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May 22, 2015

Mathew Dolan, Associate  
Sidley Austin LLP  
1001 Page Mill Road  
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Dear Mr. Dolan:

As requested, I have reviewed portions of the testimony of David Beccaria at the appeal hearing of the Palo Alto City Council on April 13 and 14, 2015. I have also been asked to comment on the letter from the City Attorney to the City Council dated May 21, 2015. My comments follow. This is considered to be a supplement to my Review Report dated March 23, 2015, and my follow-up letter dated April 10, 2015.

1. One of the main issues in this matter appears to be whether Mr. Beccaria has adequately reflected the unique locational qualities of this park in Palo Alto in his 2013 appraisals, and whether he would reflect them in an update of his appraisals. Several of the Council members had questions about the lack of location adjustments in his appraisals when he utilized home sales from parks in Sunnyvale, Mountain View and Redwood City, all of which have substantially lower housing prices.

In his appraisals Mr. Beccaria writes “offset rent” in the column for a location adjustment for those cities. In his testimony at the appeal hearing he explained that the lower space rent at Buena Vista reflects the lower quality and condition of the park and that offsets the superior location in Palo Alto. Using his appraisal of Space 112 as an example, the comparables from Sunnyvale and Mountain View had monthly space rents about \$135 to \$140 higher than the rent at Buena Vista. However, the rent for the comparable from Redwood City was almost identical, only \$13 higher than Buena Vista (\$708 for Redwood City and \$695 for Buena Vista). That slight difference would certainly not be an offset for the substantial difference in housing prices in those two cities. The average home price in January 2013 in Redwood City, reported by Zillow, was \$816,000 while in Palo Alto it was almost double at \$1,500,000. Even for Sunnyvale and Mountain View, the differences in space rent were only about 19 to 20 percent, while the average home price in Palo Alto was 61 to 72 percent higher. So, offsetting the location with space rent does not appear to be a fair analysis.

There was a lot of discussion at the hearing about “safety and schools” as being important reasons why people want to live in Palo Alto. Those factors are certainly inherent in an analysis of location. The Council even made a request that in his updated appraisals that

Mr. Beccaria add to his scope of work that he would consider those factors. He even offered a possible methodology of comparing the differences in the median home prices of the other three cities with Palo Alto to calculate an adjustment. However, in his later correspondence on May 5, 2015, to the Council, he backs away from that and states that “these issues were considered previously as they are inherent in the location and neighborhood data already utilized in the valuations.” So, we are left with the question, in his 2013 appraisals did he adequately consider the superior location of Palo Alto. In my view he did not. And, it appears that his inadequate location analysis will be repeated in his updated appraisals.

2. Questions were raised about the use of comparable home sales from Buena Vista that occurred prior to the formal announcement of the park closure (application for closure filed in November 2012). In his appraisals Mr. Beccaria utilized six sales from Buena Vista that occurred between May 2006 and July 2012. The issue has to do with the fact that it was fairly common knowledge that Buena Vista had a short remaining life span and was likely to be closed. This knowledge goes back to about 2001 when the City passed the closure ordinance for mobile home parks. Of course, there was only one mobile home park in the City and everyone knew that the ordinance was for the closure of Buena Vista. Mr. Beccaria did not use any sales in Buena Vista subsequent to the closure application in November 2012 because they would have been tainted by the closure. The question is, should **ANY** of those sales from Buena Vista have been utilized, since they all occurred after the passage of the closure ordinance that was understood to be referring to Buena Vista?

In his May 5, 2015 letter, Mr. Beccaria states that he believes that the buyers of those sales purchased their homes with the expectation of the park’s continued operation. However, that “belief” may still not qualify the sales as market transactions. First of all, we do not know how many of the six sales he was able to personally verify with the buyer to make that determination. But, even where he verified the sale with the buyer, it is still possible that the seller knew full well of the park owner’s intention and kept his price low so he could sell it before the closure was formally announced.

A related question has to do with the condition of the park. While Mr. Becarria correctly assumed for his analyses that the park was not going to be closed, it appears that he did not make a similar assumption regarding the condition of the park. It seems obvious that the park owner has known at least since 2001 that the park was going to be closed, even though the formal announcement did not occur until November 2012. The pending closure no doubt has resulted in a cutback in maintenance of the infrastructure and common areas, and in the enforcement of maintenance requirements for the homeowners. Wouldn’t it have been reasonable for the appraiser to make some kind of an assumption regarding the condition of the park rather than penalize the residents for some things that were out of their control?

If you assume that the park owner had no intention of closing the park, it would seem reasonable to assume that instead of cutting back on maintenance, he would have invested some money in improving the park which could lead to increasing rents and home values. This is a strategy that is often followed by park owners. In my letter to you dated April 10, 2015, I made reference to The Sands Mobile Home Park in Encinitas. This was an older park with very small spaces that had a mix of single-wide homes and some RVs. A few years ago, the park owner made a number of improvements and started replacing older homes with new Park Models, some two stories. Now, almost all of the spaces have newer Park Models and the appearance of the park has totally changed, in a positive direction (See attached photos of The Sands). Perhaps the reason that the current owner of Buena Vista has not employed this strategy is because of the plans for the closure. Isn't it reasonable to assume that the condition and appearance of this park would be very different if it were not for the closure? If today Buena Vista was on the way to looking anything like The Sands, the demand and pricing of homes there would likely be very different.

By the way, Mr. Beccaria has stated that Park Models are not able to be financed because they are not classified as manufactured homes. That is not true. A number of the sales at The Sands have been financed by lenders. 21<sup>st</sup> Century Mortgage loans on Park Models in the State of California.

It seems to me that a strong case could be made for either the exclusion of the sales from Buena Vista that were utilized, or at least a recognition that some of them might be low indicators. That recognition, plus a more adequate analysis of the locational differences between Palo Alto and the other three cities where the comparables are located, could produce a very different result. In addition, if any of the sales from Buena Vista are utilized, the selection should certainly include the sale of Space 110 that sold for \$50,000 in July 2012, and perhaps even the older sale of Space 24 that sold in 2006 for \$55,000. Both of those sales occurred within the time period Mr. Beccaria used in his analyses, but neither of the sales were utilized by him.

It is also noticeable that of the 32 appraisals of Mr. Beccaria that I reviewed, his values on 11 of them are lower than the reported purchase prices of the residents. Those 11 homes are on Spaces 24, 32, 46, 63, 71, 73, 83, 102, 103, 105, and 110. All but one of those purchases were between the dates of 2001 and 2012. In my Review Report, dated March 23, 2015, I commented on the purchase of the home on Space 110 for \$50,000 in 2012. Mr. Becarria did not know about that purchase and did not use that as a comparable sale. However, he was quick to respond to my comments in his rebuttal letter of March 25, 2015, and concluded that "...it is my opinion that the purchaser/owner grossly overpaid for that property ...". That certainly appears to be a rush to judgment to defend his conclusions and I wonder if he would say the same thing about the other 10 resident/purchasers.

3. In his letter dated May 5, 2015, Mr. Beccaria refuses to engage in a subsequent appraisal assignment with a differing scope of work or a differing appraisal methodology. This was in reference to the Council's concern about whether the locational factors of school and safety have adequately been recognized, or will be in his updated appraisal. In fact, he even claims: "It would be misleading for us to amend the Scope of Work when we know that, if added, this would not change the outcome of the analysis." That appears to be an overreaction to what sounds like a reasonable request from the Council. It has been pointed out that the factors of safety and schools are only a part of a locational analysis that is already a requirement of his analysis. So, adding wording to a Scope of Work that simply states that he will be recognizing those factors cannot be considered misleading. What would produce a misleading result would be the failure to adequately recognize the superior locational characteristics of Palo Alto.
4. There appears to be a substantial difference in the tone and willingness to address the questions and concerns of the Council when you listen to Mr. Becarria's comments at the hearing compared to his follow-up letter dated May 5, 2015. At the hearing he seemed to be open minded and willing to consider the questions and concerns of the Council and even offered a possible methodology for addressing the issue of the superior location of Palo Alto, especially with regard to schools and safety. However, his follow-up letter is like drawing a line in the sand, making it clear that there will be no changes in his Scope of Work or appraisal methodology and goes so far as to say, "We will not engage in further discussions about appraisal methodology or Scope of Work issues." He has made it clear that if he completes updated appraisals the approach to the valuations will be just like his original appraisal, with time being the only variable.
5. The City Council is recommending that one of two appraisers be hired to complete a peer review of updated appraisals that would be completed by Mr. Beccaria. Since substantial issues have been raised about his approach to the valuations, and he has made it clear that his approach will be the same for the updates, it seems like his updates would be a waste of time and money. Why would you need an update of an appraisal that, in my view, was done incorrectly?

Many of these issues are already public knowledge, having been discussed in the newspaper and online. If I was the review appraiser I would want to have all the cards put on the table so I would understand all of the issues before deciding on a methodology and scope of work. Instead of having Mr. Beccaria update his appraisals, I would respectively suggest that the chosen review appraiser conduct his review of Mr. Beccaria's original appraisals, and that he also be provided with copies of my appraisal review, and copies of the various follow-up letters prepared by me and Mr. Beccaria, as well as the link to the appeal hearing so he could listen to the questions and concerns of the Council and Mr. Beccaria's testimony. After digesting all of that, the review appraiser could then prepare a written review of that information, along with a proposed methodology and scope of work for the current appraisal. The Council would then have a

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good basis for deciding if the appraiser appears to understand the issues and would likely prepare a credible appraisal. This way, only one current appraisal would need to be prepared after an objective consideration of all of the issues. In addition, the scope of work would be determined by the appraiser and would be consistent with the Uniform Standards of Professional Appraisal Practice (USPAP).

With respect to the possible selection of Norman Hulberg as the appraiser, it sounds like he properly made a disclosure about his firm's previous appraisal of the owner's interest in the property. I would think the Council would want to make further inquiry about the relationship (personal and/or business) between that client (confidential) and the park owner.

Thank you for the opportunity to be of service. If you have any questions, please contact me at your convenience.

Sincerely,



James Brabant, MAI

Attachment

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## **THE SANDS MOBILE HOME PARK, ENCINITAS**



Looking westerly along an interior street in the Sands MHP, taken February 28, 2013.



Looking easterly along an interior street in the Sands MHP, taken February 28, 2013.