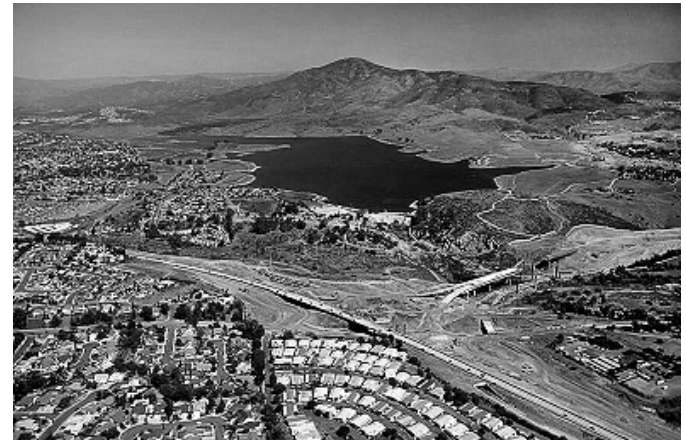


Sweetwater Village Center  
Market Overview and Land Optimization



Client: MasterCraft Homes and  
Spring Capital Group  
March 2013



OBJECTIVE AND BACKGROUND

EXECUTIVE SUMMARY

MARKET HEALTH - MACRO ECONOMIC & HOUSING TRENDS

GEOGRAPHIC AND DEMOGRAPHIC TRENDS

FUTURE SUPPLY

HOUSING DEMAND BY LIFESTAGE AND PRICE POINT

FOR-SALE RESIDENTIAL COMPETITIVE ANALYSIS

SENIOR HOUSING ANALYSIS

RENTAL COMPETITIVE ANALYSIS

RETAIL ANALYSIS

APPENDIX



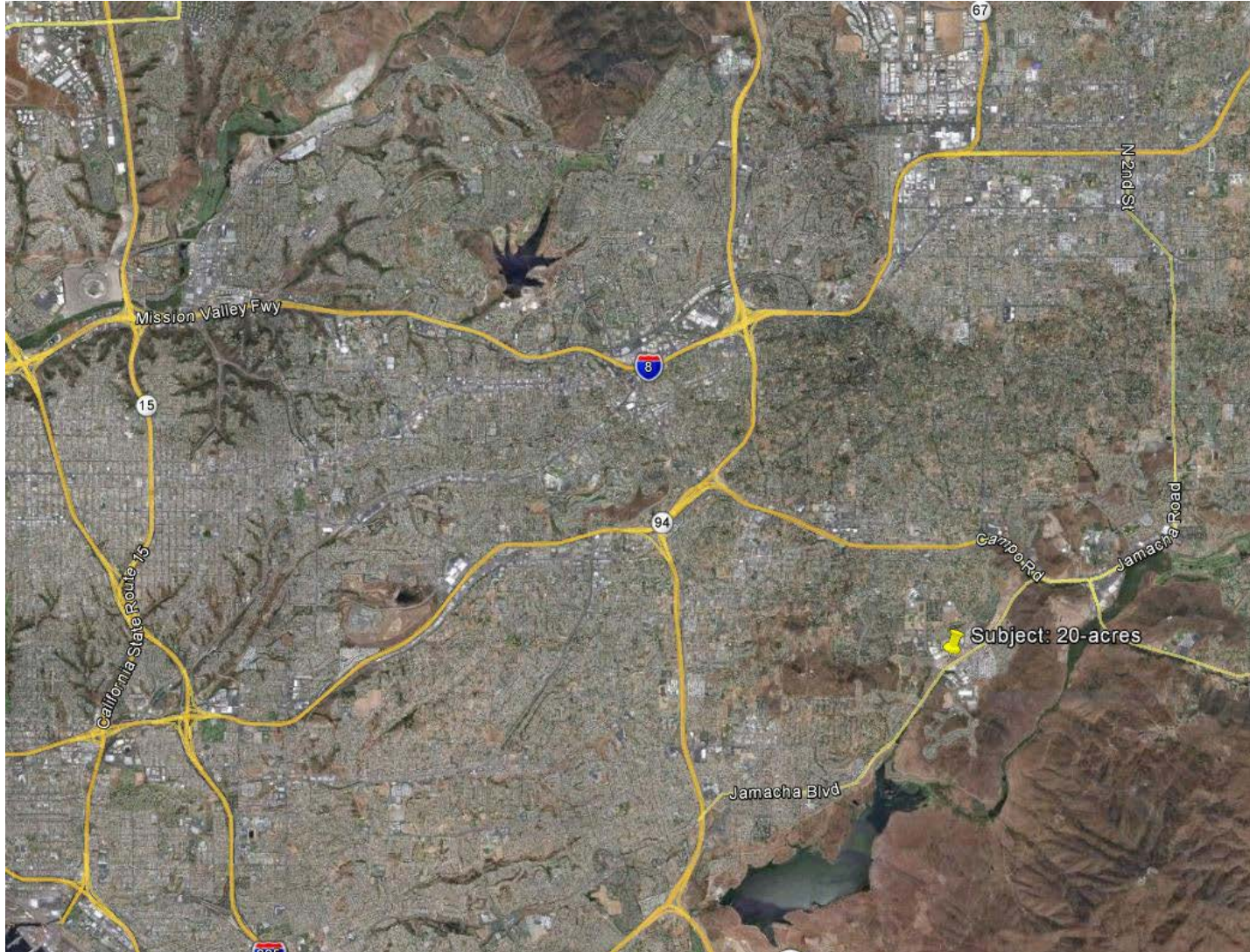


This report is designed to provide MasterCraft Homes and Spring Capital Group with target market research for 20 acres in Rancho San Diego, California. Our study will address the following items:

- **Market Health:** This report includes a summary of San Diego MSA economic health, evaluating demand and supply factors and their effect on historical and current pricing within the MSA and Rancho San Diego submarket.
- **Geographic, Demographic & Consumer Trends:** This report includes an analysis of the current demographic and geographic positioning within the competitive market area to understand the potential buyers and/or tenants.
- **Supply:** This report includes a summary of the future home and apartment supply in the area surrounding the subject site.
- **For-Sale Competitive Analysis:** This report highlights comparable neighborhoods in the submarket, pricing and absorption rates for a variety of product types in the subject location. This report includes our five-year forecast of new home price changes and absorptions.
- **Rental Competitive Analysis:** We have recommended the appropriate product array for a potential rental component of this development, including unit sizes, mix, and achievable rental rates.
- **Retail Analysis:** The current environment for retail to determine the viability of building on the site is discussed in the report.
- **Land Use Analysis:** This report includes an analysis with consideration for the following product types:
  1. Small-Lot Attached
  2. Small-Lot Detached
  3. Active Adult For-Sale
  4. Apartment
  5. Retail

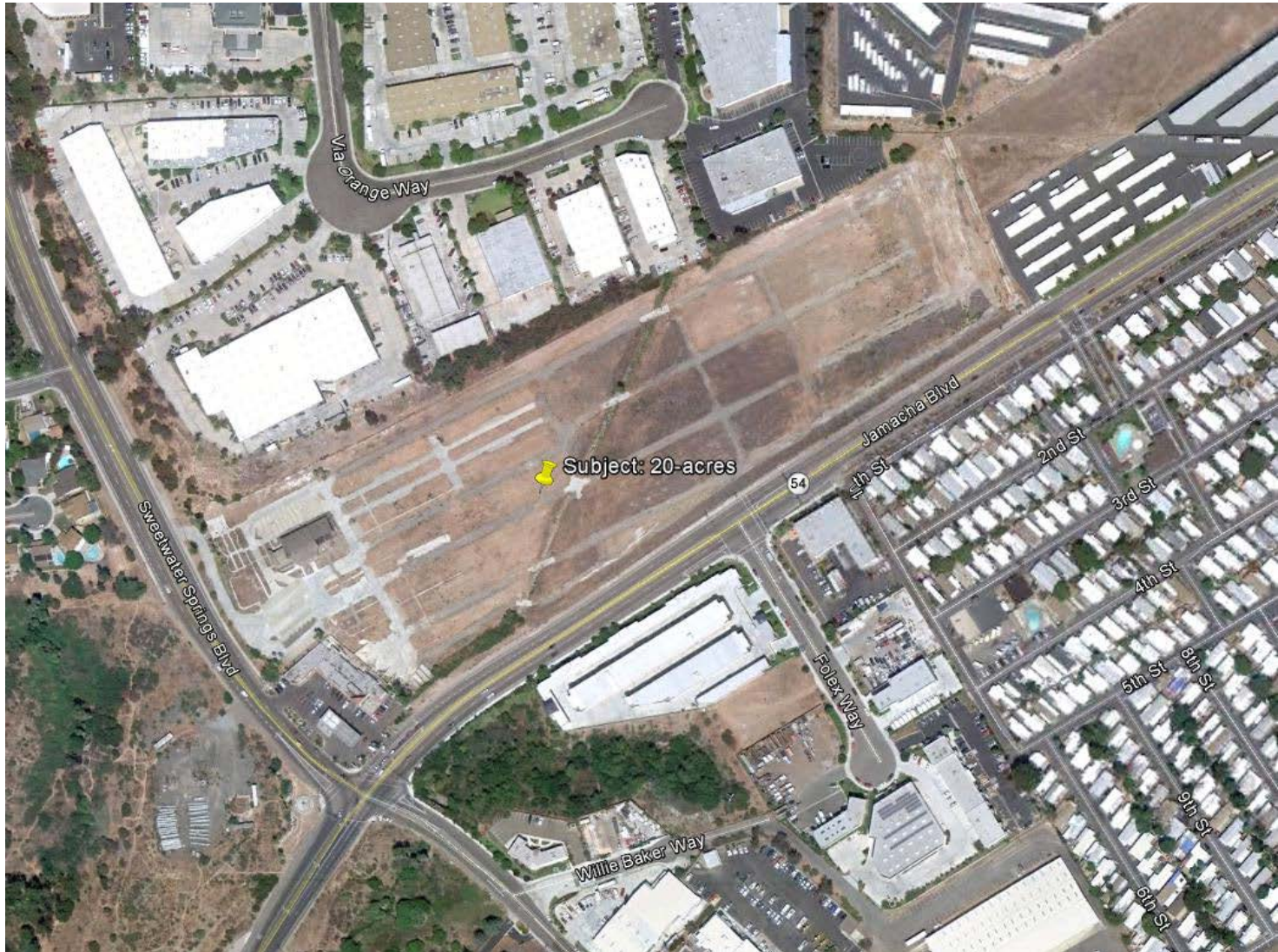


The project is in the southeast inland submarket of San Diego County in Rancho San Diego, California. The main freeway access for the site will be Highway 94 and 125, which connects to Interstate 8 and Highway 15.

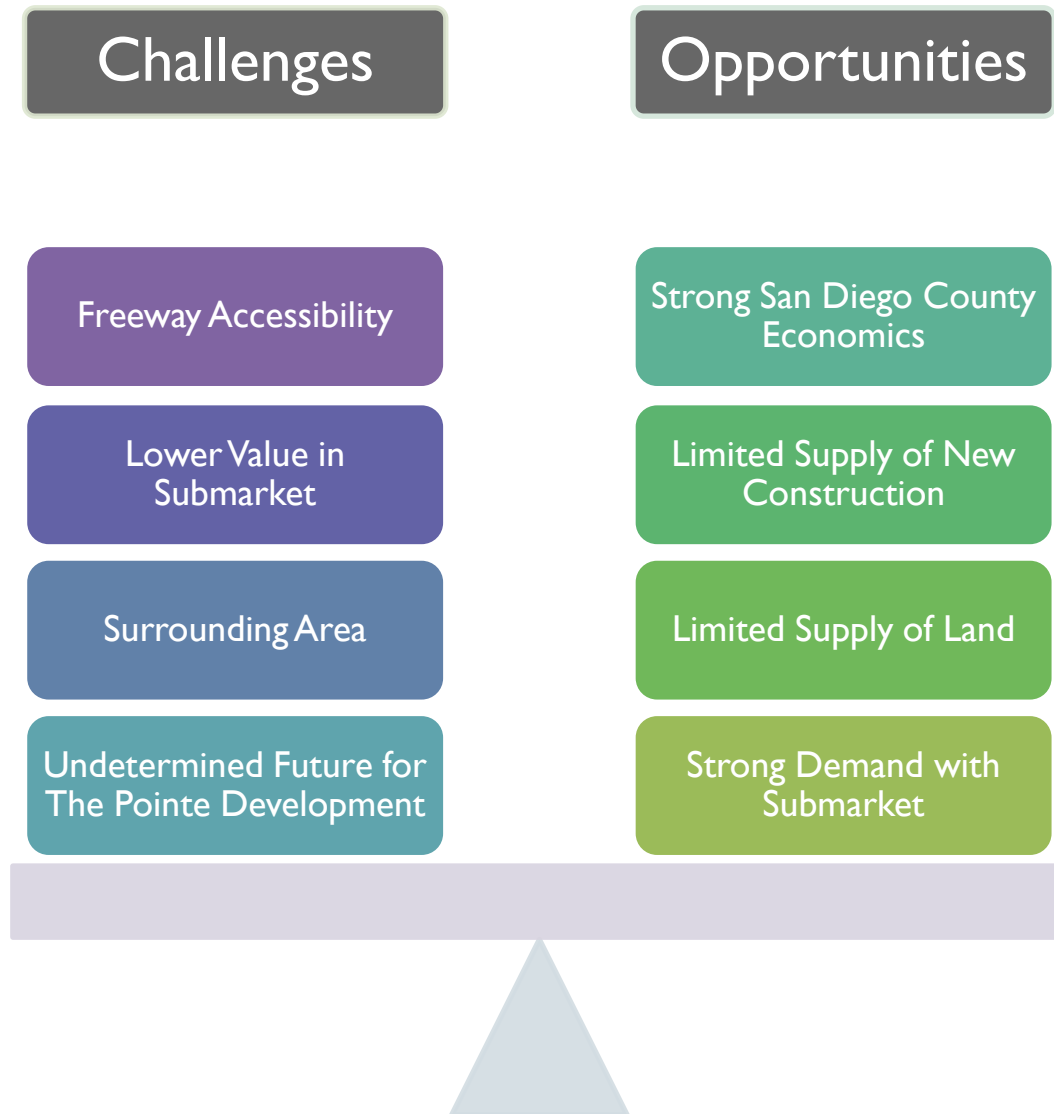




Specifically, the site is located on the northeast corner of Sweetwater Springs Boulevard and Jamacha Boulevard in Rancho San Diego, California. It is 20 acres, and is adjacent to industrial office space and near residential for-sale housing and mobile homes.







### Strong San Diego County Economics

- The housing market fundamentals for San Diego County are notably improved from the 2008 lows. Thanks to rising levels of job growth, high levels of housing affordability, and a low supply of new housing product on the market, new home market conditions have been rapidly improving in San Diego County over the last 12 to 18 months, leading to increasing project-by-project sales rates, rising prices, and declining incentives.

### Limited Supply of Homes

- There is a limited amount of new home competition in the Rancho San Diego/Spring Valley submarket. With the exception of a small infill project in La Mesa and the final phase of the LakeView Homes at The Pointe, there is no new home construction.
- Even resale listings are in limited supply, with only 2.5 months of supply in the market. A normal and healthy market typically has 6 months of resale supply.
- In our monthly builder survey, a builder in San Diego stated, “The market is good - supply constraints are making new homes a more viable choice for the homebuyers because they are very frustrated dealing with the resale market.” Another builder echoed this, stating, “Very, very low resale and new home inventory. Good job growth. Good volume of shoppers; a high Realtor concentration due to lack of inventory.”

### Limited Supply of Land

- Due to the unique infill nature of this site, there is limited land supply in the Rancho San Diego/Spring Valley submarket. There are no pending entitlements with the County of San Diego in the submarket, and most surrounding cities are focused on redevelopment of existing downtown and retail districts. In our interviews with local brokers, it was mentioned that land prices may be back to 2007 levels.
- KB Home closed on a land transaction last month for 36 lots in the City of La Mesa. This is a strong indication of the lack of land supply in the market and the size of land transactions from public builders. In many markets, large public builders would not entertain purchasing fewer than 50 lots.

### Strong Demand with Submarket

- Demand for homes in San Diego County is forecasted to increase in the coming years, growing as the economy expands, job growth improves and incomes rise.
- Another San Diego builder in our survey mentioned, “Buyers in our market are no longer arguing whether or not the market has become a ‘seller's market.’” Another builder agreed with these sentiments, stating, “Quite simply, sales absorptions, prices and traffic have increased while incentives have decreased. We are now starting construction and not releasing homes for sale until the homes are 2 to 3 months away from completion, in order to take advantage of the rising sales prices.”



## Freeway Accessibility

- Most apartment complexes require decent freeway accessibility. Apartment complexes receive a premium if it is convenient for residents to get to and from a major freeway without having to be inconvenienced by the noise and congestion. An example of this in Spring Valley is the Spring Villas and Oakbrook Ridge communities.
- Retail in this submarket also requires freeway accessibility and, in some cases, desires freeway visibility.
- It takes approximately 8 to 10 minutes, depending on the route, to get onto the 125 freeway with minimal traffic conditions. This is less convenient than other apartment and retail closer to the freeway. La Mesa is also more desirable from both a retail and apartment perspective, due to its orientation along Interstate 8.

## Lower Value in Submarket

- Based on sales transactions within the last three months, Spring Valley homes sell for approximately 20% less than the neighboring community of La Mesa. Further east of the project in Jamul, there are large equestrian properties of higher value and individuals with higher net worth.
- Due to the older housing stock and retail, there are parts of the submarket that are rundown and contribute to the lower perceived value.

## Surrounding Area

- The site does not have a good marketing window with industrial to the north, mobile home park across Jamacha Boulevard and storage facilities to the east. If accessing the project from Sweetwater Springs Boulevard, a prospective buyer would need to pass a dilapidated retail center.

## Undetermined Future for The Pointe Development

- The Pointe development is across Sweetwater Springs Boulevard from the subject property. The development status is still undetermined and will have impact on the supply of new homes to the market. This could be competition for the subject property depending the timing and segmentation.
- Currently, Gosnell Builders is trying to secure financing to construct the final 88 condominiums at LakeView at The Pointe. They would like to re-entitle the project for apartments, condominiums, large lots and an age-restricted community.
- Wells Fargo is a note holder and has received unsolicited offers to purchase the property. They have not made any determination as to move forward with another developer or list the property on the market.

- We have evaluated for-sale residential, active-adult, apartment and retail, and believe the best use for the property would be for-sale residential. We tested several prototypes for this location with a static residual in order to compare value per product. In addition, we have provided product recommendations with price and pace in order to test the financial viability of alternative products. The products below are recommended for plotting purposes for the site location:

- Flats/Towns
- Row Townhomes with Small Yard
- Detached Auto-Court

We assumed that amenities would include gated access, pool, spa and small clubhouse.

- As you can see on the following page, we evaluated a number of different product types. Detached alley product would do well in this market; however, detached auto-court did produce a better finished lot value. The products listed above also create better segmentation and would allow for higher community absorption.
- The density does not account for common area, streets and perimeter landscaping. While the density listed is higher than the maximum allowed density, once designed and amortized over the three products, it will be lower than 15 dwelling units per acre.
- A critical aspect of the site planning will be to create a feeling of community and shield the community from some of the perimeter challenges, such as the mobile home park, industrial and gas station at the corner.
- We do believe that apartment land residuals would be competitive; however, believe there is less demand that could be captured at this location. A 24 du/acre, apartments could yield an approximate a land value range of \$433,270 to \$619,222 per acre based on current comparables. This could be as financially viable as for-sale residuals depending on improvement costs. However, we believe there is more upside in residential as rent rates are projected to slowly increase and for sale housing has considerable appreciation.

- Development and fees are not in these numbers. We used the same acreage for all products (i.e., 1.0 acres) in order to fairly compare all products with their estimated density.
- We have estimated the financial performance of the existing product based on a static comparison. This analysis will provide a relationship among the current and proposed products for optimal profit; however, it is not intended to establish the current value of the property given the static summary. We can provide a cash flow analysis upon request in order to refine the value of the property upon request. We have estimated direct construction costs given our internal survey work among the product types.
- When evaluating your development costs, consider whether the site is subject to the Jamacha Road Improvement Assessment and whether density would affect this assessment number.

## RESIDENTIAL PRODUCTS Product Configuration

Prototype	
Spec Level	
Product Configuration	
Pad Size	
Total Number of Units	
Acres (Same for purposes of analysis)	
Actual Density (du/ac)	

## Revenue

Ave Base Sales Price w/out CFD	
Ave Lot Premium	2.0%
Total Price (before Options)	
Ave Option Amt (% of Sale Price)	3.0%
<b>Total Revenue per Unit</b>	

Average Square Footage	
Value Ratio, \$/S.F. (base pricing)	
Value Ratio, \$/S.F. (w/premium)	
Value Ratio, \$/S.F. (Total)	

## Total Market Value

## Directs and Soft Costs

Direct Cost per Square Foot	
Common Area Cost per S.F.	
Directs	
Common Area	
Options Cost (% of Options Price)	65.0%
Indirects	3.5%
Sales & Marketing	3.5%
Closing Costs/Commissions	4.5%
Warranty	1.5%
Insurance SFA / SFD	2.75% 1.75%
Financing	0.0%
Management	3.0%
Profit	0.0%
<b>Total Directs &amp; Soft Costs</b>	18.8%

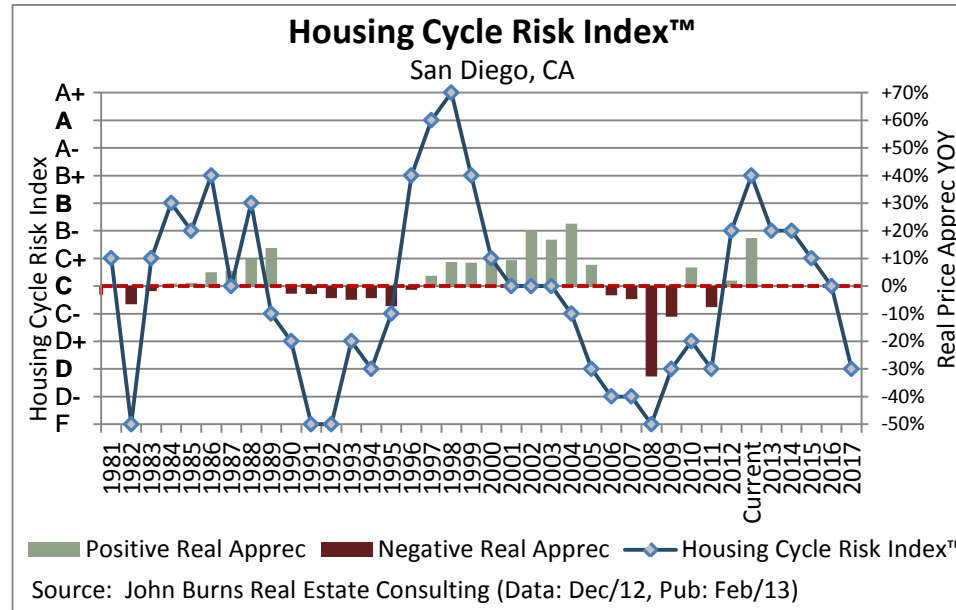
## Finished Lot Value Per Unit

Total Finished Value Or

	SFA					SFD Small Lot	
	Wrap	St Flats/Towns Santa Rosa	3 Story Th	Carriage/Towns Santa Barbara	Row Towns with Yards Los Altos	Detached Alley Alley	Auto Court Cluster
						Alley	
						1700	3375
	45	20	18	18	16	10	12
	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	45.0	20.0	18.0	18.0	16.0	10.0	12.0
	120,000	168,000	210,000	210,000	240,000	284,000	299,000
	2,400	3,360	4,200	4,200	4,800	5,680	5,980
	122,400	171,360	214,200	214,200	244,800	289,680	304,980
	3,600	5,040	6,300	6,300	7,200	8,520	8,970
	126,000	176,400	220,500	220,500	252,000	298,200	313,950
	1,000	1,200	1,650	1,480	1,570	1,850	1,900
	\$ 120.00	\$ 140.00	\$ 127.27	\$ 141.89	\$ 152.87	\$ 153.51	\$ 157.37
	\$ 122.40	\$ 142.80	\$ 129.82	\$ 144.73	\$ 155.92	\$ 156.58	\$ 160.52
	\$ 126.00	\$ 147.00	\$ 133.64	\$ 148.99	\$ 160.51	\$ 161.19	\$ 165.24
	5,670,000	3,528,000	3,969,000	3,969,000	4,032,000	2,982,000	3,767,400
	\$ 150.00	\$ 68.00	\$ 76.00	\$ 66.00	\$ 66.00	\$ 60.00	\$ 47.00
	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
	150,000	81,600	125,400	97,680	103,620	111,000	89,300
	-	-	-	-	-	5,100	10,125
	2,340	3,276	4,095	4,095	4,680	5,538	5,831
	4,410	6,174	7,718	7,718	8,820	10,437	10,988
	4,410	6,174	7,718	7,718	8,820	10,437	10,988
	5,670	7,938	9,923	9,923	11,340	13,419	14,128
	1,890	2,646	3,308	3,308	3,780	4,473	4,709
	3,465	4,851	6,064	6,064	6,930	8,201	8,634
	-	-	-	-	-	-	-
	3,780	5,292	6,615	6,615	7,560	8,946	9,419
	-	-	-	-	-	-	-
	175,965	117,951	170,839	143,119	155,550	177,551	164,121
	(49,965)	58,449	49,661	77,381	96,450	120,650	149,829
	(2,248,425)	1,168,980	893,903	1,392,863	1,543,200	1,206,495	1,797,947



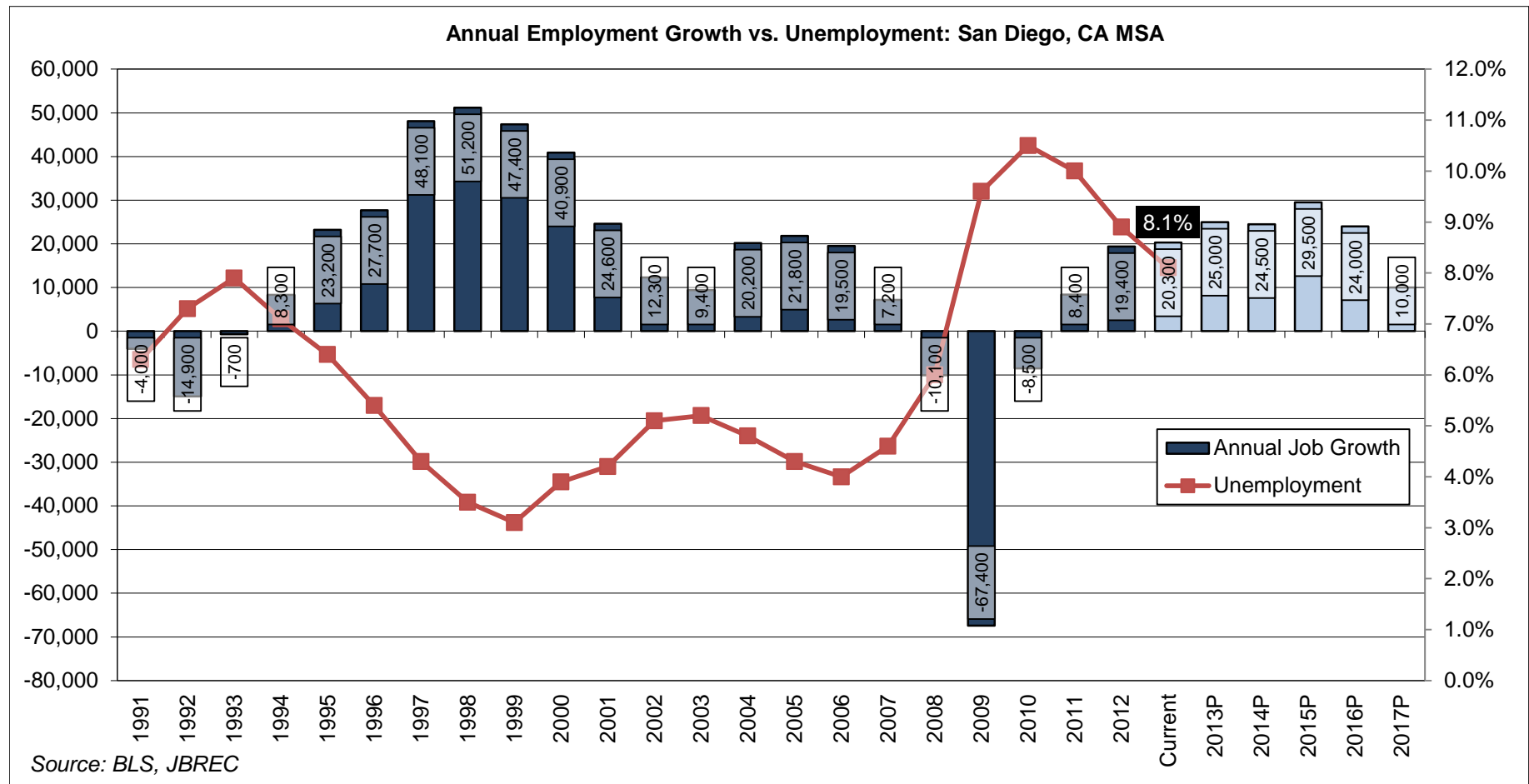
The housing market fundamentals in San Diego have improved significantly from historical lows in 2008, driven by improvement in demand, supply and affordability conditions. Improving fundamentals are a precursor to price appreciation.



- Our Housing Cycle Risk Index, which has historically been a one- to two-year leading indicator for home price appreciation, shows that San Diego's housing market fundamentals are improving from relatively flat levels in 2010 through 2011. The Housing Cycle Risk Index – which measures the health of the San Diego housing market based on the performance of 24 market fundamentals – had improved from historically low levels in 2008, and is currently at a “B+”, stemming from improvements in the demand, supply and affordability fundamentals. The supply fundamentals in San Diego are particularly favorable with a very low level of resale listings on the market, and permit levels that are relatively low in comparison to the market's history.



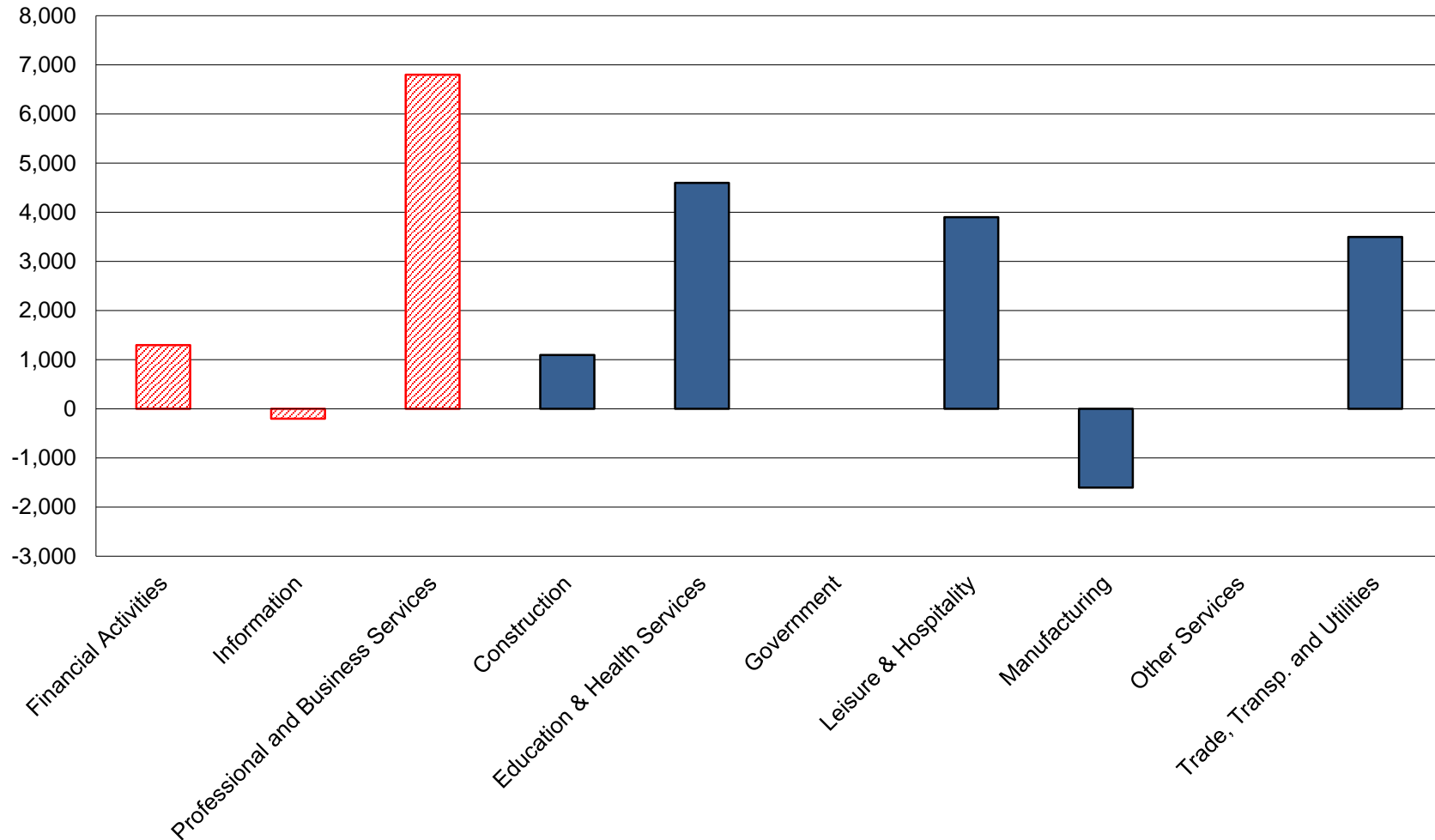
Employment growth is the primary driver for recovery, and growth is positive and continues to rise, which is helping to spur housing demand in the San Diego market. Jobs are expected to grow at an average rate of 1.7% per year through 2017, and unemployment is dropping.



Employment History & Projections	2007	2008	2009	2010	2011	2012	Current	2013P	2014P	2015P	2016P	2017P
Wage & Salary Employment Total	1,308,800	1,298,700	1,231,300	1,222,800	1,231,200	1,250,600	1,271,300	1,275,600	1,300,100	1,329,600	1,353,600	1,363,600
1-Year Change	7,200	-10,100	-67,400	-8,500	8,400	19,400	20,300	25,000	24,500	29,500	24,000	10,000
1-Year Growth Rate	0.6%	-0.8%	-5.2%	-0.7%	0.7%	1.6%	1.6%	2.0%	1.9%	2.3%	1.8%	0.7%
Unemployment Rate	4.6%	6.0%	9.6%	10.5%	10.0%	8.9%	8.1%					

The higher-income job sectors, which comprise approximately 25% of San Diego's employment base, grew at a combined rate of 2.6% in 2012 – higher than the 1.1% growth rate of the lower-income sectors. Professional and Business Services jobs lead all growth.

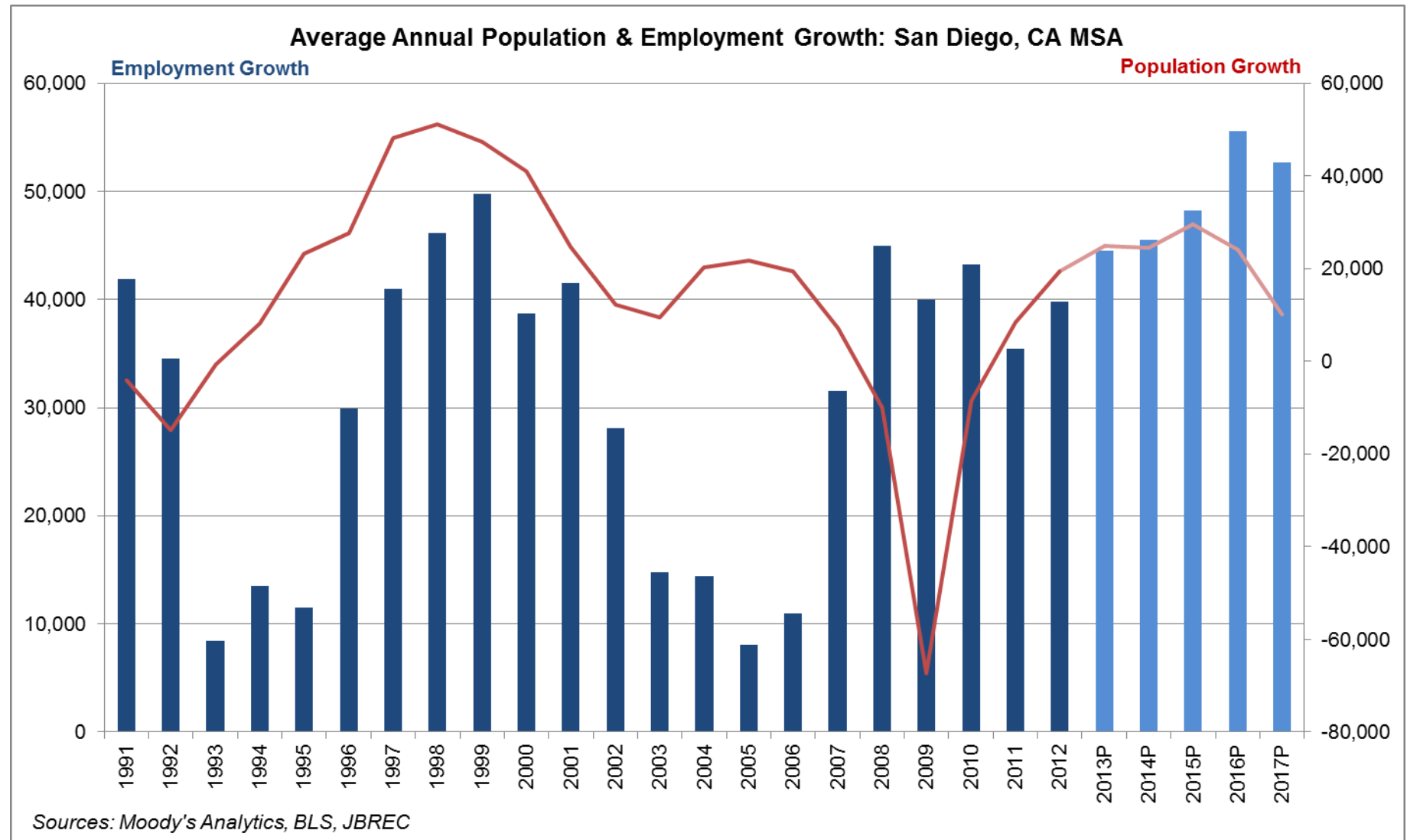
Current Growth by Sector: San Diego, CA MSA



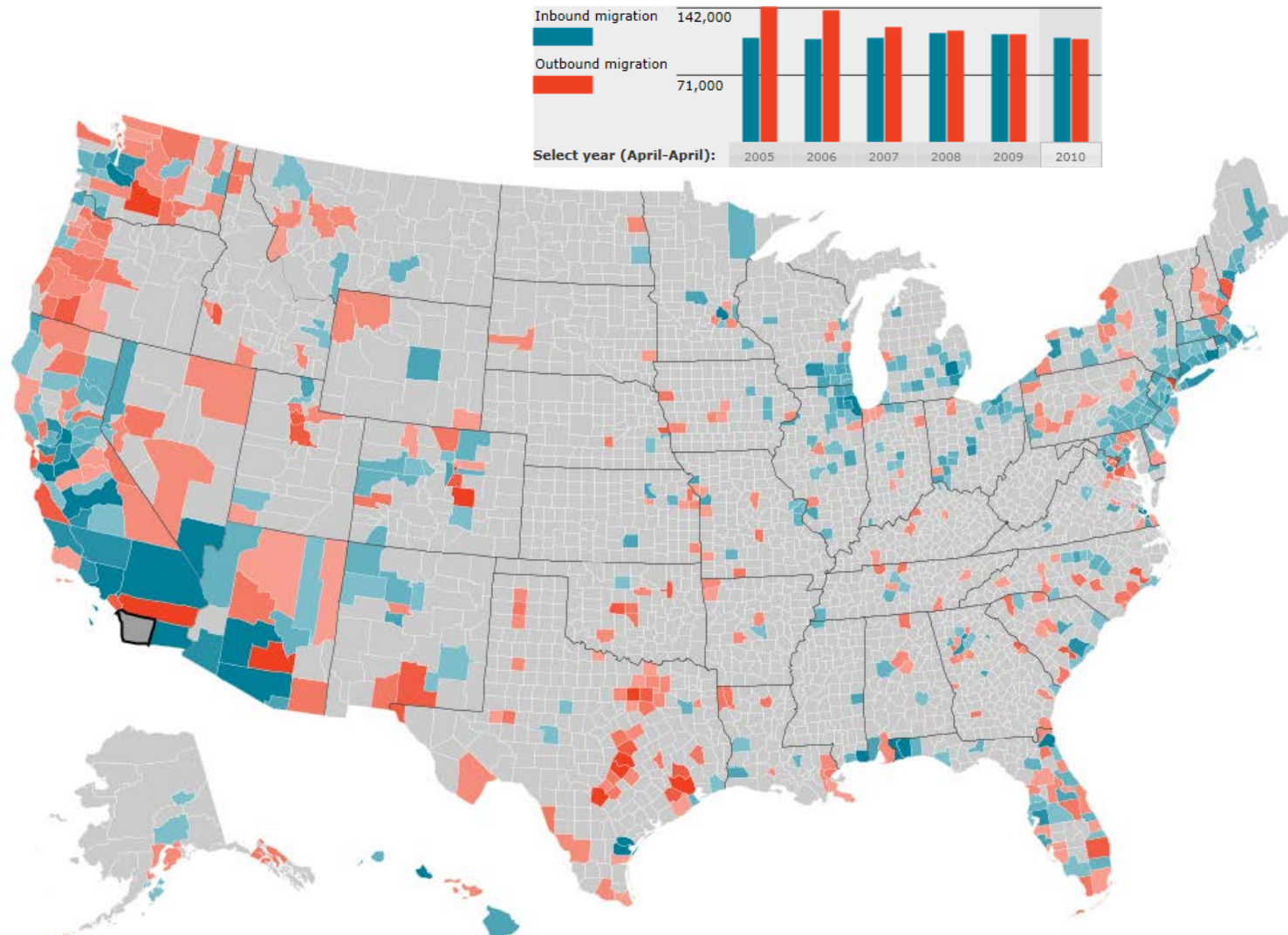
\*Red = High-Income Sectors; Blue = Other Sectors

Source: BLS, JBREC

San Diego's population is expected to grow at an average annual rate of 4.0% through 2016, adding between 44,000 and 56,000 people annually. This growth is improved from very low levels during 2005 to 2006.



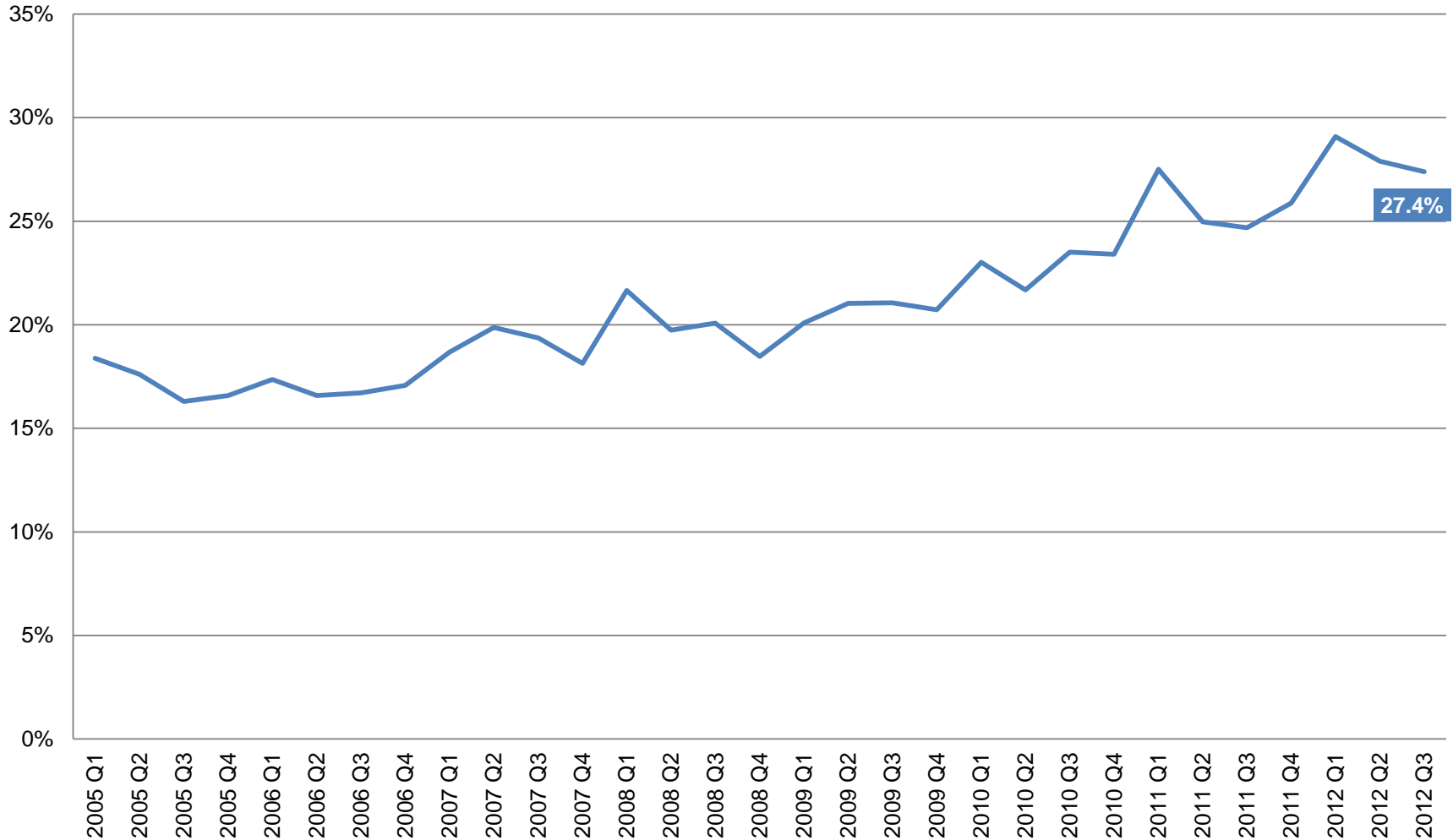
While inbound migration to San Diego has remained flat over the past few years, the number of people leaving the county has diminished from 2005 and 2006 levels. Recent inbound migration largely comes from Phoenix, Las Vegas, Central California, Chicago, the Northeast, as well as from Los Angeles and San Bernardino counties.



Source: Forbes.com, based on Internal Revenue Service data, 2010

Those seeking value in the more affordable areas of the market are contributing to increased levels of investor activity. Investors accounted for 27.4% of recent home sales in San Diego, compared to 16% in 2005.

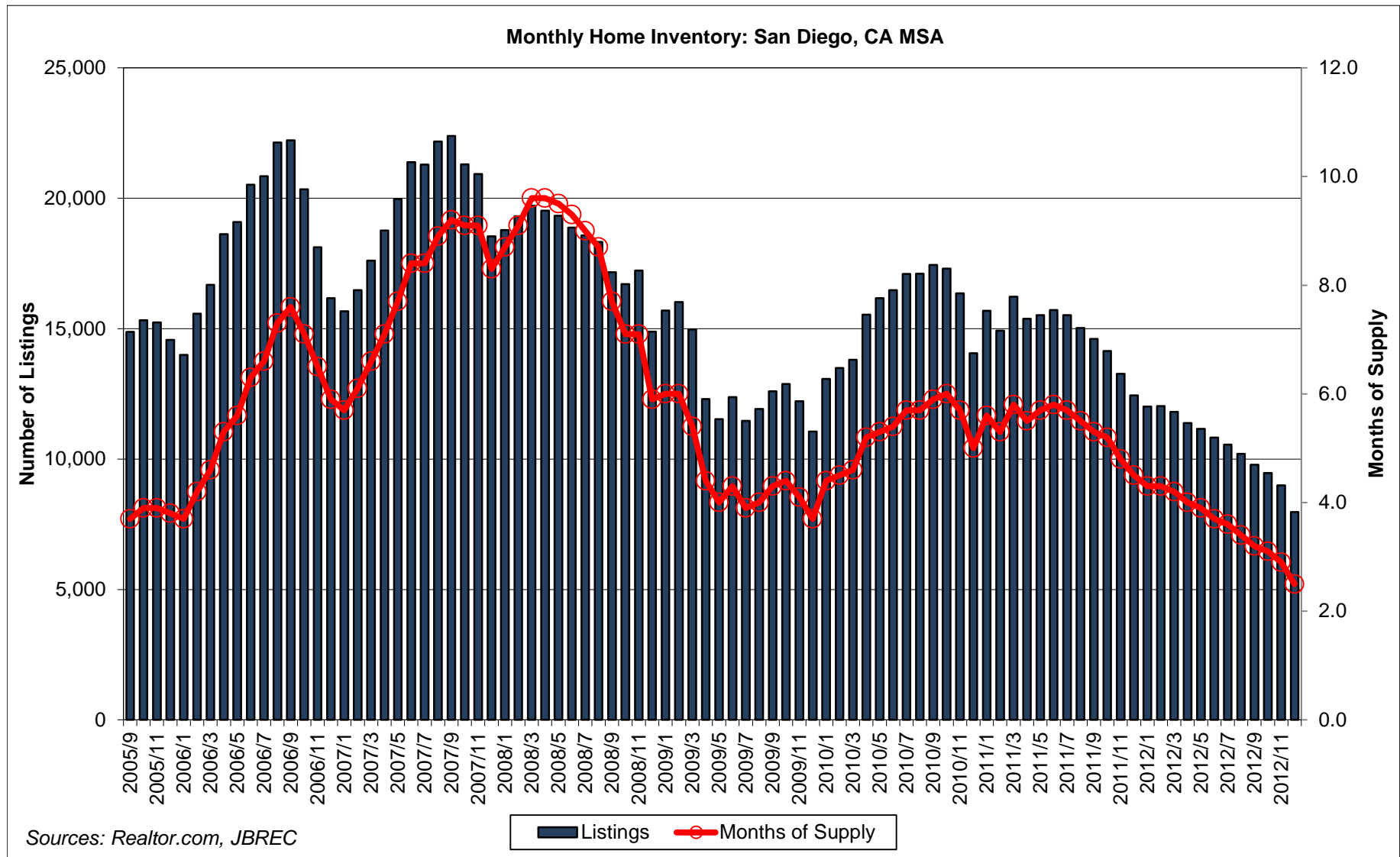
Percent of Investor Home Sales: San Diego, CA MSA



Source: DataQuick

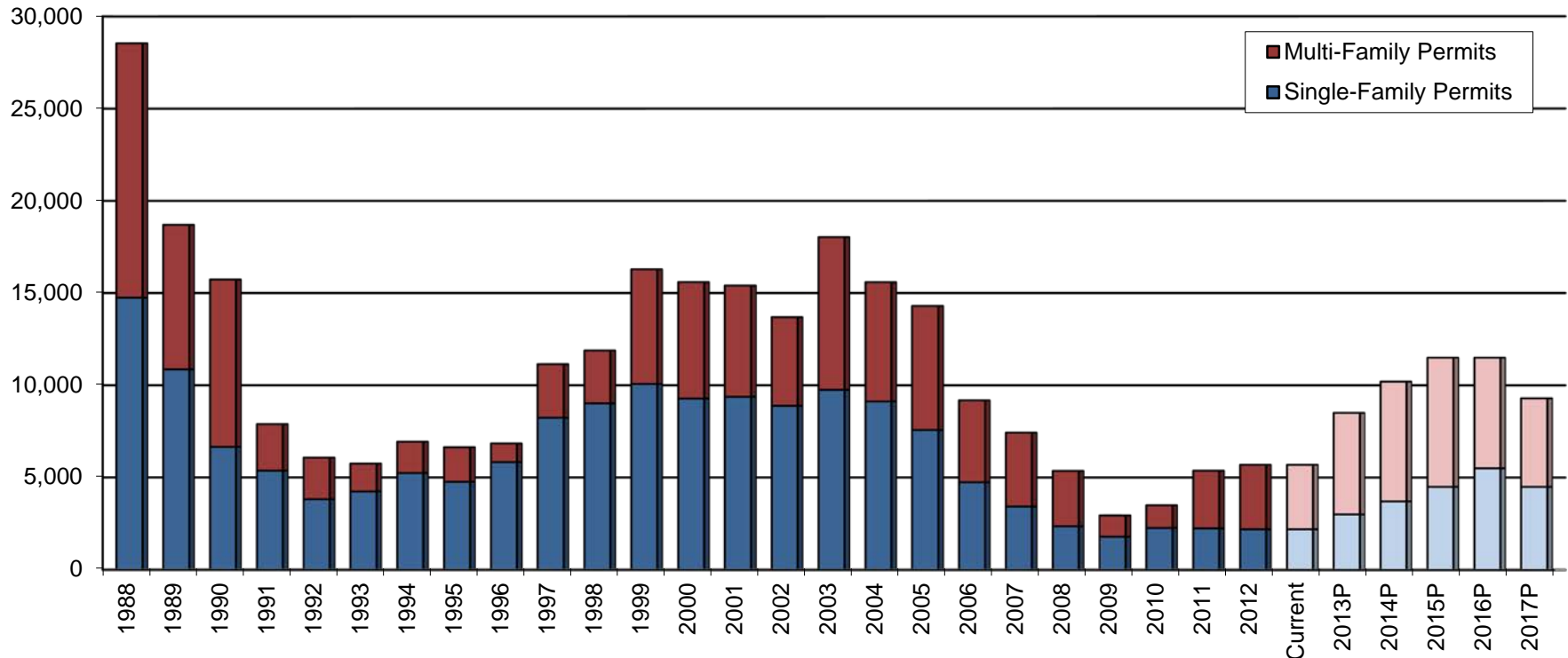


The supply of listings in San Diego has dropped to 2.5 months of supply as listings have declined to fewer than 8,000 homes on the market. By comparison, there were approximately 4.5 months of supply and nearly 12,500 listings one year ago.



Permit activity bottomed in 2009 and has nearly doubled as projects in primary submarkets continue to sell alongside recently opened communities. Multifamily permits represent a significant portion of that growth and should continue to grow through 2016.

**Residential Building Permit Issuances (12 Mo.): San Diego, CA MSA**

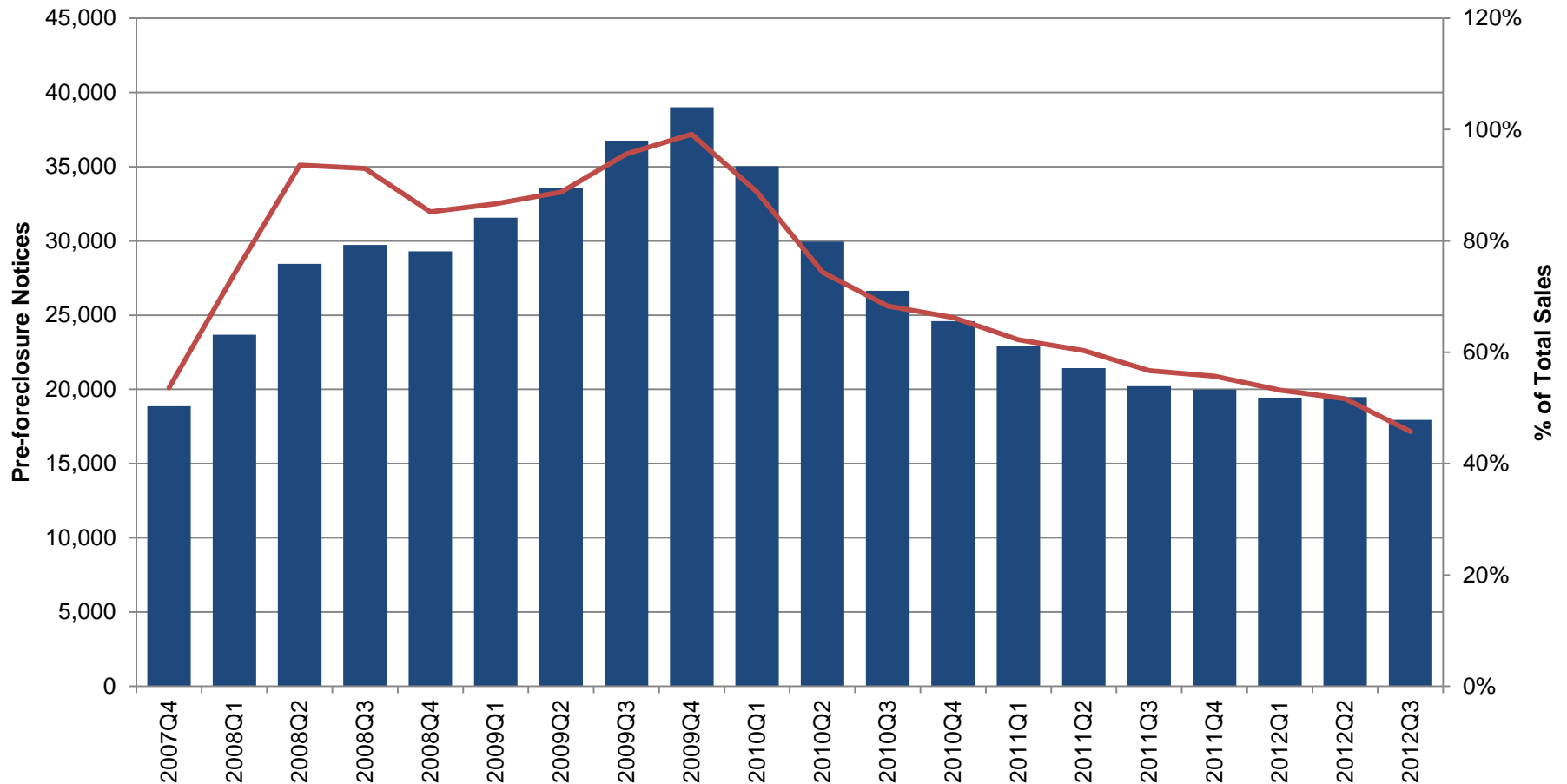


Source: JBREC

Permit History & Projections	2007	2008	2009	2010	2011	2012	Current	2013P	2014P	2015P	2016P	2017P
Single-Family Permits (12 mos.)	3,422	2,361	1,778	2,270	2,245	2,198	2,198	3,000	3,700	4,500	5,500	4,500
1-Year Growth Rate	-28%	-31%	-25%	28%	-1%	-2%	-2%	36%	23%	22%	22%	-18%
Multifamily Permits	4,013	2,996	1,168	1,224	3,125	3,489	3,489	5,500	6,500	7,000	6,000	4,800
1-Year Growth Rate	-10%	-25%	-61%	5%	155%	12%	12%	58%	18%	8%	-14%	-20%
Total Permits	7,435	5,357	2,946	3,494	5,370	5,687	5,687	8,500	10,200	11,500	11,500	9,300
1-Year Growth Rate	-19%	-28%	-45%	19%	54%	6%	6%	49%	20%	13%	0%	-19%

Pre-foreclosure notices, which are a sign of future distress, have declined from high levels in the San Diego MSA. There were approximately 66% as many pre-foreclosure notices issued in over the last year as there were total home sales.

**Pre-Foreclosure Notices - 12-Month Rolling Total and % of Total Sales  
San Diego, CA MSA**



Sources: DataQuick, JBREC

San Diego has approximately 6.1 months of supply of “shadow” inventory, or homes not currently on the market and in one form of distress that we believe will be eventually liquidated/sold. Months of shadow inventory has trended down significantly in recent years.

San Diego, CA Shadow Inventory				
Category	Estimated # of Delinquent Loans in Metro <sup>2</sup>	Shadow Inventory <sup>4</sup> (based on liquidation probabilities)		
		Upside Scenario <sup>1</sup>	Base Case <sup>1</sup>	Downside Scenario <sup>1</sup>
In Foreclosure	8,230	5,761	<b>6,584</b>	7,407
90+ Days	11,625	7,556	<b>8,719</b>	9,881
60 Days	3,955	1,978	<b>2,373</b>	2,769
30 Days	9,308	2,792	<b>3,723</b>	4,654
Total	33,118	18,087	<b>21,399</b>	24,711
Less: Distressed Units already listed on MLS <sup>5</sup>		(1,174)	(1,174)	(1,174)
<b>Shadow Inventory<sup>4</sup></b>		<b>16,913</b>	<b>20,225</b>	<b>23,537</b>
Plus: Current MLS Listings		7,969	<b>7,969</b>	7,969
Total Supply		24,882	28,194	31,506
Months of Supply - Shadow		5.1	<b>6.1</b>	7.1
Months of Supply - MLS		2.4	2.4	2.4
Total Months of Supply		7.5	<b>8.5</b>	9.5
Total Metro Mortgages <sup>3</sup> :		459,459		
10-yr Avg Annual Metro Resale Sales:		39,863		

1 - Liquidation probability scenarios were based on a study of probabilities used by leading credit analysts and analysis of county records data

2 - Total Metro Mortgages X Estimated Metro Delinquency %

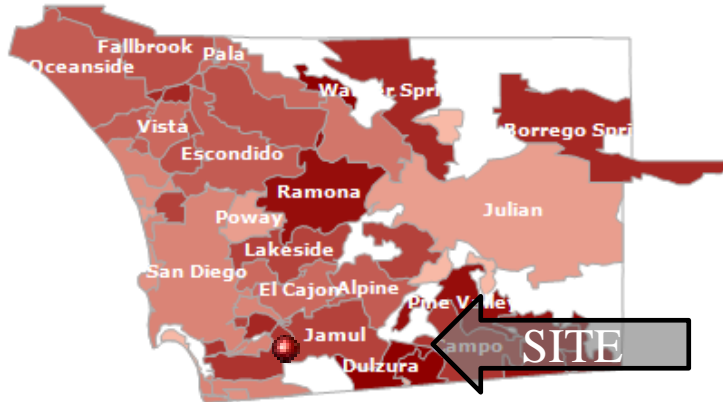
3 - Estimate of total mortgages, adjusted from the 2008-2010 American Community Survey (Census)

4 - # of currently distressed properties that will ultimately become supply

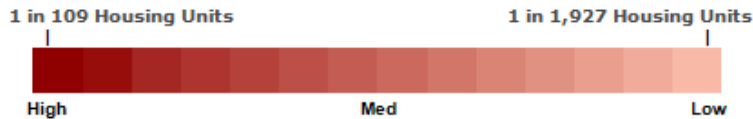
5 - Assumed that U.S. distressed listings as % of total listings was 26% (same as % distressed sales, then adjusted that % based on differential between metro total mortgage delinquency and U.S. total mortgage delinquency)

The rate of foreclosure activity in the subject site zip code is lower than in San Diego County and one-half the state average, which is beneficial to home prices in this location. The majority of current foreclosure activity is concentrated in south San Diego County, and further inland from the subject site.

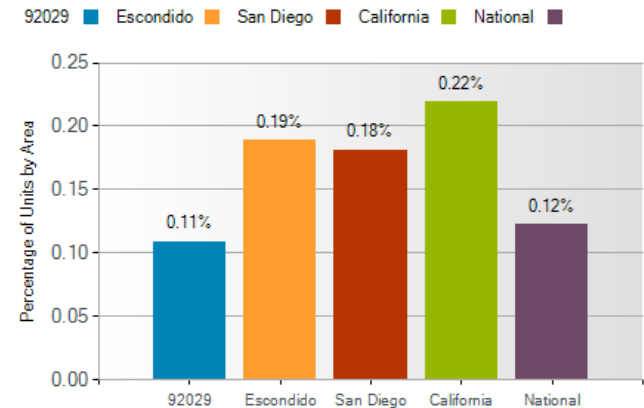
December 2012 Foreclosure Rate Heat Map



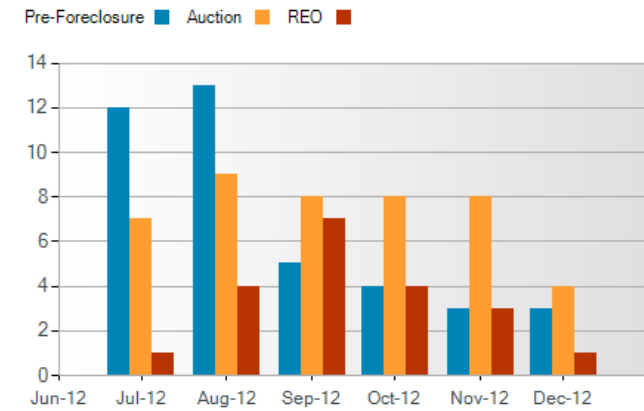
Foreclosure Actions to Housing Units



Geographical Comparison - 92029

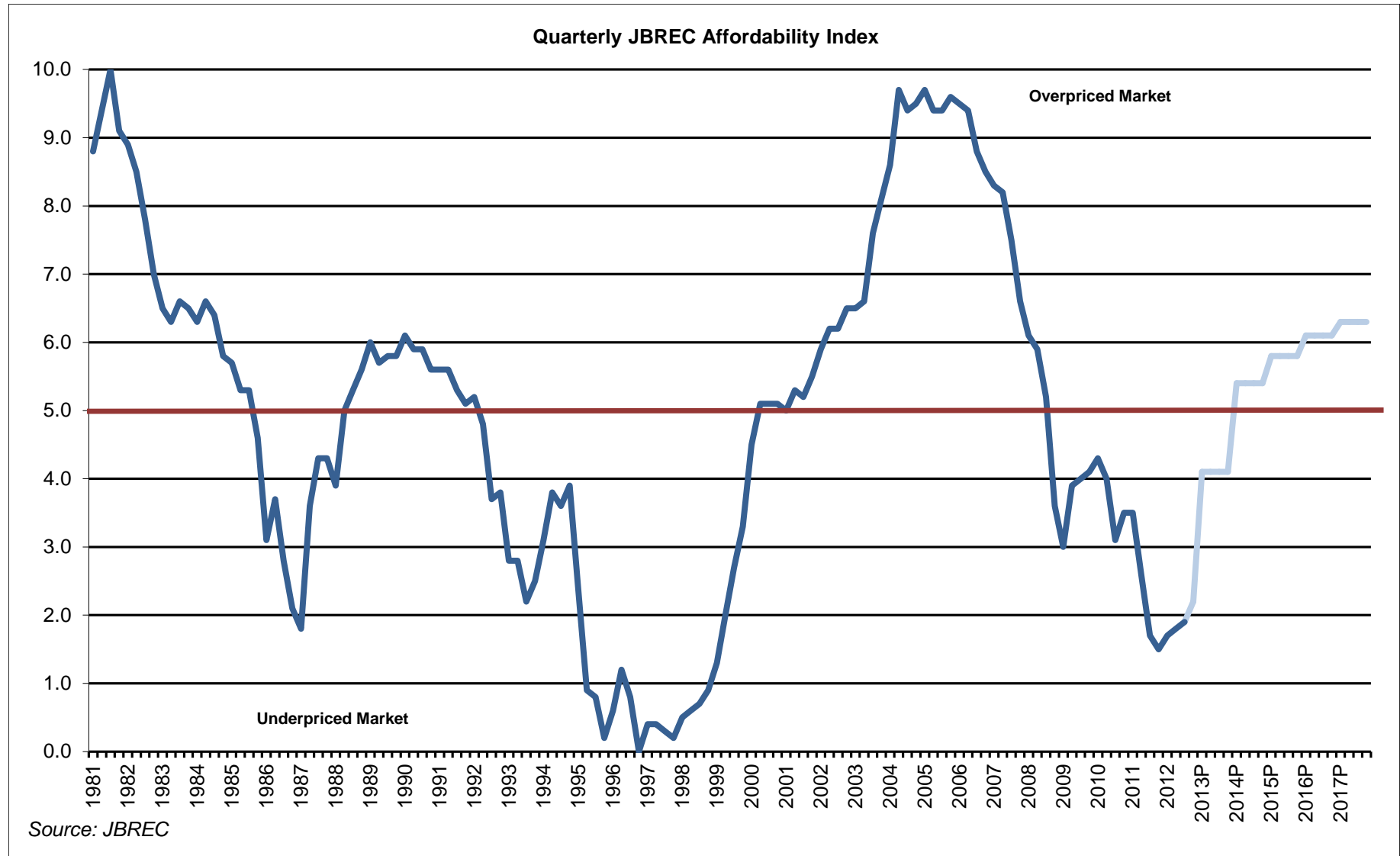


Foreclosure Activity by Month - 92029



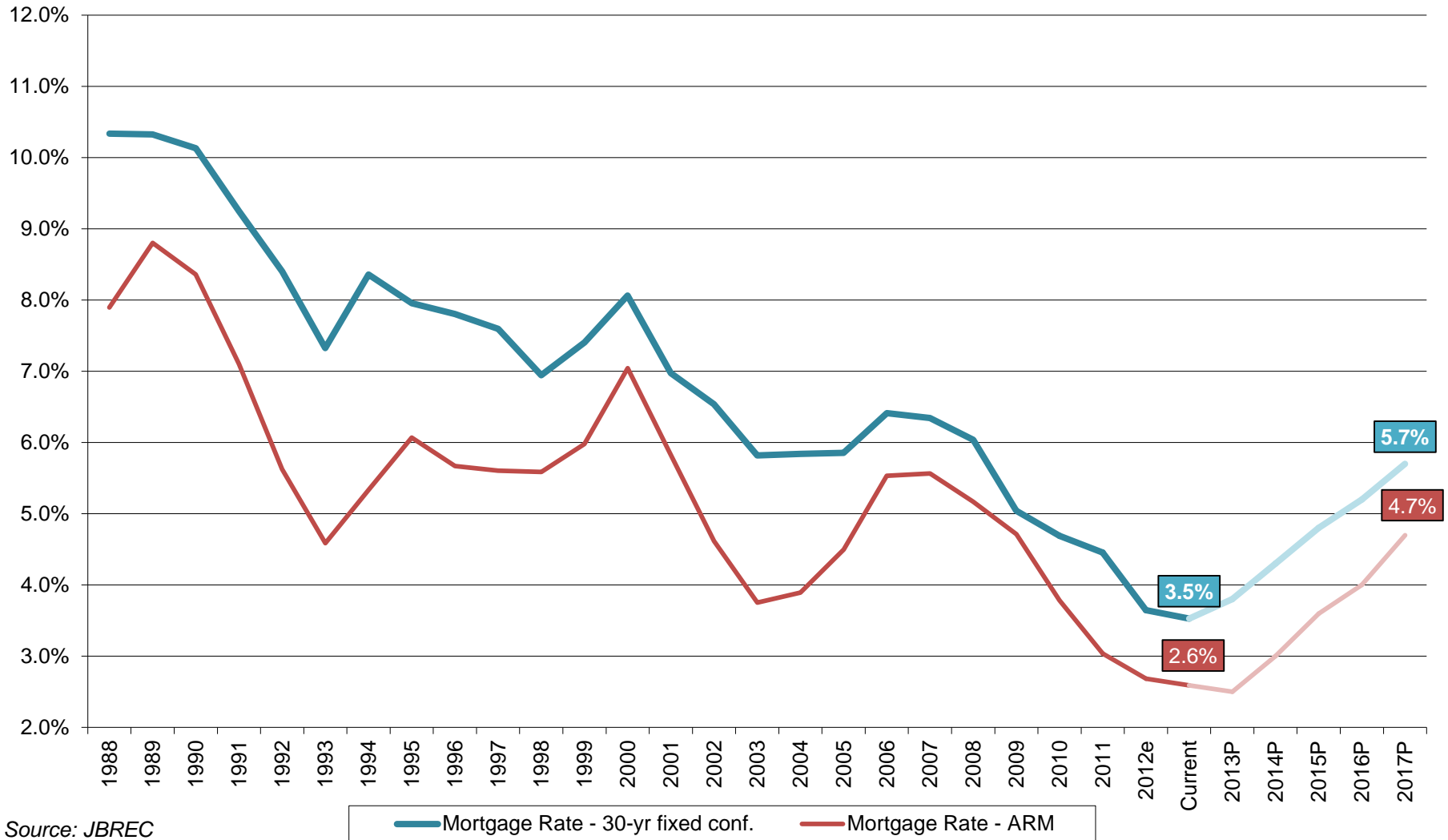


Affordability conditions – the relationship of housing costs to incomes – are much better than their long-term historical median and significantly improved from the 2005-2007 period. Affordability conditions should weaken, however, as prices and mortgage rates rise.



Current mortgage rates are the lowest on record, with the 30-year fixed rate hovering around 3.5% and the 1-year ARM near 2.6%. Although rising rates over the next several years are likely to remain low in comparison to history, they will impact affordability negatively.

**Average Annual Mortgage Interest Rates**





## Supply

- Listings and Months of Supply Down
- Permit Activity Up
- Foreclosures Trending Down



## Demand

- Job Growth Up
- Jobs Growth in High-Income Sectors
- Unemployment Trending Down



## Affordability

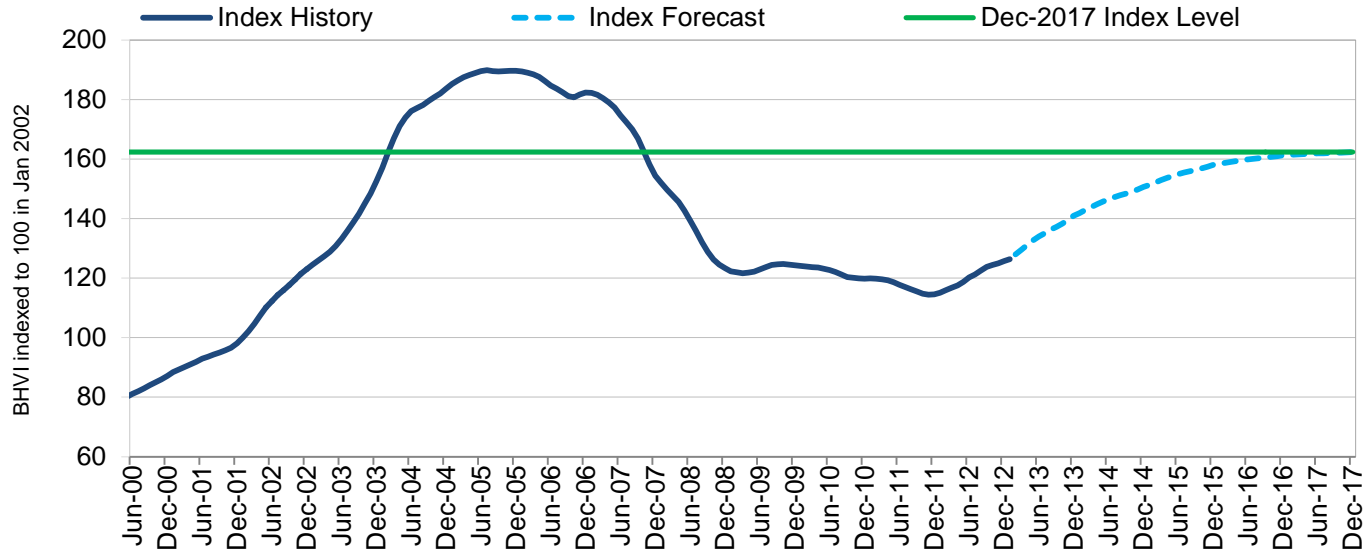
- Mortgage Rates are Low
- Median Housing Cost is Great Compared to Median Income



Price

The Burns Home Value Index, which measures housing value trends for the entire market, and not just recent home transactions, calls for price appreciation in the San Diego MSA that ranges from 11.2% in 2013 to 1.2% in 2017. By the end of 2017, the index suggest home values will be back to levels consistent with late 2007.

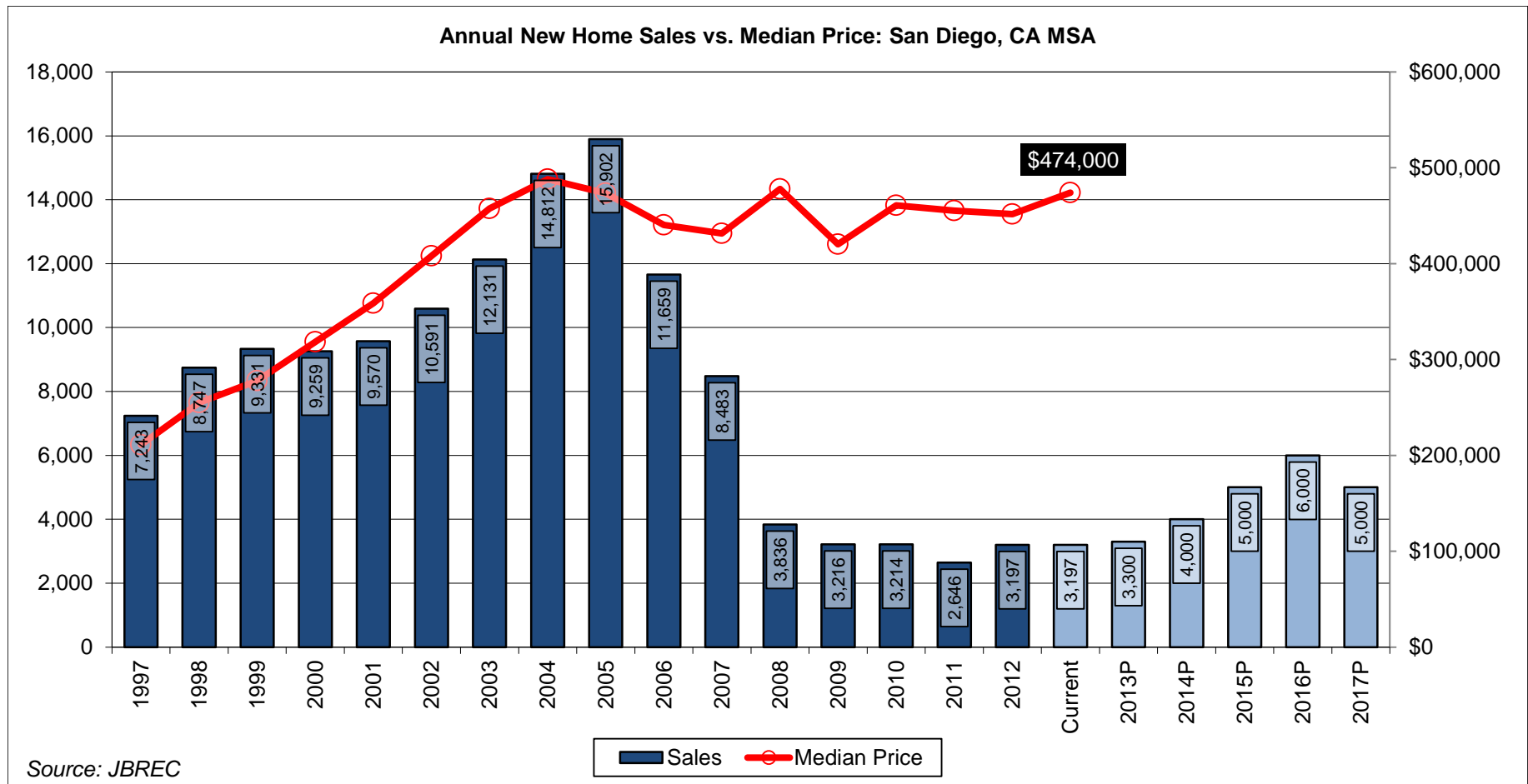
## Burns Home Value Index™ (2000 to 2017) San Diego, CA



Source: John Burns Real Estate Consulting (Data: Jan/13, Pub: Feb/13)

	2013P	2014P	2015P	2016P	2017P
Burns Home Value Index Growth	11.2%	9.3%	5.7%	3.2%	1.2%

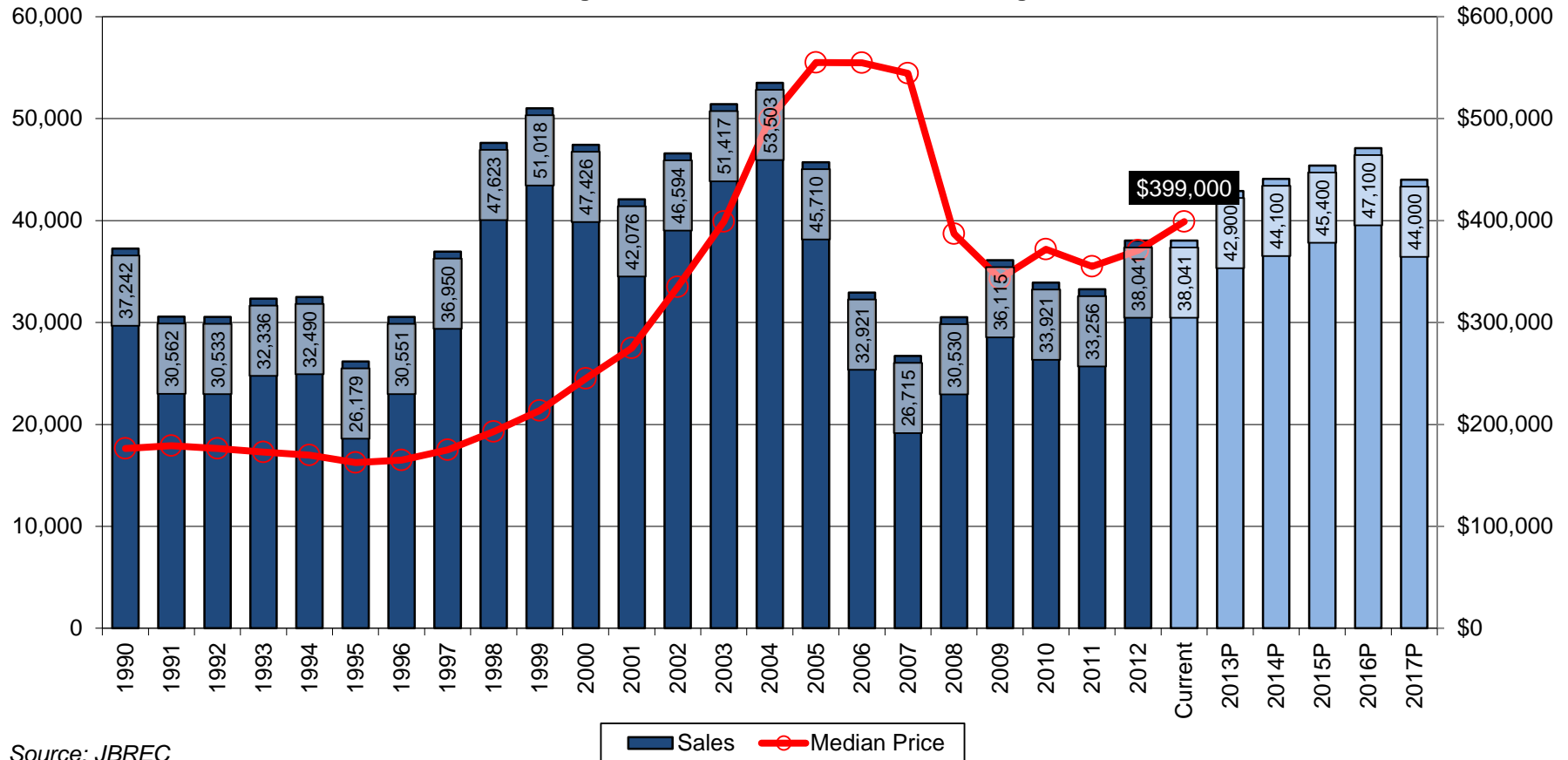
New home sales are forecasted to rise as demand improves and more new home supply comes to the market, but will remain relatively low in comparison to history. New home sales are expected to reach 6,000 sales in 2016 from a trough of fewer than 2,700 sales in 2011.



New Home History & Projections	2007	2008	2009	2010	2011	2012	Current	2013P	2014P	2015P	2016P	2017P
Annualized New Home Sales	8,483	3,836	3,216	3,214	2,646	3,197	3,197	3,300	4,000	5,000	6,000	5,000
1-Year Growth Rate	-27%	-55%	-16%	0%	-18%	21%	21%	3%	21%	25%	20%	-17%
Median New Home Price	\$431,483	\$478,012	\$420,187	\$460,777	\$455,206	\$451,651	\$474,000					
1-Year Growth Rate	-2.0%	10.8%	-12.1%	9.7%	-1.2%	-0.8%	0.6%					

Existing home sales are rising, and are expected to reach 42,900 transactions in 2013 and to reach 47,100 transactions by 2016 – short of the peak levels in the early 2000s. The median existing home price is also rising following several years of bouncing along the bottom.

**Annual Existing Home Sales vs. Median Price: San Diego, CA MSA**

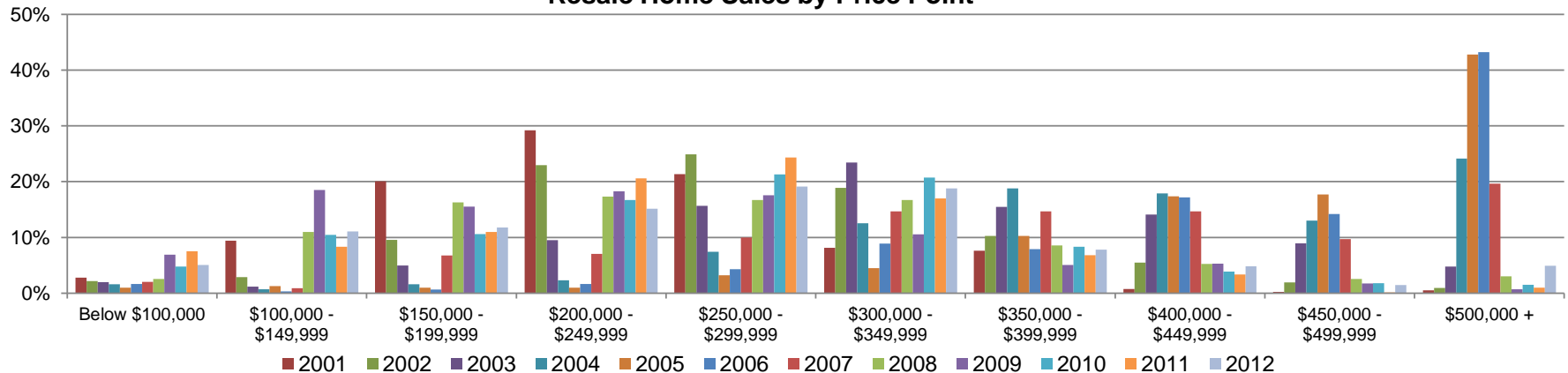


Resale Home History & Projections	2007	2008	2009	2010	2011	2012	Current	2013P	2014P	2015P	2016P	2017P
Annualized Resale Home Sales	26,715	30,530	36,115	33,921	33,256	38,041	38,041	42,900	44,100	45,400	47,100	44,000
1-Year Growth Rate	-19%	14%	18%	-6%	-2%	14%	14%	13%	3%	3%	4%	-7%
Median Resale Home Price	\$544,480	\$387,092	\$343,015	\$371,697	\$355,002	\$370,628	\$399,000					
1-Year Growth Rate	-1.8%	-28.9%	-11.4%	8.4%	-4.5%	4.4%	17.4%					

## RESALE SALES PRICE DISTRIBUTION – RANCHO SAN DIEGO SUBMARKET

Resale homes sales in Rancho San Diego submarket are concentrated in the \$200,000 to \$350,000 price range. Prices have shifted upwards since 2011, with transactions above \$350,000 accounting for 11% of sales in 2011 and 19% in 2012.

**Resale Home Sales by Price Point**



**SPRING VALLEY RESALE PRICE DISTRIBUTION**

Price Range	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Below \$100,000	3%	2%	2%	2%	1%	2%	2%	3%	7%	5%	8%	5%
\$100,000 - \$149,999	9%	3%	1%	1%	1%	0%	1%	11%	18%	10%	8%	11%
\$150,000 - \$199,999	20%	10%	5%	2%	1%	1%	7%	16%	15%	11%	11%	12%
\$200,000 - \$249,999	29%	23%	10%	2%	1%	2%	7%	17%	18%	17%	21%	15%
\$250,000 - \$299,999	21%	25%	16%	7%	3%	4%	10%	17%	18%	21%	24%	19%
\$300,000 - \$349,999	8%	19%	23%	13%	5%	9%	15%	17%	11%	21%	17%	19%
\$350,000 - \$399,999	8%	10%	15%	19%	10%	8%	15%	9%	5%	8%	7%	8%
\$400,000 - \$449,999	1%	6%	14%	18%	17%	17%	15%	5%	5%	4%	3%	5%
\$450,000 - \$499,999	0%	2%	9%	13%	18%	14%	10%	3%	2%	2%	0%	1%
\$500,000 +	1%	1%	5%	24%	43%	43%	20%	3%	1%	1%	1%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: DataQuick

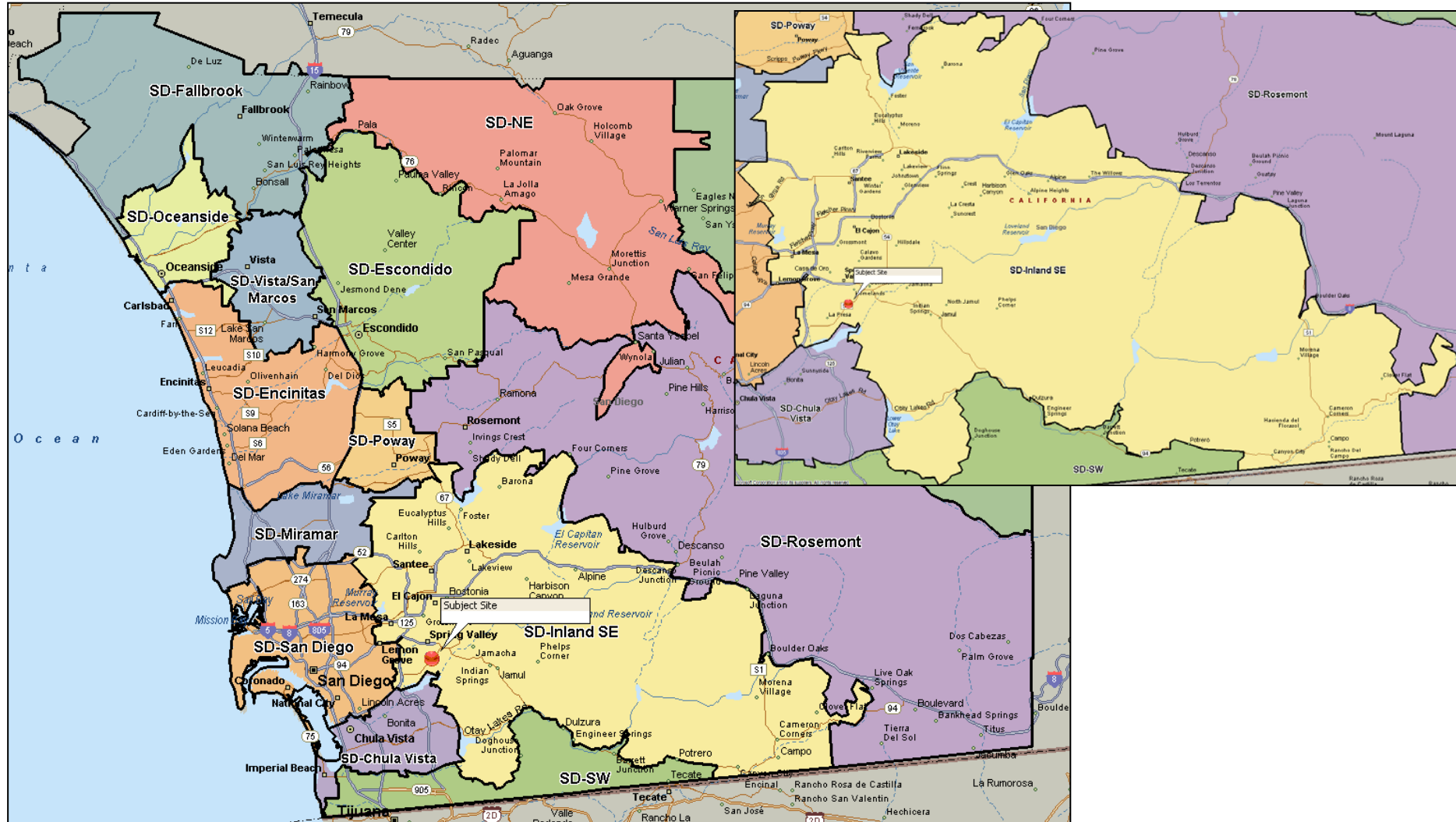
Subject area is defined by the following zip codes: 91976, 91977, 91978, and 91979





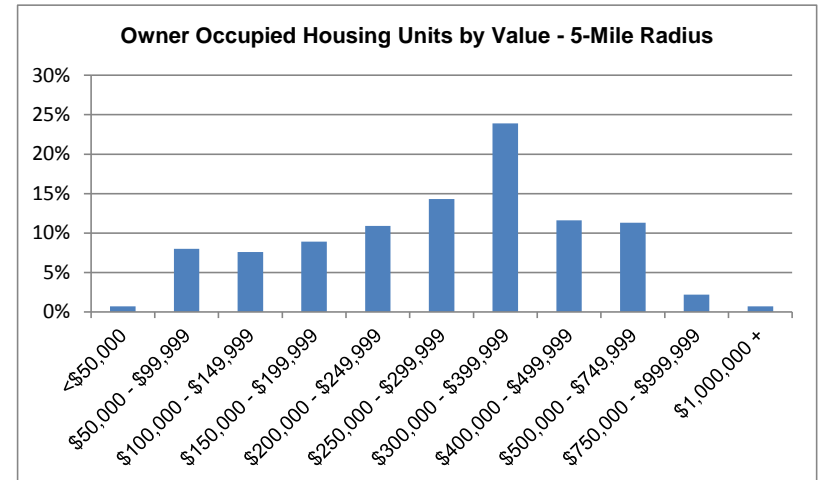
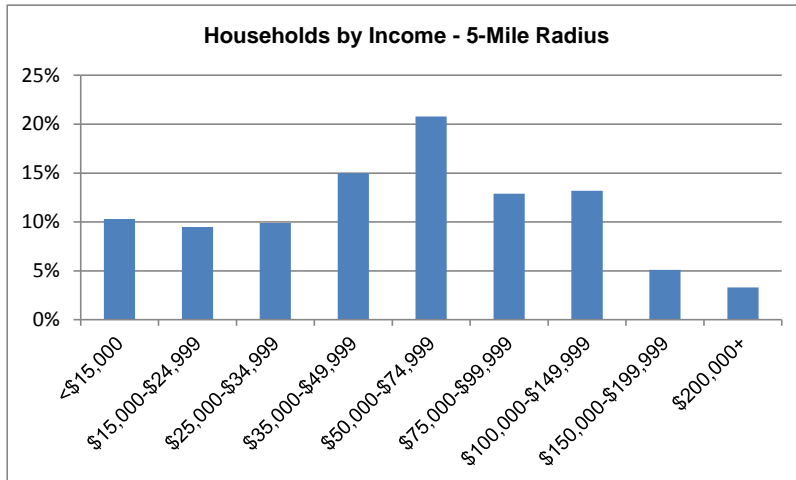
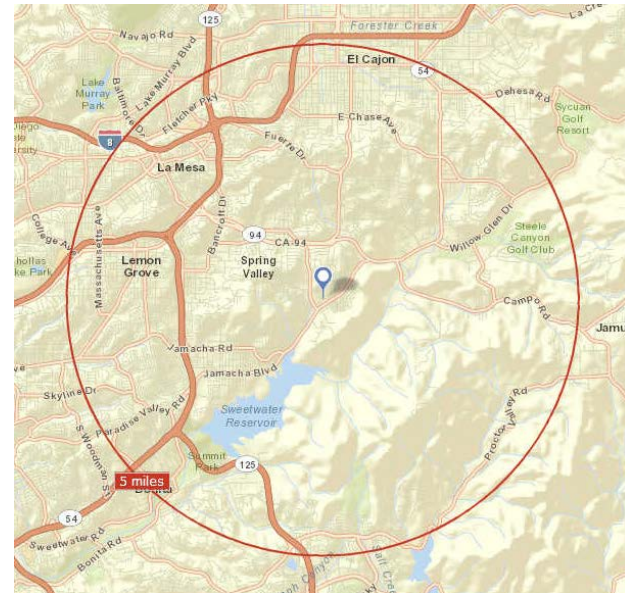
# SAN DIEGO MSA – SUBMARKET MAP

The subject site is located in Rancho San Diego, which is in the San Diego-Inland SE submarket, as defined by JBREC.



The following represents the key demographic statistics for 2012 for a 5-mile radius surrounding the subject site.

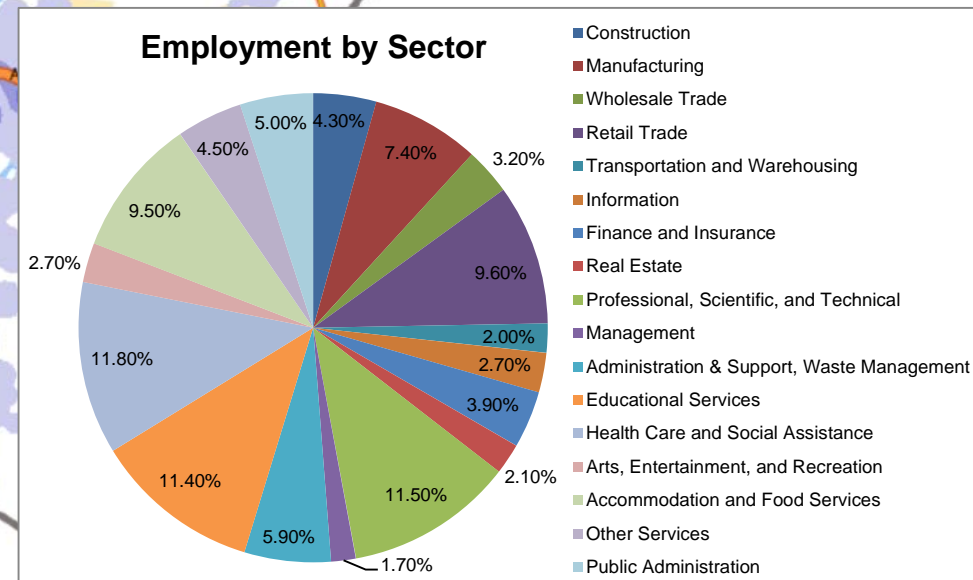
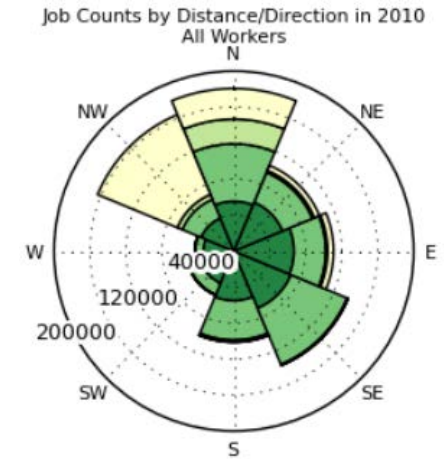
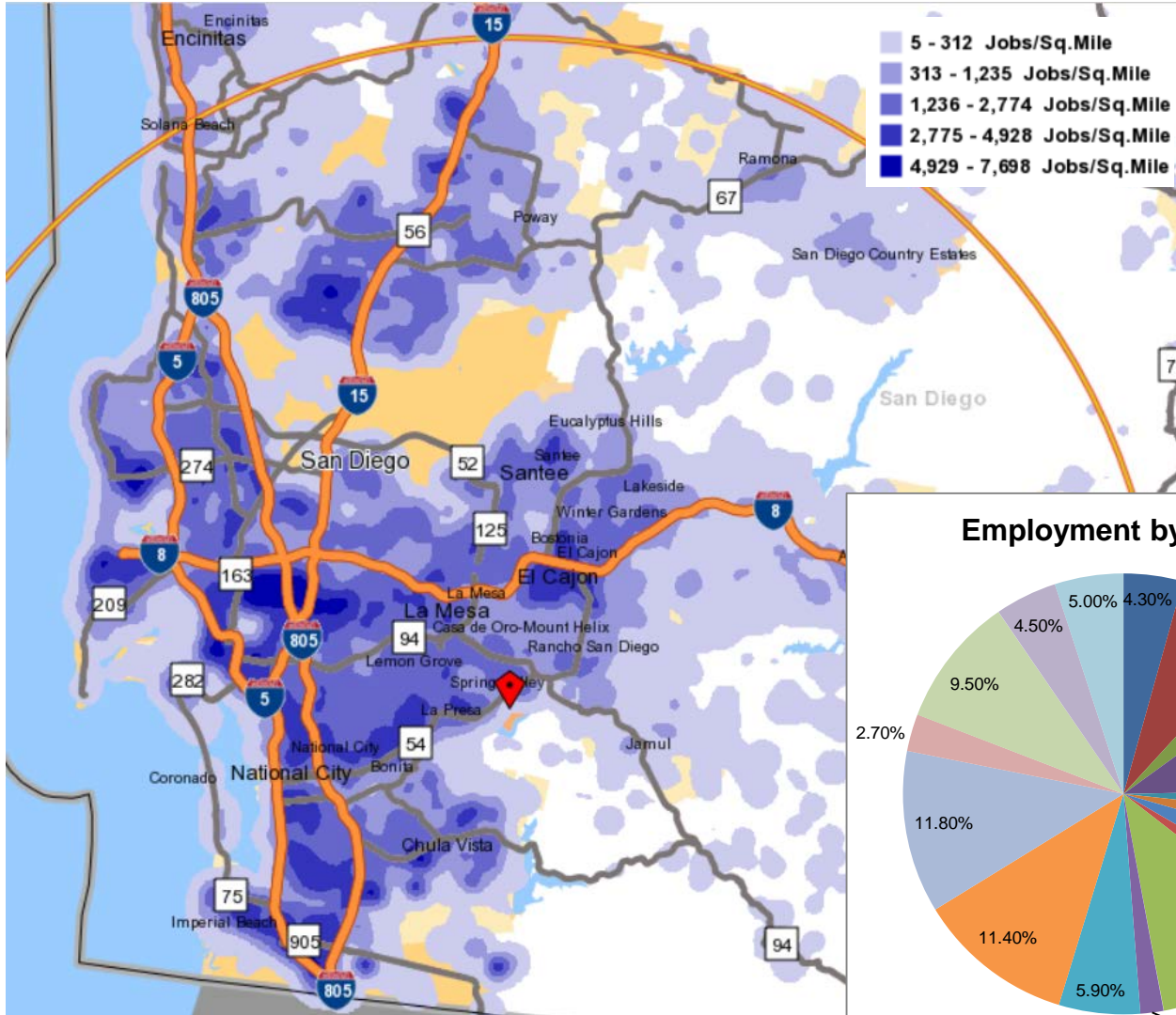
Population	285,495
Households	96,327
Average Household Size	2.93
Families	68,596
Average Family Size	3.40
Households with Children	38.9%
Median Household Income	\$54,563
Average Household Income	\$71,584
Median Age	35.8



Source: ESRI

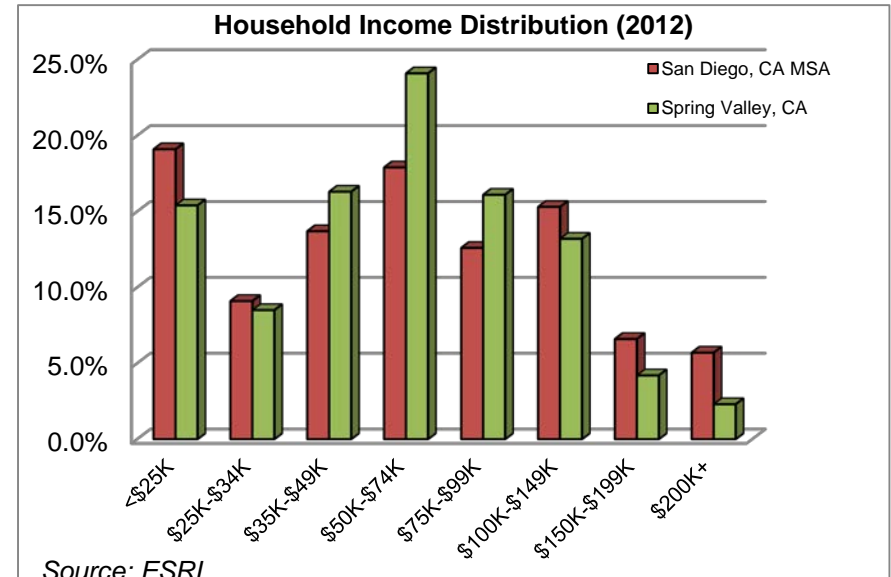
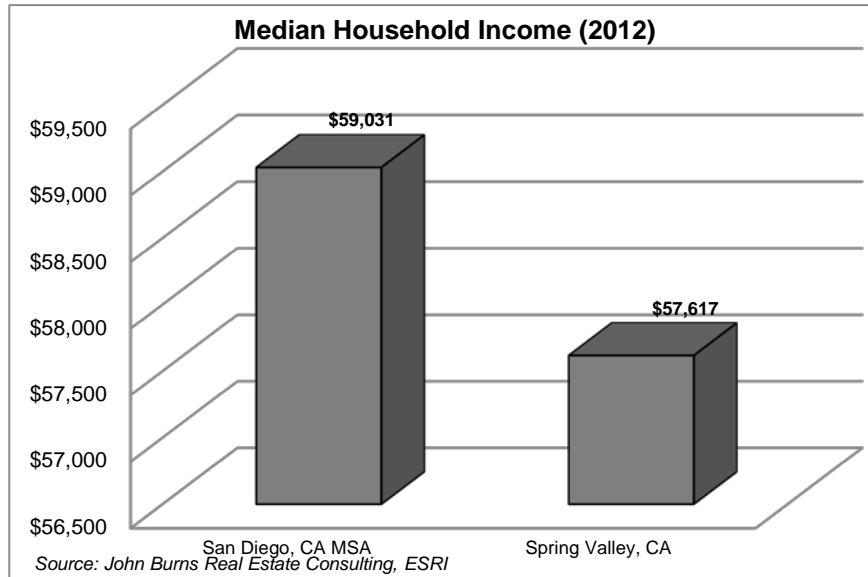
## EMPLOYMENT CONCENTRATION

There are 893,430 primary jobs within a 25-mile radius of the subject site, 46.7% of which are located within a 10-mile radius. Jobs are concentrated to the west in National City and downtown San Diego and to the north in the city of El Cajon. Primary sectors include: Retail Trade, Health Care and Social Assistance, Professional, Scientific, and Technical Services, as well as Educational Services.



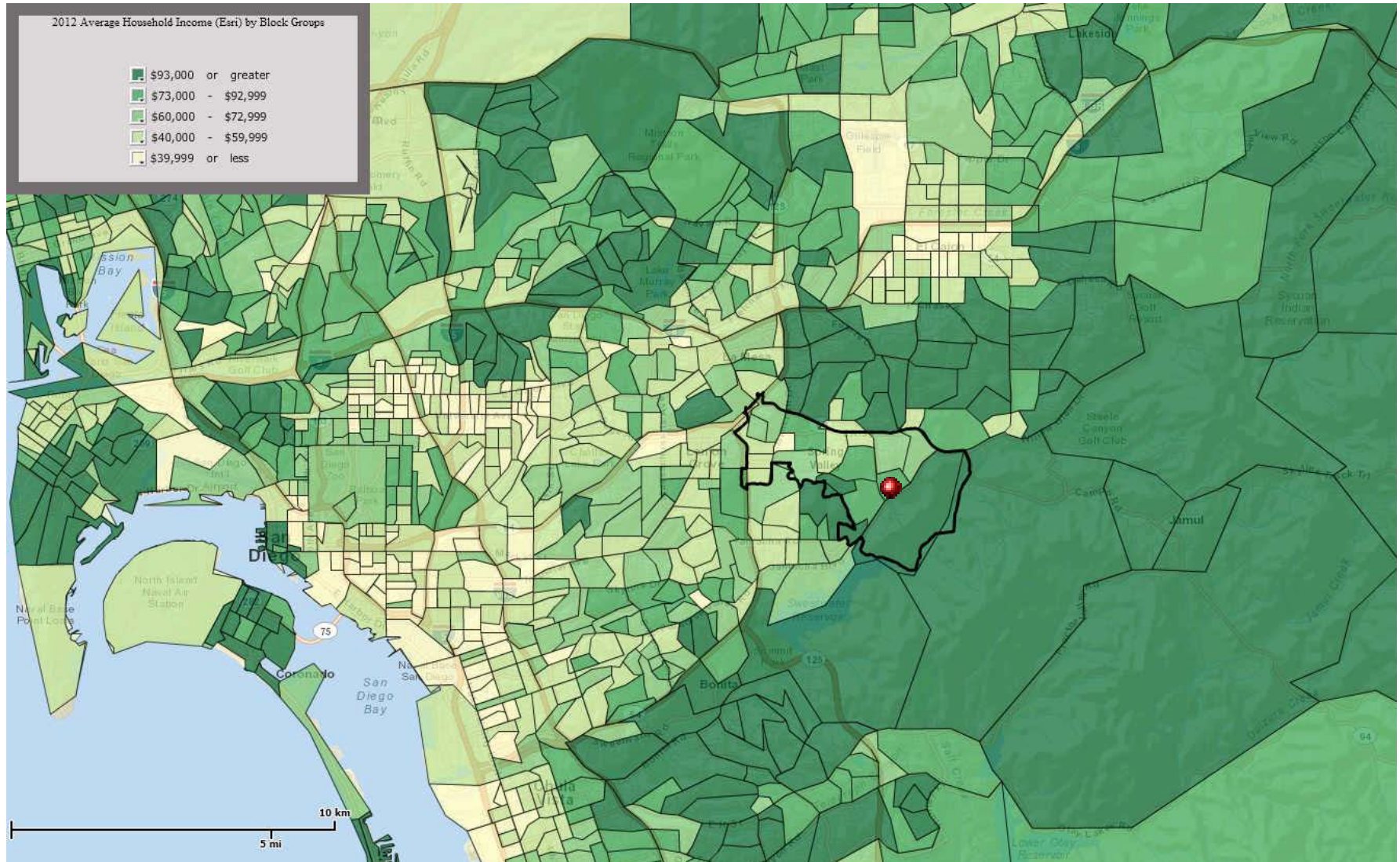
Source: [onthemap.ces.census.gov](http://onthemap.ces.census.gov)

Incomes in Rancho San Diego/Spring Valley are \$57,617 – slightly below that of the San Diego MSA. It also has a lower share of incomes above \$100k than the MSA as a whole, with only 19.7% of households earning this amount or more.





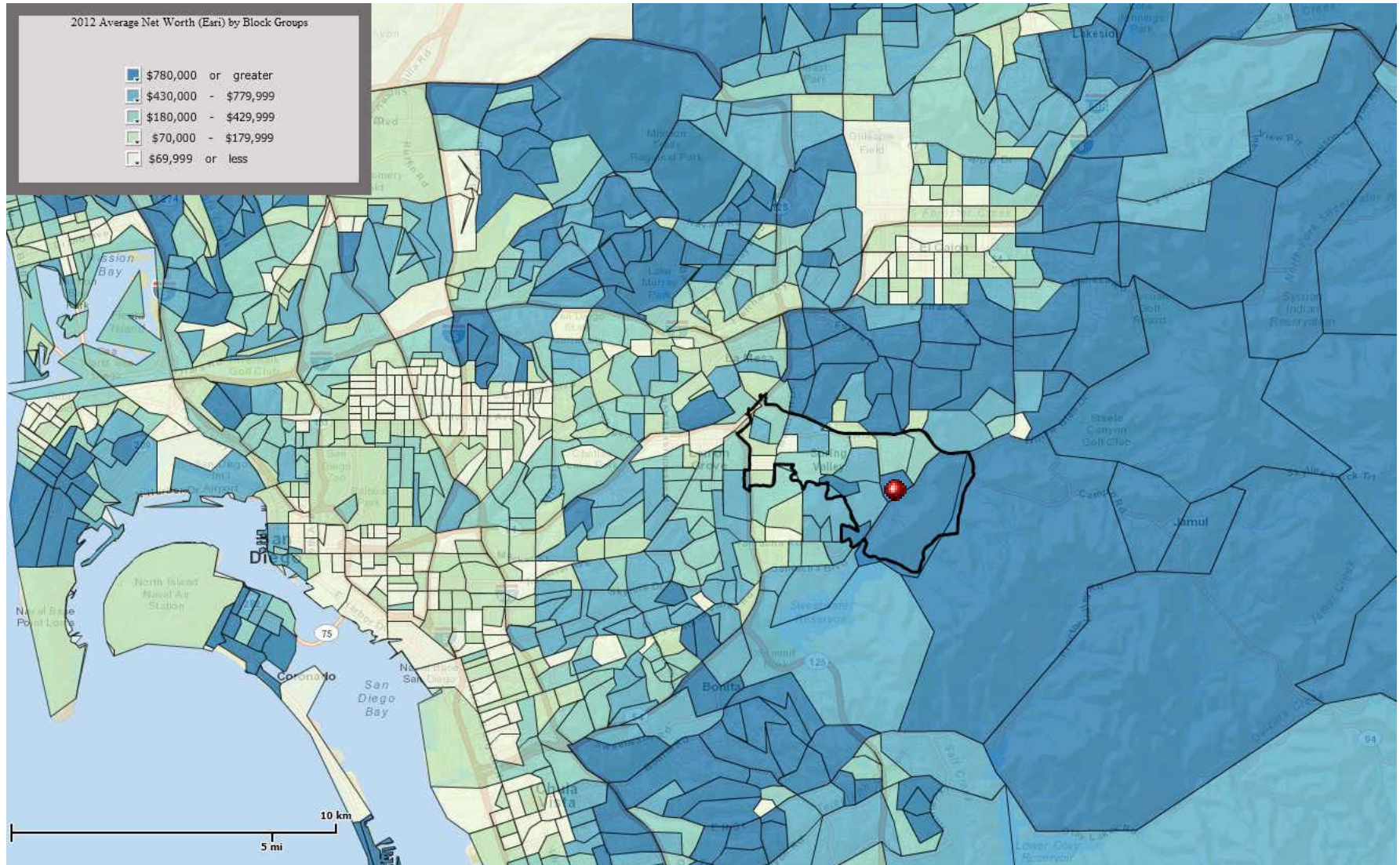
The average household income for the subject site's census block is higher than the county average. Incomes decrease to the west of Rancho San Diego and increase immediately to the east.



Source: ESRI



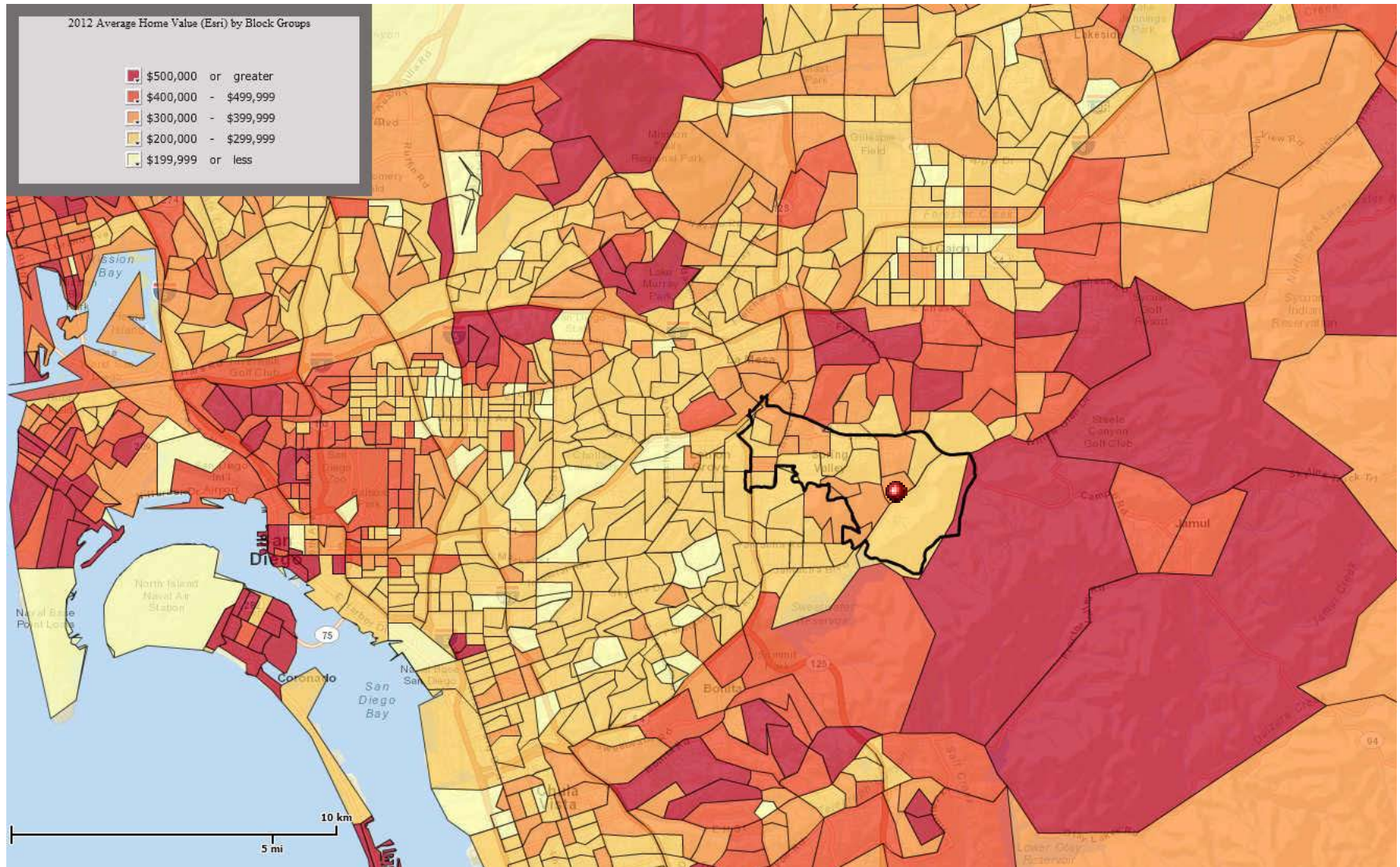
Average net worth in Rancho San Diego is highest on the eastern boundary of the city, near the subject site. Similar to income, net worth decreases to the west of Rancho San Diego and increases to the east.



Source: ESRI

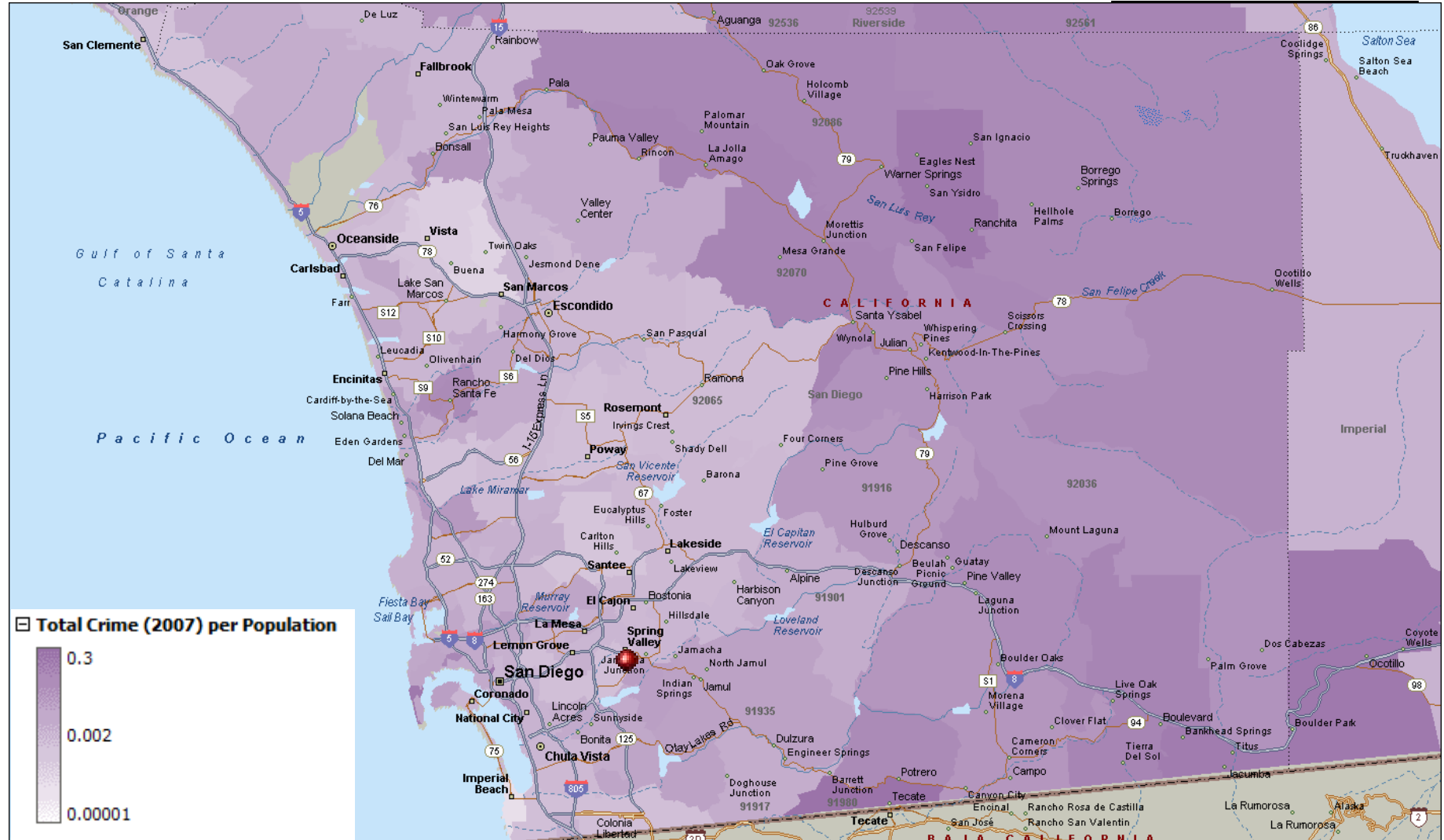


Average home values near the subject site are between \$300,000 and \$399,999. Home values decrease to the west of Rancho San Diego and increase to the east.



Source: ESRI

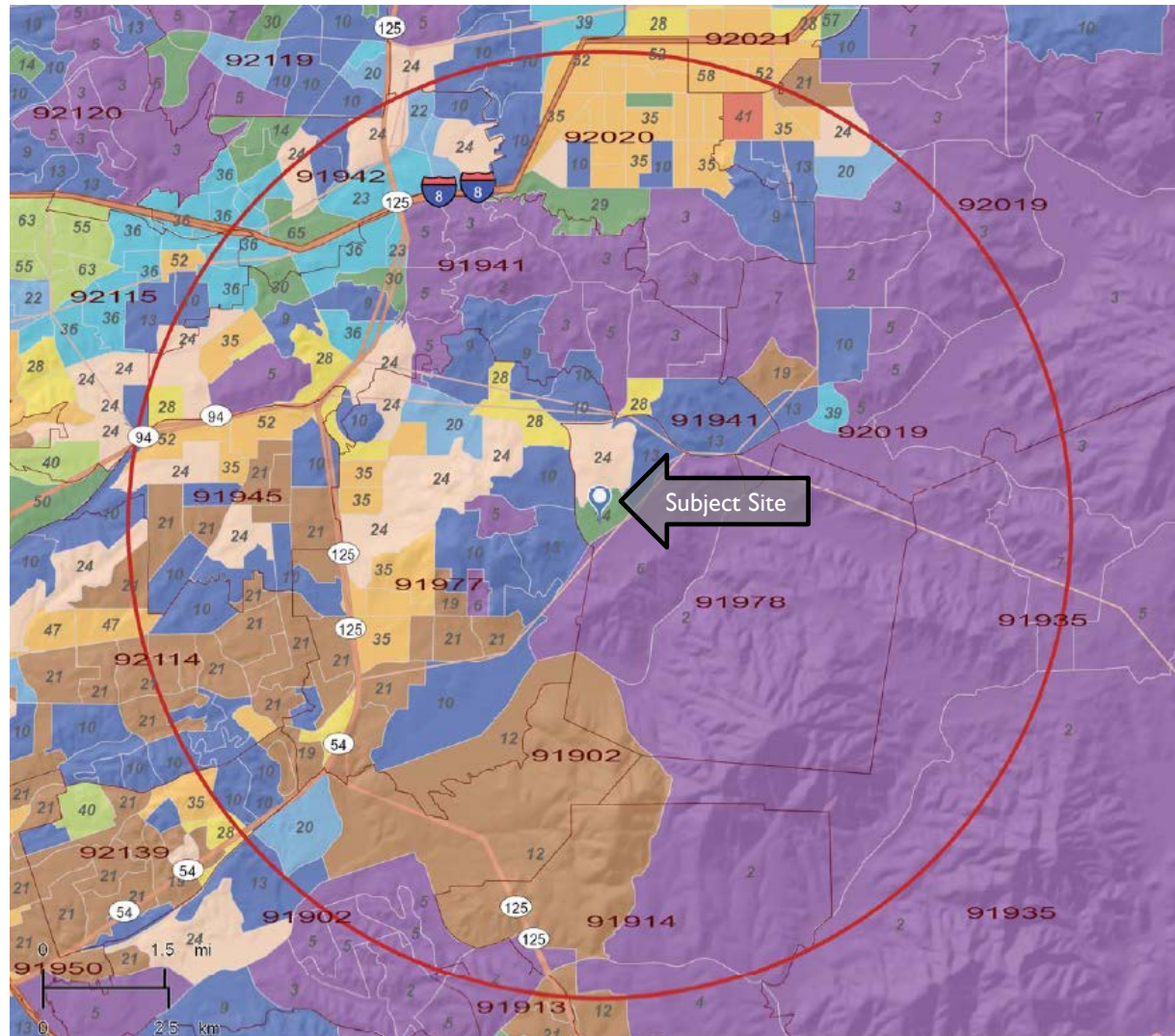
The rate of crime per population in the subject site zip code is relatively low in comparison to other areas of San Diego County.



Source: MapPoint



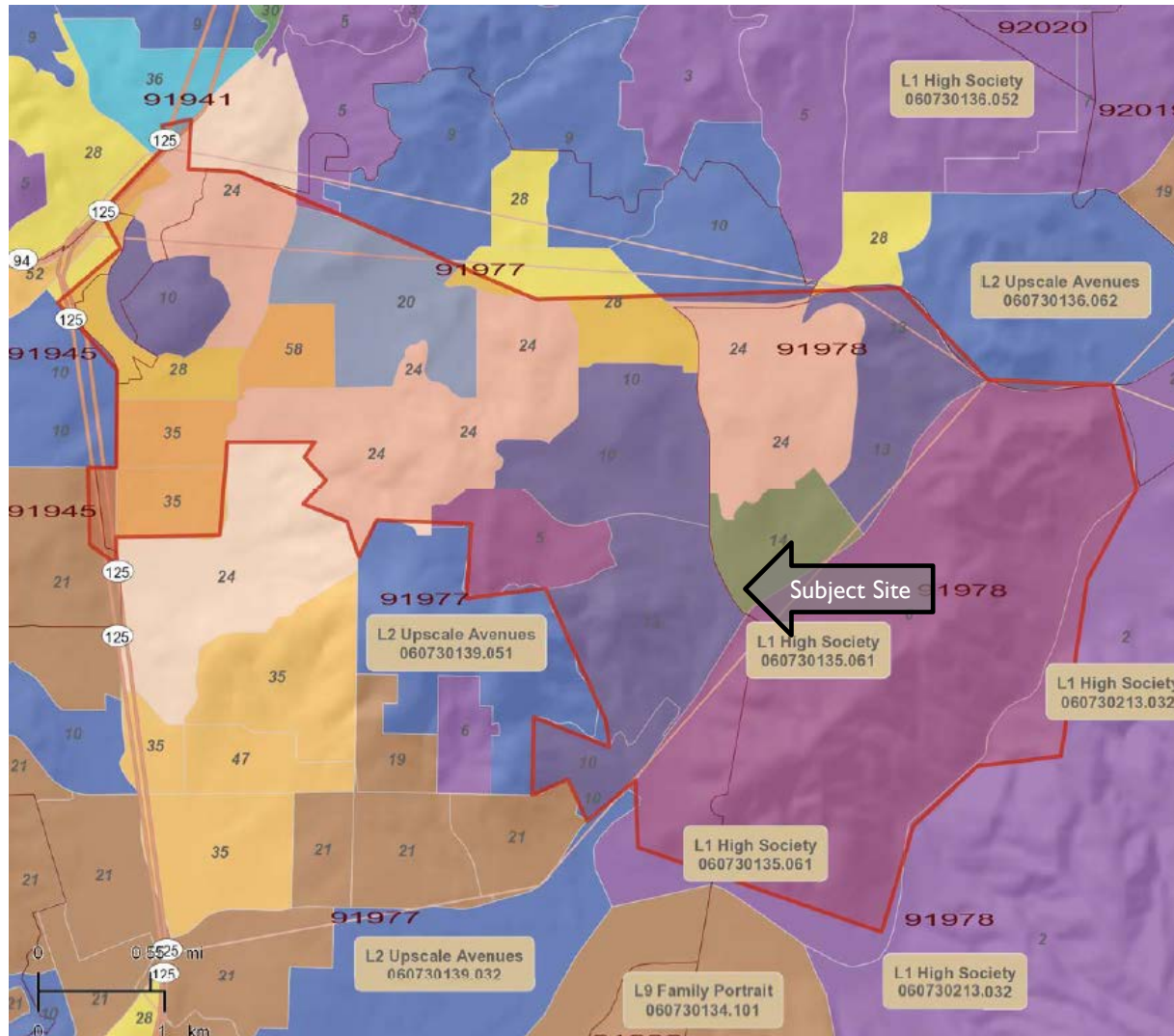
Affluent and moderate-income homeowners (purple & blue) surround the subject site. Lower-income households and a large population of older households are located to the north and west of the community, along the 8 and 805 freeways.



- L1 High Society: Affluent, well-educated, married-couple homeowners
- L2 Upscale Avenues: Prosperous, married-couple homeowners in different housing
- L3 Metropolis: City dwellers in older homes reflecting the diversity of urban culture
- L4 Solo Acts: Urban young singles on the move
- L5 Senior Styles: Senior lifestyles by income, age, and housing type
- L6 Scholars and Patriots: College, military environments
- L7 High Hopes: Young households striving for the "American Dream"
- L8 Global Roots: Ethnic and culturally diverse families
- L9 Family Portrait: Youth, family life, and children
- L10 Traditional Living: Middle-aged, middle income—Middle America
- L11 Factories and Farms: Hardworking families in small communities, settled near jobs
- L12 American Quilt: Households in small towns and rural areas

Source: ESRI

Rancho San Diego is largely dominated by many moderate-income families, with higher-income families on the eastern border of the city and lower-income families at the western border.



## Dominant LifeMode

- Families - Higher Income
- Families - Moderate Income
- Mature Couples & Retirees
- Urban Non-Family
- Low Income, Apartments, Other



The following provides the summary of the top consumer segments for the San Diego MSA and Rancho San Diego(subject site).

The San Diego MSA shows a diverse preference for housing. 5 of the top 10 segments show a preference for apartments or condos, while the other 5 show a preference for single-family homes. The San Diego MSA has a higher percentage of singles than Rancho San Diego.

Rancho San Diego's top segments are predominantly family and mixed households. 6 of the top 10 segments could potentially afford a home in this location, given their incomes of \$73,000+.

SAN DIEGO, CA MSA							Locally Adjusted Characteristics				
Rank	Cluster	Lifestyle Group	Household Type	Diversity Index	Own vs. Rent	Preferred Housing	Age	HH Size	HH Income	Net Worth	HH %
1	10. Pleasant-Ville	Upscale Adventures	Married Couple Families	58	82%	Single Family	37.7	3.1	\$91,718	\$241,657	7.0%
2	27. Metro Renters	Solo Acts	Singles; Shared	60	21%	Apartment	31.3	1.7	\$66,274	\$21,457	6.3%
3	21. Urban Villages	Family Portrait	Family Mix	90	69%	Single Family	28.9	4.2	\$73,954	\$101,114	6.2%
4	09. Urban Chic	Upscale Adventures	Mixed	51	66%	Apt/Condo	39.8	2.6	\$102,630	\$305,392	5.5%
5	35. International Marketplace	Global Roots	Family Mix	90	32%	Apartment	28.4	3.3	\$57,759	\$17,360	5.1%
6	23. Trendsetters	Solo Acts	Singles; Shared	74	31%	Apartment	33.1	2.3	\$72,379	\$34,191	4.6%
7	03. Connoisseurs	High Society	Married Couple Families	36	87%	Single Family	43.8	2.8	\$142,841	\$688,263	4.4%
8	58. NeWest Residents	Global Roots	Family Mix	89	17%	Apartment	23.8	3.8	\$33,624	\$9,895	4.0%
9	04. Boomburbs	High Society	Married Couples w/Kids	51	88%	Single Family	31.5	3.3	\$130,263	\$376,429	3.5%
10	12. Up and Coming Families	Family Portrait	Married Couples w/Kids	58	83%	Single Family	29.8	3.1	\$89,605	\$170,072	3.3%

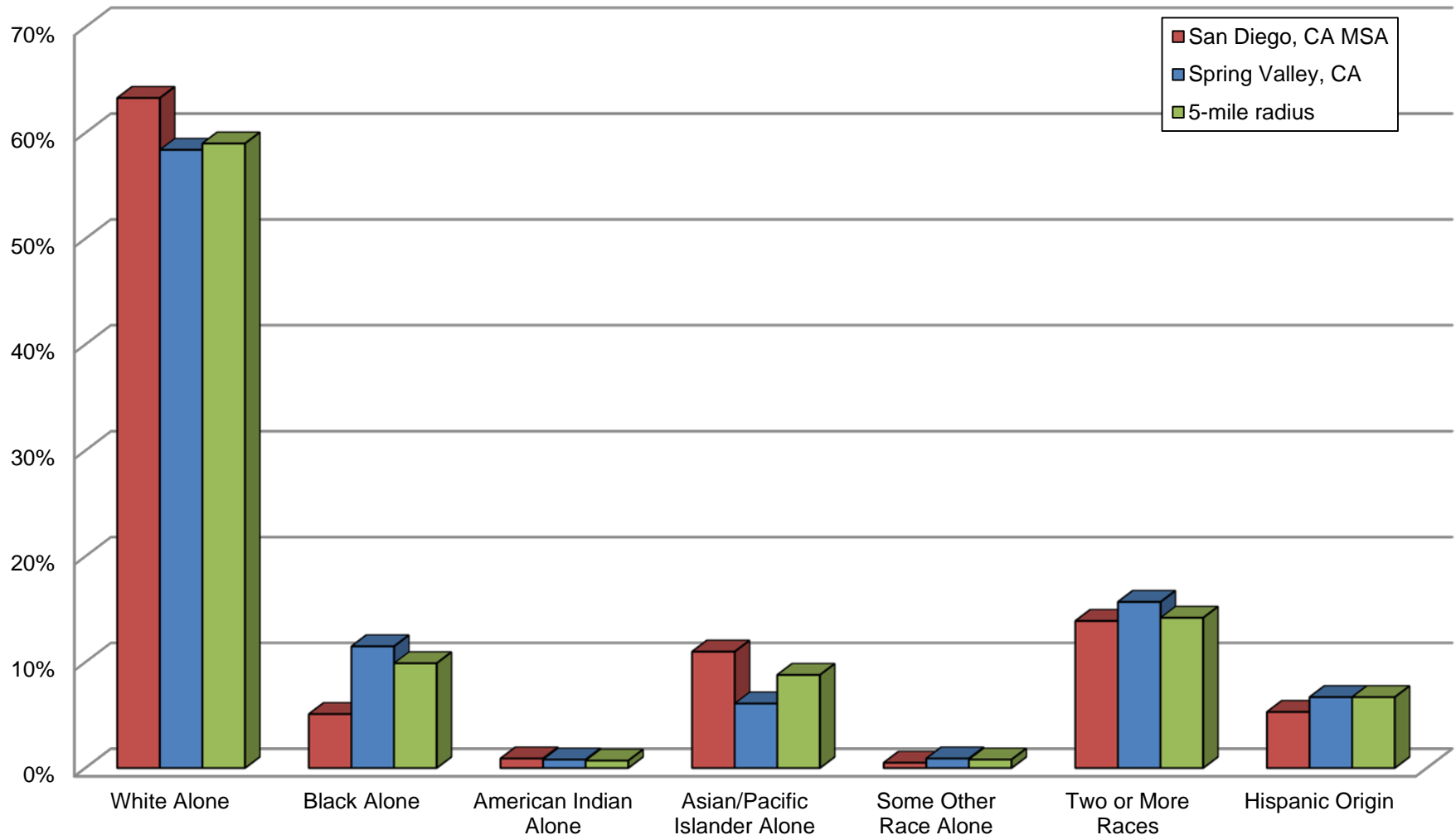
SPRING VALLEY, CA							Locally Adjusted Characteristics				
Rank	Cluster	Lifestyle Group	Household Type	Diversity Index	Own vs. Rent	Preferred Housing	Age	HH Size	HH Income	Net Worth	HH %
1	24. Main Street, USA	Traditional Living	Mixed	56	63%	Condo/SFR	34.8	3.0	\$65,703	\$91,421	26.9%
2	10. Pleasant-Ville	Upscale Adventures	Married Couple Families	58	82%	Single Family	38.2	3.4	\$89,521	\$268,408	14.5%
3	13. In Style	Upscale Adventures	Mixed	45	68%	Townhome	37.9	2.8	\$81,267	\$197,013	12.8%
4	06. Sophisticated Squires	High Society	Married Couple Families	42	88%	Single Family	36.3	3.5	\$97,808	\$310,327	10.6%
5	35. International Marketplace	Global Roots	Family Mix	90	32%	Apartment	28.8	3.6	\$56,375	\$19,282	9.4%
6	20. City Lights	Metropolis	Mixed	69	54%	Apt/Condo	36.5	3.0	\$73,472	\$113,350	7.8%
7	28. Aspiring Young Families	High Hopes	Family Mix	70	47%	Apt/Condo/TH	28.9	3.0	\$60,294	\$39,619	6.8%
8	58. NeWest Residents	Global Roots	Family Mix	89	17%	Apartment	24.1	4.2	\$32,818	\$10,990	5.3%
9	05. Wealthy Seaboard Suburbs	High Society	Married Couple Families	44	87%	Single Family	41.0	3.3	\$110,850	\$433,054	3.0%
10	14. Prosperous Empty Nesters	Senior Styles	Married Couples No Kids	29	85%	Single Family	46.3	2.8	\$77,304	\$282,143	2.8%

5-MILE RADIUS							Locally Adjusted Characteristics				
Rank	Cluster	Lifestyle Group	Household Type	Diversity Index	Own vs. Rent	Preferred Housing	Age	HH Size	HH Income	Net Worth	HH %
1	10. Pleasant-Ville	Upscale Adventures	Married Couple Families	58	82%	Single Family	38.8	3.3	\$84,776	\$195,626	13.1%
2	21. Urban Villages	Family Portrait	Family Mix	90	69%	Single Family	29.8	4.4	\$68,357	\$81,853	10.3%
3	35. International Marketplace	Global Roots	Family Mix	90	32%	Apartment	29.2	3.6	\$53,387	\$14,054	10.2%
4	24. Main Street, USA	Traditional Living	Mixed	56	63%	Condo/SFR	35.3	2.9	\$62,220	\$66,631	9.9%
5	52. Inner City Tenants	Global Roots	Mixed	84	19%	Apartment	26.7	2.8	\$37,031	\$8,843	7.5%
6	05. Wealthy Seaboard Suburbs	High Society	Married Couple Families	44	87%	Single Family	41.6	3.2	\$104,975	\$315,626	4.7%
7	03. Connoisseurs	High Society	Married Couple Families	36	87%	Single Family	45.1	3.0	\$132,029	\$557,162	4.6%
8	36. Old and Newcomers	Solo Acts	Singles; Shared	59	37%	Apartment	35.7	2.3	\$48,519	\$18,471	4.5%
9	13. In Style	Upscale Adventures	Mixed	45	68%	Townhome	38.4	2.8	\$76,960	\$143,590	4.2%
10	28. Aspiring Young Families	High Hopes	Family Mix	70	47%	Apt/Condo/TH	29.3	2.9	\$57,098	\$28,876	4.1%

Source: ESRI

The ethnic makeup of Rancho San Diego/Spring Valley is fairly diverse, with strong representation among Blacks, Hispanics, and people of two or more races. Caucasians account for 58% of the population.

Population Distribution by Ethnicity (2012)



Source: ESRI

In 2005, 28% of moves into Spring Valley were internal moves from within the city itself. The largest percentage of your consumers will be coming from the local area.



Source: U.S. Postal Service change of address records (sampling)

In 2008, 31% of the moves into Spring Valley were internal moves from within the city itself. Additional moves to the submarket largely originated from El Cajon, Lemon Grove, and Chula Vista.



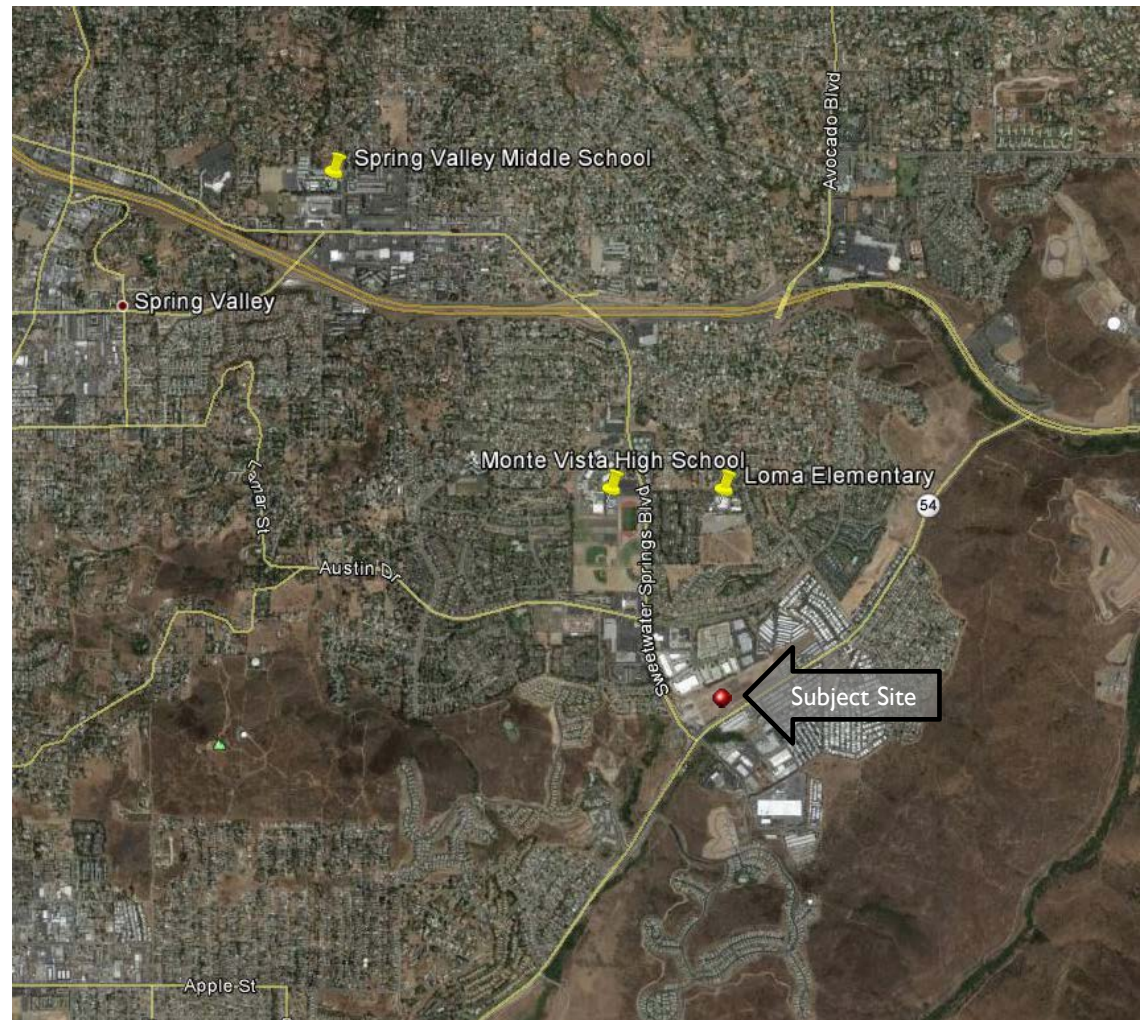
Source: U.S. Postal Service change of address records (sampling)



Attended public schools for this community are at the middle of the spectrum in the Grossmont Union High and La Mesa-Rancho San Diego Unified School Districts.

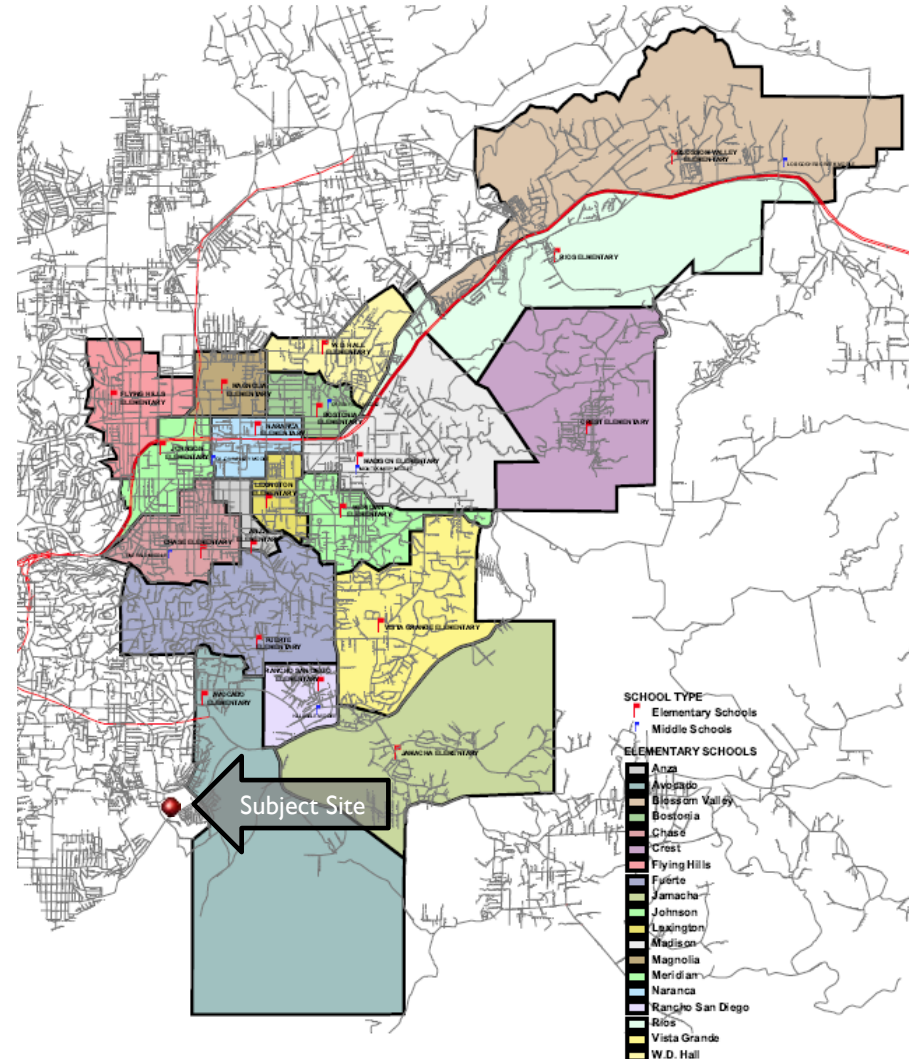
Elementary School	API Rating
La Mesa-Spring Valley Unified	806
Avondale Elementary	821
Bancroft Elementary	756
Casa De Oro Elementary	750
Highlands Elementary	803
Kempton Elementary	712
La Mesa Dale Elementary	811
La Presa Elementary	761
Lemon Avenue Elementary	852
Loma Elementary	777
Maryland Avenue Elementary	826
Murdock Elementary	902
Murray Manor Elementary	904
Rancho Elementary	831
Rolando Elementary	855
Sweetwater Springs Elementary	819
Middle School	API Rating
La Mesa Middle	791
La Presa Middle	735
Parkway Middle	836
Spring Valley Middle	786
High School	API Rating
Grossmont Union High School District	744
El Cajon Valley High School	642
El Capitan High School	740
Granite Hills High School	779
Grossmont High School	768
Helix High School	786
Monte Vista High School	742
Mount Miguel High School	659
Santana High School	798
Steele Canyon High School	784
Valhalla High School	810
West Hills High School	807

API Ratings are based on a scale from 200 to 1000. Attended elementary, middle, and high schools rank slightly below overall district averages.



Based on the boundary lines from July 2009, the property is not in the Cajon Valley School District. We have included the ratings for the district and have highlighted the schools closest to the property. Both of these school have great ratings and it would be advantages to annex into this school district as opposed to La Mesa-Rancho San Diego.

Elementary School	API Rating
Anza Elementary	749
Avocado Elementary	867
Blossom Valley Elementary	823
Bostonia Elementary	774
Chase Avenue Elementary	738
EJE Elementary Academy Charter	840
Flying Hills Elementary	829
Fuerte Elementary	933
Jamacha Elementary	868
Johnson Elementary	694
Lexington Elementary	701
Madison Avenue Elementary	785
Magnolia Elementary	748
Meridian Elementary	765
Naranca Elementary	757
Rancho San Diego Elementary	869
Rios Elementary	820
Vista Grande Elementary	890
W. D. Hall Elementary	771
Middle School	API Rating
Cajon Valley Middle	703
EJE Middle Academy	807
Emerald Middle	693
Greenfield Middle	757
Hillsdale Middle	914
Los Coches Creek Middle	830
Montgomery Middle	716
Meridian Elementary	765



July 2009





We have contacted the cities and County of San Diego for the communities listed in the submarket. Specifically, we looked at the following communities:

- Spring Valley/Rancho San Diego
- Lemon Grove
- La Mesa
- El Cajon

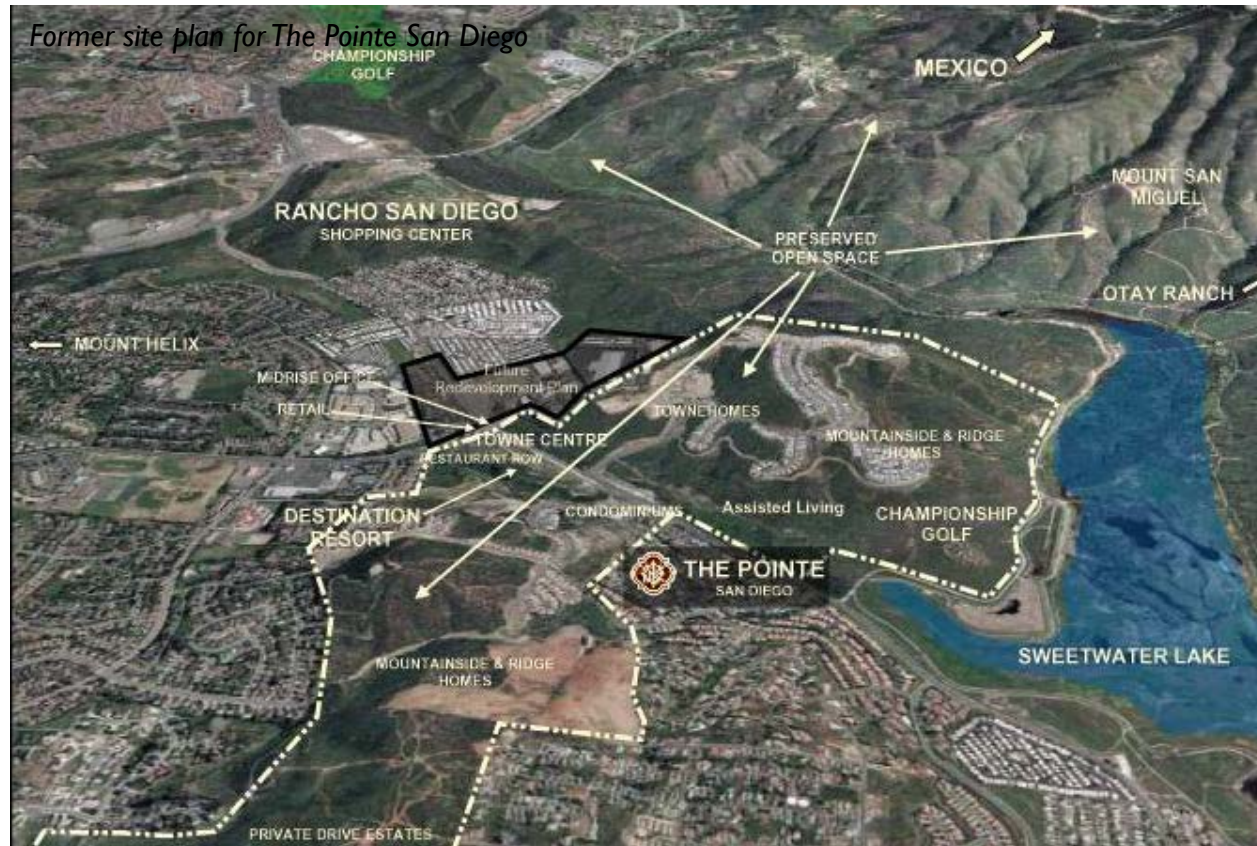
We concluded that there is not much future residential supply in these markets and the majority of the future development will come from City redevelopment efforts and will mainly be focused on retail and apartments. This factors into our demand analysis in terms of potential market share for the subject property.



The Pointe project was originally approved by the County of San Diego in 1990. The project is in transition and the future has not been determined. Wells Fargo and RE Loans have notes on the project, and they have received a few unsolicited offers to purchase the property. The only active entitlements are the final 88 condominium units at the LakeView Homes project. The current plan has units ranging in size from 738 square feet to 1,085 square feet. The timing of these units are unknown at this time. There are no other pending entitlements within the property.

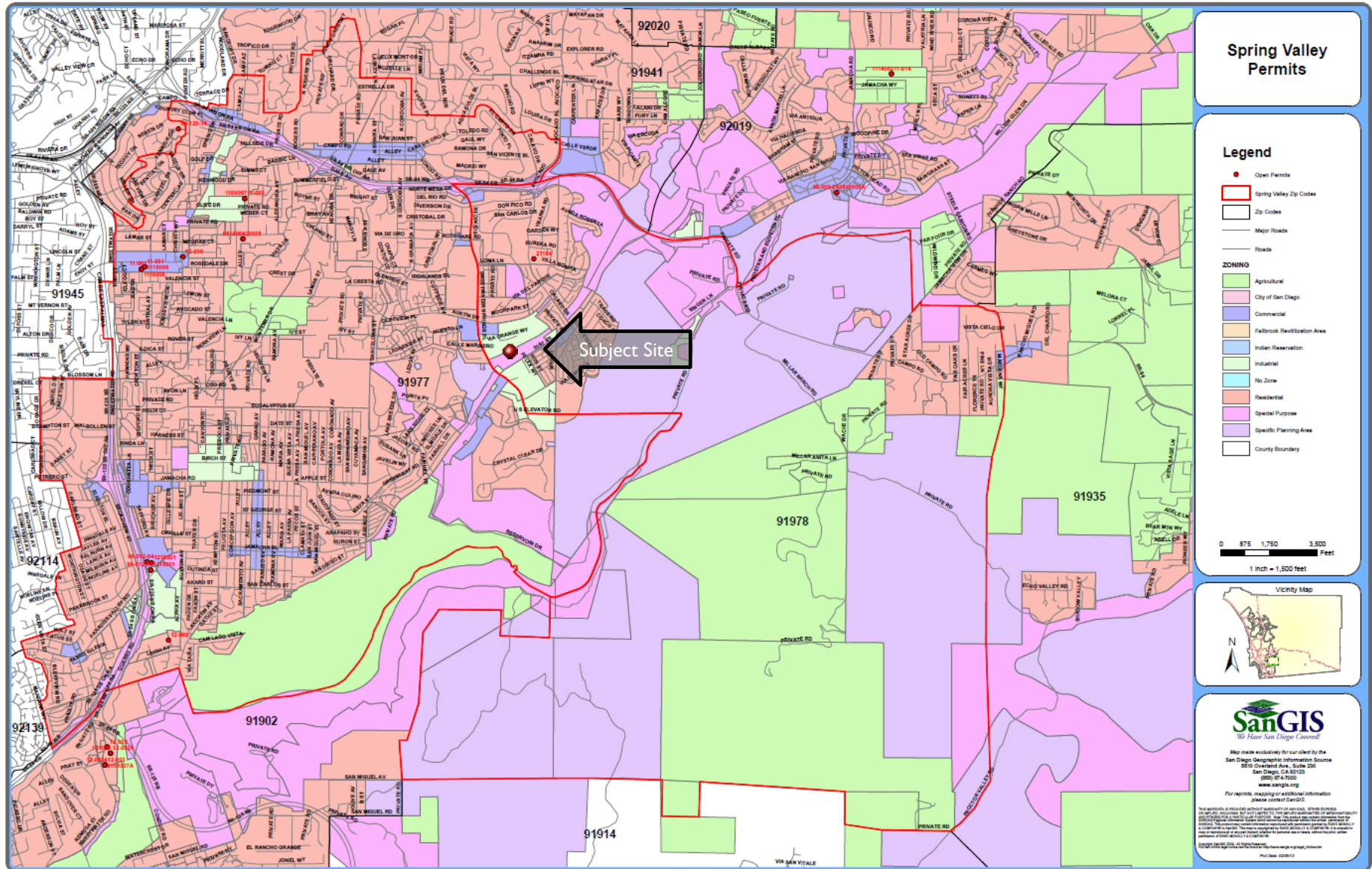
Formerly, the property was being developed by Gosnell Builders. While their involvement in the project going forward is uncertain, Gosnell Builders' plan is to begin the process of re-entitlement with the County of San Diego. The current plans include:

- Re-entitlement of the resort and mixed use site to approximately 750 apartments and 250 assisted living units.
- Re-entitlement of the commercial and office to for-sale attached housing.
- Gosnell Builders is anticipating the entitlements to take one-and-a-half years.





There are currently no discretionary permits open with the County of San Diego for residential subdivisions above three units, apartment or major retail use within Rancho San Diego/Spring Valley.





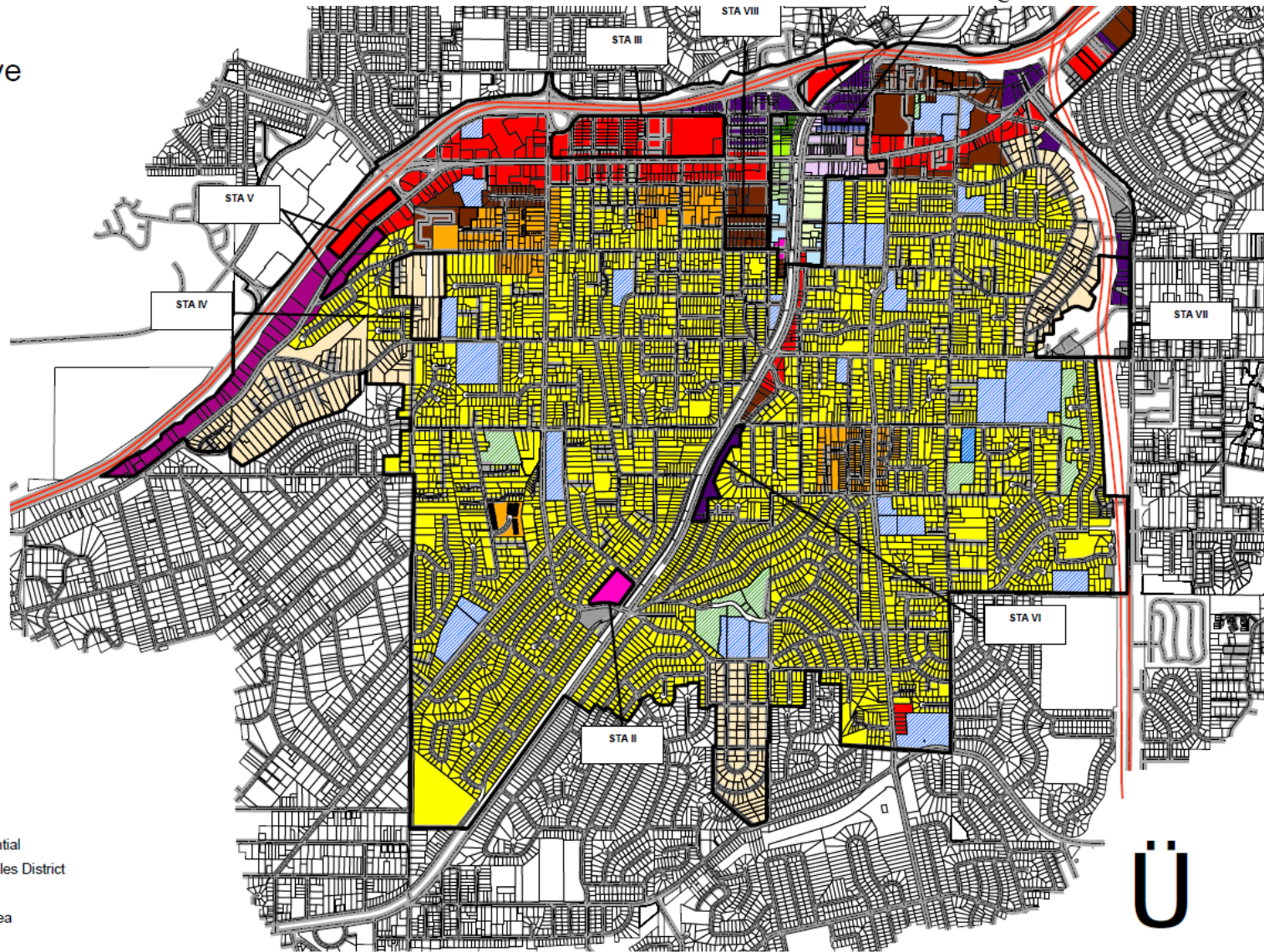
Below is a detail of the areas of future development in Lemon Grove divided by Special Treatment Area (STA) in the City Zoning. The information is based on the City of Lemon Grove's General Plan. A map of the areas are located on the following page.

STA	Description	Location	Land Uses
STA I	Downtown Village	Intersection of Broadway and Lemon Grove Avenue	Mix of Retail and Office with some for-sale and for-rent multi-family residential
STA II	Massachusetts Station	Massachusetts Avenue Trolley Station	Mix of residential and neighborhood commercial. There is a consideration to use this as part of the low/moderate-income housing requirements.
STA III	Regional Commercial	Between Highway 94 and Broadway	Continued redevelopment with large retail stores.
STA IV	Western Central Avenue Residential	Originally the Collage Avenue Extension Project	Mixture of individually owned lots and some city right-of-way. Much of this has been already built or is in development. Lots have a minimum of 10,000 sq ft.
STA V	Federal Boulevard Automobile Sales District	Between Highway 94 and Broadway	Continue to permit car dealerships and related automotive services and shops.
STA VII	Troy Street/SR-125 Planning Area	Eastern terminus of Palm Avenue and Troy Street	Potential on and off ramps at Troy Street and SR-125.
STA VIII	Eastern Central Avenue	Central and Lemon Grove Avenue	Continue small apartment and condominium development with a density up to 14 dwelling units per acre. Allow up to 29 dwelling units per acre with 100 feet of frontage and a minimum size of 15,000 sq ft. Limited to two-story development.

## City of Lemon Grove Land Use Map

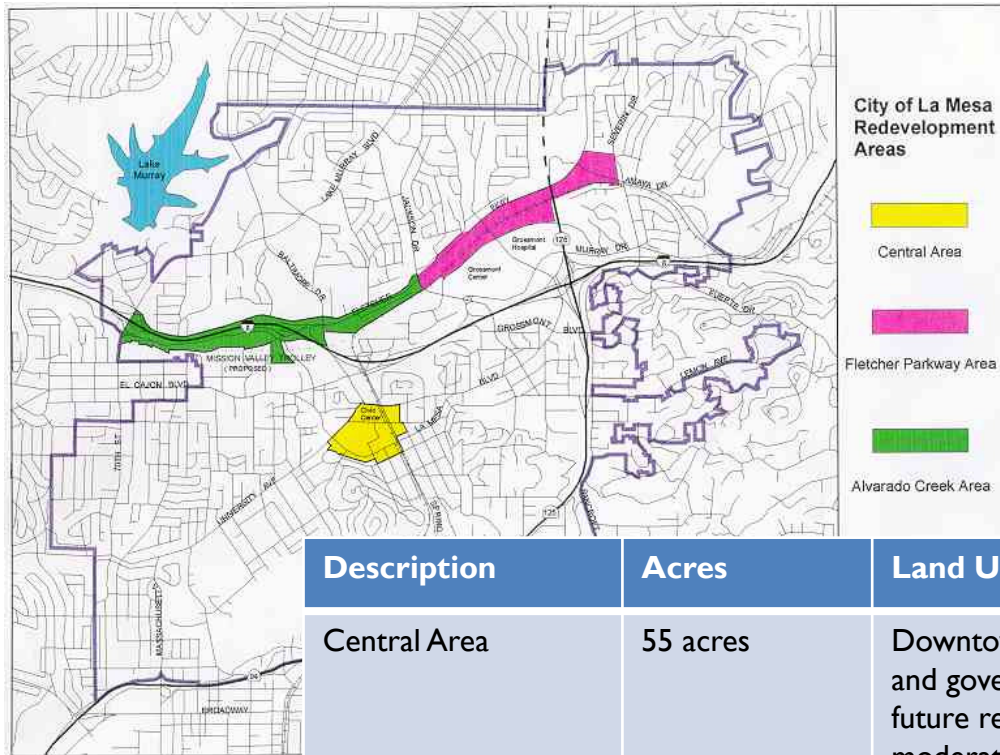
- Legend**
- City Boundary
  - Parcels
  - Freeways
  - Transportation-Roads
  - Schools/Institutional
  - Parks/Recreational
  - Retail Commercial
  - General Business
  - Industrial
  - Retail Manufacturing
  - Village Commercial 3
  - Village Commercial 5
  - Civic-CI
  - Transit Mixed Use 3
  - Transit Mixed Use 5
  - Transit Mixed Use 7-TMU7
  - Commercial-Com
  - Transportation
  - Mixed Use
  - Low Density Residential
  - Low Medium Density Residential
  - Medium Density Residential
  - Medium High Residential

- STA I, Downtown Village
- STA II, Massachusetts Station
- STA III, Regional Commercial
- STA IV, Western Central Avenue Residential
- STA V, Federal Boulevard Automobile Sales District
- STA VI, Central Lemon Grove Avenue
- STA VII, Troy Street/SR-125 Planning Area
- STA VIII, Eastern Central Avenue



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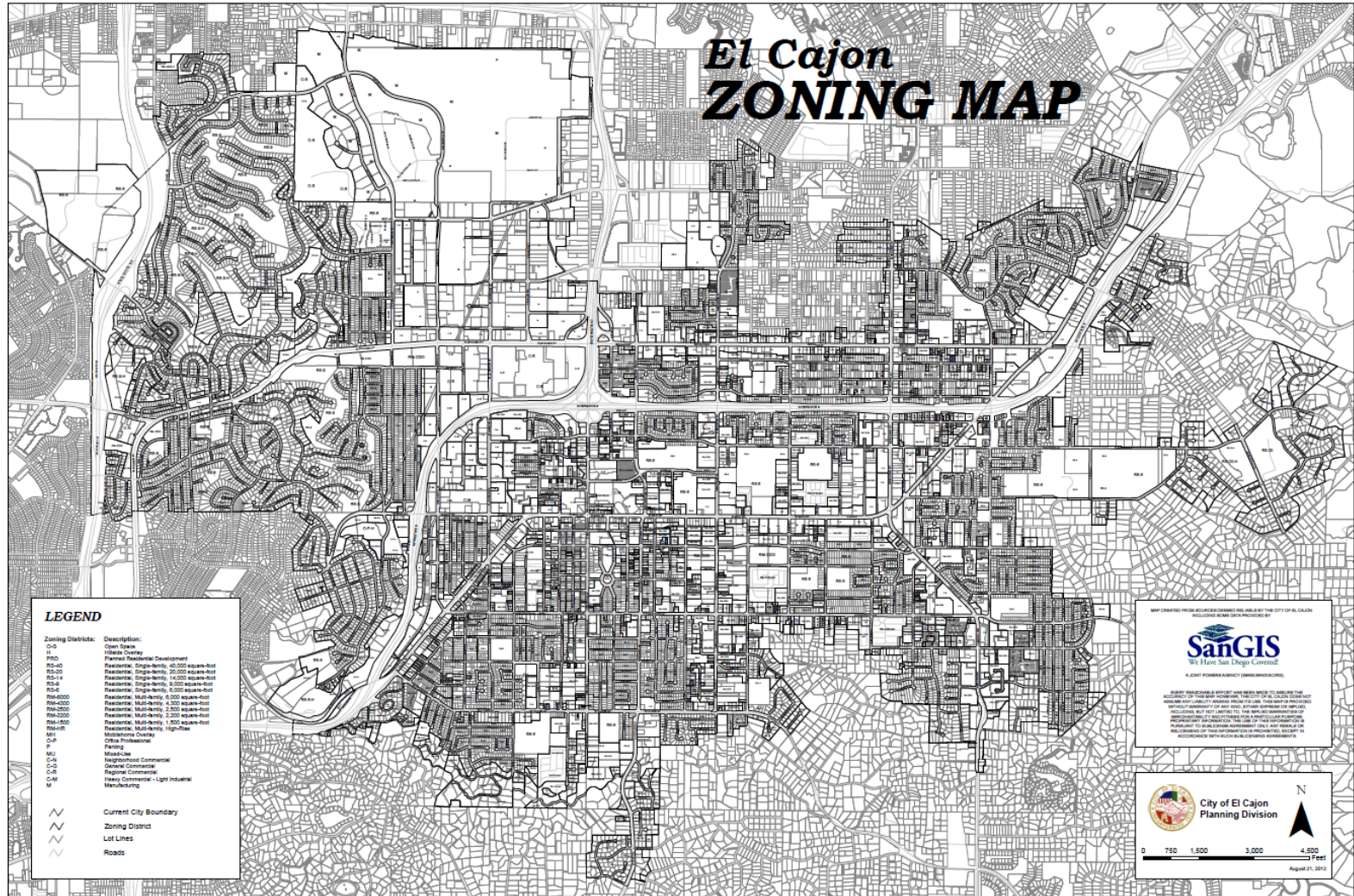


Information from 2010-2014 Implementation Plans and La Mesa Community Redevelopment Agency

There were no for-sale or for-rent residential communities detailed in the plans.

Description	Acres	Land Uses
Central Area	55 acres	Downtown business commercial uses, medium-density residential, and governmental. There may still be some opportunities for small future residential projects, mainly for-rent and to include low- and moderate-income housing.
Fletcher Parkway Area	103 acres	Medium-density residential, professional office buildings, commercial retail uses, and public transit facilities. This included Fairfield Residential completion of the Pravada Apartments, 527 residential units, including 80 affordable units. There will be future residential, mainly for-rent, and to include low- and moderate-income housing.
Alvarado Creek Area	200 acres	Fully developed with: light industrial and service uses; professional office; visitor-oriented commercial; and trailer park. Current plan includes an increase in retail and restaurant uses.

- Lenora Avenue – 21 residential units on 3.26 acres.
- Based on our conversations with the City Planner, the un-built lots in the city are under 2 acres, and the majority of the City's residential housing focus will be on affordable housing with re-development areas.

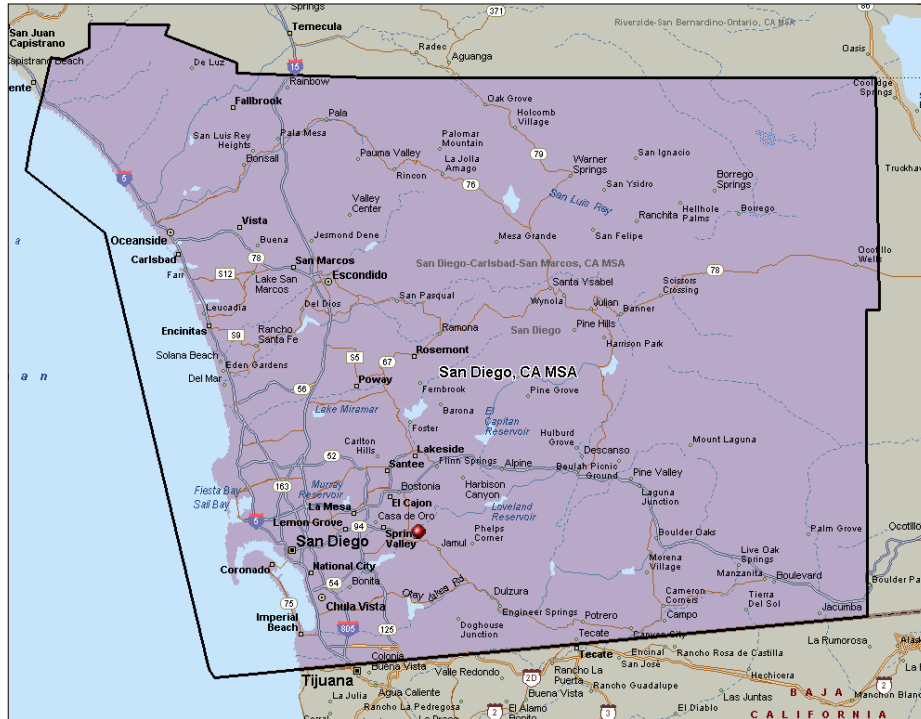




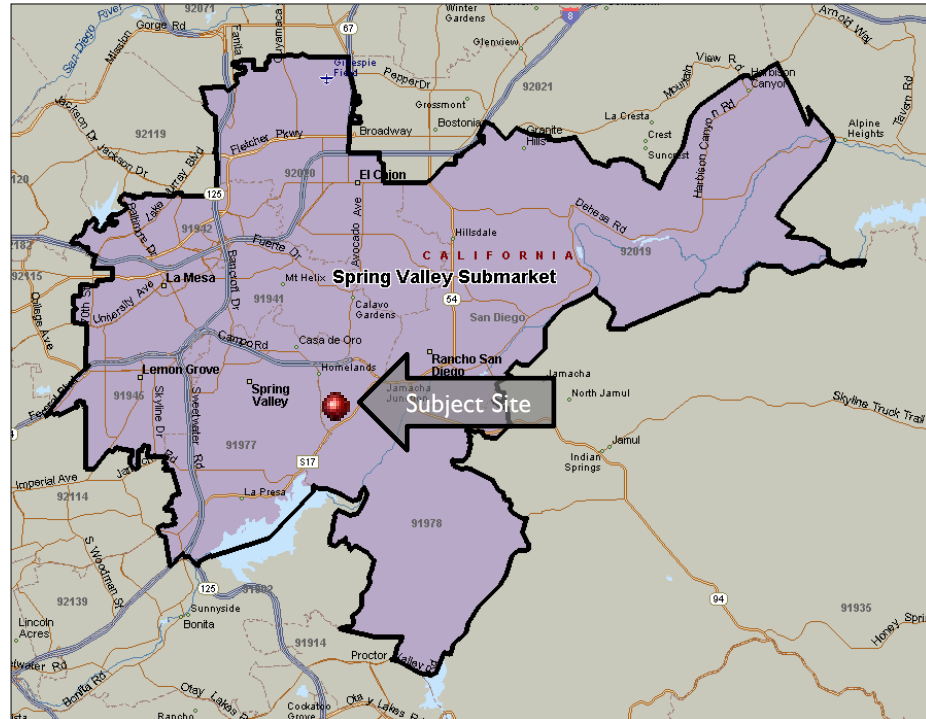


The analysis of the housing demand considered the new and resale sales activity for the San Diego, CA MSA and for the Rancho San Diego submarket, consisting of zip codes: 91941, 91942, 91945, 91977, 91978, 92019, and 92020.

## San Diego, CA MSA



## Rancho San Diego Submarket



The following defines the life stage groups summarized for purposes of this analysis.:

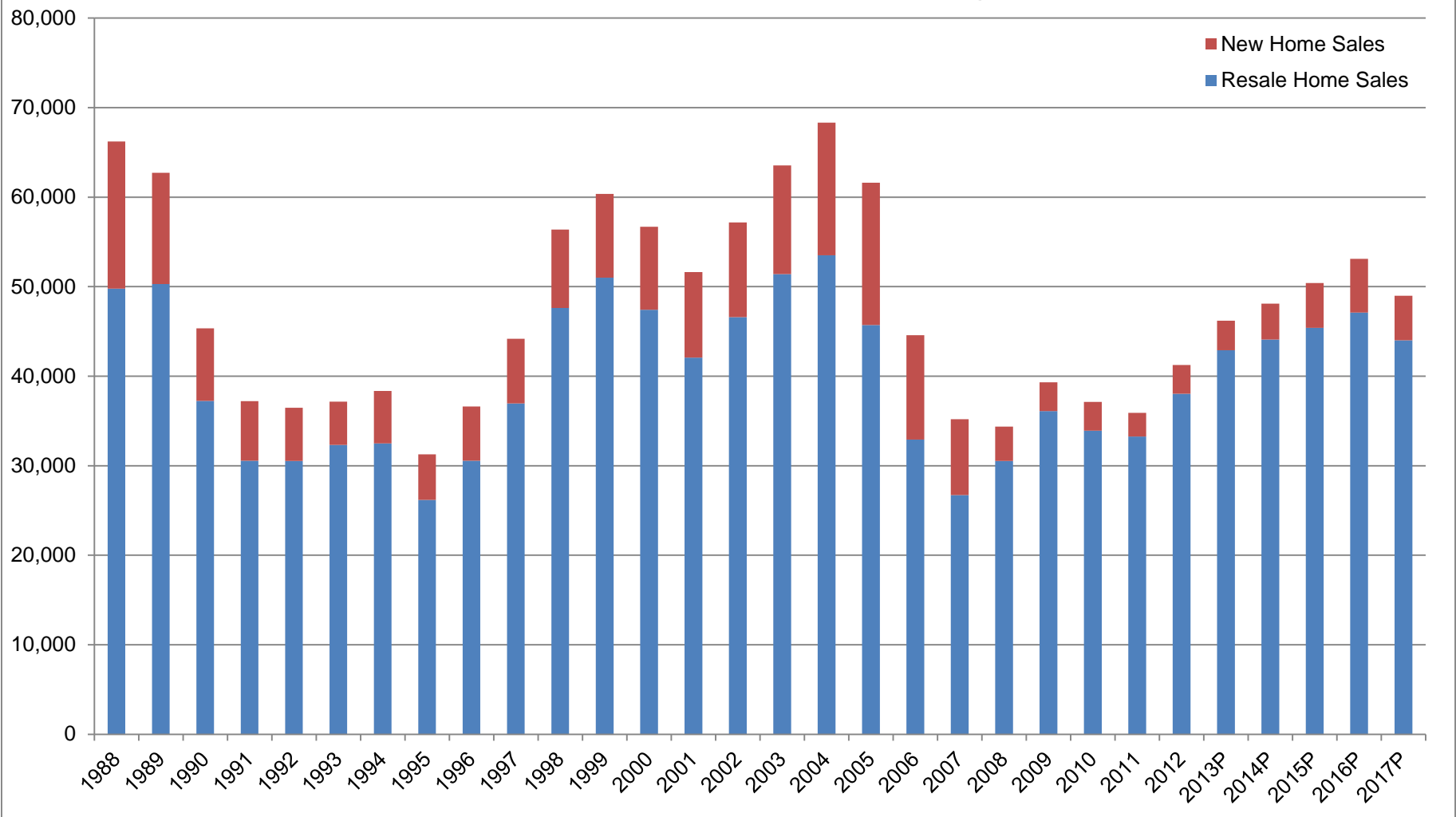
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- **Singles (S):** Single individuals under age 65 with no children.
- **Young Couples (YC):** Married couples under age 45 with no children. Some of these households may be planning on having children.
- **Young Families (YF):** Families (including single parents) with oldest child living at home age 0 to 11.
- **Mature Families (MF):** Families (including single parents) with oldest child living at home age 12 to 17.
- **Mature Couples (MC):** All households between the ages of 45 and 64 with no children under 18 living at home.
- **Retirees (R):** All households age 65+ with no children under 18 living at home.



Total transaction activity is expected to rise to 53,100 transactions in 2016 – a level that is slightly higher than the 2001 total. New home sales are expected to rise as a share of total home transactions in the market, rising from 7.4% of total sales in 2011 to 11.3% of sales by 2016 – a ratio that is still much lower than historical levels.

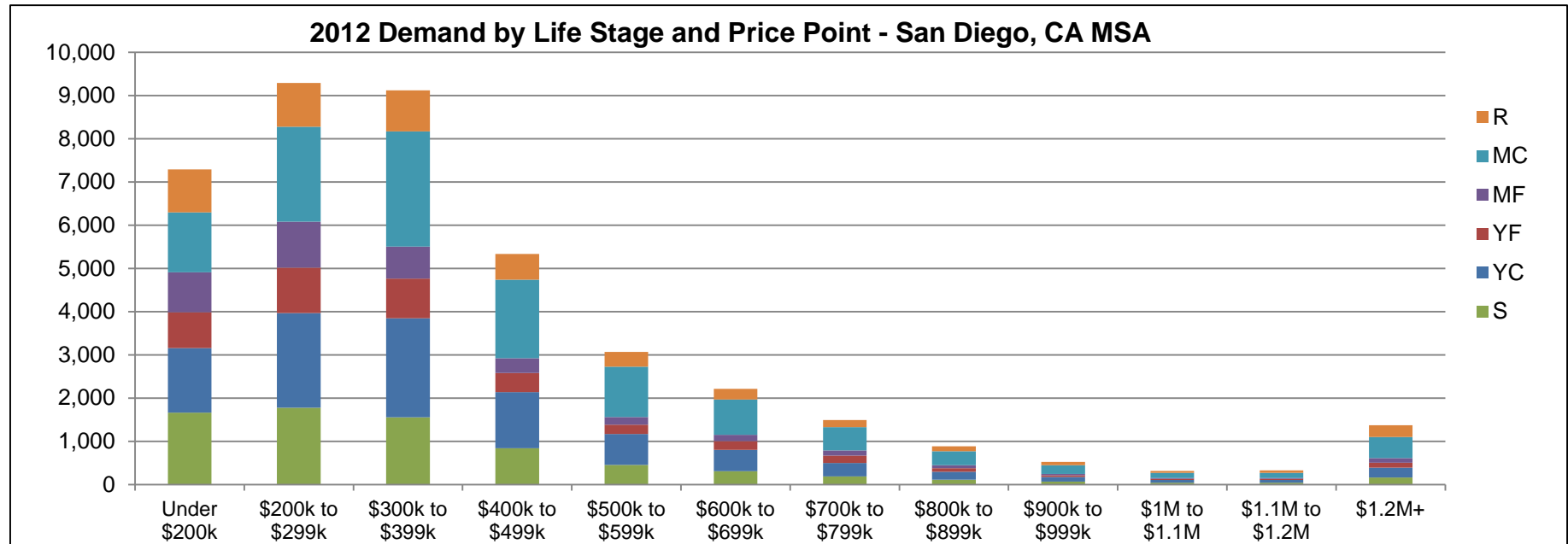
## Resale and New Home Sales Activity - San Diego, CA MSA



Sources: DataQuick, John Burns Real Estate Consulting

# HOUSING DEMAND BY LIFE STAGE AND PRICE POINT – SAN DIEGO MSA

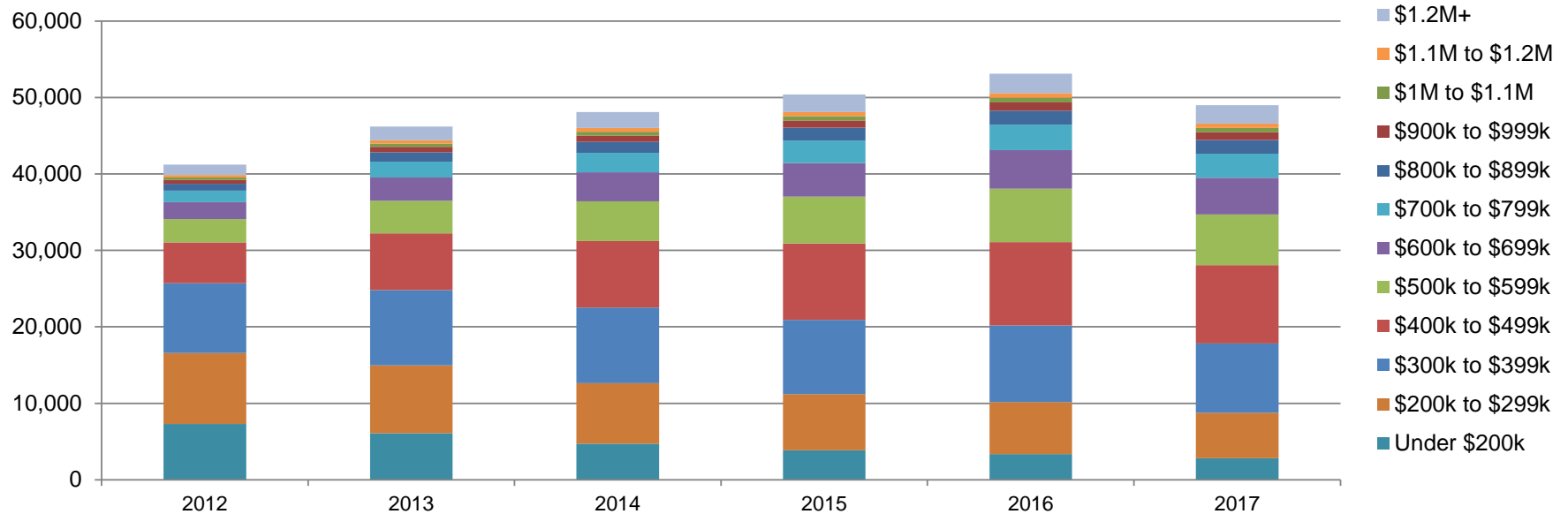
Couples without children represent the greatest number of purchases in the San Diego MSA, accounting for 52% of the 2012 total. Mature Couples show a significant number of sales in the higher price points. Families with children only accounted for 19% of all purchases and were concentrated in price points below \$399k. Singles represent 17% of purchases.



Average Price	S	YC	YF	MF	MC	R	Total	Share
Under \$200k	1,660	1,494	834	921	1,392	989	7,290	18%
\$200k to \$299k	1,779	2,187	1,050	1,066	2,200	1,012	9,294	23%
\$300k to \$399k	1,558	2,288	919	741	2,666	953	9,125	22%
\$400k to \$499k	841	1,296	443	343	1,819	592	5,335	13%
\$500k to \$599k	454	715	215	179	1,162	343	3,068	7%
\$600k to \$699k	307	497	198	148	816	244	2,211	5%
\$700k to \$799k	188	307	171	124	534	169	1,494	4%
\$800k to \$899k	112	181	84	71	322	115	884	2%
\$900k to \$999k	69	106	38	32	201	79	525	1%
\$1M to \$1.1M	41	65	26	18	119	45	314	1%
\$1.1M to \$1.2M	41	65	21	19	124	54	325	1%
\$1.2M+	162	229	111	108	492	271	1,373	3%
Grand Total	7,213	9,429	4,111	3,770	11,847	4,867	41,238	100%
Share	17%	23%	10%	9%	29%	12%	100%	

Current sales activity in the San Diego MSA is largely concentrated in price points below \$400k. Through 2017, the distribution of sales activity is expected to shift upward, with the greatest concentration in the \$300k to \$599k price ranges.

**Forecasted Demand by Price Point - San Diego, CA MSA**

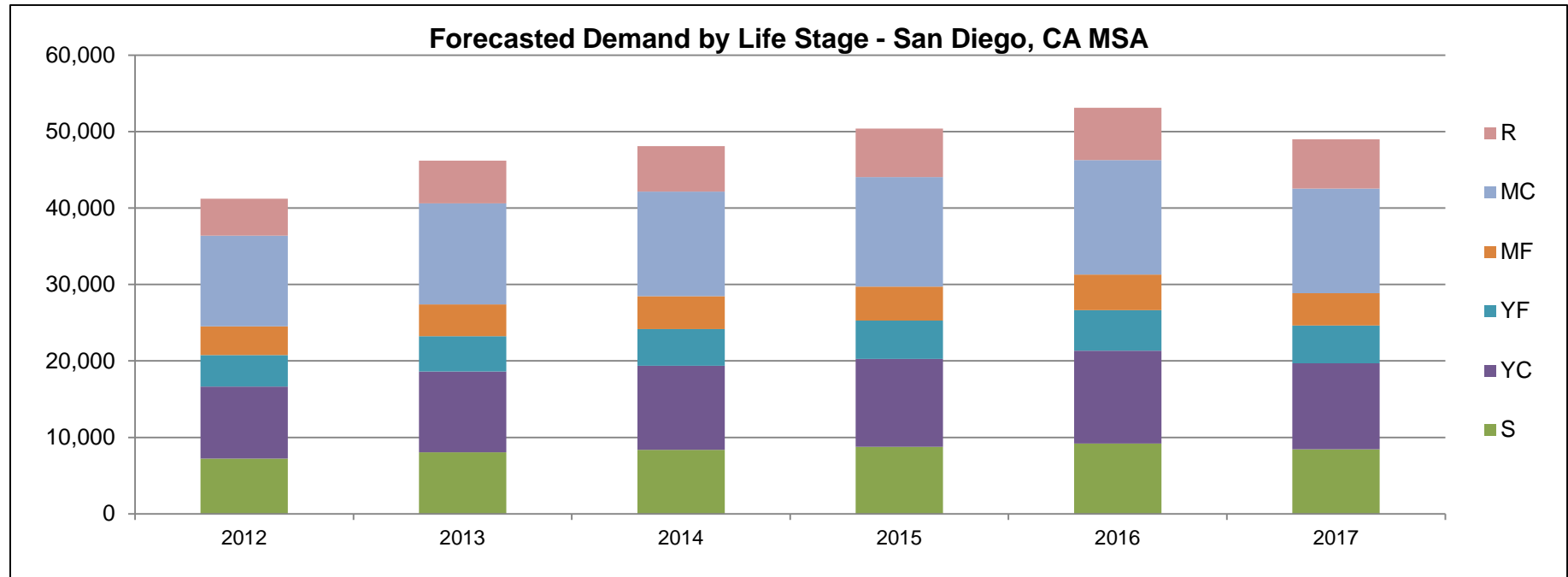


**Forecasted Demand by Price Point - San Diego, CA MSA**

Average Price	2012	2013	2014	2015	2016	2017
Under \$200k	7,290	6,068	4,725	3,864	3,360	2,837
\$200k to \$299k	9,294	8,892	7,920	7,347	6,793	5,931
\$300k to \$399k	9,125	9,845	9,876	9,712	10,044	9,063
\$400k to \$499k	5,335	7,421	8,692	9,981	10,872	10,228
\$500k to \$599k	3,068	4,257	5,226	6,119	7,002	6,656
\$600k to \$699k	2,211	3,071	3,770	4,413	5,049	4,799
\$700k to \$799k	1,494	2,078	2,550	2,957	3,317	3,152
\$800k to \$899k	884	1,206	1,440	1,654	1,855	1,763
\$900k to \$999k	525	708	837	953	1,059	1,007
\$1M to \$1.1M	314	419	492	554	616	585
\$1.1M to \$1.2M	325	430	499	557	613	583
\$1.2M+	1,373	1,804	2,073	2,290	2,520	2,395
<b>Grand Total</b>	<b>41,238</b>	<b>46,200</b>	<b>48,100</b>	<b>50,400</b>	<b>53,100</b>	<b>49,000</b>

## HOUSING DEMAND BY LIFE STAGE – SAN DIEGO MSA

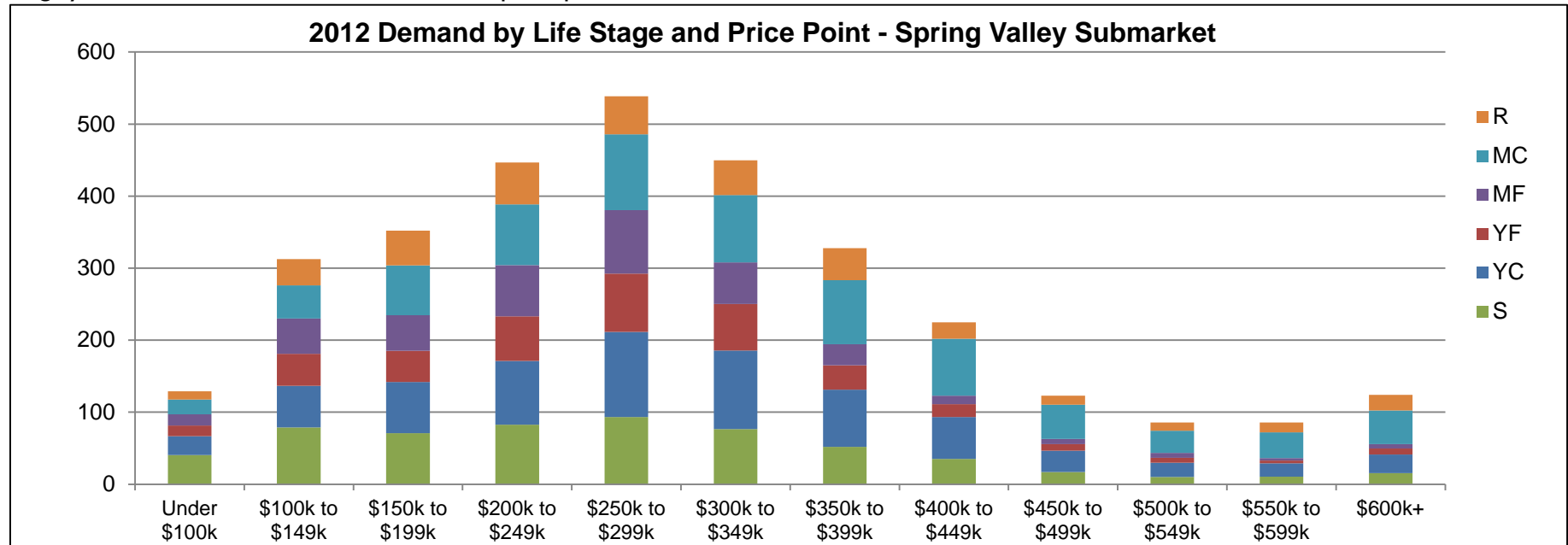
While the demand for housing is expected to continue to increase for all life stage groups as overall demand increases in the county through 2016, shifting demographics suggest that the Young Couples, Mature Couples, and Retiree groups will witness the greatest absolute gains in purchase activity in the next several years.



Forecasted Demand by Life Stage - San Diego, CA MSA						
Life Stage	2012	2013	2014	2015	2016	2017
Singles	7,213	8,061	8,374	8,753	9,198	8,458
Young Couples	9,429	10,566	10,992	11,508	12,143	11,240
Young Families	4,111	4,607	4,796	5,025	5,310	4,925
Mature Families	3,770	4,173	4,296	4,451	4,642	4,242
Mature Couples	11,847	13,213	13,706	14,307	14,980	13,696
Retirees	4,867	5,579	5,937	6,357	6,828	6,438
Grand Total	41,238	46,200	48,100	50,400	53,100	49,000

The map displays the Spring Valley Submarket, a purple-shaded area in Southern California. Major cities and towns within the submarket include El Cajon, La Mesa, Lemon Grove, Spring Valley, Rancho San Diego, and Jamacha. The map shows a network of roads, including Interstate 15 (I-15), Interstate 805 (I-805), and State Routes 52, 54, 56, 58, 94, 125, and 163. A red dot marks the 'Subject Site' location, which is situated near the intersection of State Route 54 and State Route 163, just north of the city of San Diego. The map also shows the San Diego River and various local landmarks and neighborhoods.

Couples without children represent 45% of the home purchases in the Rancho San Diego submarket and are largely concentrated in the \$200,000 to \$399,999 price points. Families with children account for 24% of transactions – a greater share than the overall MSA – and are largely concentrated in the \$200k to \$349k price points.



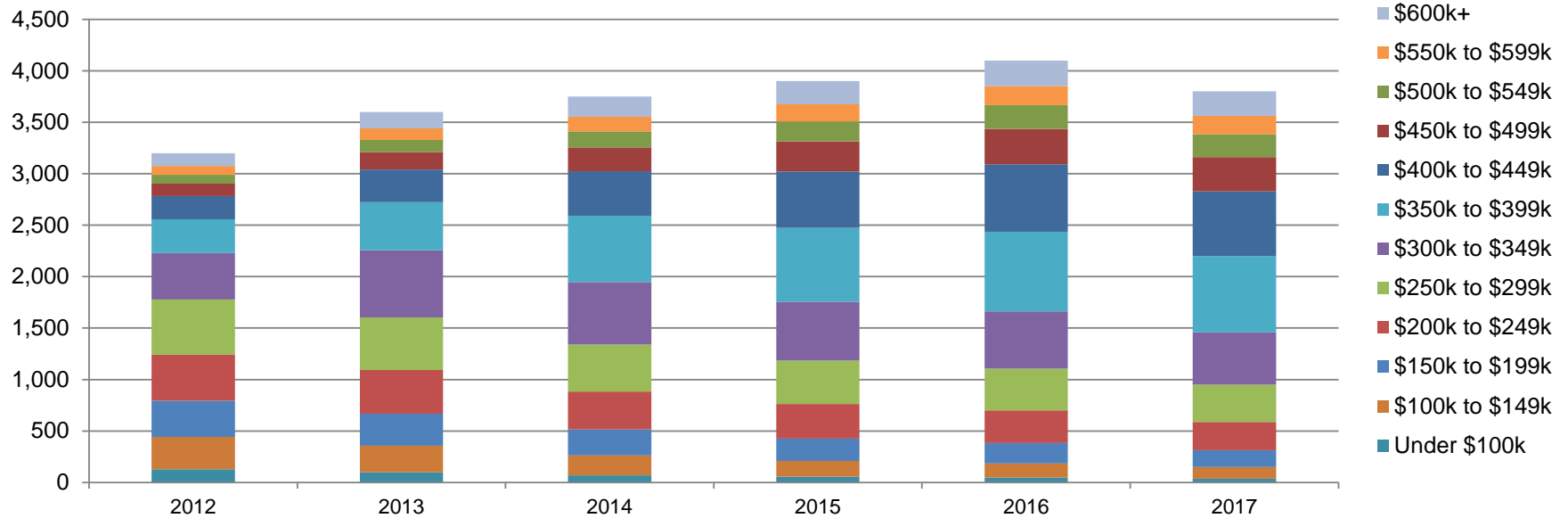
Average Price	S	YC	YF	MF	MC	R	Total	Share
Under \$100k	40	27	15	16	21	11	129	4%
\$100k to \$149k	79	58	45	49	46	37	313	10%
\$150k to \$199k	71	71	43	49	69	48	352	11%
\$200k to \$249k	83	89	62	71	85	58	447	14%
\$250k to \$299k	93	118	81	88	105	53	539	17%
\$300k to \$349k	77	109	64	58	93	48	450	14%
\$350k to \$399k	52	79	34	29	89	45	328	10%
\$400k to \$449k	35	58	18	12	79	23	225	7%
\$450k to \$499k	17	30	9	7	48	13	123	4%
\$500k to \$549k	10	20	7	7	31	11	86	3%
\$550k to \$599k	11	19	4	3	35	14	86	3%
\$600k+	15	26	8	6	47	22	124	4%
Grand Total	583	702	389	395	748	382	3,200	100%
Share	18%	22%	12%	12%	23%	12%	100%	



## HOUSING DEMAND BY PRICE POINT – RANCHO SAN DIEGO SUBMARKET

Current purchase activity in the Rancho San Diego submarket is largely concentrated in price points between \$200,000 and \$349,999. Through 2017, purchase activity is expected to shift upward, with a greater concentration of purchases in the \$300,000 to \$449,999 price ranges.

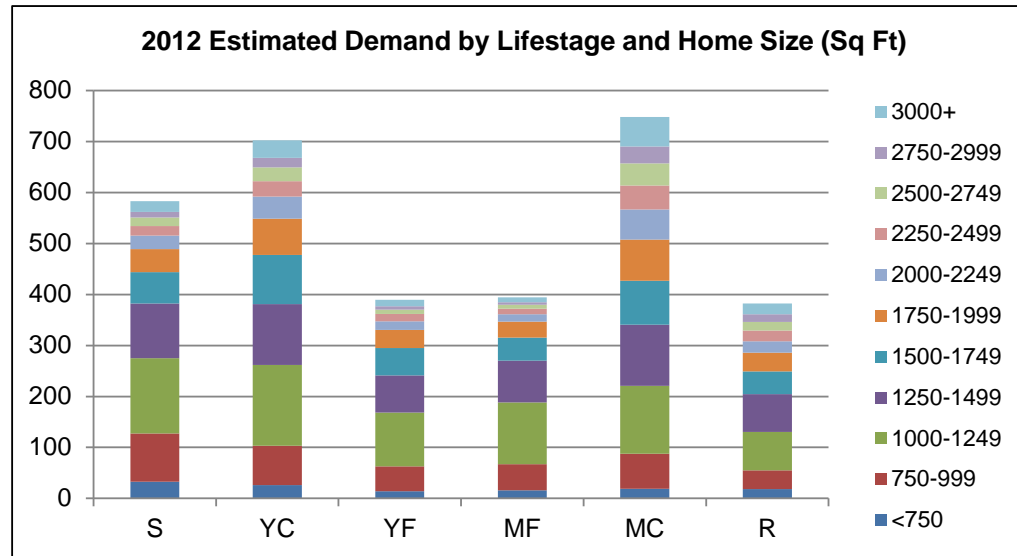
**Forecasted Demand by Price Point - Spring Valley Submarket**



**Forecasted Demand by Price Point - Spring Valley Submarket**

Average Price	2012	2013	2014	2015	2016	2017
Under \$100k	129	98	70	55	47	38
\$100k to \$149k	313	259	191	154	137	112
\$150k to \$199k	352	311	252	218	199	163
\$200k to \$249k	447	424	369	336	317	274
\$250k to \$299k	539	511	458	421	406	362
\$300k to \$349k	450	652	607	572	558	509
\$350k to \$399k	328	468	645	718	772	740
\$400k to \$449k	225	316	431	548	656	630
\$450k to \$499k	123	171	231	292	346	333
\$500k to \$549k	86	117	156	195	229	220
\$550k to \$599k	86	112	142	167	188	181
\$600k+	124	160	197	225	247	238
<b>Grand Total</b>	<b>3,200</b>	<b>3,600</b>	<b>3,750</b>	<b>3,900</b>	<b>4,100</b>	<b>3,800</b>

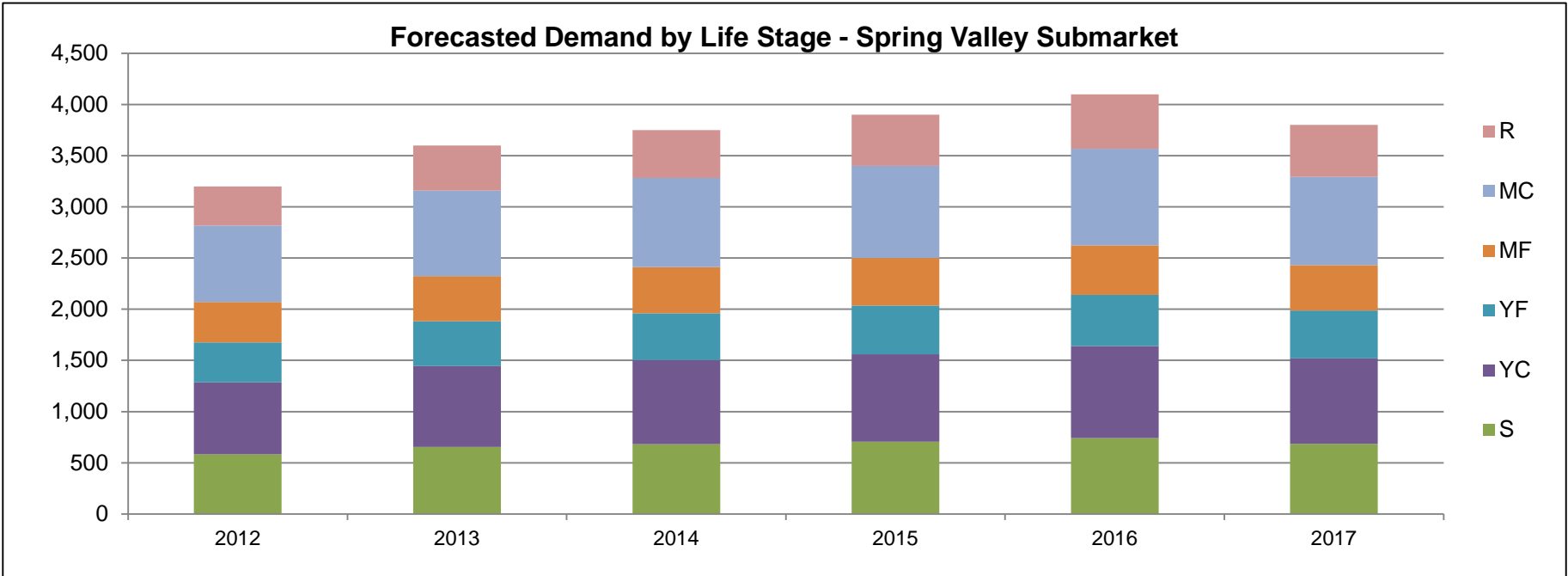
Among all life stages the top square footage range is 1,000 – 1,249 square feet. Specifically within this submarket, we believe this is directly related to the available housing stock and the affordable price point.



Living Area (Sq Ft)	2012 Estimated Demand by Lifestage and Home Size						Total
	S	YC	YF	MF	MC	R	
<750	1%	1%	0%	1%	1%	1%	4%
750-999	3%	2%	2%	2%	2%	1%	12%
1000-1249	5%	5%	3%	4%	4%	2%	23%
1250-1499	3%	4%	2%	3%	4%	2%	18%
1500-1749	2%	3%	2%	1%	3%	1%	12%
1750-1999	1%	2%	1%	1%	3%	1%	9%
2000-2249	1%	1%	1%	0%	2%	1%	6%
2250-2499	1%	1%	0%	0%	1%	1%	4%
2500-2749	1%	1%	0%	0%	1%	1%	4%
2750-2999	0%	1%	0%	0%	1%	0%	3%
3000+	1%	1%	0%	0%	2%	1%	5%
Grand Total	18%	22%	12%	12%	23%	12%	100%

## HOUSING DEMAND BY LIFE STAGE – RANCHO SAN DIEGO SUBMARKET

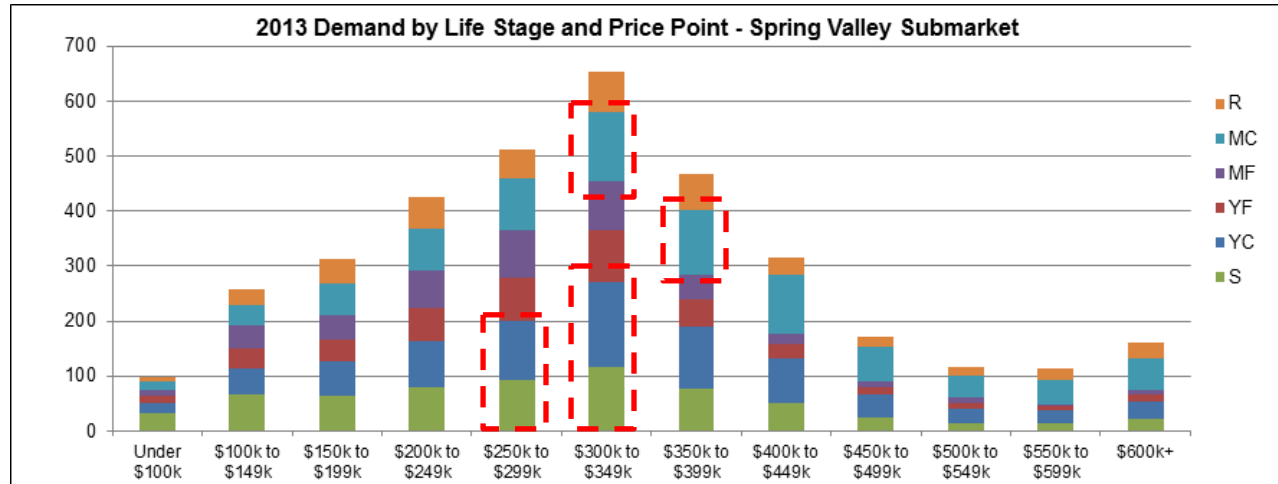
While the demand for housing is expected to continue to increase for all life stage groups as overall demand increases in the submarket through 2016, shifting demographics suggest that the Young Couples and Mature Couples life stage groups will show the greatest gain in the absolute number of purchases over the next several years.



Forecasted Demand by Life Stage - Spring Valley Submarket						
Life Stage	2012	2013	2014	2015	2016	2017
Singles	583	655	681	706	740	684
Young Couples	702	790	823	855	900	837
Young Families	389	438	456	475	501	466
Mature Families	395	439	452	465	484	444
Mature Couples	748	838	870	901	941	864
Retirees	382	440	469	498	534	505
Grand Total	3,200	3,600	3,750	3,900	4,100	3,800







Based on the demand analysis, we believe developing a for-sale residential product that targets Singles, Young Couples and Mature Couples would be well-received in the market.

### Demand

- New homes are projected to make up 7% of total sales in 2013, moving toward 10% of sales by 2017, averaging 9% of sales activity over the next five years.
- There is an average demand of 3,725 home purchases per year over the next five years within the submarket. Assuming new homes make up 9% on average, this will be 335 homes. We believe this submarket will pull 2% from San Diego County demand, due to price increases in coastal markets driving people to more affordable locations. This would equate to an additional demand for 960 total purchases, 86 which will assume will be new. Combined, this is 421 units of additional demand in the Rancho San Diego/Spring Valley submarket for new homes.
- Since there is a limited supply of new homes in the submarket and the timing of The Pointe development is undetermined at this time, we believe this project could capture 20% of the market, equating on average to 63 homes per year or 7.0 homes per month.

- A combination of flats, two-story townhomes and detached auto court will be product that will appeal to Singles, Young Couples and Mature Couples. Prototypes of this product have been included in the report.
- In speaking with brokers in the area, there was strong sentiment that small-lot detached homes have been in high demand from builders in San Diego County – especially in more affordable markets such as East County and could be priced in the \$300s with market appreciation. They did state their was a ceiling at \$400k and to keep pricing below this mark.

## RESIDENTIAL PRODUCTS Product Configuration

Prototype	
Spec Level	
Product Configuration	
Pad Size	
Total Number of Units	45
Acres (Same for purposes of analysis)	1.00
Actual Density (du/ac)	45.0

## Revenue

Ave Base Sales Price w/out CFD	
Ave Lot Premium	2.0%
Total Price (before Options)	
Ave Option Amt (% of Sale Price)	3.0%

## Total Revenue per Unit

Average Square Footage	
Value Ratio, \$/S.F. (base pricing)	
Value Ratio, \$/S.F. (w/premium)	
Value Ratio, \$/S.F. (Total)	

## Total Market Value

## Directs and Soft Costs

Direct Cost per Square Foot	
Common Area Cost per S.F.	
Directs	
Common Area	
Options Cost (% of Options Price)	65.0%
Indirects	3.5%
Sales & Marketing	3.5%
Closing Costs/Commissions	4.5%
Warranty	1.5%
Insurance SFA / SFD	2.75% 1.75%
Financing	0.0%
Management	3.0%
Profit	0.0%
<b>Total Directs &amp; Soft Costs</b>	<b>18.8%</b>

## Finished Lot Value Per Unit

Total Finished Value Or

SFA					SFD Small Lot	
Wrap	St Flats/Towns	3 Story Th	Carriage/Towns	Row Towns with Yards	Detached Alley	Auto Court
	Santa Rosa		Santa Barbara	Los Altos	Alley	Cluster
					Alley	
					1700	3375
45	20	18	18	16	10	12
1.00	1.00	1.00	1.00	1.00	1.00	1.00
45.0	20.0	18.0	18.0	16.0	10.0	12.0
120,000	168,000	210,000	210,000	240,000	284,000	299,000
2,400	3,360	4,200	4,200	4,800	5,680	5,980
122,400	171,360	214,200	214,200	244,800	289,680	304,980
3,600	5,040	6,300	6,300	7,200	8,520	8,970
126,000	176,400	220,500	220,500	252,000	298,200	313,950
1,000	1,200	1,650	1,480	1,570	1,850	1,900
\$ 120.00	\$ 140.00	\$ 127.27	\$ 141.89	\$ 152.87	\$ 153.51	\$ 157.37
\$ 122.40	\$ 142.80	\$ 129.82	\$ 144.73	\$ 155.92	\$ 156.58	\$ 160.52
\$ 126.00	\$ 147.00	\$ 133.64	\$ 148.99	\$ 160.51	\$ 161.19	\$ 165.24
5,670,000	3,528,000	3,969,000	3,969,000	4,032,000	2,982,000	3,767,400
\$ 150.00	\$ 68.00	\$ 76.00	\$ 66.00	\$ 66.00	\$ 60.00	\$ 47.00
\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
150,000	81,600	125,400	97,680	103,620	111,000	89,300
-	-	-	-	-	5,100	10,125
2,340	3,276	4,095	4,095	4,680	5,538	5,831
4,410	6,174	7,718	7,718	8,820	10,437	10,988
4,410	6,174	7,718	7,718	8,820	10,437	10,988
5,670	7,938	9,923	9,923	11,340	13,419	14,128
1,890	2,646	3,308	3,308	3,780	4,473	4,709
3,465	4,851	6,064	6,064	6,930	8,201	8,634
-	-	-	-	-	-	-
3,780	5,292	6,615	6,615	7,560	8,946	9,419
-	-	-	-	-	-	-
175,965	117,951	170,839	143,119	155,550	177,551	164,121
(49,965)	58,449	49,661	77,381	96,450	120,650	149,829
(2,248,425)	1,168,980	893,903	1,392,863	1,543,200	1,206,495	1,797,947

## LAND SALE COMPARABLES

13 single-family homes on 1/2-acre lots approximately 2 miles from the subject property just closed escrow in January. The homes traded at \$53,846 per lot. KB Home was the purchaser of the 36-lot SFD project La Mesa Meadows. This affirms that public builders are clearly looking for land and purchasing in East County San Diego, even with limited lots in a project.

Sale Status	Property Name	Property Address	Property City	Sale Date	Sale Price	Land Area AC	Price Per Acre	Price Per Unit	Density	Proposed Use
Sold	Montemar	Montemar Dr	Spring Valley	1/11/2013	700,000	7.57	92,470	53,846	1.7	Single Family Development - Proposed for 13 single family homes
Sold	La Mesa Meadows	Highfield Ave	La Mesa	2/6/2013	4,350,000	10.29	422,741	120,833	3.5	Single Family Development - Proposed 36 Lots
Sold	Mixed Use Development	7808 El Cajon Blvd	La Mesa	11/21/2012	1,200,000	1.4	857,143			Mixed Use - 1.4 acres that allows for maximum of 56 units.
Escrow	Golden Avenue 22 Units	Golden Ave	Lemon Grove			0.79	-			Planned Unit Development
Sold	7128 San Miguel Ave	7128 San Miguel Ave	Lemon Grove	10/31/2012	150,000	2.09	71,770			Single Family Development
Sold	9455 Single Oak Dr	9455 Single Oak Dr	Lakeside	8/17/2012	980,000	4.33	226,328	70,000	3.2	Planned Unit Development - Proposed for 14 lots.
Sold	Cary Ct	Cary Ct	El Cajon	3/16/2012	385,000	1.59	242,138	55,000	4.4	Single Family Development - preliminary map for a 7 lot split.

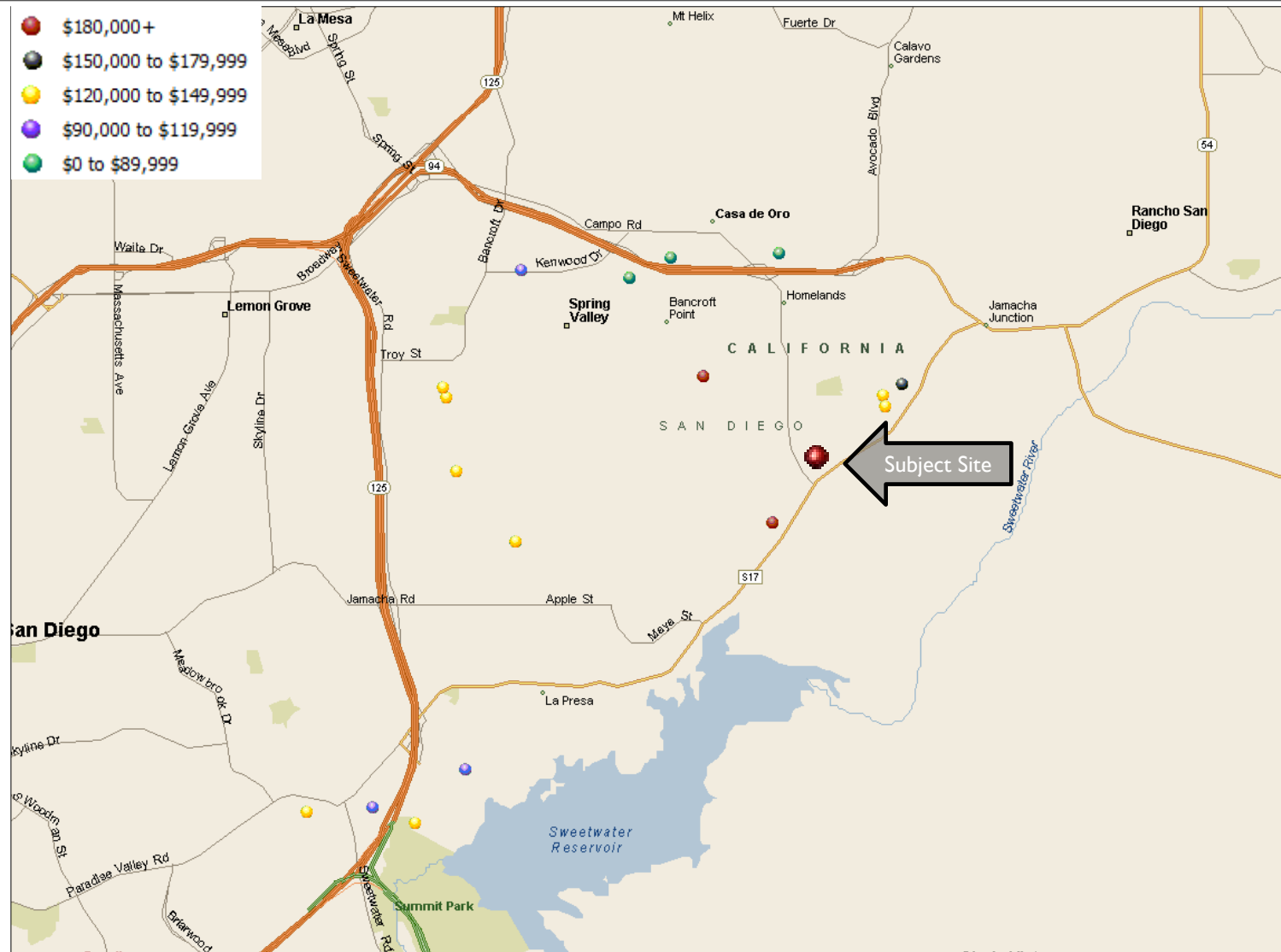


## FOR-SALE RESIDENTIAL PRICING AND ABSORPTION RECOMMENDATIONS

Pricing assumes a tax rate of 1.17% with no additional taxes, and HOA fees of \$275 for the wrap, \$250 for attached, \$150 for detached alley and auto court. We assume that there are no affordable restrictions and all units can be sold at market rate. New home prices are forecasted to improve to 11% growth in 2013, and 9% in 2014.

			JBREC Average Net Base Price Appreciation					
				11.0%	9.0%	5.0%	3.0%	1.0%
Community	Average SqFt	Avg. Net Base Price	Price per SqFt	2013	2014	2015	2016	2017
Subject - Wrap	1,000	\$120,000	\$120.00	\$133,200	\$145,188	\$152,447	\$157,021	\$158,591
Subject - St Flats/Towns	1,200	\$168,000	\$140.00	\$186,480	\$203,263	\$213,426	\$219,829	\$222,027
Subject - 3 Story Townhomes	1,650	\$210,000	\$127.27	\$233,100	\$254,079	\$266,783	\$274,786	\$277,534
Subject - Carriage/Towns	1,480	\$210,000	\$141.89	\$233,100	\$254,079	\$266,783	\$274,786	\$277,534
Subject - Row Towns with Yards	1,570	\$240,000	\$152.87	\$266,400	\$290,376	\$304,895	\$314,042	\$317,182
Subject - Detached Alley	1,850	\$284,000	\$153.51	\$315,240	\$343,612	\$360,792	\$371,616	\$375,332
Subject - Auto Court	1,900	\$299,000	\$157.37	\$331,890	\$361,760	\$379,848	\$391,244	\$395,156

The highest values are found to the east of Rancho San Diego along Jamacha Blvd, and the lowest values are to the north, along the 94. The median price of the closed single-family homes is \$128,000 with a median size of 975 square feet. The average year built is 1988.

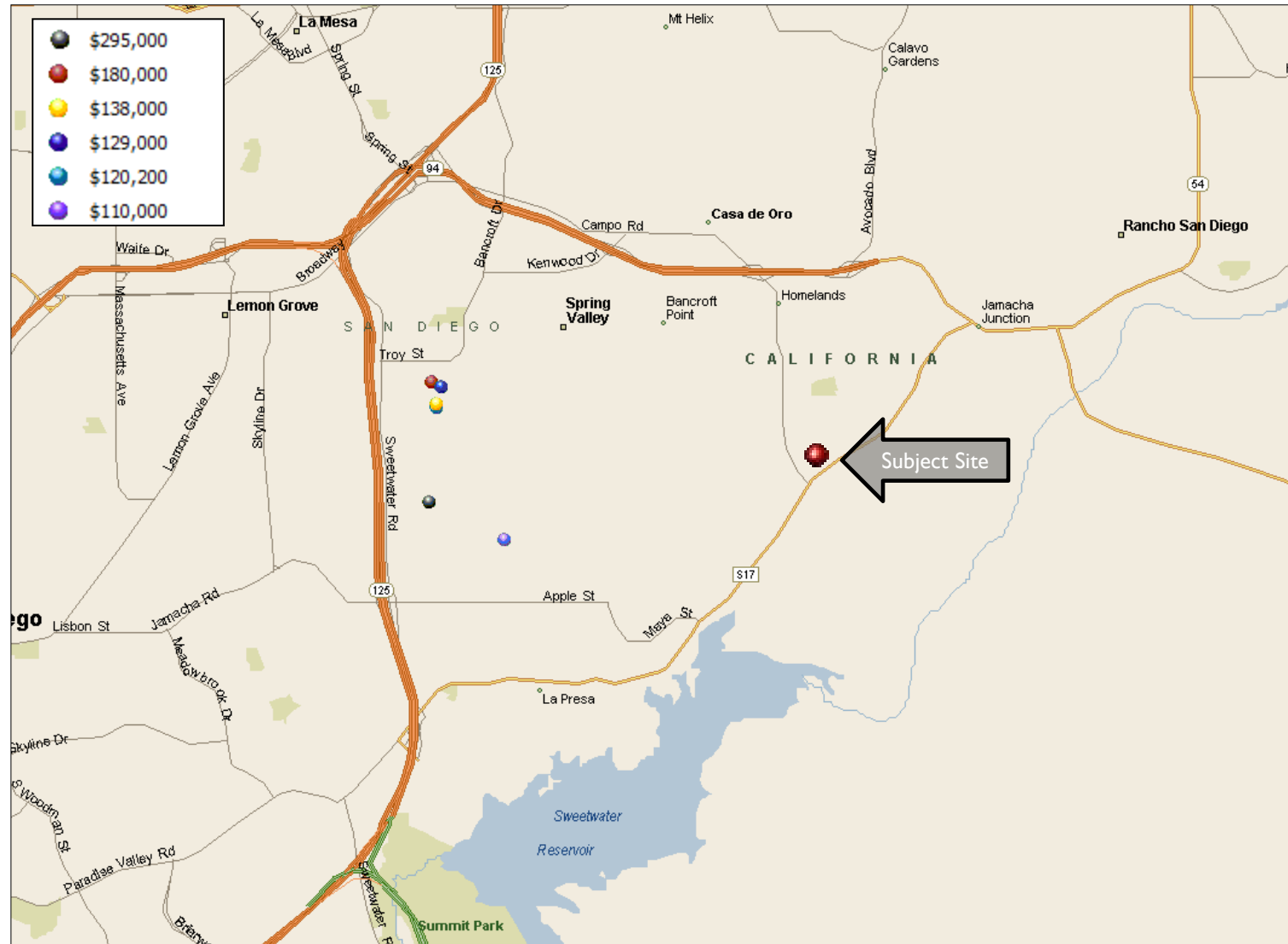


Source: SoCal MLS



## RESALE MAP (LAST 3 MONTHS) – DETACHED CONDOMINIUMS

Over 83% of detached condominium resale sales in Rancho San Diego sold for under \$200,000 in the last 3 months. The median price of the closed detached condominiums is \$133,500 with a median size of 1,105 square feet. The average year built is 1990.

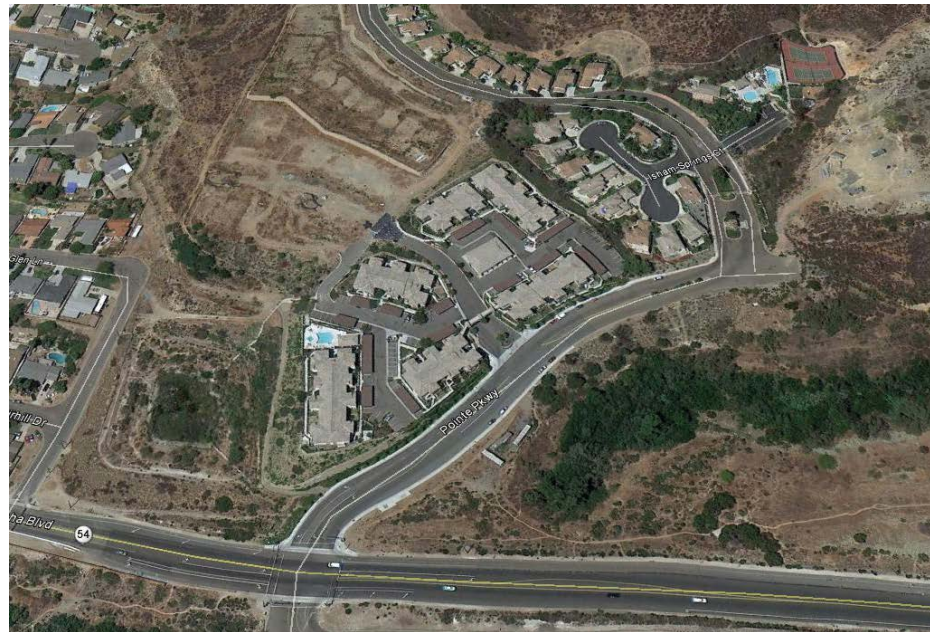


Source: SoCal MLS

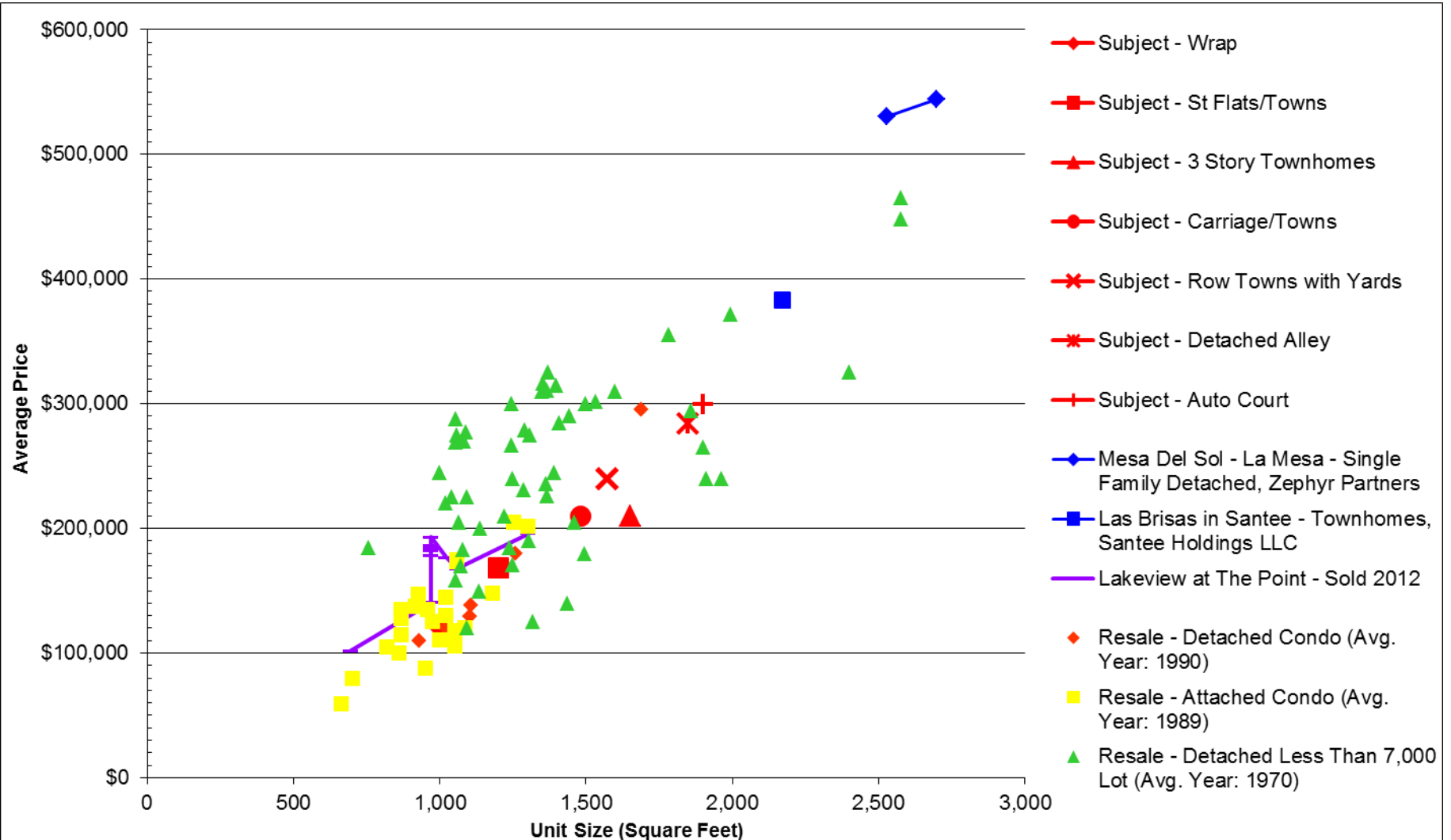
## RESIDENTIAL COMPARABLES – THE POINTE

The LakeView Homes at the Pointe were built between 2005 to 2007. Nine homes sold in 2012 and one has sold in 2013 with two pending sales. The median price of these transactions were \$180,420 with a median square footage of 970. The HOA fees are \$213 and the tax rate is comparable..

COE Date	Est SF	SP\$	Concession	Net Price	Distressed	DOM	Address	Bedrooms	Baths	Levels
	970	140,000			Y	89	2707 Lake Pointe Dr # 204	2	2	1
	1303	235,000			Y	11	2715 Lake Pointe Dr # 122	3	2	1
1/18/2013	1060	173,000	(5,190)	167,810	Y	296	2716 Lake Pointe Dr # 229	2	2	2
12/18/2012	1303	202,000	(6,060)	195,940	N	95	2716 Lake Pointe Dr # 130	3	2	2
10/22/2012	970	145,000	(4,350)	140,650	Y	114	2724 Lake Pointe Dr # 139	2	2	1
9/6/2012	696	105,000	(3,150)	101,850	Y	259	2716 Lake Pointe Dr # 225	1	1	1
8/28/2012	1021	182,000	(5,460)	176,540	Y	187	2708 Lake Pointe Dr # 114	2	2	1
6/8/2012	970	184,000	(5,520)	178,480	Y	33	2715 Lake Pointe Dr # 219	2	2	2
5/25/2012	970	190,000	(5,700)	184,300	N	2	2707 Lake Pointe Dr # 105	2	2	1
4/3/2012	970	192,000	(5,760)	186,240	N	26	2724 Lake Pointe Dr # 240	2	2	2
3/9/2012	970	188,000	(5,640)	182,360	N	60	2707 Lake Pointe Dr # 205	2	2	2
3/6/2012	970	199,000	(5,970)	193,030	N	13	2716 Lake Pointe Dr # 127	2	2	1



The subject property is priced below with LakeView Homes at The Pointe. The subject property will be newer construction; however, The Pointe has a superior location and views.



Source: JBREC, Community Sales Offices; Absorption = Historical/3 Month



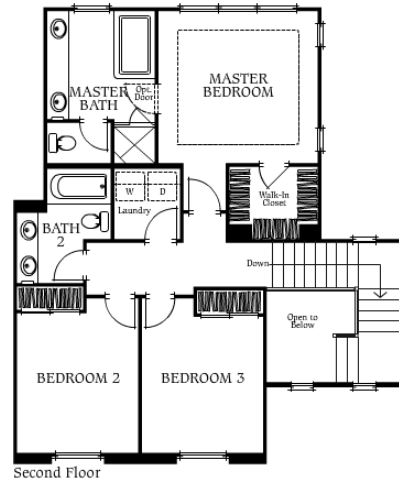
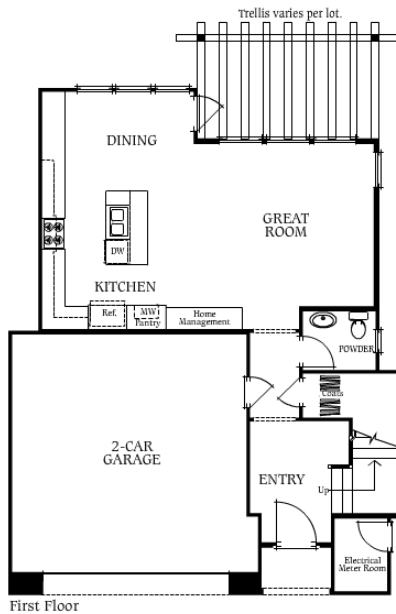
The key to this product is light on four sides due to the recesses in the architecture. These recesses create a more single-family detached concept, but with strong density up to 18/acre. In addition, it provides the privacy your buyers will want in their homes. This product can target mature and young profiles with 4 flats in the middle and a town on each end. You could even consider a redesign with a third level of flats across the top. The key is to maintain the four sides of light. Change the face of the building depending on the location in the community.

Square Footage Range – 1,060 to 1,431 SF



This product was originally built by Irvine Pacific in Stonegate East in 2011 . It allows for a private outdoor space within a townhome density. Irvine Pacific has now used this architecture in a new Stonegate project which opened at the end of January and has sold out at every phase release since opening.

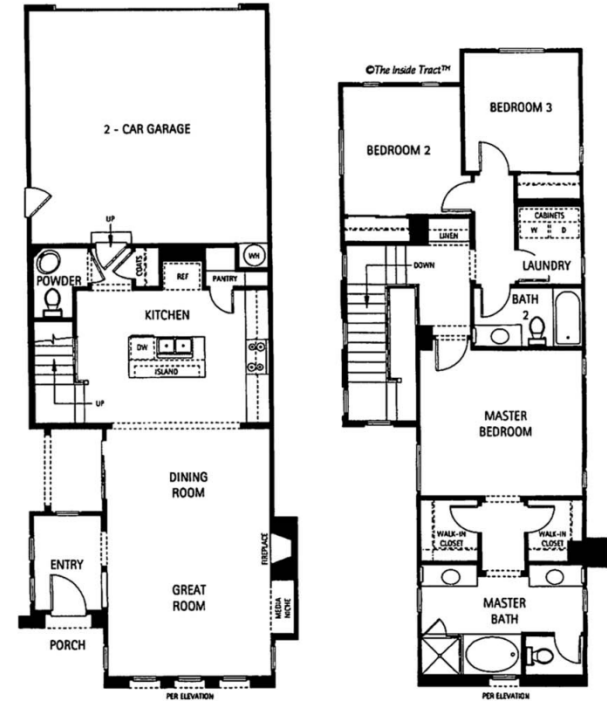
**Square Footage Range – 1,468 to 1,687 SF**





This product is alley-loaded and was built by Pulte in the Woodbury community in Irvine. This product does allow for courtyard living. There are many aspects of the specifications that we would suggest eliminating due to current trends and costs, such as the fireplace and media niche in the great room. This project was popular with mature couples and retirees because they did not require the backyard space and simply wanted an outdoor courtyard-type space. They also liked the nice street scene and the low-maintenance style of living.

Square Footage Range – 1,580 to 1,959 SF



This product was built by KB Home in Woodbury East in Irvine. It was well received in the marketplace and builds efficiently. It allows for private outdoor space and will plot well on the rectangular site.





We would not recommend active-adult housing for this site for the following reasons:

- Based on the demand detailed above and our analysis of those willing to purchase within an active adult community, we found there would only be 27 units of demand for the Rancho San Diego/Spring Valley submarket per year. Ultimately, the challenge is that you are limiting the buyer profile for the community by creating age-restrictions.
- We do believe that the mature couple and retiree will be an important buyer profile for you to consider, just not in the context of active adult. The flats contain two floorplans that could cater to active adults. Also, in designing the auto-court product, the downstairs den could be a bedroom in the larger plan. When you get in the design stage, it may make sense to sacrifice a little density to get a slightly larger footprint to design downstairs bedrooms.
- Something to consider is that many age-restricted Active Adult communities and programming typically require 600 – 800 units to create a successful community environment with a sustainable lifestyle and amenities to motivate this buyer profile to move. Costs for private amenities and monthly fees become manageable by being spread over more homes.
- We realize that you have a more detailed study completed for this use. We did not contemplate and determine the demand for a Continuing Care Retirement Community (CCRC) which would be different than an age-restricted active adult community.

Forecasted Demand by Life Stage - Spring Valley Submarket						
Life Stage	2012	2013	2014	2015	2016	2017
Singles	583	655	681	706	740	684
Young Couples	702	790	823	855	900	837
Young Families	389	438	456	475	501	466
Mature Families	395	439	452	465	484	444
Mature Couples	748	838	870	901	941	864
Retirees	382	440	469	498	534	505
Grand Total	3,200	3,600	3,750	3,900	4,100	3,800

MC + Ret.	1,130	1,278	1,338	1,399	1,475	1,370
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- We assume that 23% would consider Age-Qualified Active Adult Housing Market. This is based on work that we have done with active adult developers and other research.
  - On average the demand for of mature couples and retirees is 1,332, with 23% totaling 306 considering active adult housing per year.
  - Assuming the new home market would capture 7% of this demand, then there would be 21 mature couples and retiree for the Rancho San Diego/SpringValley submarket.
  - We also assume that you will pull 2% from the greater MSA, in which following the same demand process would add 6 more units of demand for a total Rancho San Diego/SpringValley submarket.
  - **This totals 27 units of demand for the Rancho San Diego/SpringValley submarket.** This project would need to capture 100% of the new home demand for active adult per year and still there would not be enough to make a new project feasible.

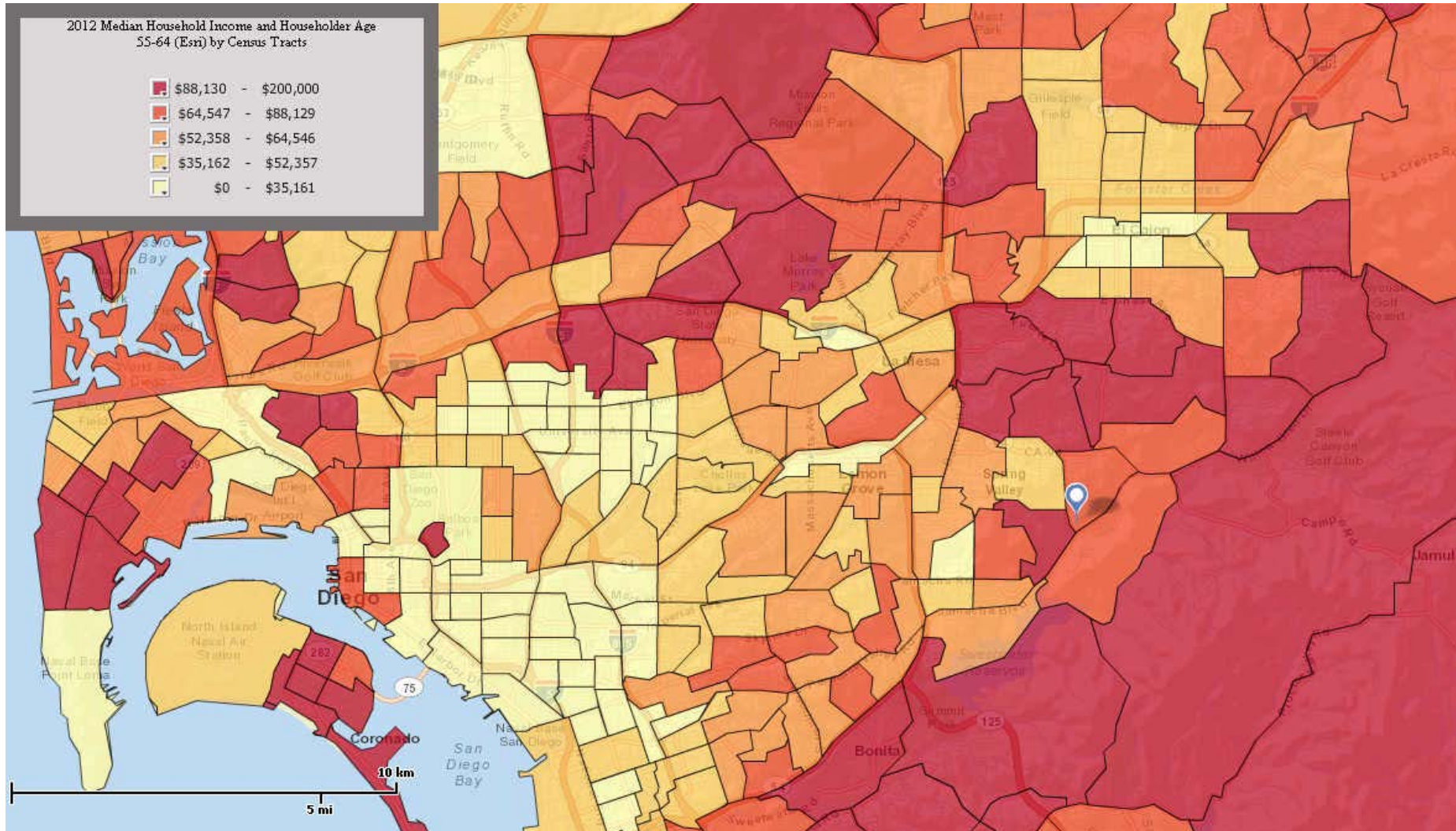


Demographic Summary	Census 2010	2012	2017	2012-2017 Change	2012-2017 Annual Rate
Total Population	283,594	287,267	300,158	12,890	0.88%
Population 50+	86,207	90,138	98,752	8,614	1.84%
Median Age	35.6	35.8	36.3	0.5	0.28%
Households	95,303	96,656	100,761	4,105	0.84%
% Householders 55+	39.2%	40.6%	43.5%	2.9	1.39%
Owner/Renter Ratio	1.3	1.2	1.3	0.1	1.61%
Median Home Value	-	\$297,554	\$329,751	\$32,197	2.08%
Average Home Value	-	\$326,974	\$361,785	\$34,811	2.04%
Median Household Income	-	\$54,678	\$62,705	\$8,026	2.78%
Median Household Income for Householder 55+	-	\$52,481	\$60,003	\$7,522	2.72%

2012 Households by Income and Age of Householder 55+								
	55-64	Percent	65-74	Percent	75+	Percent	Total	Percent
Total	18,718	100%	10,357	100%	10,183	100%	39,258	100%
<\$15,000	1,691	9.0%	978	9.4%	1,597	15.7%	4,266	10.9%
\$15,000-\$24,999	1,394	7.4%	809	7.8%	1,950	19.1%	4,153	10.6%
\$25,000-\$34,999	1,476	7.9%	1,240	12.0%	1,428	14.0%	4,144	10.6%
\$35,000-\$49,999	2,450	13.1%	1,724	16.6%	1,735	17.0%	5,909	15.1%
\$50,000-\$74,999	3,781	20.2%	2,542	24.5%	1,595	15.7%	7,918	20.2%
\$75,000-\$99,999	2,576	13.8%	1,224	11.8%	912	9.0%	4,712	12.0%
\$100,000-\$149,999	3,038	16.2%	970	9.4%	719	7.1%	4,727	12.0%
\$150,000-\$199,999	1,393	7.4%	488	4.7%	145	1.4%	2,026	5.2%
\$200,000+	919	4.9%	382	3.7%	102	1.0%	1,403	3.6%

## MEDIAN HOUSEHOLD INCOME BY AGES: 55-64

The median income for residents ages 55-64 of the subject property's census tract is \$65,608, with the tract to the southwest at \$90,244. Across Jamacha Boulevard the income is \$77,824.



There was one land transaction for senior development which just closed last month and one existing senior apartment complex in Santee. This complex traded for \$81,250 per door.

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#### Future 80-Unit Senior Mixed Use Development

- .79 Acre Mobile Home Park
- 3595 Olive St, Lemon Grove
- Sold on 2/13/2013 for \$195,000
- Sold by the City Of Lemon Grove to Citronica Two LP

#### Senior Apartments - Completed

- Santee Senior Retirement - Apartment Units – Senior
- 8.26 Acre Existing Apartment Complex built in 1985
- 8735 Graves Ave, Santee
- Total Units: 104
- Features remote-controlled security gates, laundry facility, free van service, A/C, clubhouse, and library
- Sold on 12/17/2012 for \$8,450,000. This equals a per door value of \$81,250.
- Sold by Warren Lortie Investments, Inc. to Peppertree Apartment Holdings
- At the time of sale there were 2 units vacant for an occupancy rate of 98%



Our research indicates that, although the site could be conducive for apartments, there does not appear to be enough demand to support this use:

- Based on population growth projections, the percentage of renters in the market and our forecast of future growth, there is a demand for 472 new rental units in the Rancho San Diego/Spring Valley submarket with the rental rate ranging from \$1,400 to \$2,900 per month. We assume this project could attract 10% of this demand, totaling 47 units. This number is too small to justify future development. If you assumed a 8 acre apartment site with 24 dwelling units per acre, it would take 4 years to lease up the property.
- In speaking with local brokers and leasing offices, freeway accessibility is an important consideration in tenants' selection and, ultimately, the value of the property. One broker stated that values in Rancho San Diego/Spring Valley could be reduced by 10% due to freeway accessibility and run-down surrounding areas. Based on these conversations, we also learned that many tenants are young families and some mature couples who work in the South Bay, East County or Downtown. They desire a lower monthly payment and a less urban, more low-key environment.
- For purposes of this report, we have presented a prototype for an apartment complex designed by Bassenian Lagoni. The plan yields 24 dwelling units to the acre, with unit sizes ranging from 724 square feet with one bedroom and one bathroom to 1,099 square feet with two bedrooms and two bathrooms. All plans have an enclosed garage not attached to the unit, with the exception of one unit. We have assumed the following average rent for 952 square feet:
  - Average Rent = \$1,532
  - Average Rent per Square Foot = \$1.62

In speaking with a local multifamily brokers, they believe that \$1.60 - \$1.80 per square feet for a new community is supportable in this market, depending on location, specification of the apartments and freeway accessibility. We believe this project is on the lower range due to freeway accessibility and also general location.



- In this analysis, we looked at apartment sale comparables in the second half of 2012 and 2013 to-date to determine a price-per-door rate for fully constructed apartment units, as raw land transactions are not available.
  - Average Price-Per-Door for Fully-Constructed Unit: \$86,400.
  - The average cap rate for these transaction was 6.2%. This is relatively consistent with our interviews with local brokers, who stated the cap rate for this submarket ranges from 5.75% to 6.25%.
  - The Oakbrook Ridge Apartments, which is used as a comparable, was recently sold for \$18.2 million. The complex was built in 1985 and has 128 units in a mix of one-, two- and three-bedroom sizes. This represents a per-apartment-door value of \$142k. The property amenities include a swimming pool, spa, picnic area and playground. This property has exceptional freeway access and great view of the area. The property was leased at 95% and had a cap rate of 5.5%. Some local brokers speculate that this per-door value seemed a little high for the area.
- There are currently not any raw land comparables for apartments in the area. Based on our conversations with brokers, they indicated that the land in this submarket can range from 15-30% of the total cost of the development, depending on the location and entitlement status. For non-developed land at this site, we are assuming it would be 15%. Therefore, we have derived the following per unit valuation:

Average Price per Door of Sold Transactions of 10 or More Units	96,283
Adjustment for New Construction*	25%
Adjusted Price per Door	120,354
Per Unit Land Residual	18,053

\* The proposed rent is 13% higher than the average rent in the area.

- **Assuming 24du/acre, this would yield a land value of \$433,270 per acre.** This could be comparable to for-sale residuals depending on improvement costs. However, we believe there is more upside in residential as rent rates are projected to slowly increase with considerable appreciation in for-sale housing.

- We also created a valuation based on estimated net operating income and cap rate. The operating expenses are based on the National Apartment Association 2012 Survey of Operating Income and Expenses for Garden Courtyard (mid-density) apartment communities. This encompassed 3,109 properties across the United States. It is important to note that this valuation does not assume finance charges.
- **Assuming 24du/acre, this would yield a land value of \$619,222 per acre.**
- As a benchmark, Otay Ranch recently went to market in 2012 with a finished pad for an apartment site and received \$35k per door. The location of this site in Otay Ranch with established new residential and retail commanded the higher per-door value. Rents in zip code 91913 are on average 26% higher than Spring Valley.
- Triangulated these approaches and looking at the Otay Ranch comparable. We believe that a per door value of \$23,000 is a supportable number in this market.

Total Units	24	
Average SqFt	952	
Average Rents per SqFt	\$1.62	
Gross Rents	\$444,165	
Other Income	0	\$0
Non-Revenue Units	0	\$0
Concessions	0	\$0
Vacancy	5%	(\$22,208)
<b>GROSS OPERATING INCOME</b>		<b>\$421,957</b>
Operating Expenses		
Salaries and Personnel	10.8%	(\$45,571)
Insurance	2.1%	(\$8,861)
Taxes	9.6%	(\$40,508)
Utilities	5.0%	(\$21,098)
Management Fees	2.8%	(\$11,815)
Administrative	2.2%	(\$9,283)
Marketing	1.5%	(\$6,329)
Contract Services	2.7%	(\$11,393)
Repair and Maintenance	4.6%	(\$19,410)
	41.30%	<b>(\$174,268)</b>
<b>NET OPERATING INCOME</b>		<b>\$247,689</b>
Capitalization Rate		6.00%
Property Value / Purchase Price		<b>\$4,128,144.65</b>
Estimated Value of Land		<b>\$619,222</b>
Per Door Value		<b>\$25,801</b>

## APARTMENT SALE COMPARABLES

There were eight apartment complex sales within the Spring Valley area since June 2012 with two other complex sales pending. The majority of the complexes were small, with the exception of Oakbrook Ridge Apartments and Helix de Oro. The comps that are shaded were not considered in our residual analysis.

Sale Status	Property Address	Property Name	Sale Date	Sale Price	Price Per Unit	Number Of Units	Year Built	Reported Cap Rate	Market Time
Sold	3917 Spring Pl		2/28/2013	1,185,000	118,500	10	1985	7.5%	161
Sold	9922-9934 Buena Vista Dr	Buena Vista Apartments	2/27/2013	515,000	73,571	7	1946		79
Sold	8515-8529 Paradise Valley Rd	Oakbrook Ridge Apartments	2/15/2013	18,200,000	142,188	128	1985	5.5%	367
Sold	9860 Dale Ave	Helix De Oro Apartment Homes	10/30/2012	2,700,000	38,571	70			
Sold	437 Grand Ave		10/4/2012	1,275,000	85,000	15	1977	7.1%	
Sold	1313-1429 Sweetwater Ln		9/4/2012	600,000	66,667	9		3.7%	355
Sold	913 Grand Ave	Grand Avenue Apartments	8/17/2012	417,000	69,500	6	1975	6.2%	149
Sold	8914 Delrose Ave	Lanai Village	6/13/2012	4,663,500	97,156	48	1965	7.4%	
Escrow	9062 Kenwood Dr	Kenwood Apartments*				20	1978	6.3%	280
Pending	9094 Harness St	*				9	1979	5.9%	113
<b>AVERAGE</b>				<b>3,694,438</b>	<b>86,394</b>	<b>32</b>	<b>1,974</b>	<b>6.2%</b>	<b>215</b>

- In June 2010, Dan Floit paid \$3.92 million for Jackson Pointe, directly across Jamacha Blvd from the subject property. The project is a 15.88-acre gated community of 111 rental units. At the time of purchase, the property had 24 existing townhomes and 87 finished lots. Now completed, all units have two-car attached garages, with rental rates starting at \$1,795 for 1,200-square-foot, two-bedroom units and ranging to \$2,395 and up for 1,729-square-foot four-bedroom units. Currently the project is 100% leased. The 87 finished lots leased to full occupancy in approximately six months (14.5 units per month lease up rate).

The Spring Valley apartment is not a market that has absorbed units over the last ten years and vacancy rates have slightly dropped since 2003. The average asking rate has increased, yet not at the same rate as the Southern California region.

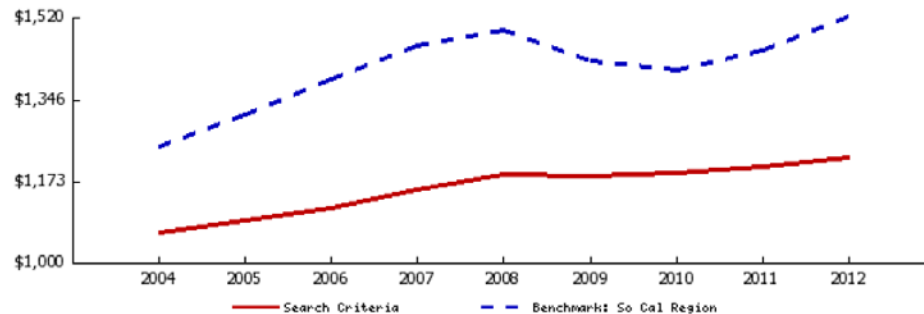
## Units Absorbed

	Units Built	Total Units	Occupancy Rate	Occupied Units	Units Absorbed
2002	0	1,281	96.6%	1,237	N/A
2003	0	1,281	96.8%	1,240	3
2004	0	1,281	94.7%	1,213	-27
2005	0	1,281	93.6%	1,199	-14
2006	0	1,281	95.7%	1,225	26
2007	0	1,281	94.4%	1,209	-16
2008	0	1,281	95.0%	1,216	7
2009	0	1,281	94.5%	1,210	-6
2010	0	1,281	94.5%	1,210	0
2011	0	1,281	94.8%	1,214	4
2012	0	1,281	94.4%	1,209	-5

## Average Asking Rent

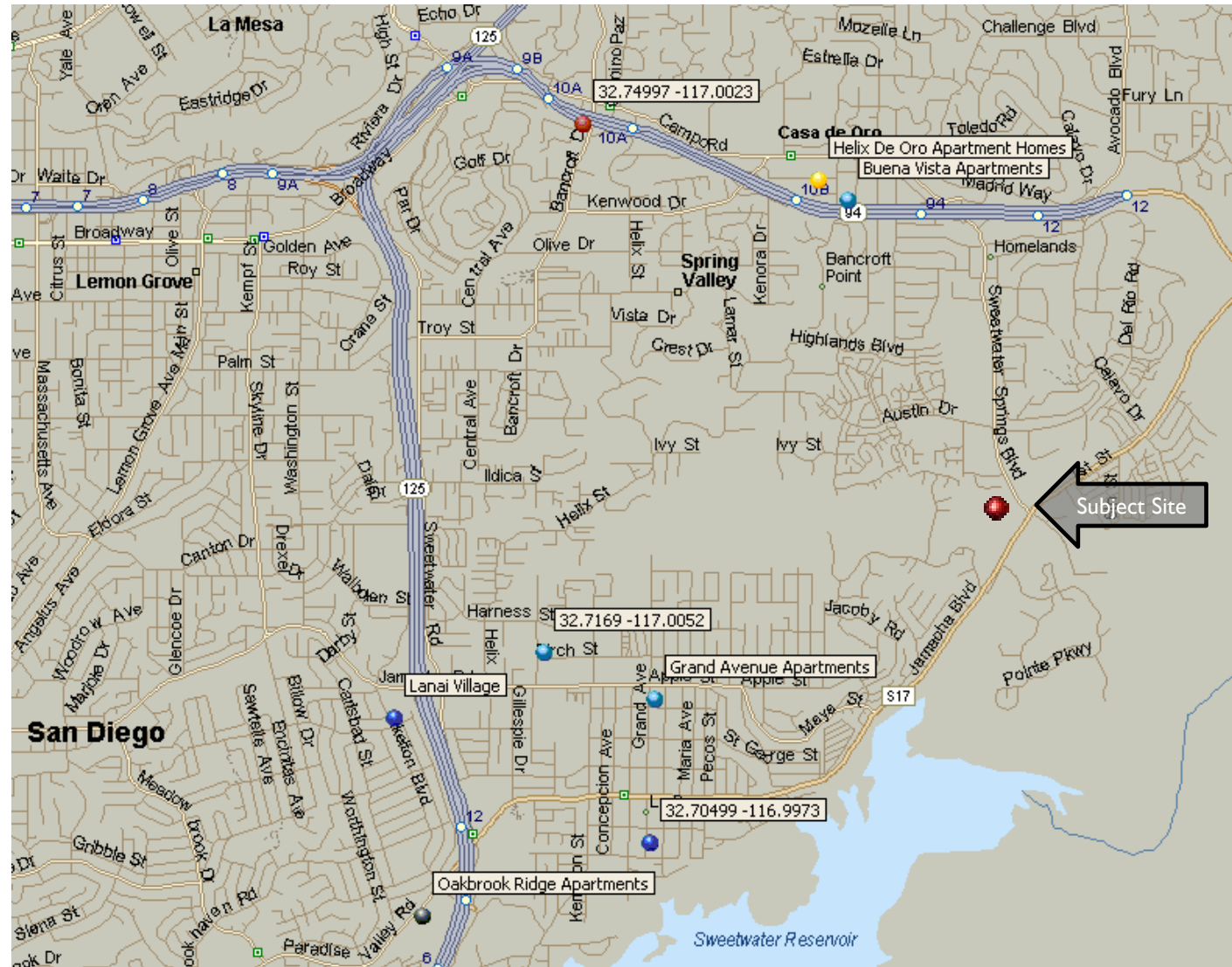
	2004	2005	2006	2007	2008	2009	2010	2011	2012	4 Yr. Change
AVERAGE	\$1,062	\$1,087	\$1,115	\$1,152	\$1,187	\$1,184	\$1,189	\$1,202	\$1,221	2.8%
studio	\$747	\$740	\$748	\$775	\$802	\$795	\$817	\$810	\$810	0.9%
1bd 1bth	\$894	\$911	\$943	\$965	\$997	\$995	\$987	\$1,006	\$1,051	5.4%
2bd 1bth	\$1,025	\$1,066	\$1,077	\$1,123	\$1,155	\$1,140	\$1,155	\$1,160	\$1,163	0.6%
2bd 2bth	\$1,151	\$1,174	\$1,208	\$1,256	\$1,289	\$1,288	\$1,300	\$1,307	\$1,316	2.1%
2bd TH	\$1,136	\$1,175	\$1,217	\$1,237	\$1,265	\$1,280	\$1,280	\$1,270	\$1,315	4.0%
3bd 2bth	\$1,371	\$1,396	\$1,420	\$1,442	\$1,504	\$1,513	\$1,503	\$1,563	\$1,569	4.3%
3bd TH	\$1,337	\$1,375	\$1,421	\$1,448	\$1,490	\$1,505	\$1,505	\$1,515	\$1,537	3.2%

Source: Real Facts



**Price Per Unit**

- Black \$125,000+
- Red \$100,000 to \$124,999
- Blue \$75,000 to \$99,999
- Light Blue \$50,000 to \$74,999
- Yellow 0 to \$49,999





# RENTAL RECOMMENDATIONS AND APPRECIATION PROJECTIONS

The recommended average rents for the Subject Property range from \$1,250 for 724 square feet to \$1,740 for 1,099 square feet. The Subject's recommended rent rates are anticipated to appreciate over the next five years, and our schedule shows an average price per square foot average of \$1.83 by 2016. Since 2001, rental rates in the San Diego MSA have been increasing 3% on average. The unit count assumes that 10 acres of the site is for apartments.

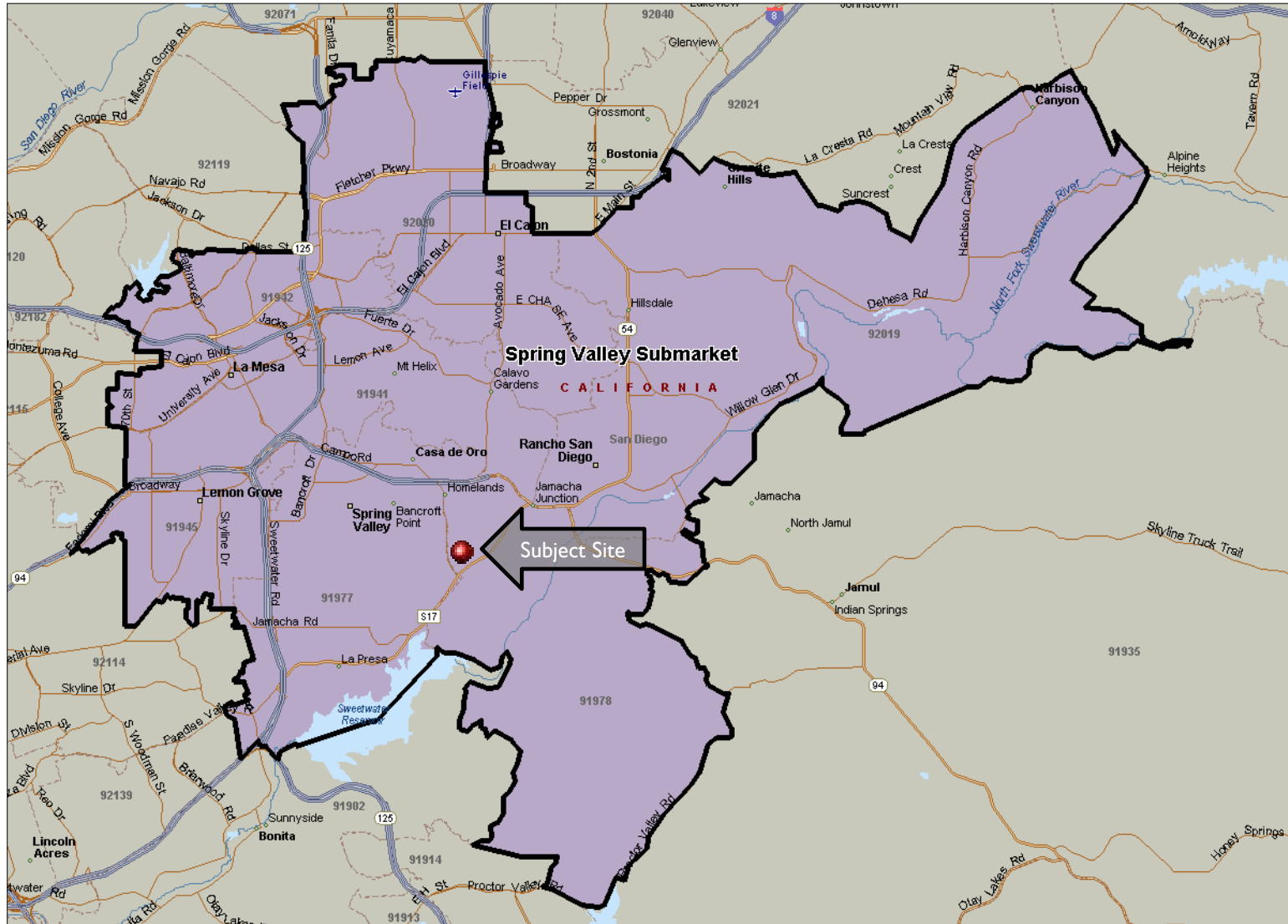
				MIX	PRODUCT					JBREC RECOMMENDED							
				Sq. Ft.	Plan Configuration					Est. Lease-Up	Average		Concessions*	Net Effective Average			
					Bed	Bath	Level	Pkg Spts	Pkg Type*	Rate	Rent	\$/SF	Direct	Rent	\$/SF		
Project Name				Builder													
SUBJECT - 24 DU/ACRE																	
SUBJECT - 24 DU/ACRE				San Diego	40	724	1	1.0	1	1	G	10/month	\$1,250	\$1.73	\$0	\$1,250	\$1.73
					40	767	1	1.0	1	1	G		\$1,250	\$1.63	\$0	\$1,250	\$1.63
Product:	Stacked Flats	Total Units:	240	40	1,030	2	2.0	1	2	2	G		\$1,630	\$1.58	\$0	\$1,630	\$1.58
Number of Floors:	3-Story	Total Leased:	0	40	1,020	2	2.0	1	2	2	G		\$1,630	\$1.60	\$0	\$1,630	\$1.60
Parking:	Garage	Total Occupied:	0	40	1,074	2	2.0	1	2	2	G		\$1,740	\$1.62	\$0	\$1,740	\$1.62
Income/Age Restr:	No	Currently Available:	240	40	1,099	2	2.0	1	2	2	G		\$1,690	\$1.54	\$0	\$1,690	\$1.54
Year Built:	2013																
Began Lease-Up:	Jan-15																
Finished Lease-Up:	Feb-17																
Totals/Averages:					240	952							\$1,532	\$1.62	\$0	\$1,532	\$1.62

JBREC Average Net Rent Appreciation					1.5%	3.0%	3.0%	3.0%	2.0%
Community	Product	Configuration	Units	Avg. Net	2013	2014	2015	2016	2017
SUBJECT - 24 DU/ACRE	Stacked Flats	3-Story	240	\$1,532	\$1,555	\$1,601	\$1,649	\$1,699	\$1,733
<b>WEIGHTED AVERAGE</b>			<b>240</b>	<b>\$1,532</b>	<b>\$1,555</b>	<b>\$1,601</b>	<b>\$1,649</b>	<b>\$1,699</b>	<b>\$1,733</b>

JBREC Net Rent Appreciation (\$/SF)					1.5%	3.0%	3.0%	3.0%	2.0%
Community	Product	Configuration	Units	Avg. Net \$/SF	2012	2013	2014	2015	2016
SUBJECT - 24 DU/ACRE	Stacked Flats	3-Story	240	\$1.62	\$1.64	\$1.69	\$1.74	\$1.79	\$1.83
<b>WEIGHTED AVERAGE</b>			<b>240</b>	<b>\$1.62</b>	<b>\$1.64</b>	<b>\$1.69</b>	<b>\$1.74</b>	<b>\$1.79</b>	<b>\$1.83</b>

Source: John Burns Real Estate Consulting

Our analysis considered the same demand area for rental housing as the for-sale housing demand analysis, and represents the following geographic area:



Zip Codes: 91941, 91942, 91945, 91977, 91978, 92019, and 92020.

Based on our analysis, there is demand for 472 new rental units in the Rancho San Diego submarket with the rental rate ranging from \$1,400 - \$2,900 per month. Assuming this project attracts 10% of this demand, there is a need for 47 units. The reason why we believe this project will only attract 10% is due to the future apartment developments in La Mesa on the north side of the freeway and downtown that will capture a large portion of demand due to their proximity to the transit centers and freeway system.

DEMAND FROM HH GROWTH		TOTAL HOUSEHOLDS		RENTAL HOUSEHOLDS						
Annual Household Income	Monthly Rental Rate 1/	Total Households - 2012 2/	Total Households - 2017 (P) 2/	% Rental Households 2012 3/	2012 Calculated Renter HH	% Rental Households 2017 3/	2017 Calculated Renter HH (P)	Annual New Rental HH (A) 4/	% that Rent Apartment Homes	# that Rent Apartment Homes 5/
\$0 to \$25,000	\$0 - \$700	18,777	17,142	69%	12,929	76%	12,983	0	85%	0
\$25,000 to \$35,000	\$700 - \$1000	9,389	7,457	56%	5,227	61%	4,567	0	85%	0
\$35,000 to \$50,000	\$1000 - \$1400	14,222	12,881	48%	6,820	53%	6,794	0	85%	0
\$50,000 to \$75,000	\$1400 - \$2100	18,684	18,788	43%	7,945	47%	8,788	169	85%	143
\$75,000 to \$100,000	\$2100 - \$2900	11,620	16,077	37%	4,333	41%	6,595	452	65%	294
\$100,000 to \$150,000	\$2900 - \$4300	12,456	14,914	25%	3,082	27%	4,059	195	15%	29
\$150,000+	\$4300+	7,808	9,588	10%	778	11%	1,051	55	10%	5
<b>Total</b>	<b>Total</b>	<b>92,956</b>	<b>96,847</b>	<b>44%</b>	<b>41,114</b>	<b>46%</b>	<b>44,838</b>	<b>871</b>	<b>54%</b>	<b>472</b>

ESRI projects 4% growth in the next 5-years in the Spring Valley submarket.

JBREC increased the overall renter rate +/-2% and adjusted rate by income category to account for growth.

In the Spring Valley submarket, 54.3% of households who rent, rent apartments opposed to SFD. JBREC assumes lower income groups are more likely to rent apartments. The difference is attributed to future growth concentrated in the higher income groups that have a lower likelihood to rent apartments.

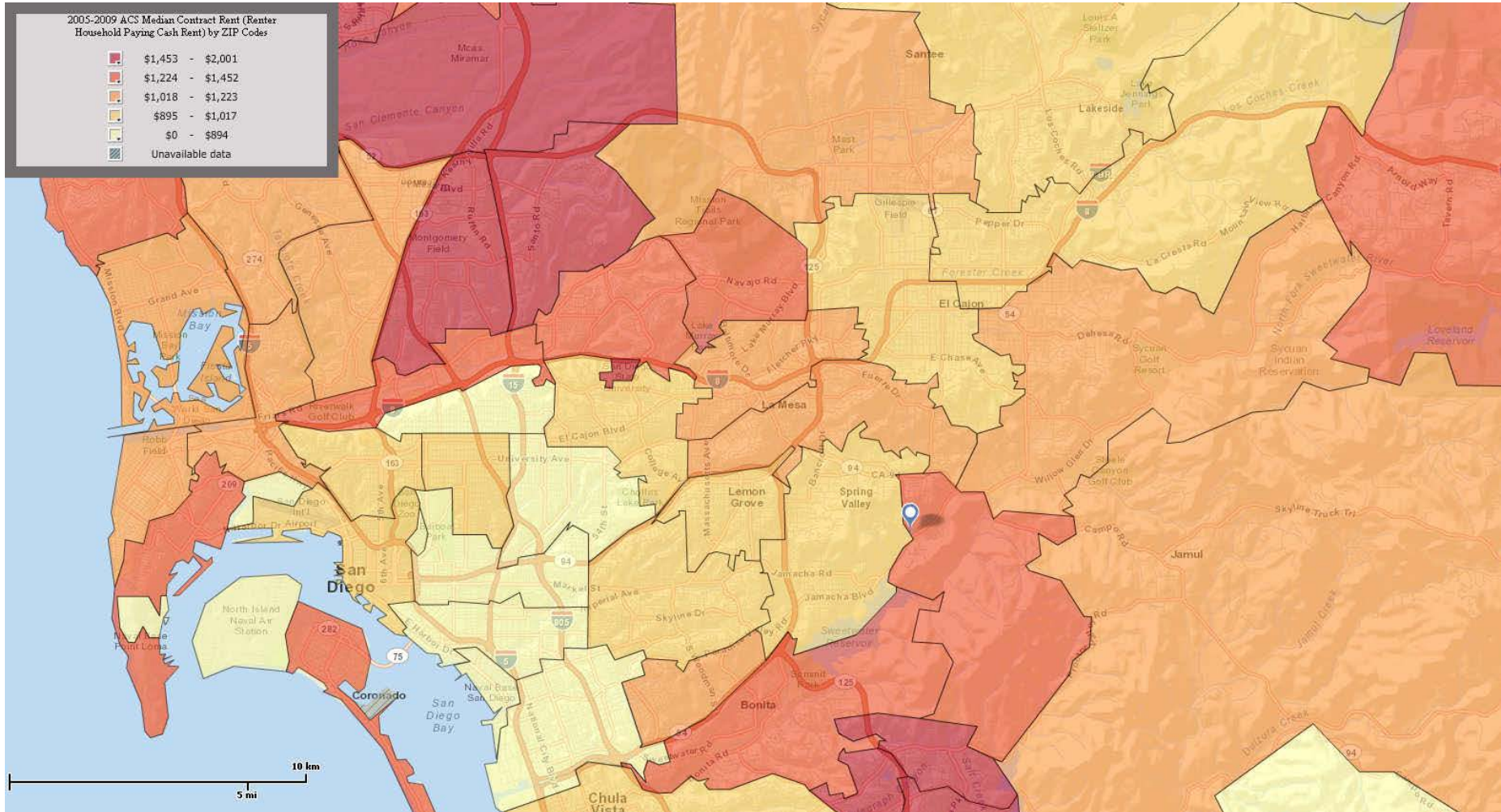
Monthly Rental Rate	Total Demand	
\$0 - \$700	0	<sup>1</sup> Assumes that in the Spring Valley submarket, households pay 34.3% of the annual income toward rent per American Community Survey 2010. While percentage paid by income may vary, the calculation is intended to establish reasonable rent ranges as perspective. Some households will spend more and some will spend less. <sup>2</sup> Estimated total existing households and annual household growth between 2012 and 2017. Total HH for 2012 per US Census. Data is adjusted based on ACS distribution. 2017 growth per ESRI. <sup>3</sup> Percentage of area households that are renter occupied by income level per US Census American Community Survey 2011. For 2017 we adjusted the overall renter rate upward by 2% given our expectation of higher renter ratio trend in coming years. Percentages by income increase given the adjusted household income distribution. <sup>4</sup> Calculated gain in renter households 2012 to 2017. Those income categories that show a decrease in households will not show household growth demand. <sup>5</sup> Percentage of renters by income level that are likely to rent apartments. Data per US Census Bureau. Census reports 54.3% of all households in the Spring Valley submarket who rent, rent in structures that are 5+ units. For purposes of this analysis, JBREC defined these as apartments. JBREC model varies by income level assuming that lower income households are more likely to rent apartments than higher income households (which may tend toward single family homes).
\$700 - \$1000	0	
\$1000 - \$1400	0	
\$1400 - \$2100	143	
\$2100 - \$2900	294	
\$2900 - \$4300	29	
\$4300+	5	
<b>Total</b>	<b>472</b>	
SP - Relevant:	472	

Focused Market Capture Sensitivities (Spring Valley, CA)			
Monthly Rental Rate	% of Spring Valley Households vs. Submarket	% of Spring Valley Rental Stock vs. Submarket	JBREC Adjusted Based on Location Attractiveness
472 Units of Demand	10%	9%	10%
\$0 - \$700	0	0	0
\$700 - \$1000	0	0	0
\$1000 - \$1400	0	0	0
\$1400 - \$2100	15	12	14
\$2100 - \$2900	30	25	29
\$2900 - \$4300	3	3	3
\$4300+	1	0	1
<b>Total</b>	<b>48</b>	<b>41</b>	<b>47</b>

Source: ESRI, Census

## MEDIAN CONTRACT RENTS BY ZIP CODE

The subject property is located in zip code 91978 with median rents of \$1,337. However, it is on the border of zip code 91977 with median rents of \$999.

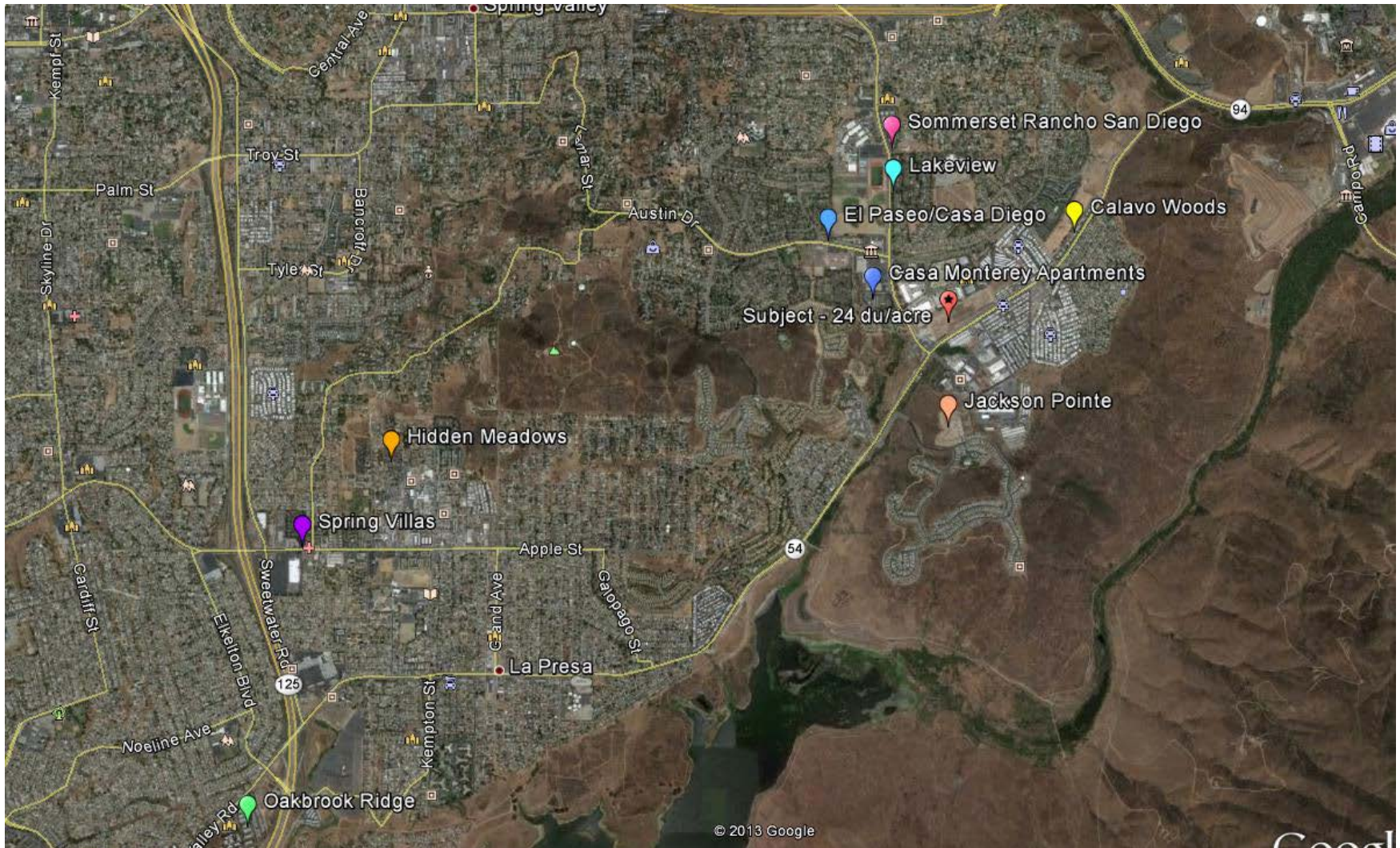


Sources: ESRI



## RENTAL COMPARABLES MAP

JBREC identified six apartment complexes within the immediate vicinity of the subject site. With the expectation of Jackson Pointe, the complexes are older with an average year built of 1981. We also identified three other complexes within the submarket that are also comparables to the subject property.

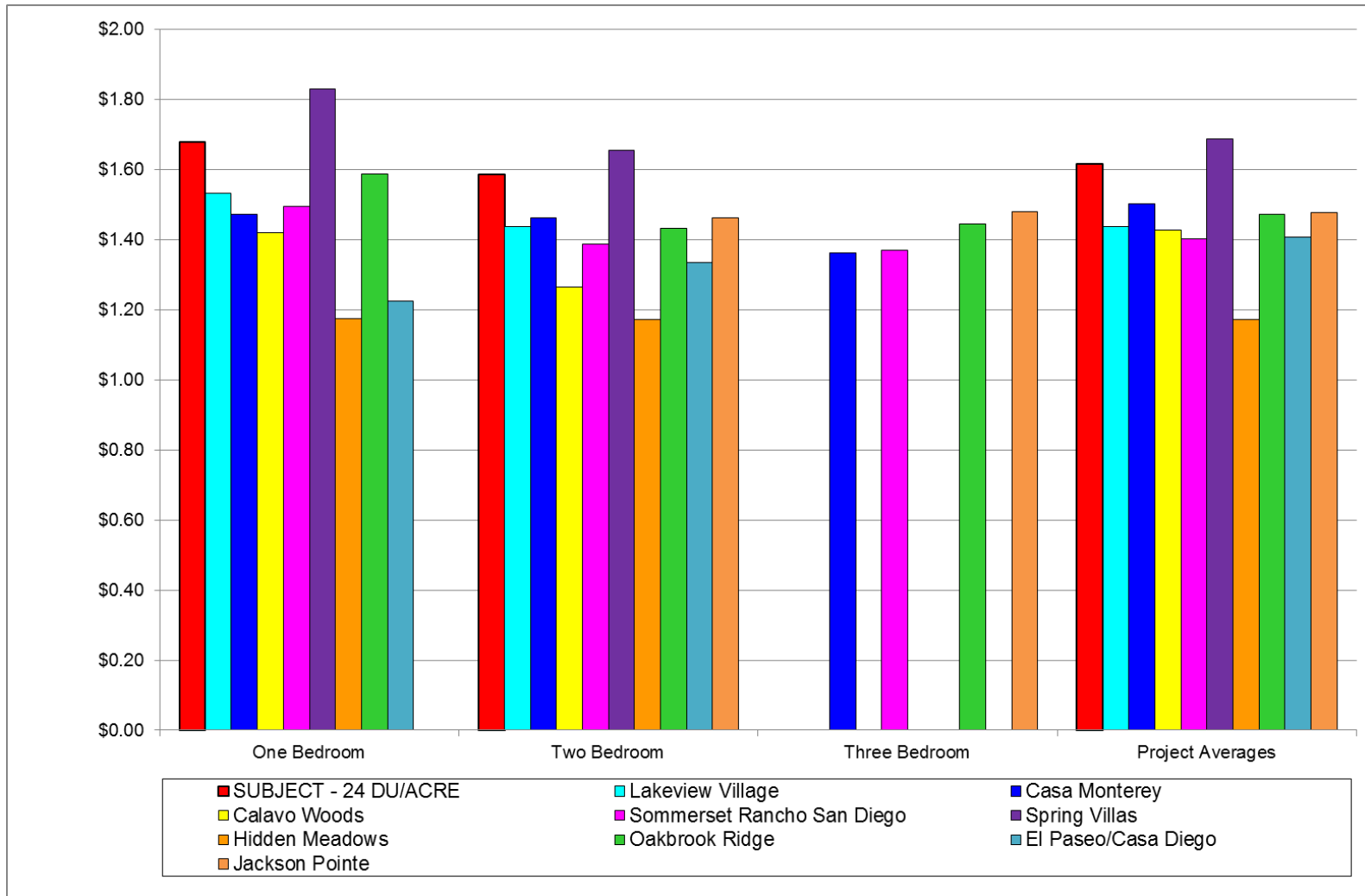


Source: Google Earth

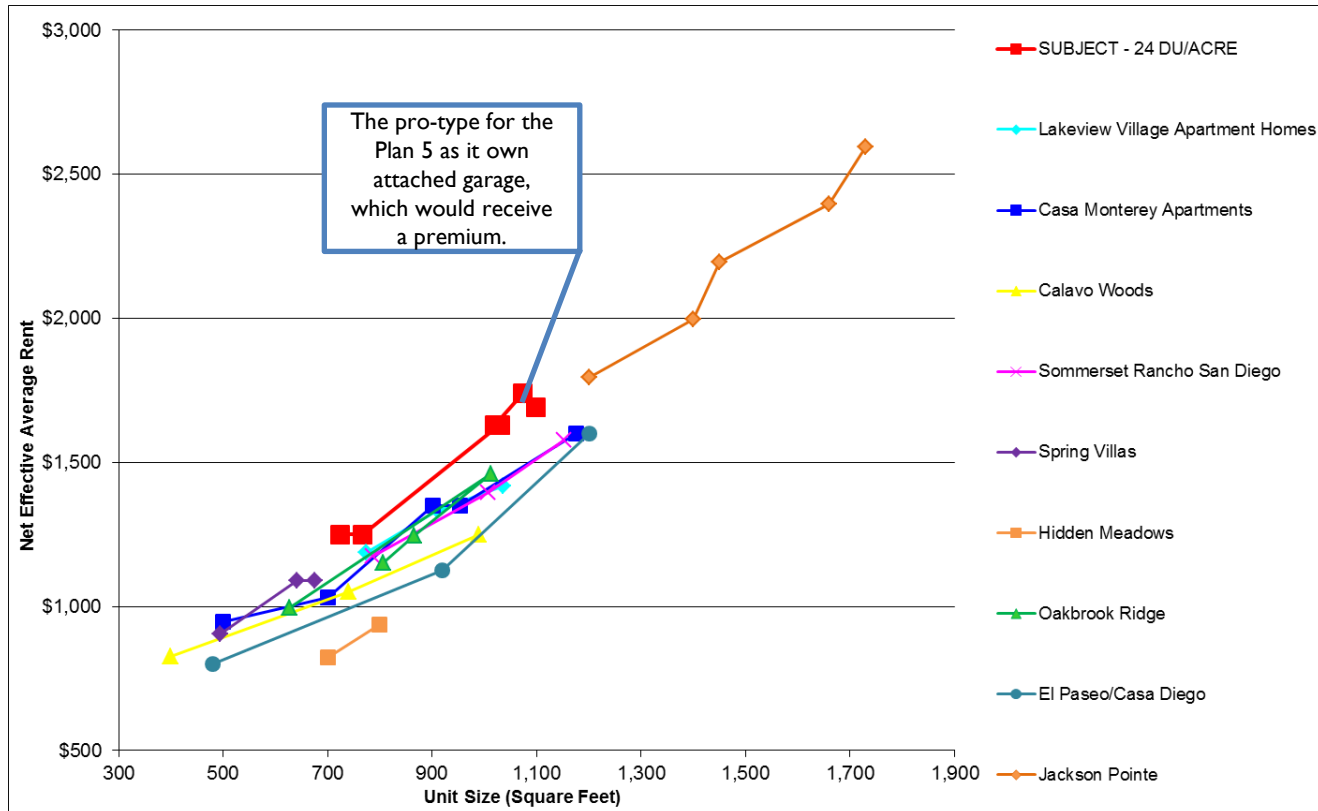


## RENT BY BEDROOM COUNT COMPARISON

Communities with the best freeway accessibility, such as Spring Villas and Oakbrook Ridge, get a premium. The subject property is the closest comparable to the Lakeview Village with a slight premium for new construction and Jackson Pointe with a discount for views and location. This pricing assumes community amenities will include a pool, spa, fitness center, play area and clubhouse.



Note: Studios and Four Bedrooms were removed from the graph but included in the project averages.

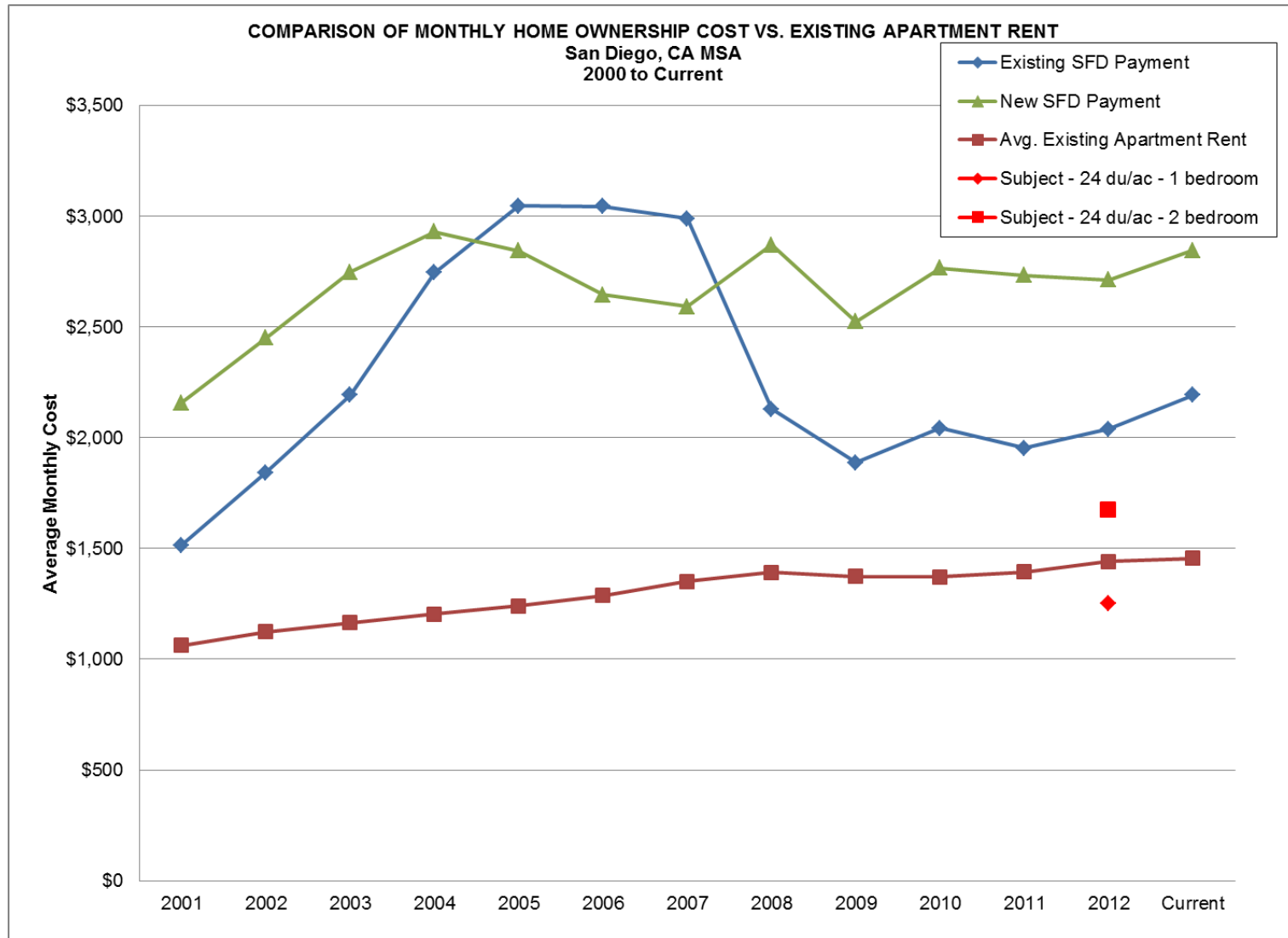


COMMUNITY	BASE RENT RANGE	YEAR BUILT	AVERAGE UNIT SIZE	RATE	PRICE SUMMARY OF COMPETITORS				
				LEASED	AVG LOW	AVG. CONCESSION \$	AVG. CONCESSION %	NET EFFECTIVE AVG RENT	NET EFFECTIVE
Lakeview Village Apartment Homes	\$1204 - \$1418	1985	940	95%	\$1,347	(\$17)	-1.2%	\$1,342	\$1.44
Casa Monterey Apartments	\$935 - \$1555	1978	860	91%	\$1,241	\$0	0.0%	\$1,263	\$1.50
Calavo Woods	\$825 - \$1250	1983	846	98%	\$1,143	\$0	0.0%	\$1,143	\$1.43
Sommerset Rancho San Diego	\$1170 - \$1565	1985	993	98%	\$1,382	\$0	0.0%	\$1,388	\$1.40
Spring Villas	\$895 - \$1073	1985	629	98%	\$1,042	\$0	0.0%	\$1,056	\$1.69
Hidden Meadows	\$795 - \$925	1985	782	98%	\$902	\$0	0.0%	\$917	\$1.17
Oakbrook Ridge	\$1005 - \$1495	1985	795	95%	\$1,198	(\$51)	-4.2%	\$1,163	\$1.47
El Paseo/Casa Diego	\$800 - \$1600	1976	867	98%	\$1,175	\$0	0.0%	\$1,175	\$1.41
Jackson Pointe	\$1125 - \$1600	2011	1,488	100%	\$2,195	\$0	0.0%	\$2,195	\$1.48
AVERAGE		1986	890	135%	\$1,243	(\$9)	-0.9%	\$1,246	\$1.42
MEDIAN		1985	853	98%	\$1,186	\$0	0.0%	\$1,169	\$1.43

The detail by community and mix is included in the appendix as the Rental Floorplan Summary.

## COMPARISON OF MONTHLY HOME OWNERSHIP COST VS. APARTMENT RENTS

This illustrates the difference between the cost of owning a home and renting in the San Diego MSA (assuming 5% down, monthly mortgage payments plus taxes and HOA dues). Currently, it is more affordable to rent an apartment at the Subject property than to own a new or resale SFD home. Home prices will continue to rise as job growth spurs housing demand, therefore making this spread greater.



Sources: RealFacts; Collateral Analytics; John Burns Real Estate Consulting

## RENTAL COMPARABLES DETAIL – JACKSON POINTE

Jackson Pointe consists of 111 townhomes, a recreation building and community pool. In 2011, new ownership finished the construction of 24 units that had been left incomplete for over 2 years, along with the construction of 87 new townhome units. The 87 homes leased up in approximately 6 months. The owner is currently revising the condo plan with the County of San Diego in case they decide to convert the project to for-sale residential at a later date. There is no plan for a conversion in the near term.

JACKSON POINTE																														
Jackson Pointe		Spring Valley		1	1,200	2	2.0	2	2	G	100%	\$1,795	-	\$1,795	\$1,795	\$1.50	-	\$1.50	\$1.50	\$0	\$1,795	-	\$1,795	\$1,795	\$1.50	-	\$1.50	\$1.50		
				1	1,400	2	2.5	2	2	G		\$1,995	-	\$1,995	\$1,995	\$1.43	-	\$1.43	\$1.43	\$0	\$1,995	-	\$1,995	\$1,995	\$1.43	-	\$1.43	\$1.43		
Product:	Townhomes	Total Units:	111	1	1,450	3	2.5	2	2	G		\$2,195	-	\$2,195	\$2,195	\$1.51	-	\$1.51	\$1.51	\$0	\$2,195	-	\$2,195	\$2,195	\$1.51	-	\$1.51	\$1.51		
Number of Floors:	2-Story	Total Leased:	111	1	1,660	3	2.5	2	2	G		\$2,395	-	\$2,395	\$2,395	\$1.44	-	\$1.44	\$1.44	\$0	\$2,395	-	\$2,395	\$2,395	\$1.44	-	\$1.44	\$1.44		
Parking:	Garage			1	1,729	4	2.5	2	2	G		\$2,595	-	\$2,595	\$2,595	\$1.50	-	\$1.50	\$1.50	\$0	\$2,595	-	\$2,595	\$2,595	\$1.50	-	\$1.50	\$1.50		
		Currently Available:	0																											
Year Built:	2012	Rent Mgmt System:	Yes																											
Totals/Averages:					1,488						100%	\$2,195	-	\$2,195	\$2,195	\$1.48	-	\$1.48	\$1.48	\$0	\$0	\$0	\$2,195	-	\$2,195	\$2,195	\$1.48	-	\$1.48	\$1.48

### Community Amenities:

- Private Gated Community
- Swimming Pool and Clubhouse
- In-unit washer and dryer
- Attached 2-Car Garage



					PRODUCT								RENTS & OCCUPANCY																			
					Sq. Ft.	Plan Configuration								Base Rent				Base \$/SF				Concessions*			Net Effective Rent				Net Effective \$/SF			
						Bed	Extra	Bath	Level	Pkg	Spts	Pkg Type*		Leased	Low	-	High	Average	Low	-	High	Average	Direct	Indirect	Total	Low	-	High	Average	Low	-	High
Project Name				City	Mix																											
CASA MONTEREY APARTMENTS																																
Casa Monterey Apartments				Spring Valley	16	500	Studio	1.0	1	1		C	91%	\$935	-	\$955	\$945	\$1.87	-	\$1.91	\$1.89	\$0	\$0	\$0	\$935	-	\$955	\$945	\$1.87	-	\$1.91	\$1.89
					30	700	1	1.0	1	1		C		\$1,015	-	\$1,045	\$1,030	\$1.45	-	\$1.49	\$1.47	\$0	\$0	\$0	\$1,015	-	\$1,045	\$1,030	\$1.45	-	\$1.49	\$1.47
Product:	Stacked Flats	Total Units:	116	26	954	2	1.0	1	1		C		\$1,330	-	\$1,370	\$1,350	\$1.39	-	\$1.44	\$1.42	\$0	\$0	\$0	\$1,330	-	\$1,370	\$1,350	\$1.39	-	\$1.44	\$1.42	
Number of Floors:	2-Story	Total Leased:	105	20	901	2	1.5	2	1		C		\$1,330	-	\$1,370	\$1,350	\$1.48	-	\$1.52	\$1.50	\$0	\$0	\$0	\$1,330	-	\$1,370	\$1,350	\$1.48	-	\$1.52	\$1.50	
Parking:	Carport			24	800	3	1.5	2	1		C		\$1,555	-	\$1,645	\$1,600	\$1.94	-	\$2.06	\$2.00	\$0	\$0	\$0	\$1,555	-	\$1,645	\$1,600	\$1.94	-	\$2.06	\$2.00	
Year Built:	1978	Currently Available:	11																													
		Rent Mgmt System:	Yes																													
Totals/Averages:				116	785								91%	\$1,241	-	\$1,286	\$1,263	\$1.60	-	\$1.66	\$1.63	\$0	\$0	\$0	\$1,241	-	\$1,286	\$1,263	\$1.60	-	\$1.66	\$1.63

## Community Amenities:

- Controlled Access
- Playground
- Covered Parking
- Laundry Facility
- Cable/Satellite
- Pool





				Mix	PRODUCT								RENTS & OCCUPANCY																			
Project NameCity					Sq. Ft.	Plan Configuration								Base Rent				Base \$/SF				Concessions*			Net Effective Rent				Net Effective \$/SF			
						Bed	Extra	Bath	Level	Pkg	Spts	Pkg	Type	Leased	Low	-	High	Average	Low	-	High	Average	Direct	Indirect	Total	Low	-	High	Average	Low	-	High
LAKEVIEW VILLAGE APARTMENT HOMES																																
Lakeview Village Apartment HomesSpring Valley				64	775	1		1.0	1	1	C	95%	\$1,204	-	\$1,204	\$1,204	\$1.55	-	\$1.55	\$1.55	(\$17)	\$0	(\$17)	\$1,187	-	\$1,187	\$1,187	\$1.53	-	\$1.53	\$1.53	
Product:Stacked FlatsTotal Units:300				96	910	2		1.0	1	1	C		\$1,339	-	\$1,360	\$1,350	\$1.47	-	\$1.49	\$1.48	(\$17)	\$0	(\$17)	\$1,322	-	\$1,343	\$1,333	\$1.45	-	\$1.48	\$1.46	
Number of Floors:2-StoryTotal Leased:285				140	1,035	2		2.0	1	1	C		\$1,418	-	\$1,453	\$1,436	\$1.37	-	\$1.40	\$1.39	(\$17)	\$0	(\$17)	\$1,401	-	\$1,436	\$1,419	\$1.35	-	\$1.39	\$1.37	
Parking:Carport																																
Year Built:1985Currently Available:15Rent Mgmt System:Yes																																
Totals/Averages:				300	940							95%	\$1,347	-	\$1,370	\$1,359	\$1.44	-	\$1.46	\$1.45	(\$17)	\$0	(\$17)	\$1,330	-	\$1,353	\$1,342	\$1.42	-	\$1.45	\$1.44	

## Community Amenities:

- Business center
- Complimentary wireless Internet in many common areas
- Fitness center
- On-site, leash-free dog park
- Playground
- Private garages available
- Tennis court
- Two resort-style pools
- Two spas
- Stackable washer and dryer in units



Sources: Developer/Management Company Contacts; John Burns Real Estate Consulting

# RENTAL COMPARABLES SUMMARY – SOMMERSET RANCHO SAN DIEGO

					PRODUCT								RENTS & OCCUPANCY																								
					Sq. Ft.	Plan Configuration								Base Rent				Base \$/SF				Concessions*			Net Effective Rent				Net Effective \$/SF								
						Bed	Extra	Bath	Level	Pkg Spts	Pkg Type	Leased		Low	-	High	Average	Low	-	High	Average	Direct	Indirect	Total	Low	-	High	Average	Low	-	High	Average					
Project Name	City	Mix																																			
SOMMERSET RANCHO SAN DIEGO																																					
Sommerset Rancho San Diego		Spring Valley	20	786	1		1.0	1	2	1C	98%	\$1,170	-	\$1,180	\$1,175	\$1.49	-	\$1.50	\$1.49	\$0	\$0	\$0	\$1,170	-	\$1,180	\$1,175	\$1.49	-	\$1.50	\$1.49							
			70	1,007	2		2.0	1	2	1C		\$1,390	-	\$1,400	\$1,395	\$1.38	-	\$1.39	\$1.39	\$0	\$0	\$0	\$1,390	-	\$1,400	\$1,395	\$1.38	-	\$1.39	\$1.39							
Product:		Stacked Flats	Total Units:	110	20	1,152	3		2.0	1	2	1C		\$1,565	-	\$1,590	\$1,578	\$1.36	-	\$1.38	\$1.37	\$0	\$0	\$0	\$1,565	-	\$1,590	\$1,578	\$1.36	-	\$1.38	\$1.37					
Number of Floors:		2-Story	Total Leased:	108																																	
Parking:		Carport																																			
Year Built:		1985	Currently Available:	2																																	
			Rent Mgmt System:	Yes																																	
Totals/Averages:				110	993													98%	\$1,382	-	\$1,395	\$1,388	\$1.40	-	\$1.41	\$1.40	\$0	\$0	\$0	\$1,382	-	\$1,395	\$1,388	\$1.40	-	\$1.41	\$1.40

## Community Amenities:

- Clubhouse
- Covered Parking
- Extra Storage
- Pool and Spa
- Laundry Facility
- Swimming Pool
- Individual W/D hookups in units



Sources: Developer/Management Company Contacts; John Burns Real Estate Consulting



					PRODUCT								RENTS & OCCUPANCY																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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						Bed	Extra	Bath	Level	Pkg Spts	Pkg Type	Leased		Low	-	High	Average	Low	-	High	Average	Direct	Indirect	Total	Low	-	High	Average	Low	-	High	Average																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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## Community Amenities:

- Gated community
- 2 Swimming Pools
- 3 Laundry Facilities
- Children's Play Area
- Most Utilities Paid



Sources: Developer/Management Company Contacts; John Burns Real Estate Consulting

# RENTAL COMPARABLES SUMMARY – CALAVO WOODS

					PRODUCT								RENTS & OCCUPANCY																			
					Sq. Ft.	Plan Configuration								Base Rent				Base \$/SF				Concessions*			Net Effective Rent				Net Effective \$/SF			
Project Name	City	Mix	Bed	Extra		Bath	Level	Pkg	Spts	Pkg Type*	Leased	Low		-	High	Average	Low	-	High	Average	Direct	Indirect	Total	Low	-	High	Average	Low	-	High	Average	
CALAVO WOODS																																
Calavo Woods		Spring Valley		20	400	Studio		1.0	1	1	C	98%	\$825	-	\$825	\$825	\$2.06	-	\$2.06	\$2.06	\$0	\$0	\$0	\$825	-	\$825	\$825	\$2.06	-	\$2.06	\$2.06	
				20	740	1		1.0	1	1	C		\$1,050	-	\$1,050	\$1,050	\$1.42	-	\$1.42	\$1.42	\$0	\$0	\$0	\$1,050	-	\$1,050	\$1,050	\$1.42	-	\$1.42	\$1.42	
Product: Stacked Flats		Total Units: 117		77	990	2		2.0	1	1	C		\$1,250	-	\$1,250	\$1,250	\$1.26	-	\$1.26	\$1.26	\$0	\$0	\$0	\$1,250	-	\$1,250	\$1,250	\$1.26	-	\$1.26	\$1.26	
Number of Floors: 2-Story		Total Leased: 115																														
Parking: Carport																																
Year Built: 1983		Currently Available: 2																														
		Rent Mgmt System: Yes																														
Totals/Averages:				117	846								98%	\$1,143	-	\$1,143	\$1,143	\$1.43	-	\$1.43	\$1.43	\$0	\$0	\$0	\$1,143	-	\$1,143	\$1,143	\$1.43	-	\$1.43	\$1.43

## Community Amenities:

- Covered Parking
- High-Speed Internet Access
- Laundry Facility



Sources: Developer/Management Company Contacts; John Burns Real Estate Consulting



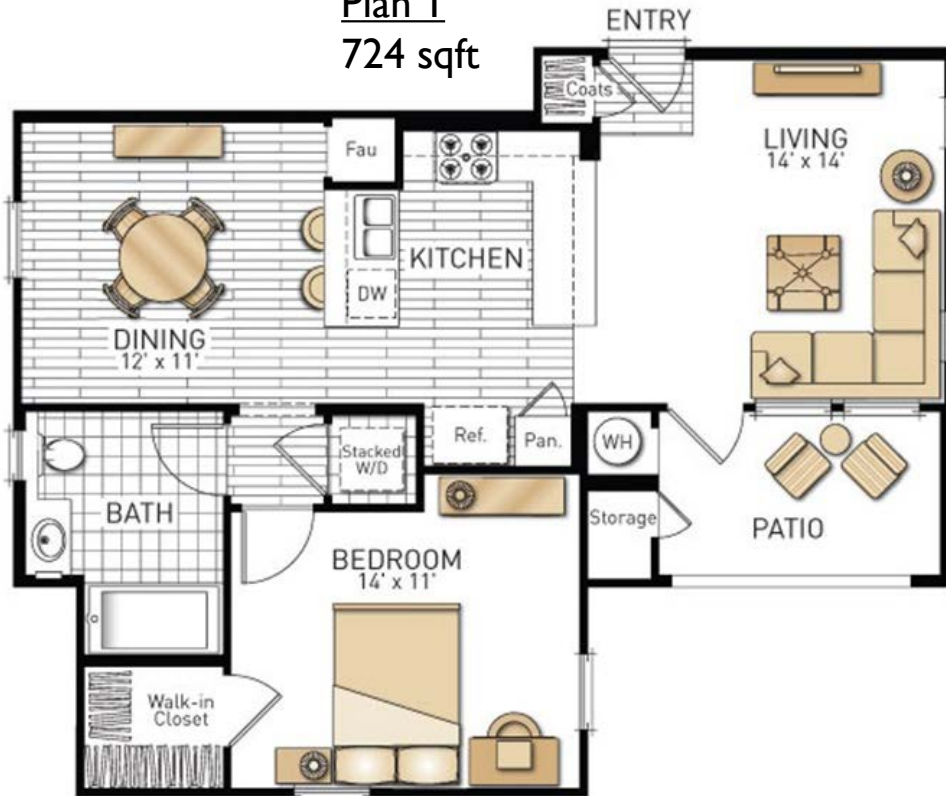


Density: 24/acre  
Sq Ft Range: 750 to 1,100  
Bed/Bath Mix: 1/1 to 2/2



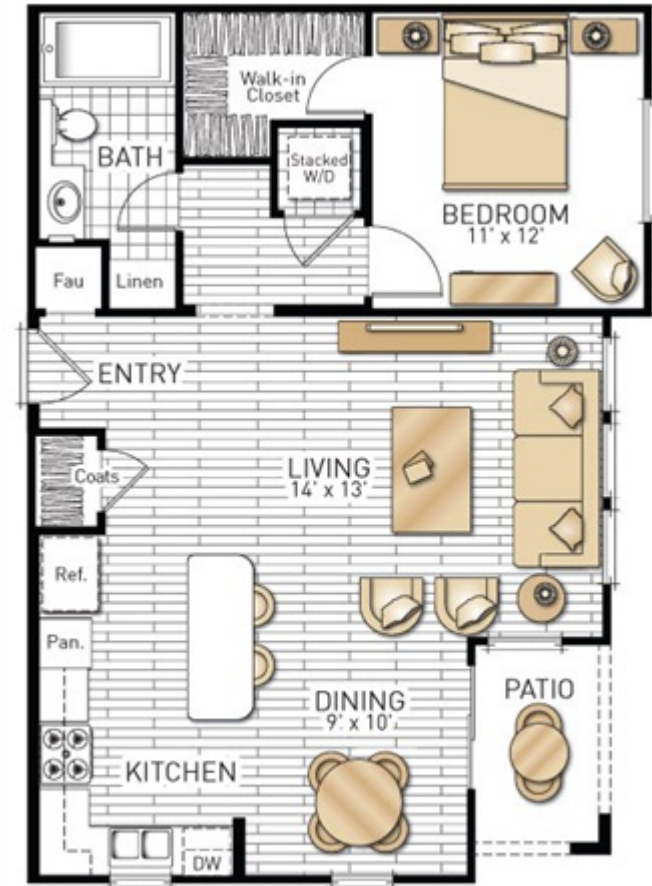


Plan 1  
724 sqft



FLOORPLANS VARY PER APARTMENT LOCATION

Plan 2  
767 sqft



FLOORPLANS VARY PER APARTMENT LOCATION

**Plan 3**  
1,030 sqft



**Plan 4**  
1,020 sqft



**Plan 5**  
1,074 sqft



Note: This would be a great plan for retirees or mature couples.

**Plan 6**  
1,099 sqft



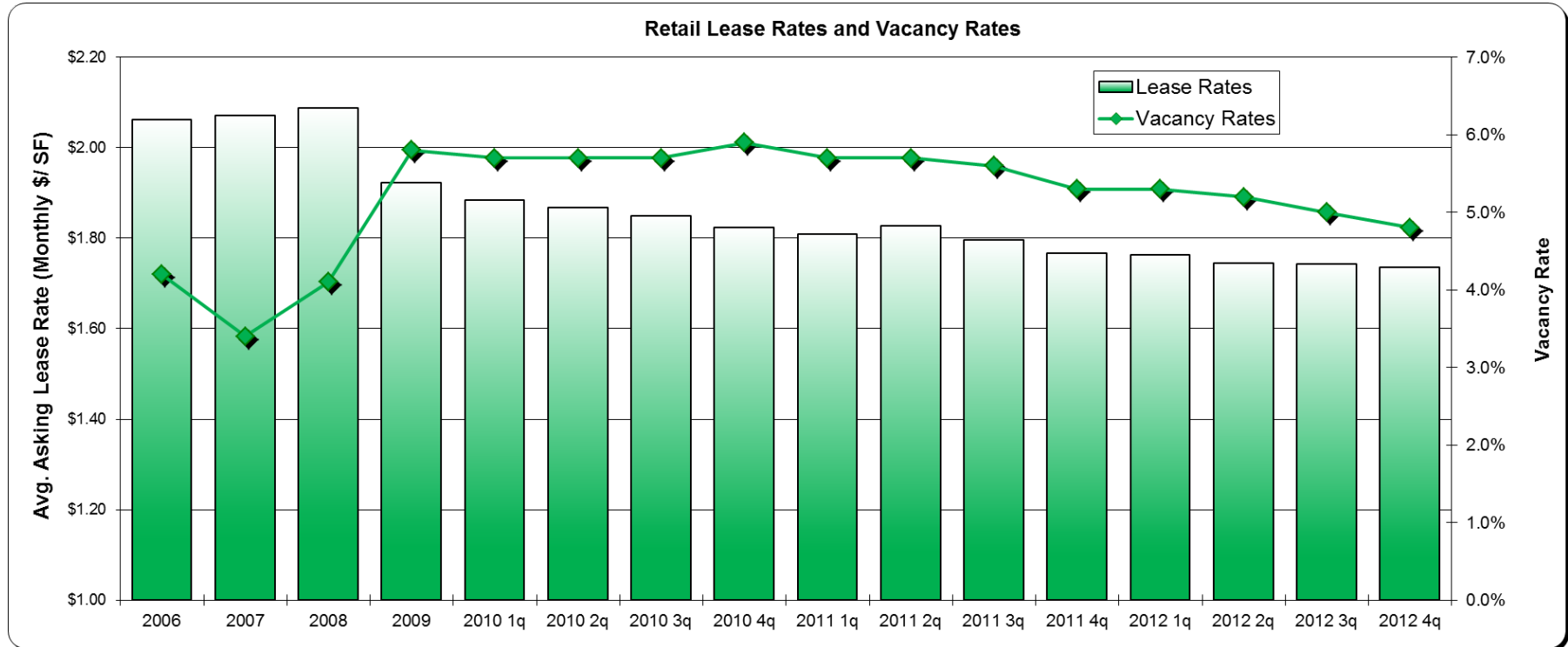




Our research indicates a number of challenges to the retail at the site. The following bullets highlight reasons that retail uses may not be desirable at the subject property:

- The site is not well-located near a major freeway or highly traveled road. With marginal exposure, an anchor tenant will not likely be interested. Unanchored retail is nearly impossible to secure financing for development and makes attracting smaller tenants challenging.
- Interviews with local commercial brokers also reveal that getting tenants to a site such as this would be a challenge, and an anchor tenant would not likely be interested in this location. When specifically discussing the site, a local broker indicated, “A big box retailer would be not be interested in that site since it is not near a freeway.”
- While vacancy rates are relatively stable at 4.6%, rents in the immediate area are low. The lease rents necessary to support new development are higher (\$3.00 to \$3.30 per square foot) than what the market can currently support, which is \$1.45 per square foot for the submarket average in 2012. Additionally, there is existing retail near the site that is run-down and currently rents for \$1.10.
- Absorption in 4Q 2012 was 12,112 square feet. Absorption is the net difference between space available for lease between two dates. Positive, low absorption in a submarket such as this indicates limited activity within the retail space and demonstrates that the retail market is not growing and not desirable for new construction. This is attributable to challenges associated with securing financing for new development, and market rents that are too low to support new development.

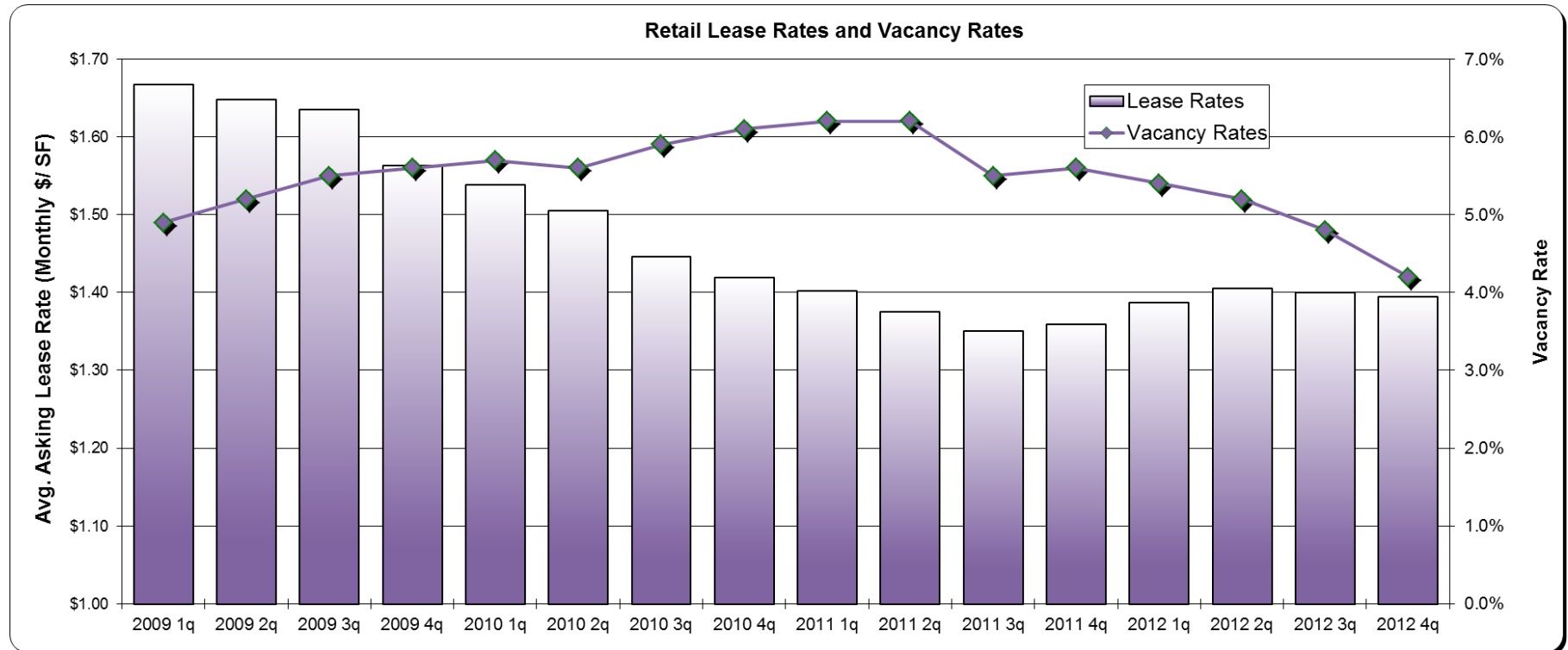
Retail lease rates have declined 17% in San Diego since 2008, with vacancy rates remaining flat through 2010 and 2011 while dropping in 2012. They continue to be stable and were 4.8% in 4Q 2012.



Lease Rates	2006	2007	2008	2009	2010 1q	2010 2q	2010 3q	2010 4q	2011 1q	2011 2q	2011 3q	2011 4q	2012 1q	2012 2q	2012 3q	2012 4q
Lease Rate (\$/SF/Mo.)	\$2.06	\$2.07	\$2.09	\$1.92	\$1.88	\$1.87	\$1.85	\$1.82	\$1.81	\$1.83	\$1.80	\$1.77	\$1.76	\$1.75	\$1.74	\$1.74
Lease Rate Change		\$0.01	\$0.02	(\$0.17)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.01)	\$0.02	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.00)	(\$0.01)
% Change		0.5%	0.8%	-7.9%	-2.0%	-0.8%	-1.0%	-1.4%	-0.7%	1.0%	-1.7%	-1.6%	-0.2%	-1.0%	-0.1%	-0.4%

Vacancy Rates	2006	2007	2008	2009	2010 1q	2010 2q	2010 3q	2010 4q	2011 1q	2011 2q	2011 3q	2011 4q	2012 1q	2012 2q	2012 3q	2012 4q
Vacancy Rate	4.2%	3.4%	4.1%	5.8%	5.7%	5.7%	5.7%	5.9%	5.7%	5.7%	5.6%	5.3%	2.3%	5.2%	5.0%	4.8%
Vac. Rate Change		-0.8%	0.7%	1.7%	-0.1%	0.0%	0.0%	0.2%	-0.2%	0.0%	-0.1%	-0.3%	-3.0%	2.9%	-0.2%	-0.2%
% Change		-19.0%	20.6%	41.5%	-1.7%	0.0%	0.0%	3.5%	-3.4%	0.0%	-1.8%	-5.4%	-56.6%	126.1%	-3.8%	-4.0%

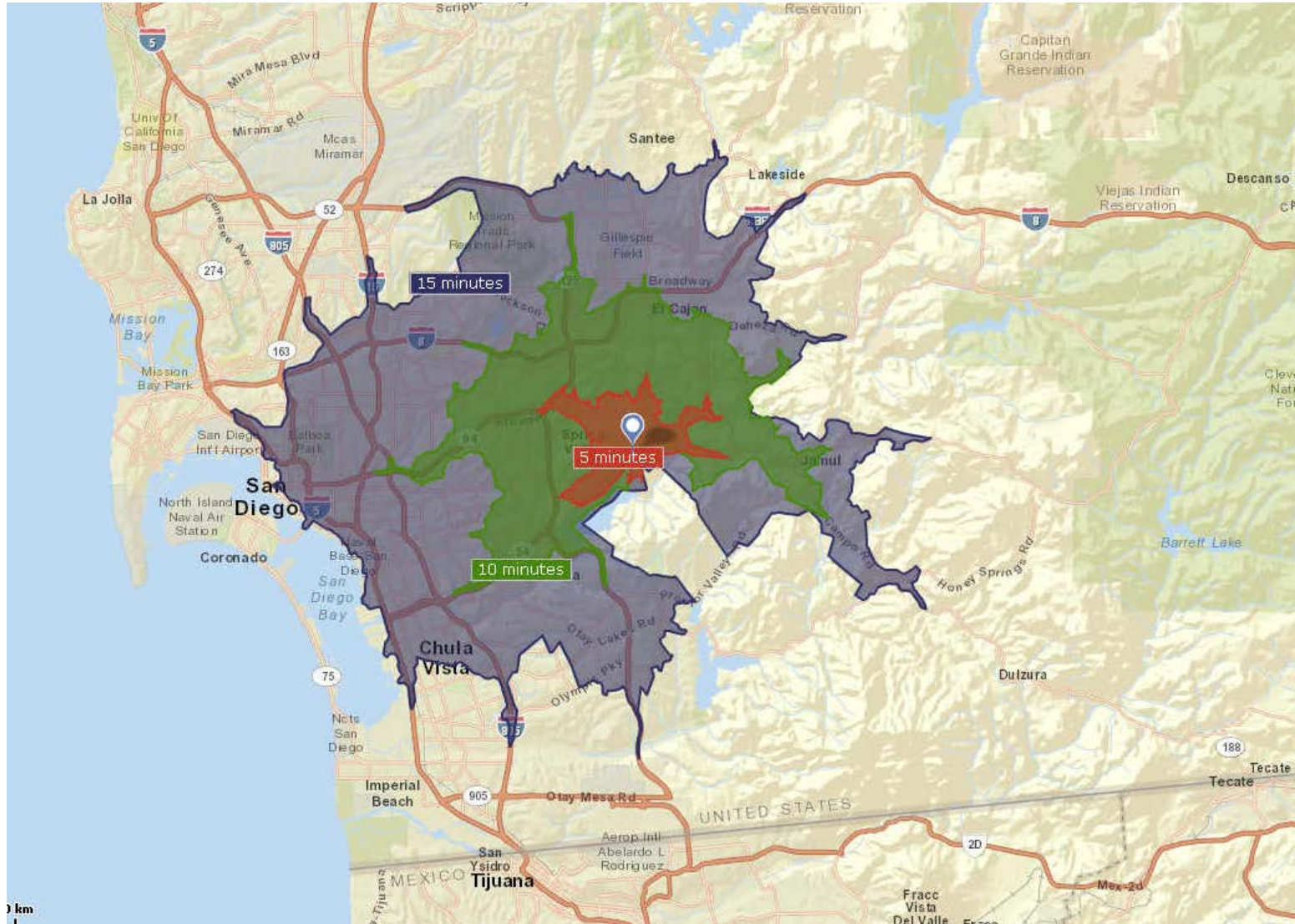
Retail lease rates are beginning to increase and are near 2010 levels. The lease rate declined from 1Q 2009 to 3Q 2011 by 15% with East County. Vacancy rates have dropped considerably since 2Q 2011 and are currently at 4.2%.



Lease Rates	2009 1q	2009 2q	2009 3q	2009 4q	2010 1q	2010 2q	2010 3q	2010 4q	2011 1q	2011 2q	2011 3q	2011 4q	2012 1q	2012 2q	2012 3q	2012 4q
Lease Rate (\$/SF/Mo.)	\$1.67	\$1.65	\$1.64	\$1.56	\$1.54	\$1.51	\$1.45	\$1.42	\$1.40	\$1.38	\$1.35	\$1.36	\$1.39	\$1.41	\$1.40	\$1.40
Lease Rate Change		(\$0.02)	(\$0.01)	(\$0.07)	(\$0.02)	(\$0.03)	(\$0.06)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.03)	\$0.01	\$0.03	\$0.02	(\$0.01)	(\$0.01)
% Change		-1.1%	-0.8%	-4.4%	-1.5%	-2.2%	-3.9%	-1.8%	-1.2%	-1.9%	-1.8%	0.6%	2.1%	1.3%	-0.4%	-0.4%

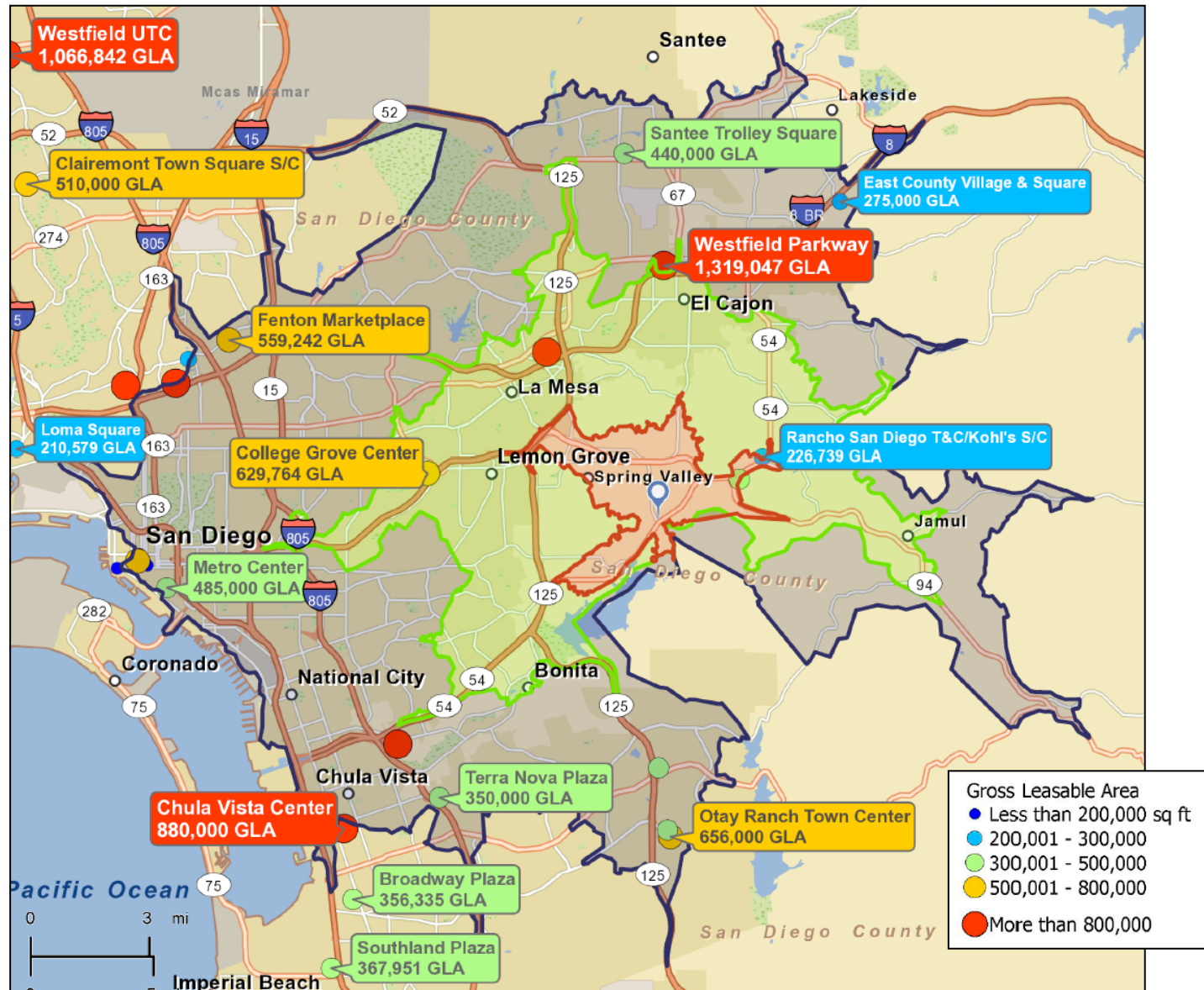
Vacancy Rates	2009 1q	2009 2q	2009 3q	2009 4q	2010 1q	2010 2q	2010 3q	2010 4q	2011 1q	2011 2q	2011 3q	2011 4q	2012 1q	2012 2q	2012 3q	2012 4q
Vacancy Rate	4.9%	5.2%	5.5%	5.6%	5.7%	5.6%	5.9%	6.1%	6.2%	6.2%	5.5%	5.6%	5.4%	5.2%	4.8%	4.2%
Vac. Rate Change		0.3%	0.3%	0.1%	0.1%	-0.1%	0.3%	0.2%	0.1%	0.0%	-0.7%	0.1%	-0.2%	-0.2%	-0.4%	-0.6%
% Change		6.1%	5.8%	1.8%	1.8%	-1.8%	5.4%	3.4%	1.6%	0.0%	-11.3%	1.8%	-3.6%	-3.7%	-7.7%	-12.5%

The map below details the locations that can be reached within 5, 10 and 15 minutes of the subject property, based on normal traffic conditions.





- Less than 2 miles from the site to the east is the Rancho San Diego Town Center, built in 1999 with 382,600 Gross Leasable Area. It includes 34 stores and is anchored by Target, Edwards Theaters, Albertsons/Sav-On and Staples.
- Rancho San Diego T&C was built in 1990 and is 2.6 miles east of the project. It includes 25 stores, anchored by Rite Aid, Ross, and Kohl's.
- Within a 15-minute drive of the subject property, there are 28 major shopping centers with 1,970 stores and 16,180,579 gross acres.

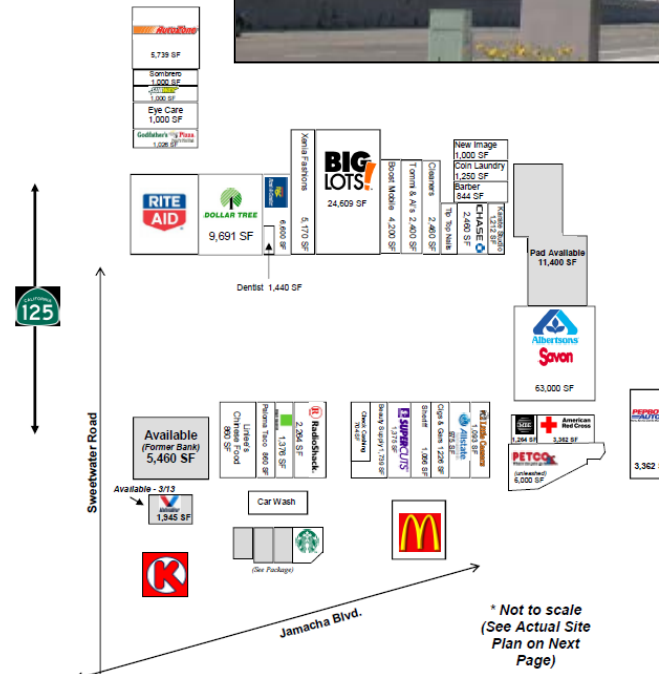


- Sweetwater Village is located in Rancho San Diego on the southwest corner of Austin and Sweetwater Springs Boulevard. The structures were originally constructed in 1979 and 1980.
- Currently have leases of two spaces for \$1.10 per sqft . The property is being managed by Lamden Property Management company.
- The main tenants are a worship center and an auction house.
- This site may be a good location for redevelopment in lieu of adding retail on the subject site.



## Spring Valley Shopping Center Pad

- 481+687 Sweetwater Road
- Rentable Building Area (RBA): 5,000
- New Pad Under Construction – 956 – 3,568 SF
- Quoted Rate: \$30 annually or \$2.50
- Broke ground on new construction pad in IQ 2012
- Leasing Company: Duhs Commercial





Our analysis compares the total retail expenditures by residents with the amount of retail spending in the Primary Market Area (PMA). A positive "leakage" indicates the potential need for more retail in the PMA.



## RETAIL SUPPLY AND DEMAND RECONCILIATION BY CATEGORY Primary Market Area 2010

Retail Categories	<u>DEMAND</u>	<u>SUPPLY</u>	<u>LEAKAGE</u>	
	Retail Expenditures by Area Residents	Retail Spending Within the Area	Difference \$	Difference %
Auto Parts, Accessories, and Tire Stores	\$4,763,688	\$3,872,298	\$891,390	18.7%
Furniture and Home Furnishings Stores	\$10,433,445	\$994,169	\$9,439,276	90.5%
Electronics and Appliance Stores	\$8,846,964	\$3,316,013	\$5,530,951	62.5%
Building Material, Garden Equip Stores	\$12,135,569	\$3,230,699	\$8,904,870	73.4%
Food and Beverage Stores	\$55,176,840	\$70,961,730	(\$15,784,890)	-28.6%
Drug, Health and Personal Care Stores	\$13,809,829	\$22,987,936	(\$9,178,107)	-66.5%
Clothing and Clothing Accessories Stores	\$14,832,237	\$1,805,953	\$13,026,284	87.8%
Sporting Goods, Hobby, Book, Music Stores	\$4,079,919	\$4,655,472	(\$575,553)	-14.1%
General Merchandise Stores	\$39,230,835	\$8,121,856	\$31,108,979	79.3%
Miscellaneous Store Retailers	\$5,950,502	\$2,996,110	\$2,954,392	49.6%
Food Service and Drinking Places	\$50,077,825	\$37,086,907	\$12,990,918	25.9%
<b>Total</b>	<b>\$219,337,653</b>	<b>\$160,029,143</b>	<b>\$59,308,510</b>	<b>27.0%</b>

Source: ESRI; ULI Dollar and Cents



Our Demand Analysis indicates that in 2010, there was demand for approximately 262,000 square feet of total additional retail space in the Primary Market Area (PMA). From this, we applied conservative and optimistic capture estimates for the Subject Site, considering its location, land plan, potential future planned competitive development and insight from the commercial brokerage and development community. We conclude that a retail center comprising up to 17,000 square feet would be justified within the Site, based on 2010 demographic demand.

## JBREC INFLOW - OUTFLOW ANALYSIS

Expenditure Categories	PMA Retail Demand	Shopping Center Performance (Supply)	PMA Outflow Leakage	Outflow Leakage (% of PMA Expenditures)	SMA Inflow Factor	SMA Spending Propensity by Use	SMA Inflow (\$)	PMA Reconciliation (Inflow + Outflow) (Demand - Supply)
Food Service/ Eating and Drinking Places	\$50,077,825	\$37,086,907	\$12,990,918	25.9%	2.5%	22.9%	\$8,798,952	\$21,789,870
Food and Beverage Stores	\$55,176,840	\$70,961,730	(\$15,784,890)	-28.6%	4.0%	25.3%	\$15,524,577	(\$260,313)
Clothing and Accessories Stores	\$14,832,237	\$1,805,953	\$13,026,284	87.8%	0.4%	6.8%	\$417,049	\$13,443,333
Auto Parts/ Accessories/ Tire Stores	\$4,763,688	\$3,872,298	\$891,390	18.7%	2.5%	2.2%	\$835,623	\$1,727,013
Health and Personal Care Stores	\$13,809,829	\$22,987,936	(\$9,178,107)	-66.5%	6.0%	6.2%	\$5,745,820	(\$3,432,287)
Home Improvements/ Furniture/ Garden/	\$22,569,014	\$4,224,868	\$18,344,146	81.3%	0.8%	10.1%	\$1,243,690	\$19,587,836
Entertainment/Electronics/Appliances	\$8,846,964	\$3,316,013	\$5,530,951	62.5%	1.5%	4.0%	\$924,886	\$6,455,837
Sporting Goods/ Hobby/ Book/ Music	\$4,079,919	\$4,655,472	(\$575,553)	-14.1%	4.0%	1.9%	\$1,145,113	\$569,560
Department Store	\$39,230,835	\$8,121,856	\$31,108,979	79.3%	1.0%	17.9%	\$2,746,788	\$33,855,767
Office Supplies/Gifts/Used Merchandise/Other	\$5,950,502	\$2,996,110	\$2,954,392	49.6%	2.5%	2.7%	\$1,029,097	\$3,983,489
<b>Total</b>	<b>\$219,337,653</b>	<b>\$160,029,143</b>	<b>\$59,308,510</b>	<b>27.0%</b>	<b>2.52%</b>	<b>100%</b>	<b>\$38,411,596</b>	<b>\$97,720,106</b>

Sources: ESRI, ULI Dollars & Cents

The PMA Retail Demand is a calculation of the total population of the Primary Market Area, multiplied by the per capita income (per ESRI), multiplied by the spending propensity for various retail uses (per ESRI).

Outflow leakage of 27% indicates that some of the PMA residents tend to shop outside of the PMA owing to lack of retail options.

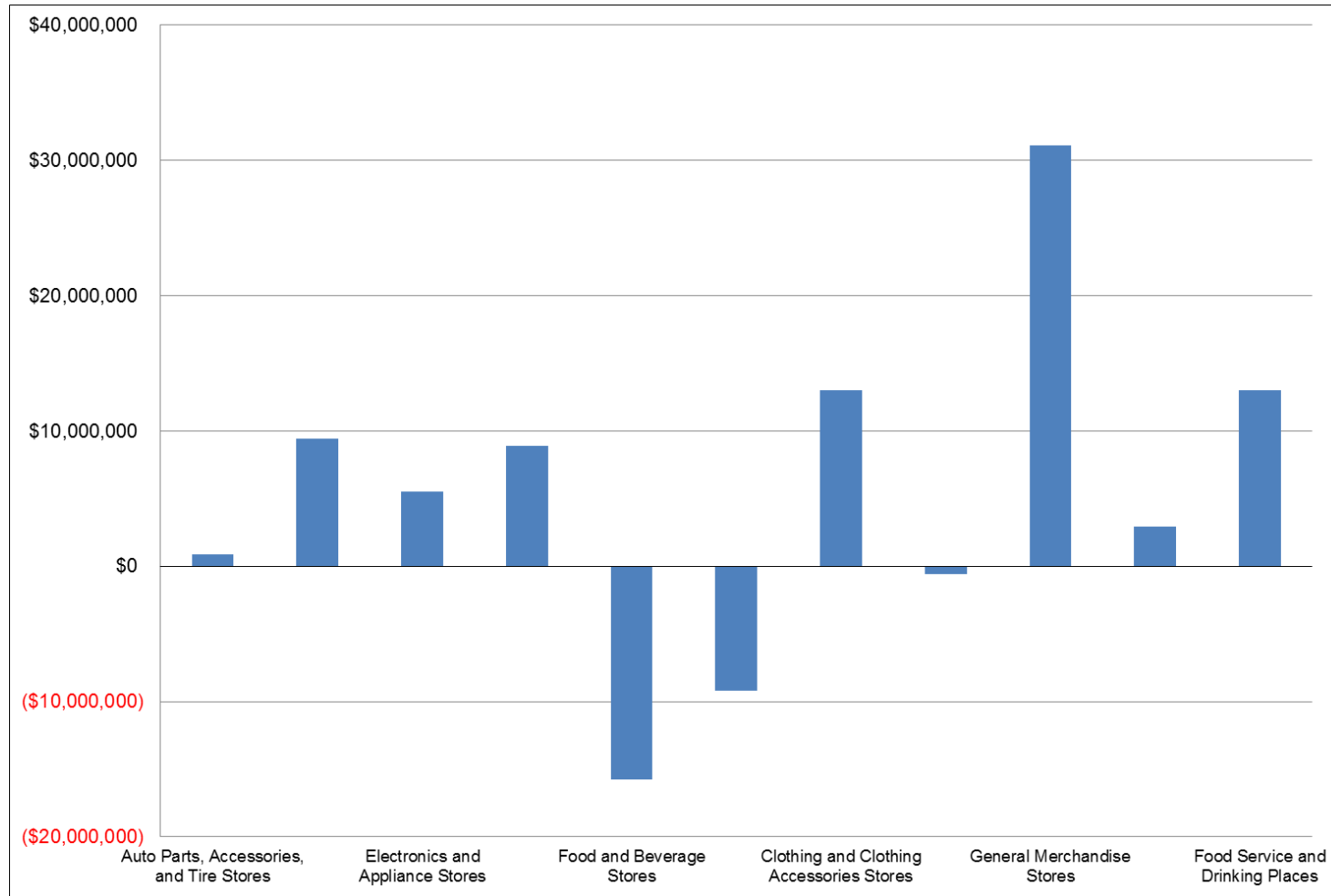
The SMA Inflow is a calculation of the total population of the Secondary Market Area (per ESRI), multiplied by the per capita income (per ESRI), to equal total income for the SMA. After subtracting PMA total income (to isolate only the SMA), we multiply the SMA total income by spending propensity for various retail uses (per ESRI), multiplied by a small inflow factor (2.52%). The inflow factor is small because the PMA does not offer a variety of retail options that would attract SMA residents.

## OPPORTUNITY FOR ADDITIONAL RETAIL SPACE AT SUBJECT SITE (PER JBREC INFLOW - OUTFLOW ANALYSIS)

Expenditure Categories	PMA Reconciliation (Inflow + Outflow) (Demand - Supply)	Revenue Per SF Avg	PMA Reconciliation Opportunity (SF)	SUBJECT PROJECT CAPTURE			
				Conservative		Optimistic	
				Subject Site Capture	Demand (SF)	Subject Site Capture	Demand (SF)
Food Service/ Eating and Drinking Places	\$21,789,870	\$350	62,257	10.0%	6,226	30.0%	18,677
Food and Beverage Stores	(\$260,313)	\$518	-503	10.0%	0	30.0%	0
Clothing and Accessories Stores	\$13,443,333	\$385	34,918	5.0%	1,746	20.0%	6,984
Auto Parts/ Accessories/ Tire Stores	\$1,727,013	\$250	6,908	5.0%	345	20.0%	1,382
Health and Personal Care Stores	(\$3,432,287)	\$517	-6,639	10.0%	0	30.0%	0
Home Improvements/ Furniture/ Garden/	\$19,587,836	\$451	43,432	5.0%	2,172	20.0%	8,686
Entertainment/Electronics/Appliances	\$6,455,837	\$350	18,445	5.0%	922	20.0%	3,689
Sporting Goods/ Hobby/ Book/ Music	\$569,560	\$220	2,589	5.0%	129	20.0%	518
Department Store	\$33,855,767	\$398	85,065	0.0%	0	0.0%	0
Office Supplies/Gifts/Used Merchandise/Other	\$3,983,489	\$250	15,934	5.0%	797	20.0%	3,187
<b>Total</b>	<b>\$97,720,106</b>	<b>\$369</b>	<b>262,406</b>	<b>--</b>	<b>12,337</b>	<b>--</b>	<b>43,122</b>
<b>RECOMMENDED RETAIL SIZE FOR THE SUBJECT SITE (SF):</b>				<b>27,730</b>			

## RETAIL – POTENTIAL TENANTS BY SQUARE FEET DEMANDED IN PMA

If you were to provide retail on the site, a general merchandising store would be the most supportable, followed by food and dining services. However, our findings indicate that this site would not be ideal for a general merchandise store or attract those tenants. A department store such as JC Penney's or Sears would be considered a General Merchandise Store.



Source: ESRI; ULI Dollar and Cents



### Limiting Conditions

- The information contained in this report involved the assembly of many data elements and is subject to human error. Readers of this report take full responsibility for their own actions, including investment decisions, without any liability to John Burns Real Estate Consulting, Inc. There will usually be differences between projected and actual results, and the differences may be material. We have no liability with respect to the achievement of any projections or forecasts.

### Data Sources

- **DataQuick:** resale and new home sales volume, resale and new home sales median price, investor sales activity
- **Census Bureau:** permits, population, households
- **Bureau of Labor Statistics:** employment, unemployment, median household income
- **RealFacts:** apartment rent, apartment occupancy
- **Freddie Mac:** mortgage rates
- **Realtor.com:** listings
- **RealtyTrac:** pre-foreclosure notices
- **Mortgage Bankers Association:** shadow inventory information (calculations by John Burns Real Estate Consulting)
- **Collateral Analytics:** REO sales activity
- **ESRI:** Demographic maps
- **John Burns Real Estate Consulting:** forecasts, Affordability Index, Housing Cycle Risk Index





**John Burns, CEO**, is the founder of our consulting firm and will review the conclusions. Prior to founding the company, John managed KPMG Peat Marwick's Orange County Real Estate Consulting practice for six of his ten years at KPMG, and managed custom consulting assignments and developed several market monitoring subscription products for four years at The Meyers Group. He has a M.B.A. from the University of California, Los Angeles and a B.A. in economics from Stanford University. He is also a Certified Public Accountant. He is a member of the Building Industry Association and a full member of the Urban Land Institute.



**Mollie Carmichael, Principal**, has been a practitioner for more than 20 years working with developers, builders, and an advertising and marketing company. Her marketing experience includes working on all aspects of market intelligence for both the homebuilder and developer in the real estate market. This includes feasibility analysis, market studies, product research and development, consumer and product segmentation, consumer research, tactical media planning, model and sales office merchandising, event planning, and competitive research and all aspects of product and community planning. During her tenure in both the developer and homebuilder worlds, she spent more than 15 years conducting consumer research, specializing in the associated value relationship of product and purchase behaviors. Prior to joining John Burns Real Estate Consulting, she has worked as the Vice President of Sales and Marketing for Lennar, Vice President of Strategic Marketing for Centex Homes and Kovach Marketing, and Regional Vice President of California for Pulte Homes and Del Webb, and Vice President of Residential Product Planning for The Irvine Company.



**Nicole Murray, Vice President**, manages custom consulting market research and special projects across the country. As a former Vice President, Community Development for a privately-held home builder, she has years of experience with homebuilding components, including land acquisition, entitlement processing, product design, DRE processing, land development, on-site production, sales and marketing, escrow management, and business planning and projections. In 2011, Nicole was selected as "Top 40 Under 40" by Professional Builder magazine for the United States and Canada. Prior to her tenure in homebuilding, she worked for the Burnham-Moores Center for Real Estate, launching its Master of Science in Real Estate (MSRE) program while getting her MBA at the University of San Diego.

Thank you on behalf of the  
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