

TONY M. ROYSTER
GENERAL MANAGER
AND
CITY PURCHASING AGENT



ERIC GARCETTI
MAYOR

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January 30, 2020

Honorable City Council
City of Los Angeles
c/o City Clerk
Room 395, City Hall
Los Angeles, CA 90012

**REQUEST AUTHORITY TO NEGOTIATE AND
EXECUTE PURCHASE OF 740 AND 800 E. 111TH PLACE FOR A
DEPARTMENT OF TRANSPORTATION BUS MAINTENANCE FACILITY**

On behalf of the Los Angeles Department of Transportation (LADOT), the Department of General Services (GSD) requests authority to negotiate and execute a Purchase and Sale Agreement (PSA) and related documents to acquire the property at 740 and 800 111th Place (APNs 6071-022-009 and 6071-022-013, (collectively, "Property" or "site") as shown on Exhibit "A". LADOT intends to use the Property as a bus maintenance facility for transit service operations.

SUMMARY

On June 27, 2019, GSD requested authority from the Municipal Facilities Committee (MFC) to negotiate this purchase, subject to City Council approval. MFC directed GSD to work on the term sheet and return to MFC with the results of the Phase II Environmental Site Assessment. The Phase II assessment has been completed by Stantec Consulting Services Inc. (Stantec) and this report is being transmitted for eventual Council approval at LADOT's request.

The Phase II results provided by Stantec revealed significant concentrations of chemical contaminants considered hazardous to human health and indicative of the potential for vapor intrusion conditions to exist at the property. The report recommended further action to remediate the site, as shown on Exhibit D, for an estimated cost of \$2.5 million. Further testing is recommended, however, the owner is unwilling to provide access without a signed Purchase & Sale

Agreement. As a path forward, the City can proceed with the sale with a negotiated 45-60 day due diligence period in escrow to allow for testing and results. The sale can be cancelled during this period and the City can recoup its deposit.

The property was originally appraised at a fair market value of \$23.38 million with an "extraordinary assumption" that the soil was clean. The Phase II results and associated environmental remediation costs of \$2.5 million suggest the property's fair market value is approximately \$20.88 million. However, the owner's sale price is \$24.5 million "As Is" and is not negotiable.

LADOT is fully aware of the premium sale price and wishes to continue with the purchase as outlined in this report due to the Property's size, location, scarcity of similar sites and their necessity to secure a location for its bus maintenance facility. LADOT advises the purchase will allow for the possibility of the City being awarded a \$96.5 million grant to build an all-electric bus maintenance facility for 130 buses, and provides closure to years of searching in the southern region to replace the leased 1201 Central Yard, thus saving the City an estimated \$1 million in annual rent payments.

There are currently no other sites available in the marketplace meeting LADOT's criteria for a bus maintenance facility.

The City will recoup the purchase price overpayment of \$3.62 million (purchase price of \$24.5 million + \$2.5 million environmental remediation less \$23.38 million fair market value as if clean) in approximately less than four years once the 1201 Central Avenue Yard is closed. Purchase of the Property will also allow the City's current due diligence expenditure for environmental testing currently in excess of \$100,000 to not go to waste. LADOT advises the 2015 through 2019 budgets allocated \$35 million for this effort.

BACKGROUND

This Property contains a land area of approximately 231,438 square feet or 5.31 acres. It is improved with an approximately 119,988 square foot single-story manufacturing/warehouse concrete structure on APN 6071-022-009 and an approximately 32,000 square foot single-story manufacturing/warehouse corrugated metal structure on APN 6071-022-013. Once acquired, the Property will become the southern yard for LADOT transit services serving the southern and western parts of the City and will allow them to meet their electrification goals as set by the Mayor and Council.

The Property is currently leased by the private owner on a month to month basis to a tenant utilizing it for storage. The site will be delivered vacant by the owner and no relocation benefits to tenant are anticipated. Should the tenant not move out by close of escrow, escrow will be extended to a mutually agreeable period.

APPRAISAL

The Property was appraised by Valentine Appraisal and Associates, the City's appraisal consultant for this assignment, with a value date of May 8, 2019 at a fair market value of \$23.38 million assuming the soil was clean without contamination and there were no adverse conditions affecting the value (See Exhibit "B"). The appraisal has been reviewed by Integra Realty Resources on June 11, 2019. (See Exhibit "C"). GSD concurs with the appraisal report and review. The Property is currently available for sale at \$24.5 million "As-Is" with no further negotiations on price and GSD remains in communication with the broker of record.

ENVIRONMENTAL

LA Sanitation and Environment (LASAN) Citywide Brownfields Program utilized Stantec to conduct Phase I and Phase II Environmental Site Assessments (ESAs) at the Property. Based on Phase II ESA results, Stantec has estimated environmental remediation cost in the amount of \$2.5 million. Once the City owns the Property, remediation work will be conducted under a regulatory oversight agency that will most likely be the Los Angeles Regional Water Quality Control Board (LARWQCB). (See Exhibit D). Funds have been approved in LADOT funding section for this purchase. In addition, LASAN's Citywide Brownfields Program will provide assistance identifying potential grant funding opportunities towards remediation to offset the \$2.5 million estimated environmental remediation cost. The State Water Board recently announced a new groundwater treatment and remediation grant that may be an option for the City.

Stantec recommended further "site characterization" work in previously inaccessible areas to determine the source of the PCE contamination and to further establish a base line for contamination for the benefit of the City as the potential buyer (future ownership), during its due diligence escrow period. Stantec has informed the City that the remediation estimate of \$2.5 million will not change due to results from additional testing but is necessary to pinpoint the source of the contamination.

FUNDING

LADOT advises that it anticipates that Federal Transit Administration (FTA) Section 5307 Grants will be used to upgrade the Site facility. The cost of the purchase may be used as the local match for any capital grants. It is with these benefits in mind that LADOT created the Bus Facility Purchase Program. Funds totaling \$35 million have been allocated in prior year budgets for this purpose. LADOT acquired two bus maintenance facilities in 2017-2018 and is still in need of purchasing additional yards. LADOT has over \$28.7 million allocated in the 2015 to 2020 budgets for the purchase of bus maintenance facilities.

LADOT further indicates that it has an ongoing Bus Facility Purchase Program designed to replace existing contractor-leased facilities with City-owned facilities. Purchasing this Property is anticipated to save the City nearly \$1 million dollars per year in lease costs by moving Commuter Express and DASH buses from the leased 1201 Central Avenue yard, located in Compton, California. A City-owned and contractor-operated transit maintenance facility serving the southern and western parts of the City would reduce fuel and vehicle maintenance and depreciation costs as well.

GSD understands that LADOT submitted a Transit and Intercity Rail Capital Program (TIRCP) grant application for construction funding for the proposed all-electric bus maintenance facility and the replacement of 44 commuter Express coach buses and 38 DASH to battery-electric buses for this Site. The grant request of \$96.5 million includes a total match (Federal, State, and City) of \$168 million that includes the purchase price of the property.

FISCAL IMPACT

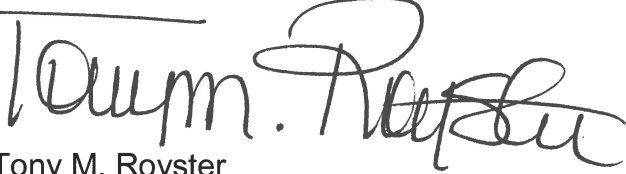
There is no impact to the General Fund. The 2015 through 2019 budgets allocated \$35 million in funding for this effort from the "Bus Facility Program," Fund 385, Account Number 94L446.

RECOMMENDATION

That the City Council:

1. AUTHORIZE GSD with the assistance of LADOT, LASAN and the City Attorney to negotiate, prepare, and execute documents necessary, including but not limited to the Purchase and Sale Agreement to acquire the Property located at 740 and 800 111TH Place, APNs 6071-022-009 and 6071-022-013, for use as a Bus Maintenance Facility for the Department of Transportation's (LADOT) transit service for \$24,500,000 As-Is.

2. APPROVE "Bus Facility Program," Proposition A Fund 385, Account Numbers 94L446, 94N446, 94R446 and 94S446 of \$24,500,000 for the purchase price plus \$100,000 towards closing costs, and up to \$2.5 million towards environmental remediation.

A handwritten signature in black ink, appearing to read "Tony M. Royster". The signature is written in a cursive style with a large, sweeping initial "T".

Tony M. Royster
General Manager

- Attachments:
- Exhibit A - Property map
 - Exhibit B - Appraisal
 - Exhibit C - Appraisal review
 - Exhibit D - Site assessments

EXHIBIT A

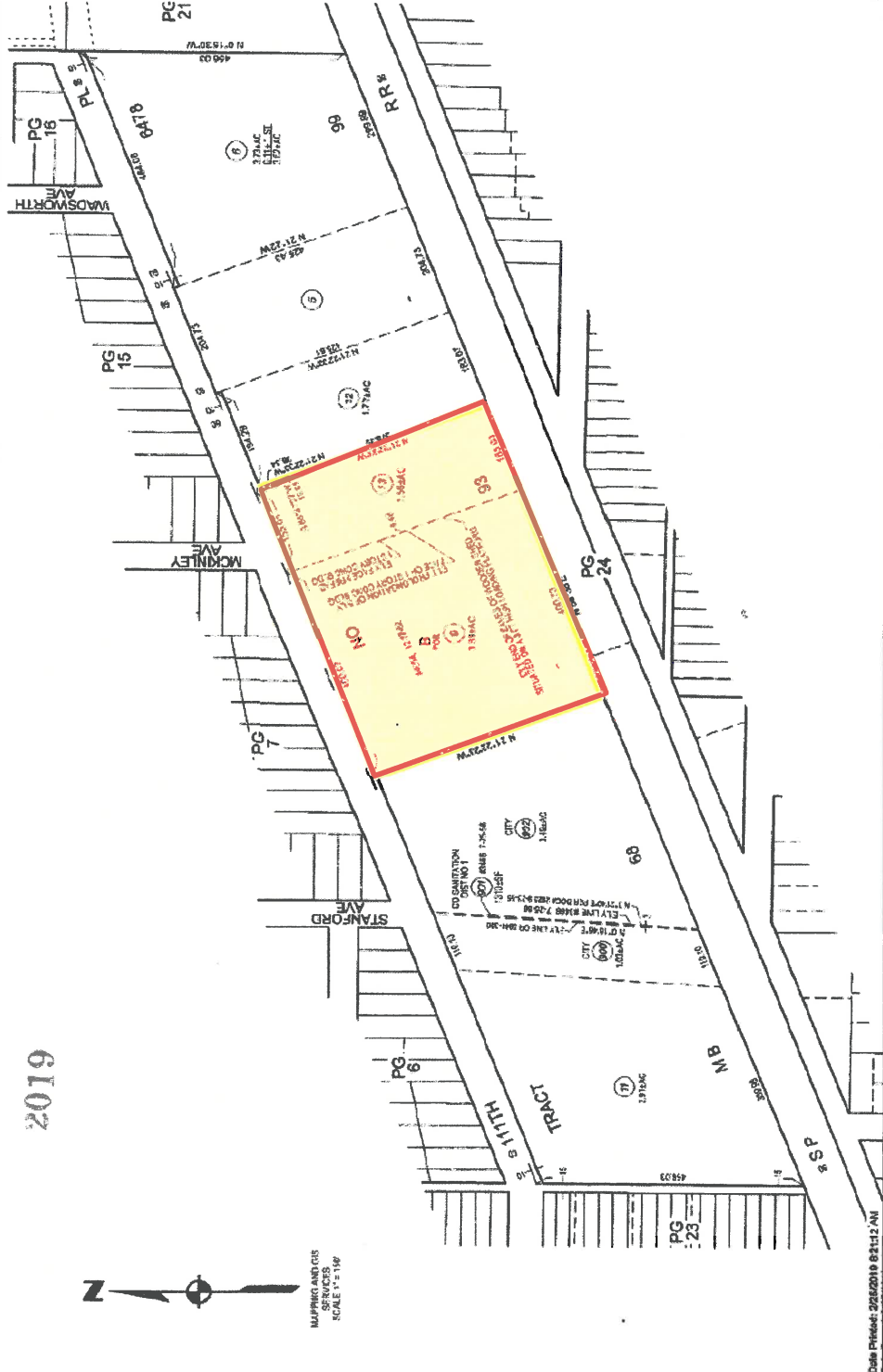
740, 800 EAST 111TH PLACE

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2019



MAPPING AND GIS
SERVICES
SCALE 1" = 100'



The Sales Comparison Approach is a common way of developing a market value "as is" estimate. It involves collecting and analyzing sales and listings of improved industrial property comparable to the subject. Such sales and listings are commonly called comparables or "comps." The appraiser adjusts prices to some common unit of comparison, such as price per acre or price per square foot, and then adjusts the prices for variances in market conditions, location, physical characteristics, available utilities, zoning, and other relevant variations as may be applicable in the analysis. Finally, the appraiser analyzes this information and arrives at an estimate of market unit value of the subject property. This unit value is then multiplied by the subjects' Rentable Building Area (RBA) to arrive at its market value.

An investigation of improved industrial real property disclosed various sales with similar highest and best uses to the subject property. In my research, I found the following to be the best available data for comparison. They range from 45,776 square feet to 122,718 square feet and were built between 1957 and 1986. I believe that these sales will be a reliable indication of the market value as is of the subject property.

SUMMARY OF IMPROVED INDUSTRIAL MARKET DATA								
No.	Location	Recorded Sale Date	Sale Price	Building Area (Sq. Ft.)	Price/RBA	Land to Building Ratio	Year Built	Comments
1-I	17621 - 17623 Suzana Road Rancho Dominguez, CA	Listing	\$14,334,480	66,672	\$215.00	1.63:1	1977	APN: 7306-002-064 Doc No.: NA Grantor: India Hynes Grantee: NA Financing: NA Confirmed by: Brian McLoughlin, Voigt Realty Verification Date: 5/19
2-I	1441 East 16th Street Los Angeles, CA	Listing	\$16,950,000	55,611	\$304.80	1.18:1	1968	APN: 5130-013-049 Doc No.: NA Grantor: NHK Enterprises, LLC Grantee: NA Financing: NA Confirmed by: Michael Ha, Broker Verification Date: 5/19
3-I	13147 - 13151 Southeastern Ave Gardena, CA	3/19	\$10,900,000	50,518	\$215.76	2.1:1	1957	APN: 4061-013-001 Doc No.: 270972 Grantor: K and K Enterprises Grantee: 339 Exposition Place, LP Financing: \$1,850,000 1st TD w/ California Bank and Trust; Terms & Conditions: NA Confirmed by: John McMillan, Newmark Knight Frank Verification Date: 5/19
4-I	1100 West Walnut Street Compton, CA	11/18	\$11,100,000	60,040	\$184.88	1.91:1	1969	APN: 7319-028-041 Doc No.: 1138501 Grantor: 1100 West Walnut, LLC Grantee: Terreno 1100 Walnut, LLC Financing: All cash Confirmed by: Casey Mungo, Dom Commercial Real Estate Verification Date: 5/19
5-I	13217 South Figueroa Street Los Angeles, CA	6/18	\$21,000,000	122,718	\$171.12	1.75:1	1974	APN: 6132-004-030 Doc No.: 631243 Grantor: Figueroa Industrial Building Grantee: Centerpoint Figueroa, LLC Financing: All cash Confirmed by: Rene Mexia, Major Properties Verification Date: 5/19
6-I	1920 South Acacia Ave Compton, CA	1/17	\$7,100,000	45,776	\$155.10	2.50:1	1970	APN: 7138-013-033 Doc No.: 0101712 Grantor: Appliance Recycling Centers of America Grantee: Terrano Acacia, LLC Financing: All cash Confirmed by: John Lassiter, Los Angeles Commercial Real Estate Services
Subject	740-800 East 111th Place Los Angeles, CA	Listing	\$24,000,000	119,988	\$200.02	1.98:1	1970	APN: 6071-022-009 & 013 Doc No.: NA Grantor: Watts Labor Community Action Cmte & 810 East 111th, LLC Grantee: NA Financing: NA Confirmed by: Appraiser Verification Date: 5/19

Comparable 1-1 is located approximately 5 miles southeast of the subject property on Rancho Dominguez. This is a 66,672 square foot industrial building with a land to building ratio of 1.63:1, trapezoidal shaped parcel, with corner access, level terrain, and all utilities in place. The Improvements were built in 1977 with an 18' height clearance, sprinklered, masonry construction with four loading docks and two drive-ins. This is an active listing with three-phase power, 65 parking spaces and is a single story structure. There is no real access but was built out for multi-tenancy.

Comparable 2-1 is located approximately 6 miles north of the subject, on East 16th Street in Los Angeles. This comparable is an active listing with a 55,611 square foot industrial building with a land to building ratio of 1.18:1, trapezoidal shaped site, corner access, level terrain, and all utilities available. It has a 26-foot height clearance, built in 1968, no sprinklers, reinforced concrete, with six loading docks and one drive in, but no real access. There are 92 parking spaces and it has good proximity to freeway access at the I-10. It has three-phase power and is a single-user structure.

Comparable 3-1 is located on Southwestern Avenue in Gardena, approximately 3 miles southwest of the subject. This is a 50,518 square foot industrial building with a land to building ratio of 2.11:1. The site is rectangular in shape, with good corner access, level terrain, and all utilities available. It has an average of 13-foot height clearance, built in 1957, masonry construction, and three loading docks. This is a single user industrial building and was purchased by the tenant. No information about the existing lease at the time of sale was made available to me. The property was initially listed at an asking price of \$9,851,000 and ultimately sold 296 later for \$10,900,000 or \$216 per square foot.

Comparable 4-1 is located on Walnut Street in Compton, approximately 4 miles south from the subject. This is 60,040 square foot industrial building with a land to building ratio of 1.91:1, rectangular shaped parcel with corner influence, level terrain, and all utilities in place. The building averages 24-foot height clearance built in 1969 with a wet sprinkling system and reinforced concrete structure with six loading docks. At the time of sale, the property was 38% leased on a short-term basis to one tenant. This property is adjacent to State Route 91 (Artesia Freeway). There is one drive-in with three phase power, 43 surface parking spaces for this single-story structure. It is a multi-tenant structure with rail service.

Comparable 5-1 is located on South Figueroa Street in Los Angeles, approximately 1 ½ miles west from the subject. It includes a 122,718 square foot industrial building with a land to building ratio of 1.75:1. Its shape is rectangular with good interior access, level terrain, and has all utilities available. Ceiling clearance ranges from 18 to 22 feet, built in 1974, wet sprinkling system, reinforced concrete structure with 33 loading docks. There are 100 surface parking spaces.

Comparable 6-1 is located on Acacia Avenue in Compton, approximately 4 miles southeast from the subject. This is a 45,776 square foot industrial building with a land to building ratio of 2.50:1. This is built on an irregular shaped parcel with interior access, level terrain, and all utilities are in place. It has an average ceiling height clearance between 20 and 23 feet and was built in 1970. It is a single story building with a sprinkling system, reinforced concrete, and six loading docks. It was originally listed for \$7,850,000, but ultimately sold 111 days later for \$7,100,000. This is a single-user building with three-phase power, and has 65 surface parking spaces.

Qualitative analysis recognizes the inefficiencies of real estate markets and the difficulty in expressing adjustments with mathematical precision. As such, I will utilize a relative comparison analysis in addition to a ranking analysis to arrive at a market value of the subject's land.

Relative comparison analysis is the study of the relationships indicated by market data without recourse to quantification. Many appraisers use this technique because it reflects the imperfect nature of real estate markets. The appraiser analyzes comparable sales to determine whether the comparable property's characteristics are inferior, superior, or similar to those of the subject property. The appraiser must search the market diligently to obtain and analyze sufficient pertinent data to bracket the value of the subject property.

As stated earlier in the land valuation section, market trend paragraph, values for industrial improvements have been increasing steadily since 2014.

Following the market condition adjustment, all other adjustments in the following grid are represented by (+) inferior or (-) superior adjustments in comparison to the subject property.

COMPARABLE IMPROVED INDUSTRIAL SALE ADJUSTMENT GRID						
	Comp 1-I	Comp 2-I	Comp 3-I	Comp 4-I	Comp 5-I	Comp 6-I
Sale Price/RBA	\$215.00	\$304.80	\$215.76	\$184.88	\$171.12	\$155.10
Real Property Rights Conveyed	0	0	0	0	0	0
Price After Adjustment	\$215.00	\$304.80	\$215.76	\$184.88	\$171.12	\$155.10
Financing Terms	0	0	0	0	0	0
Price After Adjustment	\$215.00	\$304.80	\$215.76	\$184.88	\$171.12	\$155.10
Condition of Sale (Motivation)	0	0	0	0	0	0
Price After Adjustment	\$215.00	\$304.80	\$215.76	\$184.88	\$171.12	\$155.10
Expenditures After Sale	0	0	0	0	0	0
Price After Adjustment	\$215.00	\$304.80	\$215.76	\$184.88	\$171.12	\$155.10
Market Conditions (Sale Date)	<i>Listing</i>	<i>Listing</i>	3/19	11/18	6/18	1/17
Market Adjustments	-5%	-5%	0%	2%	10%	29%
Price After Adjustment	\$204.25	\$289.56	\$215.76	\$188.57	\$188.24	\$200.08
Other Adjustments						
Location	0	-	--	0	+	0
Physical Characteristics	-	-	+	0	-	0
Available Utilities	0	0	0	0	0	0
Zoning Density	0	0	0	0	0	0
Economic Characteristics	0	0	0	0	0	0
Total Other Adjustments	-	--	-	0	0	0

After the market conditions adjustment is made, the square footage prices range from \$126.01 to \$289.56 per square foot.

Most weight was given to Comparables 1, 4, 5, and 6. The remaining comparables act as supporting data. Comparable 1 is weighted for its comparable location, available utilities, zoning, economic characteristics, shape, access, terrain, sprinkling system, and quality of construction. Upward adjustments are warranted for its lower ceiling clearance and fewer loading docks. Downward adjustments are warranted for its newer construction and smaller size. Overall, a slight downward

adjustment is warranted. Comparable 4 is weighted for its rectangular shaped site, corner influence, level terrain, all utilities in place, zoning, comparable land to building ratio, year built, sprinkling system, and reinforced concrete structure. In comparison, an upward adjustment is warranted for its fewer loading docks, and downward adjustments are warranted for its smaller rentable area and higher ceiling clearance. Overall, the adjustments are offsetting. Comparable 5 is weighted for its similar rectangular shaped site, interior access, level terrain, available utilities, comparable land to building ratio, size, ceiling clearance, sprinkling system, and reinforced concrete structure. But in comparison, an upward adjustment is warranted for its inferior location, but downward adjustments are warranted for its newer construction and higher number of loading docks. Overall, the adjustments are offsetting. Comparable 6 is weighted for its interior access, level terrain, available utilities, similar land to building ratio, comparable ceiling clearance, similar aging condition, sprinkling throughout, and reinforced concrete structure. In comparison, an upward adjustment is warranted for its inferior irregular shape and for its inferior number of loading docks. But a downward adjustment is warranted for its smaller size. Overall, the adjustments are offsetting.

The following is an overall comparison chart, which reflects ranking analysis of the beforementioned comparable improved sales versus the renovated subject property.

Adjusted values per RBA		
Comp No.	Overall Comparability	\$ / Sq. Ft.
Comp 2-I	Superior	\$289.56
Comp 3-I	Superior	\$215.76
Comp 1-I	Superior	\$204.25
Comp 6-I	Similar	\$200.08
Subject	--	\$200.00
Comp 4-I	Similar	\$188.57
Comp 5-I	Similar	\$188.24

It is my opinion that as of May 8, 2019, the market value as if the subject property, per Sales Comparison Approach is calculated as follows.

$$119,988 \text{ sq. ft. @ } \$200/\text{sq. ft.} = \$ 23,997,600$$

Rounded: \$23,998,000

Cost to Cure

During my inspections, I noticed that the built out office space is below market standards and I also noticed that many of the ceiling tiles were missing, that the floor coverings were in poor condition, restroom fixtures are not all properly functioning, ventilation system including the air conditioning is not working according to the tenants, and it is apparent to me that the whole built out office area is fully depreciated both economically and physically. Given that the comparable sales and rents all have functioning office built out space of at least 5% of the rentable building area (RBA), I will calculate the cost to cure the subject property to be the cost of building a rentable building area of just 5% of the total rentable building area. Please note, based on my measurements, the current office built out space measures 7,843 square feet, or 6.5% of the total rentable area. In estimating cost to cure, I will assume a built out office area of 5% of the total rentable building area, or 6,000 square feet.

Cost to Cure Using Marshall Valuation Service	
Occupancy	Office Built Out
Marshall Val. Section / Page	15/35
M&S Base Cost (per sq. ft.)	\$66.00 /sf
Region	Western
Current Cost Multiplier	1.05
Local Multiplier	1.20
Subtotal	\$83.16 /sf
Area	6,000 /sf
Subtotal	\$498,960
Indirect Cost	10%
Subtotal	\$548,856
Entrepreneurial Incentive	12%
Cost to Cure	\$614,719

This amount of cost to cure, which includes entrepreneurial incentive, should be adequate in motivating any investor to replace the existing office built out space and furthermore, I did not include any demolition costs as I believe there is some salvage value to the current office space that will effectively offset demolition costs.

Two approaches to value applied in the subjects' analysis, yield these conclusions, before considering cost to cure:

Income Capitalization Approach:	\$22,113,778
Sales Comparison Approach:	\$23,997,600

The Sales Comparison Approach uses a number of value indicators, both physical and economic, including investors' strategies and attitudes reflected in documented market transactions. The Principle of Substitution, the basis of this approach, states that a prudent investor will pay no more to buy a property than the cost to buy a comparable substitute property. In the valuation of the subject property, the Sales Comparison was given less weight than the Income Capitalization Approach because there have been relatively few comparable sales over the past few years.

The Income Capitalization Approach depends on the Principle of Substitution and Anticipation. This approach postulates that the value of a property is derived from the gross income the property will produce during its economic life. Investors in the market predicate their decisions on economic factors oriented to the market and concern themselves with income and its durability. I weighted this approach because the property is typically purchased by investors for its income stream.

In adhering to the definition of fair market value and the highest price the market will bear before considering the cost to cure, I'm weighting the Sales Comparison Approach as a reliable method as a market indicator for both investor and owner occupant. Therefore, it is my opinion that the subjects' market value, before cost to cure is \$23,997,600, and after deducting the cost to cure amount of \$614,719, its fair market value is as follows:

FMV before Cost to Cure	\$23,997,600
Less: Cost to Cure	<u>\$ 614,719</u>
Fair Market Value	\$23,382,881
 Rounded:	 \$23,383,000

Please note that the subject property is currently listed for \$24,000,000. As such, the only real difference between my opinion of value and the actual listing price is essentially concerning the cost to cure for the fully depreciated office build out space that is found, to some degree, in all other comparable sales and rentals.

Therefore, it is my opinion that the fair market value of the subject's fee simple interest, as of May 8, 2019, is as follows:

TWENTY-THREE MILLION THREE HUNDRED EIGHTY-THREE THOUSAND DOLLARS
\$23,383,000

EXHIBIT C

Integra Realty Resources
Los Angeles

Appraisal Review and Related Comments

Appraisal of 740 and 800 East 111th Place
Los Angeles, California
Report Prepared by Gary Valentine, MAI, AI-GRS, SR/WA, CCIM
of Valentine Appraisal & Associates

Prepared For:

David L. Roberts, SR/WA
Assistant Director
City of Los Angeles, General Services Department
111 East 1st Street, City Hall South
Los Angeles, California 90012

Effective Date of the Reviewed Appraisal:

May 8, 2019

IRR – Los Angeles

File Number: 121-2019-0217





June 11, 2019

David L. Roberts, SR/WA
Assistant Director
City of Los Angeles, General
Services Department
111 East 1st Street, City Hall South
Los Angeles, California 90012

Re: Appraisal Review and Related Comments:
Appraisal of 740 and 800 East 111th Place
Los Angeles, California
Report Prepared by Gary Valentine, MAI, AI-GRS,
SR/WA, CCIM of Valentine Appraisal &
Associates

Sent via E-mail

IRR File No. 121-2019-0217

Dear Mr. Roberts:

This letter is presented to you as an appraisal review addressing specific issues concerning the appraisal report identified above. It is the intent of this review to address the applicability of the report, its analysis, and conclusions for its stated objective.

Overview and Scope of Work

Some of the relevant information for this assignment, presented in part to address the requirements of Standards Rule 3-5 of the *Uniform Standards of Professional Appraisal Practice* (USPAP) is identified below.

- *Client and intended users of the appraisal review:* David L. Roberts, SR/WA, of the City of Los Angeles General Services Department is the client for this review; he and other members of the City of Los Angeles, General Services Department are the intended users of this review.
- *Purpose of the appraisal:* To determine fair market value of the properties.
- *Intended use of the appraisal:* To assist the client in negotiating the acquisition of the properties.
- *Purpose of the appraisal review:* To ensure that the report is in compliance with USPAP and that the fair market value conclusion is reasonable.

- *Work under review:* The work under review is the appraisal report completed by Gary Valentine, MAI, AI-GRS, SR/WA, CCIM of Valentine Appraisal & Associates (hereinafter “the Valentine Appraisal report”). The subject properties of the Valentine Appraisal report are:
 - A 166,780-square foot site improved with a single-story concrete tilt-up industrial building containing 119,988 square feet, built in 1956. The street address is 740 East 111th Place, Los Angeles. The property is also identified as Los Angeles County Assessor’s Parcel No. 6071-022-009. The land is zoned M1-1, Light Manufacturing.
 - A 64,658-square foot site improved with a single story industrial building of metal construction containing 32,000 square feet, built in 1957. The street address is 800 East 111th Place, Los Angeles. The property is also identified as Los Angeles County Assessor’s Parcel No. 6071-022-013. The land is zoned M1-1, Light Manufacturing.
- *Type and definition of value:* The appraisal under review uses fair market value as defined in the California Code of Civil Procedure, section 1263.320.
- *Interest appraised:* Fee simple interest.
- The date of the Valentine Appraisal report is May 26, 2019 and the effective date of value of the report is May 8, 2019. The highest and best use as improved conclusion is to assemble the two properties, demolish the improvements of 800 East 111th Place and replace the built-out office space of 740 East 111th Place with space for industrial warehouse use. The Valentine Appraisal report provided the following value conclusion:
 - Fair market value of fee simple interest: \$23,383,000
- *The real estate which is the subject of the appraisal review:* The subjects of the Valentine Appraisal report are the properties identified as 740 and 800 East 111th Place , Los Angeles, California.
- *Effective date of the appraisal review:* The effective date of value of the appraisal review is May 8, 2019. The date of the appraisal review is June 11, 2019.
- *Summary of the scope of work:* I read the Valentine Appraisal report and performed sufficient analysis to understand the neighborhood location of the subject properties and the comparable data used in the Valentine Appraisal report. I reviewed published appraisal standards including the Uniform Standards of Professional Appraisal Practice; and considered the application of generally accepted appraisal procedures to the report. I reviewed the appraisal for arithmetical accuracy and internal consistency. I independently gathered comparable data relevant to the subject properties as of the date of value identified



in the Valentine Appraisal report, developed an opinion of fair market value, and prepared this report.

- *Use of the real estate as of the date of value:* As of the date of value APN 6071-022-009 was 100% occupied by a single tenant on a month-to-month basis at a rental rate of \$0.35 triple net monthly per square foot of building area. As of the date of value the 32,000 square foot industrial building on APN 6071-022-013 was used for storage, with the office portion unoccupied.
- *Extraordinary assumptions of the appraisal:* Use of the extraordinary assumptions listed below may affect the assignment results. The appraisal of each property is subject to the following extraordinary assumptions:
 - The soil is clean without contamination.
 - The title is not clouded and is marketable.
 - There are no adverse conditions affecting the values of the properties.
 - The assemblage of the subject parcels is legally permissible.
- *Hypothetical condition(s) of the appraisal:*
 - The appraisal is subject to no hypothetical conditions.
- *Extraordinary assumptions of the review:* Use of the extraordinary assumptions listed below may affect the assignment results.
 - The review appraiser made no independent investigations regarding matters of title. Therefore, unless otherwise noted, the analyses, opinions, and conclusions set forth in this review appraisal are predicated on the assumption that title to the property is good and marketable and that the property is free and clear of any liens, easements or encumbrances.
- *Hypothetical condition(s) of the review:* None.

Compliance with USPAP

The appraisal report was found to be compliant with the Uniform Standards of Professional Appraisal Practice. Specifically, the appraiser adequately addressed the following issues in the report:

- Clearly and accurately set forth the appraisal in a manner that is not misleading.
- Contained sufficient information to enable the intended users to understand the report properly.



- Clearly and accurately disclosed any extraordinary assumption, hypothetical condition, or limiting condition that directly affects the appraisal and indicate its impact on value.
- Identified the client and any intended users, identified the intended use of the appraisal and identified the purpose of the assignment.
- Identified the location and physical, legal and economic attributes of the subject property.
- Identified the real property interest appraised.
- Identified the definition of value and its source.
- Identified the date of valuation and the date of the report.
- Described sufficient information to disclose the scope of work used to develop the appraisal.
- Described the information analyzed, the appraisal procedures followed, and the reasoning that supported the analyses, opinions and conclusions.
- Identified the use of the real estate as of the date of value and the use of the real estate reflected in the appraisal. Described and supported the appraiser's opinion of the highest and best use of the real estate.
- Identified and analyzed, to the extent relevant, the effect on value of trade fixtures that are not real property but are described in the appraisal.
- Identified any known easements, restrictions, or encumbrances.
- Described the improvements in a manner that is consistent with the observations of the review appraiser.
- Identified and analyzed any available current Agreement of Sale, option or listing of the property.
- Identified and analyzed any prior sales of the property that occurred within three years of the date of value.
- Adequately analyzed land sale comparable data as are available to estimate a land value conclusion.
- Adequately analyzed improved sale comparable data as are available to estimate a value conclusion.
- Adequately analyzed comparable rental data and/or potential earning capacity of the property to estimate the gross potential income of the property.



- Adequately analyzed comparable operating expense data as are available to estimate the operating expenses of the property.
- Adequately analyzed comparable data as are available to estimate capitalization rates.
- Adequately based projections of future income potential and expenses on reasonably clear and appropriate evidence.
- Reconciled the applicability of the valuation approaches used, and reconciled the quality and quantity of data presented and analyzed.
- Completed a report that does not contain numerous and/or significant arithmetic errors that materially affect the analysis or conclusions.
- Identified and supported an estimate of exposure time applicable to the property.
- Included a signed certification that stated that the appraiser had no present or prospective interest in the property and completed the report in compliance with USPAP.

Reviewer's Market Value Conclusion

Based on my review of the Valentine Appraisal report, independently-sourced comparable data, and analysis the Valentine Appraisal report market value opinion lies within the range of fair market value I concluded. It is my opinion that the following Valentine Appraisal report's fair market value conclusion is:

- Fair market value of fee simple interest: \$23,383,000

The reader is referred to the attached Certification that is a part of this report. I appreciate the opportunity to be of service to you in this review assignment. If you have any questions or comments concerning the attached report, or the work file, please do not hesitate to call.



David L. Roberts, SR/WA
June 11, 2019
Page 6

Respectfully submitted,

Integra Realty Resources – Los Angeles



William Larsen, SR/WA
Director
Certified General Real Estate Appraiser
California Certificate No. AG014297

Enclosures: Certification
General Assumptions and Limiting Conditions
Professional Qualifications of William Larsen, SR/WA



CERTIFICATION

I certify 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 are 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 the work under review and no personal interest with respect to the parties involved.
4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of the work under review 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 the work under review 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 is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
8. My compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
9. My analyses, opinions, and conclusions were developed and this review report was prepared in the conformity with the USPAP.
10. I have experience in appraising properties similar to the subject of the review and am in compliance with the Competency Rule of USPAP.
11. I have conducted a personal inspection of the subject property.
12. No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.
13. I certify that, to the best of my knowledge and belief, the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
14. I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.



Certification

15. As of the date of this report, I have completed the Standards and Ethics Education Requirements for Candidates of the Appraisal Institute.

Wm Larsen

William Larsen, SR/WA
BREA Certification No. AG014297

June 11, 2019

Date

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

1. This review appraisal has been prepared in accordance with USPAP as promulgated by the Appraisal Foundation.
2. The individual signing this review appraisal shall not be required by reason of this report to give further consultation, provide testimony, or appear in court or other legal proceedings unless specific arrangements therefor have been made.
3. The review appraiser made no independent investigations regarding required licenses, certificates of occupancy, etc. Therefore, unless otherwise noted, the analyses, opinions, and conclusions set forth in this review appraisal are predicated on the assumption that all required licenses, certificates of occupancy, consents or other legislative or administrative authority from any local, state, or national government or private entity or organization has been obtained for the use on which the estimates contained in this appraisal report reviewed are based.
4. The review appraiser made no independent investigations of zoning issues. Therefore, unless otherwise noted, the analyses, opinions, and conclusions set forth in this review appraisal assume that there is full compliance with all applicable federal, state and local zoning, use, occupancy, and environmental regulations.
5. The review appraiser made no independent investigations of soil or geologic conditions affecting the subject property. Therefore, unless otherwise noted, the analyses, opinions, and conclusions set forth in this review appraisal assume that there are no hidden or unapparent conditions of the property, subsoil, or structures that render the property more or less valuable.
6. The possession of this review appraisal, or copy thereof, does not carry with it the right of publication.
7. This review appraisal is intended solely for the internal use of the client and intended users. Neither all nor any part of the contents of this review appraisal shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the reviewer.



William Larsen, SR/WA

Experience

Mr. Larsen, Director, has been actively engaged in commercial real estate valuation and consulting since 1985 and has been with Integra Realty Resources – Los Angeles since 2001. He has substantial experience completing appraisals and related valuation studies for use in eminent domain, litigation, audit, purchase price allocation, and investment decisions. He has appraised all major property types and has completed appraisal assignments in 16 states. Special studies have addressed complex land valuation issues, leasehold/leased fee allocations, analysis of historic properties, value diminution from seismic and/or environmental conditions, the valuation of billboards and their underlying ground leases, and the valuation of agricultural land.

Major right of way assignments have included acquisition appraisals for freeway widening, grade separation, utility system upgrade and expansion, and transit station development. These assignments have included the analysis of full fee takings, partial fee takings of surface, subsurface, and air rights; and easement acquisitions. Types of easements valued have included access, aerial, slope, drainage, footing, and temporary construction easements. The part take appraisals included consideration of severance damages and project benefits.

Mr. Larsen has participated in portfolio valuations for corporate acquisition and loan loss reserve purposes, including an analysis done for the \$5.2 billion acquisition of a Los Angeles based insurance company.

Mr. Larsen was a Director of Irvine based Institutional Property Valuation, providing condemnation appraisal and litigation support services to a public agency clientele from 1995 to 2001. Previously, Mr. Larsen was with Farmers Insurance Group as a Real Estate Investment Manager and commercial property appraiser from 1987 to 1995.

Professional Activities & Affiliations

IRWA: Senior Right of Way Professional (SR/WA)

Chair of IRWA Annual Valuation Seminar, 2017-2020 & 2008-2013; Co-Chair 2014-2016

IRWA International Director 2009-2011, IRWA Chapter 1 President 2010

IRWA Chapter 1 Professional of the Year 2015

Registered Environmental Assessor 1996-2001 State of California Environmental Protection Agency

Candidate, Appraisal Institute

Speaker: "Acquisition of Large Multi-Property Projects," IRWA Chapter 1 2006 Valuation Seminar

Speaker: "Historical Theaters," Appraisal of Special Purpose Properties Seminar, SCCAI

Speaker: "Financial Criteria in Public Sector MSW Site Acquisitions" CSU Fullerton, Environmental Sciences Department

Speaker: "Case Study: CERCLA Cost Recovery Action" UCLA Department of Engineering, Environmental Sciences Department

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William Larsen, SR/WA

Licenses

California, Certified General Real Estate Appraiser, AG014297, Expires September 2019

Education

M.B.A., Finance, University of California, Los Angeles

B.A., Liberal Arts, State University of New York, Albany

Environmental Sciences Program, Department of Engineering, Environmental Sciences Division, University of California, Los Angeles Extension

Completed numerous real estate and related courses and seminars sponsored by the Appraisal Institute, IRWA, and accredited universities. Passed Appraisal Institute MAI Comprehensive Exam.

Qualified Before Courts & Administrative Bodies

Testified extensively on real estate valuation issues in depositions associated with cases scheduled to be heard in Los Angeles County Superior Court, United States District Court, Central District, and United States Bankruptcy Court.

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Stantec Consulting Services Inc.
290 Conejo Ridge Avenue, Thousand Oaks CA 91361-4972

October 31, 2019
File: 185804578

Attention: Ms. Colette Monell
Environmental Specialist II, Brownfields Program
Solid Resources Citywide Recycling Division
City of Los Angeles, LA Sanitation & Environment (LASAN)

Dear Ms. Monell,

Reference: Summary & Overview of Due Diligence Site Assessment Reports, 740 East & 800 East 111th Place, Los Angeles, California 90059

On behalf of the City of Los Angeles, Department of Public Works, Bureau of Sanitation and Environment (LASAN), Stantec Consulting Services Inc (Stantec) has prepared this summary letter report documenting the results of a Phase II Environmental Site Assessment (ESA) conducted between July 31, 2019 and August 15, 2019 at 740 East & 800 East 111th Place in Los Angeles, California (the "Property"). Based on the findings and results of the Phase II ESA, a follow up site assessment was conducted on 800 East 111th Place (only) between September 30, 2019 and October 10, 2019.

The assessments were completed as part of the City's due diligence purposes for the purchase of the Properties and was initiated in response to findings presented in Stantec's *Phase I Environmental Site Assessment* report dated June 18, 2019. The report identified *recognized environmental conditions* in connection with the Property which included the historic presence of fuel underground storage tanks, previous environmental case listings, and the current use of the Property for chemical storage with indications of release.

It is Stantec's understanding that the City of Los Angeles Department of General Services (GSD) is considering purchase of the Property for use as an electric bus facility, on behalf of the City of Los Angeles Department of Transportation (LADOT).

Phase II Environmental Site Assessment – 740 & 800 East 111th Place

The Phase II ESA consisted of a soil and sub-slab soil vapor investigation and was conducted at the Property to evaluate the potential for subsurface volatile organic compounds (VOCs), metals, and total petroleum hydrocarbons (TPH) to be present in concentrations that could potentially pose a risk to future users of the Property.

Soil Analytical Results Discussion

Some limited detections of VOCs and TPH were reported in shallow soil at the Property, however the detected concentrations in the areas assessed by Stantec are below their respective regulatory screening levels. Arsenic was reported in all but one sample at concentrations which exceed the commercial use screening levels maintained by the Department of Toxic Substances Control (DTSC). It should be noted

Reference: Summary & Overview of Due Diligence Site Assessment Reports, 740 East & 800 East 111th Place, Los Angeles, California 90059

that all of the reported arsenic concentrations are generally within accepted background levels typical of southern California soils. Other impacts to soil at the Property may exist beyond the areas assessed by Stantec, however, portions of the property are currently inaccessible due to the current storage of waste, equipment and other debris.

Sub-Slab Soil Vapor Analytical Results Discussion

Significant concentrations of tetrachloroethene (PCE) were detected in sub-slab soil vapor collected at the Property. The commercial use soil vapor screening level derived for PCE is 66.7 micrograms per cubic meter ($\mu\text{g}/\text{m}^3$). This screening level was exceeded in seven of the 13 sub-slab soil vapor samples submitted for chemical analysis, indicating a potential for vapor intrusion to indoor air at both properties. In particular, concentrations of PCE reported from 800 East 111th Place ranged from 900 $\mu\text{g}/\text{m}^3$ to 1,200 $\mu\text{g}/\text{m}^3$.

Phase II Environmental Site Assessment Recommendations

Based on the detection of significant concentrations of PCE, a potentially carcinogenic chemical, in sub-slab soil vapor, Stantec recommended an additional assessment of the parcel located at 800 East 111th Place to further characterize and assist in identifying the likely source of the PCE detected in soil and soil vapor.

Additional Site Assessment – 800 E. 111th Place

An additional site assessment was conducted to further evaluate the VOCs (primarily PCE) detected in soil and soil vapor. The assessment consisted of the installation and sampling of seven dual-nested and three triple nested soil vapor probes at accessible locations across 800 East 111th Place (the Site).

Soil Analytical Results Discussion

The soil analytical results from the additional site assessment completed indicate low levels of VOCs including benzene, toluene and PCE are present in shallow soil. However, the concentrations of VOCs reported in soil were not detected at concentrations that exceed their respective regulatory screening level. Consistent with the prior soil sampling results and findings, it is Stantec's opinion that other impacts to soil at the Property may exist but are currently inaccessible based on the current storage of waste, equipment and other debris.

Soil Vapor Analytical Results Discussion

Significant concentrations of PCE were detected in soil vapor collected during the additional site assessment. The DTSC commercial use soil vapor screening level derived for PCE is 66.7 $\mu\text{g}/\text{m}^3$. This screening level was exceeded in 15 of the 17 soil vapor samples submitted for chemical analysis indicating a potential for soil vapor intrusion to existing buildings and/or future development exists. Based on the detections, which include a maximum of 2,100 $\mu\text{g}/\text{m}^3$, the greatest concentrations of PCE appear to be centered along the southern boundary of the 800 East 111th Place address. The plume appears to extend to the north beneath the on-Site building, to the west beneath the building located at the 740 East 111th Place, and to the east beneath the Animo James B. Taylor Charter Middle School.

Reference: **Summary & Overview of Due Diligence Site Assessment Reports, 740 East & 800 East 111th Place, Los Angeles, California 90059**

CONCLUSIONS

Soil vapor at the Property is impacted with PCE, a potentially carcinogenic chemical, to a depth of at least 30 feet below ground surface at concentrations that are considered hazardous to human health and indicative of the potential for vapor intrusion conditions to exist at the property, as well as the nearby school property to the east of 800 E. 111th Place.

Based on the known historic use of 800 East 111th Place as an aircraft component and equipment supplier, and the known current use as a waste storage facility, there may have been an undocumented release of chemicals to soil at the Property. In addition, there is a documented release of solvents to soil and groundwater at the Lanzit Project located approximately 1,000 feet east of the Property. It is Stantec's opinion that the PCE detected in soil and soil vapor are the result of on-site releases to soil, which may extend to groundwater, as well as the potential comingling of solvent impacted groundwater sourced from the Lanzit Project located to the east of the 800 East property.

RECOMMENDATIONS

It is Stantec's understanding that GSD is considering purchase of the Property for use as an electric bus facility, on behalf of the LADOT. Based on the analytical data collected from the Property and presented in this letter report, and the planned future commercial use as an electric bus facility, Stantec has developed recommendations should the City acquire the Property comprised of both 740 East and 800 East 111th Place.

The following scope of work and estimate of probable cost is provided for planning purposes and is subject to change based on the completion of a more detailed site investigation to fully characterize the impacts to soil, soil vapor, and groundwater, in particular in the areas that were inaccessible during the two site assessments discussed above. In addition, the scope and costs provided are largely dependent upon regulatory agency involvement (if notified) and potential future changes in the regulatory framework. It is Stantec's opinion that there is a high potential for investigation activities to extend to the adjoining school property based on the distribution of PCE in soil vapor observed in the data collected.

The following recommendations and rough order of magnitude estimates of probable costs are provided for planning purposes. These estimates are based on Stantec's experience in the assessment, remediation, and mitigation of solvent plumes at similar sites. This assumes GSD proceeds to acquire both the properties located at 740 East and 800 East 111th Place and the results of Stantec's site assessment findings are reported to the Los Angeles Regional Water Quality Control Board (LARWQCB):

Reference: Summary & Overview of Due Diligence Site Assessment Reports, 740 East & 800 East 111th Place, Los Angeles, California 90059

Recommended Action	Estimate of Probable Cost
Request for Technical Workplan & Site Characterization	
Technical Workplan	
Permitting & Notifications	
Soil Sampling (likely 1, 3, 5 and 5 feet thereafter down to cap fringe/groundwater)	\$200,000
Soil Vapor Sampling (likely nested probes at 5, 15, 30, 45 and 55)	
Groundwater Sampling (installation of a groundwater monitoring well network*). Groundwater is at an approximate depth of 60 feet bgs,	
Technical Reporting	
Preparation of a Feasibility Study, Remedial Action Plan, Pilot Testing, and Active Remediation	
Conceptual Site Model (Includes as-needed Updates)	
Determine Cleanup Goals/Human Health Risk Assessment (HHRA)	
Direct Source Removal & Disposal (i.e., excavation of hotspot impacted soil)	\$1,180,000
Pilot Testing and Remediation – Subject to Technology Applied and Distribution of Contaminants Identified from Full Site Characterization - Groundwater Monitoring & Treatment, Remediation System Operation and Maintenance (for example, SVE/OS, ISCO, etc.), Remediation Well Installation, Remediation System Installation; (Assumes up to 3 Years of Active Remediation)	
Confirmation Soil and Soil Vapor Testing & Regulatory Agency Reporting:	

Reference: Summary & Overview of Due Diligence Site Assessment Reports, 740 East & 800 East 111th Place, Los Angeles, California 90059

Agency Liaison, Technical Reporting (Groundwater Monitoring and System Operation and Maintenance)	\$250,000
Assumes Quarterly Groundwater Monitoring, Sampling and Regulatory Agency Reporting for a duration of up to 4 years.	
Request for No Further Action (NFA) Case Closure	\$15,000
Technical Reporting and Public Comment	
Risk Reduction & Mitigation Measures (Engineering Controls)	\$855,000
Risk reduction and mitigation measures (engineering controls) such as passive/active venting and/or a vapor barrier (chemically resistant to petroleum hydrocarbons and chlorinated solvents) should be incorporated into existing buildings and/or the design of future buildings to users of the Property. Subject to proposed redevelopment plans by the City as well as new construction install versus retrofit of existing buildings. There may also be potential third-party issues and risks to address due to soil vapor intrusion conditions that maybe impacting the adjacent school property. The school may need to consider the retrofit of a chemically resistant vapor barrier (i.e., Retro-Coat Floor Sealing product in existing buildings to mitigate the potential risk). Stantec has provided a budget for the application of a vapor barrier for an area of approximately 50,000 square feet. The area and resultant cost should be modified based on proposed redevelopment plans for occupied spaces as well as the potential need for mitigation measures at the adjacent school.	
Grand Total Estimate of Probable Cost	\$2,500,000

ESTIMATE OF PROBABLE COST

For planning purposes and subject to the completion of the above-mentioned investigation to fully characterize the impacts to soil, soil vapor and groundwater, Stantec recommends GSD plan for up to **\$2.5MM** to be withheld in an Escrow account to address environmental impacts at the Property. This would allow for open case, site characterization, remediation, closure activities. The total estimate of probable cost for the vapor barriers is subject to the City's proposed redevelopment plans, as well as the potential for retrofit of mitigation measures that maybe required for the adjacent school property.

The recommendation for the creation of an Escrow account would allow funds to be used to characterize and mitigate the environmental impacts identified in soil and soil vapor that may extend to groundwater.

October 31, 2019
Ms. Colette Monell
Page 6 of 6

Reference: Summary & Overview of Due Diligence Site Assessment Reports, 740 East & 800 East 111th Place, Los Angeles, California 90059

Should the recommended site characterization result in limited extent of impacts and remedial action (to include implementation of engineering controls), any funds unused to complete the corrective action would be returned to the seller.

Stantec is currently finalizing the results of the Phase II ESA and additional site assessment and will issue a combined detailed report to LASAN under a separate cover.

Stantec is proud to provide technical consulting services to LASAN. Please contact Mr. Lewis D. Simons at the contact information provided below with any questions.

Regards,

Stantec Consulting Services Inc.



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