigation support and served as an expert witness in a variety of settings including bankruptcy court, arbitration and ad valorem tax appeal proceedings.

Tim received his Masters of Science in Real Estate Appraisal and Investment Analysis from the University of Wisconsin under the direction of Dr. James Graaskamp. While studying there, he was awarded a Hollander Fellowship with the Wisconsin Housing and Economic Development Authority and worked as a project manager with a national real estate developer.

Beginning in 2007, Tim developed particular expertise in green and high-performance buildings. He remains one of only a few MAI-designated appraisers to also hold a LEED AP accreditation, giving him a unique insight into the value implications of green building design and construction. Tim is a frequent guest speaker across the country to appraisers and others in the commercial and residential real estate industry on the value impact of green and high-performance building on both green buildings and existing building stock.

**PUBLICATIONS**

***Integrating Sustainability and Green Building into the Appraisal Process*** – *The Journal of Sustainable Real Estate (JOSRE)*, Volume 2, No. 1, 2010. Available at:  
<http://tinyurl.com/JOSRE-article>

***Are You Sustainable?*** – Sustainability's impact on real estate; *The Registry*, July/August 2010.

**TEACHING**

**Appraisal Institute Instructor: Residential & Commercial Valuation of Solar**, Laguna Hills, CA, September 2014.

**Course Reviewer: Residential & Commercial Valuation of Solar**, Appraisal Institute. Served 2012-13.

## **SPEAKING ENGAGEMENTS**

***Green Building 2014: Risks & Opportunities*** – Appraisal Institute Fall Conference, San Francisco, CA; September 2014.

***Valuing Net Zero Energy Buildings*** – Appraisal Institute Annual Meeting, Austin, TX; August 2014.

***Green Residential Issues: PACE, SPV, NZE*** – Appraisal Institute Spring Conference, San Francisco, CA; March 2014.

***Net Zero Energy Buildings: Fantasy or Reality?*** – Appraisal Institute Fall Conference, San Francisco, CA; November 2013.

***Valuing LEED Buildings: Making the Most of What Matters*** – Greenbuild International Conference, San Francisco, CA; November 2012.

***New Building Trends and Technologies*** – Appraisal Institute Fall Conference, San Francisco, CA; November 2012.

***Cracking the Code on Green Building Rating Systems*** – Appraisal Institute Annual Meeting, San Diego, CA; August 2012

***Case Studies in Highest and Best Use Analysis of Health Care Properties*** – Institute for Professionals in Taxation (IPT) Healthcare Property and Sales Tax Seminar, Nashville, TN; April 2012

***Fundamentals of Highest and Best Use, Economic Life and Depreciation for Health Care Properties*** – Institute for Professionals in Taxation (IPT) Healthcare Property and Sales Tax Seminar, Nashville, TN; April 2012

***Appraising Green Residential Properties*** – Appraisal Institute Fall Conference, San Francisco, CA ; October 2011.

***Case Studies in Green Valuation*** – Appraisal Institute Fall Conference, San Francisco, CA ; October 2011.

***Valuing Green Real Estate*** – Webinar, USGBC-Los Angeles, CA; April 2011.

***Effectively Valuing and Marketing Green Real Estate*** – BuildingsNY/Green-BuildingsNY Conference, New York City, NY; March 2011.

***Is Green the New Brown for Appraisers? 5 Lessons from the Field*** – Webinar, Appraisal Institute, San Francisco, CA; December 2010. Available at:  
<https://dl.dropbox.com/u/14128443/Webinar.wmv>

***Green Building Valuation Workshop*** – Appraisal Institute, Pleasanton, CA; November 2010.

***Sustainability – Beyond Green Building*** – Appraisal Institute Fall Conference, San Francisco, CA; October 2010.

**Case Studies in Green Building Valuation** - Appraisal Institute Fall Conference, San Francisco, CA; October 2010.

**What We See When You Say Green: Bridging the Communication Gap Between Green Building and Valuation Professionals** - BuildingsNY/GreenBuildingsNY Conference, New York City, NY; June 2010.

**Integrating LEED into the Appraisal Process** - Appraisal Institute GGBC, San Francisco, CA; April 2010.

### **PROFESSIONAL OUTREACH**

**Conference Chair – Appraisal Institute Fall Conference**, Northern California Chapter of the Appraisal Institute. 2014.

**Task Force Member, Residential Energy Conservation Ordinance**, City of San Francisco Department of the Environment, 2014 – present.

**Mentoring, University of Wisconsin-Madison - Wisconsin Real Estate Mentorship Program**, 2013 – present.

**Article Peer Reviewer – *The Appraisal Journal* and *International Journal of Strategic Property Management***, 2013 – present.

**Subject Matter Expert: Valuation of Green Buildings – Background Competence**, The Appraisal Foundation. Served 2012–13.

**Expert Panelist, Department of Energy, Building America Experts Meeting – San Francisco, CA; June 2011.**

**Committee Member – Green the MLS**, Build It Green. Served 2010.

**Planning Committee Member – Appraisal Institute Fall Conference**, Northern California Chapter of the Appraisal Institute. Served 2009 - present.

### **PROFESSIONAL AFFILIATIONS & STATE CERTIFICATION**

MAI Designation: No. 10770, Appraisal Institute

State of California Certified General Real Estate Appraiser No. AG011358

LEED Accredited Professional – BD&C , United States Green Building Council (USGBC)

Certified Green Real Estate Professional (CG-REP), Build It Green



Business, Consumer Services & Housing Agency  
BUREAU OF REAL ESTATE APPRAISERS  
REAL ESTATE APPRAISER LICENSE

Timothy P. Runde

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 011358

Effective Date: December 2, 2014  
Date Expires: December 1, 2016

*Jim Martin*  
Jim Martin, Bureau Chief, BREA

3017310

## **QUALIFICATIONS OF KATHLEEN MCCORMACK**

Kathleen McCormack is a Project Manager with Carneghi and Partners, Inc., and is based in the company's San Francisco office. Carneghi and Partners, Inc. provides real estate consulting services in the San Francisco Bay Area. Clients include financial institutions, government agencies, law firms, development companies and individuals. Typical assignments include both valuation and evaluations of a broad variety of property types, uses and ownership considerations.

### **EXPERIENCE**

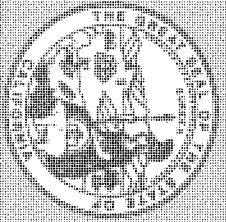
Ms. McCormack joined Carneghi and Partners, Inc. in 2010. Ms. McCormack's responsibilities include the preparation of narrative appraisals for a wide variety of appraisal assignments including retail, mixed-use, industrial, office, institutional and vacant land. Prior to joining Carneghi and Partners, Inc., Ms. McCormack was a research analyst with Sturgis-Bright Valuations in Emeryville, California.

### **EDUCATION**

University of California, Santa Cruz  
Bachelor of Arts, Community Studies

### **STATE CERTIFICATION**

State of California Real Estate Trainee Appraiser License No. AT3000844



Business, Consumer Services & Housing Agency  
**BUREAU OF REAL ESTATE APPRAISERS**  
**REAL ESTATE APPRAISER LICENSE**

**Kathleen A. McCormack**


has successfully met the requirements for a license as a residential real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Trainee Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: 3000844

Effective Date: May 3, 2015  
Date Expires: May 2, 2017

  
Jim Martin, Bureau Chief, BREA

3020947



**AMENDMENT TO THE SUBLEASE  
BETWEEN  
THE ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY  
AND  
BLADIUM, INC.  
FOR THE SUBLEASE OF CERTAIN PORTIONS OF  
NAVAL AIR STATION ALAMEDA  
LOCATED IN ALAMEDA, CALIFORNIA**

**THIS AMENDMENT** ("Amendment") to the Sublease ("Sublease") by and between the Alameda Reuse and Redevelopment Authority, a Joint Powers Authority established by the City of Alameda and the City Improvement Commission under the California Joint Exercise of Powers Act as set forth in Title 1, Division 7, Chapter 5, Article 1 of the Government Code of the State of California (Government Code Section 6500 *et seq.*) ("Sublessor"), and Bladium, Inc., a California corporation, ("Sublessee"), is made as of the 16th day of June, 2000, under the following circumstances:

**RECITALS**

**WHEREAS**, the United States of America is the owner of certain portions of the Naval Air Station, Alameda, ("NAS Alameda Property") that is the subject of the Sublease and this Amendment;

**WHEREAS**, Sublessor is the current tenant of those portions of Naval Air Station Alameda, that are the subject of the Sublease, under certain Large Parcel Lease, Naval Air Station, Alameda, between United States of America and Alameda Reuse and Redevelopment Authority (the "Master Lease") dated as of March 24, 1997;

**WHEREAS**, the Sublessor has entered into a Memorandum of Agreement to purchase the Naval Air Station, Alameda, from the United States of America through a no-cost Economic Development Conveyance pursuant to Section 2905 (b)(4) of the Defense Base Closure and Realignment Act of 1990, as amended;

**WHEREAS**, the Sublessor has entered into a Lease in Furtherance of Conveyance with the United States of America as part of the purchase of the Naval Air Station, Alameda, to restate and replace the Master Lease, and

**WHEREAS**, the parties intend the Sublease to remain in full force and effect until such time as the NAS Alameda Property is conveyed by the United States to the Sublessor.

**AGREEMENTS**

**NOW, THEREFORE**, in consideration of the premises and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties hereto agree as follows:

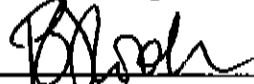
1. The Sublessor and the Sublessee agree that the Sublease shall continue in full force and effect pursuant to the terms and conditions of the of the Lease in Furtherance of Conveyance (a copy of which is attached as Exhibit 1), but in no event shall the term of the Sublease be greater than the existing term of the Sublease as subject to the Master Lease.

2. This Amendment shall be binding upon and shall operate to the benefit of the Sublessor and the Sublessee and their respective successors and assigns.

IN WITNESS WHEREOF, the Sublessor and Sublessee have executed this Amendment effective as of the 25 day of AUGUST, 2000.

**SUBTENANT:**

**Bladium, Inc.**  
a California Corporation

By   
Its PPES  
\_\_\_\_\_ and \_\_\_\_\_

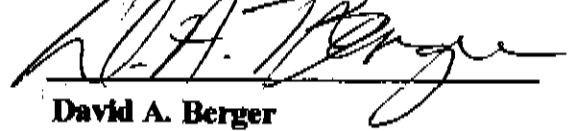
By \_\_\_\_\_  
Its \_\_\_\_\_

**SUBLESSOR:**

**ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY, AN AGENCY OF THE CITY OF ALAMEDA, a political subdivision of the State of California**

By   
**James M. Flint**  
**Executive Director**


**RECOMMENDED FOR APPROVAL:**

  
**David A. Berger**  
**Assistant City Manager**  
**Community & Economic Development**

**RECOMMENDED FOR APPROVAL:**

  
**Edward S. Levine**  
**Facilities and Property Manager**

**Approved as to form:**

  
**Maria Shanle**  
**Deputy General Counsel**

**ADDENDUM TO SUBLEASE**

This Addendum to Sublease, entered into this 1<sup>st</sup> day of ~~FEBRUARY~~ <sup>2000</sup> 1999, by and between the CITY OF ALAMEDA, a municipal corporation (hereinafter "City"); and Bladium Inc., a California corporation (hereinafter "Bladium"); and the Alameda Reuse and Redevelopment Authority, a Joint Powers Authority established by the City of Alameda and the County of Alameda under the California Joint Exercise of Powers Act as set forth in Title 1, Division 7, Chapter 5, Article 1 of the Government Code of the State of California (Government Code § 6500 et seq.) (hereinafter "ARRA").

RECITALS:

The parties enter into this Addendum on the basis of the following facts, understandings, and intentions.

A. On ~~January~~ <sup>FEBRUARY</sup> 1<sup>st</sup>, 2000, a Sublease was entered into by and between ARRA as sublessor and Bladium as Subtenant (hereinafter the "Sublease") with respect to Building 40, certain Land under and adjacent to the Building and the right of ingress and egress thereto at the Former Alameda Naval Air Station (collectively, the "Leased Premises").

B. Bladium desires an option to purchase the Leased Premises, and City and ARRA desire to grant such option to purchase pursuant to the terms and conditions contained herein.

C. The parties further desire that, in the event that the City obtains fee title to the Leased Premises, the City will be granted an assignment of the ARRA's interest in the Sublease between the ARRA and Bladium, so that the City will continue to maintain a lease with Bladium under the terms and conditions contained in the Sublease.

D. The Leased Premises under the Sublease are currently owned by the Department of the Navy, which has declared the Leased Premises to be surplus property.

E. The parties hereto anticipate that fee title in the Leased Premises will be conveyed from the Department of the Navy to the ARRA, and then promptly from the ARRA to the City. The parties intend for the assignment of interest and option to purchase described below to be triggered only in the event that the City obtains fee title to the Leased Premises.

F. The parties now wish to enter into the following agreement as set forth below.

NOW, THEREFORE, in consideration of the foregoing, the execution and delivery of the Sublease, this Addendum, and other good and valuable consideration, the receipt and sufficiency for which is hereby acknowledged and agreed, the parties as follows.

## AGREEMENT

### 1. Assignment of Interest.

In the event that the Department of the Navy conveys fee title to the Leased Premises to the ARRA, and the ARRA conveys fee title to the Leased Premises to the City, for value received, the ARRA does hereby agree to automatically transfer, assign and set over to City all of its right, title and interest in and to the Sublease between the ARRA and Bladium for use of the Leased Premises. In this event, the City and Bladium agree to be bound to a continuing lease agreement pursuant to the terms and conditions set forth in the Sublease and this Addendum.

### 2. Option to Purchase.

Bladium shall have the option to purchase the Leased Premises on the following terms and conditions:

A. **Effective Date.** This option to purchase will be effective only upon acquisition of fee title to the Leased Premises by the City, pursuant to a conveyance of the from the Department of the Navy to ARRA, and from ARRA to the City. In addition, this option to purchase will not be effective until all restrictions on use and ownership of the Leased Premises imposed by the State of California Lands Commission on Tidelands Trust Property are removed.

B. **Purchase Date.** The Leased Premises shall be made available for sale no earlier than the end of Year 4 of the lease term.

C. **Purchase Price.** The option purchase price of the Leased Premises shall be based on and equal to (I) the appraised fair market value of the Leased Premises as determined pursuant to this Section C.1., 2. And 3., inclusive, less (ii) the amount of all unamortized Qualified Shell Improvement Costs at the time of sale, as set forth in Section C.4. and the present value of the projected assessment at the time of sale, as set forth in Section C.5. below. The present value of the projected assessment shall be deducted from the appraised market value if, and only if, the ARRA requires Bladium to enter into an agreement and covenant, as set forth in Section C.5, that neither Bladium nor its successors in interest shall protest any form of public financing for Alameda Point infrastructure which may, in the future, be imposed on the property.

1. The appraised fair market value of the Leased Premises shall be based upon viewing the subject Building as 87,516 square foot of light industrial space; 3,500 square foot of finished office space and 12,984 square foot of unfinished office space requiring new carpets, paint and a dropped ceiling. The build-out, type of use, and condition of the Building shall be assumed to be as described in Exhibit F to the Sublease, but including all Qualified Shell Improvements as described in Exhibit E of the Sublease. Exhibit F shall be prepared by an MAI appraiser and incorporated into the Sublease within sixty (60) days of the Sublease Execution Date. The appraiser shall assume that the Building complies with all applicable building codes.

2. The appraiser may consider comparable values of similar property at both Alameda Point and in the adjacent East Bay market.

3. The appraised fair market value of the Leased Premises will be based on appraisals by MAI appraisers retained by City and Bladium based upon the provisions of this Addendum. If the lower appraisal is not less than 90% of the higher appraisal, the appraised fair market value of the Leased Premises shall be the average of the two appraisals. If the lower appraisal is less than 90% of the higher appraisal, the two appraisers shall select a third independent MAI appraiser who will appraise the Leased Premises based upon the provisions of this Addendum. If the two appraisers fail to select a third appraiser within ten (10) days after the dates their appraisals are compared, the third appraiser shall be selected by the American Arbitration Association within fifteen (15) days after the appraisals are compared at the request of either party or, if there is then no American Arbitration Association or if it refuses to perform this function, then at the request of either Sublessor or Subtenant, the third appraiser shall be appointed by the presiding judge of the Superior Court for the County of Alameda County. The third appraiser shall promptly make his or her assessment of the appraised fair market value of the Leased Premises and provide supporting materials for that assessment. The three appraisers shall within forty-five (45) days of the appointment of the third appraiser reach a decision as to what the appraised fair market value of the Leased Premises is by determining which two of the three appraisers assessments of such appraised fair market value are closest to one another and calculating the average of those two appraisers' assessments. That average of the two appraisers' assessments closest to one another shall constitute the appraised fair market value of the Leased Premises, subject to the terms of the Sublease, as amended. The appraisers shall have no power to modify the provisions of this Addendum and their sole function shall be to determine the fair market value of the Leased Premises pursuant to the terms of this Addendum. Each party shall pay the fees and expenses of their own appraiser and fifty percent (50%) of the fees and expenses of, and the cost of appointing, if any, the third appraiser.

4. The amount of all unamortized Qualified Shell Improvement Costs at the time of sale shall be deducted from the appraised fair market value of the Leased Premises as determined under Section C.1., 2., and 3., inclusive, in determining the option purchase price.

5. As a prerequisite to the exercise of the Option to Purchase, ARRA may require Bladium to enter into a separate agreement and covenant on the property that neither Bladium nor its successors in interest shall protest any form of public financing for Alameda Point infrastructure which may, in the future, be imposed on the property. If, and only if, the ARRA requires Bladium to enter into this agreement, the present value of the projected assessment at the time of sale shall be deducted from the appraised fair market value of the Leased Premises in determining the option purchase price.

6. Closing. The closing on the purchase of the Leased Premises shall take place not later than ninety (90) days after the date that Bladium notifies the City that it wishes to exercise its option to purchase or such later dates as the parties may mutually agree.

D. Closing Costs. Closing costs and prorrations shall be paid by the parties in accordance with the custom for Alameda County.


E. Memorandum. At such time as the City acquires fee title to the Leased Premises and all restrictions on use and ownership of the Leased Premises imposed by the State of California Lands Commission on Tidelands Trust property are removed, Bladium shall have the right to require the parties to execute, acknowledge, and record a memorandum of the Purchase Option in the official records of the County Recorder for Alameda County.

F. Termination. This option to purchase shall terminate upon the termination or expiration of the Sublease prior to the exercise of the option to purchase.

3. Ratification. The Sublease, as modified by this Addendum, is hereby ratified in all respects and shall be and remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have each caused their duly authorized representatives to execute and deliver this Addendum to Sublease for and on their behalf as of the day and year first above written.

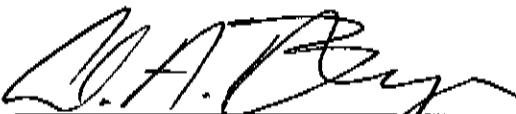
**Bladium, Inc.**  
A California Corporation

By   
\_\_\_\_\_  
Brad Shook  
Chief Executive Officer

**CITY OF ALAMEDA**  
A Municipal Corporation

By   
\_\_\_\_\_  
James M. Flint  
City Manager

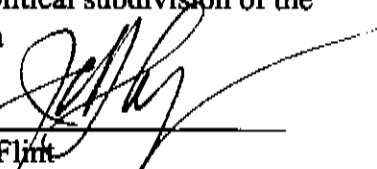
RECOMMENDED FOR APPROVAL:

  
\_\_\_\_\_  
David A. Berger, Deputy City Manager

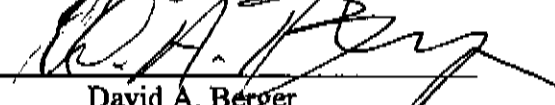
APPROVED AS TO FORM:

  
\_\_\_\_\_  
Maria Shanle, Deputy General Counsel

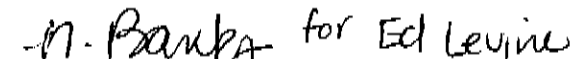
**ALAMEDA REUSE AND  
REDEVELOPMENT AUTHORITY, AN  
AGENCY OF THE CITY OF  
ALAMEDA, a political subdivision of the  
State of California**

By   
James M. Flint  
Executive Director


**RECOMMENDED FOR APPROVAL:**

  
David A. Berger  
Deputy City Manager

**RECOMMENDED FOR APPROVAL:**

 for Ed Levine  
Ed Levine  
Facilities Manager

**APPROVED AS TO FORM:  
General Counsel**

  
Maria Shanle  
Deputy General Counsel

ORIGINAL

**AGREEMENT OF SUBLEASE**

**SUBLEASE OF BUILDING 40**

**AT THE  
FORMER ALAMEDA NAVAL AIR STATION**

**BETWEEN**

**ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY,  
A JOINT POWERS AUTHORITY ESTABLISHED BY THE CITY OF ALAMEDA  
AND THE COUNTY OF ALAMEDA  
UNDER THE CALIFORNIA JOINT EXERCISE OF POWERS ACT  
AS  
SUBLESSOR**

**AND**

**BLADIUM, INC.,  
A CALIFORNIA CORPORATION  
AS  
SUBTENANT**



AGREEMENT OF SUBLEASE  
 SUBLEASE OF BUILDING 40 at the  
 FORMER ALAMEDA NAVAL AIR STATION  
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AGREEMENT OF SUBLEASE

BETWEEN

THE ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY  
AND  
BLADIUM, INC.

FOR THE  
SUBLEASE OF BUILDING 40

AT THE  
FORMER ALAMEDA NAVAL AIR STATION

THIS SUBLEASE is made this 1<sup>ST</sup> <sup>FEBRUARY</sup> ~~day of January~~, 2000 (the "Sublease Execution Date"), by and between the Alameda Reuse and Redevelopment Authority, a Joint Powers Authority established by the City of Alameda and the County of Alameda under the California Joint Exercise of Powers Act as set forth in Title 1, Division 7, Chapter 5, Article I of Government Code of the State of California (Government . Code §6500 *et seq.*) ("Sublessor") and Bladium, Inc., a California corporation ("Subtenant").

RECITALS:

WHEREAS, the UNITED STATES OF AMERICA, acting by and through the Department of the Navy, hereinafter called the "Government", has declared certain facilities surplus at the Naval Air Station, Alameda, California (the "Station"), and Sublessor has immediate need to use certain of these facilities; and

WHEREAS, such surplus property may be leased to state or local governments pending final disposition of such property pursuant to the provisions of Public Law 94-107, 10 U.S.C. 2667(f); and

WHEREAS, Government made and entered into that certain Large Parcel Lease with Sublessor dated March 24, 1997 (the "Prime Lease") to accomplish such result and has leased the Leased Premises (as hereinafter defined) herein described to Sublessor, as Lessee, upon the terms and conditions set forth in the Prime Lease.

WHEREAS, Sublessor is willing to lease the Leased Premises herein described from Government under the Prime Lease in order to be able to sublease the Leased Premises to Subtenant;

WHEREAS, on September 22, 1997, the City of Alameda Planning Board approved a Master Use Permit (UP97-1) for interim uses at the Station (the "**Master Permit**"); and

WHEREAS, on October 25, 1999 the City of Alameda Planning Board approved a Use Permit (UP-99-17) for interim use of the Leased Premises by Subtenant ("**Use Permit**").

WHEREAS, Sublessor and Subtenant have agreed to make and enter into this Sublease, whereby Subtenant will lease from Sublessor the Leased Premises (as hereinafter defined).

NOW, THEREFORE, in consideration of the terms, covenants and conditions hereinafter set forth, Sublessor and Subtenant hereby agree as follows:

1. **LEASED PREMISES.** Sublessor does hereby lease, rent, and demise to Subtenant and Subtenant does hereby hire and rent from Sublessor those certain premises known as Building 40, containing approximately 104,000 square feet, together with the improvements and fixtures situated therein (the "**Building**") and certain land including parking area under and adjacent to the Building, (the "**Land**") as shown and described on Exhibit A. The Building, the Land, all improvements thereon as shown and described in Exhibit A, and the right of ingress and egress thereto are collectively referred to in this sublease as the "**Leased Premises**."

1.1 **Subordinate to Prime Lease.** This Sublease is subject and subordinate to the Prime Lease between Government, a signed copy of which is attached hereto as Exhibit B. Subtenant acknowledges that Sublessor's rights to the Leased Premises arise solely under the Prime Lease. In the event that Sublessor obtains fee title to the premises, this Sublease shall be revised in accordance with attached Exhibit "G."

1.2 **Relationship to Prime Lease.** Notwithstanding any provision of this Sublease, Sublessor and Subtenant hereby agree as follows: (i) Subtenant will not do or permit anything to be done in or on the Leased Premises which will cause the occurrence of a default by Sublessor under the Prime Lease; (ii) if the Prime Lease expires or is terminated for any reason, then this Sublease shall thereupon terminate, without any liability to Sublessor (unless such expiration or termination is caused by a material default of Sublessor under the Prime Lease), as if such date were the scheduled expiration date of the Term, as defined in Section 2. Sublessor shall take all necessary actions within Sublessor's control to keep the Prime Lease in full force and effect during the term of this Sublease and any extensions thereto.

1.3 **Compliance with Prime Lease.** Sublessor covenants and agrees that it shall comply with all the terms of the Prime Lease if the failure to so comply would adversely affect the rights of Subtenant under the Sublease or would provide Government under the Prime Lease with



any right of cancellation or termination of the Prime Lease or the Sublease, or any termination, cessation or interruption of any rights or services to Subtenant under the Sublease.

1.4 Default in Prime Lease. Sublessor shall have no liability to Subtenant for Government's defaults under the Prime Lease. Subtenant agrees that Sublessor shall not be obligated to perform any of Government's obligations under the Prime Lease, except to the extent that such obligations are expressly made obligations of Sublessor under this Sublease. Subtenant further agrees that neither this Sublease nor any obligation hereunder, including the payment of Base Rent or Additional Rent (each as hereinafter defined), shall be affected by Government's default under the Prime Lease, except to the extent that the Prime Lease is terminated, or unless such default causes Sublessor to breach the covenant of quiet enjoyment in favor of Subtenant contained herein, provided however, that if as a result of Government's default Subtenant's use of the Leased Premises is materially adversely affected for a period of five (5) or more business days, all rent payable hereunder shall abate from the date of adverse impact until Subtenant's use is no longer so materially adversely affected. Sublessor shall make diligent efforts to enforce Government's obligations under the Prime Lease, however, Subtenant shall have the ability to enforce all rights of Sublessor under the Prime Lease, or cause Sublessor to enforce all such rights.

1.5 Prime Lease Controls. In the event of any conflict in the rights of Subtenant under this Sublease and the rights of Sublessor under the Prime Lease, the terms, conditions and covenants of the Prime Lease shall control.

1.6 Copy of Prime Lease. Subtenant represents that it received, read and is familiar with the terms of the copy of the Prime Lease delivered to it by Sublessor. Sublessor represents that the document attached hereto as Exhibit B is a true, correct and complete copy of the Prime Lease. Notwithstanding the foregoing, or anything otherwise stated herein, it is expressly understood that all obligations of Subtenant relative to this Sublease and Subtenant's use and occupancy of the Leased Premises are contained in this Sublease, and that Subtenant shall have no other or further obligations to Sublessor or to Government which are not expressly set forth in this Sublease.

2. **TERM.** Subject to Sections 2.1, 2.2, 2.3, 2.4 and 2.5 hereof, the term of this Sublease (the "**Term**") shall commence January 1, 2000 ("**Sublease Commencement Date**") and end on June 30, 2010 ("**Initial Term**") unless sooner terminated or extended as provided herein.

2.1 Joint Inspection. Notwithstanding anything stated in the preceding paragraph, prior to the use and occupancy of the Leased Premises by Subtenant, a joint inspection of the Leased Premises shall be conducted pursuant to Section 6 of the Prime Lease and Section 6 of this Sublease (the "**Joint Inspection**").

2.2 Commencement of Possession. Commencement of Possession. If Sublessor is unable to give possession of the Leased Premises on the Sublease Commencement Date because Government has not yet consented to this Sublease despite the exercise of Sublessor's diligent efforts

to obtain such consent, Sublessor shall not be subject to any liability for the failure to give possession on said date. Under such circumstances, unless the delay is the fault of Subtenant, the Rent (as defined herein) shall not commence until the Rent Commencement Date (as defined herein) and no such failure to give possession on the Sublease Commencement Date shall in any way affect the validity of this Sublease or the obligations of Subtenant hereunder, provided, however, that the Term shall be extended for the period of the delay. Notwithstanding the foregoing, if Sublessor is unable to provide Subtenant possession of the Leased Premises by January 30, 2000, then Subtenant shall be entitled to terminate this Sublease by providing fifteen (15) calendar days advance written notice to Sublessor stating that Subtenant is terminating the Sublease based upon failure of Sublessor to provide possession to Subtenant.

2.3 Extension of Term. Upon expiration of the Term of this Sublease, Subtenant shall have the right and option to extend the Initial Term for five (5) additional years ("**First Renewal Term**") as hereinafter provided. Tenant shall exercise said option by giving Sublessor written notice prior to March 31, 2010 ("**First Renewal Notice Date**"). If such notice is not given by Subtenant prior to such First Renewal Notice Date, such right and option to extend this Sublease shall terminate. If Subtenant exercises such option as provided herein, the respective rights, duties and obligations of Government, Sublessor and Subtenant during the First Renewal Term shall be governed by the terms and conditions of the Sublease with no increase in rent other than normal CPI adjustments as defined in Section 3.10 hereof.

2.4 Second Extension of Term. Upon expiration of the First Renewal Term of this Sublease, and provided Subtenant is not in default under the Sublease at the time of exercising its rights under this Section, Subtenant shall have the right and option to extend the Sublease Term for ten (10) additional years ("**Second Renewal Term**") as hereinafter provided. Tenant shall exercise said option by giving Sublessor written notice prior to March 31, 2015 ("**Second Renewal Notice Date**"). If such notice is not given by Subtenant prior to such Second Renewal Notice Date, such right and option to extend this Sublease shall terminate.

If Subtenant exercises such option as provided herein, the respective rights, duties and obligations of Government, Sublessor and Subtenant during the Second Renewal Term shall be governed by the terms and conditions of the Sublease.

Subtenant's rent in the first year of the Second Renewal Term shall be adjusted to equal ninety percent (90%) of the fair market rental value for monthly Base Rent for the Leased Premises ("**FMRV**") for the Second Renewal Term, as extended. The FMRV shall be based upon viewing the Building as 87,516 square feet of light industrial space; 3,500 square feet of finished office space and 12,984 square feet of unfinished office space (requiring new carpets, paint, HVAC, telecommunications ducts, lighting and a dropped ceiling), with appropriate adjustments for location and other factors that affect value. The build-out, type of use, and condition of the building shall be as described in Exhibit F hereto, but including all Qualified Shell Improvements (as described herein). The appraiser shall assume that the Building complies with all applicable building codes. Sublessor shall cause Exhibit F to be prepared by an MAI appraiser and addressed to Sublessor and

Subtenant ("**Initial MAI Report**") and incorporated into the Sublease within sixty (60) calendar days of the Sublease Execution Date.

Upon Subtenant's exercise of the right to extend the Initial Term, each party shall jointly retain an MAI appraisal to determine the FMRV for the Leased Premises during the Second Renewal Term utilizing the instructions included herein ("**Future Appraisal**"). The cost of such appraisal shall be shared equally. In the event Sublessor and Subtenant cannot agree on the FMRV, then Sublessor and Subtenant shall each retain another MAI appraiser at their own costs to determine the FMRV as specified herein. If the lower appraisal is not less than 90% of the higher appraisal, FMRV shall be the average of the two appraisals. If the lower appraisal is less than 90% of the higher appraisal, the two appraisers shall select a third independent MAI appraiser who will appraise the FMRV. In this event, the FMRV shall equal the average of the two closest of the three appraisers.

The rent during years two through ten of the Second Renewal Term shall be subject to normal CPI adjustments as defined in Section 3.10 hereof.

2.5 Third Extension of Term. Upon expiration of the Second Renewal Term of this Sublease, and provided Subtenant is not in default under the Sublease at the time of exercising its rights under this Section, Subtenant shall have the right and option to extend the Sublease Term for an additional ten (10) years ("**Third Renewal Term**") as hereinafter provided. Tenant shall exercise said option by giving Sublessor written notice prior to March 31, 2025 ("**Third Renewal Notice Date**"). If such notice is not given by Subtenant prior to such Third Renewal Notice Date, such right and option to extend this Sublease shall terminate.

If Subtenant exercises such option as provided herein, the respective rights, duties and obligations of Government, Sublessor and Subtenant during the Second Renewal Term shall be governed by the terms and conditions of the Sublease.

Subtenant's rent in the first year of the Third Renewal Term shall be adjusted to equal ninety percent (90%) of the fair market rental value for monthly Base Rent for the Leased Premises ("**FMRV**") for the Third Renewal Term, as extended. The FMRV shall be determined in the same manner as described in Section 2.4.

The rent during years two through ten of the Third Renewal Term shall be subject to normal CPI adjustments as defined in Section 3.10 hereof.

2.6 Early Termination. In the event that at any time during the Term, Subtenant is unable to obtain permits required by it to carry on fully its business activities at the Leased Premises, Subtenant may terminate this Sublease upon sixty (60) calendar days prior written notice to Sublessor. In addition, (i) if as a result of the expiration or termination of, or a material change to, either the Master Permit or the Use Permit, Subtenant is unable to carry on fully its business activities at the Leased Premises, (ii) if the cost of the qualified shell improvements (as set forth on

Exhibit E attached hereto) significantly exceeds the Maximum Qualified Shell Improvement Costs, as defined herein, or (iii) if Subtenant's Lender, as defined herein, is unwilling to finance subtenant's improvements, Subtenant may terminate this Sublease on thirty (30) calendar days prior written notice to Sublessor.

**3. CONSIDERATION.**

3.1 **Base Rent.** Subtenant shall pay to Sublessor as "**Base Rent**" an amount as indicated hereiu. **Base Rent** shall commence on the date that is thirty (30) calendar days after issuance of a Temporary Certificate of Occupancy for the Leased Premises by the City of Alameda Building Department ("**Rent Commencement Date**"). Each monthly payment of Base Rent shall be paid in advance promptly on the first day of every calendar month of the Term. The Base Rent shall be paid without prior notice or demand, and, except as may be authorized under Sections 3.2, 3.3, 3.4 and 3.5 hereof, without any setoff, counterclaim or deduction whatsoever, except as provided for herein. The Base Rent shall be paid at Sublessor's offices, or such other place, as Sublessor shall direct. If the Base Rent commences on a day other than the first day of the calendar month or ends ou a day other than the last day of the calendar month, Base Rent for any such partial month shall be prorated at the rate of one-thirtieth of the monthly Base Rent for each day of the period. As an additional part of Base Rent and consideration for this Sublease, Subtenant shall pay any and all Taxes levied or imposed against the Leased Premise in accordance with the provisions of Section 27.

Year	Base Rent Per Square Foot	Monthly Rent
1	\$0.27	\$28,080
2	\$0.27	\$28,080
3	\$0.28	\$29,120
4	\$0.30	\$31,200
5	\$0.32	\$33,280
6-10	Annual CPI increase as per Section 3.10	Annual CPI increase as per Section 3.10

3.2 **Base Rent Offset.** Sublessor shall permit Subtenant to receive an offset from payment of Base Rent equal to the actual cost of certain physical improvements made by Subtenant to the Building and Land ("**Qualified Shell Improvement Costs**") as further defined in **Exhibit E** attached hereto. The offset shall be in the amount of 100% of the Base Rent during the first year of the Initial Term on a monthly basis. The outstanding balance of the Qualified Shell Improvement Costs shall accrue interest payable to Subtenant beginning on the Sublease Commencement Date. The interest rate will be a variable rate based on the prime lending rate as published by the Wall Street Journal plus 2.00 percentage points, adjusted quarterly. Interest will be calculated on the basis of a 360-day year and actual days elapsed. Sublessor shall also reimburse Subtenant for actual loan

fees up to a maximum of \$25,000, which may be added to the outstanding balance of the Qualified Shell Improvement Costs.

Subtenant shall provide to Sublessor an itemized statement of the Qualified Shell Improvement Costs along with such documentation as reasonably required by Sublessor evidencing and verifying that Subtenant has completed the work and that Subtenant has expended the funds for such Qualified Shell Improvement Costs. Notwithstanding any of the foregoing, the total Qualified Shell Improvement Costs shall be the actual costs of improvements described in Exhibit E but shall not exceed nine hundred and seventy five thousand dollars (\$975,000) ("**Maximum QSIC**"). Notwithstanding the foregoing, the Maximum QSIC shall be increased by actual loan fees and interest accrual as described above. Also notwithstanding any of the foregoing, the Maximum QSIC may be increased upon Sublessor's sole discretion. Also notwithstanding the foregoing, certain other provisions of the Sublease provide for additions to the amount of the Maximum QSIC.

Notwithstanding anything contained in this Sublease to the contrary and in addition to Subtenant's rights and remedies under the Sublease, should Sublessor default under the Sublease, Sublessor, its successor and assigns, shall promptly pay Subtenant for all unamortized Qualified Shell Improvement Costs as of the date of default or termination, as the case may be. In the event that Subtenant shall purchase the Leased Premises at a time when the Qualified Shell Improvement Costs have not been fully paid by Sublessor to Subtenant, the unpaid portion of the Qualified Shell Improvement Costs shall be deducted from the purchase price.

3.3 Discounts For Use By Community Groups. As part of Bladium's community outreach program ("**COP**"), Bladium will make certain areas of the facility available at no charge for not less than four (4) hours per month to qualified youth groups and organizations. Qualified youth groups and organizations ("**QYG**") must be non-profit entities based in Alameda and established to serve the Alameda community and shall be certified as QYGs by the City of Alameda. QYG must have adequate insurance coverage and adult supervision. Bladium reserves the sole right to approve all QYG. Bladium shall not be obligated to provide staff, supervision, or equipment for any COP, QYG or any program contemplated herein. Bladium shall in its sole and absolute discretion determine the time(s), day(s), and activities in which this program may be utilized. During this program, the QYG may share areas of the facility with other Bladium programs, activities and guests. The number of hours per month is not cumulative and will expire after each month. This program is intended to provide youth groups with recreational services.

3.4 No Security Deposit. A security deposit securing Subtenant's obligations under this Sublease is waived.

3.5 Additional Rent. All sums payable by Subtenant to Sublessor under this Sublease not otherwise payable as Base Rent, including but not limited to the sums payable pursuant to Sections 12 and 27 of this Sublease, shall be deemed additional rent ("**Additional Rent**"). For the purposes of this Sublease, Base Rent and Additional Rent are hereinafter collectively referred to as "**Rent**".

3.6 Default Rate. If any portion of Rent shall be due and unpaid for more than ten (10) business days, it shall thereafter bear interest at the per annum rate equal to 2% per annum greater than the prime rate of interest announced from time to time by the Wall Street Journal, as the same may change from time to time (the "Default Rate"), from the due date until the date of payment thereof by Subtenant.

3.7 Late Charge. If any payment of Rent or any part thereof to be made by Subtenant to Sublessor pursuant to the terms of this Sublease shall become overdue for a period in excess of ten (10) business days after written notice from Sublessor that the same is past due, a late charge of five cents for each dollar overdue shall be paid by Subtenant for the purpose of defraying the expense incident to handling such delinquent payment, together with interest from the date such payment or part thereof was due, at the Default Rate. Nothing herein or in the imposition or acceptance of a late charge by Sublessor shall be construed as a waiver of any rights of Sublessor arising out of any default of Subtenant; the right to collect any late charge or interest is separate and apart from any rights or remedies of Sublessor relating to any default by Subtenant.

3.8 Survival. The obligation of Subtenant with respect to the payment of Rent shall survive the termination of this Sublease, subject to the terms and conditions of the Sublease.


3.9 Net Lease. Subtenant hereby acknowledges and agrees that this Sublease is intended to be a triple net lease to Sublessor, as such term is commonly used for the leasing of industrial properties, except as expressly herein set out, such that Sublessor is not responsible for any costs, charges, expenses and outlays of any nature whatsoever arising from or relating to the Leased Premises, or the use and occupancy thereof, or the consents thereof or the business carried on therein, and that Subtenant shall pay all charges, impositions, costs and expenses of every nature and kind relating to the Leased Premises except as expressly otherwise agreed herein. As set forth in this Sublease, all costs of maintenance and repair of the Leased Premises, all costs of insuring the Leased Premises, and all taxes, as that term is defined in Section 27 of this Sublease, allocated to the Leased Premises shall be paid by Subtenant. Notwithstanding anything contained in this Sublease to the contrary, Subtenant shall have no obligation to make any capital or extraordinary improvements or repairs to the Leased Premises or to perform any environmental remediation of or at the Leased Premises, except as and to the extent provided in Section 12 hereof, or to the extent any of the same is necessitated by Subtenant's negligence or willful misconduct or results from Subtenant's misuse of hazardous materials.

3.10 CPI Adjustments to Rent. The rent adjustments paid by Subtenant during years six through ten of the Initial Term, years two through ten of each year of the First Renewal Term, years two through ten of the Second Renewal Term and years two through ten of the Third Renewal Term shall be adjusted according to the following formula:

$$\text{Adjusted rent} = \text{prior year's annual rent} \times \frac{\text{Preceding year's Index (as defined below)}}{\text{Index for the year prior to preceding year}}$$

Such adjusted rent shall be payable in twelve (12) equal monthly installments; provided, however, that in no event shall the Base Rent be increased due to CPI adjustments by more than 5% or less than 2% per annum during years 6-10 of the Initial Term or by not more than 8% or less than 2% during the First Renewal Term and subsequent renewal terms.

Index ("**Index**") shall mean the Consumer Price Index ("**CPI**") for all items and all Consumers for Alameda County, as published by the United States Department of Labor, Bureau of Labor Statistics, or its successor index for the six month average for months July through December issued in February of the following year. In the event that the United States Bureau of Labor Statistics shall discontinue the issuance of the Index, then the rental adjustments provided for in this Sublease shall be made on the basis of changes in the most comparable and recognized cost of living index then issued and available which is published by the United States Government.

 4. **USE OF LEASED PREMISES.** The sole purpose for which the Leased Premises may be used, by Subtenant or authorized contractors, subcontractors or licensees of Subtenant, is for light industrial use or general warehouse, office and/or recreational uses including but not limited to arena soccer, in-line hockey, rock climbing, fitness center, group exercise, baseball, golf, basketball, volleyball, food and beverage service, go cart racing, sports tournaments, gymnastics, video games, boxing, special events and parties, retail sales and any other related uses.

4.1 **No Other Uses.** The Leased Premises shall not be used for any other purposes, which are substantially different than the uses listed in Section 4 without the prior written approval of Government and Sublessor, which shall not be unreasonably withheld.

4.2 **Compliance With FOSL and Other Governmental Documents.** Any use or uses of the Leased Premises shall comply with all terms and conditions of this Sublease and with the Findings for Suitability to Lease ("**FOSL**") for the Leased Premises under the Prime Lease and all conditions expressed therein as well as all conditions expressed in any Categorical Exclusion or other environmental action with respect to the uses of the Leased Premises prepared for compliance with the National Environmental Protection Act. A copy of the Categorical Exclusion is attached as Exhibit C. A copy of the FOSL is available for review at Sublessor's offices during normal business hours.

4.3 **Use of Hazardous or Toxic Materials.** Pursuant to 10 U.S.C. 2692, Subtenant is prohibited from storing or disposing non-DOD-owned toxic or hazardous materials, which includes materials that are of an explosive, flammable, or pyrotechnic nature, on a military installation, except to the extent authorized by a statutory exception to 10 U.S.C. 2692 or as authorized by the Secretary of Defense or his or her designee. In the event that Subtenant desires to store or dispose of any such non-DOD-owned toxic or hazardous materials, which includes materials that are of an explosive, flammable, or pyrotechnic in nature, on a military installation, except to the extent authorized by a statutory exception to 10 U.S.C. 2692, Subtenant shall contact Sublessor in writing and Sublessor shall coordinate with Government the obtaining of any approvals required to be obtained from the Secretary of Defense or his or her designee.

4.4 Exclusive Use Provision. Sublessor agrees that it will not lease or sell any property at the Station to any other private party, person, entity or company to utilize such property that would compete with Subtenant's Leased Premises, products or services. Competition includes and is limited to in-line hockey, arena soccer, fitness center, rock climbing, gymnastics, martial arts or any other recreational use offered by Subtenant. This provision does not apply to public parks or facilities owned and operated by the City of Alameda. Sublessor specifically reserves the right to sublease other properties within the Station for a privately owned ice skating facility.

4.5 Hours of Operation. Sublessor acknowledges and agrees that the Leased Premises will be open for business Monday through Sunday from 6:00 AM to 1:00 AM. These hours may be modified to accommodate for increased or decreased demand.

4.6 Confidential. Sublessor agrees that it shall keep the terms and conditions of this Sublease and any other information relating to Subtenant confidential and shall ensure that its agents, employees and representatives will not disclose in any manner whatsoever, in whole or in part, any information relating to this proposal, except as may be required by law.

## 5. ASSIGNMENT AND SUBLETTING.

5.1 No Assignment or Subletting. Subtenant shall not, without Sublessor's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed (i) except as otherwise provided herein, assign, convey, mortgage, pledge, encumber or otherwise transfer (whether voluntarily or otherwise) this Sublease or any interest under it; (ii) allow any transfer of or any lien upon Subtenant's interest by operation of law; (iii) sublet more than 5,000 square feet of space within the Leased Premises or any part thereof, or (iv) permit the use or occupancy of the Leased Premises or any part thereof by anyone other than Subtenant and its employees. Notwithstanding anything in Sections 5.1, 5.2 and 5.3 to the contrary, Sublessor agrees to cooperate and allow Subtenant to use this Sublease as security for a loan ("Loan"). The Loan proceeds will be used to complete the improvements to the Leased Premises and the Lender (as defined herein) will have a security interest in Subtenant's leasehold estate and assets of Subtenant located within the Leased Premises to be used exclusively for the uses permitted herein. Sublessor further agrees to refinancing of the Loan at future dates. Sublessor agrees to reasonably cooperate and work with Subtenant's lender ("Lender") on any financing issues or documents required by Lender.

5.2 Request for Assignment or Subletting. Subtenant's request for consent to any subletting or assignment shall be in writing and shall contain the name, address, and description of the business of the proposed assignee or subtenant, its most recent financial statement and other evidence of financial responsibility, its intended use of the Leased Premises, and the terms and conditions of the proposed assignment or subletting. Within thirty (30) calendar days from receipt of such request, Sublessor shall either grant or refuse consent, which consent shall not be unreasonably withheld, conditioned or delayed. Failure to respond within thirty (30) calendar days shall be deemed approval. Notwithstanding anything in Sections 5.1, 5.2 and 5.3 to the contrary,



Sublessor agrees to allow Subtenant the ability to sublease or grant concessions to operate up to 10,000 square feet of office space in the Leased Premises for general office use, provided Subtenant remains fully liable to Sublessor under the terms of this Sublease.

5.3 Change in Control. For purposes of this section, any transfer or change in control of Subtenant by operation of law or otherwise shall be deemed an assignment hereunder, including, without limitation, any merger, consolidation, dissolution or any change in more than 50 percent of the interests of Subtenant, whether in a single transaction or a series of related transactions. Notwithstanding the forgoing, Subtenant shall have the right, without Sublessor's consent but upon notice in writing to Sublessor, to transfer and assign Subtenant's rights, title and interest under this Sublease to any of its subsidiaries, affiliates (an entity which is controlled by, controls, or is under common control with Subtenant or Subtenant's shareholders), or successor legal entities or to any entity acquiring substantially all of the assets of Subtenant provided such party's net worth, computed in accordance with the generally accepted accounting principals, is not less than the net worth of Subtenant as of the date of the Sublease Execution Date or to a wholly-owned subsidiary of a holding company which is under the same control and ownership as Subtenant. The term controls (including the terms "controlled", "controlled by", and "under common control with") means the possession, direct or indirect, of power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract, or otherwise. Notwithstanding anything in Sections 5.1, 5.2 and 5.3 to the contrary, Sublessor shall consent to an assignment of this Sublease if the proposed assignee meets the following criteria: (i) the proposed assignee has demonstrated financial resources equal to or greater than those of Subtenant and (ii) the proposed assignee agrees to assume all obligations of Subtenant under the Sublease and be bound by all the terms and conditions of the Sublease.

5.4 Requirements for Assignment or Subletting. If, with the consent of Sublessor, this Sublease is assigned or if the Leased Premises or any part thereof is sublet or occupied by anybody other than Subtenant (except as set forth herein), Sublessor may, after default by Subtenant, collect rent from the assignee, subtenant, or occupant, and apply the net amount collected to the Rent herein reserved. If Sublessor consents to any such subletting or assignment, it shall nevertheless be a condition to the effectiveness thereof that a fully executed copy of the sublease or assignment be furnished to Sublessor and that any assignee assumes in writing all obligations of Subtenant hereunder. No consent to any assignment, subletting or occupancy shall be deemed a waiver of any of Subtenant's covenants contained in this Sublease nor the acceptance of the assignee, subtenant or occupant as Subtenant, nor a release of Subtenant from further performance of any covenants and obligations under this Sublease.

5.5 Consent. Any consent given by Sublessor to an assignment or subletting of this Sublease shall not constitute a waiver of the necessity of such consent to any subsequent assignment or subletting.

6. JOINT INSPECTION REPORT. Prior to execution of this Sublease, a joint inspection of the Leased Premises shall be conducted by representatives of Sublessor, Subtenant and

Government ("**Joint Inspection**"). The Joint Inspection report shall be prepared at the sole cost and expense of Sublessor to document the existing condition of the Leased Premises, including any deficiencies, which may exist. The Joint Inspection Report is attached as Exhibit C to the Prime Lease and as Exhibit D to this Sublease, and shall be incorporated into this Sublease by this reference along with the videotape footage of the Leased Premises, a copy of which will be held by each of Sublessor and Subtenant.

6.1 Corrections. Any safety or health hazards identified during the above said Joint Inspection shall be corrected prior to the use and occupancy of the Leased Premises. Responsibility and expense for correcting any such hazards shall have been determined by mutual agreement between Sublessor, Government and Subtenant prior to commencement of the Sublease. Subtenant shall have the option, but not the obligation, to correct any condition identified in the Joint Inspection Report, on behalf of Sublessor, so as to avoid any termination of the Prime Lease pursuant to Section 14.3 thereof.

6.2 Termination for Condition of Leased Premises. If, prior to construction of the Qualified Shell Improvements, Subtenant finds that the Leased Premises is not in fact in a condition suitable for the use intended by Subtenant, and will not for whatever reason be rendered suitable for such use by Government, Sublessor, or Subtenant; then Subtenant may terminate this Sublease, without incurring any liability to Sublessor, upon ten (10) days written notice to Sublessor.

6.3 No Warranty by Government or Sublessor. Except as otherwise set forth in this Sublease, the Leased Premises will be delivered to Subtenant by Sublessor "as is, where is," and, as such, Sublessor makes no warranty as to such facilities and property either as to their usability generally or as to their fitness for any particular purpose except as made in the Prime Lease. Without limiting application of the foregoing, Subtenant specifically acknowledges that the roof of the Building may be defective and may leak and require repair during the Term of this Sublease. In addition to the hold-harmless and indemnification provisions contained elsewhere in this Sublease, Subtenant agrees to hold Sublessor harmless for any damage to any property resulting from or related in any way to the defective roof, including but not limited to damage from water and other elements leaking through the roof and into the Building, and from any interruption of its business, loss of income or other financial loss resulting from or related in any way to Sublessor's decision to, and Sublessor's actual repair of, the roof. Should this Sublease terminate and not be succeeded by either another lease or sublease, or a conveyance of title to the Leased Premises, or by active negotiation for either lease or conveyance, Subtenant shall turn over to Government the Leased Premises in the same condition in which they were received, reasonable wear and tear excepted and subject to the approved or allowed alterations and modifications of the Leased Premises made by Subtenant. Sublessor acknowledges and agrees that Subtenant plans to complete a significant amount of work required to convert the Leased Premises into a new recreational sports facility and that Sublessor shall accept the Property back as improved by Subtenant less Subtenant's office furniture, trade fixtures, permanent fixtures, sports equipment, rock wall, arena lighting, bleachers, mezzanines, kitchen equipment and any other of Subtenant's property ("**Subtenant's Property**") upon termination. The Joint Inspection Report attached hereto as Exhibit D shall be used as the

measurement with respect to any pre-existing contamination of the Leased Premises and the initial condition of the Lease Premises.

6.4 Possession as Evidence of Conditions. Subtenant's taking possession of the Leased Premises shall be conclusive evidence that the Leased Premises were in satisfactory condition when Subtenant took possession, except as to latent defects and as otherwise may be set forth in the Joint Inspection Report. No promises of Sublessor to alter, remodel, repair or improve the Leased Premises and no representation respecting the condition of the Leased Premises have been made by Sublessor to Subtenant, except as expressly stated in this Sublease.

## 7. ALTERATIONS.

7.1 No Alterations. Subtenant shall not make any substantial alterations, improvements, or additions to the exterior or interior of the Leased Premises (collectively the "Work") other than the Qualified Shell Improvements and any other work or improvements made to the Leased Premises required to convert the Leased Premises into a recreational sports facility, without prior written consent of Sublessor's Facilities Manager in each and every instance, which consent shall not be unreasonably withheld, conditioned or delayed. Substantial shall mean costing in excess of \$25,000 in any twelve (12) month period. Any Work which adds to, removes, or otherwise alters, the structural components of the Building, including the roof, any support structures, foundations, the exterior of the Building, and the fire retardant and other life safety systems of the Building, shall be deemed to be substantial unless Sublessor states in writing otherwise. In the event Subtenant desires to perform any Work, Subtenant shall first submit to Sublessor a written description of the proposed Work, and, if Sublessor requires, plans and specifications relating thereto, and obtain Sublessor's written approval, which approval shall not be unreasonably withheld, conditioned or delayed prior to commencing it. Approval of Work may be conditioned upon providing Sublessor with a performance and payment bond satisfactory to them in all respects in addition to other requirements deemed reasonably necessary to protect the interests of Sublessor. In the event Sublessor does not respond to Subtenant's request for written approval within twenty (20) business days of such request, Sublessor shall be deemed to have given such approval. Requests for approval shall be made to Sublessor's Facilities Manager.

7.2 City of Alameda Building Department. Because of the possibility that the Leased Premises will ultimately be under the jurisdiction of the City of Alameda for compliance with health and safety regulations and requirements, prior to undertaking or doing any Work on the Leased Premises, or any portion thereof, Subtenant agrees to submit an application to the City of Alameda Building Department, and, if required by the City, to other City departments, for review and obtaining approval of such plans and proposals for such Work to the Leased Premises, whether or not such are at such time is under the legal Jurisdiction of the City for such review and approval, unless such review and approval process is expressly waived in writing by such City Department. In addition to the application to the City of Alameda Building Department, Subtenant shall also submit a narrative description of all proposed Work on the Leased Premises, with the projected schedule and costs thereof, and an analysis as to how and why such Work will or will not be visible

for the exterior of the Building, or affect any historically significant features, or be substantially likely to adversely affect the environmental cleanup of the Station, human health, or the environment, or adversely impact the structure of the Building. All Work shall be done at the expense of Subtenant without any costs or obligation to Sublessor. No Work shall be undertaken by Subtenant on the Leased Premises, unless such Work has been approved by the City Building Department (such approval shall not be unreasonably withheld, conditioned or delayed) or such review has been waived in writing. In addition, there shall be no Work performed on the Leased Premises other than the Qualified Shell Improvements and any other work or improvements required to convert the Building and Land into a recreational sports facility without prior written authorization from Government under the Prime Lease to the extent required, and in the manner set forth, in Section 8 thereof, which consent shall not be unreasonably withheld, conditioned or delayed.

7.3 Improvements at End of Lease Term. At the termination of this Sublease, all fixed and permanent improvements made by Sublessor or Subtenant in or upon the Leased Premises shall become Sublessor's property and shall remain upon the Leased Premises at the termination of this Sublease without compensation to Subtenant (excepting only Subtenant's movable office furniture, trade fixtures, permanent fixtures, sports equipment, arena lighting, mezzanines, kitchen equipment, manufacturing, office and professional equipment, and any Work approved by Sublessor as to which, at the time of such approval, Sublessor stated, in writing, that such Work had to be removed at the termination of the Sublease).

7.4 Asbestos. Government has provided to Sublessor an asbestos survey for the Building. Before Subtenant undertakes any alterations, modifications or any other Work which will disturb any known friable or non-friable asbestos in the Building, Subtenant shall set forth a plan stating how it will handle any such asbestos, which plan shall be reviewed and approved by Sublessor. Notwithstanding the foregoing, any work relating to the removal of asbestos shall be approved by Sublessor if the plan to remove is in conformance with the current laws and regulations regarding the removal of such materials. All work associated with removing any asbestos shall qualify as additional Qualified Shell Improvement Costs. Government's asbestos survey for the Building is available for review by Subtenant at Sublessor's offices during normal business hours.

8. ACCESS BY GOVERNMENT AND SUBLESSOR. In addition under Sections 12.5 and 12.9, Government and Sublessor shall be allowed access to the Leased Premises at all reasonable times throughout the term of this Sublease, for any reasonable purposes upon prior written notice to Subtenant. Government and Sublessor will normally give Subtenant a minimum 24-hour prior notice of an intention to enter the Leased Premises, unless the entry is required on an emergency basis for safety, environmental, operations or security purposes. Unless an emergency situation, all such entry by Government and Sublessor shall be accompanied by an authorized representative of Subtenant. Subtenant shall ensure that a telephone roster is maintained at all times for on-call persons representing Subtenant who will be available on short notice, 24 hours a day, 365 days per year, and possess and have authority to use all keys necessary to gain access to the Leased Premises, to facilitate entry in time of emergency. Subtenant shall ensure that Sublessor has a

current roster of such on-call personnel and their phone numbers. Subtenant shall have no claim against Government or Sublessor for exercise of their rights of access hereunder.

8.1 Utilities Access. Portions of Government's utilities systems serving the Station may be located within the Leased Premises and if so are reserved for use by Government under the Prime Lease. Subtenant agrees to allow Government and its utility suppliers reasonable access to the Leased Premises for operation, maintenance, repair and replacement of these utilities systems as may be required, provided such operation, maintenance, repair and replacement of these utilities systems does not significantly interfere with Subtenant's operations. In executing operation, maintenance, repair or replacement of these systems, Government has agreed in the Prime Lease to take all reasonable steps to limit interference with the use of the Leased Premises by Sublessor and its sublessees, including Subtenant.

## 9. UTILITIES

9.1 Provision of Utilities. Utilities will not be furnished to Subtenant by Sublessor. Sublessor will assist Subtenant in obtaining utilities from Government, as long as Government is providing utilities to occupants of the Station, other than Government's operations, or from other sources. Subtenant acknowledges that Government may terminate providing such utility services, that Sublessor is not obligated to provide utilities to Subtenant after Government ceases to provide any such utility services to the Leased Premises, and that the obtaining of such utility services after termination of providing of the same by Government is solely the responsibility of Subtenant. Sublessor will assist Subtenant in obtaining utilities should Government cease to provide such utilities to the Leased Premises. Any separate metering of utilities required by Government or by any utility provider shall be the responsibility of Subtenant. In the event that Subtenant is unable to obtain reasonable costs and rates, then Subtenant shall have the right to terminate this Sublease upon prior ten (10) day written notice to Sublessor. In the event that Subtenant is required by any utility provider or governmental authority to install or pay for any separate utility meters to the Leased Premises, the cost of the same plus the costs required to obtain and install any new utility shall constitute Qualified Shell Improvement Costs pursuant to Section 3 of this Sublease.

9.2 Payment for Utility Consumption. Subtenant shall pay for the consumption of all utilities used at or on the Leased Premises, including, but not limited to, electricity, gas, water, sewer and phone. Subtenant acknowledges that any one or more such services may be suspended by reason of accident or of repairs, alterations, or improvements necessary to be made, or by strikes or lockouts, or by reason of operation of law, or causes beyond the reasonable control of Sublessor. If any such utility services are interrupted for a period of time exceeding seven (7) calendar days, and such interruption in service materially and adversely interferes with the operations of Subtenant or its clients or guests, then Subtenant shall be entitled to abate all Rent until such time as said utilities are again restored to the Leased Premises. If such interruption continues for thirty (30) or more calendar days, then Subtenant can terminate this Sublease, if such utility service is not restored

within ten (10) calendar days after written notice to Sublessor of Subtenant's intention to so terminate.

9.3 Heating of Leased Premises. Subtenant acknowledges that Government's pre-existing steam heating facilities will not be operable for the Building during the entire Term of this Sublease. Subtenant acknowledges that Subtenant will be responsible for providing such heating to the Leased Premises as Subtenant desires when the current steam heating facilities are no longer operable.

9.4 Adjustment to Utility System. Subtenant acknowledges that pursuant to the provisions of the Prime Lease, Government in no way warrants the conditions or adequacy of its utility systems for the purposes intended by Subtenant. Subtenant may ask Sublessor to seek authorization from Government to replace, remove, or relocate utility systems on the Leased Premises in order to use the Leased Premises, so long as there is no unreasonable interference with use by Sublessor or Government, or with use by contractors of Sublessor or Government, of the utility systems, provided Subtenant bears all costs of the work, and provided Sublessor and Government have approved the replacement, removal or relocation in advance and in writing.

9.5 Non-Government Utility Providers. Subtenant agrees that it will accept needed utility services from any private or municipal supplier, who should during the term of this Sublease, become capable of delivering such services to the Leased Premises at competitive commercial rates and without substantial conversion costs. Subtenant agrees that it will investigate the feasibility of obtaining needed utility services directly from private or municipal suppliers prior to arranging for service from Government, and agrees that it will, during the term of this lease, continue to work toward obtaining direct services from non-Government utility suppliers at the earliest possible date in anticipation of the date beyond which Government will no longer provide utility services hereunder.

10. NO INTERFERENCE WITH GOVERNMENT OPERATIONS. Subtenant shall not conduct operations, nor make any alterations, that would interfere with or otherwise restrict Government operations or environmental clean-up or restoration actions by Government, Environmental Protection Agency ("EPA"), State of California, or their contractors. Environmental clean-up, restoration, or testing activities by these parties shall take priority over Subtenant's use of the Leased Premises in the event of conflict. In the event that any such activities substantially interfere with Subtenants use of the Leased Premises for a period of five (5) or more consecutive days, then all Rent payable hereunder shall abate until such interference ceases.

11. PROTECTION AND MAINTENANCE SERVICES. The services to be provided by Subtenant hereunder shall include the furnishing of all labor, supervision, materials, supplies, and equipment necessary to furnish the reasonable structural (including roof) maintenance; fencing maintenance; plumbing maintenance; electrical maintenance; maintenance of any new heating and cooling systems installed by Subtenant; exterior utility systems maintenance; pavement and grounds maintenance (including grass cutting, shrub trimming and tree removal); pest control; security within

the Leased Premises; refuse collection, removal, and disposal; and utilities maintenance on the Leased Premises reasonably necessary for the protection of Government property. For specifics as to such reasonable protection and maintenance required to be provided by Subtenant hereunder the following provisions shall apply.

11.1 Maintenance. The degree of reasonable maintenance services to be furnished by Subtenant hereunder shall be that which is reasonably sufficient to maintain weather tightness, structural stability, protection from fire hazards or erosion, and elimination of safety and health hazards, which arise during the term of the Sublease and which are not caused by the actions of Sublessor, Government or their employees, contractors, or agents, so that the Leased Premises being serviced will remain in the condition in which they exist at the commencement of the Sublease as documented in the Joint Inspection Report prepared pursuant to Section 6, ordinary wear and tear and damages due to casualty excepted. Both Sublessor and Government, upon due notice, may inspect the Leased Premises to insure performance of the reasonable maintenance set forth herein. Should this Sublease terminate and not be succeeded by either another lease, or a conveyance of title to the premises, or by active negotiation for either lease or conveyance, Subtenant shall turn over to Sublessor the Leased Premises in the same condition in which they were received, reasonable wear and tear and damages due to casualty excepted. Notwithstanding anything contained in this Sublease to the contrary, Subtenant shall have no obligation to make any capital or extraordinary improvements or repairs to the Leased Premises, except as and to the extent provided in Section 17 hereof, or to the extent any of the same is necessitated by Subtenant's negligence or willful misconduct or results from Subtenant's misuse of hazardous materials.

11.2 Housekeeping. Subtenant agrees that it will keep the Leased Premises in a safe, sanitary and orderly condition at all times, except during construction, and further agrees that it will keep the outside of the Leased Premises free of unused and unwanted materials at all times. At completion of the Sublease, the Leased Premises shall be left without containers, Subtenant's equipment, and other undesirable materials, and in a reasonably clean condition.

11.3 Security Protection. Subtenant shall provide for all reasonable security and safety within the Leased Premises.

11.4 Services. Subtenant shall be responsible, at its cost and expense, for obtaining and providing any and all other services which may be required in connection with Subtenant's use or occupancy of the Leased Premises.

## 12. ENVIRONMENTAL PROTECTION PROVISIONS.

12.1 Environmental Compliance. Subtenant, its contractors, assigns or subtenants shall comply with all applicable federal, state, and local laws, regulations, and standards that are or may become applicable to Subtenant's activities on the Leased Premises.

12.2 Environmental Permits. Subtenant, its contractors, assigns or subtenants shall be responsible for obtaining, except as provided in this Sublease, at its cost and expense, any environmental permits required for its operations under this Sublease for the Leased Premises.

12.3 Environmental Indemnification by Subtenant. In addition to the provisions of Section 15, Subtenant shall, and does hereby agree to, indemnify and hold harmless Government and Sublessor, from any costs, expenses, liabilities, fines, or penalties resulting from discharges, emissions, spills, storage, disposal, occurring during the Term of this Sublease, resulting from any action by Subtenant or its contractors, employees or agents, or any parties using or occupying the Leased Premises by or through Subtenant, or any other action by Subtenant, its contractors, assigns, subtenants, or any parties using or occupying the Leased Premises by or through Subtenant, giving rise to Sublessor or Government liability, civil or criminal, or responsibility under federal, state, or local environmental laws. This provision shall survive the expiration or termination of this Sublease, and Subtenant's obligations hereunder shall apply whenever Government or Sublessor incurs costs or liabilities for Subtenant's actions.

12.4 Environmental Issues Under Prime Lease. Subtenant acknowledges that Government's rights under the Prime Lease specifically include the right for Government officials to inspect upon reasonable notice the Leased Premises for compliance with environmental, safety, and occupational health laws and regulations, whether or not Government is responsible for enforcing them. Such inspections are without prejudice to the right of duly constituted enforcement officials to make such inspections. Sublessor shall also have the right to inspect upon reasonable notice the Leased Premises for compliance with environmental, safety, and occupational health laws and regulations, whether or not Government or Sublessor is responsible for enforcing or complying with them. Government has agreed, and Sublessor hereby agrees, that it will give Sublessor or Subtenant 24 hours prior written notice of its intention to enter the Leased Premises unless it determines the entry is required for safety, environmental, operations, or security purposes. Subtenant shall not have any claim against Government on account of any entries, nor any officer, agent, employee, or contractor thereto. Subtenant shall not have any claim against Sublessor on account of any entries, nor any officer, agent, employee, or contractor thereto, except for gross negligence or willful misconduct.

12.5 Hazardous Waste Requirements. Subtenant shall strictly comply with the hazardous waste permit requirements under the Resource Conservation and Recovery Act ("RCRA"), or its state equivalent, and any other applicable environmental laws, rules or regulations, with respect to Subtenant's handling, storage and disposal of hazardous waste generated by Subtenant or its clients or contractors at the Leased Premises. Except as specifically authorized by Government and Sublessor in writing, Subtenant must provide at its own expense such hazardous waste management facilities, and hazardous waste storage facilities as it may need, complying with all laws and regulations. Government hazardous waste management facilities will not be available to Subtenant.



12.6 Hazardous Waste Plan. If applicable, Subtenant shall have a Government approved plan for responding to hazardous waste, fuel, and other chemical spills prior to the commencement of operations on the Leased Premises. Such plans shall be independent of any Government Spill Prevention and Countermeasures Control Plan and shall not rely on use of Government personnel or equipment, nor the equipment or personnel of Sublessor. Should Government provide any personnel or equipment, whether for initial fire response and/or spill containment, or otherwise on request of Sublessor or Subtenant, or because Sublessor or Subtenant was not, in the opinion of the contracting officer, conducting timely response actions, Subtenant agrees to reimburse the Government for its reasonable costs.

12.7 Hazardous Waste Reporting. Subtenant shall be responsible for reporting, containment, removal and clean-up of any land, air or water pollution to the extent required by applicable laws that emanates from any of the Leased Premises due to the actions of Subtenant, its agents, employees, contractors, subcontractors, subtenants or assigns.

12.8 Entry for Testing. Government, EPA, and the State of California and their officers, agents, employees, contractors, and subcontractors have the right, upon reasonable written notice to Sublessor and to Subtenant, to enter upon the Leased Premises for the purposes enumerated in the following subparagraphs.

12.8.1 To conduct investigations and surveys, including, where necessary, drilling, soil and water sampling, test pitting, testing soil borings and other activities related to the Installation Restoration Program ("IRP").

12.8.2 To inspect field activities of Government and its contractors and subcontractors in implementing the IRP.

12.8.3 To conduct any test or survey relating to the implementation of the IRP or environmental conditions at the Leased Premises or to verify any data submitted to the EPA or the State of California by Government relating to such conditions.

12.8.4 To construct, operate, maintain, or undertake any other response or remedial action as required or necessary under the IRP including, but not limited to, monitoring wells, pumping wells, and treatment facilities. Sublessor will endeavor to assure that any entry undertaken hereunder shall be undertaken in a manner as to not unreasonably or unnecessarily interfere with Subtenant's business and work under its contractual obligations.

12.9 Comply with Health and Safety Plans. Subtenant agrees to comply with the provisions of any health or safety plan in effect under the IRP during the course of any of the above described response or remedial actions. Any inspection, survey, investigation, or other response or remedial action, to the extent practicable, shall be coordinated with representatives designated by Sublessor and Subtenant. Neither Sublessor nor any Subtenant shall have any claim on account of

such entries against Government or any officer, agent, employee, contractor, or subcontractor thereof.

12.10 No Excavation. Subtenant shall not conduct or allow any subtenant, contractor, agent or employee to undertake any subsurface excavation, digging, drilling or other disturbance of the surface without the prior written approval of Sublessor and the Contracting Officer of Government, which approval shall not be unreasonably withheld, conditioned or delayed.

12.11 Supply Addresses. Subtenant shall provide to Sublessor, in the event of any assignment or further sublease of the Leased Premises, which requires Sublessor approval, and in order that Sublessor may provide to the EPA Region 9 CERCLA Federal Facilities Section, and the State of California Department of Toxic Substances Control, at addresses which will be supplied and maintained by Government, by certified mail, a copy of the agreement or sublease (as the case may be), dispatched within fourteen (14) calendar days after the effective date of such transaction. Sublessor and Subtenant may delete the financial terms and any other proprietary information from the copy of any agreement of assignment or sublease furnished pursuant to this condition.

12.12 Disposal of Hazardous Waste. DOD component accumulation points for hazardous and other wastes will not be used by Subtenant. Neither will Subtenant permit its hazardous wastes to be commingled with hazardous waste of the DOD component.

12.13 Governmental Indemnity. It is understood that the responsibility of Government to indemnify and hold harmless Sublessor and Subtenant against toxic torts and other environmental claims shall be in accordance with Public Law 102-484, the National Defense Authorization Act for Fiscal Year 1993, Section 330, as amended.

12.14 Minimize Disruption. Government has agreed in the Prime Lease to use its best efforts to minimize disruption of Subtenant's operations. Government shall also maintain the confidentiality of any proprietary information which comes into its possession as a result of inspections or entries upon the Leased Premises or examinations of the records of Subtenant.

12.15 Government Permits. Government has agreed in the Prime Lease to undertake a timely review with Sublessor of those permits which Government holds or will likely come to hold, in order to determine which permits may be, to the fullest extent allowed under state and federal law, transferred to Sublessor as Lessee. At Subtenant's request, all of such permits shall be made available to Subtenant by Sublessor to the fullest extent allowed under state and federal law. Subtenant shall be fully liable for its compliance with such permits as are made available to it, including payment of fines and penalties incurred due to its actions.

12.16 Notice of Governmental Action. To minimize interference in the use of the Leased Premises caused by implementation of response actions, Government has agreed to provide Sublessor with timely written notice and opportunity to comment upon any proposed response actions, which may interfere with use of the Leased Premises. Government shall consider timely

comments of Sublessor concerning the potential interference of any proposed response actions and will make a good faith effort to make adjustments to proposed response actions, with the goal of reconciling or minimizing any possible conflicts between Subtenant's use of the Leased Premises and the implementation of response actions. Sublessor agrees to communicate with Subtenant regarding the foregoing and to promptly transmit to Government all comments with respect thereto submitted to it by Subtenant. In the event that Subtenant is required to vacate the Leased Premises or a portion of the Leased Premises, or unable to conduct regularly scheduled activities caused by implementation of response actions all or the appropriate portion of Rent shall be abated for the period of such vacation.

12.17 Exceptions. The provisions of Section 12 do not prohibit Sublessor or Subtenant from independently contracting for transportation, treatment, storage or disposal of hazardous wastes with the same company which may have a contract with Government for transportation, treatment, storage or disposal of hazardous wastes generated at the Station, nor do they prohibit the carriage of properly manifested, marked and otherwise lawful containers of hazardous waste generated by Sublessor or Subtenant upon the same conveyance as hazardous waste generated by Government.

12.18 Pre-existing Conditions. If Subtenant, during the performance of Work to the Leased Premises that have been approved pursuant to Section 7 of this Sublease, encounters pre-existing conditions which require Government to take action in accordance with federal, state or local law to remove, remediate, correct, or abate hazardous substances, pollutants or contaminants, Subtenant shall promptly notify Government, cease performance, and secure the work site. Government has agreed to promptly survey the conditions and consult with Sublessor or Subtenant on a proposed course of action. Vacation of the Leased Premises, or any part thereof, will be directed pursuant to the provisions of Section 15 of the Prime Lease. Government will take necessary and appropriate actions, as required by federal, state or local law, and bear the cost of such removal, remediation, corrective action, or abatement, subject to the availability of funds for such purpose. In the event that Subtenant is required to vacate the Leased Premises, all Rent shall be abated for the period of such vacation.

12.19 Environmental Baseline Survey. Subtenant acknowledges that Sublessor has informed Subtenant of the availability of an Environmental Baseline Survey ("EBS") with respect to the Leased Premises, prepared on behalf of Government, in which EBS specifies that the Leased Premises, and the lands underlying the Leased Premises contain certain described hazardous waste. Sublessor has no other knowledge of any hazardous waste or any other hazardous substances, pollutants or contaminants with respect to the Leased Premises. The EBS is available for review by Subtenant at Sublessor's offices during normal business hours.

### 13. TERMINATION.

13.1 Termination by Government of the Prime Lease for Breach. Under certain circumstances, Government has the right to terminate the Prime Lease on account of the breach by

Sublessor, as the Lessee thereunder of any of the terms and conditions of the Prime Lease. In the event of a breach involving the performance of any obligation under the Prime Lease, the Prime Lease provides that Sublessor, as the Lessee thereunder, shall be afforded ten (10) working days from the receipt of Government's notice of intent to terminate, to commence action to complete the performance of the obligation or otherwise cure the subject breach and avoid termination of the Prime Lease, which action to cure is to be completed within a reasonable period of time. Within said ten (10) working days, Sublessor thereunder is required to advise Government of Sublessor's intended course of action to cure and the estimated date as to when said action will be completed. Sublessor agrees to immediately, and in any event within 24 hours after Sublessor's receipt, except when it arrives on a weekend or holiday, in which event it shall be delivered by the next business day, provide a copy of any such notice to Subtenant. In the event that any such notice is delivered to Sublessor as the Lessee under the Prime Lease, for any such breach occasioned or caused by the action, negligence or inaction of Subtenant, or any party acting on behalf of or through Subtenant, for an obligation, covenant or undertaking of Subtenant under this Sublease, then Subtenant shall either commence action to complete the performance of the obligation or otherwise cure the subject breach and avoid termination of this Sublease and the Prime Lease, which action to cure is to be completed within a reasonable period of time, or immediately advise Sublessor of Subtenant's intended course of action to cure the breach if it cannot be reasonably cured within the ten (10) working day period specified and the estimated date as to when said action will be completed. Subtenant shall either cure such breach within ten (10) working days from the date of receipt of Government's notice of intent to terminate by Sublessor, or Subtenant shall provide its plan and program in writing as to its proposed action to complete the performance of the obligation and shall commence such cure of the breach as soon as reasonable and possible under the circumstances and complete such action to cure within a reasonable period of time in light of the nature of the breach and any circumstances beyond Subtenant's reasonable control. If Subtenant should fail to cure within the grace periods provided above, and Government does not terminate the Lease under the provisions of the Prime Lease, then Sublessor shall have the option to terminate this Sublease, without the necessity of providing further notice or rights of cure to Subtenant. In the event that any such notice is delivered to Sublessor and the Lessee under the Prime Lease, for any such breach occasioned or caused by the action, negligence or inaction of Sublessor, or any party acting on behalf of or through Sublessor, for an obligation, covenant or undertaking of Sublessor under the Prime Lease, then Sublessor shall either commence action to complete the performance of the obligation or otherwise cure the subject breach and avoid termination of the Prime Lease, which action to cure is to be completed within a reasonable period of time, or immediately advise Subtenant regarding Sublessor's intended course of action to cure the breach if it cannot be reasonably cured within the ten (10) working day period specified and the estimated date as to when said action will be completed. Sublessor shall either cure such breach within ten (10) working days from the date of receipt of Government's notice of intent to terminate, or Sublessor shall provide its plan and program in writing as to its proposed action to complete the performance of the obligation and shall commence such cure of the breach as soon as reasonable and possible under the circumstances and complete such action to cure within a reasonable period of time in light of the nature of the breach and any circumstances beyond Sublessor's reasonable control.

13.2 Termination of Prime Lease Due to Subtenant Default. In the event that Government shall elect to terminate the Prime Lease on account of the breach by Subtenant of any of the terms and conditions hereof or of the Prime Lease to be performed by Subtenant, Subtenant shall indemnify Sublessor against any claims Government may have against Sublessor for any of the following under the Prime Lease:

13.2.1 The costs incurred by Government in resuming possession of the Leased Premises.

13.2.2 The costs incurred in performing by Government of any of Subtenant's obligations under this Sublease.

13.2.3 An amount equal to the aggregate of any maintenance obligations, and charges assumed hereunder and not therefore paid or satisfied, which amounts shall be due and payable at the time when such obligations, and charges would have accrued or become due and payable under this Sublease.

13.3 Termination of Sublease due to Sublessor Default. In the event that Government shall elect to terminate the Prime Lease on account of the breach by Sublessor of any of the terms and conditions of the Prime Lease to be performed by Sublessor, Sublessor shall reimburse Subtenant the unamortized costs of the Qualified Shell Improvement Costs and any costs associated with work or improvements made to convert the Leased Premises into a recreational sports facility, not to exceed an additional \$1,000,000.

13.4 Termination by Government for Other Than Breach. In addition to the right to terminate the Prime Lease for breach, Government is entitled to terminate the Prime Lease for its convenience under the following terms and conditions:

13.4.1 Upon reasonable determination that the interim uses of the Lessee under the Prime Lease or the interim uses of Subtenant under this Sublease for the remaining duration of the Sublease term are incompatible with Government's final disposal decision as embodied in the NEPA Record of Decision, with respect to the required subsequent uses of the Leased Premises after said final disposal decision is made, which subsequent uses must be effected during the balance remaining on the Term of this Sublease, and a finding is made that the continued use and occupation of the Leased Premises through the end of the remaining Sublease Term cannot be permitted because of such irreconcilable incompatibility, unless the parties to this Sublease make such modifications to this Sublease as are reasonably required to make the uses compatible for the period of time remaining on the Sublease Term. Sublessor acknowledges that Subtenant's proposed use of the Leased Premises, as a public recreational facility is consistent with the uses approved for the Leased Premises in the Alameda Community Reuse Plan.

13.4.2 In the event of a National Emergency as declared by the President or the Congress of the United States and Government makes a reasonable determination that such

National Emergency requires the use by the United States of America of the Leased Premises, or such National Emergency otherwise necessitates the use of the Station and such use will materially interfere with the Lessee's use under the Prime Lease or any Subtenant's use of the Leased Premises.

13.4.3 In the event of a termination for Government's convenience as set forth in the Prime Lease, Sublessor as Lessee under the Prime Lease, is to be provided with no less than thirty (30) calendar days written notice of such termination and shall immediately provide Subtenant with a copy of any notification it receives from Government relative to such termination. Sublessor shall meet and confer with Subtenant and Government to determine what is a reasonable time for Subtenant to vacate the Leased Premises, considering the factors of the nature of the exiting uses of Subtenant, the consequences which would be affected if such termination is required and the losses and penalties which would be engendered if such termination is required. Sublessor shall provide Subtenant with as long and reasonable time as are under the facts and circumstances acceptable to Government relative to such termination. In the event of such termination, Subtenant and Sublessor as Lessee under the Prime Lease shall have only such remedies as are otherwise available under the law with respect to compensation from Government for such termination. Subtenant shall not seek and shall not have any claim against Sublessor for any such termination for convenience by Government, except to the extent that Sublessor obtains recovery therefor from Government for itself or on behalf of Subtenant.

13.5 Termination by Subtenant. The following provisions shall apply in the event of termination by Subtenant.

13.5.1 Damage and Destruction. Subtenant shall have the right to terminate this Sublease upon thirty (30) calendar days written notice to Sublessor in the event of damage to or destruction of all of the improvements on the Leased Premises or such a substantial portion thereof as to render the Leased Premises incapable of use for the purposes for which it is leased hereunder, provided that the cost of the repair, rebuilding, or replacement of the Building is in excess of the amounts of insurance carried therefor by Subtenant, as required under Section 17 of this Sublease or such damage or destruction was not occasioned by the willful misconduct or gross negligence of Subtenant or any of its officers, agents, servants, employees, subtenants, licensees, or invitees; or the damage or destruction was not occasioned by any failure or refusal on the part of Subtenant to fully perform its obligations under this Sublease.

13.5.2 Termination for Lack of Utility Service. Subtenant may terminate this Sublease upon thirty (30) calendar days notice if domestic water, waste water, electrical, gas, or telephone service is not available to it from government or non-Government. Subtenant may also terminate if, upon abandonment of the base-wide fire protection system, Subtenant cannot retrofit building sprinkler system or provide other measures to comply with fire code requirements applicable to its use. The cost of such retrofit or other measures shall be the sole responsibility of Subtenant, which costs are considered an addition to Maximum QSIC.

14. **VACATION OF LEASED PREMISES.** In the event environmental contamination is discovered on the Leased Premises which creates, in Government's reasonable determination, an imminent and substantial endangerment to human health or the environment, then notwithstanding any other termination rights and procedures contained in this Sublease, Government may require Sublessor to require that Subtenant vacate the Leased Premises for such period of time, and to such extent, as Government determines in good faith is necessary to abate the danger. Government shall use its best efforts to minimize disruption of Subtenant's operations. Government will also use its best efforts to provide temporary accommodations for use by Subtenant during the period of such vacation action. Government shall not be liable for the exercise of authority, which is in conformity with this subsection, but Government nevertheless shall not be relieved of any liability it may have under the Federal Tort Claims Act, the Comprehensive Environmental Response, Compensation and Liability Act, and other statutory and common law, if it would be liable in its role as the generator or disposer of the environmental contamination, or as the present, or former, owner or operator of the Leased Premises. In the event that Subtenant is required to vacate the Leased Premises or a portion of the Leased Premises, or unable to conduct regularly scheduled activities caused by such vacation, all or the appropriate portion of Rent shall be abated for the period of such vacation.

15. **INDEMNIFICATION BY SUBTENANT AND OF SUBTENANT.**

15.1 **Indemnification By Subtenant of Sublessor.** Subtenant shall hold harmless, indemnify and defend Sublessor, its officers, directors, agents, employees and representatives, from and against any suit, claim, demand, action, liability, judgment, cost, expenses or other fee arising out of any claim for injury or damage ("Claim") that results from, or is in any manner predicated upon activities of Subtenant on the Leased Premises during the Term of this Sublease, except to the extent that such Claim arises from and is attributable to the willful misconduct or negligence of Sublessor, its officers, directors, agents, employees and representatives, or Government, or its officers, directors, agents, employees and representatives.

15.2 **Indemnification By Subtenant of Government.** Subtenant shall hold harmless, indemnify, and defend Government from and against any suit, claim, demand or action, liability, judgment, cost or other fee arising out of any claim for injury or damage that results from, or is in any manner, predicated upon activities of Subtenant on the Leased Premises during the Term of this Sublease, except to the extent that such Claim arises from and is attributable to the willful misconduct or negligence of Sublessor or Government.

15.3 **Indemnification By Sublessor of Subtenant.** Sublessor shall hold harmless, indemnify and defend Subtenant, its officers, directors, agents, employees and representatives, from and against any Claim that results from, or is in any manner predicated upon activities of Sublessor on the Leased Premises or the Station during the Term of this Sublease, except to the extent that such Claim arises from and is attributable to the willful misconduct or negligence of Subtenant or Government.

16. **SUBTENANT'S LIABILITY EXTENDS TO ITS CONTRACTORS AND SUBLESSEES.** Subtenant's liability shall extend to the performance of work or the use of the Leased Premises by any contractor or sublessee of Subtenant under this Sublease.

17. **SUBTENANT TO BEAR ALL RISK: INSURANCE PROVISIONS.**

17.1 **All Risk.** Subtenant shall, in any event and without prejudice to any other rights of the Government and Sublessor, bear all risk of loss or damage to any structures or improvements situated upon the Leased Premises, that are occupied or used by Subtenant or any of its subtenants or assigns, arising from any cause whatsoever, or in any manner connected with the occupation or use by Subtenant, its subtenants or its assigns, or by a risk customarily covered by insurance in the locality in which the Leased Premises is situated, even where such loss or damage stems from causes beyond Subtenant's control, with the understanding that insurance coverage for earthquake loss is not required under this Sublease. In the event of such loss or damage, the parties shall follow Section 17.6 below.

17.2 **Subtenant's Insurance.** During the entire period this Sublease is in effect, Subtenant shall at its expense carry and maintain:

17.2.1 Standard risk property and casualty insurance against the risks enumerated in Subsection 17.1 above in an amount equal to an amount reasonably calculated to cover the demolition work described in Section 18.6.4 of the Prime Lease, but not less than \$1,000,000. Provided however, in the event that the estimate for the cost of such demolition, as approved by Government pursuant to Section 18.2.1 of the Prime Lease, on which the amount of insurance coverage is based, is less than \$1,000,000, the required amount of insurance coverage hereunder may be reduced by Government in its sole discretion. Subtenant reserves the right to obtain such additional casualty insurance, as it may desire.

17.2.2 Public liability and property damage insurance, including but not limited to, insurance against assumed or contractual liability under this Sublease, with respect to the Leased Premises and improvements thereon, to afford protection with limits of liability in amounts, approved from time to time by Government and Sublessor, but not less than \$3,000,000 in the event of bodily injury and death to any number of persons in any one accident, and not less than \$1,000,000 for property damage. Such insurance shall name Sublessor and Government as additional loss payees or additionally named insured.

17.2.3 If and to the extent required by law, workers' compensation or similar insurance in the form and amounts required by law.

17.3 **Subtenant's Contractor's Insurance.** During the entire period this Sublease shall be in effect, any contractor performing work on the Leased Premises shall carry and maintain the insurance required below:



17.3.1 Comprehensive general liability insurance, including, but not limited to, contractor's liability coverage and contractual liability coverage, of not less than \$500,000 per occurrence with respect to personal injury or death, and with respect to property damage.

17.3.2 Automobile liability coverage of not less than \$200,000 per person and not less than \$500,000 per occurrence, and not less than \$20,000 per occurrence for property damage.

17.3.3 Workers' compensation or similar insurance in the form and amounts required by law.

17.4 Policy Provisions. All insurance which this Sublease requires Subtenant to carry and maintain or cause to be carried or maintained shall be in such form, for such amounts, for such periods of time, and with such insurers as Government and Sublessor may reasonably require or approve. All policies or certificates issued by the respective insurers for public liability and all-risks property insurance shall name each Sublessor and Government as an additional insured or loss payee, provide that any losses shall be payable notwithstanding any act or failure to act or negligence of Government, provide that no cancellation, reduction in amount, or material change in coverage thereof shall be effective until at least thirty (30) calendar days after receipt by Sublessor and Government of written notice thereof, provide that the insurer shall have no right of subrogation against Government or Sublessor, except, as to Sublessor, to the extent that bodily injury, including death, or property damage is caused by the acts or omissions of Sublessor, and be reasonably satisfactory to Sublessor and Government in all other respects. In no circumstances will Subtenant be entitled to assign to any third party rights of action, which Subtenant may have against Government.

17.5 Delivery of Policies. Subtenant shall deliver or cause to be delivered promptly to Sublessor and Government a certificate of insurance evidencing the insurance required by this Lease and shall also endeavor to deliver no later than thirty (30) calendar days prior to the expiration of any such policy, a certificate of insurance evidencing each renewal policy covering the same risks.

17.6 Damage and Destruction and Use of Insurance Proceeds. In the event of damage or loss to the Buildings or improvements situated on the Leased Premises, the following shall apply:

17.6.1 Subtenant shall take all appropriate steps to erect necessary structures to preclude, unauthorized access to the Leased Premises and otherwise mitigate hazardous and unsafe conditions within the Leased Premises caused by the damage and destruction.

17.6.2 Subtenant shall proceed to repair and replace the damaged and destroyed structures and improvements on the Leased Premises, utilizing the proceeds of the

insurance policies required above, except in the event Subtenant has the right to terminate this Sublease pursuant to Section 13.6 hereof and has elected to exercise such right.

17.6.3 If Subtenant elects to terminate the Sublease in accordance with Section 13.6 and so notifies Sublessor, Sublessor shall then have the option, to be exercised by notice to Subtenant within thirty (30) calendar days of receipt of the Notice of Termination, of accepting an assignment of the proceeds of the insurance policy in lieu of any obligation of Subtenant to either repair, or replace, the improvements or to perform demolition as set out below less the unamortized Maximum QSIC plus other costs required to convert the Leased Premises into a recreational sports facility (which shall not exceed an additional \$1,000,000), and, effective upon notification of Sublessor's exercise of that option, Subtenant shall be released from further obligation to repair, replace or demolish improvements on Leased Premises.

17.6.4 If Sublessor does not then exercise the option to terminate, Subtenant shall promptly obtain all necessary permits for, and carry out, the complete demolition of the damaged improvements and structures within the Leased Premises, remove all debris from the Leased Premises, clear the Leased Premises of all damaged improvements, remove all safety hazards caused by the calamity and demolition, and return the damaged portion of the Leased Premises to a level grade.

17.6.5 In the event that damage and destruction to the Leased Premises is the result of an event for which insurance coverage is not required hereunder, Subtenant shall have the option to repair the Leased Premises, or if such damage and destruction render the Leased Premises unusable for their intended purposes, to terminate this Sublease in accordance with applicable provisions herein by written notice to Government. In the event Subtenant elects to terminate this Sublease under this section, Subtenant shall be responsible for compliance with Section 17.6.1 above and for removing its property from the Leased Premises including all hazardous materials attributable to Subtenant's use of the Leased Premises and not any pre-existing hazardous materials, and for reporting, containing, removing and cleaning up any land, air and water pollution resulting from the damage and destruction which is attributable to Subtenant's use of the Leased Premises. Such responsibilities will be carried out by Subtenant in a timely manner in compliance with Section 12 and other applicable provisions of this Sublease with due consideration for human health and safety and the protection of the environment.

## 18. LABOR PROVISIONS.

18.1 Equal Opportunity. During the Term of this Sublease, and with respect only to employment or employees at the Leased Premises, Subtenant agrees as follows:

18.1.1 Subtenant will not discriminate against any employee of Subtenant or applicant for employment because of race, color, religion, sex, or national origin. The employees of Subtenant shall be treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: employment,

upgrading, demotion, or transfer, recruitment or recruitment advertising, layoff or termination, rate of pay or other forms of compensation, selection for training, including apprenticeship. Subtenant agrees to post in conspicuous places, notices required by law, which are to be provided by the applicable government agencies, setting forth the provisions of this nondiscrimination provision.

18.1.2 Subtenant will to the extent required by law, in all solicitations or advertisements for employees placed by or on behalf of Subtenant, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

18.1.3 If applicable, Subtenant will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding a notice to be provided by Government, advising the labor union or worker's representative of Subtenant's commitments under this Equal Opportunity Clause and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

18.1.4 Subtenant will comply with all provisions of Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and of the rules, regulations, and relevant orders of the Secretary of Labor of the United States of America.

18.1.5 Subtenant will furnish all information and reports required by Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and by the rules, regulations, and orders of the Secretary of Labor or pursuant thereto, and will permit access to its books, records, and accounts by Government and the Secretary of Labor for purposes of investigating to ascertain compliance with such rules, regulations, and orders.

18.1.6 In the event Subtenant has been found by a court of law to be in noncompliance with the Equal Opportunity Clause of this Sublease or with any said rules, regulations, or orders, this Sublease may be canceled, terminated or suspended in whole or in part and Subtenant may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

18.1.7 Subtenant will include the above provisions in every sublease or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, so that such provisions will be binding upon each sublessee or vendor. Subtenant will take such action with respect to any sublessee or purchase order as Government may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event Subtenant becomes involved in, or is threatened

with, litigation with the sublessee or vendor as a result of such direction by Government, Subtenant may request the United States to enter into such litigation to protect the interests of the United States.

18.2 Convict Labor. In connection with the performance of work required by this Lease, Subtenant agrees not to employ any person undergoing a sentence of imprisonment at hard labor.

18.3 Labor Provisions. Equal Opportunity. During the Term of this Sublease, and with respect only to employment or employees at the Leased Premises, Subtenant agrees as follows: Subtenant will not discriminate against any employee of Subtenant or applicant for employment because of race, color, religion, sex, or national origin. The employees of Subtenant shall be treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not

19. SUBMISSION OF NOTICES. All notices, demands, requests, consents, or approvals which may or are required to be given by either party to the other shall be in writing and shall be deemed given when sent by United States Certified or Registered Mail, postage prepaid, or by reputable overnight delivery service or personal delivery as follows:

19.1 Subtenant. If for Subtenant, addressed to Subtenant at the Building, or at such other place as Subtenant may from time to time designate by notice to Sublessor.

Bladium, Inc.  
8797 Montview Boulevard  
Building #6  
Denver, Colorado 80220

19.2 Sublessor. If for Sublessor, addressed to Sublessor at

Executive Director  
Alameda Reuse and Redevelopment Authority  
950 W. Mall Square, Suite 100  
Alameda, CA 94501

19.3 Government. If for Government, addressed to

Commanding Officer (Code 24)  
Engineering Field Activity West  
Naval Facilities Engineering Command  
900 Commodore Drive  
San Bruno, CA 94066-5006

19.4 Change of Address. Notwithstanding the addresses provided in Subsections 19.1 through 19.3 of this section, any party may from time to time designate an alternate address by notice.

20. AUDIT. This Sublease shall be subject to audit by Sublessor and by any and all cognizant Government agencies. Subtenant shall make available to such agencies for use in connection with such audits all records, reports, reviews, audits, documents or other material which it maintains with respect to this Sublease and copies of all reports required to be filed hereunder. Subtenant will make these materials available for a period of three years after termination or expiration of this Sublease.

21. AGREEMENT. This Sublease, including all referenced Exhibits to this Sublease (whether or not completed and incorporated in this Sublease as of the Sublease Execution Date) and the parties' Addendum with respect to Subtenant's option to purchase the Leased Premises, constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements of such parties in that connection. All such referenced Exhibits are hereby incorporated by reference into and made a part of this Sublease in full. This Sublease shall not be modified unless modified in writing and signed by both parties. No oral statements or representation made by, or for, or on behalf of either party shall be a part of this Sublease. This Sublease agreement shall not be modified unless in writing and signed by both parties. No oral statements or representation made by, or for, on behalf of either party shall be a part of this Sublease.

22. FAILURE TO INSIST ON COMPLIANCE. The failure of Sublessor to insist, in any one or more instances, upon performance of any of the terms, covenants, or conditions of this Sublease shall not be construed as a waiver or relinquishment of Sublessor's right to the future performance of any such terms, covenants, or conditions and Subtenant's right to the future performance of any such terms, covenants, or conditions and Subtenant's obligations in respect of such future performance shall continue in full force and effect. Whenever the terms of this Sublease call for one party to approve an action or make a determination before the other party may undertake or perform such action, said approval or determination shall not be unreasonably denied or delayed.

23. DISPUTE RESOLUTION. Any disputes arising under this Sublease that involve or relate to Government or Government's interpretation of the Prime Lease that are subject to resolution under the Contracts Disputes Act, 431 U.S.C. section 601 et seq. pursuant to the provisions of Section 24 of the Prime Lease shall be resolved under that Act. All other disputes that may arise under this Sublease shall be resolved in accordance with the provisions of the laws of the State of California.

24. COVENANT AGAINST CONTINGENT FEES. Subtenant warrants that no person or agency has been employed or retained to solicit or secure this Sublease upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial agencies maintained by Sublessor for the purpose

of securing business. For breach or violation of this warranty, Sublessor shall have the right to annul this Sublease without liability or in its discretion to require Subtenant to pay, in addition to the rental or consideration, the full amount of such commission, percentage, brokerage, or contingent fee.

24.1 **No Additional Fees.** Sublessor agrees and warrants to Subtenant that there are no additional fees, levies, charges, bonds, assessments and/or taxes other than those specifically contained within this Sublease that could be levied against the Leased Premises and/or Subtenant.

25. **OFFICIALS NOT TO BENEFIT.** No member of or delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this Sublease or to any benefit to arise there from, but this proviso shall not be construed to extend to this Sublease is made with corporation for its general benefit.

26. **LIENS.** Subtenant shall promptly discharge or cause to be discharged any valid lien, right in rem, claim, or demand of any kind on the Leased Premise, except one in favor of Government, or Sublessor, which at any time may arise or exist with respect to the Leased Premises or materials or equipment furnished therefor, or any part thereof, and if the same shall not be promptly discharged by Subtenant, or should Subtenant or Subtenant be declared bankrupt or make an assignment on behalf of creditors, or should the leasehold estate be taken by execution, Sublessor reserves the right to take immediate possession without any liability to Subtenant or any subtenant thereof. If Subtenant breaches the foregoing, Subtenant and any subtenant thereof shall be responsible for any costs incurred by Government in securing clear title to its property. Notwithstanding the foregoing, Sublessor and Government acknowledge and approve Subtenant granting a security interest and lien in Subtenant's leasehold estate to a creditor for the purpose of securing a Loan, the proceeds of which will be utilized to fund the Qualified Shell Improvements Costs and other work or improvements made to the Leased Premises required to occupy the Leased Premises and convert the Leased Premises from a former maintenance hangar into a recreational sports facility.

27. **TAXES.** Subtenant shall pay all Taxes (as hereinafter defined) levied or imposed against the Leased Premises during the Term. Taxes shall mean all taxes, assessments and governmental charges, whether federal, state, county or municipal, and whether general or special, ordinary or extraordinary, foreseen or unforeseen, imposed upon the Rent, the Leased Premises, the Building, any possessory interest therein, or their operation, whether or not directly paid by Sublessor. Taxes shall not include any assessment resulting from the costs to clean up the pre-existing environmental contamination on the Station caused by Government, any assessment resulting from Station and/or City of Alameda infrastructure costs and expenses associated with the redevelopment of the Station, any assessments resulting from traffic mitigation measures, open space fees, public art fees, affordable housing fees/subsidy, transit fees, transfer tax/fees, City impact fees, fire and police protection fees, road maintenance fees, school fees, emergency medical fees, landscape maintenance fees, storm water drainage fees, income taxes, excess profit taxes, franchise taxes, or other taxes imposed or measured on or by the income of Sublessor from the operation of the Leased Premises, provided, however, that if, due to a future change in the method of taxation or

assessment, any income, profit, franchise or other tax, however designated, shall be imposed in substitution, in whole or in part, for (or in lieu of) any tax, assessment or charge which would otherwise be included within the definition of Taxes, such other tax shall be deemed to be included within Taxes as defined herein to the extent of such substitution, or any other special assessments that may be imposed or levied on the Leased Premises. There shall be added to Taxes the expenses of any contests (administrative or otherwise) of Taxes incurred during the taxing year, but only to the extent such contests result in a reduction of Taxes for such year or any other year during the Term. Subtenant shall pay to the appropriate governmental authority any use, possessory interest, and/or occupancy tax applicable to the Leased Premises. In the event that Sublessor is required by law to collect such tax, Subtenant shall pay such use and occupancy tax to Sublessor as Additional Rent within thirty (30) calendar days of demand and Sublessor shall remit any amounts so paid to Sublessor to the appropriate governmental authority.

27.1 Property Taxation. The interest created by this Sublease may at some time be subject to property taxation under the laws of the State of California. If property taxes are imposed, the party in whom the possessory interest is vested may be subject to the payment of the taxes levied on such interest. This notice is included in this Sublease pursuant to the requirements of section 107.6 (a) of the Revenue and Taxation Code of the State of California.

27.2 Payment of Taxes. Subtenant shall pay the Taxes directly imposed upon it in accordance with the instructions of the taxing entity. Subtenant shall pay the Taxes originally imposed upon Sublessor, upon Sublessor's election, either (i) annually within thirty (30) calendar days after the date Sublessor provides Subtenant with a statement setting forth in reasonable detail such Taxes (which statement shall not be provided to Subtenant more than sixty (60) calendar days before such Taxes are due), or (ii) monthly in advance based on estimates provided by Sublessor based upon the previous year's tax bill. Other than for possessory interest tax Sublessor is not aware of any Taxes or assessments currently or proposed to be imposed upon it or the Leased Premises.

27.3 Proration of Taxes. All Taxes originally imposed upon Sublessor and payable by Subtenant with respect to the Leased Premises shall be prorated on a per them basis for any partial tax year included in the Term. Subtenant's obligation to pay Taxes during the final year of the Term shall survive the termination of this Sublease.

28. **SUBJECTION TO EXISTING AND FUTURE EASEMENTS AND RIGHTS-OF-WAY.**

28.1 Existing Easements. Subtenant acknowledges that the Prime Lease, and this Sublease, are subject to all outstanding easements and rights-of-way for location of any type of facility over, across, in, and upon the Leased Premises or any portion thereof. Notwithstanding the foregoing, Sublessor has no knowledge of any outstanding easements and rights-of-way for location of any type of facility over, across, in, and upon the Leased Premises or any portion thereof that would unreasonably interfere with the access to, and the use and possession of, the Leased Premises

by Sublessor or any sublessees, or other occupants who are legitimately in possession or occupancy of the Leased Premises through Sublessor or any sublessee of Sublessor.

28.2 Future Easements. Subtenant further acknowledges that Government is entitled, under Section 29 of the Prime Lease, to grant such additional easements and rights-of-way over, across, in and upon the Leased Premises as it shall reasonably determine to be in the public interest; provided that any such additional easement or right-of-way shall not unreasonably interfere with the access to, and the use and possession of, the Leased Premises by Sublessor or any sublessees, or other occupants who are legitimately in possession or occupancy of the Leased Premises through Sublessor or any sublessee of Sublessor, and shall be conditioned on the assumption by the grantee thereof of liability to Sublessor for such damages as Sublessor shall suffer for property destroyed or property rendered unusable on account of the grantee's exercise of its rights thereunder.

29. INGRESS AND EGRESS. Subtenant, its agents, employees and members, have a nonexclusive right of ingress to and egress from the Leased Premises to public rights of way as shown on Exhibit H. Subtenant acknowledges that Section 30 of the Prime Lease provides for reasonable access being granted by Government to the Leased Premises, with such access being coordinated with the local representative of Government. As required under the Prime Lease, Subtenant agrees to adhere to all base rules and regulations regarding Station security, ingress, egress, safety and sanitation as may be prescribed from time to time by Government, with the understanding that such base rules and regulations regarding Station security, ingress, egress, safety and sanitation shall not, except for military security and emergency situations, unreasonably interfere with reasonable use and access of Subtenant, its employees, contractors, invitees in the normal activities and uses permitted under this Sublease and the Prime Lease. In the event Sublessor or Government modifies the existing means of ingress and egress to the Leased Premises, Sublessor shall provide an acceptable alternative means of ingress and egress and cooperate with Subtenant to provide locations for Subtenant to place appropriate signage within the Station directing users to the Leased Premises provided Sublessor has the legal right to do so.

30. ADMINISTRATION. Except as may be otherwise provided in the Prime Lease or this Sublease, Government's point of contact, as identified in Section 20 of the Prime Lease and Section 20 of this Sublease, shall, under the direction of the Commander, Naval Facilities Engineering Command, have complete charge of the administration of the Prime Lease and any interests Government has under this Sublease, and shall exercise full supervision and general direction thereof insofar as the interest of Government are affected. Day-to-day administration of the Prime Lease and any interest Government has under this Sublease shall be under the supervision and direction of the Director, Real Estate Center (Code 24), Engineering Field Activity West, San Bruno, CA 94066-5006.

31. SURRENDER. Upon the expiration of this Sublease or its prior termination by Subtenant, Subtenant shall quietly and peacefully remove itself and its property from the Leased Premises and surrender the possession thereof to Sublessor on the expiration date, or the date of such



prior termination by Subtenant; provided, in the event Sublessor terminates this Sublease for a breach of this Sublease by Subtenant, or because of a termination of the Prime Lease not caused by Sublessor, Subtenant shall be allowed a reasonable period of time, as determined by the Local Government Representative, but in no event less than ninety (90) calendar days from receipt of notice of termination, in which to remove all of its property from and terminate its operations on the Leased Premises. During such period prior to surrender, all obligations assumed by Subtenant under this Lease shall remain in full force and effect. Sublessor or Government may, in its discretion, declare any property, which has not been removed from the Leased Premises upon termination provided for above, as abandoned property upon an additional thirty (30) calendar days notice.

32. **QUIET POSSESSION.** Upon Subtenant paying the rent reserved hereunder and observing and performing all of the covenants, conditions and provisions on Subtenant's part to be observed and performed hereunder, Subtenant shall have quiet possession of the Leased Premises and shall not be unreasonably disturbed or interfered with by Sublessor or Government or by any person claiming by, through or under Sublessor or Government for the entire Term hereof, subject to all the provisions of this Sublease.

33. **CERTAIN RIGHTS RESERVED TO SUBLESSOR.** Sublessor reserves the following rights:

33.1 **Keys.** To hold copies of all keys and passkeys to the Leased Premises, other than to vaults, safes, or restricted areas within the Leased Premises.

33.2 **Inspections and Showings.** On reasonable prior written notice to Subtenant, no less than forty-eight (48) hours in advance, to show the Leased Premises to prospective tenants during the last six months of the Term, and to any prospective purchaser, mortgagee, or assignee of any mortgage or ground lease on the Leased Premises and to others having a legitimate interest in the Leased Premises at any time during the Term.

33.3 **Entry.** At any time in the event of an emergency, and otherwise at reasonable times by giving Subtenant forty-eight (48) hour advance written notice, to take any and all measures, including making any inspections, repairs, alterations, additions, and improvements to the Leased Premises, as may be necessary or desirable for the safety, protection, or preservation of the Leased Premises, or Sublessor's interests, or as may be necessary or desirable in the operation or improvement of the Leased Premises, or in order to comply with all laws, orders, and requirements of governmental or other authorities, using reasonable efforts not to interfere with the use and occupancy of the Leased Premises by Subtenant. Sublessor shall not be in default hereunder nor have any liability to Subtenant, nor shall Subtenant have any right to terminate this Sublease or claim an offset against or reduction in Rent payable hereunder, due to any damage, annoyance or inconvenience resulting from any such inspections, repairs, alterations, additions or improvements, or the failure of Sublessor to make any such inspections, repairs, alterations, additions or improvements; provided however that Sublessor shall be liable for its gross negligence or willful misconduct. In the event Subtenant is unable to use all or a portion of the Leased Premises or

conduct regularly scheduled programs and activities due to any such inspections, repairs, alterations, additions or improvements, then Subtenant shall have the right to offset against or reduction in Rent payable hereunder, due to any damage, annoyance or inconvenience resulting from any such inspections, repairs, alterations, additions or improvements. Subtenant shall reasonably cooperate with Sublessor or Sublessor's agents or contractors in carrying out any such inspections, repairs, alterations, additions or improvements.

34. **COVENANTS OF SUBTENANT.**

34.1 **Use of the Leased Premises.** Subtenant shall not make or permit to be made any use of the Leased Premises or any part thereof (i) which would directly or indirectly violate any federal, state or local law, ordinance, rule or governmental regulation; (ii) which would invalidate or unreasonably increase the premium cost of any policy of insurance carried on the Leased Premises or covering its operation (unless such increase is paid for by Subtenant); or (iii) which will suffer or permit the Leased Premises or any part thereof to be used in any manner or permit anything to be brought into or kept therein which, in the reasonable judgment of Sublessor, shall unreasonably impair or interfere with any of the services required to be performed by Sublessor, if any, for the Leased Premises.

34.2 **Exterior Signs.** Subtenant shall not display, inscribe, print, maintain or affix on any place on or about the exterior of the Buildings any sign, notice, legend, direction, figure or advertisement, except similar sign, notice, legend, direction, figure or advertisement completed by other Subtenants at the Station or as may be approved by Sublessor in writing (which approval Sublessor shall not unreasonably withhold, condition or delay) and, if required, by local governing authorities. Notwithstanding the forgoing Sublessor and Government shall not interfere with Subtenant's ability to install directional signs to the Facility within the Station and at the front entrance to the Station directing traffic to the Leased Premises. All signs will comply with existing code requirements.

34.3 **Locks.** Subtenant shall not change any existing locks, or attach any additional locks or similar devices to any door or window, change any locks, without providing to Sublessor one set of keys therefore. All keys must be returned to Sublessor at the expiration or termination of this Sublease.

34.4 **Overloading.** Subtenant shall not overload any floor.

34.5 **Machinery.** Subtenant shall not install or operate any machinery, refrigerating or heating device or air conditioning apparatus in or about the Leased Premises, which would impose unreasonable substantial additional loads on the facilities of the buildings. Machinery expressly authorized by ARRA shall not be deemed to violate this provision.

34.6 **No Obstruction.** The exits, entrances, elevators and stairways of the Buildings shall not be obstructed by Subtenant or used for any purpose other than for ingress to and egress

from the Leased Premises. Subtenant and its employees or invitees shall not go upon the roof of the Buildings without Sublessor's prior consent, except for repairs, regular maintenance or inspections, which approval is not required.

34.7 No Animals. Subtenant shall not permit any animals, except those required to be allowed by law, such as guide dogs, to be brought in or kept in or about the Leased Premises without Sublessor's prior written consent.

34.8 Rules. Subtenant shall comply with the rules and regulations referred to in Section 35. Subtenant shall comply with all reasonable rules and regulations of Sublessor and Government.

34.9 Compliance with Laws. Subtenant shall comply, in all material respects, with all laws, enactments, rules, ordinances and regulations of all governmental authorities relating or applicable to Subtenant's occupancy of the Leased Premises and all covenants, easements and restrictions governing the Leased Premises.

34.10 Outside Storage Prohibited. Outside storage or activities are not permitted unless expressly authorized in writing by Sublessor. Any outside storage authorized by Sublessor shall be properly screened.

35. **RULES AND REGULATIONS**. Sublessor shall have the right to make such rules and regulations as in the reasonable judgment of Sublessor may from time to time be necessary for the safety, appearance, care and cleanliness of the Leased Premises and for the preservation of good order therein, provided that such rules do not unreasonably interfere with the operations of Subtenant which otherwise comply with the terms of this Sublease.

36. **HOLDING OVER**. If Subtenant retains possession of the Leased Premises or any part thereof after the expiration or termination of the Term, Subtenant shall pay to Sublessor immediately on demand, a monthly sum equal to 120 percent of the amount of the monthly Base Rent and Additional Rent for the last full calendar month of the Term for the time Subtenant thus remains in possession and, in addition thereto, shall pay Sublessor for all direct damages sustained by reason of Subtenant's retention of possession. The provisions of this section do not exclude Sublessor's rights to re-entry or any other right under this Sublease.

37. **DEFAULT**. It shall constitute an event of default ("**Event of Default**") under this Sublease if any of the events describes in the following subsections occurs:

37.1 Rent. Subtenant fails to pay when due Base Rent, Additional Rent, or other amounts due hereunder and such failure continues for a period of ten days after written notice to Subtenant from Sublessor.

37.2 Assignment/Subletting. Subtenant assigns or sublets, or purports to assign or sublet the Leased Premises or any part thereof other than in the manner and upon the conditions set forth herein.

37.3 Other Agreements. Subtenant fails to perform or observe any of its other obligations, covenants or agreements hereunder within fifteen (15) calendar days after written notice of any such failure has been given by or on behalf of Sublessor, or, if more than fifteen (15) calendar days are required to cure such failure, within said fifteen working days, Subtenant shall advise Sublessor in writing of Subtenant's intended course of action to cure and the estimated date as to when said action will be completed, and if Subtenant fails to commence such cure as promptly as practical as stated in its notice to Sublessor and thereafter diligently to pursue such cure and thereafter fails to diligently pursue such a cure and complete such cure within a reasonable time thereafter, or within the period of time as may be otherwise required under the Prime Lease.

37.4 Bankruptcy. Subtenant liquidates its business, becomes insolvent, makes an assignment for the benefit of creditors, files or has filed against it a petition of bankruptcy, bill in equity, or other proceedings for the appointment of a receiver or other custodian for its property, or if proceedings for reorganization or composition with creditors under any law are instituted by or against Subtenant or if any levy or sale or execution of any kind is made upon or of any property of Subtenant in the Leased Premises.

37.5 Vacation/Abandonment. Subtenant abandons or vacates the Leased Premises or Subtenant removes or attempts to remove or manifests an intention to remove Subtenant's goods or property from or out of the Leased Premises otherwise than in the ordinary and usual course of business.

37.6 Fail to Locate. Subtenant fails to vacate the Leased Premises at the end of the Term of this Sublease unless this Sublease is otherwise renewed or extended.

## 38. SUBLESSOR'S REMEDIES.

38.1 Sublessor's Options. If an Event of Default hereunder shall have occurred, Sublessor may, at its option, exercise any one or more of the following remedies:

38.1.1 Termination of Sublease. Sublessor may terminate this Sublease, by written notice to Subtenant. Upon such termination, Subtenant shall immediately surrender possession of the Leased Premises to Sublessor, and Sublessor shall immediately become entitled to receive from Subtenant an amount equal to the worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of the award exceeds the amount of rental loss for the same period that Subtenant proves could be reasonably avoided, as computed pursuant to subsection (b) of section 1951.2 of the California Civil Code.

38.1.2 Reletting. With or without terminating this Sublease, as Sublessor may elect, Sublessor may re-enter and repossess the Leased Premises, or any part thereof, and lease them to any other person upon such terms as Sublessor shall deem reasonable, for a term within or beyond the Term; provided, that any such reletting prior to termination shall be for the account of Subtenant, and Subtenant shall remain liable for (i) all Base Rent, Additional Rent and other sums which would be payable under this Sublease by Subtenant in the absence of such expiration, termination or repossession, less (ii) the net proceeds, if any, of any reletting effected for the account of Subtenant after deducting from such proceeds all of Sublessor's expenses, reasonable attorneys' fees and expenses, employees' expenses, alteration costs, expenses of preparation for such reletting and all costs and expenses, incurred as a result of Subtenant's breach of this Sublease. If the Leased Premises are, at the time of default, sublet or leased by Subtenant to others, Sublessor may, as Subtenant's agent, collect rents due from any subtenant or other tenant and apply such rents to the Rent and other amounts due hereunder without in any way affecting Subtenant's obligation to Sublessor hereunder. Such agency, being given for security, is hereby declared to be irrevocable.

38.1.3 Removal of Contents by Sublessor. With respect to any portion of the Leased Premises which is vacant or which is not physically occupied by Subtenant, Sublessor may remove property therefrom, and store such property in a public warehouse or elsewhere at the cost of and for the account of Subtenant, in such manner as may be permitted by applicable law, without being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby.

38.2 Survival of Subtenant's Obligations. No early expiration or termination of this Sublease (except as expressly provided herein) and no repossession of the Leased Premises or any part thereof shall relieve Subtenant of its liabilities and obligations to pay rent hereunder, all of which shall survive such expiration, termination or repossession, and Sublessor may, at its option, sue for and collect all Rent and other charges due hereunder at any time as when such charges accrue.

38.3 Not Exclusive. No right or remedy herein conferred upon or reserved to Sublessor is intended to be exclusive of any other right or remedy herein or by law provided, but each shall be cumulative and in addition to every other right or remedy given herein or now or after existing at law or in equity or by statute.

38.4 Expenses. In the event that Sublessor commences suit for the repossession of the Leased Premises, for the recovery of Rent or any other amount due under the provisions of this Sublease, or because of the breach of any other covenant herein contained on the part of Subtenant to be kept or performed, and a breach shall be established, Subtenant shall pay to Sublessor all expenses incurred in connection therewith, including reasonable attorneys' fees. In the event that Subtenant commences suit because of the breach of any covenant herein contained on the part of Sublessor to be kept or performed, and a breach shall be established, Sublessor shall pay to Subtenant all expenses incurred in connection therewith, including reasonable attorneys' fees.

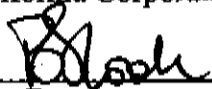
39. **SEVERABILITY.** If any of the provisions of this Sublease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Sublease, or the application of such provision or provisions to persons or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected thereby, and every provision of this Sublease shall be valid and enforceable to the fullest extent permitted by law.

40. **TRAFFIC MITIGATION FEES.** The Traffic Mitigation Fees set forth in the Use Permit shall not be paid by Subtenant.

IN WITNESS WHEREOF, Sublessor and Subtenant have respectively signed and sealed this Sublease as of the day and year first above written.

SUBTENANT:

Bladium, Inc.  
a California Corporation

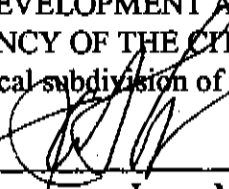
By   
Its Per

and


By \_\_\_\_\_  
Its \_\_\_\_\_

SUBLESSOR:

ALAMEDA REUSE AND  
REDEVELOPMENT AUTHORITY, AN  
AGENCY OF THE CITY OF ALAMEDA, a  
political subdivision of the State of California

By   
James M. Flint  
Executive Director


RECOMMENDED FOR APPROVAL:

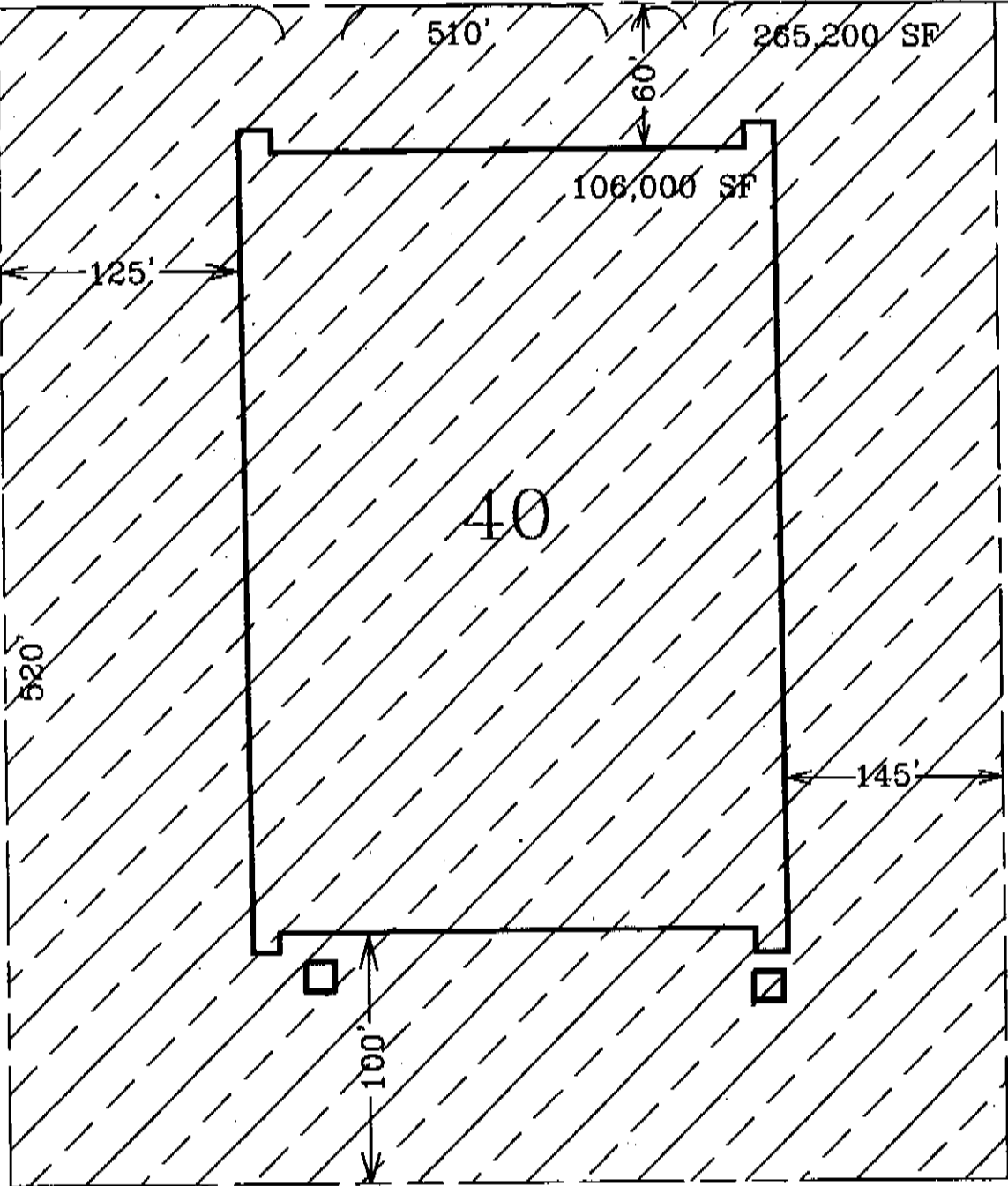
  
David A. Berger  
Deputy City Manager

RECOMMENDED FOR APPROVAL:

  
Ed Levine  
Facilities Manager

Approved as to form:

  
Maria Shanle  
Deputy General Counsel



**EXHIBIT A**

**Exhibits B and C**

Copies available at ARRA office.



## NAVY/ARRA JOINT INSPECTION

**Facility Address:** 800 W. Tower Avenue  
(formerly Building 40)

**Date of Inspection:** 15 November 1999

**Tenant:** Bladium

### **Building Description:**

The ARRA is securing a lease of 800 W. Tower Avenue (Building 40) on board Alameda Point (formerly Naval Air Station Alameda). Building 40 was built in 1941 and has approximately 118,190 square feet of aircraft hangar and office spaces. It is a two-story concrete and steel-framed structure constructed on concrete slab on grade, with steel framed windows and hangar doors, and ethylene propylene diene monomer (EPDM) membrane roofing (main roof), and sheet metal roofing (above the hangar doors) over wooden roof decking. It was used primarily as an aircraft maintenance hangar.

### **Building Condition:**

#### **Interior:**

The interior of the building is in fair condition with the following items being noted for the record:

1. Sections of the interior wall finishes including plaster, sheet-rock, fiberboard panels, wood paneling, metal panels, and concrete, have a number of nicks, holes, gouges, cracks, dirt and rust stain, dents, and scratch marks. The plaster walls in several locations are damaged, and sections of the wood paneling are loose, missing, and are also damaged.
2. Pieces of 6" x 6", 9" x 9", and 12" x 12" asphalt floor tiles are missing, chipped, broken, loose, cracked, stained, and dirty. White powdery residue and staining is seeping out of the asphalt tile joints in several locations. Sections of the flooring have water/rusty stain from moisture intrusion, possibly from previous window leaks, cracks in the walls, utility pipe and roof/roof drain leaks.
3. Several office spaces have carpeting over asphalt floor tiles. The carpeting is heavily stained and dirty with several tears, holes, and excessive wear. Sections of the carpet tiles in various locations are also missing, stained, and lifting at the seams.
4. Pieces of ceiling tiles (drop-in tiles and glued type) are missing, loose, broken, bowed, and cracked. A number of light fixture diffusers are also missing and broken. Sections of the ceiling tees are missing and bent.
5. Paint on walls, ceilings, and doors are peeling, flaking, blistering, and cracking. There are also signs of moisture damage in several locations.
6. Plumbing systems in the bathrooms were not checked but most of the fixtures and plumbing are old and show evidence of previous leaks. Parts of the valves and fittings are broken, missing and appear to be inoperative. The terrazzo floor in the rest room on the north side of the building has minor cracks and stain.

**EXHIBIT D**

7. A number of electrical fixture covers are missing, broken, and chipped. There are exposed wires from disconnected lighting fixtures, outlets, and equipment.

8. A number of the steel-framed window locks are missing and inoperative. Some of the handlebars are broken and missing, and a few windowpanes are also cracked. Bottom sections of the window frames and mullions, particularly in the south side of the building, are corroded in several locations. Sections of the caulking and glazing are also deteriorated and crumbling.

9. The wooden structure in the center section of the hangar, separating the north and south halves of the hangar bay, is in poor condition. Sections of the transite siding and fiberboard panels are damaged, and have a number of large holes, nicks, and gouges. Sections of the flooring are also badly deteriorated.

10. A number of personnel doors have nicks, dents, scratch marks, and have broken, missing, and or inoperative locks and hardware.

11. The modular building located in the north half of the hangar bay is in good condition with minor nicks, and dents on wall surfaces. A few pieces of the ceiling tiles are broken and missing. The chain link fencing on the north side of the modular building is in good condition.

12. The concrete floor has many nicks and gouges, and sections of the joint sealant in the concrete floor joints are deteriorated. The asphalt paving outside the office spaces and adjacent to the hangar doors has many dips, nicks, cracks, and gouges, and is unraveling in several locations.


**Exterior:**

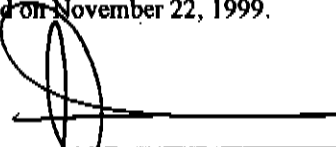
The exterior of the building is in fair condition with the following items being noted for the record:

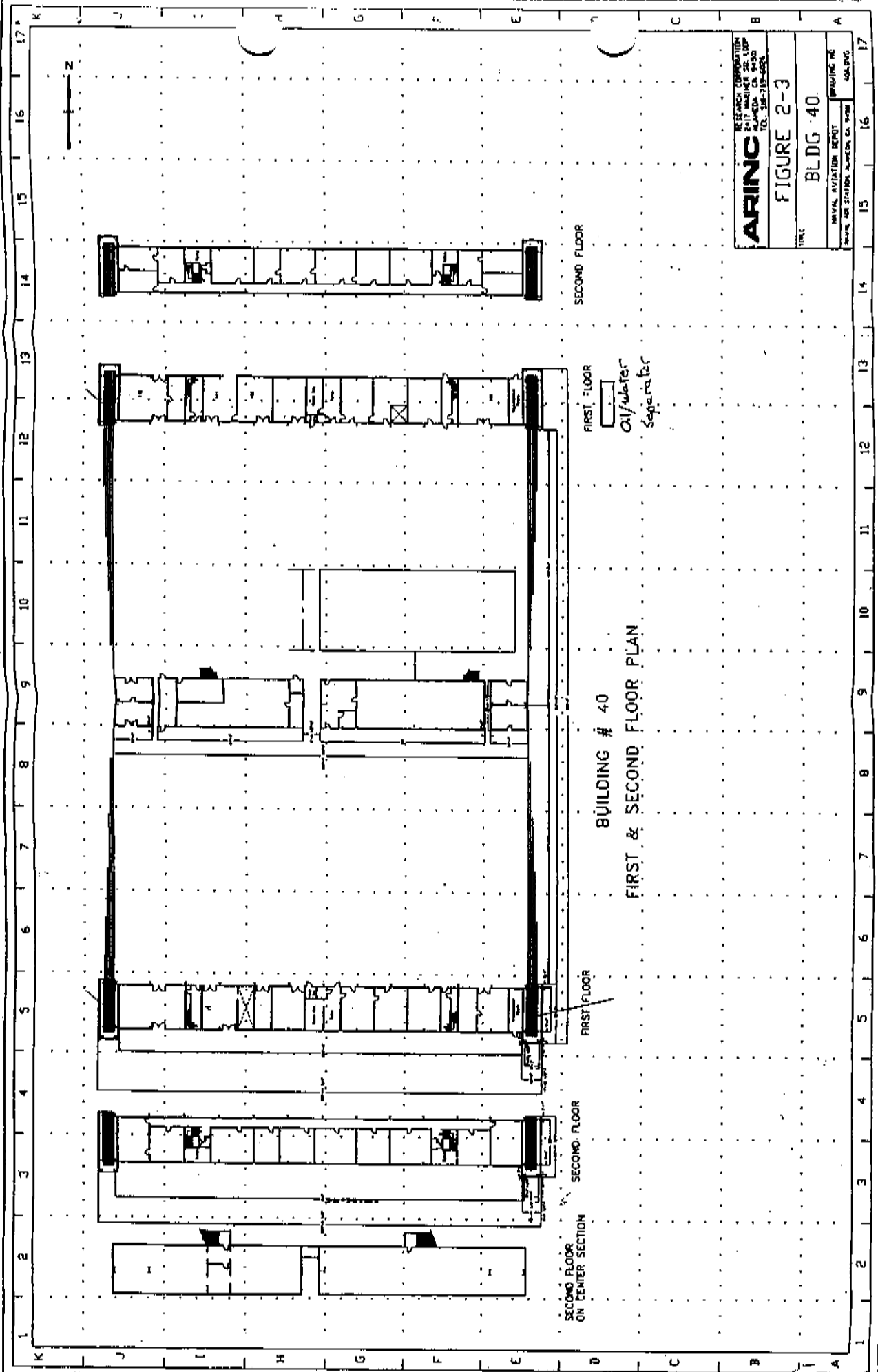
1. The exterior metal surfaces particularly the steel-framed windows and hangar doors, show sign of corrosion.
2. The asphalt pavement on the north and south sides the building has cracks.

**Additional Notes For The Record:**

1. The membrane roofing appears to be in good condition, although, there are signs of moisture intrusion from previous roof leaks, roof drain and pipe leaks. An eight-foot section of roof cap flashing over the westside parapet wall is peeled off and folded at the lap joint.
2. The hangar bay, second floor hallways, and a few of the office spaces on the north side and center section of the hangar are provided with fire sprinkler systems.
3. The building is equipped with a 400 Hz. cycle power converter.
4. A building floor plan, Exhibit (A), and site plan, Exhibit (B) are attached for reference purposes only.
5. The joint inspection was performed by M. Hampen (ARRA), D. DeLong, and M. Asuncion (Alameda Point NTO). The videotape inspection was conducted on November 22, 1999.

 11/23/99  
\_\_\_\_\_  
Signature Date  
M. Asuncion  
NAVY

 11/24/99  
\_\_\_\_\_  
Signature Date  
M. Hampen  
ARRA



ARINC  
 RESEARCH CORPORATION  
 2417 MARINE ST. LOST ANGELES, CALIF. 90004  
 TEL. 323-213-4000

FIGURE 2-3

BLDG 40

TITLE

NAVAL AVIATION DEPOT BRADLINE RD  
 NAVAL AIR STATION JACKSON, CA 95602 DRAWING NO. 40A-BDG

BUILDING # 40  
 FIRST & SECOND FLOOR PLAN

SECOND FLOOR

FIRST FLOOR

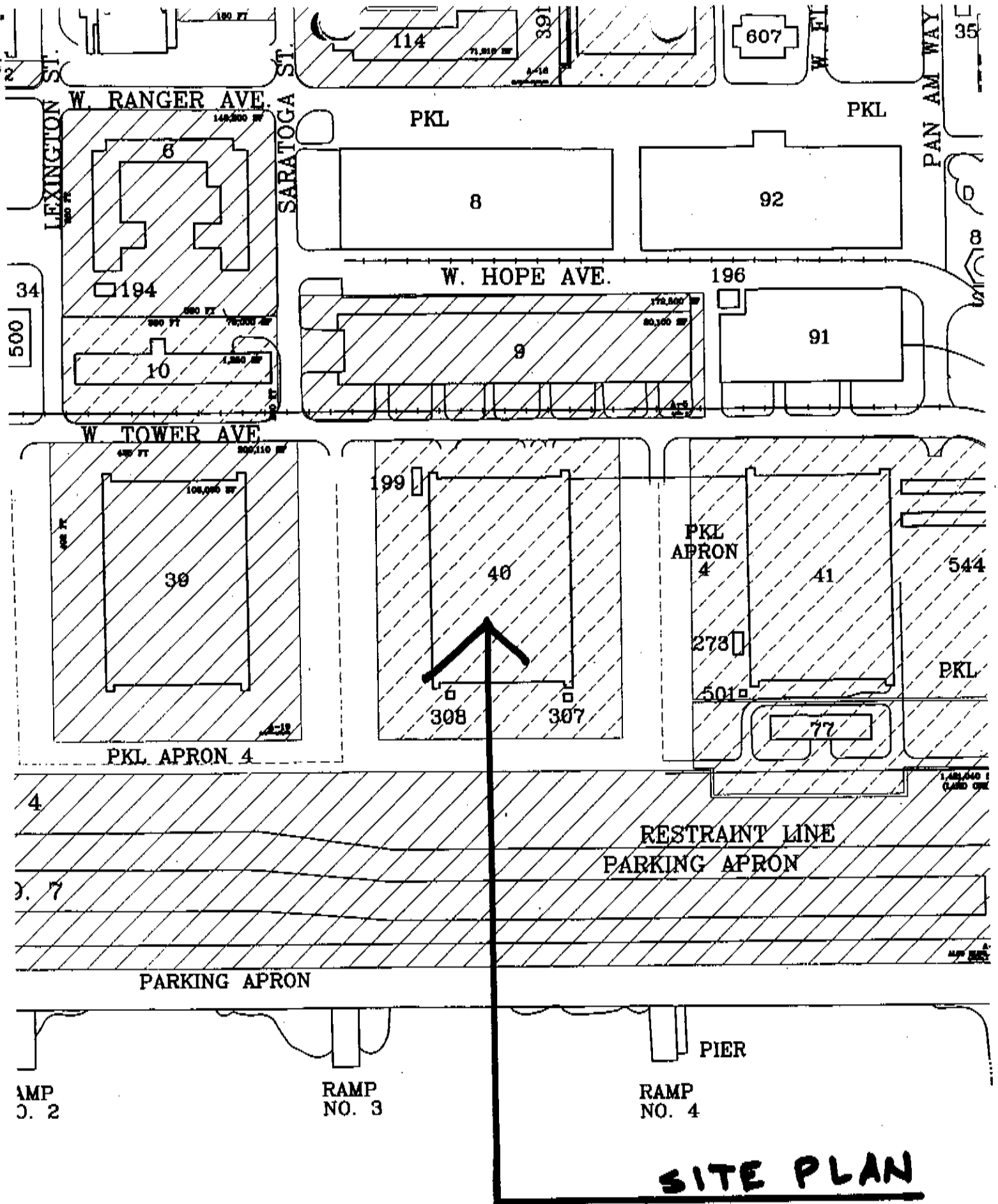
FIRST FLOOR

SECOND FLOOR

SECOND FLOOR  
 ON CENTER SECTION

Oil/Water  
 Separator

EXHIBIT (A)



**SITE PLAN**  
**EXHIBIT (B)**

**EXHIBIT E**  
Sublease of Building 40  
Qualified Shell Improvement Costs

The cost of the following items of work performed by Subtenant shall qualify as Qualified Shell Improvement Costs ("QSIC") and deemed to be part of Leased Premise shell improvements related to general requirements for use and occupancy of the Leased Premises.

**Hazardous Materials and Asbestos Abatement**

- Remove and dispose of any hazardous materials, including but not limited to asbestos insulation, PCB transformers, lead paint, asbestos floor and ceiling tile.
- Supervision, certification and testing fees relating to such abatement.

**Demolition**

- Remove and dispose of structures, fencing and equipment in the open hangar space.
- Remove partitions, walls, ceilings and fixtures in the two story structure located on the south and north side of the Building.
- Saw cut, break and remove concrete for handicap entrances.
- Saw cut, break and remove asphalt for electrical, gas, water and fire sprinkler services.
- Any exterior modifications required for exiting.

**Grading and Paving**

- Compact, base rock and patch pave parking lot for water service, fire service and electrical service.

**Site Work, Stripes & Bumpers**

- Parking stalls, sign and parking lot striping.
- Provide clear pedestrian routes from north edge of leased area to entry on south side of building as required by City of Alameda Planning Dept.
- Furnish and install perimeter fence around the Building as required by the City of Alameda Planning Dept.

**Concrete Work**

- Form, reinforce, place and finish handicap ramps and any interior and exterior sloping.
- Dowel and patch plumbing trenches.
- Form, reinforce, place and finish electrical transformer pads and other utility pads.
- Form, reinforce, place level landings at door exists to meet code.

### Miscellaneous Iron

- Bollards.
- Railing at handicap ramps.
- Handrails and railing at stairs.

### Carpentry

- Structure and framing for hot water/boiler rooms.
- Backing for handrails.
- Backing for toilet partitions and equipment.
- Replace front counter reception area.
- Repair/replace second story railing.

### Roofing

- Patch and repair existing roof to ensure no leaks.
- Provide roof penetrations for necessary equipment.
- Work required to repair, maintain replace the roof, if required.

### Caulking & Sealants

- Allowance for fire caulking penetrations in fire rated areas.

### Doors/Frames/Hardware

- Remove and/or replace doors to meet ADA and Title 24 requirements.
- Door hardware to meet ADA and Title 24 requirements.
- Furnish, install or repair exit doors as required.

### Glass, Glazing and Weatherproofing

- Replace all broken and leaking windows.
- Replace glazing subject to lead abatement.
- Seal and repair windows and doors.
- Repair and/or replace existing roof drains.
- Install tempered glazing as required by code.

### Drywall

- Replace sheet rock in restrooms.
- Cased opening for handicap access.
- Patching throughout areas for existing conditions and repair of new construction.

### Walls and Flooring

- Furnish and install tile in toilet areas.
- Provide and install FRP in janitor's closets.
- Provide floor covering in north and south two story areas.
- Paint interior of north and south two story areas.
- Paint as required repairing and or maintaining any of the buildings exterior walls.

### Toilet Partitions and Accessories

- Repair and/or replace toilet partitions.
- Furnish and install Bobrick or equivalent; soap dispensers, seat cover dispensers, grab bars, toilet paper dispensers and feminine sanitary products dispensers and receptacles.

### Fire and Life Safety

- Furnish and install fire alarm, life safety system, and security systems.
- Furnish and install rechargeable hand held fire extinguishers as required.

### Hangar Doors

- Allowance to seal and waterproof hangar doors and tracks.

### Plumbing

- Replace plumbing and fixtures in restrooms.
- Provide new domestic water service and distribution.
- Provide new gas service and distribution.
- Replace flushometers in existing fixtures.
- Replace handicap water fountains.
- New hot water heaters (Qty 2).
- If required by EBMUD to reduce water connection from two to one, then provide water supply to opposite side of building from supply source.

### Fire Sprinklers

- Remove existing risers.
- Upgrade and convert existing deluge system to wet pipe system including any modifications.
- Upgrade existing hangars and bracing to seismic code requirements.

### Mechanical

- Rework existing steam heat system to gas system including piping, heating, and conditioning units.
- Provide air balance, make up air units and start up.
- Controls, Thermostats and power to units.

### Electrical

- Demo existing electrical system.
- Furnish and install new electrical service.
- Saw cut, core drilling, removal, trenching and finish.
- Electrical distribution and panels.
- Repair, replace and add where missing high bay fixtures including wire and conduit.
- Furnish and install 1 outlet per 300-sf for north and south two story area.
- Furnish and install 1 light fixture per 90-sf for north and south two story area.
- Furnish and install exist and emergency lights as required.
- Repair, replace and add where missing exterior security lighting including timer.
- Replace any unsafe wire as required by code.

### Temporary Utilities

- Installation of temporary utilities.

### Utilities and Metering

- All work to verify, establish and repair utilities and distribution including water, gas, sewer, electrical and telephone and communications.
- Any trenching.
- Separate utility meters, if applicable pursuant to the Sublease.



### Permits and Fees

- Costs of any special studies, reports or other fees and expenses that may be required in order to occupy the Building including but not limited to traffic impact study, ongoing traffic monitoring, soils report, use permit, inspection, legal expenses, initial study and any performance and payment bonding requirements.

### Architectural, Engineering and Construction Management

- All architectural, construction management, consultant's fees, design, plan, permit and inspection fees and expenses.

### Equipment Rental

- Equipment rentals.

### Americans with Disabilities Act

- All costs of upgrades and compliance with current uniform building code under the Americans with Disabilities Act, as required by the City of Alameda Building Department.

### Joint Inspection Report

- All work within the Leased Premises, to correct safety or health hazards, identified in the Joint Inspection, required as part of the Sublease.

### Structural Improvements

- Structural or seismic upgrade work as required by the Government or the City of Alameda Building Department.



# SMITH ASSOCIATES

March 27, 2000

Mr. Mike Hampen  
Alameda Point Assistant Facilities & Property Manager  
950 West Mall Square  
Building One, Suite 100  
Alameda, Ca. 94501-7552

RE: Hanger #40 Condition Inspection

Dear Mr. Hampen:

At your request, the subject property was inspected. The inspection date was March 23, 2000. The purpose of the inspection was to establish the exact condition of the building and interior improvements at that time.

As a result of the inspection, it was noted that some demolition of the interior improvements had begun. This consisted primarily in removal of the electrical wiring, circuit breakers and circuit breaker boxes.

A general description of the building improvements is as follows:

**Exterior:** The exterior reflected generally good condition with no considerable deferred maintenance noted. The parking area and yard area are of concrete slab and are also in good condition. There is a cyclone fence with gates separating the building and parking/storage yard from the street. It is also in average to good condition.

**Interior:** The interior condition and related tenant improvements was broken into two categories, Structural and Tenant Improvements. The structural portion of the building reflected generally average condition. It consists of a slab foundation with steel truss roof support and wood sub-roof decking. Each end is access with floor to ceiling rolling hanger doors. Overall the structure appears to be in average condition considering the age of the improvements.

The interior improvements consist of mostly areas that have been previously used as office and or shop. The interior of this space is in poor condition and has suffered considerable deferred maintenance. Walls have been kicked in, ceiling tiles have been removed or fallen out, carpet or vinyl floors have been partially or totally removed etc. The restrooms appear to be generally in tact but have been "secured". It is clear if the plumbing and fixtures are still operable.

As they exist, the office improvements have finishes that include the following:

Floors:	Vinyl and carpet.
Walls:	Wood Panel, Sheet Rock and Wallboard.
Ceilings:	Sheet Rock, Acoustical Panels
Lighting:	Fluorescent
Heat:	Steam Radiators


## EXHIBIT F

Mike Hampen  
March 26, 2000  
Page Two

The attached Photo Key provides location and direction of the photos taken during the inspection. They should provide a good example of the actual materials and condition of the improvements as of the date of inspection.

Please call with any questions.

Respectfully,

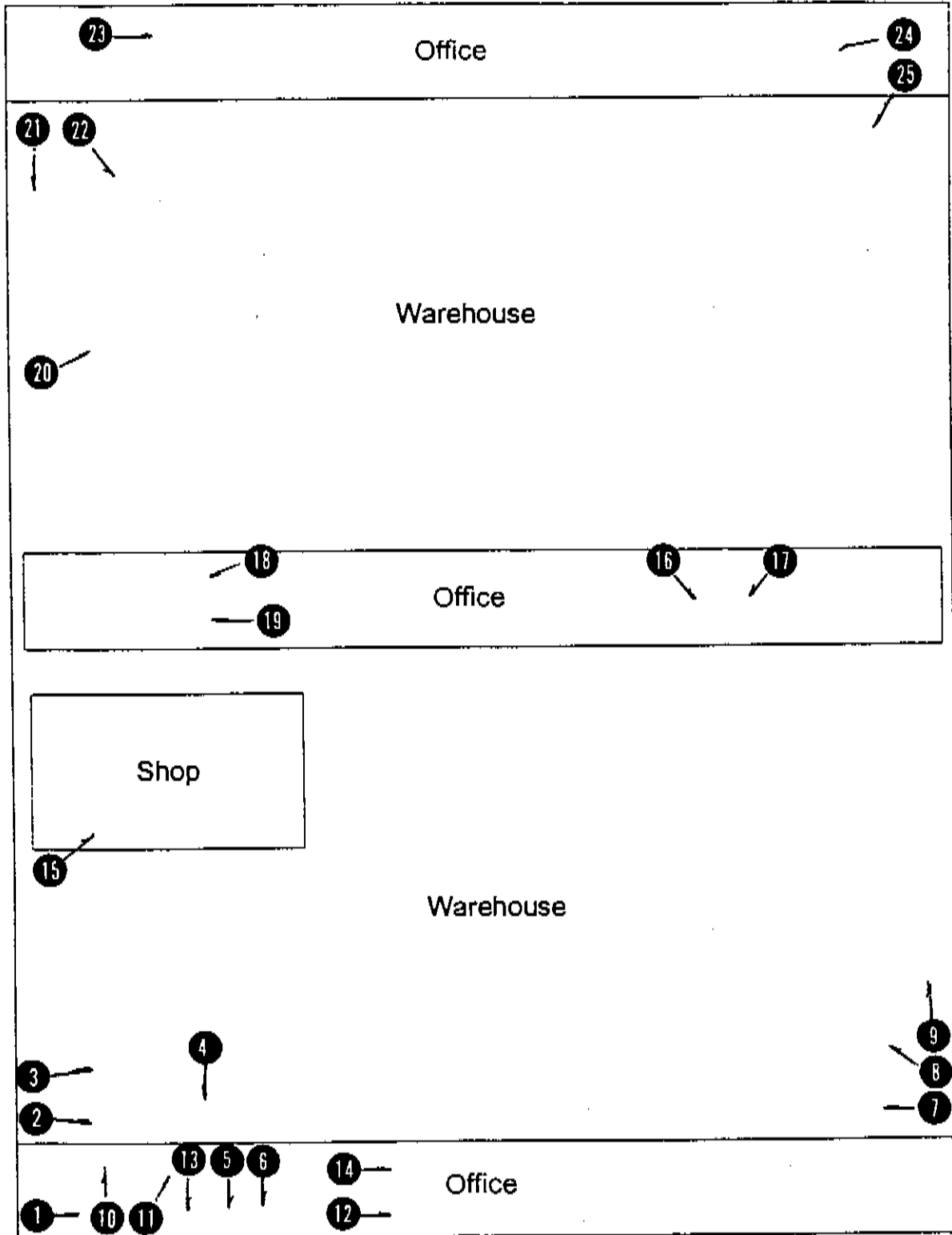


Dennis L. Smith, MAI  
Smith & Associates, Inc.

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# AIRCRAFT HANGER #40, ALAMEDA PHOTO KEY / LAYOUT



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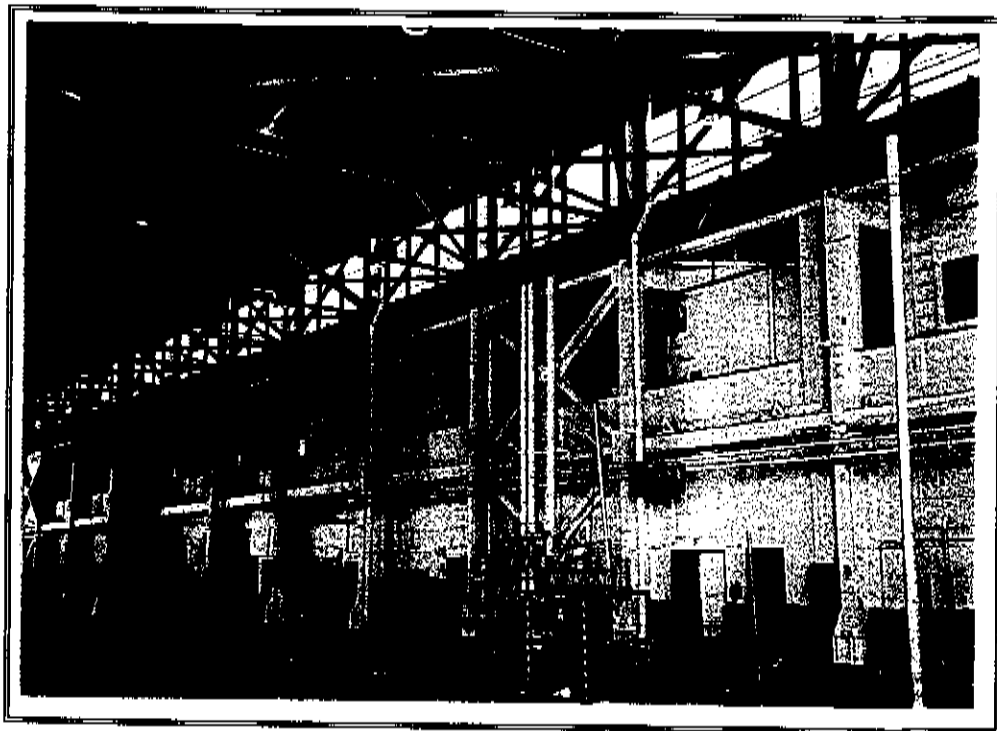
32

Avenue F

**Hanger #40 Condition Inspection**

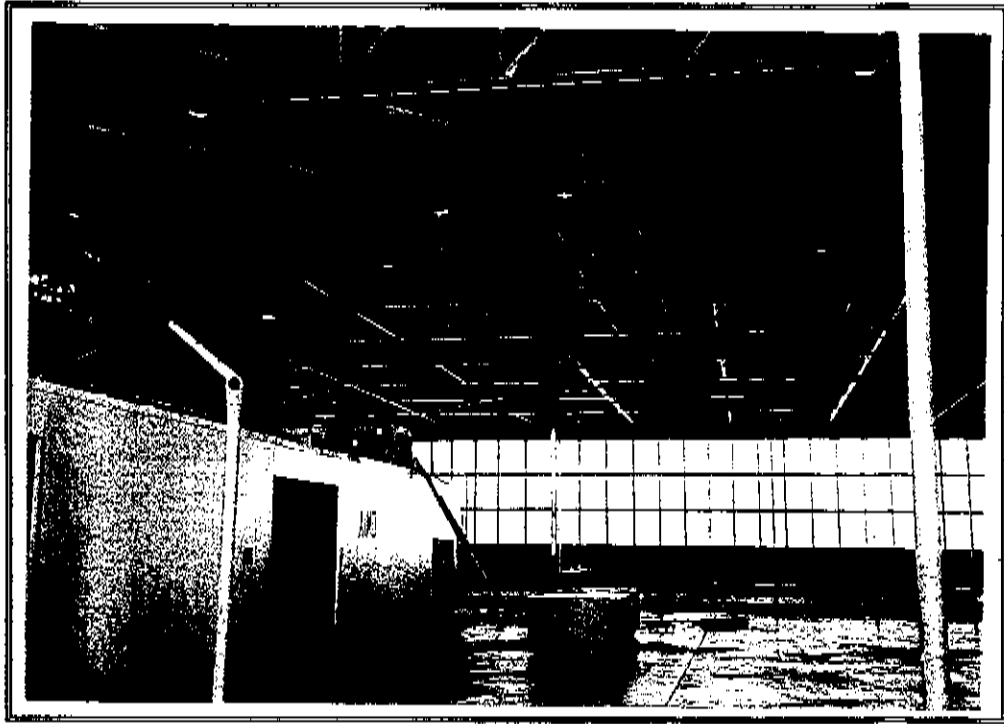


**Photograph #1**

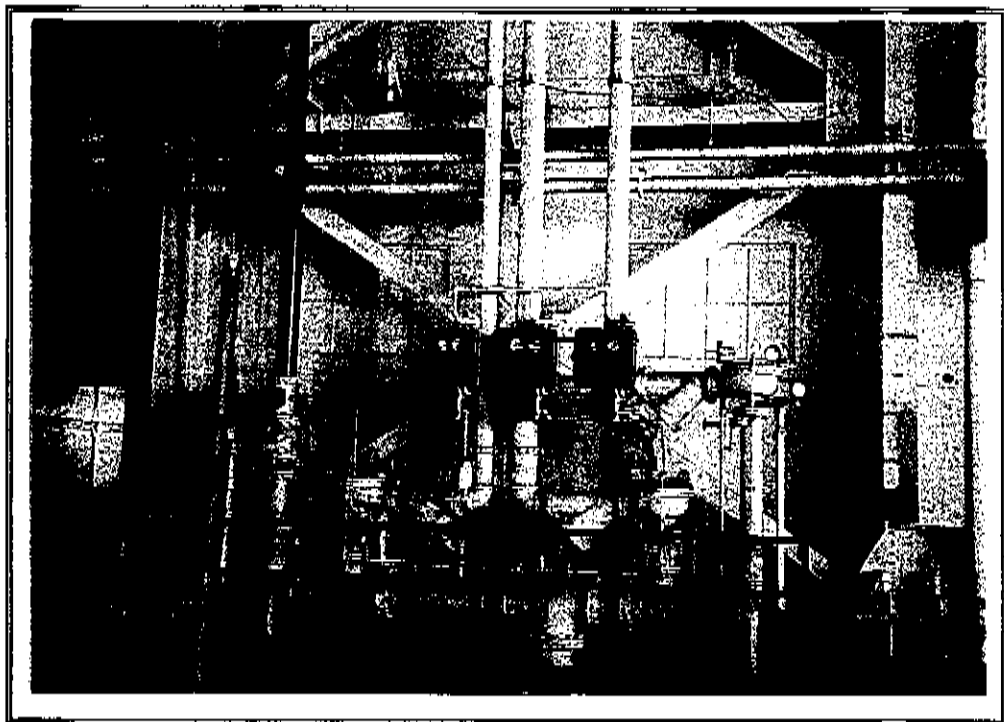


**Photograph #2**

**Hanger #40 Condition Inspection**

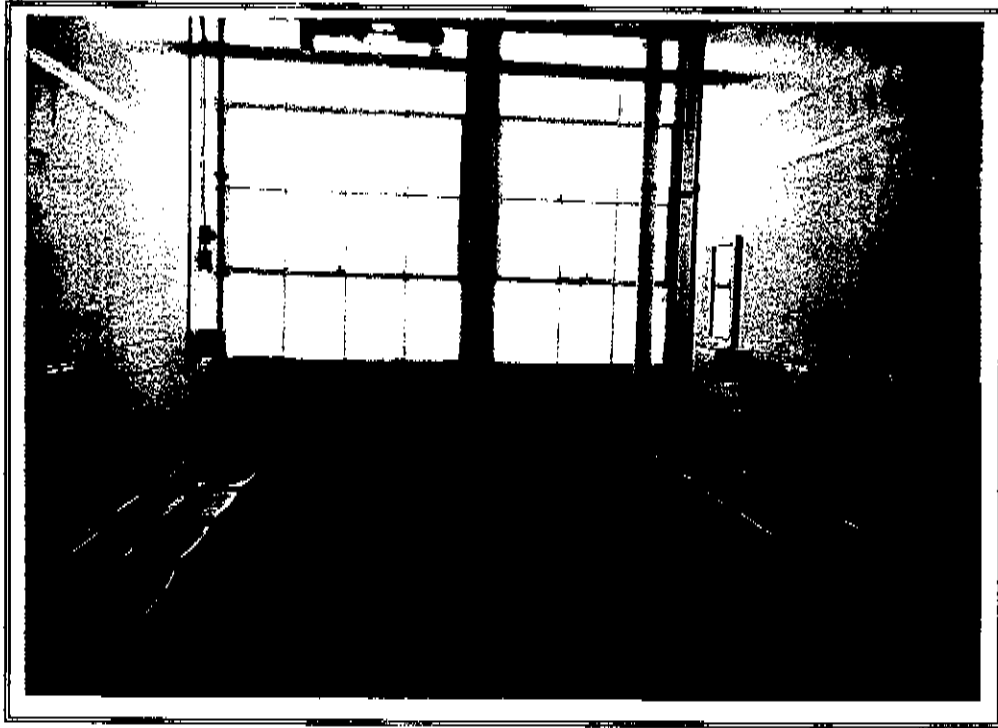


**Photograph #3**

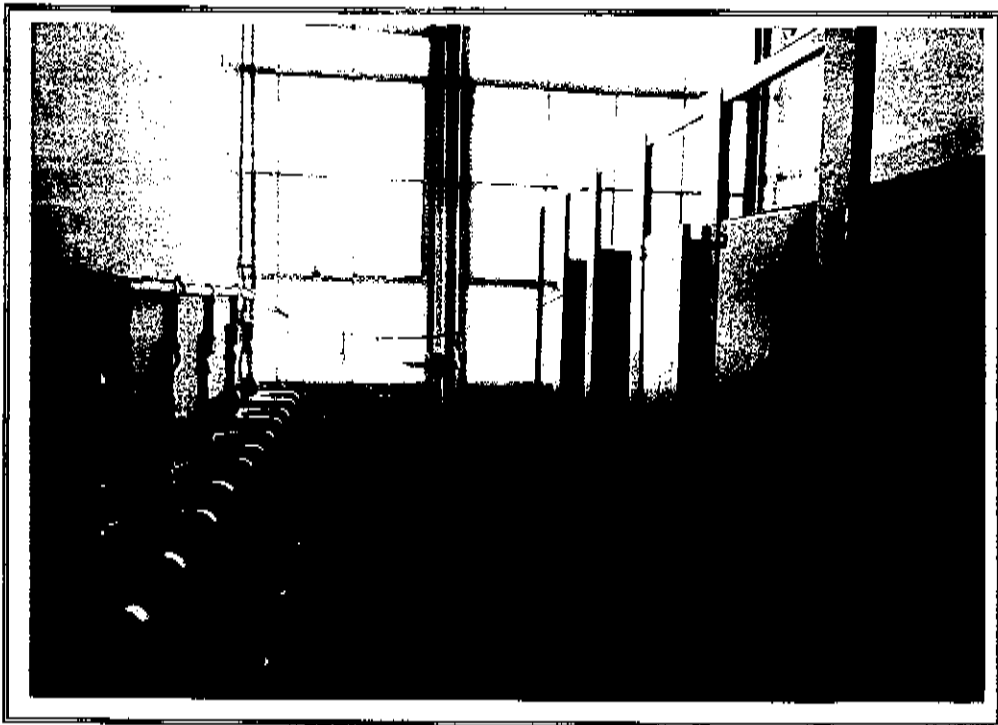


**Photograph #4**

**Hanger #40 Condition Inspection**

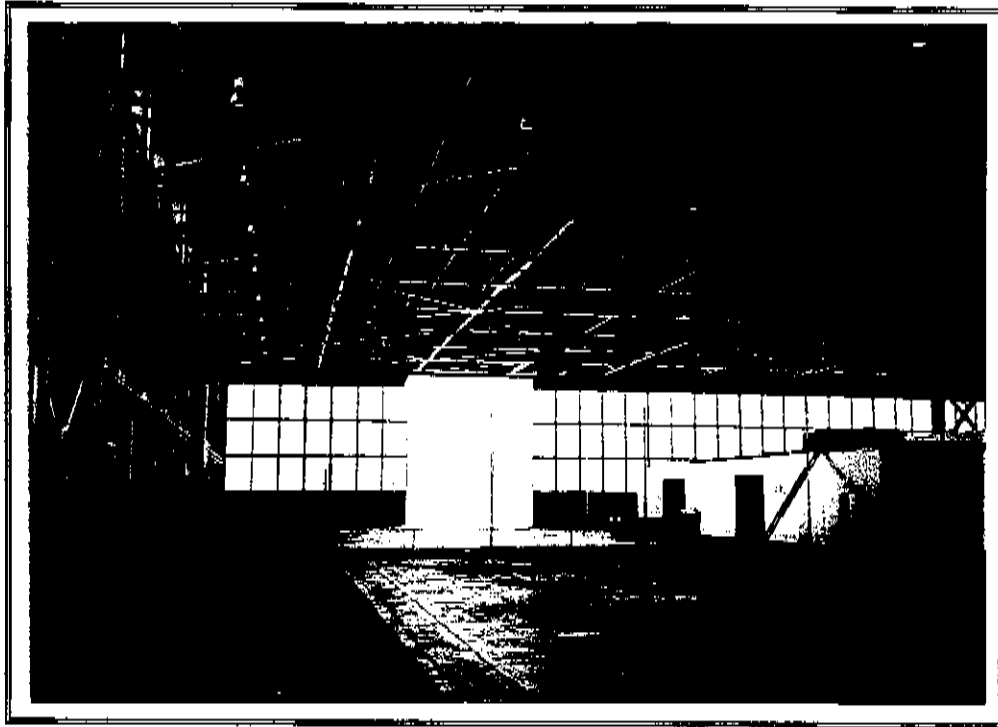


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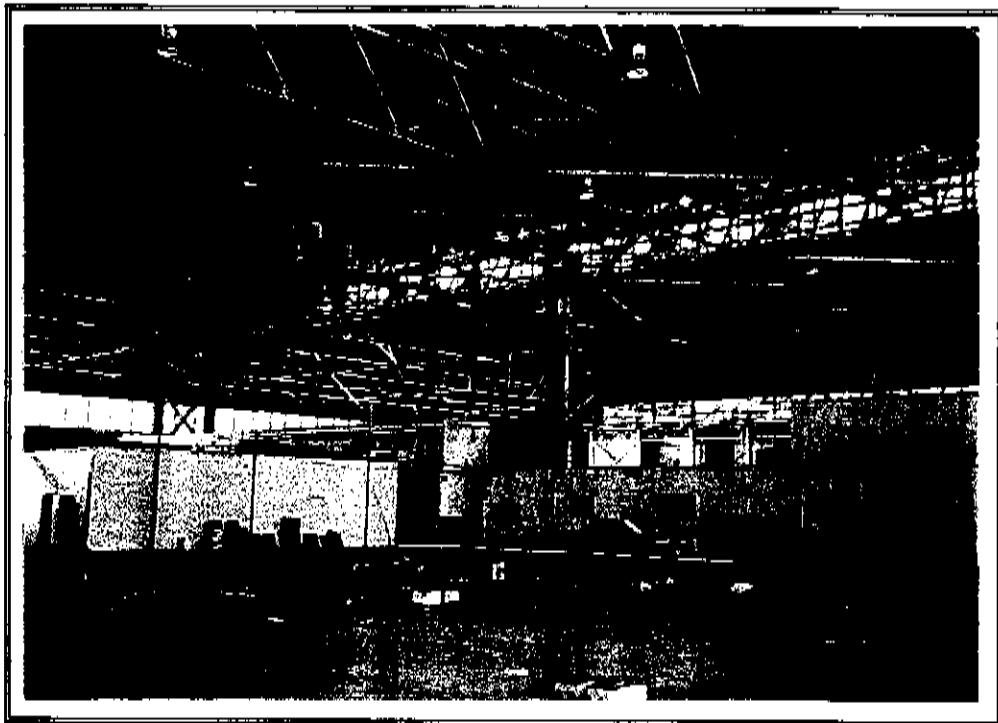


**Photograph #6**

**Hanger #40 Condition Inspection**



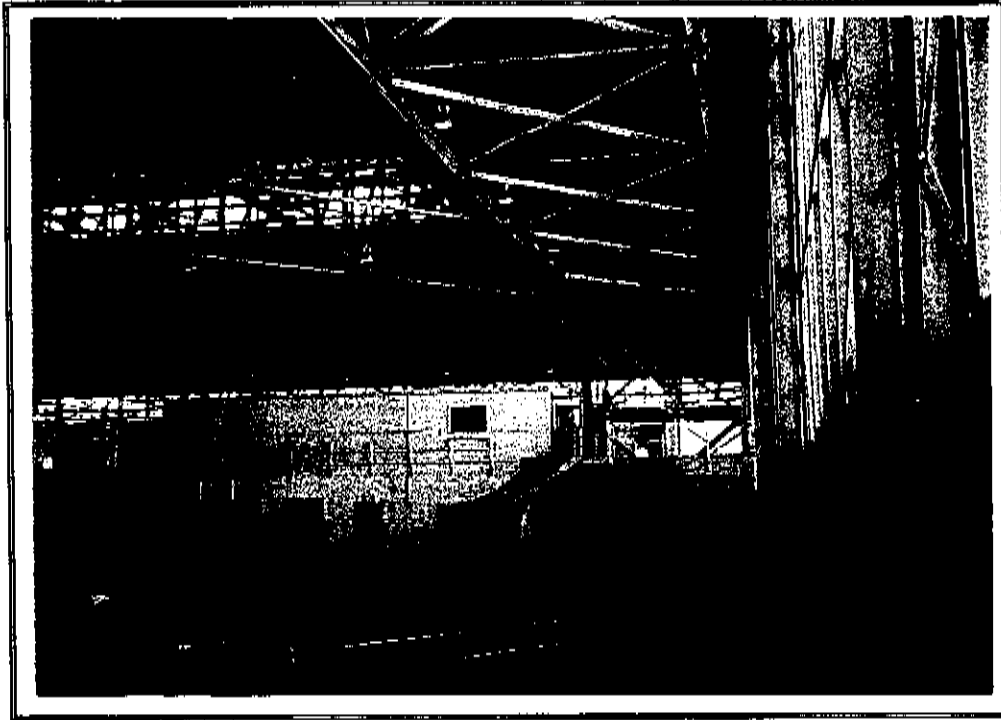
**Photograph #7**



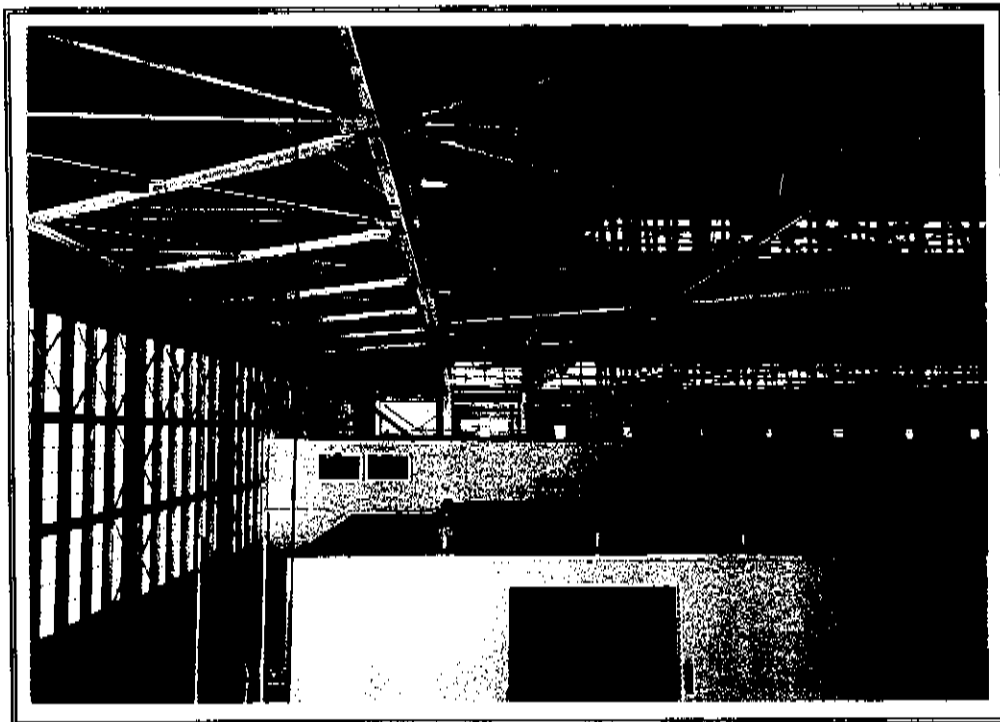
**Photograph #8**



**Hanger #40 Condition Inspection**

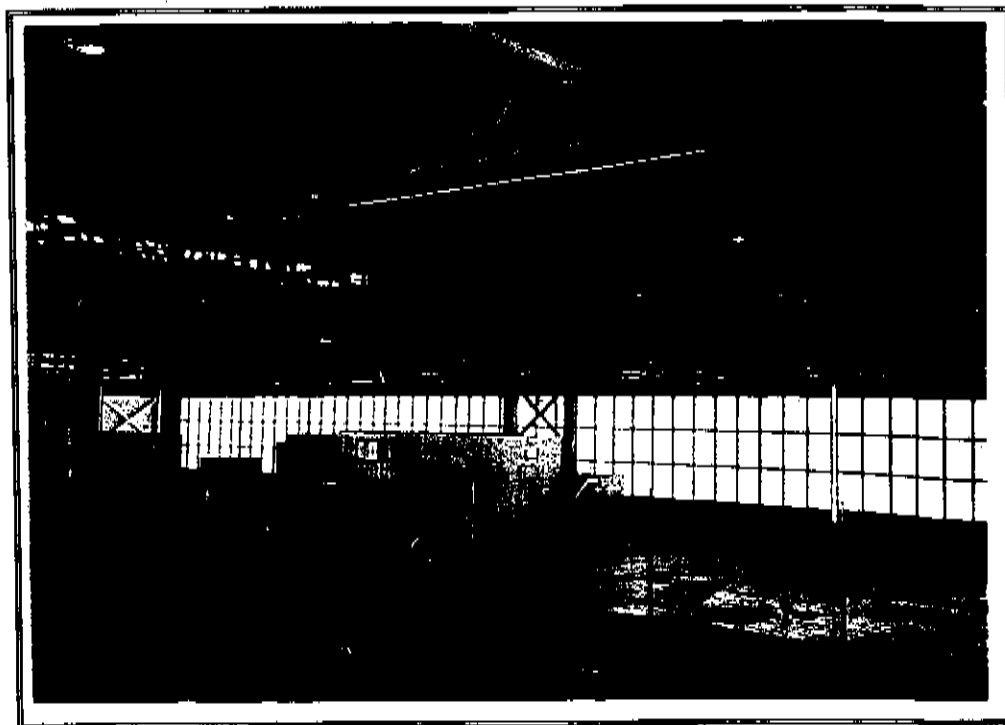


**Photograph #9**



**Photograph #10**

**Hanger #40 Condition Inspection**



**Photograph #11**



**Photograph #12**

**Hanger #40 Condition Inspection**



**Photograph #13**

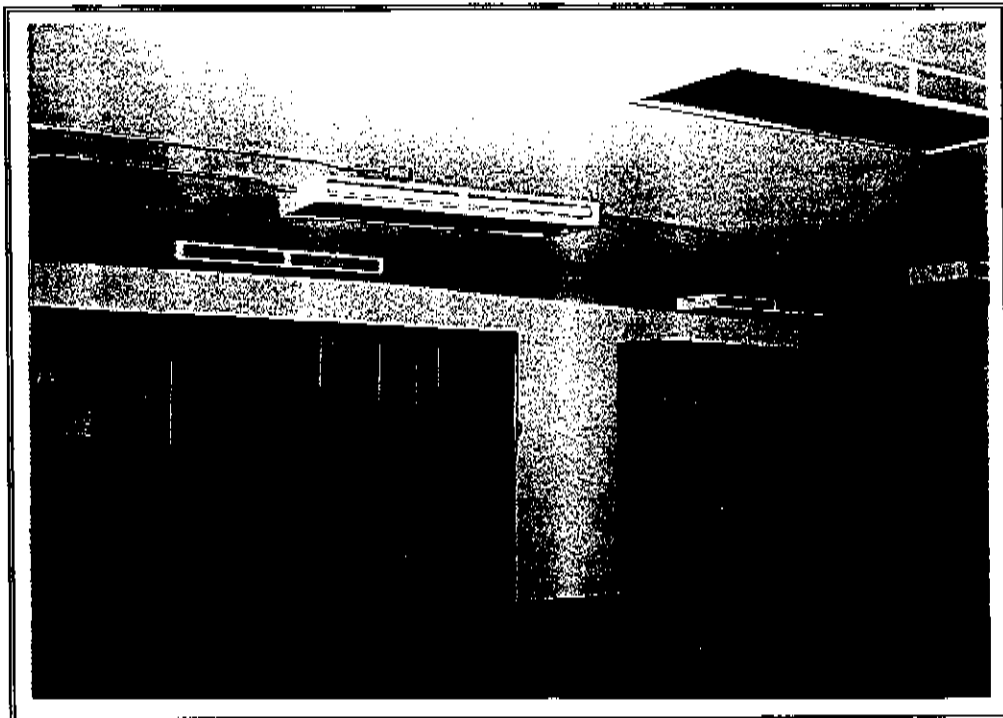


**Photograph #14**

**Hanger #40 Condition Inspection**

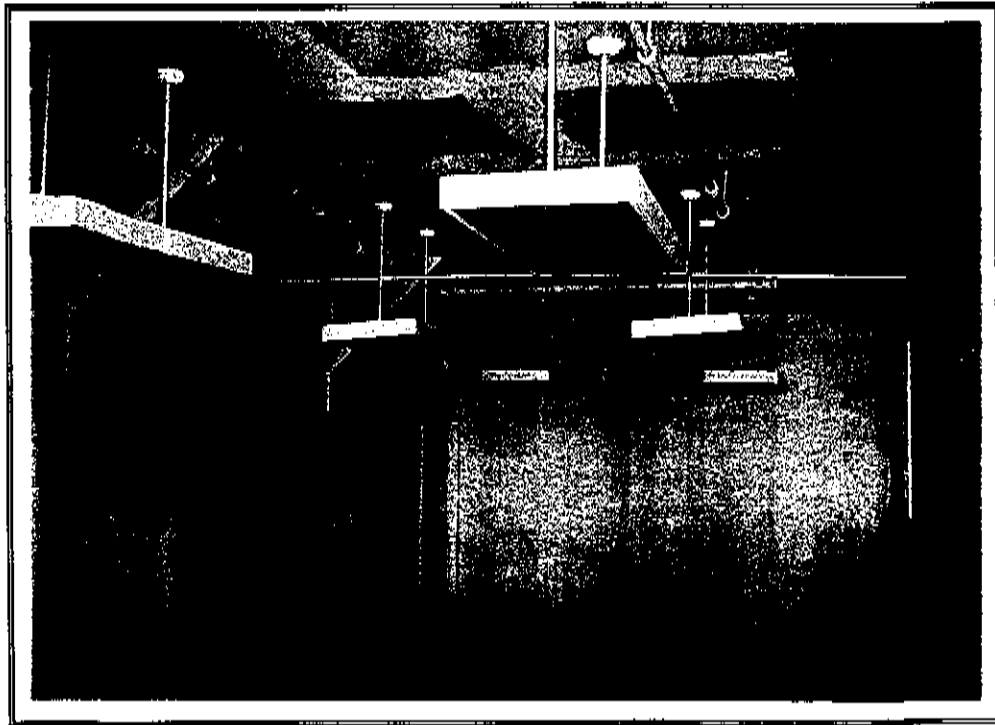


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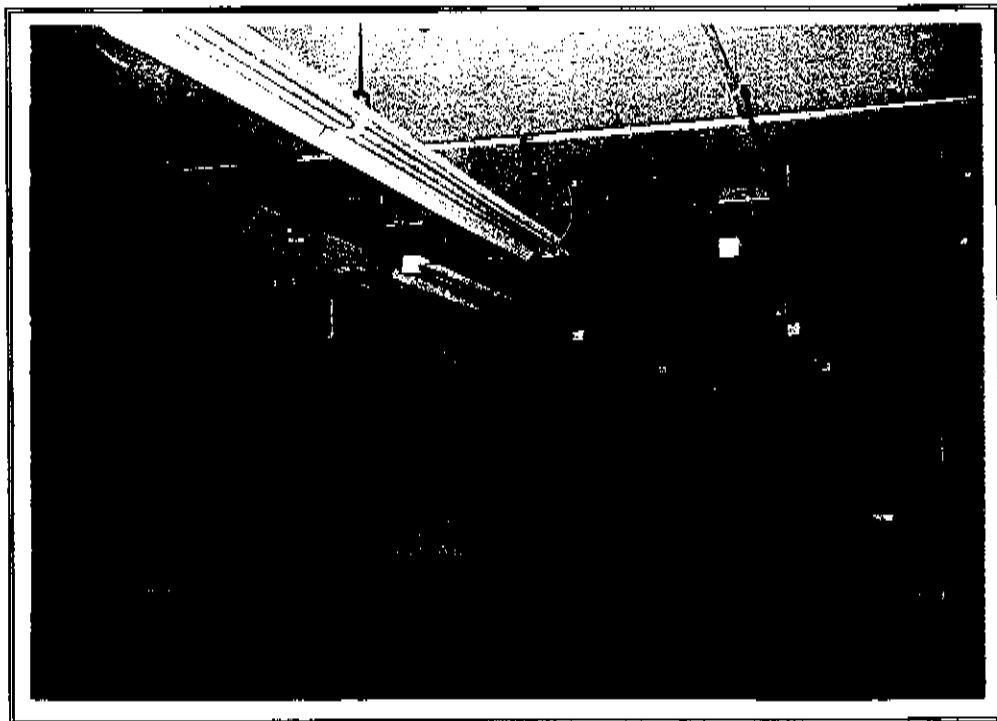


**Photograph #16**

**Hanger #40 Condition Inspection**

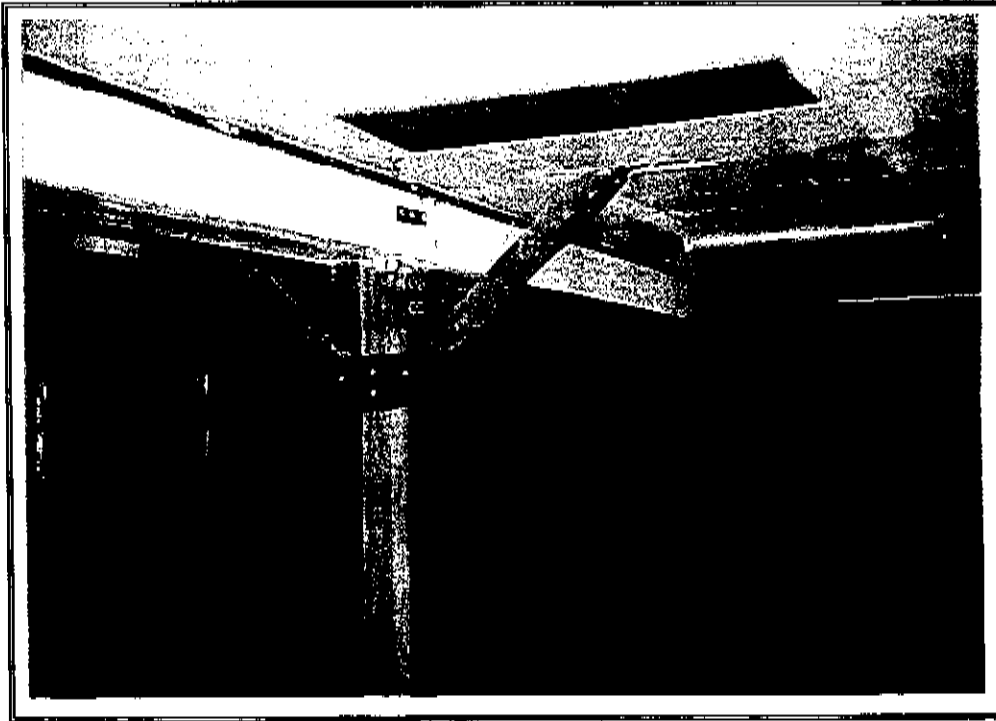


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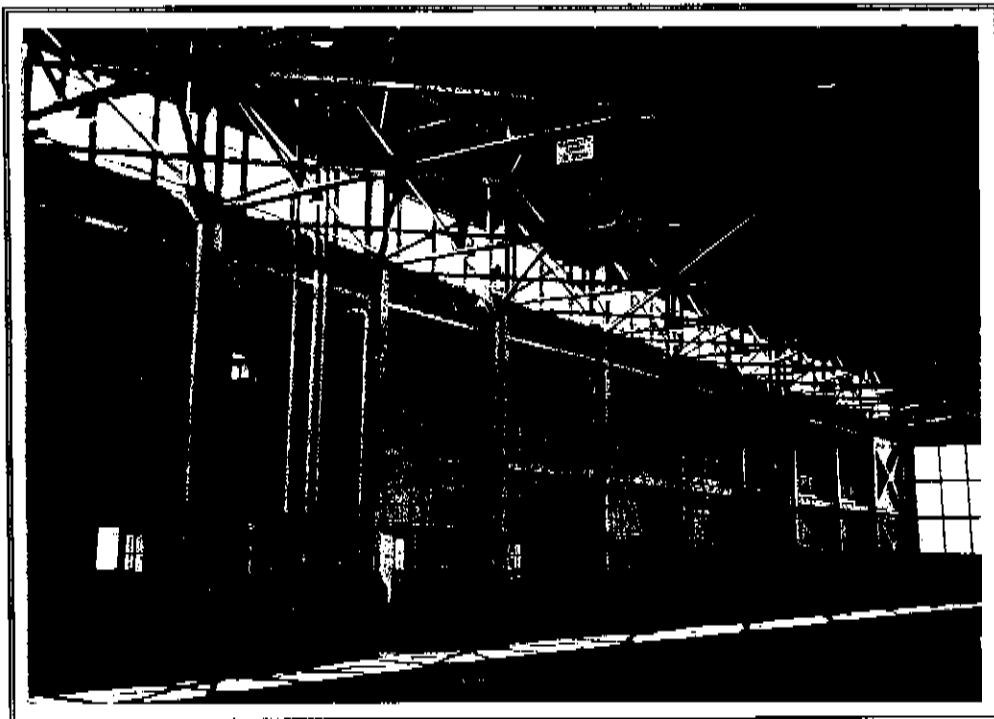


**Photograph #18**

**Hanger #40 Condition Inspection**



**Photograph #19**



**Photograph #20**

**Hanger #40 Condition Inspection**



**Photograph #21**

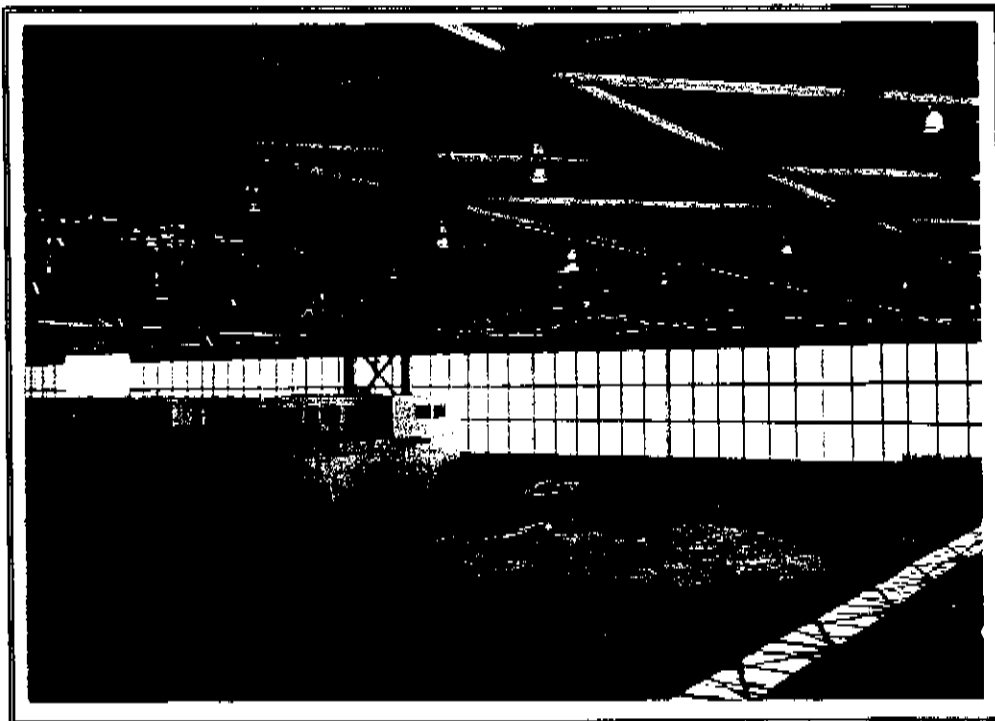


**Photograph #22**

**Hanger #40 Condition Inspection**



**Photograph #23**



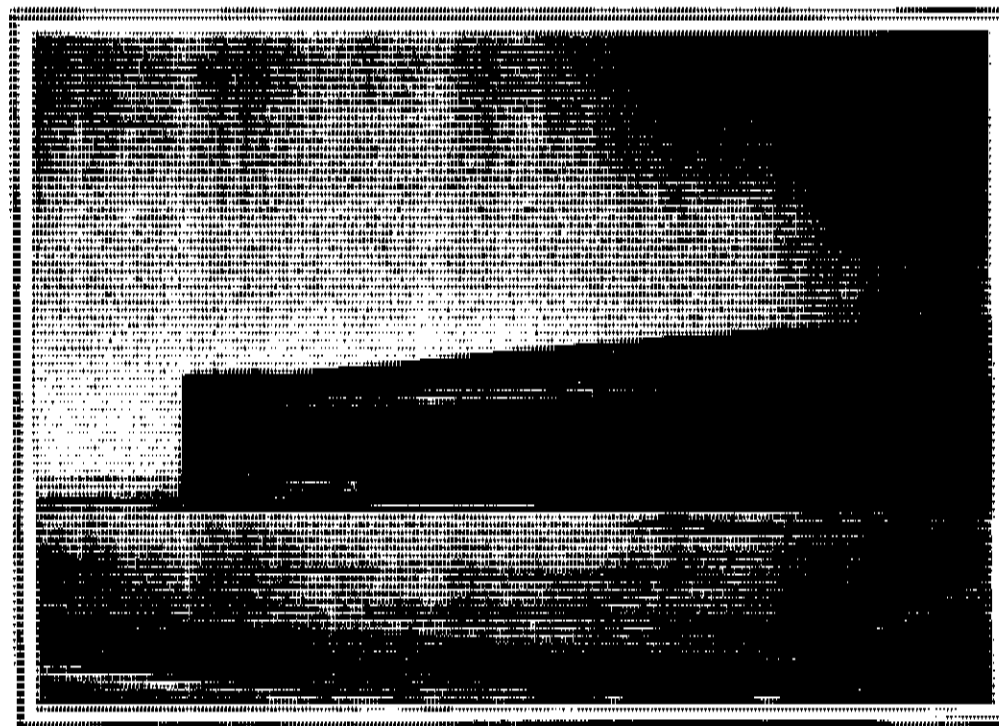
**Photograph #24**



# Hanger #40 Condition Inspection

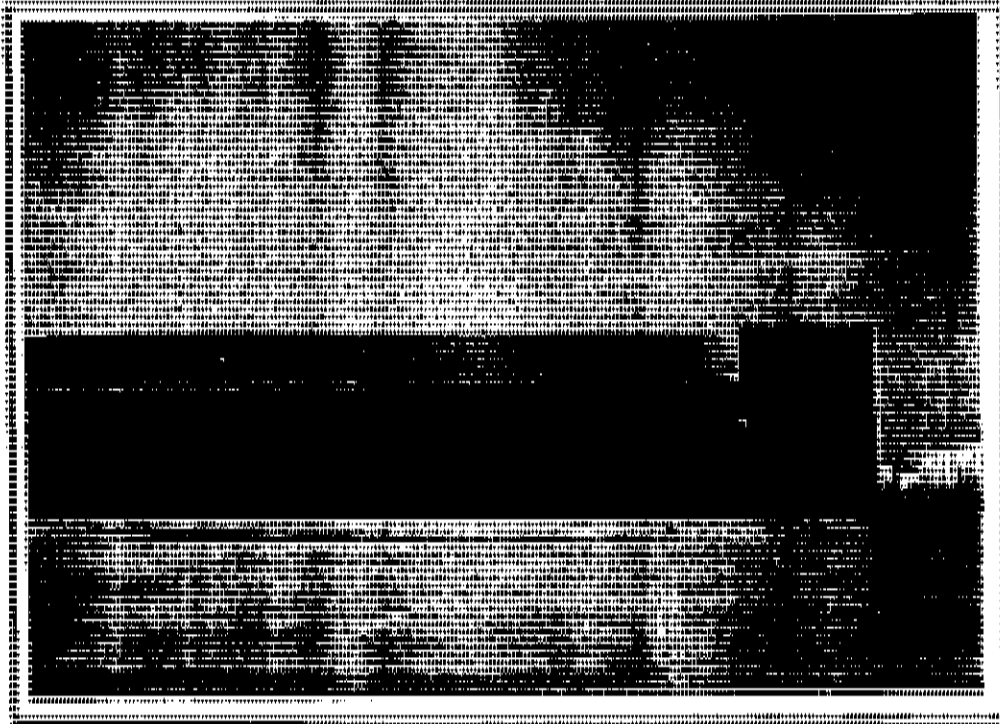


Photograph #25

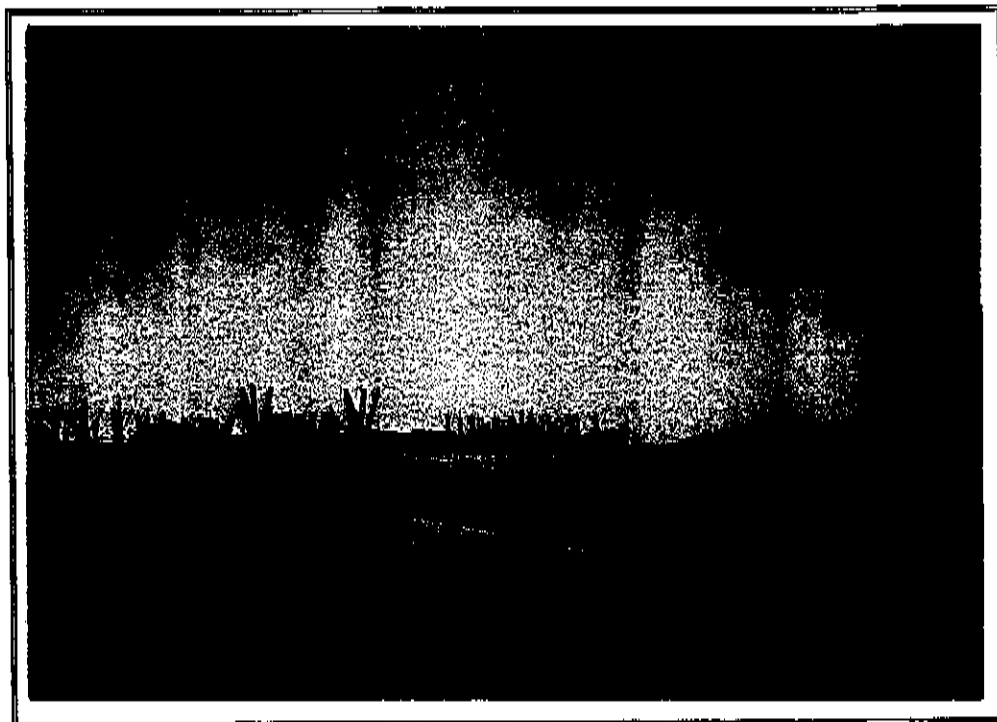


Photograph #26

**Hanger #40 Condition Inspection**

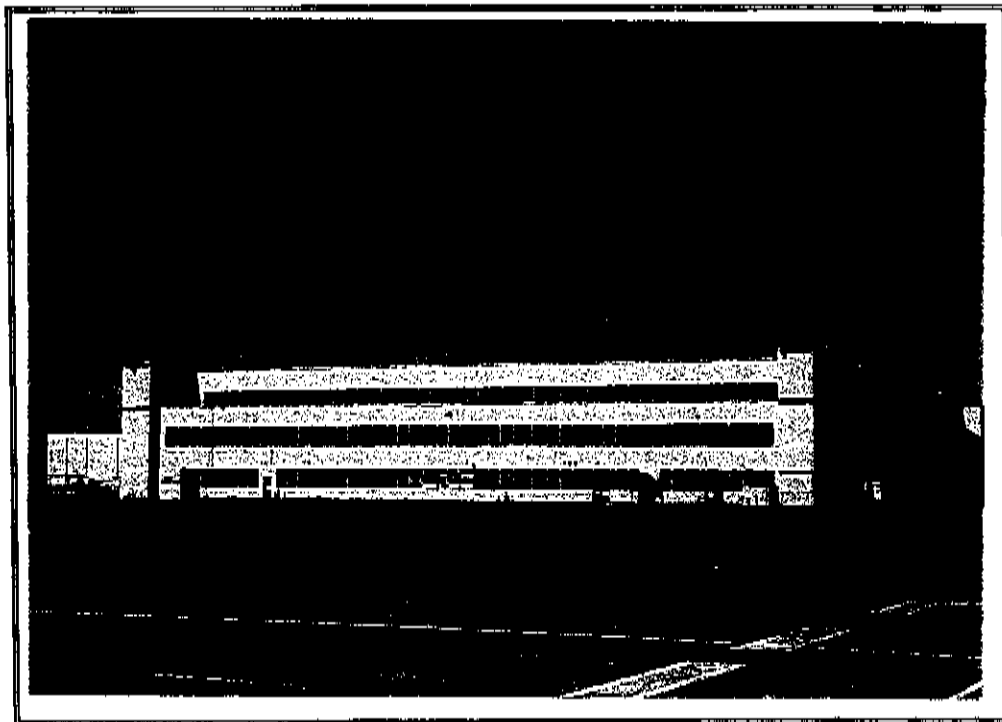


**Photograph #27**



**Photograph #28**

**Hanger #40 Condition Inspection**

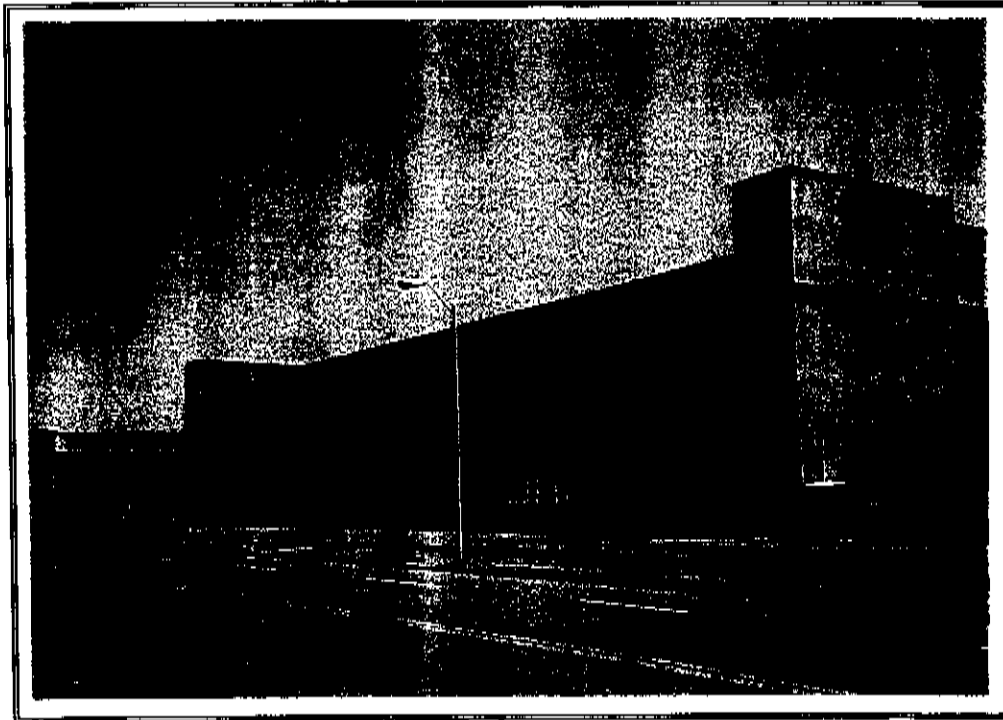


**Photograph #29**



**Photograph #30**

**Hanger #40 Condition Inspection**

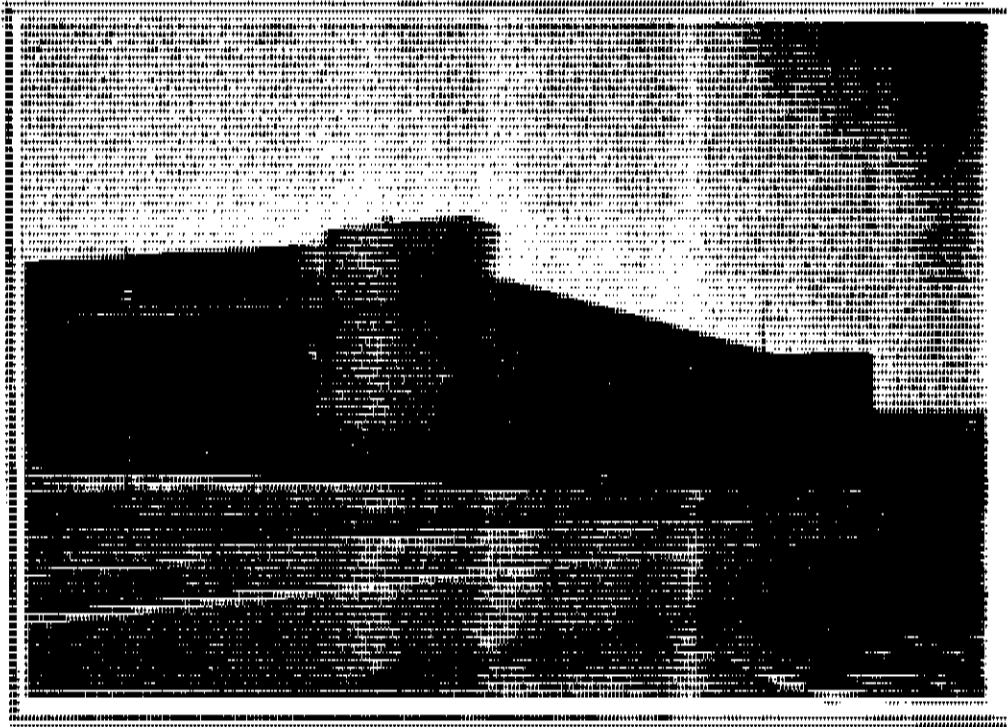


**Photograph #31**



**Photograph #32**

Hanger #40 Condition Inspection



Photograph #33



Photograph #34

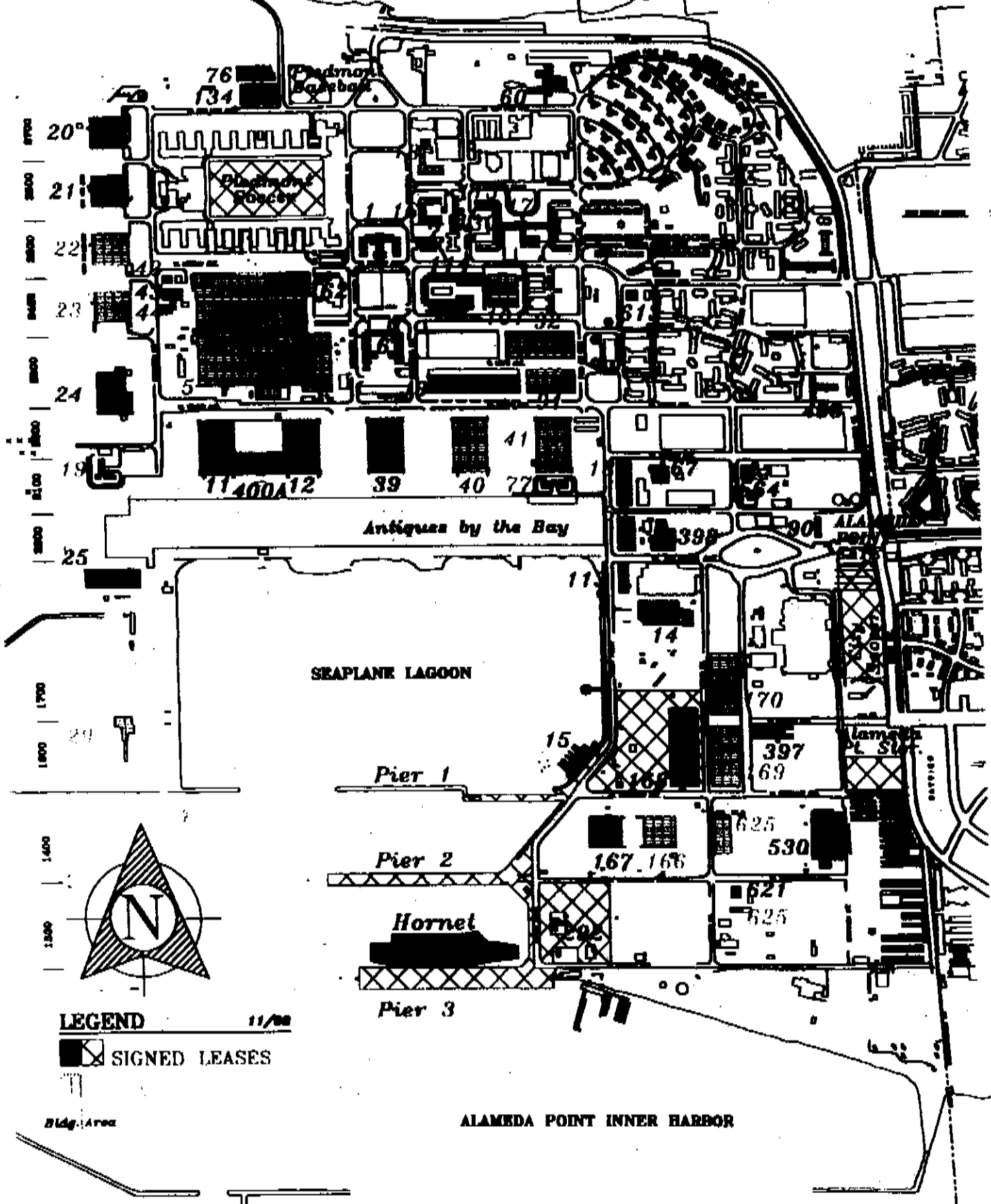
**Exhibit G**  
**Sublease Revisions in the**  
**Event of Transfer of Fee Title to the Sublessor**

This Exhibit G is attached to the Sublease by and between the Alameda Reuse and Redevelopment Authority ("Sublessor") and Bladium, Inc. ("Subtenant") (the, "Sublease") to document the revisions that shall be made to the Sublease upon the transfer of the Leased Premises from Government to Sublessor and/or the City of Alameda ("City") ("Transfer"). All defined terms provided for herein shall be consistent with the definitions included in the Sublease. The following modifications shall be made to the terms, conditions, provisions and covenants of the Sublease upon Transfer of the Leased Premises:

1. The Sublease shall become the primary agreement between Sublessor and Subtenant.
2. The Sublease shall no longer be subject to or subordinate to the Prime Lease.
3. Other than the rights expressly identified in the Sublease, Sublessor shall not have or assume the same rights as the Government as described in the Sublease or Prime Lease.
4. The terms, conditions, provisions and covenants of the Sublease shall be modified to delete any reference to the Prime Lease, the Government, Department of Defense and the Secretary of Defense. Notwithstanding the foregoing, Section 13.14 of the Sublease shall remain in effect in which the Government shall remain liable and indemnify and hold harmless the Subtenant for any toxic or other environmental claims in accordance with Public Law 102-484, the National Defense Authorization Act for Fiscal Year 1993, Section 330, as amended.
5. Sections 1.1 through 1.6 shall be deleted.
6. Section 10: No Interference With Navy Operations shall be deleted.
7. Sections 12.5 and 12.7 shall be deleted.
8. Sections 12.15 shall be modified to replace the Government with the ARRA and/or City.
9. Sections 13.1, 13.2, 13.3, 13.4 shall be deleted.
10. Section 14 shall be deleted.
11. Section 15.2 and Section 15.4 shall be deleted.
12. Section 18.1.2 through 18.1.7 shall be deleted.
13. Section 19.3 shall be deleted.
14. Section 28.2 shall be deleted.
15. Section 30 Administration shall be deleted.

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OAKLAND INNER HARBOR



**LEGEND** 11/78

■ **SIGNED LEASES**

ALAMEDA POINT INNER HARBOR

Exhibit H