



City of San Marcos
1 Civic Center Drive
San Marcos, CA 92069

Attachment I
Fiscal/Economic and Market Analysis

See Attached

PC Agenda Item # 3

FISCAL IMPACT STUDY

**DISCOVERY VILLAGE SOUTH
SAN MARCOS, CALIFORNIA**

JANUARY 11, 2018

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FISCAL IMPACT STUDY

DISCOVERY VILLAGE SOUTH SAN MARCOS, CALIFORNIA

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Appendix A: Fiscal Impact Model

EXECUTIVE SUMMARY

I. PURPOSE OF STUDY

The objective of this Fiscal Impact Study (the “Study”) is to analyze the fiscal impacts to the City of San Marcos (the “City”) of proposed zoning and land use changes to the Discovery Village South project (the “Project”). The 39-acre Project site is currently zoned for Medical/Office land use (categorized under Commercial/Hospital land use) and would be comprised of a total of 776,000 building square feet of Acute, Community, and Outpatient uses (the “Existing Zoning”). H.G. Fenton Company (the “Applicant”) is seeking a General Plan Amendment, Specific Plan Amendment, Tentative Subdivision Map, and Development Agreement to rescind and replace the Scripps Health Care Campus Specific Plan, thereby changing the zoning to Low Density Residential (4.1-8.0 du/ac) and facilitating the development of 220 single family detached for-sale homes (condominiums) on the 39-acre Project site (the “Proposed Plan”). Consequently, the Study estimates the fiscal impacts of the Existing Zoning and the Proposed Plan (collectively, the “Scenarios”), and provides a side-by-side comparison of both scenarios.

II. TYPES OF FISCAL IMPACTS EVALUATED IN THE STUDY

The fiscal impacts identified in this Study include recurring municipal revenues and costs to the City General Fund that result from the Existing Zoning and the Proposed Plan. City General Fund revenues are generated from a variety of sources, including property taxes, sales taxes, fees, and fines. Costs to the City General Fund are associated with a variety of services, such as police protection, fire protection, public works maintenance, and general government services.

III. DESCRIPTION OF DISCOVERY VILLAGE SOUTH

Whereas the Scripps Health Care Campus Specific Plan is approved for 80 acres (with the future Discovery Street bisecting the 80-acre site), the vacant land proposed for development with residential uses comprises the southern portion, i.e., roughly half of the total area at 39.01 acres. Defined in this study as “Discovery Village South,” the proposed Project site is bounded by Discovery Street to the north, Craven Road to the west, Happy Hill Lane to the east, and the housing community of Discovery Hills to the south.

IV. FISCAL IMPACT CONCLUSIONS

While both the Existing Zoning and Proposed Plan result in a fiscal surplus to the City General Fund, the fiscal surplus for the Proposed Plan is significantly greater than the fiscal surplus for the Existing Zoning. As expected, the residential land uses under the Proposed Plan generate demand for public services (i.e., recurring General Fund expenditures), but these expenditures are more than offset by projected Community Facilities District revenues and Property Tax revenues.

Please note: A key assumption in this study is that Scripps Memorial Hospital would qualify for the Welfare Exemption from local property taxes. Specifically, a partial tax exemption of 95% is assumed, based on data obtained from the City concerning a comparable development: I.e., Kaiser

Foundation Hospitals' three taxable parcels located in San Marcos have a combined property tax exemption of approximately 95%.

The fiscal impacts and pros/cons are summarized in **Tables A and B**, below.

TABLE A
DISCOVERY VILLAGE SOUTH
NET FISCAL IMPACT (CITY GENERAL FUND)

IMPACTS	EXISTING ZONING (MEDICAL/OFFICE)	PROPOSED PLAN (RESIDENTIAL)
Total Recurring General Fund Revenues	\$991,728	\$491,463
Total Recurring General Fund Expenditures	(\$965,705)	(\$362,769)
Net Fiscal Impact	\$26,023	\$128,694
Revenue to Expense Ratio	1.03	1.35

TABLE B
DISCOVERY VILLAGE SOUTH
PROS/CONS OF APPROVED AND PROPOSED PROJECTS

	EXISTING ZONING (MEDICAL/OFFICE)	PROPOSED PLAN (RESIDENTIAL)
PROS:	Higher Sales Tax Revenues	Higher Fiscal Surplus
	Higher Franchise Fee Revenues	Lower Recurring General Fund Expenditures
	Higher Property Tax In-Lieu of Vehicle License Fee Revenues	Higher Secured Property Tax Revenues
	Higher Licenses and Permits Revenues	Higher CFD Revenues
CONS:	Lower Fiscal Surplus	Lower Sales Tax Revenues
	Higher Recurring General Fund Expenditures	Lower Franchise Fee Revenues
	Lower Secured Property Tax Revenues (assuming tax exemption of 95%)	Lower Property Tax In-Lieu of Vehicle License Fee Revenues
	Lower CFD Revenues	Lower Licenses and Permits Revenues

V. MARKET CONSIDERATIONS

Importantly, the results summarized in **Tables A and B** assume buildout and full occupancy for each Scenario. Prior to buildout and full occupancy, only a portion of the projected fiscal surplus would likely be realized. Notably, based on the Price Point Study prepared by Meyers Research, whether the Existing Zoning Scenario would be marketable at the Project site remains unclear given the scale of new hospital construction located close to the site, as well as the uncertainty of demand for future hospital beds in San Diego County. This conclusion suggests that buildout and full occupancy may never be achieved under the Existing Zoning and, consequently, the fiscal surplus projected for this Scenario is theoretical and may not be realized. As noted by Meyers Research, “Market conditions suggest that a residential development has a lower risk profile than hospital/medical office.” Additionally, this fiscal study projects that the Proposed Plan would generate a larger surplus to the City General Fund than would the Existing Zoning. Both the fiscal and market studies therefore conclude that the Proposed Plan represents a more viable development option for the City.

SECTION 1 INTRODUCTION

The objective of this Fiscal Impact Study (the “Study”) is to analyze the fiscal impacts to the City of San Marcos (the “City”) of proposed zoning and land use changes to the Discovery Village South project (the “Project”). The 39-acre Project site is currently zoned for Medical/Office land use (categorized under Commercial land use) and would be comprised of a total of 776,000 building square feet of Acute, Community, and Outpatient uses (the “Existing Zoning”). H.G. Fenton Company (the “Applicant”) is seeking a General Plan Amendment, Specific Plan Amendment, Tentative Subdivision Map, and Development Agreement to rescind and replace the Scripps Health Care Campus Specific Plan, thereby changing the zoning to Low Density Residential (4.1-8.0 du/ac) and facilitating the development of 220 single family detached for-sale homes on the 39-acre Project site (the “Proposed Plan”). Consequently, the Study estimates the fiscal impacts of the Existing Zoning and the Proposed Plan (collectively, the “Scenarios”), and provides a side-by-side comparison of both scenarios.

I. SCOPE AND METHODOLOGY

Fiscal impacts arising from a land development plan can be broadly categorized as one of two types: one-time impacts or recurring impacts. Each of these broad types may, in turn, be divided into a revenue component and a cost component. This Study assumes that one-time revenues would directly offset one-time costs; thus, the fiscal impacts considered in this Study focus on ongoing, or recurring, fiscal impacts of the Project on the City’s General Fund.

The fiscal impacts projected for the Study are based generally on a *Multiplier Methodology*. The primary *Multiplier Methodology* used to project the fiscal impacts in this Study is the *Per Capita-Employee (“Persons Served”) Methodology*. The *Persons Served Methodology* considers the fact that the exact relationship of service demands and revenue-generating potential between residents and employees is difficult to measure. Thus, utilizing a service population, or Persons Served population, comprised of all residents and fifty percent (50%) of employees is common fiscal practice, and suggests that a resident generally has twice the fiscal impact of an employee. This methodology involves calculating the average City-wide revenues and costs per Persons Served, utilizing the fiscal year (“FY”) 2017-2018 City budget, and applying these revenue and cost factors to the specific number of Persons Served projected for the Project.

A *Per Employee Methodology* is used to project recurring fiscal factors based on employment only, such as business receipts and business license tax revenues. Similar to the *Persons Served Methodology* discussed above, the *Per Employee Methodology* involves calculating the average City-wide revenues and costs per employee, utilizing the FY 2017-2018 City budget, and applying these factors to the specific number of employees projected under the given scenario.

While most recurring revenues analyzed in the Study are projected using the *Multiplier Methodology*, some major revenue sources, including property taxes and sales taxes, are calculated using a *Case Study Methodology* that involves calculating the marginal revenues to be specifically generated by the projected land uses, instead of applying an average City-wide revenue factor. For purposes of the Study, all recurring revenues and costs are stated in constant (un-inflated) 2017

dollars, based on the assumption that the relative impacts of inflation in future years will be the same for both of these fiscal impact categories.

II. LIMITATIONS

The fiscal model in the Study contains an analysis of revenues, costs, and impacts to the City General Fund resulting from the Project. This model is based on (i) information provided to David Taussig & Associates, Inc. (“DTA”) by City staff, (ii) the Price Point Study prepared by Meyers Research, and (iii) certain third-party sources of data including, but not limited to, the following:

- U.S. Bureau of Labor Statistics, Consumer Price Index.
- U.S. Department of Energy, “Commercial Buildings Energy Consumption Survey;”
- California State Board of Equalization *Consumer Expenditure Survey* (2015);
- State of California Employment Development Department, “Quarterly Census of Employment and Wages;”
- California Department of Finance, “E-5 Population and Housing Estimates for Cities, Counties, and the State, January 2011-2017, with 2010 Benchmark;”
- State of California Treasurer’s Office, Local Agency Investment Fund;
- County of San Diego Auditor-Controller’s Office;
- California Local Government Finance Almanac, “City and County Assessed Values;”
- International Council of Shopping Centers *Office-Worker Retail Spending in a Digital Age* (2012); and
- Urban Land Institute *Dollars and Cents of Shopping Centers* (2008).

While DTA is confident that the sources of information are reliable, DTA does not express an opinion or any other form of assurance on the accuracy of such information. The analysis of fiscal impacts contained in this Study is not considered to be a “financial forecast” or a “financial projection” as technically defined by the American Institute of Certified Public Accountants. The word “projection” used within the Study relates to broad expectations of future events or market conditions. Since the analyses contained herein are based on estimates and assumptions that are inherently subject to uncertainty and variation depending on evolving events, DTA cannot represent that such estimates will definitely be achieved. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary from the projections stated throughout the Study.

SECTION 2 DESCRIPTION OF RECURRING FISCAL REVENUES/COSTS

The following section presents the recurring revenue and cost impacts to the City's General Fund and the methodology and assumptions utilized in the Study to project these impacts. Detailed numerical analyses of the revenue and cost impacts discussed in this section are contained in **Appendix A**.

I. ANALYSIS OF RECURRING REVENUES

CASE STUDY METHOD:

A. PROPERTY TAXES – SECURED AND UNSECURED

Property tax revenues are projected based on the City's estimated share of the general one percent (1%) property tax levy. Total projected secured property tax revenues to the City from the Project are estimated at 14.840% of the basic 1% property tax levy based on an average for Tax Rate Areas ("TRAs") 013009, 013233, and 013272. Please refer to **Table 2A** below and **Exhibit 5 of Appendix A** for details regarding the secured and unsecured property tax assumptions utilized in the fiscal impact analysis.

Unsecured property taxes are levied on tangible personal property that is not secured by real estate. Examples of unsecured property includes trade fixtures (e.g., manufacturing equipment and computers), as well as airplanes, boats, and mobile homes on leased land. In generating the fiscal impact models for this Study, DTA has assumed that unsecured property values average 2.75% of the secured value for residential land uses, and 10.00% of the secured value for non-residential land uses.

B. PROPERTY TRANSFER TAX

Per California Revenue & Taxation Code §11901 *et seq.* and the San Marcos Municipal Code §3.12.020, sales of real property are taxed by the County of San Diego (the "County") at a rate of 0.11% or, equivalently, \$1.10 per \$1,000 of property value. For property located in the City, the property transfer tax is divided equally between the City and the County, with the City receiving \$0.55 per \$1,000 of transferred property sale or resale value, excluding assumed liens or encumbrances. Per typical baseline assumptions, DTA assumes that residential development changes ownership at an average rate of 10% per year. DTA also assumes that non-residential development changes ownership at an average rate of 5% per year, and that continuing liens and encumbrances are insignificant.

C. PROPERTY TAX IN-LIEU OF VEHICLE LICENSE FEE

The passage of Proposition 1A in California in 2004 enacted a constitutional amendment that introduced a new methodology to calculate property taxes in-lieu of Vehicle License Fees (“VLF”). Per California Revenue and Taxation Code §97.70, the property tax in-lieu of VLF amount now grows in proportion to the growth rate of gross assessed valuation in a city or county. Property tax in-lieu of VLF revenues are projected to grow with the change in the City-wide gross assessed valuation of taxable property from the prior fiscal year. These revenues constitute an addition to other property tax apportionments and are calculated for purposes of this study at \$0.68 per \$1,000 increase in assessed valuation on a City-wide basis. Please refer to **Table 2A** below and **Exhibit 5 of Appendix A** for details regarding the property tax assumptions utilized in the fiscal impact analysis.

TABLE 2A DISCOVERY VILLAGE SOUTH PROPERTY TAX ASSUMPTIONS		
	EXISTING ZONING	PROPOSED LAND USES
PROPERTY TAX		
Estimated Buildout Value	\$1,020,750,000	\$151,799,536
Estimated Exemptions	(\$969,712,500) ¹	(\$1,386,000) ²
Estimated Assessed Value	\$51,037,500	\$150,413,536
Secured Property Tax – Net Apportionment Factor to the City	14.840%	14.840%
Unsecured Property Tax – As a % of Secured Property Taxes		
Residential	2.75%	2.75%
Non-Residential	10.00%	10.00%
PROPERTY TRANSFER TAX		
Residential Property Turnover Rate	10.00%	10.00%
Non-Residential Property Turnover Rate	5.00%	5.00%
Transfer Tax as a % of Price	0.11%	0.11%
Property Transfer Tax Passed Through to City	50.00%	50.00%
PROPERTY TAX IN-LIEU OF VLF		
FY 2016-17 Total City Assessed Value	\$10,965,900,432	\$10,965,900,432
FY 2017-18 Total City Property Tax In-Lieu of VLF	\$7,473,848	\$7,473,848
Property Tax In-Lieu of VLF / \$1,000 of Assessed Value	\$0.68	\$0.68

[1] Assumes Scripps Memorial Hospital would qualify for the Welfare Exemption from local property taxes. A partial tax exemption of 95% is assumed, based on data obtained from the City concerning a comparable development: I.e., Kaiser Foundation Hospitals' three taxable parcels in San Marcos have a combined property tax exemption of approximately 95%.

[2] Assumes homeowner's exemption (annually) is \$7,000, with 90% of sale units taking homeowner's exemption.

D. VEHICLE LICENSE FEES

1. BACKGROUND

Prior to June 1, 2004, the Vehicle License Fee (“VLF”) tax rate was equal to 2.00% of the value of a vehicle, with 0.65% paid by the vehicle owner and an additional 1.35% supplemented with a backfill from the State General Fund. A large portion of those funds was allocated to cities (42.50%) and counties (42.50%) based on population, while newly incorporated cities received an additional population subvention based on three (3) times the number of registered voters for the first seven (7) years after incorporation.

As discussed in **Section 2.I.C** above, in 2004 the VLF allocation was altered. The California Legislature implemented the “VLF Swap” in which the VLF was lowered to 0.65%. The resultant loss of city revenue was swapped with an augmentation of property tax, termed property tax in-lieu of VLF. These amounts grow annually based on the increase in assessed value within each respective jurisdiction (again, see above).

2. SUPPLEMENTAL LAW ENFORCEMENT FUNDING (“SLESF”) AND OTHER STATE LAW ENFORCEMENT GRANTS

As part of the 2009 state budget agreement, a number of law enforcement grant programs previously funded by the state general fund were instead funded in FY 2009-10 and FY 2010-11 by a temporary 0.15% state VLF increase, which ended on June 30, 2011. The additional 0.15% VLF rate was intended to generate around \$500 million annually – the tax generated \$414 million in FY 2009-10 and \$442 million in FY 2010-11.

3. SENATE BILL (SB) 89 - FEES SHIFTED TO FUND STATE LAW ENFORCEMENT GRANTS

SB89, signed in 2010 by Governor Brown, effectively eliminated the 0.65% VLF revenue that was being allocated as a general fund revenue source to California cities. Provisions in SB89 shifted hundreds of millions of VLF revenues to fund the state law enforcement grants beginning in FY 2011-12. The SB89 plan operated as follows:

- The “Vehicle License Registration Fee” was increased by \$12 to produce approximately \$300 million in FY 2011-12. This fee funded state DMV vehicle license registration operations, thereby “freeing up” \$300 million of VLF revenue that had been used to fund DMV operations. This money was transferred to a new Local Law Enforcement Services Account (“LLESA”) to fund the law enforcement grants.

- In addition, beginning July 1, 2011, SB89 transferred the remaining VLF revenue (after the Local Revenue Fund allocation for county health and welfare programs) previously allocated to cities and counties to the LLESA.

SB89 took \$130 million of city general revenue and shifted it to save state law enforcement grant programs. Less than \$100 million of these grant funds have or will come back to cities, earmarked for police services. Instead, these funds will likely continue to be offset by the loss of city VLF. Therefore, VLF (as opposed to property tax in-lieu of VLF) revenue was not analyzed as a Project revenue source in this Study.

E. SALES AND USE TAXES

Direct sales tax revenues are generated by retail sales from businesses within City limits, with 1.00% of taxable sales receipts passed through to the City. **Exhibit 6 of Appendix A** reflects estimated taxable sales per square foot for each on-site, non-residential land use type, based on data from the Urban Land Institute's *Dollars & Cents of Shopping Projects* (2008) publication and total estimated taxable sales for the Project, based on development assumptions provided by the City.

Indirect sales tax revenues, as also summarized in **Exhibit 6 of Appendix A**, are projected based on estimated purchases made by residents and employees of the Project within the City. Based on studies outlined in the *International Council of Shopping Centers' Office-Worker Retail Spending in a Digital Age* (2012), DTA assumed that each on-site employee spends nearly \$5,308 annually within the City under both Scenarios. Sales tax assumptions are summarized in **Table 2B** below.

TABLE 2B DISCOVERY VILLAGE SOUTH SALES TAX ASSUMPTIONS	
% Sales Tax Passed Through to City	1.00%
Local Employee Spending (Annual)	\$5,308
<i>Capture Rate of Resident/Employee Spending (within City)</i>	50%
<i>Displacement Rate (of existing taxable sales within City)</i>	20%

F. COMMUNITY FACILITIES DISTRICT SPECIAL TAX REVENUES

The Project is currently located in five (5) separate Community Facilities Districts (collectively, the “CFDs”) and will be subject to the applicable special tax for each CFD based on the land uses projected under each Scenario. Notably, revenues generated from CFD No. 98-02 and CFD No. 2011-01 are not deposited in the City’s General Fund and have therefore been excluded from this analysis. **Table 2C** below and **Exhibit 7** of **Appendix A** summarize the CFD assumptions utilized for the Existing Zoning and the Proposed Plan.

TABLE 2C
DISCOVERY VILLAGE SOUTH
COMMUNITY FACILITIES DISTRICT (CFD) ASSUMPTIONS

	EXISTING ZONING	PROPOSED LAND USES	FUND DESIGNATION
CFD 98-01 IA 1 <i>Commercial Residential</i>	\$1,211.37 Per Acre	\$173.05 Per Unit	General Fund
CFD 98-02 (Zones A - E) <i>Commercial Residential</i>	\$1,032.87 Per Acre	\$240.85 Per Unit	Non-General Fund
CFD 98-02 (Zone F) ¹ <i>Commercial Residential</i>	N/A	N/A	Non-General Fund
CFD 2001-01 <i>Commercial Residential</i>	\$1,119.80 Per Acre	\$159.97 Per Unit	General Fund
CFD 2011-01 <i>Hospital Condominium</i>	\$0.1910 Per Sq. Ft.	\$330.89	Non-General Fund

[1] No special tax rate for Zone F has been established for the project.

MULTIPLIER METHOD:

G. FRANCHISE FEES

Franchise fees are forecasted at \$36.88 per Persons Served using the *Per Capita-Employee Multiplier Method*.

H. LICENSES AND PERMITS

Licenses and Permits are based on the City's collection of fees for various types of permits and community programs. Revenues are forecasted using a *Per Capita-Employee Multiplier Method* that results in a total multiplier of \$11.17 per Persons Served.

I. FINES AND FORFEITURES

Fines and Forfeitures are forecasted at \$4.50 per Persons Served using the *Per Capita-Employee Multiplier Method*.

II. ANALYSIS OF RECURRING COSTS

CASE STUDY METHOD:

A. GENERAL GOVERNMENT COSTS

General government costs are projected at a marginal rate of 20.9% of the City General Fund recurring costs, based on the assumption that the current ratio of general government expenditures to non-general government expenditures will remain the same in the future.

FY 2017-2018 general government expenditures are budgeted at approximately \$10.8 million while FY 2017-2018 non-general government expenditures are budgeted at approximately \$51.6 million, resulting in a general government overhead percentage of approximately 20.9%. Under the Existing Zoning, this approach results in annual General Government costs of \$167,100. Under the Proposed Plan, this approach results in annual General Government costs of \$62,771.

MULTIPLIER METHOD:

B. PUBLIC SAFETY

Public safety services include those costs associated with fire protection and law enforcement. Public Safety costs are forecasted at \$277.39 per Persons Served using the *Per Capita-Employee Multiplier Method*.

C. PUBLIC WORKS

The Engineering Division of the Public Works Department administers all aspects of engineering and activities relating to development permits and reviews, traffic operations and management, stormwater regulations and permit compliance, and all capital improvement programs (“CIPs”). The Operations Division of Public Works oversees CIP construction, inspection, and maintenance of City parks, landscape, streets, drainage, traffic signals, the City vehicle/equipment fleet, and outdoor lighting. Public Works services are forecasted at \$101.61 per Persons Served using the *Per Capita-Employee Multiplier Method*.

D. DEVELOPMENT SERVICES

The Development Services Department consists of an administrative section and three divisions: Building and Safety, Planning, and Engineering. The department coordinates development activity within the City to ensure planned, orderly growth. Additional responsibilities include program management of code enforcement, affordable housing, the City’s lighting and landscape districts and community facility districts, and assistance to the city manager’s office in the area of economic development. Development Services are forecasted at \$39.18 per Persons Served based on the *Per Capita-Employee Multiplier Method*.

E. CULTURE AND RECREATION

The Community Services Department provides recreational and cultural activities. Programs include preschoolers and youth day camps, sports, senior services, enrichment classes, special events, cultural and performing arts, aquatics, hikes, and nature center activities. Culture and Recreation costs are forecasted at \$14.66 per Persons Served based on the *Per Capita-Employee Multiplier Method*.

F. OTHER FINANCING USES

The FY 2017-2018 City budget identifies two Other Financing Uses categories: Annual Replacement/Rehab Transfers and Transfers Out.

Annual Replacement/Rehab Transfers fund a reserve for City infrastructure, facilities, and vehicles in an amount mandated by City Council policy. As such, this expenditure is not anticipated to increase on a one-for-one basis as a result of the Project, and therefore a ninety percent (90%) discount has been applied. Other Financing Uses, consisting solely of Annual Replacement/Rehab Transfers, are projected at \$2.13 per Persons Served utilizing the *Per Capita-Employee Multiplier Method*.

Transfers Out are applied toward current capital improvement projects, the City's existing Lighting & Landscaping District's budget, and the City's Senior Center. While Transfers Out are subject to change from year to year, the Project is not anticipated to impact such expenditures and, therefore, Transfers Out has been excluded from this analysis.

SECTION 3 FISCAL IMPACTS

I. TOTAL RECURRING REVENUES

Total recurring revenues to the City equal approximately **\$991,728** per year under the Existing Zoning and **\$491,463** under the Proposed Plan. As illustrated in **Table 3A** below, the largest revenue line items, assuming the Existing Zoning, are property tax in-lieu of VLF (69.9%), secured property tax (7.6%), and franchise fees (6.8%). Under the Proposed Plan, the largest revenues include secured property tax (45.4%), property tax in-lieu of VLF (20.8%), and CFD revenue (14.9%). **Exhibits 5-7, 9, and 11 of Appendix A** provide additional details about all recurring revenues and the assumptions used in their derivation.

CATEGORY	EXISTING ZONING		PROPOSED LAND USES	
	AMOUNT	PERCENT*	AMOUNT	PERCENT*
SECURED PROPERTY TAXES	\$75,740	7.6%	\$223,215	45.4%
UNSECURED PROPERTY TAXES	\$7,574	0.8%	\$6,138	1.2%
PROPERTY TRANSFER TAXES	\$28,071	2.8%	\$8,349	1.7%
PROPERTY TAX IN-LIEU OF VLF	\$693,606	69.9%	\$102,240	20.8%
DIRECT AND INDIRECT SALES TAXES	\$48,726	4.9%	\$42,013	8.5%
FRANCHISE FEES	\$67,712	6.8%	\$25,436	5.2%
LICENSES AND PERMITS	\$20,508	2.1%	\$7,704	1.6%
FINES AND FORFEITURES	\$8,262	0.8%	\$3,104	0.6%
CFD REVENUE	\$41,529	4.2%	\$73,264	14.9%
TOTAL RECURRING REVENUES	\$991,728	100.0%	\$491,463	100.0%

**Numbers may not sum due to rounding.*

II. TOTAL RECURRING SERVICES COSTS

As illustrated in **Table 3B** below, total annual recurring costs to the City are estimated at **\$965,705** per year under the Existing Zoning and **\$362,769** per year under the Proposed Plan. **Exhibits 8, 10, and 12 of Appendix A** provide additional details about all recurring costs and the assumptions used in their derivation.

TABLE 3B DISCOVERY VILLAGE SOUTH RECURRING FISCAL COSTS CITY GENERAL FUND				
CATEGORY	EXISTING ZONING		PROPOSED LAND USES	
	AMOUNT	PERCENT*	AMOUNT	PERCENT*
PUBLIC WORKS	\$186,556	19.3%	\$70,080	19.3%
DEVELOPMENT SERVICES	\$71,934	7.4%	\$27,022	7.4%
PUBLIC SAFETY	\$509,288	52.7%	\$191,316	52.7%
CULTURE AND RECREATION	\$26,916	2.8%	\$10,111	2.8%
OTHER FINANCING USES	\$3,911	0.4%	\$1,469	0.4%
GENERAL GOVERNMENT	\$167,100	17.3%	\$62,771	17.3%
TOTAL RECURRING COSTS	\$965,705	100.0%	\$362,769	100.0%

**Numbers may not sum due to rounding.*

III. OVERALL NET FISCAL IMPACT

As shown in **Table 3C** below, the overall fiscal impact to the City as a result of revenues projected to be generated by the Project is a recurring annual fiscal surplus of **\$26,023** assuming the Existing Zoning and **\$128,694** under the Proposed Plan. The fiscal surplus projected to be generated under the Existing Zoning is based on the generation of **\$991,728** in recurring annual revenues and **\$965,705** in recurring annual costs. The fiscal surplus projected to be generated under the Proposed Plan is based on the generation of **\$491,463** in recurring annual revenues and **\$362,769** in recurring annual costs. Under the Existing Zoning, the annual revenues are projected to equal **1.03** times the associated City General Fund costs. Under the Proposed Plan, the annual revenues are projected to equal **1.35** times the associated City General Fund costs. A summary of the overall fiscal impacts to the City is provided in **Exhibit 1 of Appendix A**.

TABLE 3C
DISCOVERY VILLAGE SOUTH
NET FISCAL IMPACT
CITY GENERAL FUND

IMPACT	EXISTING ZONING (MEDICAL/OFFICE)	PROPOSED LAND USE (RESIDENTIAL)
TOTAL RECURRING REVENUES	\$991,728	\$491,463
TOTAL RECURRING EXPENDITURES	(\$965,705)	(\$362,769)
NET FISCAL IMPACT	\$26,023	\$128,694
REVENUE TO EXPENSE RATIO	1.03	1.35

IV. MARKET CONSIDERATIONS

Importantly, the results summarized in **Table 3C** assume buildout and full occupancy for each Scenario. Prior to buildout and full occupancy, only a portion of the projected fiscal surplus would likely be realized. Notably, based on the Price Point Study prepared by Meyers Research, whether the Existing Zoning Scenario would be marketable at the Project site remains unclear given the scale of new hospital construction located close to the site, as well as the uncertainty of demand for future hospital beds in San Diego County. This conclusion suggests that buildout and full occupancy may never be achieved under the Existing Zoning and, consequently, the fiscal surplus projected for this Scenario is theoretical and may not be realized. As noted by Meyers Research, “Market conditions suggest that a residential development has a lower risk profile than hospital/medical office.” Additionally, this fiscal study projects that the Proposed Plan would generate a larger surplus to the City General Fund than would the Existing Zoning. Both the fiscal and market studies therefore conclude that the Proposed Plan represents a more viable development option for the City.

APPENDIX A

FISCAL IMPACT MODEL

**CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
FISCAL IMPACT ANALYSIS**

FISCAL IMPACT SUMMARY

PROJECT SUMMARY

DEMOGRAPHICS

CASE STUDY REVENUES

CASE STUDY EXPENDITURES

MULTIPLIER REVENUES

MULTIPLIER EXPENDITURES

CITY BUDGET SUMMARY

EXHIBIT 1

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
FISCAL IMPACT SUMMARY

RECURRING GENERAL FUND REVENUES ¹	APPROVED PLAN		PROPOSED PLAN	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL

SECURED PROPERTY TAX	\$75,740	7.6%	\$223,215	45.4%
UNSECURED PROPERTY TAX	\$7,574	0.8%	\$6,138	1.2%
PROPERTY TRANSFER TAX	\$28,071	2.8%	\$8,349	1.7%
PROPERTY TAX IN-LIEU OF VEHICLE LICENSE FEE	\$693,606	69.9%	\$102,240	20.8%
DIRECT AND INDIRECT SALES TAX	\$48,726	4.9%	\$42,013	8.5%
FRANCHISE FEES	\$67,712	6.8%	\$25,436	5.2%
LICENSES AND PERMITS	\$20,508	2.1%	\$7,704	1.6%
FINES AND FORFEITURES	\$8,262	0.8%	\$3,104	0.6%
CFD REVENUE	\$41,529	4.2%	\$73,264	14.9%
TOTAL RECURRING GENERAL FUND REVENUES	\$991,728	100.0%	\$491,463	100.0%

RECURRING GENERAL FUND EXPENDITURES ²	APPROVED PLAN		PROPOSED PLAN	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL

PUBLIC WORKS	\$186,556	19.3%	\$70,080	19.3%
DEVELOPMENT SERVICES	\$71,934	7.4%	\$27,022	7.4%
PUBLIC SAFETY	\$509,288	52.7%	\$191,316	52.7%
CULTURE AND RECREATION	\$26,916	2.8%	\$10,111	2.8%
OTHER FINANCING USES	\$3,911	0.4%	\$1,469	0.4%
GENERAL GOVERNMENT	\$167,100	17.3%	\$62,771	17.3%
TOTAL RECURRING GENERAL FUND EXPENDITURES	\$965,705	100.0%	\$362,769	100.0%

NET FISCAL IMPACT	APPROVED PLAN	PROPOSED PLAN
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TOTAL ANNUAL RECURRING GENERAL FUND SURPLUS/(DEFICIT)	\$26,023	\$128,694
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TOTAL ANNUAL REVENUE/EXPENDITURE RATIO	1.03	1.35
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NOTES:

¹ Please see Exhibits 5-7 and 9 for the derivation of these calculations.

² Please see Exhibits 8 and 10 for the derivation of these calculations.

**All figures subject to rounding*

EXHIBIT 2

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
PROJECT SUMMARY

LAND USE TYPE	TOTAL GROSS ACRES	APPROVED PLAN				PROPOSED PLAN					
		BUILDING SPACE ACRES ¹	BUILDING SPACE SF ¹	ESTIMATED VALUE/BSF	TOTAL ESTIMATED VALUE	BUILDING SPACE ACRES ¹	BUILDING SPACE SF ¹	UNITS ¹	ESTIMATED VALUE/BSF	AVERAGE SALE PRICE ^{2,3}	TOTAL ESTIMATED VALUE ²
GRAND TOTAL	39.01	17.81	776,000	\$1,315	\$1,020,750,000	10.40	452,850	220	\$335	\$645,464	\$151,799,536
NON-RESIDENTIAL											
HOSPITAL - ACUTE ²		13.43	585,000	\$1,500	\$877,500,000						
HOSPITAL - COMMUNITY ²		1.52	66,000	\$750	\$49,500,000						
HOSPITAL - OUTPATIENT ²		2.87	125,000	\$750	\$93,750,000						
NON-RESIDENTIAL SUBTOTAL		17.81	776,000		\$1,020,750,000						
RESIDENTIAL											
PRODUCT A						6.92	301,500	131		\$693,494	\$95,836,334
PRODUCT B						3.47	151,350	89		\$597,435	\$55,963,202
RESIDENTIAL SUBTOTAL						10.40	452,850	220			\$151,799,536

NOTES

¹Source: City of San Marcos. Breakdown by Land Use Type is estimated by proportion of building square footage.

²Source: Meyers Research, "Assessment of Market Opportunity: Discovery Village South, San Marcos, CA," Slide 12. "Total estimated value" includes Base Price + Options and Upgrades.

³"Estimated average sale price" refers to the weighted average of the base price, as calculated using Meyers Research assumptions.

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**All figures subject to rounding*

EXHIBIT 3

**CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
CITY DEMOGRAPHICS**

POPULATION, HOUSEHOLDS, AND EMPLOYMENT (2017)

POPULATION ¹	94,042
EMPLOYMENT ²	39,200
TOTAL PERSONS SERVED ³	113,642
HOUSEHOLDS	29,458
AVERAGE HOUSEHOLD SIZE ¹	3.14

NOTES

¹California Department of Finance, Housing and Population Information, January 1, 2017.

²Source: State of California Employment Development Department (EDD) (March 2017).

³Assumes City population plus 50% of employees.

EXHIBIT 4

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
PROJECT DEMOGRAPHICS

APPROVED PLAN					PROPOSED PLAN						
LAND USE TYPE	SF	PER	DIRECT	PERSONS	SF	PERSONS	PER	PER	DIRECT	PERSONS	
	BSF	EMPLOYEE	EMPLOYEES	SERVED	BSF	UNITS	EMPLOYEE	HOUSEHOLD ¹	RESIDENTS	EMPLOYEES	SERVED
GRAND TOTAL	776,000		3,672	1,836	452,850	220	0	3.14	690	0	690
NON-RESIDENTIAL											
HOSPITAL - ACUTE ²	585,000	184	3,180	1,590							
HOSPITAL - COMMUNITY ²	66,000	363	182	91							
HOSPITAL - OUTPATIENT ²	125,000	403	310	155							
NON-RESIDENTIAL SUBTOTAL	776,000		3,672	1,836					0	0	0
RESIDENTIAL											
PRODUCT A					301,500	131	NA	3.14	411	NA	411
PRODUCT B					151,350	89	NA	3.14	279	NA	279
RESIDENTIAL SUBTOTAL					452,850	220			690		690

NOTES

¹ California Department of Finance, Housing and Population Information, January 1, 2017.

² Source: Commercial Buildings Energy Consumption Survey (CBECS), 2012.

**All figures subject to rounding*

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EXHIBIT 5

**CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED PROPERTY TAX REVENUES (CASE STUDY)**

PROPERTY TAX SUMMARY		
LAND USE TYPE	APPROVED PLAN	PROPOSED PLAN

ALL PROPERTY TAXES ¹		
SECURED PROPERTY TAXES	\$75,740	\$223,215
UNSECURED PROPERTY TAXES	\$7,574	\$6,138
PROPERTY TRANSFER TAXES	\$28,071	\$8,349
PROPERTY TAX IN-LIEU OF VLF	\$693,606	\$102,240
GRAND TOTAL ALL PROPERTY TAXES	\$804,991	\$339,942
RESIDENTIAL PROPERTY TAXES		
SECURED PROPERTY TAXES	\$223,215	
UNSECURED PROPERTY TAXES	\$6,138	
PROPERTY TRANSFER TAXES	\$8,349	
PROPERTY TAX IN-LIEU OF VLF	\$102,240	
TOTAL RESIDENTIAL PROPERTY TAXES		\$339,942
NON-RESIDENTIAL PROPERTY TAXES ¹		
SECURED PROPERTY TAXES	\$75,740	\$0
UNSECURED PROPERTY TAXES	\$7,574	\$0
PROPERTY TRANSFER TAXES	\$28,071	\$0
PROPERTY TAX IN-LIEU OF VLF	\$693,606	\$0
TOTAL NON-RESIDENTIAL PROPERTY TAXES	\$804,991	\$0

SECURED PROPERTY TAX CALCULATION		
LAND USE TYPE	APPROVED PLAN	PROPOSED PLAN
GRAND TOTAL		
ESTIMATED BUILDOUT VALUE	\$1,020,750,000	\$151,799,536
ESTIMATED EXEMPTIONS ¹	(\$969,712,500)	(\$1,386,000)
ESTIMATED ASSESSED VALUE	\$51,037,500	\$150,413,536
ESTIMATED SECURED PROPERTY TAXES	\$75,740	\$223,215
RESIDENTIAL		
ESTIMATED BUILDOUT VALUE	\$0	\$151,799,536
ESTIMATED EXEMPTIONS	\$0	(\$1,386,000)
HOMEOWNER'S EXEMPTION (ANNUALLY)	\$7,000	
PERCENT OF SALE UNITS TAKING HOMEOWNER'S EXEMPTION ²	90%	
ESTIMATED ASSESSED VALUE	\$0	\$150,413,536
ESTIMATED SECURED PROPERTY TAXES	\$0	\$223,215
NON-RESIDENTIAL		
ESTIMATED BUILDOUT VALUE	\$1,020,750,000	\$0
ESTIMATED EXEMPTIONS ¹	(\$969,712,500)	\$0
ESTIMATED ASSESSED VALUE	\$51,037,500	\$0
ESTIMATED SECURED PROPERTY TAXES	\$75,740	\$0

UNSECURED PROPERTY TAX CALCULATION		
LAND USE TYPE	APPROVED PLAN	PROPOSED PLAN
GRAND TOTAL	\$7,574	\$6,138
RESIDENTIAL		
ESTIMATED UNSECURED PROPERTY TAXES	\$0	\$6,138
UNSECURED TAXES AS A % OF SECURED ³	2.75%	
NON-RESIDENTIAL		
ESTIMATED UNSECURED PROPERTY TAXES	\$7,574	\$0
UNSECURED TAXES AS A % OF SECURED ³	10.00%	

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EXHIBIT 5 - CONTINUED

**CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED PROPERTY TAX REVENUES (CASE STUDY)**

PROPERTY TRANSFER TAX CALCULATION		
LAND USE TYPE	APPROVED PLAN	PROPOSED PLAN
GRAND TOTAL	\$28,071	\$8,349
RESIDENTIAL		
ESTIMATED PROPERTY TRANSFER TAXES	\$0	\$8,349
ESTIMATED BUILDOUT VALUE	\$0	\$151,799,536
TRANSFER TAX AS A % OF ASSESSED VALUE	0.11%	
PROPERTY TRANSFER TAX PASSED THROUGH TO CITY OF SAN MARC	50.00%	
RESIDENTIAL PROPERTY TURNOVER RATE	10.00%	
NON-RESIDENTIAL		
ESTIMATED PROPERTY TRANSFER TAXES	\$28,071	\$0
ESTIMATED BUILDOUT VALUE	\$1,020,750,000	\$0
TRANSFER TAX AS A % OF ASSESSED VALUE	0.11%	
PROPERTY TRANSFER TAX PASSED THROUGH TO CITY OF SAN MARC	50.00%	
NON-RESIDENTIAL PROPERTY TURNOVER RATE	5.00%	

PROPERTY TAX IN-LIEU OF VEHICLE LICENSE FEE CALCULATION		
LAND USE TYPE	APPROVED PLAN	PROPOSED PLAN
GRAND TOTAL	\$693,606	\$102,240
RESIDENTIAL		
ESTIMATED PROPERTY TAX IN-LIEU OF VLF	\$0	\$102,240
ESTIMATED BUILDOUT VALUE	\$0	\$151,799,536
ESTIMATED EXISTING ASSESSED VALUE	\$0	\$1,789,074
PROPERTY TAX IN-LIEU OF VLF INCREASE PER \$1,000 OF AI	\$0.68	
NON-RESIDENTIAL		
ESTIMATED PROPERTY TAX IN-LIEU OF VLF	\$693,606	\$0
ESTIMATED BUILDOUT VALUE	\$1,020,750,000	\$0
ESTIMATED EXISTING ASSESSED VALUE	\$3,065,742	\$0
PROPERTY TAX IN-LIEU OF VLF INCREASE PER \$1,000 OF AI	\$0.68	

EXHIBIT 5 - CONTINUED

**CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED PROPERTY TAX REVENUES (CASE STUDY)**

PROPERTY TAX AND PROPERTY TRANSFER TAX RATES AND ASSUMPTIONS

PROPERTY TAX ALLOCATION (AS A PORTION OF THE 1% GENERAL PROPERTY TAX LEVY)

CITY OF SAN MARCOS ^{4,5}	8.261%
FIRE DISTRICT ^{1,5}	6.579%

TOTAL **14.840%**

PROPERTY TRANSFER TAX RATE AND ALLOCATION

TRANSFER TAX AS A % OF ASSESSED VALUE ⁶	0.11%
PROPERTY TRANSFER TAX PASSED THROUGH TO CITY OF SAN MARCOS	50.00%

PROPERTY TAX IN-LIEU OF VLF ASSUMPTIONS

TOTAL CITY OF SAN MARCOS GROSS ASSESSED VALUE ⁷	\$10,965,900,432
TOTAL CITY PROPERTY TAX IN-LIEU VLF REVENUES ⁸	\$7,473,848
PROPERTY TAX IN-LIEU OF VLF INCREASE PER \$1,000 OF AV	\$0.68

NOTES

¹ Assumes Scripps Memorial Hospital would qualify for the Welfare Exemption from local property taxes. A partial tax exemption of 95% is assumed, based on data obtained from the City concerning a comparable development: i.e., Kaiser Foundation Hospitals' three taxable parcels in San Marcos have a combined property tax exemption of approximately 95%.

² Estimate, subject to change.

³ Based on typical DTA baseline assumptions.

⁴ Based on "General Fund" levy for Tax Rate Areas (TRAs) 013009, 013233, and 013272. Data provided by the County of San Diego Auditor-Controller's Office.

⁵ Based on the average of the rates for TRAs 013009, 013233, and 013272.

⁶ Source: California Revenue & Taxation Code §11901, et seq.; San Marcos Municipal Code §3.12.020.

⁷ Source: San Diego County A-C; Fiscal Year 2016-17.

⁸ Source: FY 2017-18 Budget.

***All figures subject to rounding**

DISCOVERY VILLAGE FY 2016-17 APNs ^{1,2}				
FY 16-17				
APN	ACRES	AV	TRA	TAX RATE
2211420700	29.06	\$4,725,000	13272	1.11749%
2210701900	12.12	\$2,037,000	13009	1.11749%
2210702000	19.39	\$3,340,000	13009	1.11749%
2210801900	4.45	\$847,000	13233	1.11749%
2210801800	4.45	\$790,000	13009	1.11749%
2210801100	4.79	\$962,000	13233	1.11749%
2210801200	4.79	\$912,000	13233	1.11749%
2210802400	0.84	\$147,000	13233	1.11749%
2210802300	0.59	\$90,000	13233	1.11749%
TOTAL	80.48	\$13,850,000		
AVERAGE AV / ACRE		\$172,092		

¹ Based on visual inspection using SANGIS.

² Owner of record confirmed as Scripps Health via San Diego County Treasurer-Tax Collector website.

EXHIBIT 6

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED SALES TAX REVENUES (CASE STUDY)

SALES TAX SUMMARY		
LAND USE TYPE	APPROVED PLAN	PROPOSED PLAN
GRAND TOTAL	\$48,726	\$42,013
RESIDENTIAL SALES TAXES		
DIRECT SALES TAX		NA
INDIRECT SALES TAX - TAXABLE RESIDENT PURCHASES		
PRODUCT A	\$26,423	
PRODUCT B	\$15,590	
TOTAL RESIDENTIAL SALES TAXES		\$42,013
NON-RESIDENTIAL SALES TAXES		
DIRECT SALES TAX ¹		
HOSPITAL - ACUTE	\$0	\$0
HOSPITAL - COMMUNITY	\$0	\$0
HOSPITAL - OUTPATIENT	\$0	\$0
INDIRECT SALES TAX - TAXABLE EMPLOYEE PURCHASES	\$48,726	\$0
TOTAL NON-RESIDENTIAL SALES TAXES	\$48,726	\$0

DIRECT SALES TAX ASSUMPTIONS

TAXABLE SALES PER SF¹

HOSPITAL - ACUTE	\$0
HOSPITAL - COMMUNITY	\$0
HOSPITAL - OUTPATIENT	\$0

DISPLACED TAXABLE SALES²

20%

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EXHIBIT 6 - CONTINUED

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED SALES TAX REVENUES (CASE STUDY)

RESIDENTIAL INDIRECT SALES TAX ASSUMPTIONS

DISPOSABLE INCOME PER HOUSEHOLD

ESTIMATED AVERAGE HOUSEHOLD INCOME (ASSUMES 3:1 INCOME TO HOUSEHOLD PAYMENT RATIO³)

PRODUCT A	\$143,702
PRODUCT B	\$124,794

MORTGAGE ASSUMPTIONS

PRODUCT A

AVERAGE PROJECTED SALES PRICE PER UNIT	\$693,494
AVERAGE MORTGAGE (20% DOWN PAYMENT ¹)	\$554,795
ANNUAL MORTGAGE PAYMENT (4.5% FOR 30 YEARS) ⁴	\$33,733
ADDITIONAL ANNUAL PROPERTY TAXES & HOA ⁵	\$14,168

PRODUCT B

AVERAGE PROJECTED SALES PRICE PER UNIT	\$597,435
AVERAGE MORTGAGE (20% DOWN PAYMENT ¹)	\$477,948
ANNUAL MORTGAGE PAYMENT (4.5% FOR 30 YEARS) ⁴	\$29,060
ADDITIONAL ANNUAL PROPERTY TAXES & HOA ⁵	\$12,538

RETAIL TAXABLE EXPENDITURES (AS A % OF DISPOSABLE INCOME)

⁶

PRODUCT A	28.07%
PRODUCT B	28.07%

NON-RESIDENTIAL INDIRECT SALES TAX ASSUMPTIONS

EMPLOYEES (ANNUAL SPENDING PER EMPLOYEE)

⁷

\$5,308

EXHIBIT 6 - CONTINUED

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED SALES TAX REVENUES (CASE STUDY)

CITY INDIRECT SALES TAX ASSUMPTIONS

SALES TAX % TO CITY	⁸	1.00%
CITY RETAIL TAXABLE PURCHASE CAPTURE RATE	²	50%

SAMPLE PROPERTY TAX BILL

FY 2016-17 AD VALOREM PROPERTY TAX RATE (13263)	1.11749%
PROPOSED SCHOOL CFD	0.17900%
CITY CFD SPECIAL TAXES	\$1,815.54
OTHER DIRECT ASSESSMENTS	
VECTOR CONTROL	\$10.00
CWA WATER AVAILABILITY	\$10.00
MOSQUITO SURVEILLANCE	\$2.28
MWD WATER STANDBY CHARGE	\$11.50
TOTAL ETR	1.696895%

NOTES

¹ Based on the median sales per sq. ft. figure for retail centers as outlined in "Dollars and Cents of Shopping Centers" (2008) published by the Urban Land Institute.

² Estimate, subject to change.

³ DTA estimates. Subject to change.

⁴ DTA estimate. Annual payment includes principal, interest, property taxes, and homeowner's insurance.

⁵ Based on Meyers Research assumption of \$200 monthly HOA. Refer to "Assessment of Market Opportunity: Discovery Village South, San Marcos, CA," Slide 18.

⁶ Source: Bureau of Labor Statistics (BLS) *Consumer Expenditure Survey* (2015).

⁷ Source: "Office-Worker Retail Spending in a Digital Age," ICSC (2012). Adjusted for inflation using the change in CPI for San Diego.

⁸ Source: San Marcos Municipal Code §3.20.090.

* All figures subject to rounding

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EXHIBIT 7

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED CFD SPECIAL TAX REVENUES (CASE STUDY)

CFD SPECIAL TAX SUMMARY - GENERAL FUND IMPACTS				
LAND USE TYPE	ACRES	SF	UNITS	APPROVED PLAN

TOTAL CFD SPECIAL TAXES				\$41,529	\$73,264
RESIDENTIAL CFD SPECIAL TAXES ¹					
CFD 98-01 IA 1 (POLICE)			220		\$38,071
CFD 2001-01 (FIRE)			220		\$35,193
TOTAL RESIDENTIAL CFD SPECIAL TAXES					\$73,264
NON-RESIDENTIAL CFD SPECIAL TAXES ¹					
CFD 98-01 IA 1 (POLICE)	17.81			\$21,580	
CFD 2001-01 (FIRE)	17.81			\$19,949	
TOTAL NON-RESIDENTIAL CFD SPECIAL TAXES				\$41,529	

CFD SPECIAL TAX SUMMARY - NON-GENERAL FUND IMPACTS (EXCLUDED FROM ANALYSIS)				
LAND USE TYPE	ACRES	SF	UNITS	APPROVED PLAN

TOTAL CFD SPECIAL TAXES				\$166,616	\$125,783
RESIDENTIAL CFD SPECIAL TAXES ¹					
CFD 98-02 (ZONES A - E) ²			220		\$52,987
CFD 98-02 (ZONE F) ^{2,3}			220		NA
CFD 2011-01 ^{2,4}			220		\$72,796
TOTAL RESIDENTIAL CFD SPECIAL TAXES					\$125,783
NON-RESIDENTIAL CFD SPECIAL TAXES ¹					
CFD 98-02 (ZONES A - E) ²	17.81			\$18,400	
CFD 98-02 (ZONE F) ^{2,3}	17.81			NA	
CFD 2011-01 ^{2,5}		776,000		\$148,216	
TOTAL NON-RESIDENTIAL CFD SPECIAL TAXES				\$166,616	

CFD SPECIAL TAX RATE ASSUMPTIONS		
LAND USE	PER ACRE	FY 2017-18 SPECIAL TAX RATE PER SF PER UNIT
RESIDENTIAL ¹		
CFD 98-01 IA 1 (POLICE)		\$173.05
CFD 2001-01 (FIRE)		\$159.97
CFD 98-02 (ZONES A - E) ²		\$240.85
CFD 98-02 (ZONE F) ^{2,3}		NA
CFD 2011-01 ^{2,4}		\$330.89
NON-RESIDENTIAL ¹		
CFD 98-01 IA 1 (POLICE)		\$1,211.37
CFD 2001-01 (FIRE)		\$1,119.80
CFD 98-02 (ZONES A - E) ²		\$1,032.87
CFD 98-02 (ZONE F) ^{2,3}		NA
CFD 2011-01 ^{2,5}		\$0.1910

NOTES

¹ Source: City of San Marcos.

² Special assessments collected from the CFD are deposited into Special Funds, not the General Fund. Therefore, these CFD revenues are excluded from this analysis.

³ No special tax rate for Zone F has been established for the project.

⁴ "Condominium" Rate, per dwelling unit

⁵ "Hospital" Rate, per building square foot

**All figures subject to rounding*

EXHIBIT 8

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED GENERAL GOVERNMENT EXPENDITURES (CASE STUDY)

GENERAL GOVERNMENT EXPENDITURES CALCULATION

	APPROVED PLAN	PROPOSED PLAN
--	------------------	------------------

ESTIMATED RECURRING GENERAL GOVERNMENT OVERHEAD EXPENDITURES¹ \$167,100 \$62,771

GENERAL GOVERNMENT ASSUMPTIONS

TOTAL RECURRING CITY GENERAL FUND EXPENDITURES (EXCLUDING GENERAL GOVERNMENT OVERHEAD) ²	\$51,613,453
TOTAL RECURRING CITY GENERAL GOVERNMENT OVERHEAD ³	\$10,799,575
TOTAL RECURRING GENERAL FUND EXPENDITURES	\$62,413,028
RECURRING CITY GENERAL GOVERNMENT OVERHEAD (% OF TOTAL RECURRING GENERAL FUND EXPENDITURES) ³	20.9%
MARGINAL INCREASE IN GENERAL GOVERNMENT COSTS	100%

NOTES

¹ Based on total recurring project general fund expenditures (excluding general government overhead) from Exhibit 12.

² Based on City of San Marcos Operating Budget, Fiscal Year 2017-18.

³ General Government Overhead Expenditures defined as costs for City Council, Administration, Housing and Neighborhood Services, City Attorney, City Clerk, Human Resources/Risk Management, Finance/Information Systems, and Real Property Services.

**All figures subject to rounding*

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EXHIBIT 9

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED MULTIPLIER BASED GENERAL FUND REVENUES

MULTIPLIER BASED GENERAL FUND REVENUE SUMMARY		
REVENUE CATEGORY	APPROVED PLAN	PROPOSED PLAN
FRANCHISE FEES	\$67,712	\$25,436
LICENSES AND PERMITS	\$20,508	\$7,704
FINES AND FORFEITURES	\$8,262	\$3,104
TOTAL ESTIMATED MULTIPLIER REVENUES	\$96,482	\$36,244

MULTIPLIER BASED REVENUE ASSUMPTIONS		
REVENUE CATEGORY	MULTIPLIER ¹	BASIS
SALES TAX	#N/A	CASE STUDY
PROPERTY TAX	#N/A	CASE STUDY
FRANCHISE FEES	\$36.88	PERSONS SERVED
LICENSES AND PERMITS	\$11.17	PERSONS SERVED
FINES AND FORFEITURES	\$4.50	PERSONS SERVED

NOTES

¹ Based on City of San Marcos Operating Budget, Fiscal Year 2017-18.

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**All figures subject to rounding*

EXHIBIT 10

CITY OF SAN MARCOS
DISCOVERY VILLAGE SOUTH
ESTIMATED MULTIPLIER BASED GENERAL FUND EXPENDITURES

MULTIPLIER BASED GENERAL FUND EXPENDITURE SUMMARY		
EXPENDITURE CATEGORY	APPROVED PLAN	PROPOSED PLAN
PUBLIC WORKS	\$186,556	\$70,080
DEVELOPMENT SERVICES	\$71,934	\$27,022
PUBLIC SAFETY	\$509,288	\$191,316
CULTURE AND RECREATION	\$26,916	\$10,111
OTHER FINANCING USES	\$3,911	\$1,469
TOTAL MULTIPLIER EXPENDITURES	\$798,605	\$299,998

MULTIPLIER BASED EXPENDITURE ASSUMPTIONS		
EXPENDITURE CATEGORY	MULTIPLIER ¹	BASIS
PUBLIC WORKS	\$101.61	PERSONS SERVED
DEVELOPMENT SERVICES	\$39.18	PERSONS SERVED
PUBLIC SAFETY	\$277.39	PERSONS SERVED
CULTURE AND RECREATION	\$14.66	PERSONS SERVED
OTHER FINANCING USES	\$2.13	PERSONS SERVED

NOTES

¹ Based on City of San Marcos Operating Budget, Fiscal Year 2017-18.

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**All figures subject to rounding*

EXHIBIT 11

**CITY OF SAN MARCOS
FY 2016-17 GENERAL FUND REVENUE SUMMARY**

REVENUE CATEGORY	TOTAL REVENUES	REVENUE TYPE	PROJECTION METHOD	DISCOUNT ¹	MULTIPLIER
REVENUES INCLUDED IN FISCAL IMPACT ANALYSIS					
SALES TAX	\$16,697,500	RECURRING	CASE STUDY	NA	NA
PROPERTY TAX	\$13,485,800	RECURRING	CASE STUDY	NA	NA
VLF/PROPERTY TAX COMPENSATION ²	\$7,473,848	RECURRING	CASE STUDY	0%	NA
SPECIAL TAXES/ASSESSMENTS	\$5,713,277	RECURRING	CASE STUDY	NA	NA
TRANSIENT OCCUPANCY TAX	\$1,401,969	RECURRING	CASE STUDY	0%	NA
FRANCHISE FEES	\$4,191,355	RECURRING	PERSONS SERVED	0%	\$36.88
LICENSES AND PERMITS	\$1,269,809	RECURRING	PERSONS SERVED	0%	\$11.17
FINES AND FORFEITURES	\$511,500	RECURRING	PERSONS SERVED	0%	\$4.50
TOTAL INCLUDED GENERAL FUND REVENUES	\$50,745,058				\$52.55
CHARGES FOR SERVICES³					
DEDUCTED FROM GENERAL GOVT CHARGES	\$1,264,314	NA	NA	NA	NA
DEDUCTED FROM PUBLIC WORKS	\$1,093,821	NA	NA	NA	NA
DEDUCTED FROM DEVELOPMENT SERVICES	\$739,300	NA	NA	NA	NA
DEDUCTED FROM PUBLIC SAFETY: BUILDING REGULATION CHARGES	\$4,608,080	NA	NA	NA	NA
DEDUCTED FROM CULTURE AND RECREATION	\$2,217,850	NA	NA	NA	NA
TOTAL CHARGES FOR SERVICES	\$9,923,365				
REVENUES EXCLUDED FROM FISCAL IMPACT ANALYSIS					
USE OF MONEY AND PROPERTY ⁴	\$5,944,083	NA	NA	NA	NA
MISCELLANEOUS REVENUES	\$216,414	NA	NA	NA	NA
OTHER FINANCING SOURCES	\$5,737,500	NA	NA	NA	NA
INTERGOVERNMENTAL REVENUES	\$917,720	NA	NA	NA	NA
DEVELOPER FEES	\$10,000	NA	NA	NA	NA
TOTAL EXCLUDED GENERAL FUND REVENUES	\$12,825,717				
TOTAL GENERAL FUND REVENUES + CHARGES FOR SERVICES	\$73,494,140				
TOTAL RECURRING GENERAL FUND REVENUES	\$50,745,058				

NOTES

¹ Certain revenues may not be expected to increase one-to-one with the new development.

² Source: FY 2017-18 Budget.

³ All Charges for Services are deducted from expenditures on Exhibit 13.

⁴ Interest income is modeled on a case study basis on Exhibit 8.

**All figures subject to rounding*

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EXHIBIT 12

**CITY OF SAN MARCOS
FY 2016-17 GENERAL FUND EXPENDITURE SUMMARY**

EXPENDITURE CATEGORY	TOTAL EXPENDITURES	CHARGES FOR SERVICES ADJUSTMENT	EXPENDITURE TYPE	PROJECTION METHOD ¹	DISCOUNT ²	MULTIPLIER
EXPENDITURES INCLUDED IN FISCAL IMPACT ANALYSIS						
GENERAL GOVERNMENT EXPENDITURES						
CITY COUNCIL	\$274,487		RECURRING	CASE STUDY	NA	NA
ADMINISTRATION	\$2,014,326		RECURRING	CASE STUDY	NA	NA
ECONOMIC DEVELOPMENT	\$266,619		RECURRING	CASE STUDY	NA	NA
CITY ATTORNEY	\$815,500		RECURRING	CASE STUDY	NA	NA
CITY CLERK	\$583,785		RECURRING	CASE STUDY	NA	NA
HUMAN RESOURCES/ RISK MANAGEMENT	\$3,616,144		RECURRING	CASE STUDY	NA	NA
FINANCE/ INFORMATION SYSTEMS	\$3,366,512		RECURRING	CASE STUDY	NA	NA
REAL PROPERTY SERVICES	\$1,126,516		RECURRING	CASE STUDY	NA	NA
TOTAL GENERAL GOVERNMENT EXPENDITURES	\$12,063,889	(\$1,264,314)				\$0.00
PUBLIC WORKS						
OPERATIONS	\$10,633,525	(\$920,095)	RECURRING	PERSONS SERVED	0%	\$85.47
ENGINEERING	\$2,007,744	(\$173,726)	RECURRING	PERSONS SERVED	0%	\$16.14
TOTAL PUBLIC WORKS	\$12,641,269	(\$1,093,821)		PERSONS SERVED		\$101.61
DEVELOPMENT SERVICES						
ADMINISTRATION	\$562,061	(\$80,016)	RECURRING	PERSONS SERVED	0%	\$4.24
PLANNING	\$1,537,034	(\$218,814)	RECURRING	PERSONS SERVED	0%	\$11.60
BUILDING	\$1,402,407	(\$199,648)	RECURRING	PERSONS SERVED	0%	\$10.58
ENGINEERING	\$853,989	(\$121,575)	RECURRING	PERSONS SERVED	0%	\$6.44
STORMWATER PROGRAM MANAGEMENT	\$837,643	(\$119,248)	RECURRING	PERSONS SERVED	0%	\$6.32
TOTAL DEVELOPMENT SERVICES	\$5,193,134	(\$739,300)		PERSONS SERVED		\$39.18
PUBLIC SAFETY						
FIRE DEPARTMENT	\$17,698,929	(\$2,257,254)	RECURRING	PERSONS SERVED	0%	\$135.88
LAW ENFORCEMENT	\$18,432,623	(\$2,350,826)	RECURRING	PERSONS SERVED	0%	\$141.51
TOTAL PUBLIC SAFETY	\$36,131,552	(\$4,608,080)		PERSONS SERVED		\$277.39
CULTURE AND RECREATION						
COMMUNITY SERVICES	\$3,884,316	(\$2,217,850)	RECURRING	PERSONS SERVED	0%	\$14.66
TOTAL CULTURE AND RECREATION	\$3,884,316	(\$2,217,850)		PERSONS SERVED		\$14.66
OTHER FINANCING USES						
ANNUAL REPLACEMENT/REHAB TRANSFERS	\$2,422,233		RECURRING	PERSONS SERVED	90%	\$2.13
TOTAL OTHER FINANCING SOURCES	\$2,422,233	\$0		PERSONS SERVED		\$2.13
TOTAL INCLUDED EXPENDITURES	\$72,336,393	\$62,413,028				
EXPENDITURES EXCLUDED FROM FISCAL IMPACT ANALYSIS						
TRANSFERS OUT	\$1,125,000			NA	NA	NA
TOTAL EXCLUDED GENERAL FUND EXPENDITURES	\$1,125,000					
TOTAL GENERAL FUND EXPENDITURES	\$73,461,393	\$62,413,028				

NOTES

¹ Persons Served method assumes City population plus 50% of employees.

² Certain expenditures may not be expected to increase one-to-one with the new development.

**All figures subject to rounding*

ECONOMIC IMPACT STUDY

**DISCOVERY VILLAGE SOUTH
SAN MARCOS, CALIFORNIA**

DECEMBER 20, 2017

Public Finance
Public Private Partnerships
Urban Economics
Clean Energy Bonds

Newport Beach
Riverside
San Diego
San Francisco
San Jose
Dallas
Houston

ECONOMIC IMPACT STUDY

DISCOVERY VILLAGE SOUTH SAN MARCOS, CALIFORNIA

Prepared By

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Newport Beach, CA 92660

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APPENDICES

Appendix A:	Economic Impact Model – Existing Zoning
Appendix B:	Economic Impact Model – Proposed Plan

EXECUTIVE SUMMARY

I. PURPOSE OF STUDY

The objective of this Economic Impact Study (the “Study”) is to evaluate the economic impacts to the City of San Marcos (the “City”) of proposed zoning and land use changes to the Discovery Village South project (the “Project”). The 39-acre Project site is currently zoned for Medical/Office land use (categorized under Commercial land use) and would be comprised of a total of 776,000 building square feet of Acute, Community, and Outpatient uses (the “Existing Zoning”). H.G. Fenton Company (the “Applicant”) is seeking a General Plan Amendment, Specific Plan Amendment, Tentative Subdivision Map, and Development Agreement to rescind and replace the Scripps Health Care Campus Specific Plan, thereby changing the zoning to Low Density Residential (4.1-8.0 du/ac) and facilitating the development of 220 single family detached for-sale homes on the 39-acre Project site (the “Proposed Plan”). Consequently, the Study estimates the one-time (construction) and annual recurring regional economic impacts of the Existing Zoning and the Proposed Plan (collectively, the “Scenarios”), and provides a side-by-side comparison of both Scenarios.

II. TYPES OF ECONOMIC IMPACTS EVALUATED IN THE STUDY

The Study identifies the general economic impacts that would occur due to the Project and quantifies these impacts wherever possible. General economic impacts include additions to employment (number of average annual full- & part-time jobs) and economic output (e.g., gross receipts) in the City and the County.

The Study also distinguishes between one-time impacts and permanent impacts. One-time impacts include benefits that occur on a non-recurring basis as a result of construction activity, while permanent impacts refer to benefits that occur on a continuing basis, year after year. Generally, first, there is a one-time impact from the construction of a facility. Then, after the construction phases are complete, firms have a recurring impact on the economy through their ongoing operations.

Economic impact studies also operate under the basic assumption that any increase in spending has three effects: direct, indirect, and induced. First, there is a direct effect caused by the additional output of goods or services. Second, there is a ripple of indirect effects on all of the industries whose outputs are used by various Project industries and by a firm’s supply chain. Third, there are induced effects that arise when employment increases in the region and stimulates greater household spending.

III. DESCRIPTION OF THE PROJECT

Whereas the Scripps Health Care Campus Specific Plan is approved for 80 acres (with the future Discovery Street bisecting the 80-acre site), the vacant land proposed for development with residential uses comprises the southern portion, i.e., roughly half of the total area at 39.01 acres. Defined in this study as “Discovery Village South,” the proposed Project site is bounded by Discovery Street to the north, Craven Road to the west, Happy Hill Lane to the east, and the housing community of Discovery Hills to the south.

IV. ECONOMIC IMPACT CONCLUSIONS

The economic impact of the Existing Zoning and the Proposed Plan are analyzed separately within the Study, and the Study has taken the following elements as the major indicators of the economic impact: (i) Permanent Employment – direct-on-site and indirect/induced (which supplies or supports direct employment), (ii) Permanent Output (Gross Receipts) – total direct output *plus* output produced by suppliers and employee spending, and (iii) One-Time Construction Impacts. As reflected in **Tables A-1, A-2, B-1, and B-2** below, the Permanent Employees and Permanent Gross Receipts, as well as One-Time Construction Employees and Gross Receipts, are all substantially higher in the Existing Zoning. Following are the major conclusions related to the economic impacts of the Existing Zoning and the Proposed Plan on the City.

1. PERMANENT (RECURRING) EMPLOYMENT AND GROSS RECEIPTS

TABLE A-1
EXISTING ZONING
(*ALL NUMBERS SUBJECT TO ROUNDING*)

Recurring Impacts	Direct	Indirect/ Induced	Total
<u>Employees</u>			
City of San Marcos	3,672	165	3,837
<u>Overall Output</u>			
City of San Marcos	\$45,735,848	\$23,356,452	\$69,092,300

TABLE A-2
PROPOSED PLAN
(*ALL NUMBERS SUBJECT TO ROUNDING*)

Recurring Impacts	Direct	Indirect/ Induced	Total
<u>Employees</u>			
City of San Marcos	0	0	0
<u>Overall Output</u>			
City of San Marcos	\$4,201,318	\$1,853,918	\$6,055,235

2. CONSTRUCTION (ONE-TIME) EMPLOYMENT AND GROSS RECEIPTS

TABLE B-1
EXISTING ZONING
(*ALL NUMBERS SUBJECT TO ROUNDING*)

One-Time Impacts	Direct	Indirect/ Induced	Total
<u>Employees</u>			
City of San Marcos	5,041	2,175	7,216
<u>Overall Output</u>			
City of San Marcos	\$867,637,500	\$334,059,602	\$1,201,697,102

TABLE B-2
PROPOSED PLAN
(*ALL NUMBERS SUBJECT TO ROUNDING*)

One-Time Impacts	Direct	Indirect/ Induced	Total
<u>Employees</u>			
City of San Marcos	293	151	444
<u>Overall Output</u>			
City of San Marcos	\$49,785,000	\$20,501,691	\$70,286,691

V. MARKET CONSIDERATIONS

Importantly, the results summarized above assume buildout and full occupancy for each Scenario. Prior to buildout and full occupancy, only a portion of the projected fiscal surplus would likely be realized. Notably, based on the Price Point Study prepared by Meyers Research, whether the Existing Zoning Scenario would be marketable at the Project site remains unclear given the scale of new hospital construction located close to the site, as well as the uncertainty of demand for future hospital beds in San Diego County. This conclusion suggests that buildout and full occupancy may never be achieved under the Existing Zoning and, consequently, the fiscal surplus projected for this Scenario is theoretical and may not be realized. As noted by Meyers Research, “Market conditions suggest that a residential development has a lower risk profile than hospital/medical office.” Additionally, while this economic study suggests that the Existing Zoning would have a larger effect on one-time and recurring jobs and output, the fiscal study projects that the Proposed Plan would generate a larger surplus to the City General Fund. Both the fiscal and market studies therefore conclude that the Proposed Plan represents a more viable development option for the City.

SECTION 1 INTRODUCTION

The objective of this Economic Impact Study (the “Study”) is to evaluate the economic impacts to the City of San Marcos (the “City”) of proposed zoning and land use changes to the Discovery Village South project (the “Project”). The 39-acre Project site is currently zoned for Medical/Office land use (categorized under Commercial land use) and would be comprised of a total of 776,000 building square feet of Acute, Community, and Outpatient uses (the “Existing Zoning”). H.G. Fenton Company (the “Applicant”) is seeking a General Plan Amendment, Specific Plan Amendment, Tentative Subdivision Map, and Development Agreement to rescind and replace the Scripps Health Care Campus Specific Plan, thereby changing the zoning to Low Density Residential (4.1-8.0 du/ac) and facilitating the development of 220 single family detached for-sale homes on the 39-acre Project site (the “Proposed Plan”). Consequently, the Study estimates the one-time (construction) and annual recurring regional economic impacts of the Existing Zoning and the Proposed Plan (collectively, the “Scenarios”), and provides a side-by-side comparison of both Scenarios.

I. SCOPE AND METHODOLOGY

A. APPROACH

The Study identifies the general economic impacts that would occur due to the Existing Zoning and the Proposed Plan individually, and quantifies these impacts wherever possible. General economic impacts include additions to the employment (number of average annual full- & part-time jobs), and economic output (e.g., gross receipts). The Study also distinguishes between one-time economic impacts and permanent economic impacts. One-time impacts include benefits to the community that occur on a non-recurring basis as a result of construction and development activity, while permanent, recurring impacts refer to benefits that occur on a continuing basis, year after year. Additionally, for purposes of the Study, all economic impacts are stated in constant (un-inflated) 2017 dollars, based on the assumption that the relative impacts of inflation in future years may be difficult to gauge.

In evaluating economic impacts, the Study quantifies both direct and indirect/induced economic impacts on the City. Direct economic impacts reflect the initial or first-round increases in jobs and output, all of which occur directly on-site. Indirect/induced economic impacts are the secondary and other additional rounds of economic activity that occur as a consequence of the direct impacts, and can occur elsewhere within the City. The **indirect** impacts represent the economic activity – buying and selling of goods and services – of suppliers to the land use types analyzed. In this Study, suppliers to the Proposed Plan consist primarily of maintenance and repair professionals, utilities providers, wholesale trade companies, and business support services; while suppliers to the Existing Zoning consist mainly of real estate firms, computer and other technology firms, accounting and bookkeeping professionals, and utilities providers. Furthermore, the suppliers representing the indirect one-time impacts are mainly heavy industrial and construction suppliers for the actual development of buildings and facilities. The **induced** impacts represent the economic activity that results from household spending by employees of all companies directly and indirectly affected by the construction and operation of the land uses analyzed in this Study.

B. NORTH AMERICAN INDUSTRY CLASSIFICATION

Indirect and induced impacts can occur throughout all industries of the economy, and have been categorized using the North American Industry Classification System (“NAICS”). Adopted by the Office of Management and Budget (“OMB”) in 1997 to replace the Standard Industrial Classification System (“SIC”), NAICS is a widely-used system to classify business establishments for the collection, analysis, and publication of statistical data in Canada, Mexico, and the United States. NAICS industries are identified using a six-digit coding system to classify all economic activity into twenty broad sectors, five of which are mainly goods-producing sectors and fifteen of which are services-producing sectors. This six-digit hierarchical structure allows for the identification of nearly 1,170 industries. The broad NAICS sectors include the Retail/Commercial, Business Park, Industrial/Warehousing, and Construction classifications, which are the focal NAICS categories analyzed within this Study to determine the indirect and induced economic impacts generated under the analysis.

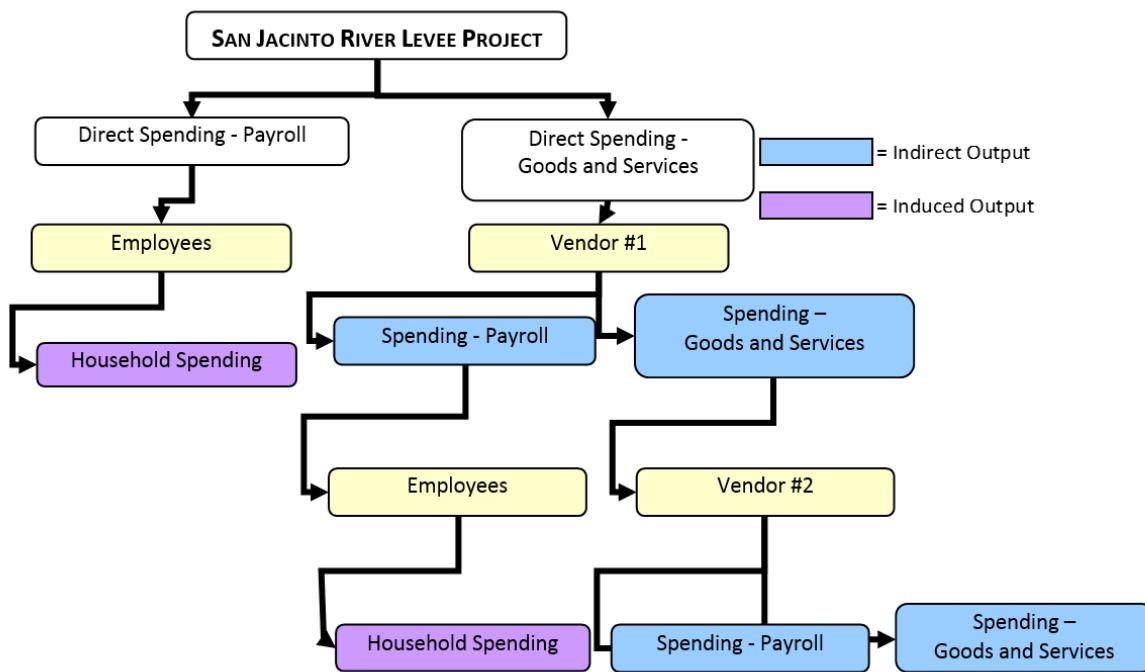
C. IMPLAN MULTIPLIER METHOD

Although most economists agree that indirect and induced, or “multiplier” effects exist, most economists also agree that such effects are difficult to measure. Patterns on spending and employment among suppliers and employee households often vary over time and from one region to another. Nevertheless, there are certain input-output models that can be used to estimate indirect and induced effects.

In quantifying the indirect and induced economic impacts for the Study, DTA utilized the Impact Analysis for Planning (“IMPLAN”) Input/Output Modeling System, a type of quantitative economic model that provides an approximate measure of the “multiplier effect” of a firm’s spending on payroll and the purchasing of goods and services. DTA used Version 3 of the IMPLAN economic modeling system.

Like similar econometric models, IMPLAN helps to calculate the flow of payments for goods and services across different industry sectors, and between households and industries. The IMPLAN model can be envisioned simply as a large spreadsheet with hundreds of industries (plus the household sector) arrayed across the top as producers, and the same industries and households listed down the side as consumers. Each million dollars (output) in spending by any one consumer (i.e. the Existing Zoning or the Proposed Plan) is allocated across the producing industries from which it buys goods and services. These producing industries, in turn, spend money buying goods and services from their own distinct sets of suppliers. Thus, the IMPLAN multiplier model allows one to gauge the effect on each dollar an industry spends as it diffuses through a regional economy. Furthermore, it allows one to translate the overall regional impact of spending into jobs and employee compensation. Please refer to **Figure A** for a graphical representation of the multiplier effect.

FIGURE A
EXAMPLE OF THE MULTIPLIER EFFECT (INDIRECT AND INDUCED OUTPUT)



II. LIMITATIONS

A. ACCURACY OF INFORMATION

The economic models in the Study contain analysis of revenues and impacts resulting from the Existing Zoning and the Proposed Plan. This model is based on both (i) information provided to DTA by the City and its consultants, Applicant of the Proposed Plan and (ii) certain DTA assumptions taken from DTA's proprietary databases, as compiled by DTA from previous studies prepared by the firm. The sources of information and basis of the estimates calculated in the Study are stated herein. While DTA is confident that the sources of information are reliable, DTA does not express an opinion or any other form of assurance on the accuracy of such information. The analysis of economic impacts contained in the Study is not considered to be a "financial forecast" or a "financial projection" as technically defined by the American Institute of Certified Public Accountants. The word "projection" used within the Study relates to broad expectations of future events or market conditions. Since the analyses contained herein are based on estimates and assumptions that are inherently subject to uncertainty and variation depending on evolving events, DTA cannot represent that such estimates will definitely be achieved. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary from these projections stated throughout the Study.

SECTION 2 ECONOMIC IMPACTS

The Study identifies the general economic impacts that would occur due to the Existing Zoning and the Proposed Plan, and quantifies these impacts wherever possible. General economic impacts include additions to the employment (number of average annual full- & part-time jobs) and economic output (e.g., gross receipts). The Study also distinguishes between one-time economic impacts and permanent economic impacts. One-time impacts include benefits to the community that occur on a non-recurring basis as a result of construction and development activity, while permanent, recurring impacts refer to benefits that occur on a continuing basis, year after year.

I. RECURRING ECONOMIC IMPACTS

A. ASSUMPTIONS

Information provided to DTA by the City indicates that the Existing Zoning is expected to include approximately 776,000 square feet of Commercial land uses, specifically Medical/Office. The Applicant of the Proposed Plan indicates that the proposed zoning change would facilitate the development of 220 single family detached for-sale homes on the Project site. Please see **Tables 1-1** and **1-2** below for a summary of the built out projection on the Existing Zoning and the Proposed Plan, respectively.

TABLE 1-1
EXISTING ZONING
SAN MARCOS – DISCOVERY VILLAGE SOUTH – ASSUMPTIONS

Residential Land Use Assumptions ^[1]	Units
Low-Density Residential (Product A)	0
Low-Density Residential (Product B)	0
Total	0
Non-Residential Land Use Assumptions ^[1]	Building Sq. Ft.
Hospital - Acute	585,000
Hospital - Community	66,000
Hospital - Outpatient	125,000
Total	776,000
Employment Assumptions	
Hospital - Acute	3,180
Hospital - Community	182
Hospital - Outpatient	310
Total	3,672

[1] Source: City of San Marcos; City of San Marcos General Plan; David Taussig & Associates

TABLE 1-2
PROPOSED PLAN
SAN MARCOS – DISCOVERY VILLAGE SOUTH – ASSUMPTIONS

Residential Land Use Assumptions^[1]	Units
Low-Density Residential (Product A)	131
Low-Density Residential (Product B)	89
Total	220
Non-Residential Land Use Assumptions^[1]	Building Sq. Ft.
Hospital - Acute	0
Hospital - Community	0
Hospital - Outpatient	0
Total	0
Residents Assumptions	
Low-Density Residential (Product A)	411
Low-Density Residential (Product B)	279
Total	690

[1] Source: Applicant of the Proposed Plan; David Taussig & Associates

B. JOB CREATION

Simply put, development will contribute to the creation of new jobs in the City. As shown below in **Tables 2-1 and 2-2**, development of the Existing Zoning is projected to generate approximately three thousand, eight hundred and thirty-seven (3,837) new jobs, both direct employment and indirect/induced employment, in the City. Due to the proposed residential land use of the Proposed Plan, development of the Proposed Plan is projected to generate no new jobs in the City. Since the analyses contained herein are based on estimates and assumptions that are inherently subject to uncertainty and variation depending on evolving events, DTA cannot represent that such estimates will definitely be achieved. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary from these projections stated throughout the Study.

This estimate was derived utilizing the Impact Analysis for Planning (“IMPLAN”) Input/Output Modeling System, a type of quantitative economic model that provides an approximate measure of the “multiplier effect” of a firm’s spending on payroll and the purchasing of goods and services. Like similar econometric models, IMPLAN helps to calculate the flow of payments for goods and services across different industry sectors, and between households and industries. Unlike similar econometric models, e.g., the Regional Input-Output Modeling System (“RIMS II”), IMPLAN is the industry standard. RIMS II and IMPLAN both include induced effects, but RIMS II differs from IMPLAN in two ways: (i) RIMS II uses a single household type for induced personal consumption while IMPLAN uses nine (9) household types, and (ii) RIMS II uses the traditional single row/column Type II formulation whereas IMPLAN uses a more robust mapping of factor income to household consumption using several sub-matrices. RIMS II also uses location quotients to regionalize the national technical coefficients; a method which underestimates inter-regional trade and overestimates regional multipliers when cross-hauling is present.

While the specific location of the additional indirect jobs created cannot be determined, experience and modeling indicate that a large percentage of these jobs will be support service jobs. **Tables 2-1 and 2-2, and Figures B and C**, shown below, as well **Exhibit 1 of Appendices A and B**, summarize the direct and indirect/induced employment impacts of the Existing Zoning and the Proposed Plan.

TABLE 2-1
EXISTING ZONING
RECURRING EMPLOYMENT
(ALL NUMBERS SUBJECT TO ROUNDING)

Recurring Impact	Direct	Indirect/ Induced	Total
<u>Employees</u>			
City of San Marcos	3,672	165	3,837

TABLE 2-2
PROPOSED PLAN
RECURRING EMPLOYMENT
(ALL NUMBERS SUBJECT TO ROUNDING)

Recurring Impact	Direct	Indirect/ Induced	Total
<u>Employees</u>			
City of San Marcos	0	0	0

FIGURE B
EXISTING ZONING
RECURRING JOBS IN CITY OF SAN MARCOS

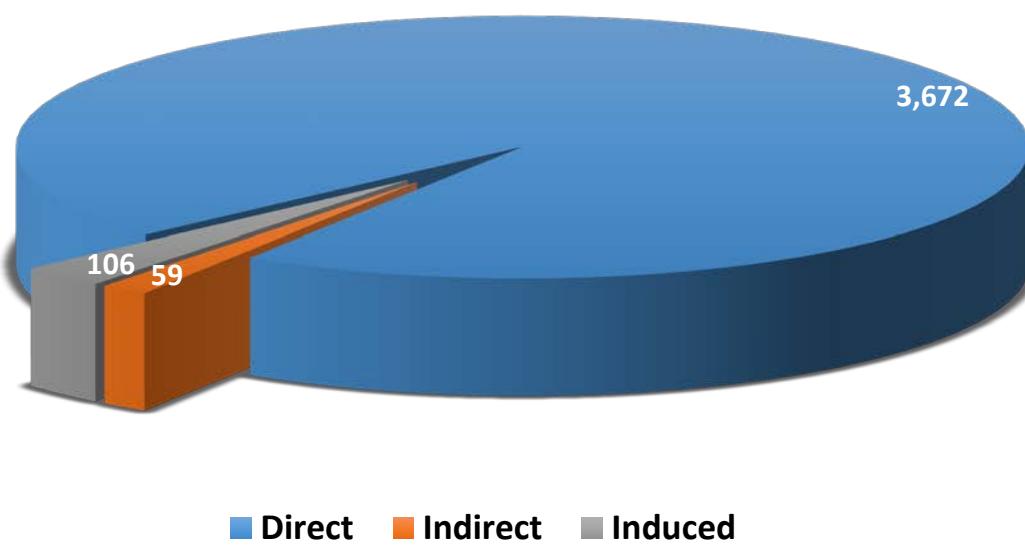
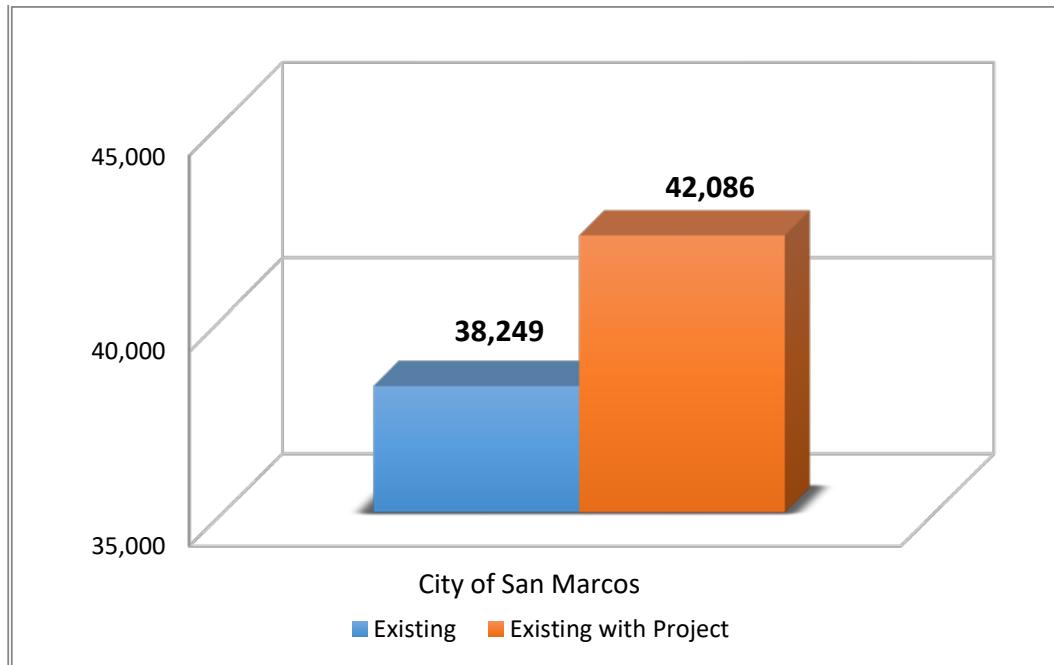


FIGURE C
EXISTING ZONING
TOTAL RECURRING JOBS IN CITY OF SAN MARCOS WITH AND WITHOUT PROJECT



Overall, the creation of new jobs will provide many benefits to the City. More jobs will lead to more consumer spending by employees in existing retail establishments as well as new retail development that will be attracted as a result of this spending. Job creation also results in increased tax revenues through increased property taxes and sales taxes related to this new development.

However, because of potential differences in timing of the buildout of either the Existing Zoning or the Proposed Plan, the number of employees summarized above will not be realized at the same time. Notably, it is estimated the buildout of the Project will occur over several years, as many individual elements of the Project have not yet begun and the demand for such elements may fluctuate.

C. OVERALL ECONOMIC OUTPUT

Total Output (i.e., total expenditures including sales or gross receipts, or other operating income) within the City will also increase substantially with development. Total output is estimated based on the different types of development projected to occur. As stated in **Section I**, this Study analyzes direct and indirect/induced impacts. Regarding gross receipts, the direct impact reflects the initial or first-round increases in output (total spending/gross receipts, including payroll), all of which occur directly on either the Existing Zoning site or the Proposed Plan site. Indirect/induced economic impacts are the secondary and other additional rounds of economic activity that occur as a consequence of the direct output impacts, and can occur outside of the Existing Zoning and the Proposed Plan. The indirect impacts represent the economic activity—

buying and selling of goods and services—of suppliers and/or supporting businesses. The induced impacts represent the economic activity that results from household spending by employees of all companies directly and indirectly affected by the Project (please see **Figure A on Page 3** for a graphical representation of the indirect and induced effects). **Tables 3-1** and **3-2** shown below, as well as **Exhibit 2 of Appendices A and B**, summarize the Total Output projections of the Existing Zoning and Proposed Plan.

Based again on IMPLAN Version 3 multipliers and other assumptions utilized in the Study, DTA has estimated that the direct and indirect/induced effects on the City, with respect to recurring output, total approximately \$69.1 million for the Existing Zoning and \$6.1 million for the Proposed Plan.

TABLE 3-1
EXISTING ZONING
RECURRING TOTAL OUTPUT
(*ALL NUMBERS SUBJECT TO ROUNDING*)

Recurring Impact	Direct	Indirect/Induced	Total
<u>Overall Output</u>			
City of San Marcos	\$45,735,848	\$23,356,452	\$69,092,300

TABLE 3-2
PROPOSED PLAN
RECURRING TOTAL OUTPUT
(*ALL NUMBERS SUBJECT TO ROUNDING*)

Recurring Impact	Direct	Indirect/Induced	Total
<u>Overall Output</u>			
City of San Marcos	\$4,201,318	\$1,853,918	\$6,055,235

II. ONE-TIME EMPLOYMENT AND OUTPUT IMPACTS (CONSTRUCTION)

According to analysis based on IMPLAN multipliers, development of the Existing Zoning is projected to create five thousand and forty-one (5,041) One-Time construction jobs in the City. For the Proposed Plan, two hundred and ninety-three (293) One-Time construction jobs would be created in the City. One-time construction and development costs will also have multiplier effects on the economy, generating one-time increases in output from construction of buildings and all related site improvements.

As with recurring economic impacts, experience and modeling indicate that a large percentage of these jobs will be support service jobs, and are likely to be located close to the either the Existing Zoning or the Proposed Plan. **Tables 4-1, 4-2, 5-1, 5-2**, and **Figures D-1 and D-2** below, as well as **Exhibit 3** and **Exhibit 4** of Appendices A and B, summarize the projected increases in employment and output that are generated directly from construction of the Project land uses, based on DTA construction cost assumptions.

TABLE 4-1
EXISTING ZONING
ONE-TIME INCREASES IN EMPLOYMENT
(ALL NUMBERS SUBJECT TO ROUNDING)

One-Time Impact	Direct	Indirect/ Induced	Total
Construction Employees			
City of San Marcos	5,041	2,175	7,216

TABLE 4-2
PROPOSED PLAN
ONE-TIME INCREASES IN EMPLOYMENT
(ALL NUMBERS SUBJECT TO ROUNDING)

One-Time Impact	Direct	Indirect/ Induced	Total
Construction Employees			
City of San Marcos	293	151	444

FIGURE D-1
EXISTING ZONING
ADDITIONAL ONE TIME JOBS IN CITY OF SAN MARCOS

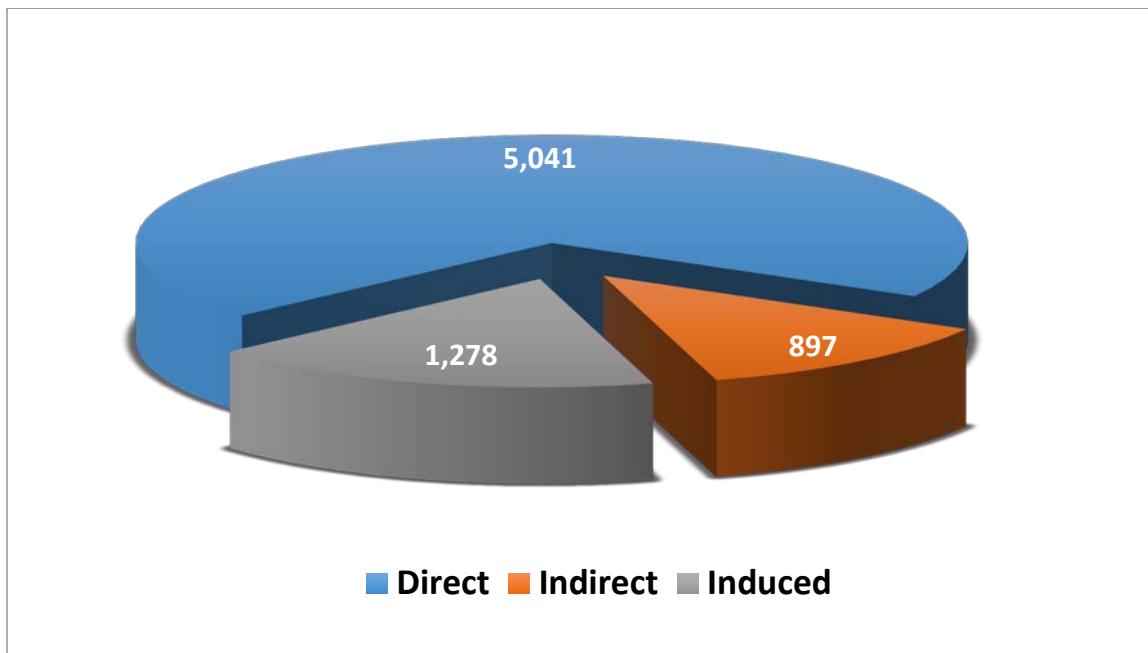


FIGURE D-2
PROPOSED PLAN
ADDITIONAL ONE TIME JOBS IN CITY OF SAN MARCOS

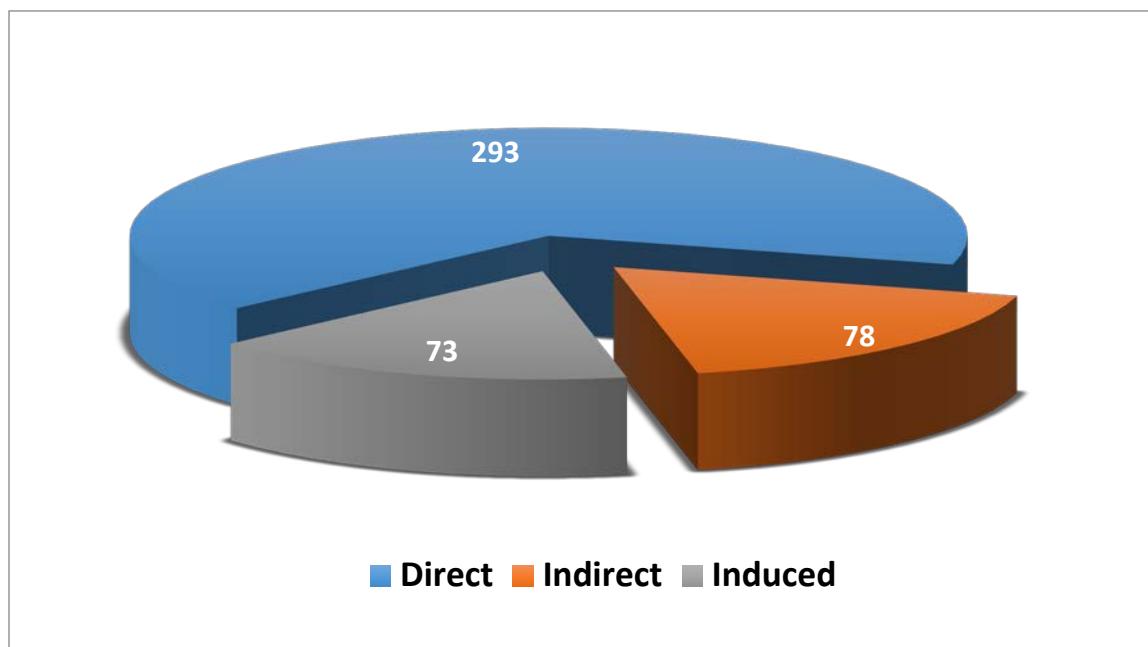


TABLE 5-1
EXISTING ZONING
ONE-TIME TOTAL OUTPUT
(ALL NUMBERS SUBJECT TO ROUNDING)

One-Time Impact	Direct	Indirect/Induced	Total
Construction Output			
City of San Marcos	\$867,637,500	\$334,059,602	\$1,201,697,102

TABLE 5-2
PROPOSED PLAN
ONE-TIME TOTAL OUTPUT
(ALL NUMBERS SUBJECT TO ROUNDING)

One-Time Impact	Direct	Indirect/Induced	Total
Construction Output			
City of San Marcos	\$49,785,000	\$20,501,691	\$70,286,691

III. MARKET CONSIDERATIONS

Importantly, the results discussed in the study assume buildout and full occupancy for each Scenario. Prior to buildout and full occupancy, only a portion of the projected fiscal surplus would likely be realized. Notably, based on the Price Point Study prepared by Meyers Research, whether the Existing Zoning Scenario would be marketable at the Project site remains unclear given the scale of new hospital construction located close to the site, as well as the uncertainty of demand for future hospital beds in San Diego County. This conclusion suggests that buildout and full occupancy may never be achieved under the Existing Zoning and, consequently, the fiscal surplus projected for this Scenario is theoretical and may not be realized. As noted by Meyers Research, “Market conditions suggest that a residential development has a lower risk profile than hospital/medical office.” Additionally, while this economic study suggests that the Existing Zoning would have a larger effect on one-time and recurring jobs and output, the fiscal study projects that the Proposed Plan would generate a larger surplus to the City General Fund. Both the fiscal and market studies therefore conclude that the Proposed Plan represents a more viable development option for the City.

APPENDIX A

DISCOVERY VILLAGE SOUTH ECONOMIC IMPACT MODEL – EXISTING ZONING

**CITY OF SAN MARCOS
FENTON - DISCOVERY VILLAGE SOUTH
ECONOMIC IMPACT ANALYSIS - DRAFT (APPROVED PLAN)**

RECURRING JOBS

RECURRING IMPACTS

ONE-TIME JOBS

ONE TIME IMPACTS

JOB HOUSING BALANCE

SUMMARY

EXHIBIT 1

CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH RECURRING EMPLOYMENT - APPROVED PLAN

ASSUMPTIONS

I. RESIDENTIAL LAND USE ASSUMPTIONS

LAND USE CATEGORY	UNITS
NA	NA

II. NON-RESIDENTIAL LAND USE ASSUMPTIONS

LAND USE CATEGORY ¹	EMPLOYEES/1,000 SQ. FT. ²	SQ. FT. ¹
HOSPITAL - ACUTE	5.44	585,000
HOSPITAL - COMMUNITY	2.76	66,000
HOSPITAL - OUTPATIENT	2.48	125,000

RECURRING EMPLOYMENT

III. CITY

	<u>DIRECT EMPLOYEES</u> ³	<u>INDIRECT EMPLOYEES</u> ⁴	<u>INDUCED EMPLOYEES</u> ⁴	<u>TOTAL EMPLOYEES</u>
HOSPITAL - ACUTE ⁵	3,180	0	0	3,180
HOSPITAL - COMMUNITY ⁶	182	10	17	209
HOSPITAL - OUTPATIENT ⁷	310	49	89	448
TOTAL RECURRING EMPLOYMENT	3,672	59	106	3,837

NOTES:

¹City of San Marcos - Scripps Health Care Campus Specific Plan.

²Commercial Buildings Energy Consumption Survey (CBECS), 2012.

³Based on multiplying Category SF by Employees/1,000 SF metric.

⁴Source: San Marcos City IMPLAN multipliers.

⁵According to the Specific Plan (SP 90-24), the Acute Zone is the location for the core hospital and would include activities normally associated with a hospital use. Please note that the Employment and Output multipliers for Hospital (IMPLAN Sector 482) equal zero because the multipliers are derived from existing land uses and IMPLAN does not categorize any of the existing medical facilities in San Marcos as hospitals.

⁶According to the Specific Plan (SP 90-24), typical uses of the Community Zone would include community health, education, conference facilities, and child care. Therefore, the average of the following IMPLAN multipliers was used: Other educational services; Individual and family services; and Child day care services.

⁷According to the Specific Plan (SP 90-24), the Outpatient Zone would include activities normally associated with medical offices. Therefore, the average of the following IMPLAN multipliers was used: Offices of physicians; Offices of dentists; Offices of other health practitioners; Outpatient care centers; and Medical and diagnostic laboratories.

* *All figures subject to rounding*

EXHIBIT 2

CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH RECURRING ECONOMIC IMPACTS - APPROVED PLAN

ASSUMPTIONS

I. RESIDENTIAL SPENDING ASSUMPTIONS	HOUSEHOLD INCOME	% INCOME SPENT		TOTAL RESIDENT SPENDING / YR.
		IN CITY	NA	
NA	NA	NA	NA	NA
II. NON-RESIDENTIAL OUTPUT ASSUMPTIONS		AVERAGE OUTPUT / EMPLOYEE ¹		OUTPUT / YR. ¹
HOSPITAL - ACUTE ²		\$0		\$0
HOSPITAL - COMMUNITY ³		\$38,770		\$7,056,159
HOSPITAL - OUTPATIENT ⁴		\$124,773		\$38,679,689

RECURRING OUTPUT

III. CITY

	DIRECT OUTPUT	INDIRECT OUTPUT ¹	INDUCED OUTPUT ¹	TOTAL OUTPUT
HOSPITAL - ACUTE ²	\$0	\$0	\$0	\$0
HOSPITAL - COMMUNITY ³	\$7,056,159	\$1,437,452	\$2,332,632	\$10,826,243
HOSPITAL - OUTPATIENT ⁴	\$38,679,689	\$7,572,530	\$12,013,839	\$58,266,057
TOTAL RECURRING OUTPUT	\$45,735,848	\$9,009,981	\$14,346,471	\$69,092,300

NOTES:

¹Source: San Marcos City IMPLAN multipliers.

²According to the Specific Plan (SP 90-24), the Acute Zone is the location for the core hospital and would include activities normally associated with a hospital use. Please note that the Employment and Output multipliers for Hospital (IMPLAN Sector 482) equal zero because the multipliers are derived from existing land uses and IMPLAN does not categorize any of the existing medical facilities in San Marcos as hospitals.

³According to the Specific Plan (SP 90-24), typical uses of the Community Zone would include community health, education, conference facilities, and child care. Therefore, the average of the following IMPLAN multipliers was used: Other educational services; Individual and family services; and Child day care services.

⁴According to the Specific Plan (SP 90-24), the Outpatient Zone would include activities normally associated with medical offices. Therefore, the average of the following IMPLAN multipliers was used: Offices of physicians; Offices of dentists; Offices of other health practitioners; Outpatient care centers; and Medical and diagnostic laboratories.

EXHIBIT 3

CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH ONE-TIME EMPLOYMENT - APPROVED PLAN

ASSUMPTIONS

<u>I. RESIDENTIAL LAND ASSUMPTIONS</u>	<u>UNITS</u>
NA	NA
<u>II. NON-RESIDENTIAL LAND USE ASSUMPTIONS</u>	<u>SQ. FT.</u>
HOSPITAL - ACUTE	585,000
HOSPITAL - COMMUNITY	66,000
HOSPITAL - OUTPATIENT	125,000
<u>III. PUBLIC FACILITIES</u>	<u>TOTAL COST</u>
PROJECT INFRASTRUCTURE	NA

ONE-TIME EMPLOYMENT

<u>IV. CITY</u>	<u>DIRECT EMPLOYEES</u> ¹	<u>INDIRECT EMPLOYEES</u> ¹	<u>INDUCED EMPLOYEES</u> ¹	<u>TOTAL EMPLOYEES</u>
HOSPITAL - ACUTE	4,333	771	1,099	6,203
HOSPITAL - COMMUNITY	244	44	62	350
HOSPITAL - OUTPATIENT	463	82	117	663
TOTAL ONE-TIME EMPLOYEES	5,041	897	1,278	7,216

NOTES:

¹Source: San Marcos City IMPLAN multipliers (IMPLAN Sector 52: Construction of new health care structures).

* All figures subject to rounding

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EXHIBIT 4
CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH
ONE-TIME IMPACTS - APPROVED PLAN
ASSUMPTIONS

	<u>UNITS</u>	<u>ESTIMATED</u>	
		<u>SQ. FT. PER DWELLING UNIT</u>	<u>COST PER UNIT</u>
I. RESIDENTIAL CONSTRUCTION COST ASSUMPTIONS	NA	NA	NA
II. NON-RESIDENTIAL CONSTRUCTION COST ASSUMPTIONS		<u>ESTIMATED IMPROVED VALUE¹</u>	<u>SQ. FT.</u>
HOSPITAL - ACUTE		\$877,500,000	585,000
HOSPITAL - COMMUNITY		\$49,500,000	66,000
HOSPITAL - OUTPATIENT		\$93,750,000	125,000
III. PUBLIC FACILITIES		<u>TOTAL COST</u>	
PROJECT INFRASTRUCTURE		NA	

ONE-TIME OUTPUT

IV. CITY	<u>DIRECT OUTPUT</u>	<u>INDIRECT OUTPUT²</u>	<u>INDUCED OUTPUT²</u>	<u>TOTAL OUTPUT</u>
HOSPITAL - ACUTE	\$745,875,000	\$139,006,688	\$148,171,662	\$1,033,053,350
HOSPITAL - COMMUNITY	\$42,075,000	\$7,841,403	\$8,358,401	\$58,274,804
HOSPITAL - OUTPATIENT	\$79,687,500	\$14,851,142	\$15,830,306	\$110,368,948
TOTAL ONE-TIME OUTPUT	\$867,637,500	\$161,699,233	\$172,360,369	\$1,201,697,102

NOTES:

¹Source: Meyers Research: "The division between land and improvements on the Kaiser Permanente Medical Office site to the south of the Subject is roughly 15%:85%. (This is further supported by an assessment of other hospital parcels in San Diego County, which indicates a range of land to improvement ratios of between 10% and 20%)."

²Source: San Marcos City IMPLAN multipliers (IMPLAN Sector 52: Construction of new health care structures).

* All figures subject to rounding

EXHIBIT 5

CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH JOBS-HOUSING BALANCE - APPROVED PLAN

ASSUMPTIONS

I. EXISTING DEMOGRAPHICS

CITY OF SAN MARCOS

HOUSING UNITS ¹	31,020
EMPLOYEES ²	38,249

II. JOB IMPACTS³

CITY OF SAN MARCOS

DIRECT IMPACT	3,672
ADDITIONAL INDIRECT	59
ADDITIONAL INDUCED	106
TOTAL	3,837

III. CUMULATIVE PROJECT DEMOGRAPHICS

EXISTING HOUSING UNITS PLUS PROJECT - CITY OF SAN MARCOS	31,020
PERCENTAGE INCREASE	0.00%

EXISTING EMPLOYEES PLUS PROJECT - CITY OF SAN MARCOS	42,086
PERCENTAGE INCREASE	10.03%

JOBS-HOUSING BALANCE

IV. JOBS-HOUSING BALANCE

CITY OF SAN MARCOS

EXISTING	1.23
EXISTING WITH PROJECT	1.36
PERCENTAGE INCREASE	10.03%

NOTES:

¹ Source: State of California, Department of Finance, E-5 Population and Housing Estimates for Cities, Counties, and the State (2017).

² Source: California Employment Development Department ("EDD") - Labor Market Information Division.

³ Please see Exhibit B-1: Recurring Jobs.

* All figures subject to rounding

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EXHIBIT 6

CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH SUMMARY - APPROVED PLAN

ASSUMPTIONS

I. <u>RESIDENTIAL LAND USE ASSUMPTIONS</u>	UNITS
NA	NA
II. <u>NON-RESIDENTIAL LAND USE ASSUMPTIONS</u>	EMPLOYEES/1,000 SQ. FT.
HOSPITAL - ACUTE	5.44
HOSPITAL - COMMUNITY	2.76
HOSPITAL - OUTPATIENT	2.48
	SQ. FT.
	585,000
	66,000
	125,000

ECONOMIC IMPACTS CONCLUSIONS

RECURRING IMPACTS

III. <u>JOB CREATION</u>	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	3,672	165	3,837
IV. <u>TOTAL OUTPUT</u>	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	\$45,735,848	\$23,356,452	\$69,092,300

ONE-TIME IMPACTS

V. <u>CONSTRUCTION JOBS</u>	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	5,041	2,175	7,216
VI. <u>CONSTRUCTION OUTPUT</u>	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	\$867,637,500	\$334,059,602	\$1,201,697,102

OTHER IMPACTS

VII. <u>JOBS-HOUSING BALANCE</u>	BALANCE EXISTING	BALANCE WITH PROJECT	% INCREASE/ (DECREASE)
CITYWIDE	1.23	1.36	10.03%

APPENDIX B

DISCOVERY VILLAGE SOUTH ECONOMIC IMPACT MODEL – PROPOSED PLAN

**CITY OF SAN MARCOS
FENTON - DISCOVERY VILLAGE SOUTH
ECONOMIC IMPACT ANALYSIS - DRAFT (PROPOSED PLAN)**

RECURRING JOBS

RECURRING IMPACTS

ONE-TIME JOBS

ONE TIME IMPACTS

JOB HOUSING BALANCE

SUMMARY

EXHIBIT 1
CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH
RECURRING EMPLOYMENT - PROPOSED PLAN

ASSUMPTIONS

I. RESIDENTIAL LAND USE ASSUMPTIONS¹

PRODUCT	LAND USE CATEGORY	CONFIGURATION	UNITS
PRODUCT A	SINGLE FAMILY RESIDENTIAL	Single Family Detached	131
PRODUCT B	SINGLE FAMILY RESIDENTIAL	Motor Court	89

II. NON-RESIDENTIAL LAND USE ASSUMPTIONS

LAND USE CATEGORY	<u>EMPLOYEES/1,000 SQ. FT.</u>	<u>SQ. FT.</u>
NA	NA	NA

RECURRING EMPLOYMENT

III. CITY

	<u>DIRECT EMPLOYEES</u> ²	<u>INDIRECT EMPLOYEES</u>	<u>INDUCED EMPLOYEES</u>	<u>TOTAL EMPLOYEES</u>
PRODUCT A	0	0	0	0
PRODUCT B	0	0	0	0
TOTAL RECURRING EMPLOYMENT	0	0	0	0

NOTES:

¹ Source: H. G. Fenton Company

² Assume no permanent jobs are created on-site, given that the land use type is single family residential.

* All figures subject to rounding

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EXHIBIT 2**CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH
RECURRING ECONOMIC IMPACTS - PROPOSED PLAN****ASSUMPTIONS**

I. RESIDENTIAL SPENDING ASSUMPTIONS	HOUSEHOLD INCOME¹	% INCOME SPENT IN CITY²		TOTAL RESIDENT SPENDING / YR.
		IN CITY²	% INCOME SPENT IN CITY²	
PRODUCT A	\$143,702	28%		\$2,642,340
PRODUCT B	\$124,794	28%		\$1,558,978
II. NON-RESIDENTIAL OUTPUT ASSUMPTIONS		AVERAGE OUTPUT / EMPLOYEE		OUTPUT / YR.
NA		NA		NA

RECURRING OUTPUT**III. CITY**

	DIRECT OUTPUT	INDIRECT OUTPUT³	INDUCED OUTPUT³	TOTAL OUTPUT
PRODUCT A	\$2,642,340	\$465,927	\$700,060	\$3,808,326
PRODUCT B	\$1,558,978	\$274,897	\$413,035	\$2,246,909
TOTAL RECURRING OUTPUT	\$4,201,318	\$740,823	\$1,113,094	\$6,055,235

NOTES:¹ Refer to fiscal impact analysis.² Sources: Bureau of Labor Statistics (BLS) 2015 Consumer Expenditure Survey; and California State Board of Equalization (BOE), *Economic Perspective*, Volume XXII, Number 4, December 2016.³ Source: San Marcos City IMPLAN multipliers (IMPLAN Retail Sectors 396-406).

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* *All figures subject to rounding*

EXHIBIT 3
CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH
ONE-TIME EMPLOYMENT - PROPOSED PLAN

ASSUMPTIONS

I. RESIDENTIAL LAND ASSUMPTIONS		UNITS
PRODUCT A		131
PRODUCT B		89

II. NON-RESIDENTIAL LAND USE ASSUMPTIONS		SQ. FT.
NA		NA

III. PUBLIC FACILITIES		TOTAL COST
PROJECT INFRASTRUCTURE		NA

ONE-TIME EMPLOYMENT

IV. CITY	DIRECT EMPLOYEES¹	INDIRECT EMPLOYEES¹	INDUCED EMPLOYEES¹	TOTAL EMPLOYEES
PRODUCT A	154	41	39	234
PRODUCT B	139	37	35	210
TOTAL ONE-TIME EMPLOYEES	293	78	73	444

NOTES:

¹ Source: San Marcos City IMPLAN multipliers (IMPLAN Sector 59: Construction of new single-family residential structures).

* All figures subject to rounding

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EXHIBIT 4
CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH
ONE-TIME IMPACTS - PROPOSED PLAN
ASSUMPTIONS

	ESTIMATED		
	<u>UNITS</u>	<u>SQ. FT. PER DWELLING UNIT</u>	<u>COST PER UNIT</u> ¹
I. <u>RESIDENTIAL CONSTRUCTION COST ASSUMPTIONS</u>			
PRODUCT A	131	2,302	\$200,000
PRODUCT B	89	1,701	\$265,000
II. <u>NON-RESIDENTIAL CONSTRUCTION COST ASSUMPTIONS</u>		<u>SQ. FT.</u>	<u>COST PER SQ. FT.</u> ¹
NA		NA	NA
III. <u>PUBLIC FACILITIES</u>			<u>TOTAL COST</u>
PROJECT INFRASTRUCTURE			NA

ONE-TIME OUTPUT

IV. <u>CITY</u>	<u>DIRECT OUTPUT</u>	<u>INDIRECT OUTPUT</u> ²	<u>INDUCED OUTPUT</u> ²	<u>TOTAL OUTPUT</u>
PRODUCT A	\$26,200,000	\$5,577,093.95	\$5,212,185.92	\$36,989,280
PRODUCT B	\$23,585,000	\$5,020,448.88	\$4,691,962.02	\$33,297,411
TOTAL ONE-TIME OUTPUT	\$49,785,000	\$10,597,543	\$9,904,148	\$70,286,691

NOTES:

¹Source: Reed Construction Data Inc. (2013). Assume Product A is "Medium Density" (Avg. Sq. Ft. ~ 1,500) and Product B is "Low Density" (Avg. Sq. Ft. ~ 2,500).

²Source: San Marcos City IMPLAN multipliers (IMPLAN Sector 59: Construction of new single-family residential structures).

* *All figures subject to rounding*

EXHIBIT 5

CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH JOBS-HOUSING BALANCE - PROPOSED PLAN

ASSUMPTIONS

I. EXISTING DEMOGRAPHICS

CITY OF SAN MARCOS

HOUSING UNITS ¹	31,020
EMPLOYEES ²	38,249

II. JOB IMPACTS³

CITY OF SAN MARCOS

DIRECT IMPACT	0
ADDITIONAL INDIRECT	0
ADDITIONAL INDUCED	0
TOTAL	0

III. CUMULATIVE PROJECT DEMOGRAPHICS

EXISTING HOUSING UNITS PLUS PROJECT - CITY OF SAN MARCOS	31,240
PERCENTAGE INCREASE	0.71%

EXISTING EMPLOYEES PLUS PROJECT - CITY OF SAN MARCOS	38,249
PERCENTAGE INCREASE	0.00%

JOBS-HOUSING BALANCE

IV. JOBS-HOUSING BALANCE

CITY OF SAN MARCOS

EXISTING	1.23
EXISTING WITH PROJECT	1.22
PERCENTAGE INCREASE	-0.70%

NOTES:

¹ Source: State of California, Department of Finance, E-5 Population and Housing Estimates for Cities, Counties, and the State (2017).

² Source: California Employment Development Department ("EDD") - Labor Market Information Division.

³ Please see Exhibit B-1: Recurring Jobs.

* All figures subject to rounding

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EXHIBIT 6
CITY OF SAN MARCOS - DISCOVERY VILLAGE SOUTH
SUMMARY - PROPOSED PLAN

ASSUMPTIONS

I. RESIDENTIAL LAND USE ASSUMPTIONS		UNITS
PRODUCT A		131
PRODUCT B		89
II. NON-RESIDENTIAL LAND USE ASSUMPTIONS		
NA	EMPLOYEES/1,000 SQ. FT.	SQ. FT.
	NA	NA

ECONOMIC IMPACTS CONCLUSIONS

RECURRING IMPACTS

III. JOB CREATION	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	0	0	0
IV. TOTAL OUTPUT	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	\$4,201,318	\$1,853,918	\$6,055,235

ONE-TIME IMPACTS

V. CONSTRUCTION JOBS	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	293	151	444
VI. CONSTRUCTION OUTPUT	DIRECT	INDIRECT/INDUCED	TOTAL
CITYWIDE	\$49,785,000	\$20,501,691	\$70,286,691

OTHER IMPACTS

VII. JOBS-HOUSING BALANCE	BALANCE EXISTING	BALANCE WITH PROJECT	% INCREASE/ (DECREASE)
CITYWIDE	1.23	1.22	-0.70%



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ASSESSMENT OF MARKET OPPORTUNITY

Discovery Village South, San Marcos, CA

CONTACT INFORMATION

This market analysis was prepared by Meyers Research, a market research and consulting firm specializing in the real estate industry. It has been commissioned by David Taussig & Associates, Inc. on behalf of the City of San Marcos (collectively "The Team").

Peter Dennehy served as Project Director and oversaw all aspects of this assignment. Alexis Wilmot managed the engagement on a day-to-day basis. Follow-up questions should be directed to Peter Dennehy at (858) 381-4380 or pdennehy@meyersllc.com.

OBJECTIVE

The objective of this analysis is to assess the market-based opportunity to develop the south portion of Discovery Village Street which is bounded by Discovery Street to the north, Craven Road to the west, Happy Hill Lane to the east, and the housing community of Discovery Hills to the south, in San Marcos, California. The original plan for the Subject site (80 acres) was to develop a Scripps Hospital on the 80 acres in three phases, with 5 components totaling 1,239,000 square feet. The vacant land proposed for development with residential uses comprises roughly 50% of the total acreage (39.87 acres) and is defined in this study as "Discovery Village South". This southern portion of the site is being proposed for a rezone by H. G. Fenton from its current commercial zoning to offer 220 single family detached residential homes. Discovery Village South involves the rescinding of a Development Agreement, General Plan Amendment, replacement of the adopted Scripps Health Care Campus Specific Plan with Discovery Village South Specific Plan, a Tentative Subdivision Map, a Grading Variance, and a Site Development Plan. The recommendations in this report are based on data from May 2017, except for the for-sale residential pricing, which has been updated to reflect the revised unit mix of 220 units, and November 2017 competitive market data.

LIMITING CONDITIONS

The Team is responsible for representations about its development plans, marketing expectations and for disclosure of any significant information that might affect the ultimate realization of the projected results.

There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material.

We have no responsibility to update our report for events and circumstances occurring after the date of our report.

Payment of any and all of our fees and expenses is not in any way contingent upon any factor other than our providing services related to this report.

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Conclusions and Recommendations

Discovery Village South, San Marcos, CA

Strengths and Weaknesses of Medical and Residential Use Development

The development of Discovery Village South with residential rather than medical uses appears to be supported by several positive factors:

Development of H.G Fenton Discovery Village South as Non-Residential		Development of H.G Fenton Discovery Village South as Residential	
Strengths	Weaknesses	Strengths	Weaknesses
<ul style="list-style-type: none">Significant expansion in North County Medical Office/Hospital market since 2007/8 recession.Successful new medical construction developments, including Kaiser Permanente Medical Office expansion, Palomar Health Hospital, Sharp-Rees Steely Medical Center, and Scripps Encinitas Hospital expansion.Medical office/hospital valuation yields estimated theoretical total real estate value in today's market of between \$213 and \$223 million, and is higher than residential valuation.	<ul style="list-style-type: none">Kaiser Permanente Medical Office Campus located directly south of Subject.New Escondido Palomar Health Hospital (including room to expand) less than 3 miles from the SubjectEstimated value is theoretical only, and is not supported owing to adjacent supply of same uses, and unclear demand for future hospital beds.	<ul style="list-style-type: none">Total revenue developed as residential of \$151.8 million can be realized relatively quickly, upon sell out within the next 5 years, with tax revenue earnings to City beginning with first closings.Proposed residential homes are attainably priced and prices are supported by product currently selling at Rancho Tesoro.The site lends itself to the development of single family detached residential, flanked by similar residential uses to the west and south, and with well-ranked schools and excellent freeway access.	<ul style="list-style-type: none">Total revenue developed as residential of \$151.8 million not as high as theoretical medical development value (\$213 to \$223 million)Price appreciation in San Marcos since the recession has put downward pressure on sales volumes as affordability worsens and supply is low.
	<ul style="list-style-type: none">Total revenue developed as medical will take many years to realize, with estimated completion in 25 years.	<ul style="list-style-type: none">The demand for new homes at these prices in the San Marcos market is high, and supply is constrained	
	<ul style="list-style-type: none">The necessity of further hospital bed supply in North County San Diego remains unclear, with some sources indicating that there is an excess of current and future anticipated supply, while others suggest that senior care beds may be in undersupply.	<ul style="list-style-type: none">Market conditions suggest that a residential development has a lower risk profile than hospital/medical office. In spite of real estate development cycles, for-sale residential developable land in the City of San Marcos with well ranked assigned schools and good freeway access is in very high demand.	

Local Healthcare Market Supply and Demand Conditions

San Diego County Hospital Bed Supply and Demand: San Diego historically has been considered an under-bedded community, but some observers have suggested that the recent spate of hospital construction might be moving the market in toward at least some excess capacity.

- Projected Net Over-Supply of Beds: According to the **California Health Care Foundation**, the San Diego region's acute care bed count as of 2016 numbered 7,033 beds, which they estimate is 3,493 more beds than the region's population will need by 2020, and 2,786 more than needed by 2030. **State data reported by SDUT** indicates a similar trend for 2015, where local hospitals had 6,013 available beds and staffed only 4,200 of these.
- Hospitals with University Affiliation Under-Supplied: UC San Diego beds were 100% staffed at full capacity until the Jacobs Center was completed late in 2016.
- Under-Supply of Senior Care Beds: There is a projected increased need specifically for beds for senior care to serve our increasingly aging population.
- The overall net impact on bed capacity remains very uncertain, in part because the systems have not made final decisions on what to do with their old capacity as new construction comes on line. This supply/demand uncertainty has led to the more recent trend of expansion of **outpatient clinics or “bedless” hospitals as a more favorable alternative**.

Medical Office Consolidation Trend: The division of the Subject site means that there is less medical office space to support the hospital (and none additional would be developed on the north side). Medical office buildings unable to accommodate large users may become obsolete, according to a new Cushman & Wakefield report. Smaller private practices using the old "fee-for-service" model may eventually find it difficult to survive in the face of consolidation of practices into multispecialty groups under a single roof, which will continue to lead to larger users of medical office space. The 71,000 square foot expansion to the Kaiser Permanente Medical Offices in San Marcos just south of the Subject is a good example of this, housing 34 specialty care providers, a four operating room ambulatory surgery center, nuclear medicine, and a four room gastroenterology procedure suite. The new facility is adjacent to the current medical office building, which will also undergo a \$4 million renovation and this latest addition expands the San Marcos campus to 232,000 square feet.

The Local San Marcos Market is Well Served With Hospitals: Within an eight mile radius of the Site (extending to the Pacific Ocean to the west), there are a total of 995 hospital beds as well as two major primary care/ urgent care centers and other medical care facilities. This bed count is more than the average bed-to-population ratio in California and San Diego County. Further, existing hospitals have room for expansion, such as Palomar Medical Center Escondido, with 288 total rooms/ beds currently and room to expand to *double* the bed count.

Conclusion: Given that there appears to be at least adequate hospital bed supply in both the County and San Marcos, and the recent expansion of the Kaiser Permanente Medical Offices, the use of specific Subject site as another hospital is not supported.

Sources: *San Diego Union Tribune, California Health Care Foundation, Licensing Statistics, CA Dept. of Social Services*

Local Healthcare Market Valuations

Hospital Valuation: Hospital values range from \$1,071 to \$1,621 per square foot, with an average of \$1,343 per square foot.

Medical Facility Valuation: Medical facilities, including bedless hospitals and outpatient surgery clinics range from \$288 to \$899 per square foot, with an average of \$723 per square foot.

Medical Office Valuation: Assuming a total square footage target of 776,000 square feet, consistent with the South parcel as described, the development of medical office buildings (Class A office with medical suites for lease) could command a value of approximately \$213 million (\$275 per square foot) based on recent sales comparables, or \$223,250,000 (\$288 per square foot) based on a net operating income/ cap rate valuation approach. However, demand for new medical office buildings is limited in the local submarket, and any potential development would occur in phases over time and require several years (decades) to support this level of square footage.

Land Valuation: The raw portion of the tax roll for various newly developed hospitals and medical offices ranges from \$436,150 to \$2,956,940 per acre, with developed land values averaging \$1.0 to \$1.5 million per acre.

Property Tax Value: State-chartered public district hospitals such as Palomar Pomerado Health and Tri-City Medical Center do not contribute by paying into the property tax revenue for the area. They actually receive a 3.5% share of the local property taxes, and have the ability to float general obligation bonds. Today, residents in the Palomar Pomerado district are paying an extra \$23.50 per \$100,000 of assessed valuation annually to pay for hospital construction bonds.

Key Residential Value Findings

Residential Housing Market:

The North County housing market is strong, and San Marcos in particular has seen steady price appreciation since the market recovery, with **7% appreciation for single family product from mid 2016 to mid 2017**. San Marcos schools are outperforming Carlsbad Unified, and this, coupled with the more attainable San Marcos prices, is creating a sustained **healthy demand in this Submarket. Supply of small lot product in San Marcos is very limited at present**, although new master plans in the area are expected to deliver new units in the coming years (Rancho Tesoro will start selling near the site with residential products similar to those being proposed in this rezone).

Residential Sales Pace:

Meyers assumed a sales pace of **4 units per month for Product A, and 5 units per month for Product B**, which is in keeping with current sales rates in the market today. **Refer to Slides 11 and 12 for more details.**

Residential Pricing:

Our recommended total sales prices for the cluster homes referred to in this study as **“Product A” average \$731,636 while Product B averages \$628,800 (detailed in Slide 12)**, for a total residential scenario revenue of over **\$151.8 million**. With projected appreciation of 3.0% for 2018, this increases to **\$156.3 million** at market entry.

Residential Potential Tax Value:

Assuming the home values described above, the potential value of Discovery Hills South as a residential development of 220 homes puts **tax revenue at roughly \$1.696 million today, or \$1.747 million at market entry in 2019.**

Hospital Tax Revenue:

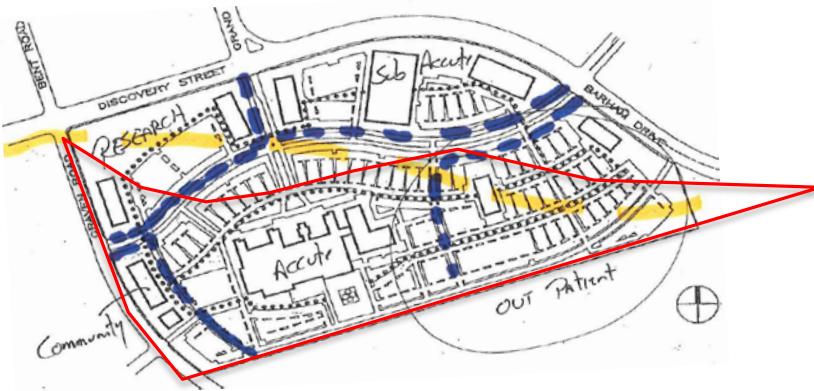
In comparison to the residential potential tax revenue which would start to deliver as soon as home sales began, the potential value of a hospital at this site would take an estimated 25 years to build out. Additionally, with the presence of the Kaiser Medical Offices, Outpatient Surgery Center and planned hospital expansion directly adjacent and south of this site, the establishment of a hospital at Discovery Hills is not feasible. While a potential hospital at this site could be valued at around \$1.0 billion, the valuation is entirely theoretical, with no possibility of actually building this duplicate facility and collecting the tax revenue.

Site Plan Revision

The original plan for the Subject site (80 acres) was to develop a Scripps Hospital on the 80 acres in three phases, with 5 components including: Acute, Community, Out Patient, Research and Sub Acute, totaling 1,239,000 square feet. The area proposed for development with residential uses comprises roughly 50% of the total acreage (39.87 acres) and is defined in the table below as "South". Potential tax revenue as a for-profit or non-profit, non-state hospital is estimated at \$11.4 million based on current day improvement costs observed in the hospital market. However, hospitals are typically constructed in phases, and it could take up to 25 years to realize the full estimated property tax revenue stated here.

SCRIPPS SAN MARCOS HOSPITAL					EST. COST PER SF	EST. IMPROVED VALUE	(TAX RATE 1.11749%) EST. TAX REVENUE
USE	N. or S.	FOOTPRINT	SF	PARKING			
ACUTE	SOUTH	150,000	585,000	902	\$1,500	\$877,500,000	\$9,805,975
COMMUNITY	SOUTH	36,000	66,000	300	\$750	\$49,500,000	\$553,158
OUTPATIENT	SOUTH	31,000	125,000	625	\$750	\$93,750,000	\$1,047,647
TOTAL SOUTH		217,000	776,000	1,827		\$1,020,750,000	\$11,406,779
OUTPATIENT	NORTH	31,000	125,000	625			
SUBACUTE	NORTH	120,000	157,500	200			
RESEARCH	NORTH	70,000	180,500	400			
TOTAL		438,000	1,239,000	3,052			

Scripps Hospital Development Plan



Proposed Residential on South Portion of Site



Product Recommendations

Type A Product: Currently, the Site Development Plan ("SDP") calls for 131 units of Type A product which are traditional single family detached homes ranging from 2,100 to 2,500 square feet in size.

Type B Product: The SDP also calls for 89 units of motorcourt single family detached Type B product. The 89 units will be laid out to include one 7-plex, nine 8-plexes and one 10-plex.



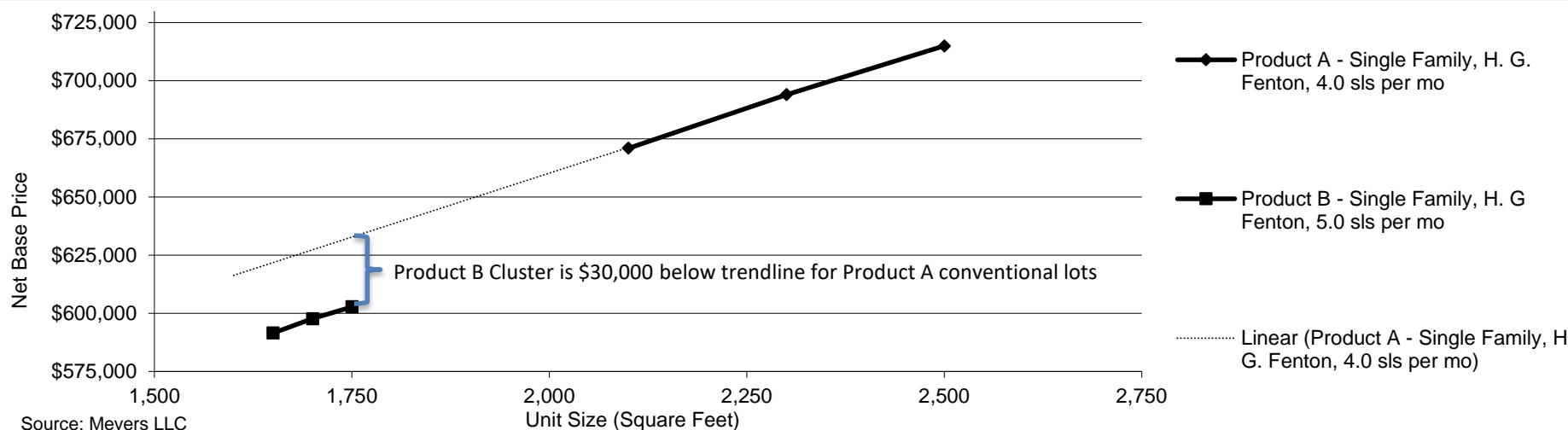
Product, Pricing and Absorption

Discovery Village South, San Marcos, CA

Pricing & Absorption Recommendations

The following outlines our detailed pricing and absorption for Discovery Village South. The recommended total price is \$731,636 for the conventional lot Product A, and \$628,800 on average for the motorcourt Product B. This assumes option/upgrades revenue at 4.0% of base price, and premiums at 1.25% to 1.5% of base price, with an incentive of \$5,000 to be applied to closing costs and design center spending.

COMMUNITY SPECIFICS			FLOORPLANS						RECOMMENDATIONS									
Subject Property Name <u>Location</u>	Mo Sales Pace	Size SF	Base Price/ SF	Incentives		Net Base Price (\$)	Net Base Price/ SF	Assumptions			Total Price/ SF	Payment Assumptions			80.0%			
				Total / All Incentives	Off Price Impacting			Options / Estimated Upgrades	Upgrades Premiums	Total Price	Base Addl Tax HOA	Mo. Pmt.						
Product Details	Sales Summary																	
Product A San Marcos	H. G. Fenton Discovery Village		43	2,100	4.0	\$670,990	\$320	(\$5,000)	\$0	\$670,990	\$320	\$26,840	\$10,065	\$707,894	\$337	\$200	1.10% 0.50% \$4,013	
Product: Single Family	Total Units: 131		44	2,300		\$693,990	\$302	(\$5,000)	\$0	\$693,990	\$302	\$27,760	\$10,410	\$732,159	\$318	\$200	1.10% 0.50% \$4,144	
Configuration: 4,050 SF	Units Sold: 0		44	2,500		\$714,990	\$286	(\$5,000)	\$0	\$714,990	\$286	\$28,600	\$10,725	\$754,314	\$302	\$200	1.10% 0.50% \$4,263	
Lot Dimensions: 45' x 90'	3 Months Sold: 0																	
	Units Remaining: 131																	
	% Remaining: 100%																	
Summary Statistics:			131	2,302	4.0	\$693,494	\$301	(\$5,000)	\$0	\$693,494	\$301	\$27,740	\$10,402	\$731,636	\$318	\$200	1.10% 0.50% \$4,141	
Product B San Marcos	H. G Fenton Discovery Village		29	1,650	5.0	\$591,590	\$359	(\$5,000)	\$0	\$591,590	\$359	\$23,664	\$7,395	\$622,648	\$377	\$200	1.10% 0.50% \$3,554	
Product: Single Family	Total Units: 89		30	1,700		\$597,710	\$352	(\$5,000)	\$0	\$597,710	\$352	\$23,908	\$7,471	\$629,090	\$370	\$200	1.10% 0.50% \$3,589	
Configuration: 7, 8, 10-Pack Cluster	Units Sold: 0		30	1,750		\$602,810	\$344	(\$5,000)	\$0	\$602,810	\$344	\$24,112	\$7,535	\$634,457	\$363	\$200	1.10% 0.50% \$3,618	
Lot Dimensions: 152' x 241'	3 Months Sold: 0																	
291' x 224'	Units Remaining: 89																	
128' x 299'	% Remaining: 100%																	
Summary Statistics:			89	1,701	5.0	\$597,435	\$351	(\$5,000)	\$0	\$597,435	\$351	\$23,897	\$7,468	\$628,800	\$370	\$200	1.10% 0.50% \$3,587	



Projected Price Appreciation Schedule and Community Sell Out

The recommended base price for the conventional single family lots (Product A) is \$301 per square foot, or \$318 per square foot all-in. The base price per square foot for Product B (the smaller cluster homes) is \$351 per square foot, or \$370 including options, upgrades, and premium revenue. **The resulting overall community average selling price is \$690,000.** This could increase to just over \$710,000 by the time the units enter the market, assuming a market entry in early 2019, and a conservative price appreciation of between 1.0% and 3.0%.

Project/ Subdivision	Type	Configuration	# of Units	Est % of Total Units	Average Unit Size	BASE PRICE		Price Impacting Incentives	NET BASE PRICE		\$ ASSUMPTIONS		AVERAGE PRICE			
						Base Price	\$/SF		Net Base Price	\$/SF	Options	Premiums	Average Price	\$/SF	Estimated Sales/Month	
Product A	Single Family	4,050 SF	131	60%	2,302	\$693,494	\$301	\$0	\$693,494	\$301	\$27,740	\$10,402	\$731,636	\$318	4.00	
Product B	Single Family	7, 8, 10-Pack Cluster	89	40%	1,701	\$597,435	\$351	\$0	\$597,435	\$351	\$23,897	\$7,468	\$628,800	\$370	5.00	
COMMUNITY SUMMARY				220	100%	2,058	\$654,634	\$322	\$0	\$654,634	\$322	\$26,185	\$9,215	\$690,034	\$339	9.00

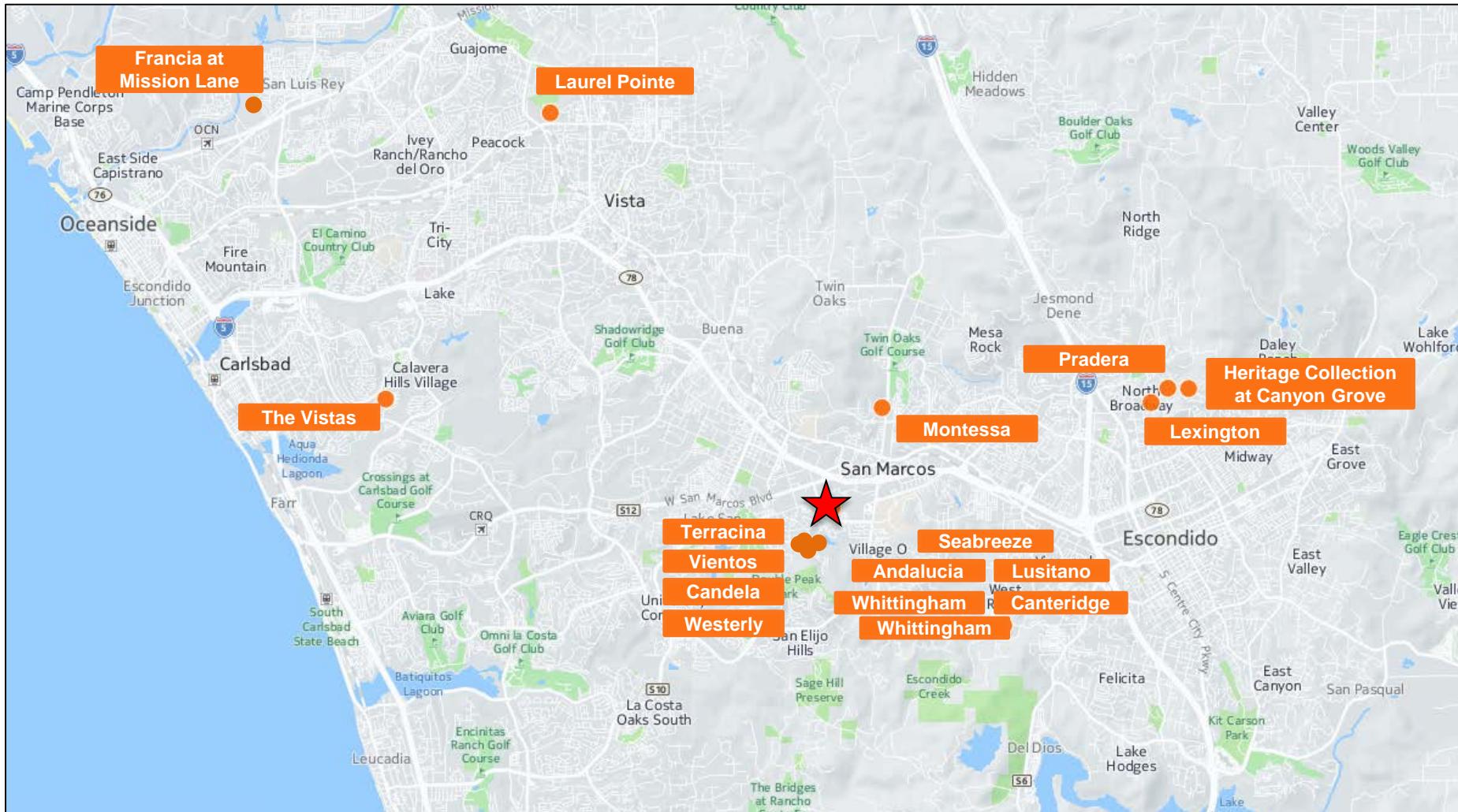
TOTAL PRICE APPRECIATION SCHEDULE				2018	2019	2020	2021	
Project/ Subdivision	Type	Configuration	# of Units	Average Price	3.0%	2.0%	1.0%	1.0%
Product A	Single Family	4,050 SF	131	\$731,636	\$753,585	\$768,657	\$776,343	\$784,107
Product B	Single Family	7, 8, 10-Pack Cluster	89	\$628,800	\$647,664	\$660,617	\$667,224	\$673,896
COMMUNITY SUMMARY				220	\$690,034	\$710,735	\$724,950	\$732,199
								\$739,521

Meyers assumed a sales pace of 4.0 units per month for Product A, and 5.0 units per month for Product B, which is in keeping with current sales rates in the market today. Historical sales rates are at 3.0 units per month, but now that Harmony Grove prices have been adjusted, 3 month sales rates for the Submarket are 4.2 homes per month overall, and for the small lot product specifically is averaging 5.0 per month. Assuming that the units enter the market in early 2019, at these sales rates Meyers estimates that the total selling time in the market will be under 3 years.

HYPOTHETICAL COMMUNITY SELL OUT								
Project/ Subdivision	Type	Configuration	# of Units	Avg Yr/Pace	2018	2019	2020	2021
Product A	Single Family	4,050 SF	131	44		48	48	35
Product B	Single Family	7, 8, 10-Pack Cluster	89	45		60	29	
COMMUNITY SUMMARY				88		108	77	35

Location of Competitive Projects

The competitive new home projects studied for this analysis are concentrated along the 78 Freeway Corridor, including Carlsbad, Vista, San Marcos, and Escondido. Development is on the increase in this more affordable area of the County, with new product in Carlsbad, Vista, San Marcos and Escondido – offering new townhome and single-family homes typically priced in the \$400,000s to \$800,000s.



Competitive New Home Summary

Below is a summary of active new small lot single family detached cluster projects and conventional lot product in the North San Diego County area, including the four communities in the new master planned Rancho Tesoro, and Harmony Grove. Montessa is a new small infill project of conventional lots which started presales in the second week on May 2017. The median new home price in this Submarket is \$758,900, or \$269 per square foot, which is comparable to the recommendations for the Subject.

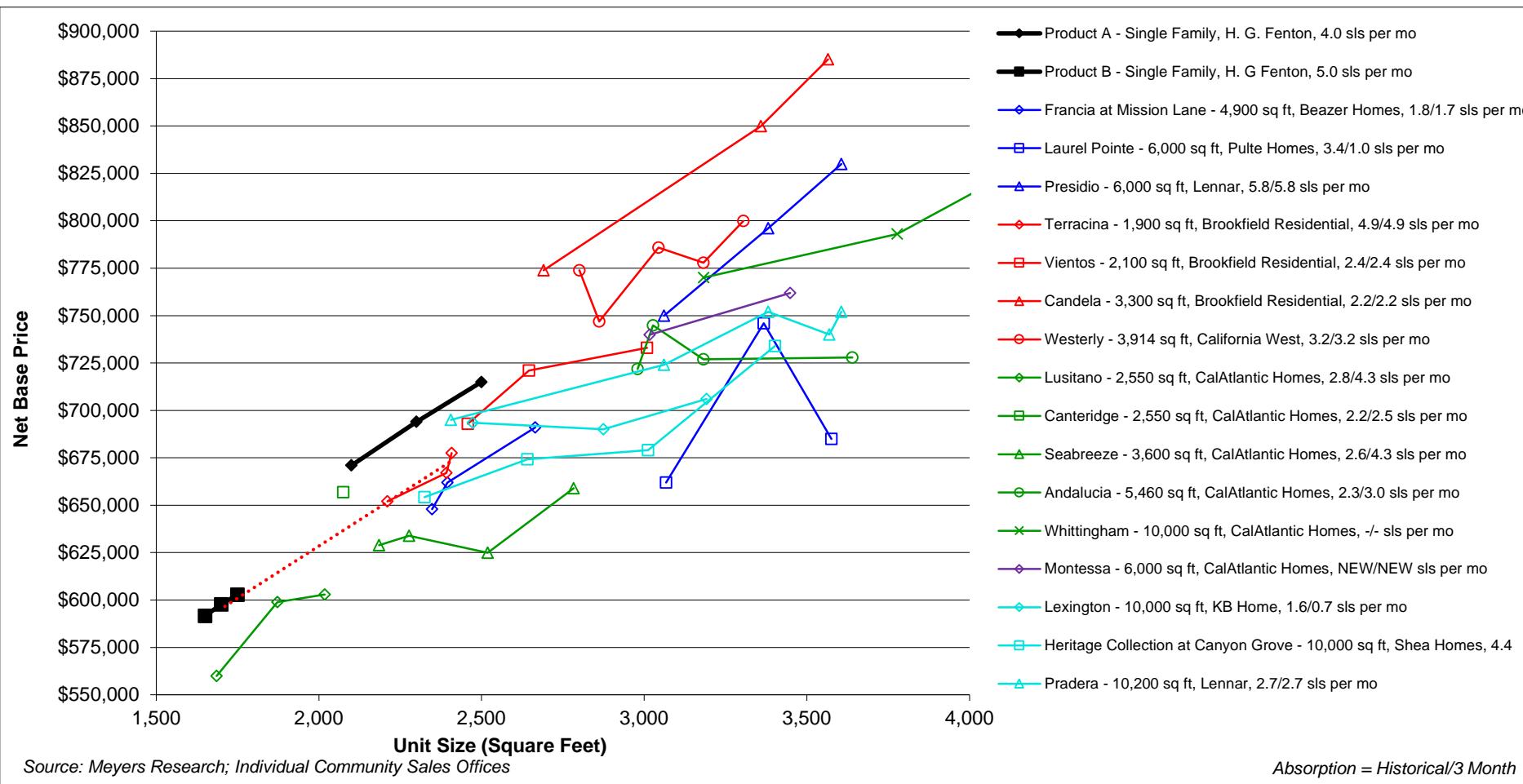
The supply of new small lot product in the North San Diego County area is relatively low, and Discovery Village South will meet a need for new offerings of reasonably affordable new homes close to North San Diego County employment centers (particularly along Highway 78). Competitive supply conditions will increase in the next few years in planned projects that will introduce new high-density SFD options, particularly along the Highway 78 corridor from Oceanside to Escondido, including San Marcos.

COMMUNITY	BUILDER / DEVELOPER	CITY	LOT SIZE	UNIT COUNT SUMMARY					SALES PACE		AVERAGE			MONTHLY			
				TOTAL	RLSD	SOLD	AVAIL.	REMAIN	ALL	3 MO.	SF	NET PRICE	\$/SF	HOA	MO. TAX	PAYMENT	
Product A	H. G. Fenton	San Marcos	4,050 SF	131	-	0	-	131	4.0	--	2,302	\$731,636	\$318	\$200	\$305	\$4,141	
Product B	H. G Fenton	San Marcos	8, 10-Pack Clust	89	-	0	-	89	5.0	--	1,701	\$628,800	\$370	\$200	\$262	\$3,587	
Francia at Mission Lane	Beazer Homes	Oceanside	4,900	59	0	7	N/Av	52	1.8	1.7	2,469	\$709,490	\$287	\$104	\$45	\$3,676	
Laurel Pointe	Pulte Homes	Vista	6,000	159	159	155	4	4	3.4	1.0	3,337	\$772,657	\$232	\$252	\$0	\$4,092	
Presidio	Lennar	Vista	6,000	31	0	15	N/Av	16	5.8	5.8	3,349	\$819,490	\$245	\$280	\$0	\$4,353	
Terracina	Brookfield Residential	San Marcos	1,900	117	42	29	13	88	4.9	4.9	2,337	\$700,500	\$300	\$209	\$251	\$3,942	
Vientos	Brookfield Residential	San Marcos	2,100	107	24	14	10	93	2.4	2.4	2,704	\$755,667	\$279	\$209	\$277	\$4,242	
Candela	Brookfield Residential	San Marcos	3,300	56	0	13	N/Av	43	2.2	2.2	3,205	\$887,805	\$277	\$194	\$289	\$4,895	
Westerly	California West	San Marcos	3,914	70	0	19	N/Av	51	3.2	3.2	3,039	\$823,399	\$271	\$164	\$329	\$4,586	
Lusitano	CalAtlantic Homes	Escondido	2,550	97	0	84	N/Av	13	2.8	4.3	1,859	\$594,733	\$320	\$230	\$398	\$3,583	
Canteridge	CalAtlantic Homes	Escondido	2,550	71	0	67	N/Av	4	2.2	2.5	2,075	\$679,400	\$327	\$230	\$407	\$4,014	
Seabreeze	CalAtlantic Homes	Escondido	3,600	109	94	77	17	32	2.6	4.3	2,441	\$666,650	\$273	\$142	\$470	\$3,925	
Andalucia	CalAtlantic Homes	Escondido	5,460	129	73	70	3	59	2.3	3.0	3,207	\$772,900	\$241	\$168	\$546	\$4,556	
Whittingham	CalAtlantic Homes	Escondido	10,000	120	0	0	N/Av	N/Av	0.0	-	3,785	\$866,750	\$229	\$120	\$682	\$5,109	
Montessa	CalAtlantic Homes	San Marcos	6,000	19	6	0	6	19	NEW	NEW	3,233	\$785,900	\$243	\$150	\$33	\$4,089	
Lexington	KB Home	Escondido	10,000	39	0	26	N/Av	13	1.6	0.7	2,847	\$762,209	\$268	\$143	\$38	\$3,969	
Heritage Collection at Canyon Grove	Shea Homes	Escondido	10,000	97	0	55	N/Av	42	4.4	4.0	2,845	\$727,365	\$256	\$195	\$36	\$3,846	
Pradera	Lennar	Escondido	10,200	70	68	60	8	10	2.7	2.7	3,205	\$749,600	\$234	\$117	\$37	\$3,880	
				NEW HOME AVERAGE:	1,350	466	691	61	539	2.8	3.0	2,871	\$754,657	\$268	\$182	\$240	\$4,172
				NEW HOME MEDIAN:	1,350	466	691	61	539	2.6	2.8	2,943	\$758,938	\$269	\$181	\$264	\$4,051

3-month sales pace for small lot product averages 3.3 units per month.

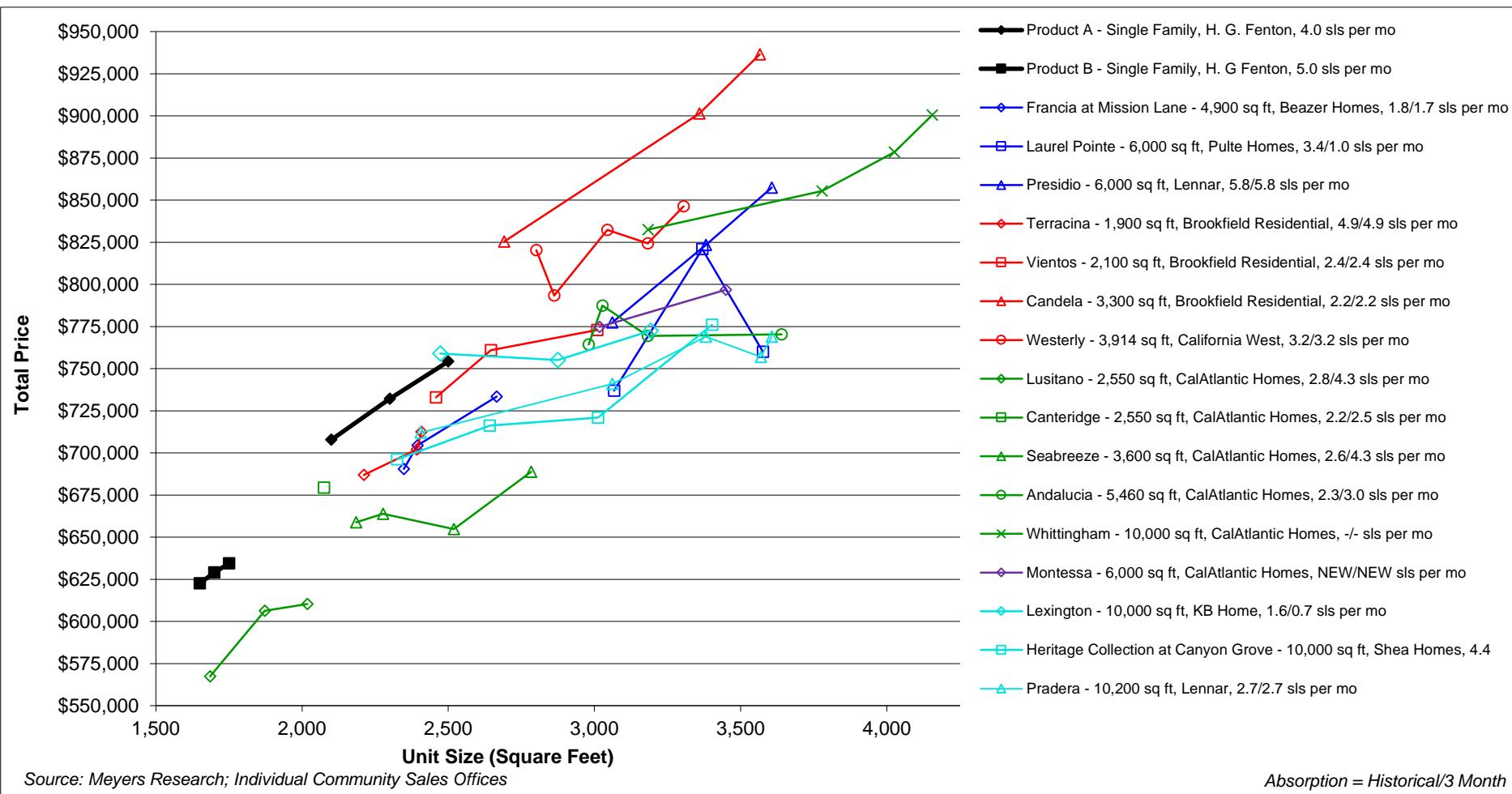
Subject Positioning vs Competitive Market (Base Price)

The following shows base pricing at Discovery Village South products versus other active new detached projects in the North San Diego County market. The recommended pricing at the Subject at the top of the resale market along the Highway 78 Corridor, and well below the Carlsbad market. Specifically, Product A is positioned in line with above the large lot product selling in Escondido to account for the desirable San Marcos address and schools, and Montessa's larger lots in 92069 (the Subject ZIP code 92078 is more desirable). Product A is positioned roughly \$20,000 above Harmony Grove's Lusitano product in Escondido, and in line with the smallest cluster product (Terracina) at Rancho Tesoro.



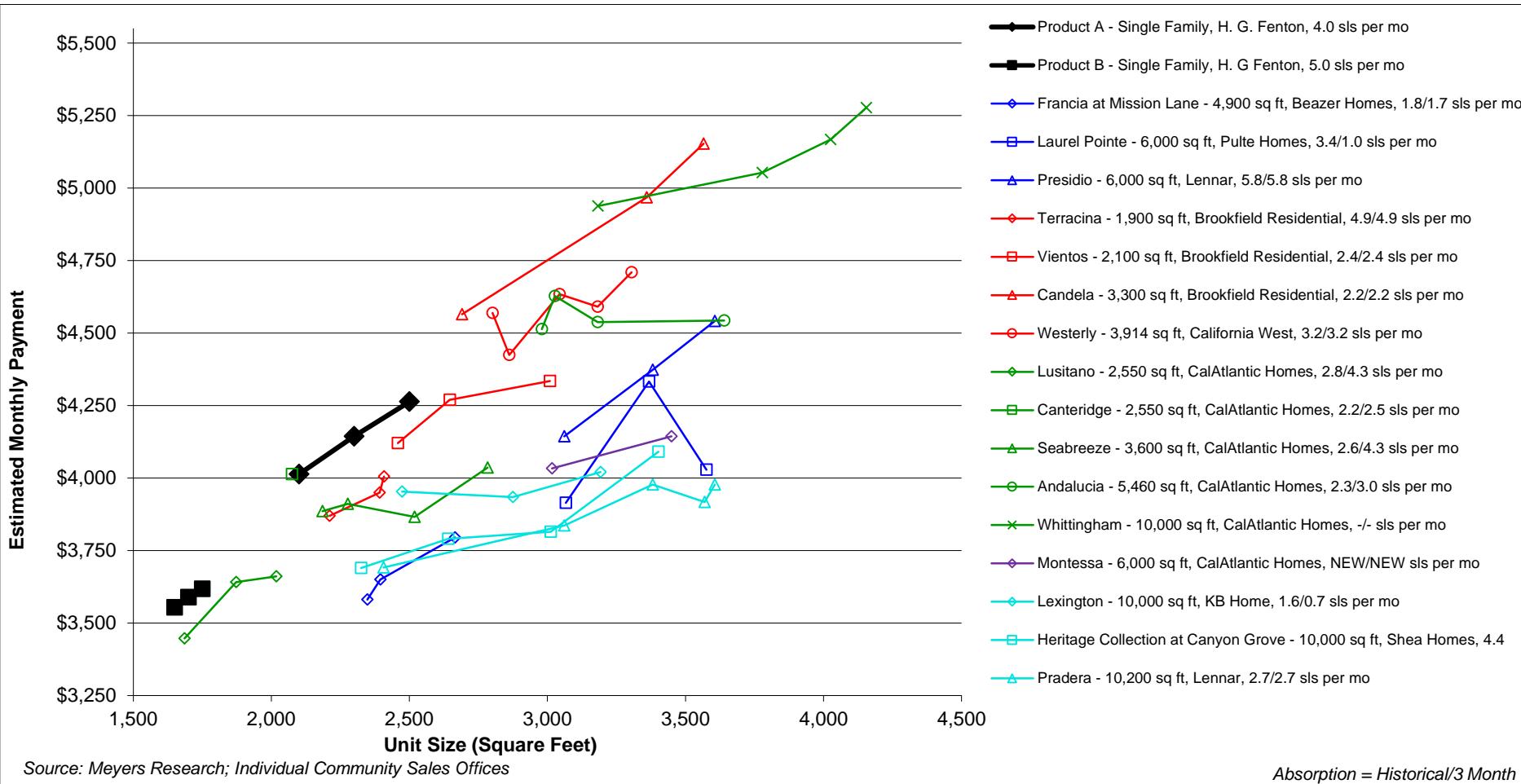
Subject Positioning vs Competitive Market (Total Price)

The following shows the suggested total price positioning for Discovery Village South products and includes options/upgrades and premium revenue. Options and upgrades spending is estimated at 4.0% of base price, and premiums are estimated at 1.25% to 1.5% of base price. Product A is positioned in line with Vientos on a total price basis, which is selling at 2.4 sales per month. Vientos is cluster product versus Product A's conventional lots which are more desirable and should sell at a faster pace at the same price point as Vientos. Product B homes could all qualify for a 90% loan with FHA financing, which increases the potential target market significantly.



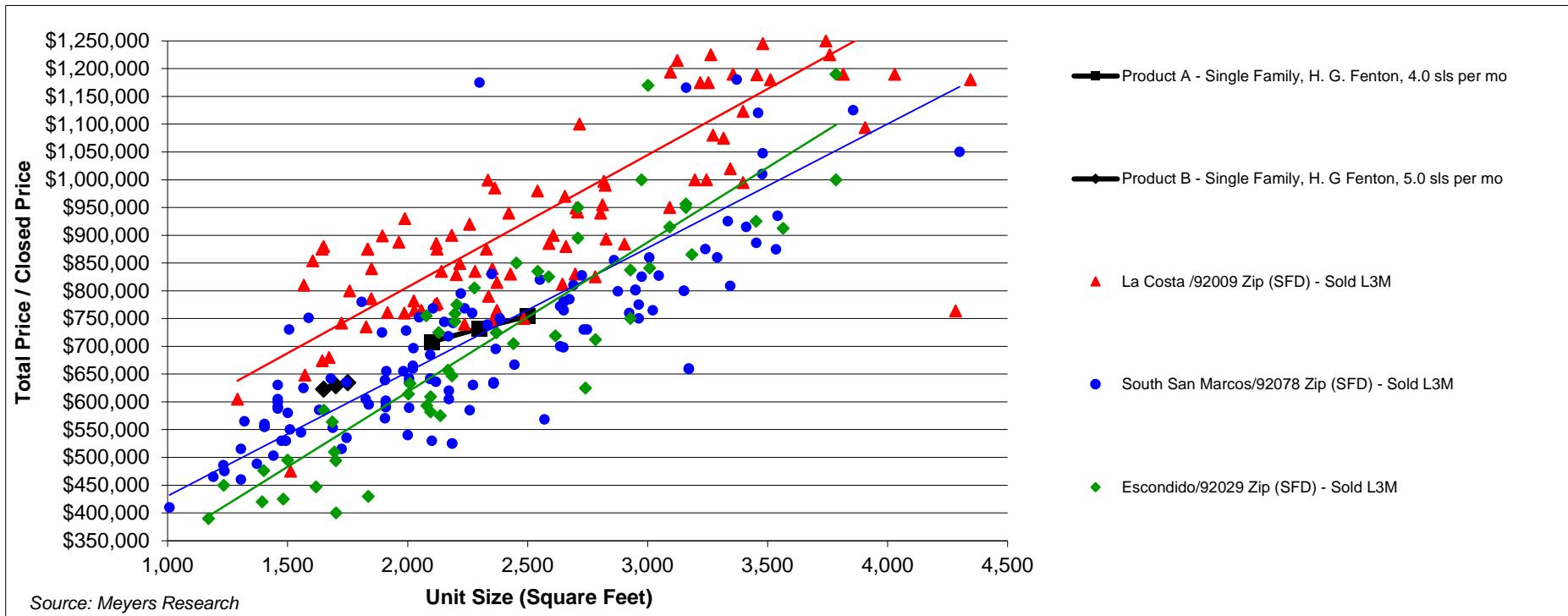
Subject Positioning vs Competitive Market (Monthly Payment)

An HOA and tax rate have not been determined for Discovery Village South. For the purposes of this study, Meyers has assumed total tax rate of 1.6% including CFDs, and \$200 per month in homeowners association fees. This results in a monthly housing cost of \$4,088 to \$4,338 per month for Product A, and \$3,629 to \$3,693 for Product B. The monthly payments at Discovery Village South's Product A create a value for new home buyers in this market, especially when compared with the Harmony Grove monthly payments for similar home sizes, which are inflated by high CFD costs.



Subject Positioning vs Local Area Resales - Detached

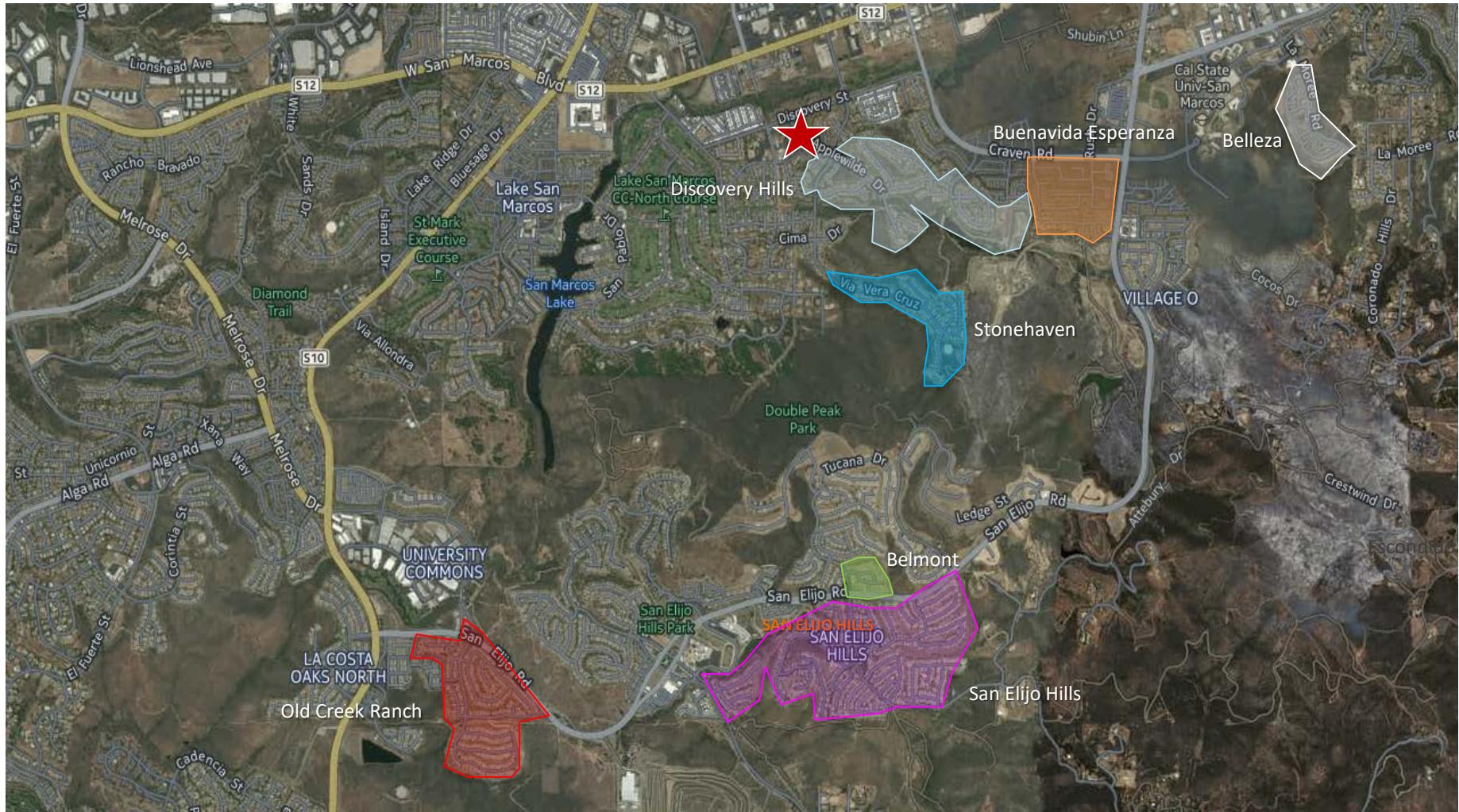
The Subject is positioned in line with trend lines for existing single-family detached resales (product of all ages) in the past 3 months in the Subject ZIP code (92078) and nearby 92029 (the southwest area of Escondido). In general the La Costa homes are of a similar age to the resale market in south San Marcos 92078 ZIP code, but are priced at a 34% premium owing to coastal proximity. Escondido homes sell for just 2.0% less than the average resale price for the Subject ZIP code. Escondido has a steeper trendline owing to a more diverse product combination of older homes on large lots, and newer estate homes, whereas the product in San Marcos is more homogenous, with few estate homes, and lot sizes half the average size in Escondido.



REFERENCE AREA	DATE RANGE	YEAR BUILT	LOT SIZE	SALES	SALES PACE		AVERAGE		
					ALL	3 MO.	SF	NET PRICE	\$/SF
La Costa /92009 Zip (SFD) - Sold L3M	Sep. '17 to Dec. '17	1994	8,674	100	31.7	30.3	2,711	\$975,778	\$360
South San Marcos/92078 Zip (SFD) - Sold L3M	Sep. '17 to Dec. '17	1996	7,235	126	40.8	37.0	2,326	\$726,585	\$312
Escondido/92029 Zip (SFD) - Sold L3M	Sep. '17 to Dec. '17	1988	14,017	51	16.3	15.7	2,358	\$714,483	\$303

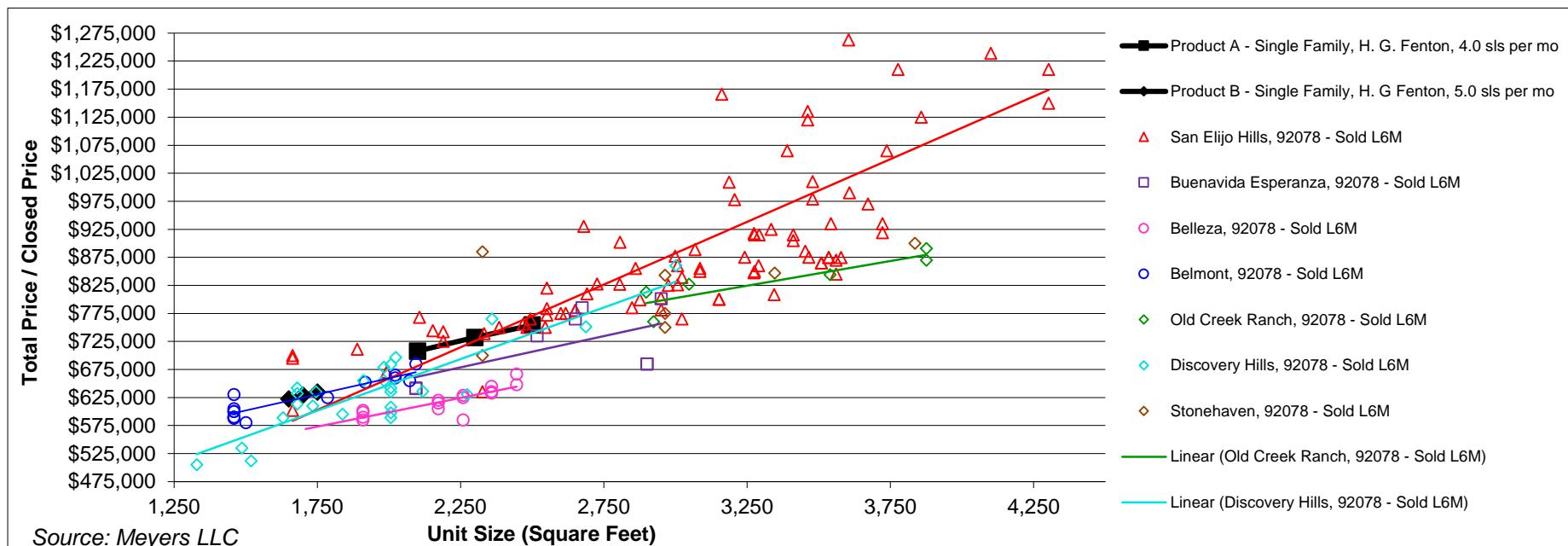
Location of Select Resale Detached Communities

Meyers analyzed resales at comparable small lot neighborhoods located in the 92078 ZIP code south of the Highway 78 in San Marcos. The neighborhood of Discovery Hills is located directly adjacent and south of the site, and is particularly pertinent to this study.



Subject Positioning vs Detached Resales at Select Communities

Meyers focused on resales of recently built communities immediately surrounding the Subject. Discovery Village South Product A's conventional lots are appropriately positioned in line with closed conventional lot resales in San Elijo Hills, and roughly \$50,000 above Buenavida Esperanza's 7,000 square foot lots, which are now 14 years old. Product B is priced in line with Belmont, the cluster product at San Elijo Hills, and roughly \$60,000 above Belleza's 5,000 square foot lots built 14 years ago. Both product lines are positioned just above the adjacent Discovery Hills.



REFERENCE AREA	DATE RANGE	YEAR BUILT	LOT SIZE	SALES	SALES PACE		AVERAGE			
					ALL	3 MO.	SF	NET PRICE	\$/SF	
Old Creek Ranch, 92078 - Sold L6M	Jul. '17 to Dec. '17	2006	6,411	6	1.4	0.7	3,360	\$834,093	\$248	
Stonehaven, 92078 - Sold L6M	Jun. '17 to Dec. '17	2003	10,239	7	1.9	0.7	2,960	\$814,271	\$275	
Buenavida Esperanza, 92078 - Sold L6M	Jun. '17 to Dec. '17	2003	6,956	8	1.5	1.7	2,597	\$717,375	\$276	
Belleza, 92078 - Sold L6M	Jun. '17 to Dec. '17	2003	5,053	17	2.8	3.0	2,212	\$620,618	\$281	
San Elijo Hills, 92078 - Sold L6M	Jun. '17 to Dec. '17	2006	7,603	88	14.6	9.0	3,052	\$893,885	\$293	
Belmont, 92078 - Sold L6M	Jun. '17 to Dec. '17	2013	4,071	14	3.1	2.0	1,688	\$623,214	\$369	
Discovery Hills, 92078 - Sold L6M	Jun. '17 to Dec. '17	1993	6,139	25	4.4	3.0	1,948	\$638,038	\$328	
SELECT MARKET AVERAGE:					24	4.2	2.9	2,545	\$734,499	\$296
SELECT MARKET MEDIAN:					14	2.8	2.0	2,597	\$717,375	\$281

Location Analysis

Discovery Village South, San Marcos, CA

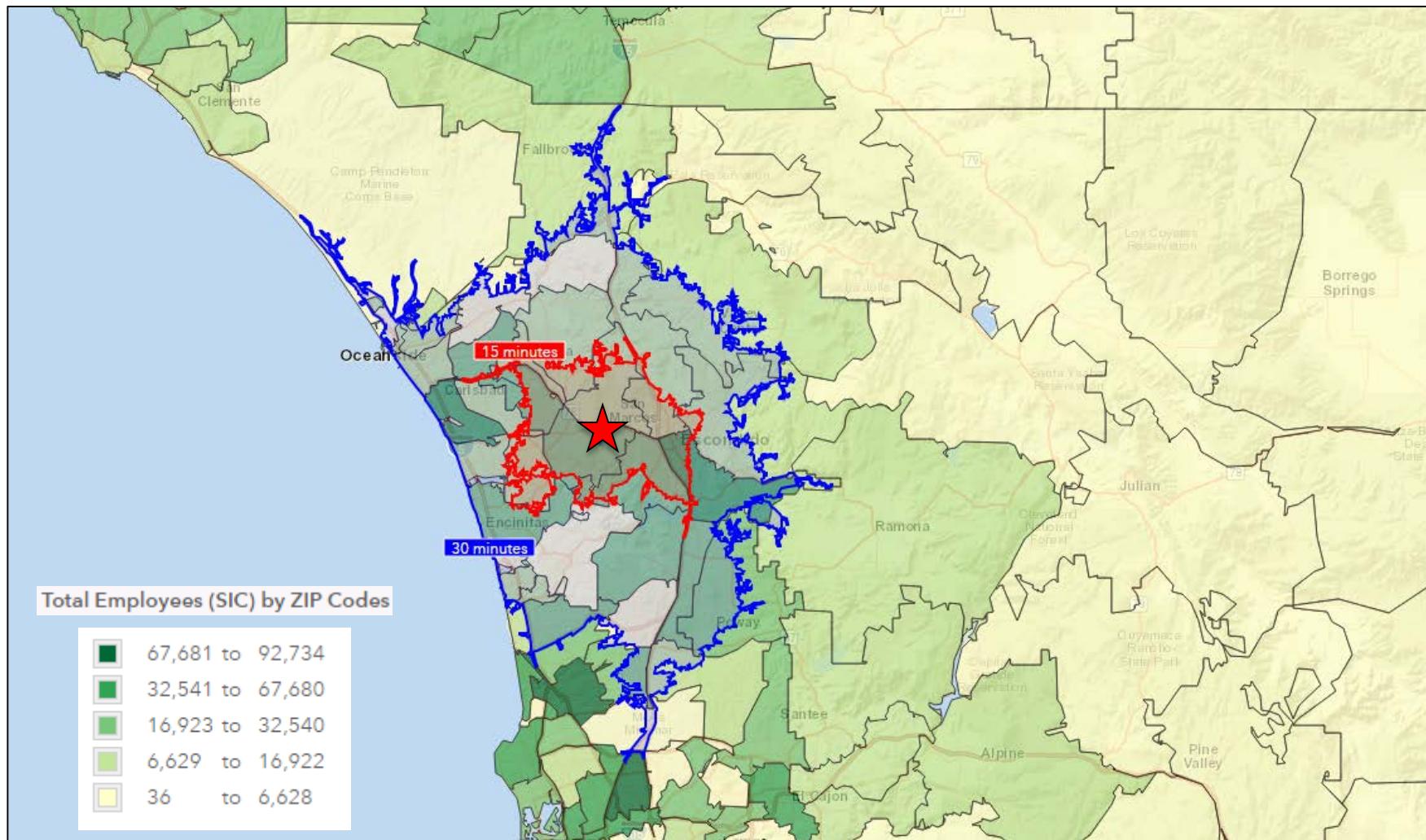
Aerial Overview of Subject Location

The Subject is centrally located just south of the proposed North City development which is along the south side of the Highway 78 in San Marcos, North San Diego County. The site affords convenient access to several shopping conveniences and services including Ralphs, CVS, Kaiser Permanente medical offices, Edwards San Marcos 18 movie theater, Costco and the California State University of San Marcos.



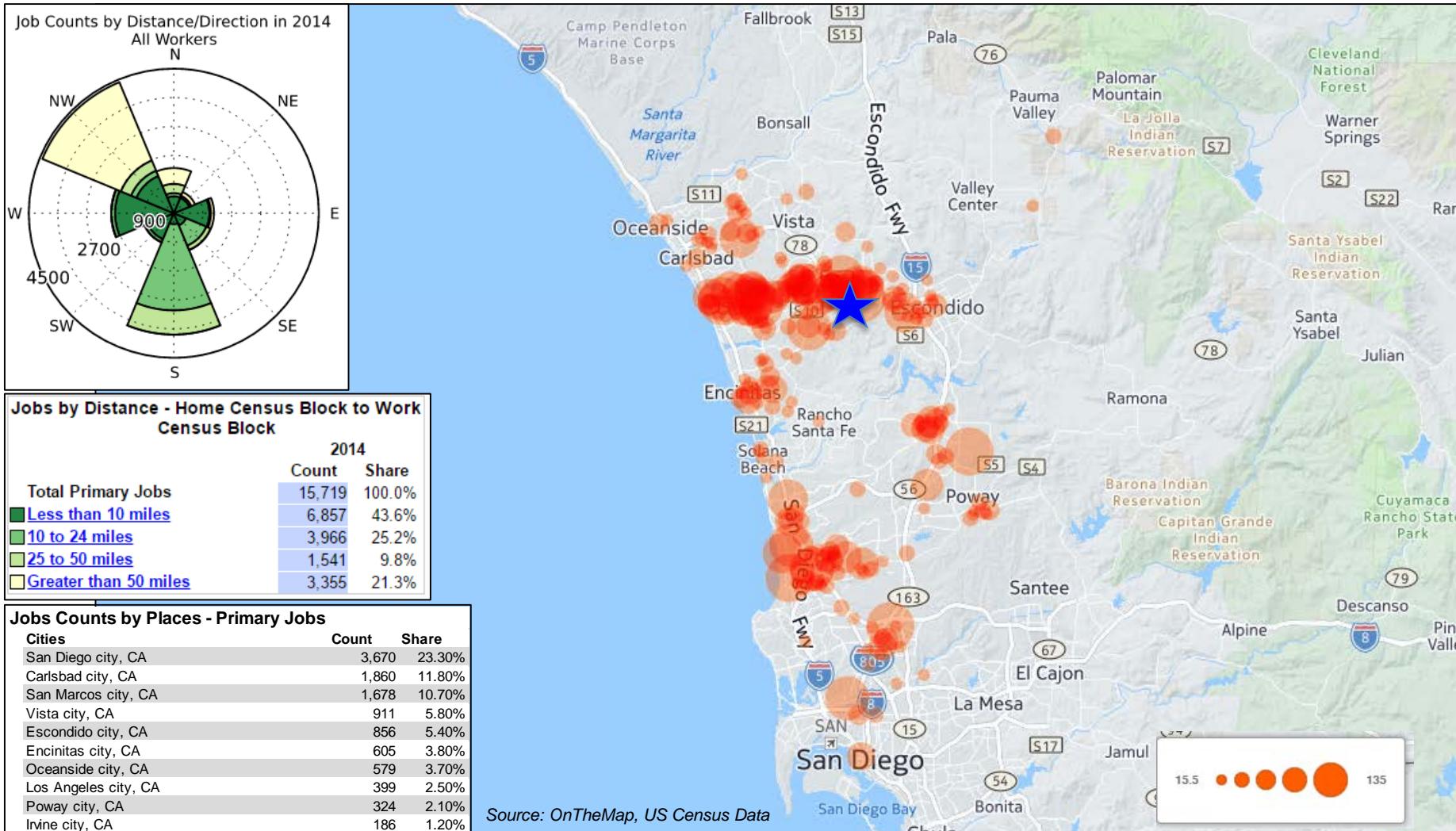
Employment by ZIP Code

Discovery Village South is located in San Marcos, just south of the 78 Freeway near Cal State San Marcos. It is within a 30-minute drive of numerous high-density employment centers including Escondido, Rancho Bernardo, Carlsbad, and Sorrento Valley.



Employment Commuting Patterns

The map below illustrates the concentration of local residents commuting to various employment destinations. Over 43% commute a short distance of 10 miles or less to employment destinations along the Highway 78 Corridor. A further 25% of the employed population in the 92078 ZIP code commute between 10 and 25 miles south to employment destinations in San Diego and Poway.



San Diego County School District Scores

The Subject site falls within the San Marcos Unified School District, which is in the top half of school districts in the County. The Subject is assigned Discovery Elementary, Double Peak K-8, San Elijo Middle and a combination of Mission Hills High and San Marcos High. All these schools are ranked above average with the middle and high school being ranked number one in the San Marcos Unified School District. The Subject high school is generally considered to be a strong (and improving) high school in the region after a \$100 million dollar renovation.

ACADEMIC PERFORMANCE INDEX (API) BY SCHOOL DISTRICT San Diego County

School District	2013 Growth API	School District	2013 Growth API
Rancho Santa Fe Elementary	958	Julian Union Elementary	814
Del Mar Union Elementary	955	Cajon Valley Union	812
Solana Beach Elementary	938	San Diego Unified	809
Cardiff Elementary	917	Lakeside Union Elementary	807
Encinitas Union Elementary	914	San Ysidro Elementary	802
Coronado Unified	897	National Elementary	792
San Dieguito Union High	897	Sweetwater Union High	792
Poway Unified	894	STATE OF CA	790
Bonsall Union Elementary	890	Vista Unified	788
San Pasqual Union Elementary	882	Lemon Grove	787
Spencer Valley Elementary	881	Oceanside Unified	787
Carlsbad Unified	876	SBC - High Tech High	786
San Marcos Unified	870	Julian Union High	785
Chula Vista Elementary	863	Grossmont Union High	769
Vallecitos Elementary	863	South Bay Union Elementary	766
Santee Elementary	862	Escondido Union Elementary	758
Alpine Union Elementary	848	Escondido Union High	745
Jamul-Dulzura Union Elementary	843	Fallbrook Union High	744
Fallbrook Union Elementary	836	Dehesa Elementary	736
La Mesa-Spring Valley	828	Borrego Springs Unified	730
Valley Center-Pauma Unified	819	Warner Unified	728
Ramona City Unified	816	Mountain Empire Unified	722

Source: California Department of Education

Competitive New Home Project School Comparison

The table below identifies the school district and specific schools currently assigned to the Subject property and the competitive new home projects in the market area. The API 2013 scores are provided for the specific school in that area, as well as greatSchools.org rankings.

The Subject is bi-furcated by two different school assignments at each grade. Assigned schools are as follows:

- Elementary: Discovery and Double Peak K-8
- Middle: San Elijo Middle and Double Peak K-8
- High: San Marcos and Mission Hills High

Communities selling in San Elijo Hills have the best ranked schools in the area. Double Peak is a new K-8 school which opened in 2016 and has a GreatSchools.org ranking of 10/10. The Subject assigned schools are not far off the San Elijo Hills ranking in terms of performance. The schools assigned to Rancho Tesoro are slightly lower ranked than Discovery Village South, with Montessa in north San Marcos ranked lower, and the Escondido, Vista and Oceanside communities at the lower end of the rankings.



Neighborhood	District	Elementary	GS	2013 API	Middle	GS	2013 API	High	GS	2013 API	Avg. GS
San Elijo Hills Resales	San Marcos Unified	Double Peak K-8	10		Double Peak K-8	10		San Marcos High	8	751	9.3
SUBJECT	San Marcos Unified	Discovery Elementary / Double Peak	9	901	San Elijo Middle / Double Peak	9	813	San Marcos / Mission Hills High	8	858/848	8.7
Rancho Tesoro	San Marcos Unified	Discovery Elementary	8	901	San Marcos Middle	8	818	Mission Hills High	8	848	8.0
Montessa	San Marcos Unified	Twin Oaks Elementary	6	886	Woodland Park Middle	7	888	Mission Hills High	8	848	7.0
Presidio Vista	Vista Unified	Breeze Hill Elementary	7	836	Madison Middle	5	834	Rancho Buena Vista High	7	777	6.3
Harmony Grove	Escondido Union/Escondido High	Bernardo Elementary	8	864	Del Dios Middle	3	748	San Pasqual High	7	792	6.0
Laurel Pointe	Vista Unified	Empresa Elementary	8	864	Roosevelt Middle	3	817	Vista High	6	740	5.7
Francia/Peppertree at Mission Lane	Oceanside Unified	Nichols Elementary	4	802	Cesar Chavez Middle	5	796	EI Camino High	7	795	5.3
Lexington, Pradera, Canyon Grove	Escondido Union/Escondido High	North Broadway	5	800	Rincon Middle	3	791	Escondido High	5	739	4.3

* GS = GreatSchools.org ranking

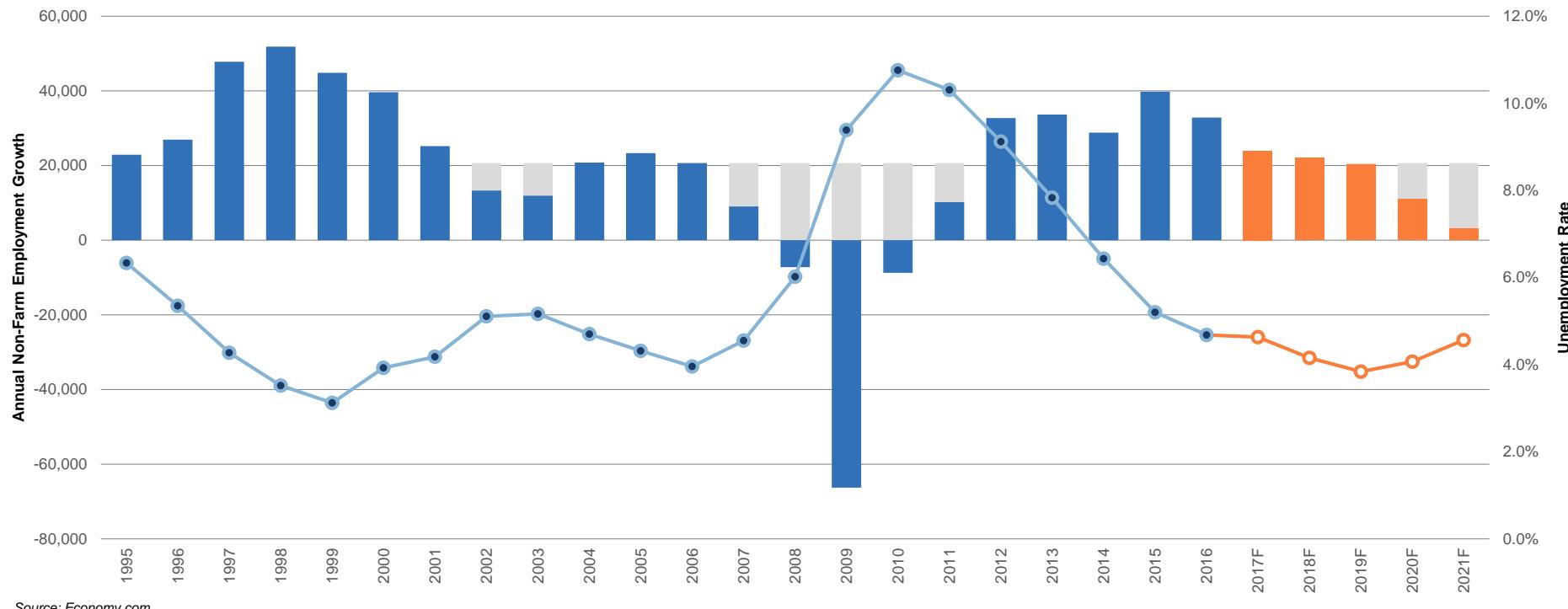
Economic Overview

Discovery Village South, San Marcos, California

Labor Will Linger Above Full Employment

San Diego MSA has been in steady employment recovery for the last 6 years. Year over year employment growth slowed moderately from 2015 to 2016 and Economy.com expects employment growth to continue at a slower pace over the next 5 years as the business cycle matures.

Employment History & Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Five-Year Forecast*				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Non-Farm Employment	1,323,792	1,316,600	1,250,325	1,241,617	1,251,783	1,284,475	1,318,100	1,346,917	1,386,667	1,419,533	1,443,498	1,465,618	1,485,933	1,496,873	1,499,896
Prior Year Change	9,025	(7,192)	(66,275)	(8,708)	10,167	32,692	33,625	28,817	39,750	32,867	23,965	22,120	20,315	10,940	3,023
Annual % Change	0.7%	-0.5%	-5.0%	-0.7%	0.8%	2.6%	2.6%	2.2%	3.0%	2.4%	1.7%	1.5%	1.4%	0.7%	0.2%
Unemployment Rate	4.6%	6.0%	9.4%	10.8%	10.3%	9.1%	7.8%	6.4%	5.2%	4.7%	4.6%	4.2%	3.8%	4.1%	4.6%

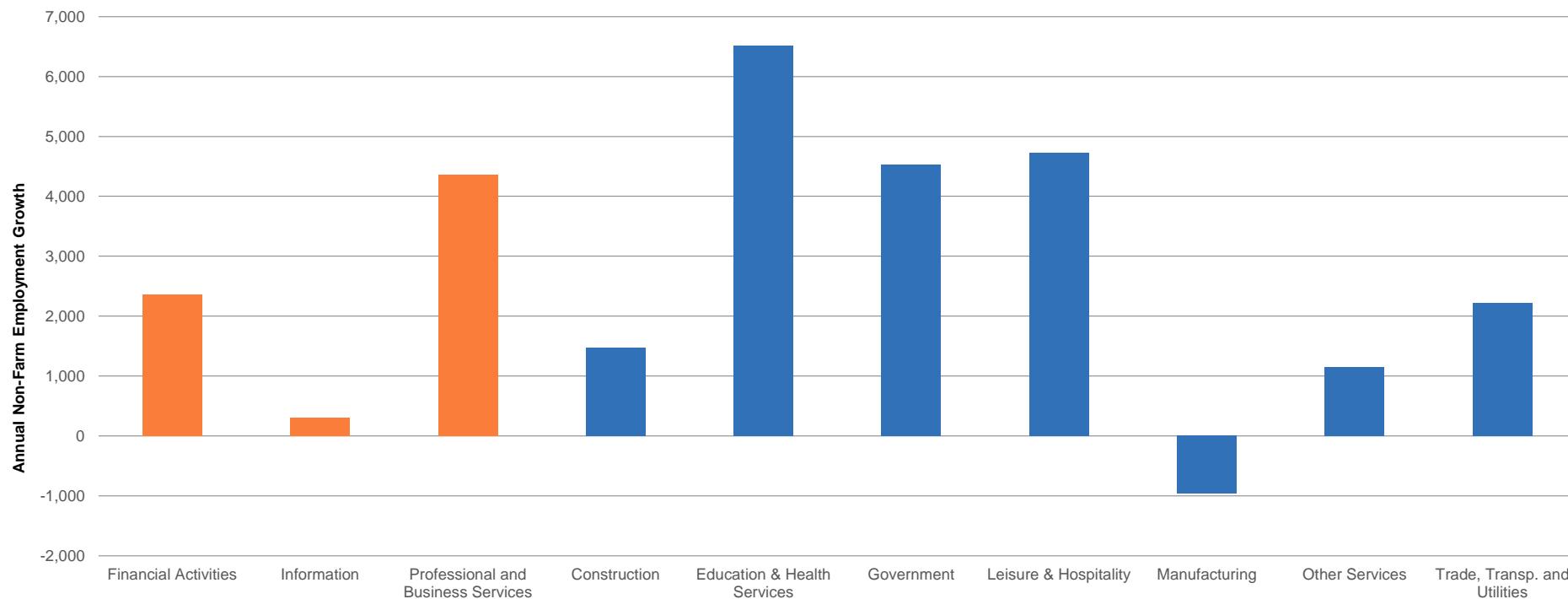


Source: Economy.com

Growth From High Income Sectors Support New Home Demand

San Diego MSA employment is led by Government employment followed closely by Professional and Business Services. In the trailing 12 months employment growth was led by growth in Education and Health Services. The only industry to decline in the trailing 12 months was Manufacturing employment.

Employment by Sector	High Income Sectors			Other Sectors						
	Financial Activities	Information	Professional and Business Services	Construction	Education & Health Services	Government	Leisure & Hospitality	Manufacturing	Other Services	Trade, Transp. and Utilities
Current Month	74,921	24,092	238,941	72,736	203,513	243,722	192,216	105,525	54,468	222,758
Same Month Previous Year	72,556	23,788	234,584	71,257	196,997	239,198	187,486	106,491	53,315	220,541
12-Month Growth	2,365	304	4,356	1,478	6,516	4,523	4,730	-965	1,154	2,218

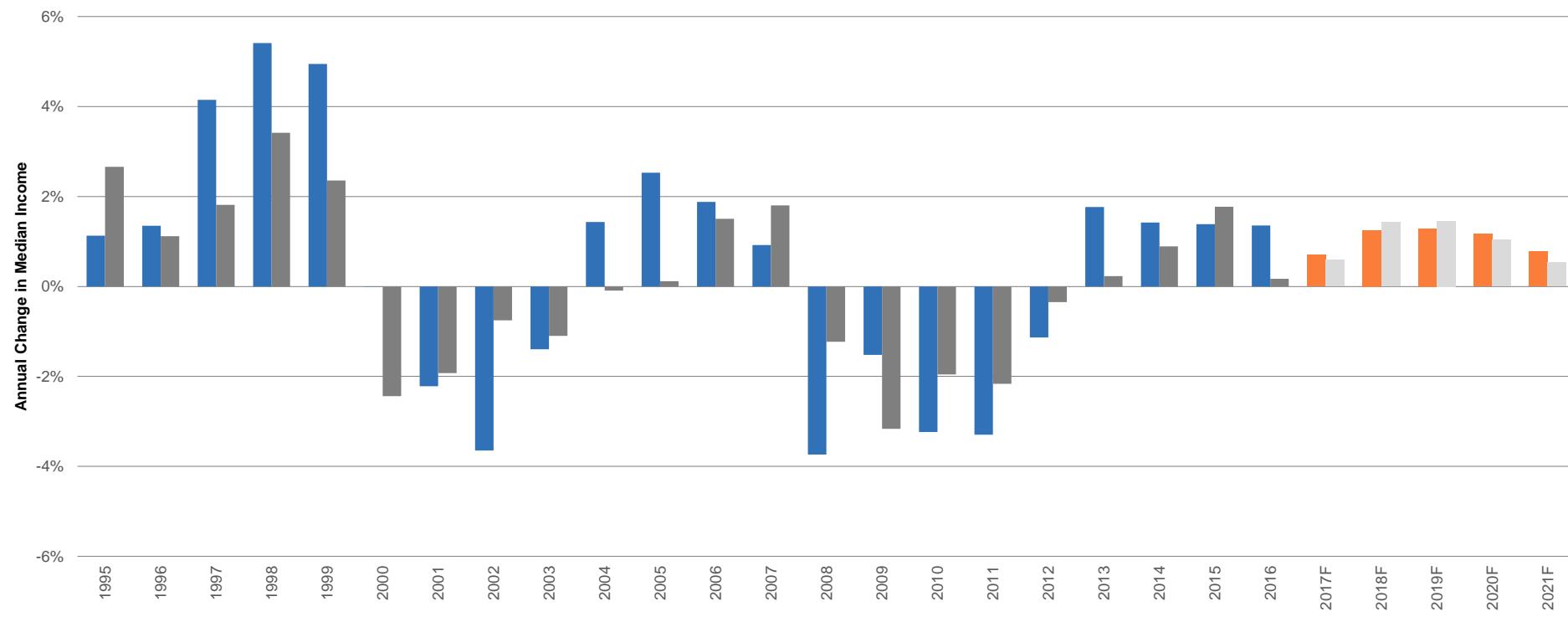


Source: Economy.com

Growing Incomes Expected Going Forward

Median income growth has been sensitive to changes in the direction of the economy in San Diego MSA declining more than the national median income levels in recession years and growing more than the national levels in years of economic expansion.

Median Income & Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Economy.com Five-Year Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Median Income	\$75,119	\$72,310	\$71,213	\$68,909	\$66,636	\$65,881	\$67,044	\$67,997	\$68,939	\$69,875	\$70,366	\$71,243	\$72,160	\$73,001	\$73,568
Annual % Change	0.9%	-3.7%	-1.5%	-3.2%	-3.3%	-1.1%	1.8%	1.4%	1.4%	1.4%	0.7%	1.2%	1.3%	1.2%	0.8%
Median Income - United States	\$60,703	\$59,958	\$58,060	\$56,924	\$55,694	\$55,500	\$55,627	\$56,122	\$57,117	\$57,214	\$57,550	\$58,372	\$59,218	\$59,833	\$60,154
Annual % Change	1.8%	-1.2%	-3.2%	-2.0%	-2.2%	-0.3%	0.2%	0.9%	1.8%	0.2%	0.6%	1.4%	1.5%	1.0%	0.5%

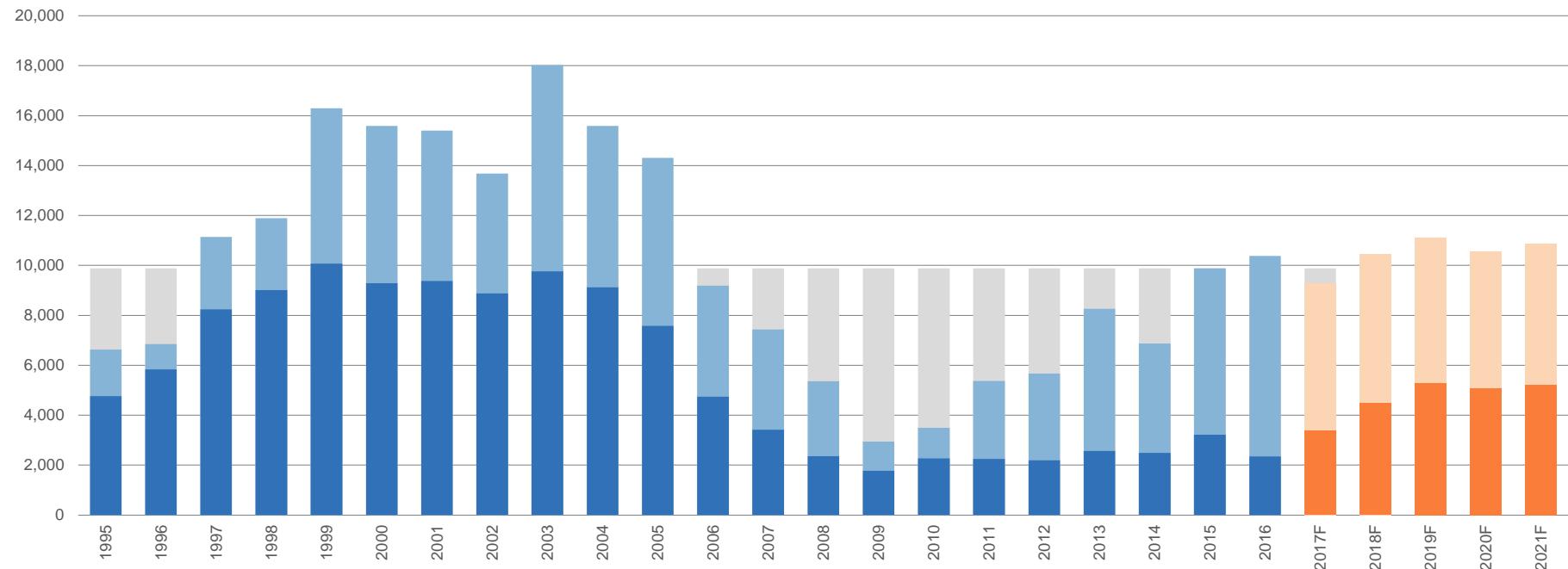


Source: Economy.com

Building Activity Stays at Long Run Levels Despite Declining Affordability

Residential Building Permit activity has been in a steady recovery reaching long term levels in 2015. Economy.com expects permit growth to stay at long run growth levels with Single Family permits becoming a larger share of overall activity.

Residential Building Permit History & Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Economy.com Five-Year Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Total Building Permits	7,435	5,357	2,946	3,494	5,370	5,666	8,264	6,875	9,883	10,382	9,286	10,458	11,116	10,577	10,870
Annual % Change	-19.1%	-27.9%	-45.0%	18.6%	53.7%	5.5%	45.9%	-16.8%	43.8%	5.0%	-10.5%	12.6%	6.3%	-4.8%	2.8%
SFD Building Permits	3,422	2,361	1,778	2,270	2,245	2,197	2,565	2,487	3,222	2,342	3,377	4,475	5,277	5,089	5,212
Annual % Change	-27.9%	-31.0%	-24.7%	27.7%	-1.1%	-2.1%	16.8%	-3.0%	29.6%	-27.3%	44.2%	32.5%	17.9%	-3.6%	2.4%
MF Building Permits	4,013	2,996	1,168	1,224	3,125	3,469	5,699	4,388	6,661	8,040	5,910	5,983	5,839	5,488	5,658
Annual % Change	-9.8%	-25.3%	-61.0%	4.8%	155.3%	11.0%	64.3%	-23.0%	51.8%	20.7%	-26.5%	1.2%	-2.4%	-6.0%	3.1%

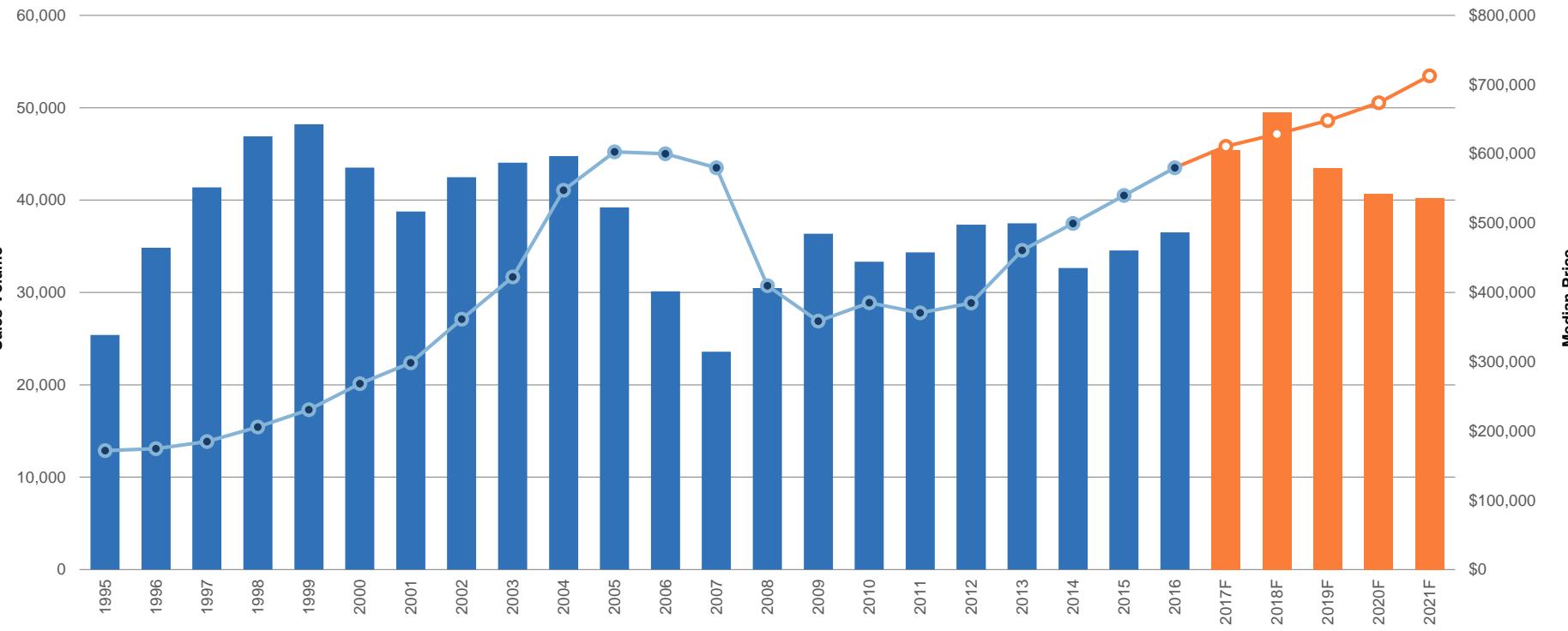


Source: Economy.com

Prices Set To Continue Appreciating

Existing Sales activity has advanced from the 2007 low and remained at a moderately lower level of activity than the early 2000's and late 1990's. Sales activity is expected to increase and remain at a level over the current level over the next 5 years. Median Sales Prices for existing homes are expected to advance over the next few years from \$579,921 to above \$700,000 by 2021.

Existing SFD History & Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Economy.com Five-Year Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Annual Existing SFD Sales	23,588	30,490	36,353	33,324	34,324	37,332	37,492	32,642	34,537	36,510	45,451	49,526	43,494	40,654	40,264
Prior Year Change	-21.7%	29.3%	19.2%	-8.3%	3.0%	8.8%	0.4%	-12.9%	5.8%	5.7%	24.5%	9.0%	-12.2%	-6.5%	-1.0%
Median Existing SFD Sales Price	\$579,999	\$409,665	\$358,631	\$385,207	\$370,651	\$384,769	\$460,715	\$499,547	\$539,848	\$579,921	\$610,839	\$628,635	\$648,163	\$674,029	\$712,549
Prior Year Change	-3.4%	-29.4%	-12.5%	7.4%	-3.8%	3.8%	19.7%	8.4%	8.1%	7.4%	5.3%	2.9%	3.1%	4.0%	5.7%

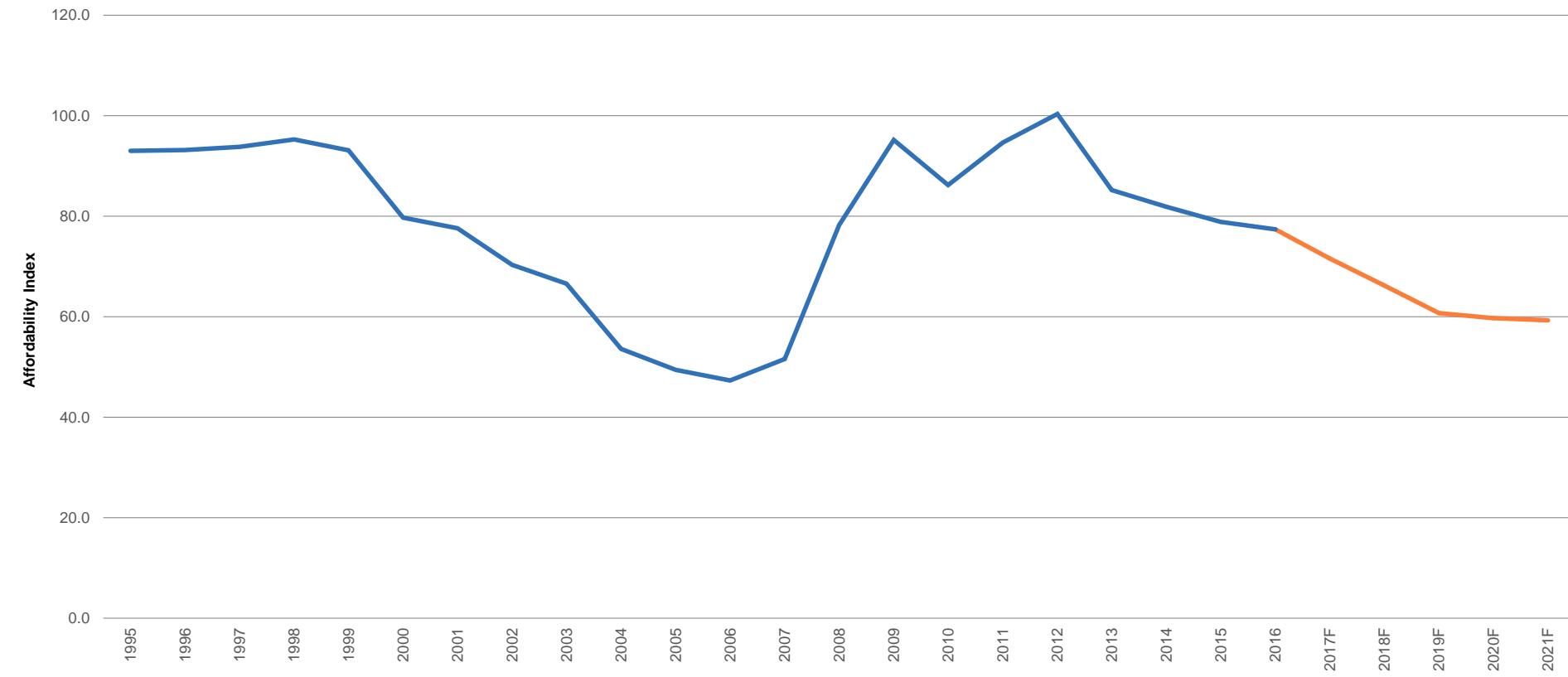


Source: Economy.com

Affordability Should Decline as Supply Struggles to Keep Pace

Affordability in San Diego MSA has been characteristically low ranging between 50 and 100. Affordability peaked in San Diego in 2012 and has been in decline led by median home prices increasing faster than median incomes. This trend is expected to continue over the next 5 years.

Affordability Index w/ Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Economy.com Five-Year Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Affordability Index	51.6	78.3	95.2	86.2	94.7	100.3	85.2	81.9	78.9	77.4	71.6	66.2	60.7	59.7	59.3



Source: Economy.com

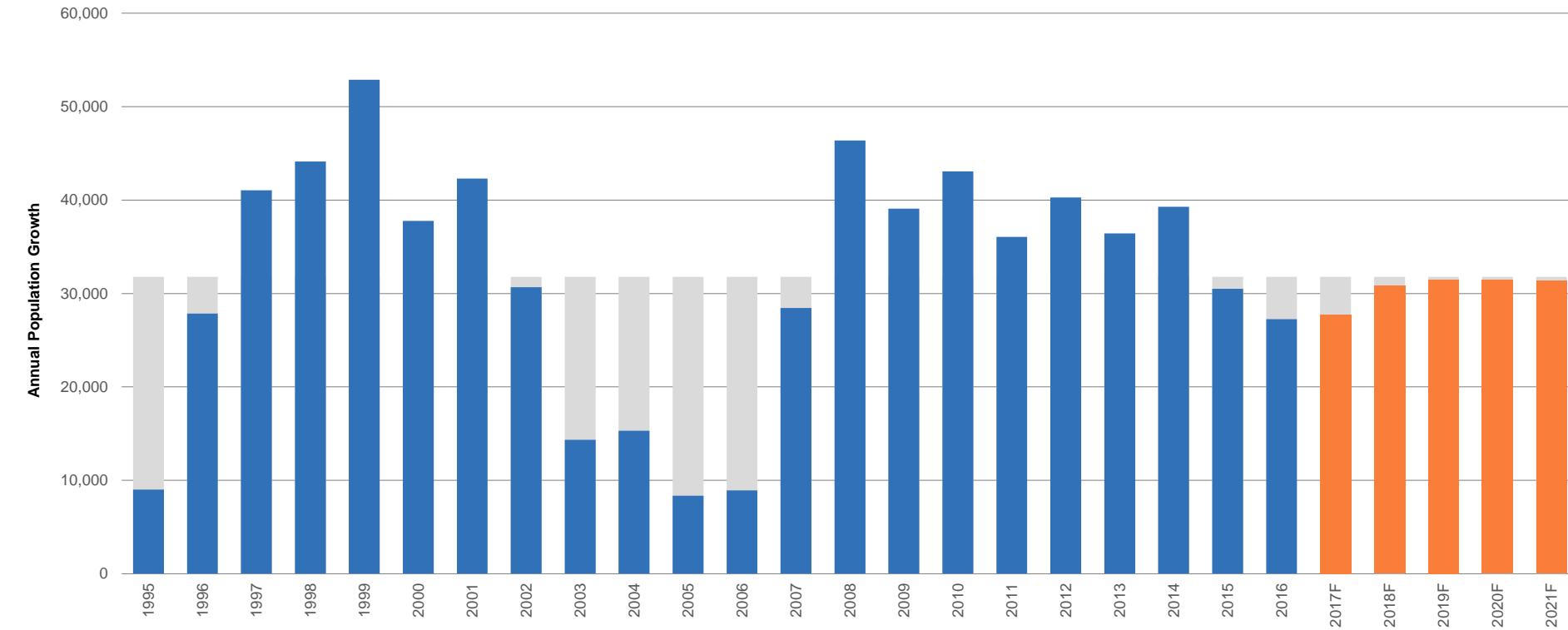
Demographic Overview

Discovery Village South, San Marcos, California

Long Term Population Growth Supports Continued Development

Population levels in the San Diego MSA surpassed 3,250,000 in 2014. Population growth is expected to continue at a pace of roughly 30,000 persons per year over the next 5 years on par with the long term rate of population growth.

Population History & Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Economy.com Five-Year Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Total Population	2,975,742	3,022,116	3,061,203	3,104,270	3,140,324	3,180,594	3,217,022	3,256,315	3,286,803	3,314,060	3,341,807	3,372,621	3,404,128	3,435,569	3,466,933
Prior Year Change	28,453	46,374	39,087	43,067	36,054	40,270	36,428	39,293	30,488	27,257	27,747	30,814	31,507	31,441	31,364
Annual % Change	1.0%	1.6%	1.3%	1.4%	1.2%	1.3%	1.1%	1.2%	0.9%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%

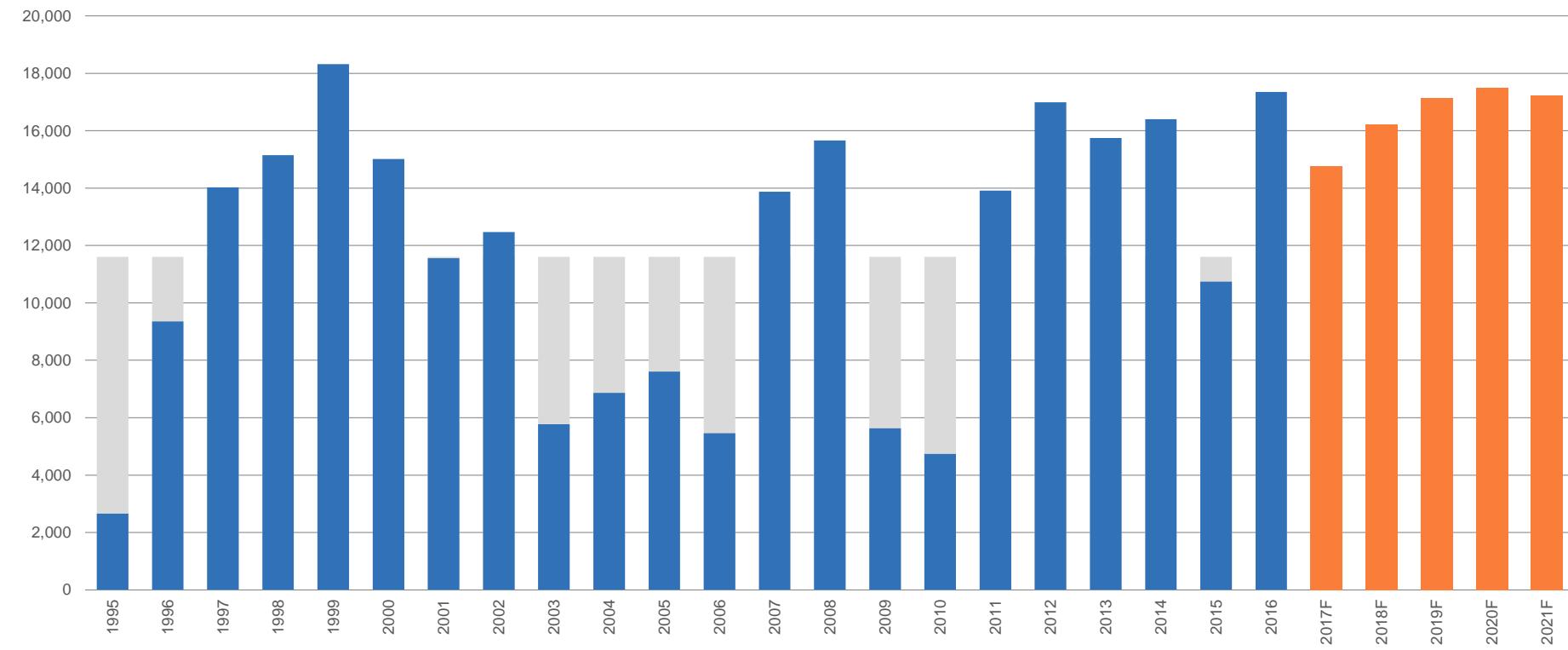


Source: Economy.com

Faster Household Growth in the San Diego MSA Supports New Development

Household growth has been in an expansionary period over the last 6 years with 5 out of 6 years experiencing household growth above the long term average. Economy.com expects this trend to continue over the next 5 years as economic conditions improve and population expands in the MSA.

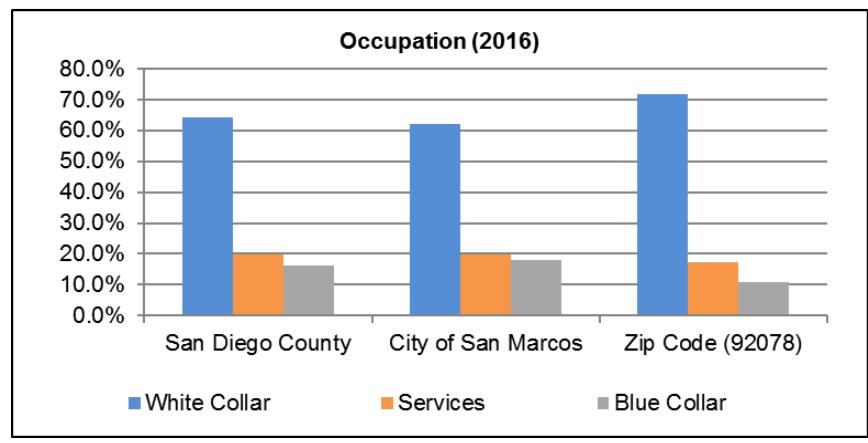
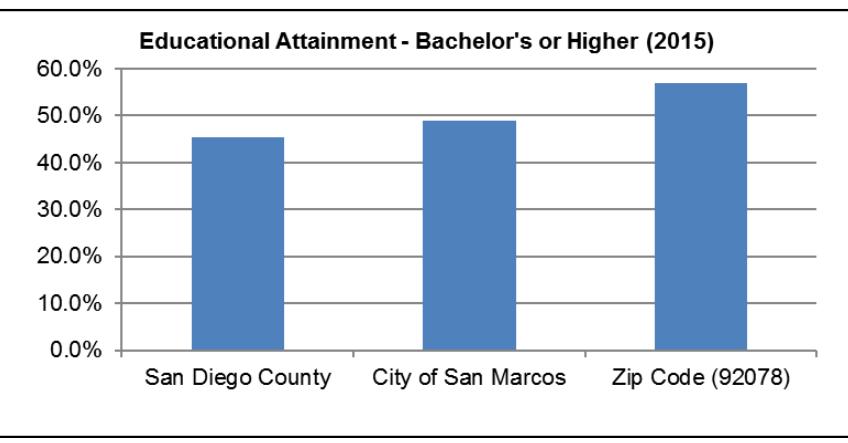
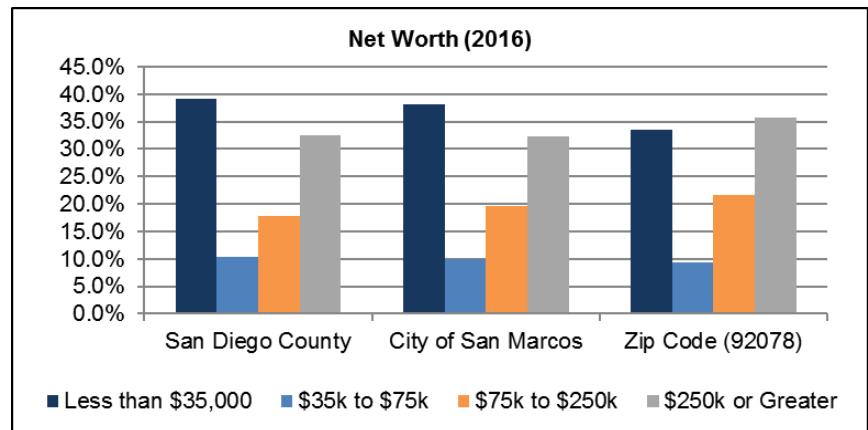
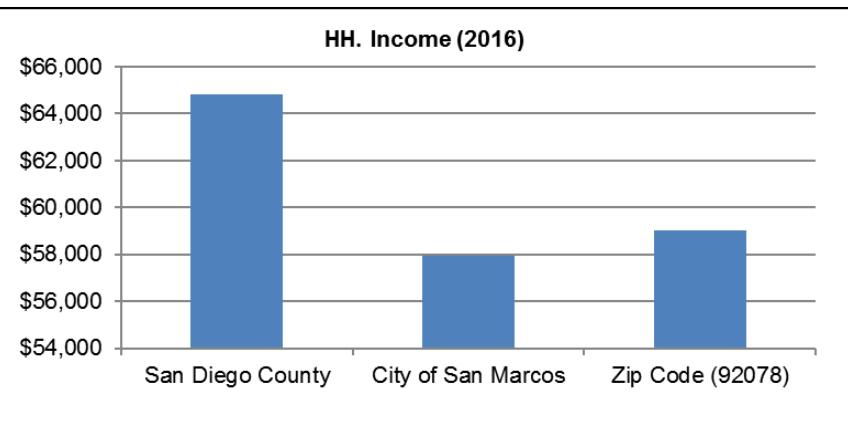
Household History & Forecasts	San Diego-Carlsbad, CA Metropolitan Statistical Area - Ten Year History										Economy.com Five-Year Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Total Households	1,065,177	1,080,843	1,086,472	1,091,210	1,105,124	1,122,116	1,137,867	1,154,270	1,165,010	1,182,363	1,197,119	1,213,339	1,230,487	1,247,979	1,265,209
Prior Year Change	13,878	15,666	5,629	4,737	13,914	16,992	15,751	16,403	10,740	17,353	14,756	16,220	17,148	17,492	17,230
Annual % Change	1.3%	1.5%	0.5%	0.4%	1.3%	1.5%	1.4%	1.4%	0.9%	1.5%	1.2%	1.4%	1.4%	1.4%	1.4%



Source: Economy.com

Income, Net Worth, Education and Occupation

The Subject ZIP code 92078 has a slightly higher household income than the City of San Marcos as a whole. The 92078 ZIP code also has a higher average net worth than the City of San Marcos and San Diego County, with a higher concentration of white collar workers. The financial buyer profile of the residents in this area suggest that the proposed product and price point would be well suited to the local population in terms of size and affordability.



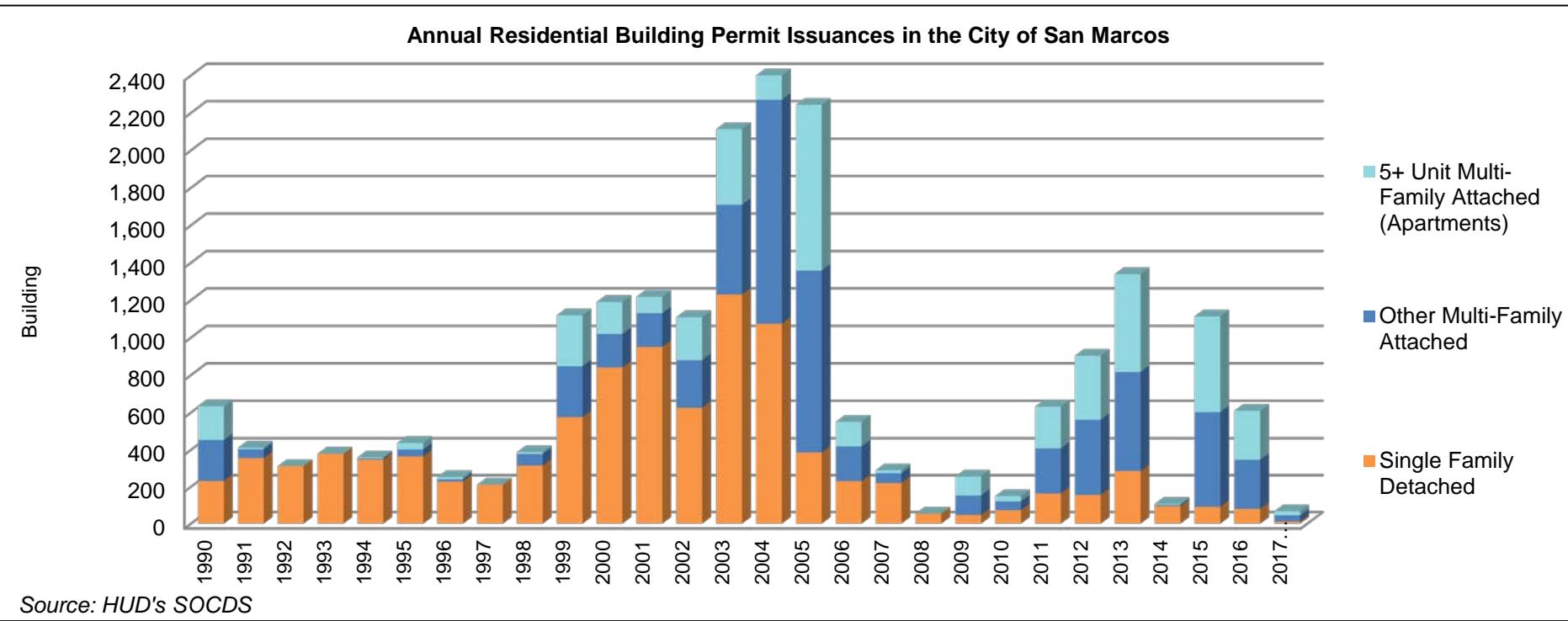
Source: ESRI

Housing Market Overview

Discovery Village South, San Marcos, California

City of San Marcos Building Permits

Following years of declines, the City of San Marcos experienced positive building permit growth in 2014, 2015 and 2016. 2014 was a slow year for building permits, but the 2015 shows a strong recovery especially for Multi-Family permits. This trend is further supported by the Economy.com forecast, which estimates that permit issuance will increase by more than 13.5% annually between 2017 and 2018. The number of multi-family building permits relative to total permits processed is increasing as the affordability of attached product becomes more attractive to buyers.

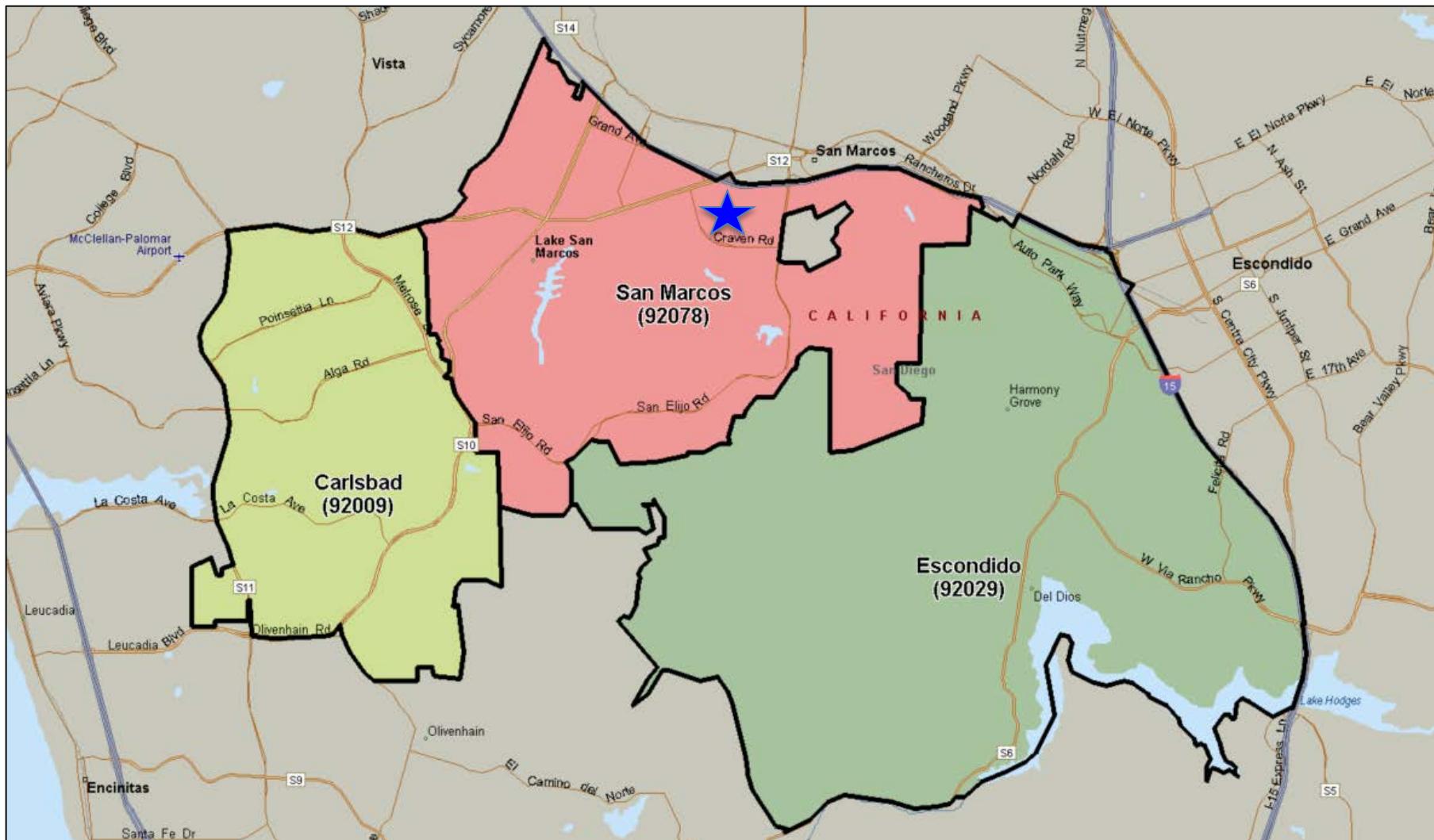


Source: HUD's SOCDS

City of San Marcos	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD
Single Family Detached	231	355	312	379	347	364	228	211	315	575	840	950	625	1,230	1,074	385	230	220	54	47	73	163	155	285	95	91	80	11
All Unit Multi-Family Attached	222	48	0	0	6	38	12	0	62	272	179	180	254	479	1,196	973	188	53	0	105	47	244	406	531	6	511	266	34
Total	453	403	312	379	353	402	240	211	377	847	1,019	1,130	879	1,709	2,270	1,358	418	273	54	152	120	407	561	816	101	602	346	45
% Capture SFD	51.0%	88.1%	100.0%	100.0%	98.3%	90.5%	95.0%	100.0%	83.6%	67.9%	82.4%	84.1%	71.1%	72.0%	47.3%	28.4%	55.0%	80.6%	100.0%	30.9%	60.8%	40.0%	27.6%	34.9%	94.1%	15.1%	23.1%	24.4%
% Capture MFA	49.0%	11.9%	0.0%	0.0%	1.7%	9.5%	5.0%	0.0%	16.4%	32.1%	17.6%	15.9%	28.9%	28.0%	52.7%	71.6%	45.0%	19.4%	0.0%	69.1%	39.2%	60.0%	72.4%	65.1%	5.9%	84.9%	76.9%	75.6%
5+ Unit Multi-Family Attached	180	8	0	0	6	35	12	0	10	272	171	88	230	404	1,140	885	132	16	0	103	29	224	342	523	6	511	263	22
% Capture	81.1%	16.7%	-	-	100.0%	92.1%	100.0%	-	16.1%	100.0%	95.5%	48.9%	90.6%	84.3%	95.3%	91.0%	70.2%	30.2%	-	98.1%	61.7%	91.8%	84.2%	98.5%	100.0%	100.0%	98.9%	64.7%

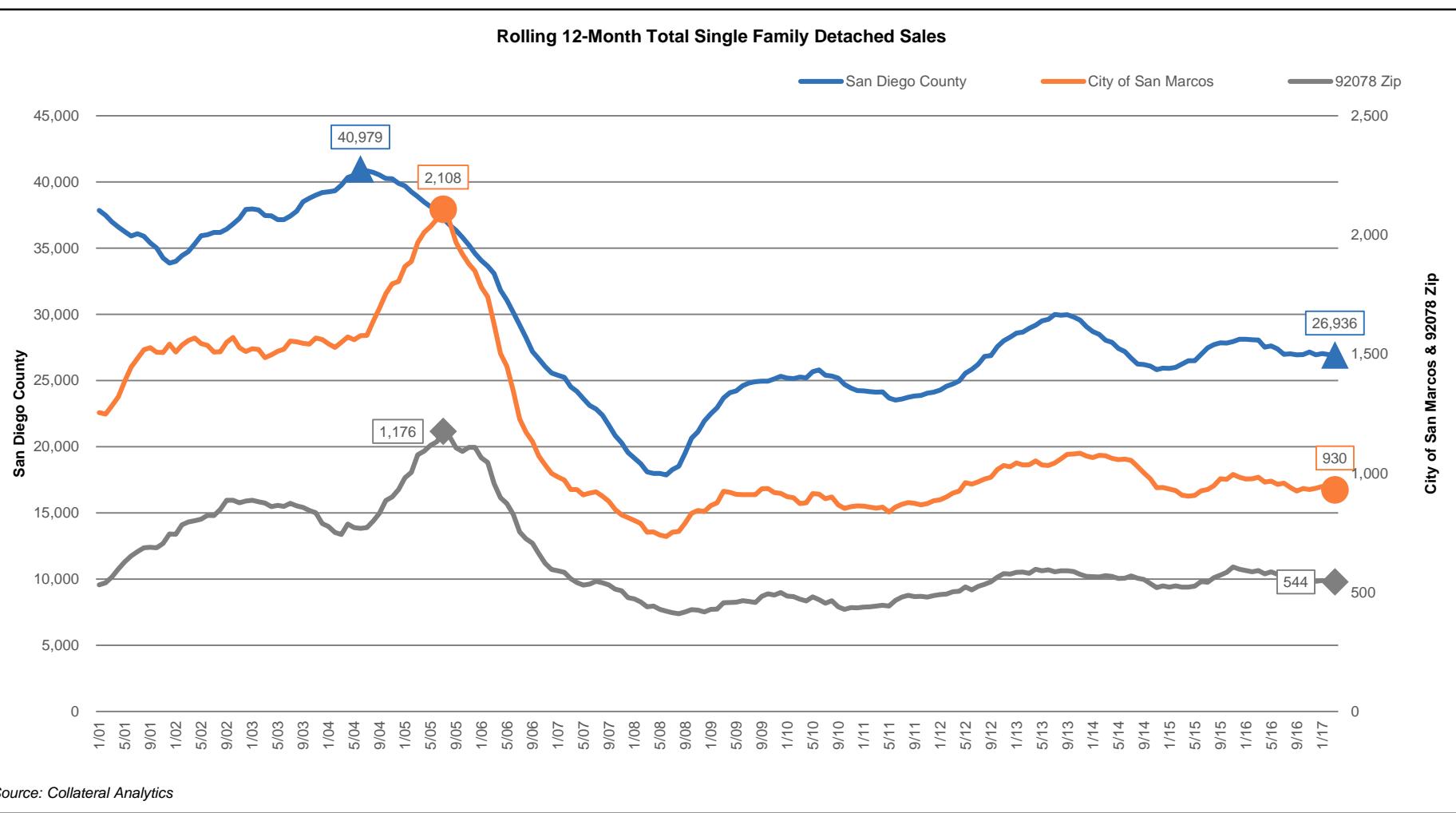
Submarket ZIP Code Map

The following Housing Market Overview provides sales and pricing trends for single family homes in San Diego County, specific comparable North County inland ZIP codes, which include Carlsbad (92009), Escondido (92029, includes Harmony Grove), and San Marcos (92078).



Single Family Detached Sales Volume by Area

In general, sales volume for detached single family homes has decreased back to 2012/2013 levels owing to a strong seller's housing market and limited inventory. Sales volume in San Diego County decreased by almost 10% over sales volumes at the same time last year, while the City of Marcos and the 92078 ZIP code show similar trends, both having decreased slightly over the last two years.



Single Family Detached Sales Price Trends (Average Price)

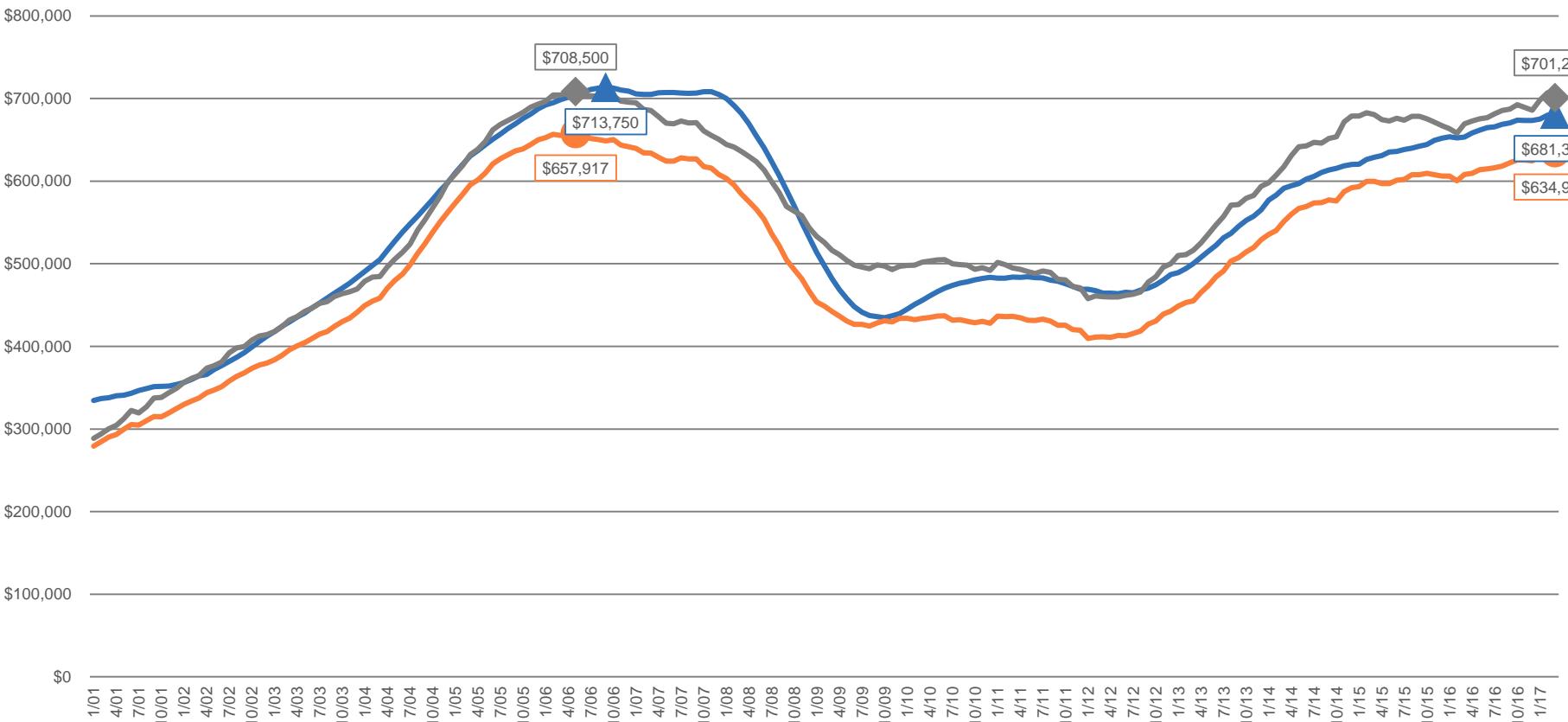
The average price for detached homes in San Diego County has increased by about 4% since the same time last year. Prices in the Subject ZIP code has increased by 5% in the last year and is 10% above prices in the City of San Marcos.

Rolling 12-Month Total Single Family Detached Price

San Diego County

City of San Marcos

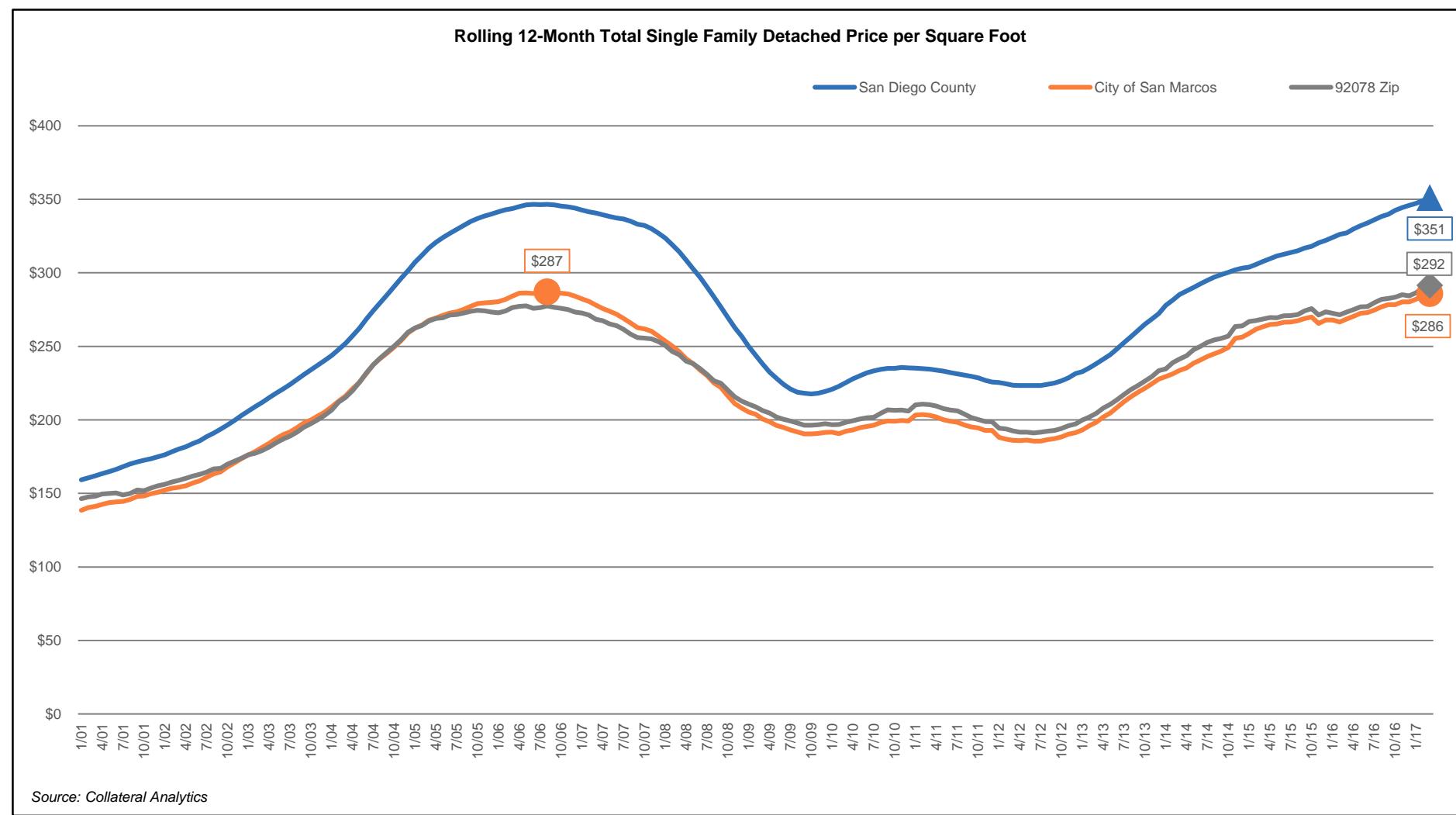
92078 Zip



Source: Collateral Analytics

Single Family Detached Sales Price Trends (Price per SF)

The price per square foot for detached single family homes has increased by 7% across San Diego County, Subject ZIP code, and in the city of San Marcos in the last twelve months. Price per square foot for detached product in the City of San Marcos are at 2006 prices.



Single Family Detached Sales by Price Range

The detached product pricing at the Subject ranges from the low \$600's to about mid \$800's. The volume of single family detached sales in San Diego County in the price bands over \$500,000 has been increasing steadily since 2011. Conversely, the number of sales occurring in the lower price bands under \$400,000 has decreased, and the accompanying table shows a steady price shift from lower into higher price brackets since 2012.

Home Sales by Price Range: San Diego County												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
< \$200k	264	236	1,609	3,736	2,127	2,456	2,352	1,239	673	518	351	98
\$200 - \$299k	499	617	3,935	5,534	5,062	5,674	5,880	3,439	1,974	1,587	1,007	151
\$300 - \$399k	1,618	2,094	5,185	5,747	5,798	5,704	7,135	6,636	5,339	4,749	3,375	658
\$400 - \$499k	5,648	4,274	3,671	3,518	3,587	3,457	4,254	5,733	5,541	6,400	6,404	1,323
\$500 - \$599k	5,322	3,482	2,183	2,212	2,431	2,023	2,519	3,415	3,582	4,573	4,972	1,027
\$600 - \$699k	3,578	2,449	1,555	1,498	1,655	1,426	1,892	2,489	2,482	2,908	3,311	693
\$700 - \$799k	2,504	1,770	1,047	903	1,158	975	1,324	1,813	1,647	1,881	2,037	468
\$800 - \$899k	1,718	1,235	709	620	691	659	770	1,143	1,148	1,338	1,406	285
\$900 or Greater	1,077	707	395	322	343	356	440	718	747	845	830	198
Total	22,228	16,864	20,289	24,090	22,852	22,730	26,566	26,625	23,133	24,799	23,693	4,901
% Change	-24.1%	20.3%	18.7%	-5.1%	-0.5%	16.9%	0.2%	-13.1%	7.2%	-4.5%		

The majority of the sales volume for detached product in the City of San Marcos occurred at prices below \$400,000 from 2008-2012. The table illustrates the recent shift upward in price trends for detached product in San Marcos in the last 2.5 years, with the majority of sales priced between \$650,000 greater price range since 2013 to 2017 YTD. The recommended average base pricing for the Subject detached product is between \$600,000 and \$800,000, which is in line with the market for new product.

Home Sales by Price Range: City of San Marcos												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
< \$300k	10	5	139	182	160	188	168	53	30	16	18	4
\$300 - \$349k	8	9	91	89	122	123	124	78	45	29	8	2
\$350 - \$399k	12	30	104	144	111	141	176	111	71	50	42	4
\$400 - \$449k	32	54	99	119	120	144	118	139	93	86	68	9
\$450 - \$499k	101	95	91	69	80	70	90	112	94	110	111	13
\$500 - \$549k	143	121	74	95	79	74	94	131	124	129	102	19
\$550 - \$599k	141	111	64	69	75	52	97	102	92	108	116	19
\$600 - \$649k	121	96	66	70	51	34	53	100	91	104	104	15
\$650 or Greater	431	293	111	78	65	58	107	246	300	351	368	82
Total	999	814	839	915	863	884	1,027	1,072	940	983	937	167
% Change	-18.5%	3.1%	9.1%	-5.7%	2.4%	16.2%	4.4%	-12.3%	4.6%	-4.7%		

The majority of the sales volume for detached product in the 92078 ZIP code occurred at prices between \$600,000 and \$800,000 from 2014 to 2017 YTD, which is consistent with the pricing at the Subject.

Home Sales by Price Range: 92078 Zip												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
< \$200k	3	2	7	14	7	10	11	1	3	2	7	0
\$200 - \$299k	1	1	28	23	37	45	41	11	5	6	3	1
\$300 - \$399k	6	14	37	85	68	115	108	55	30	32	14	5
\$400 - \$499k	38	56	84	101	97	127	115	103	69	60	56	7
\$500 - \$599k	108	92	103	148	125	115	161	114	83	129	94	13
\$600 - \$699k	140	143	102	102	82	50	88	124	127	120	112	16
\$700 - \$799k	159	97	39	20	16	17	36	84	87	123	110	35
\$800 - \$899k	94	48	11	4	2	2	10	51	64	52	72	16
\$900 or Greater	47	25	7	2	1	5	6	24	59	73	78	10
Total	596	478	418	499	435	486	576	567	527	597	546	103
% Change	-19.8%	-12.6%	19.4%	-12.8%	11.7%	18.5%	-1.6%	-7.1%	13.3%	-8.5%		

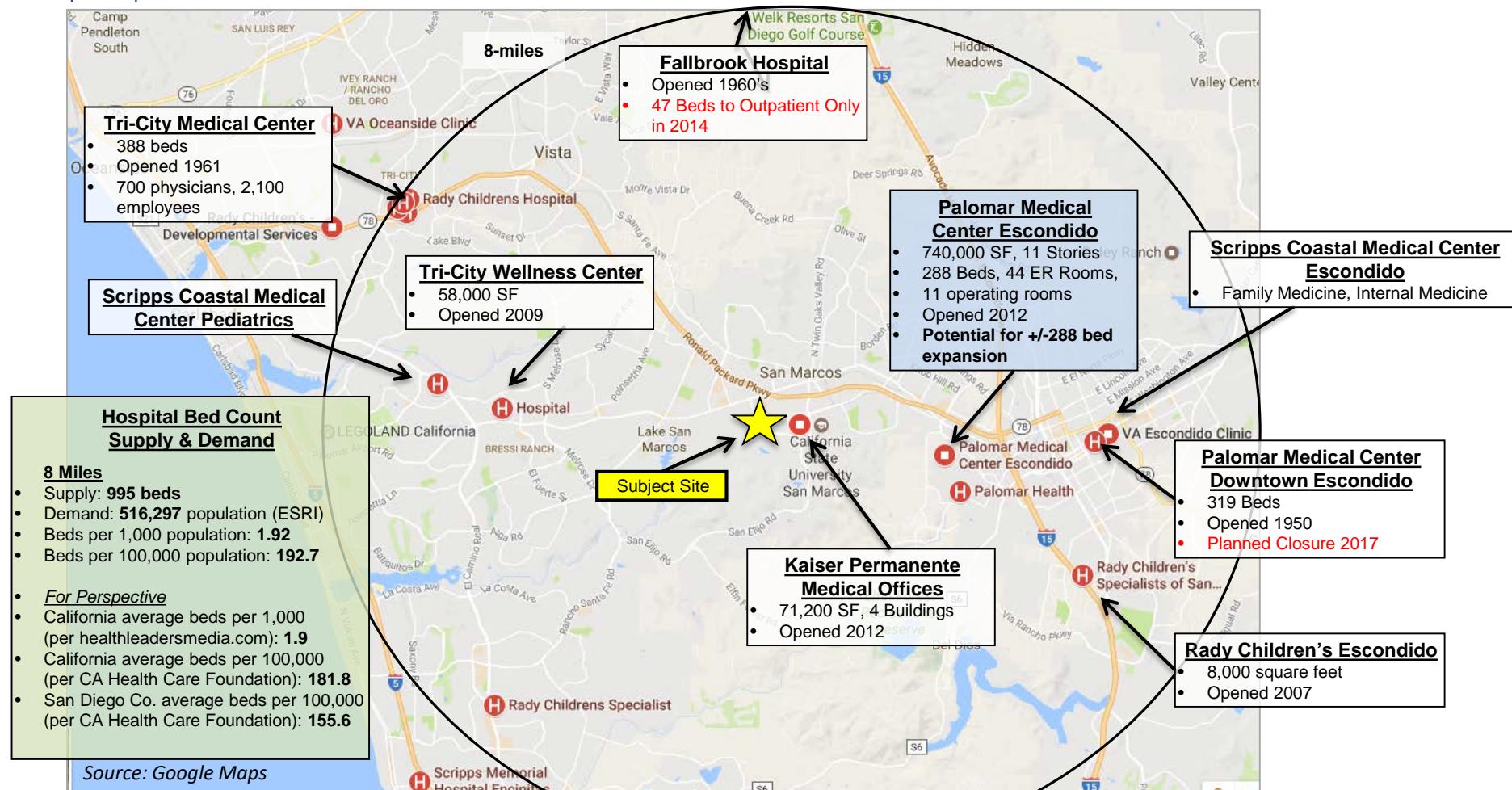
Hospital and Health Care Overview

Discovery Village South, San Marcos, California

Several Hospitals/ Medical Centers Exist Near Site

The locations of major hospitals and other medical facilities near the Discovery Village site are shown below. Within an eight mile radius of the Site (extending to the Pacific Ocean to the west), there are a total of 995 hospital beds as well as two major primary care/ urgent care centers and other medical care facilities.

This bed count is more than the average bed-to-population ratio in California and San Diego County (see table below). Based on this level of supply locally, there does not appear to be a great need for additional hospitals or medical centers at the site. It is important to note that existing hospitals have room for expansion, such as Palomar Medical Center Escondido, with 288 total rooms/ beds currently and room to expand to double the current bed count, according to hospital representatives.



San Diego County Hospital and Outpatient Facility Valuation

There have been several hospital and medical outpatient expansions since 2008. Average price per square foot for hospitals is \$1,343, while outpatient facilities average \$723 per square foot. Property taxes are not levied on Palomar and Tri-City, as these are State charter hospitals.

No.	Property Name / Address	# Rooms	Sq. Ft.	Healthcare Provider	Year Built	Property Tax	Tax Rate	% of Cost	Acreage	Land	Improvements	Development Cost	PP Room	Price/SF	Sale Date/Price	Price/Acre
1	Escondido Palomar Medical Center Escondido	360	740,000	Palomar Health	2012				52.0	35,000,000	89,900,000	934,000,000	\$2,594,444	\$1,262		\$673,077
2	Kaiser Permanente Medical Center Kearny Mesa	450	617,000	Kaiser	2016	7,144,615	1.17%	0.71%	19.4	115,811,651	550,730,000	1,000,000,000	\$2,222,222	\$1,621	12/30/2013	\$2,956,940 \$57,305,500
3	Scripps Encinitas Critical Care Encinitas	63	61,643	Scripps	2014	250,915	1.05%	0.27%	3.1	2,387,902		94,000,000	\$1,492,063	\$1,525		\$770,291
4	Scripps Health Radiation Center La Jolla 2176 Salk Ave	215	41,000	Scripps	2012				8.0			43,900,000	\$204,186	\$1,071		
5	Sharp Chula Vista Chula Vista	138	197,000	Sharp	2017		1.12%		0.8			244,000,000	\$1,768,116	\$1,239		
		245	331,329		2014											\$1,466,769
6	Scripps Clinic Rancho Bernardo Rancho Bernardo 15004 Innovation Drive	146,000		Scripps	2008	763,188	1.11%	1.11%	3.1	6,500,000	62,500,000	69,000,000				\$2,124,183
7	Scripps Coastal Medical Center Carlsbad 2176 Salk Ave	40,400		Scripps	2008	123,147	1.06%	1.06%	3.5	1,513,440	10,103,731	11,617,171				\$436,150
8	John R Anderson V Medical Pavilion La Jolla	175,000		Scripps	2016				3.0			130,000,000				\$743
9	Ramona Ambulatory Care Ramona	7,600		Palomar Health	2013				3.0			4,500,000				\$592
10	Kaiser Permanente Medical Office San Marcos 400 Craven Drive	71,200		Kaiser	2012	695,647	1.12%	1.09%	28.2	14,190,315	76,389,294	64,000,000				\$899 \$502,846
		128,588			2012											\$1,021,060
11	Discovery Hills - Subject San Marcos			Scripps	1990	145,634			80.5	12,888,000					1990	\$160,139
					1990											\$160,139
Min		63	40,400		2008		0					4,500,000	204,186	287.55	0	
Max		450	740,000		2017		0					1,000,000,000	2,594,444	1,620.75	0	
Average		245	225,071		2013		0					259,501,717	1,656,206	971.11	0	

North County San Diego New Construction Medical Facilities

The Kaiser Permanente San Marcos Outpatient Center at 400 Craven Road provides more services than a typical medical office building, but less than a traditional hospital. The centrally located entry lobby interconnects the second phase buildings with those completed in the first phase of the project. The final 71,794 square foot phase was completed in 2013 at an estimated cost of \$30 million, bringing the total cost to \$95 million.

PHASE	YR COMPLETE	SF	COST
1	2000	35,000	\$15,000,000
2	2005	130,000	\$25,000,000
3	2010	120,000	\$25,000,000
4	2013	71,800	\$30,000,000
		356,800	\$95,000,000



Escondido Palomar Medical Center:

The 11-story, \$934 million Palomar Medical Center is owned by Palomar Health, a public hospital district that serves an 800-square-mile region of inland North County. The 740,000 SF 288-bed facility is the first new standalone hospital in north County in several years. Once the top floors are put to use, the hospital will be able to accommodate 360 beds, and the 52-acre property is sizable enough to add wings in future decades to total approximately 570 beds. Palomar spent \$35 million on the land, \$19 million on road improvements, and \$68 million on a power plant for the facility. The hospital has 4,000 employees, 800 affiliated physicians serving 540,000 north county residents, and an annual operating budget of \$504 million.



Sharp Rees-Stealy Medical Center:

This new Rancho Bernardo facility opened in February 2017 with a 100,000 square foot three-story building and 4-level parking structure on a 3.5 acre parcel at 16899 W. Bernardo Drive. The medical center includes a much-needed Urgent Care facility, laboratory, pharmacy, travel clinic, radiology, and optical shop as well as primary and specialty care physicians.

North County San Diego New Construction Medical Facilities

Tri-City Medical Center in Oceanside received a \$85 million HUD loan in March 2017 freeing up about \$51 million of cash to begin the first phase of renovation including building a new parking structure. The second phase will be to change the position of the entrance to the hospital and the third phase will be to build a new emergency department. The district may have to go back to HUD for more financing for the seismic upgrades, as the total renovation cost including seismic work is estimated at \$190 million.



Scripps Coastal Medical Center opened in October 2008 as Scripps Health's first medical offices in Carlsbad. Located at 2176 Salk Ave., the new 40,400-square-foot Carlsbad medical site was developed by H.G. Fenton Company at a cost of \$4.5 million.



Scripps Memorial Hospital Encinitas has recently expanded its 194 bed facility, adding a \$94 million 61,643-square-foot Critical Care Building that opened in 2014. A four-level parking structure was also added to meet the region's steadily increasing demand for health care services. The new structure has more than doubled the size of the hospital's emergency department with 27 emergency room beds and added another 36 medical-surgical beds on its second floor.



Scripps Clinic Rancho Bernardo opened a 146,000 square-foot outpatient facility in September 2008 at 15004 Innovation Drive. The six-story clinic is across the street from Scripps' current Rancho Bernardo clinic, located at 15025 Innovation Drive. The expansion includes new technology enhancements such as a high-tech, fully-digital imaging center, including digital mammography; expanded urgent care and primary care services; on-site ambulatory surgery; and improved parking. More than 80 physicians and 250 employees practice at the new Rancho Bernardo facility



San Marcos Office Leases & Pricing

Discovery Village South, San Marcos, California

Medical Office Uses at Discovery Village Valued at \$213M to \$223M

Based on our research, including market trends, sales comparables, commercial buildings for lease and conservations with broker representatives, we conclude that the development of medical office buildings (Class A office with medical suites for lease) could command a value of approximately \$213 million (\$275 per square foot) based on recent sales comparables, or \$223,250,000 (\$288 per square foot). These values are based on two methods of calculating value: a net operating income and cap rate approach, as well as a sales transaction (comps) approach.

However, these are hypothetical values only and not market driven—large scale medical office development such as outlined in the land plan is not supportable. Development market conditions are soft for office space in the San Marcos/ Highway 78 corridor, with relatively high vacancy rates and low lease rates. Demand for new medical office buildings is limited in the local submarket, and any potential development would occur in phase and require several years (decades) to support this level of square footage.

Net Operating Income/ Cap Rate Valuation Approach											
Type	Square Feet	Estimated Monthly Lease Rate Per SF (NNN)*	Estimated Annual Lease Rate Per SF (NNN)*	Annual Lease Revenue	Minus Stabilized Vacancy Rate	Minus Marketing, Commissions, Legal, Etc.		Minus Property Taxes (Office Bldg.)	Vacancy and Credit Loss	Total Estimated Annual Revenues	Cap Rate (%)
						Stabilized Vacancy Rate	Commissions, Legal, Etc.				
Medical Office	776,000	\$2.50	\$30.00	\$23,280,000	-15.0%	-12.0%		(\$250,000)	(\$6,285,600)	\$16,744,400	7.50%
TOTAL	776,000	\$2.50	\$30.00	\$23,280,000	-15.0%	-12.0%	--		(\$6,285,600)	\$16,744,400	--
<i>*Assumes all real estate property taxes, insurance, management fees (on or off-site), repairs and maintenance, and utilities are paid by tenant under a Triple Net lease.</i>											

Sales Transaction Valuation Approach			
Type	Square Feet	Price Per Square Foot	Total Value
Medical Office	776,000	\$275.00	\$213,400,000
TOTAL	776,000	\$275.00	\$213,400,000

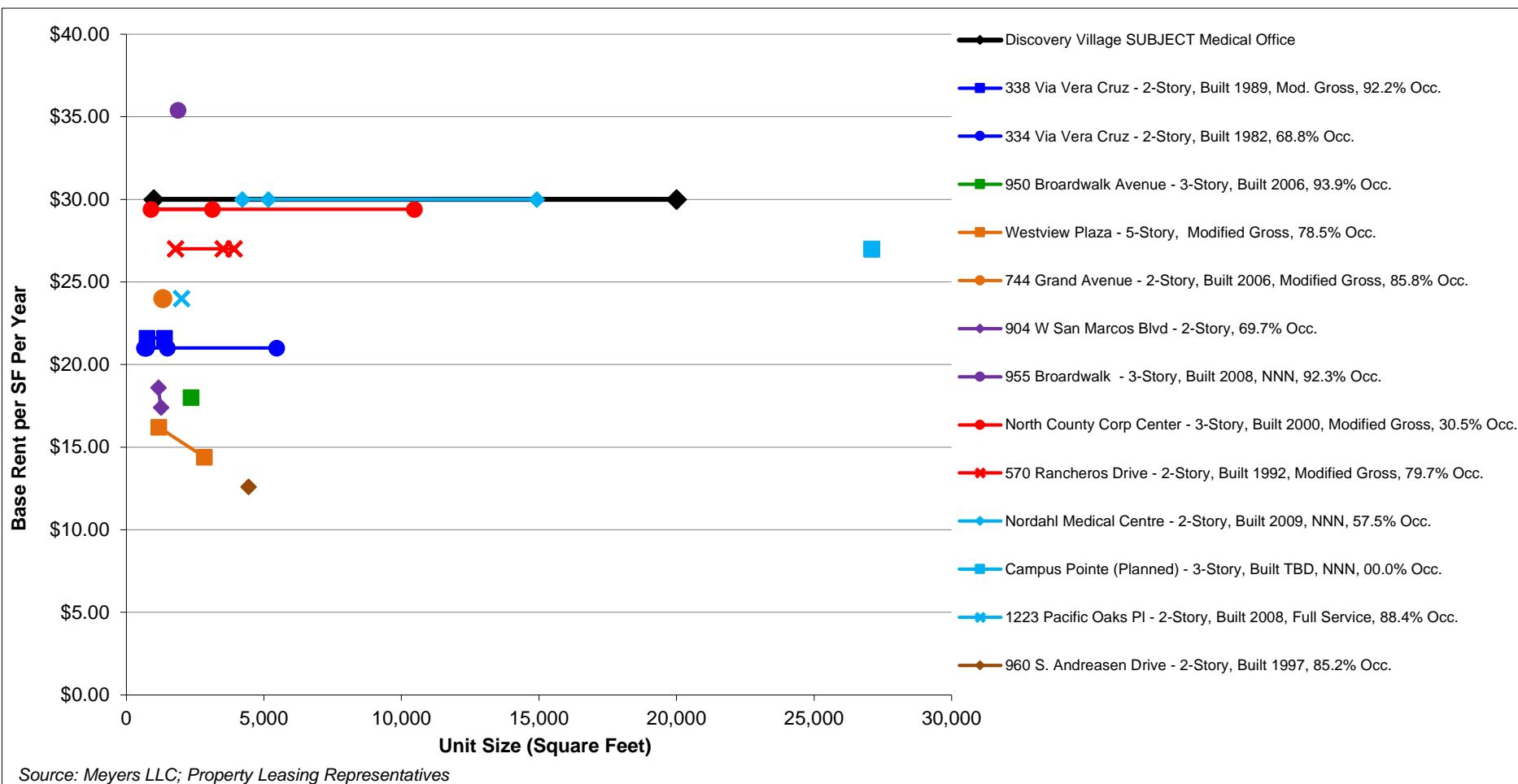
Office Sales Transactions Average \$306/ SF, Cap Rate 7.45%

No.	Property Name Address	Buyer	Seller	Year Built	Type	Square Feet	Sale Price	Price/ SF	Cap Rate	Sale Date
1	Paseo Palomar 3220 Executive Ridge 3220 Executive Ridge Vista, CA 92083	Galardo Family Trust	RREF II Palomar LLC Rialto Capital Mgmt	1999	Office	60,000	\$12,800,000	\$213.33	8.8%	2/17/2017
2	Park Place 904-920 W San Marcos Blvd. San Marcos, CA 92078	SM Park Place LLC	San Marcos Park Place LLC	1979/2000	Office	33,178	\$4,500,000	\$135.63	11.2%	1/1/2017
3	6405 El Camino Real 6405 El Camino Real Carlsbad, CA 92009	Grays River LLC	Travel Center Inc	1982	Office	12,763	\$3,770,000	\$295.39	5.5%	10/17/2016
4	ViaSat Campus - Bldg. 7 2530 Campbell Place Carlsbad, CA 92009	Testa Family LP II	Corsair Management	2009	Office	41,516	\$13,000,000	\$313.13	9.0%	7/26/2016
5	2020 Cassia Rd 2020 Cassia Rd Carlsbad, CA 92009	Midwest Investment Properties LLC	Amherst Properties Inc.	2007	Office	6,350	\$4,500,000	\$708.66	--	3/2/2016
6	Palomar Terrace 3115 Melrose Dr Carlsbad, CA 92010	Carlsbad Palomar LLC	HR Melrose LLC	2007	Office	105,950	\$24,047,000	\$226.97	6.3%	12/23/2015
7	Forum at Carlsbad 3207 Greyhawk Ct Carlsbad, CA 92010	Carlsbad Forum LLC	Regent Properties	2006	Office	74,950	\$18,787,000	\$250.66	3.9%	12/23/2015
						Min	6,350	\$3,770,000	\$135.63	3.90%
						Max	105,950	\$24,047,000	\$708.66	11.20%
						Total	334,707	--	--	--
						Average	47,815	\$11,629,143	\$306.25	7.45%

Source: Broker representatives, CoStar, Loopnet

Suggested Lease Rate of \$30/SF/Yr. for Medical Office

Our suggested lease rates for medical office space at Discovery Village is \$30.00 per square foot per year, or \$2.50 per square foot per month. This lease rate is near the top of the market (given an expected premium for new construction) and on par with Nordahl Medical Centre—we are cautious to push rents beyond this level considering this building is only 57.5% occupied.



Source: Meyers LLC; Property Leasing Representatives

Source: Broker representatives, Loopnet

Office Lease Comparables

OFFICE BUILDING AND LEASING DETAILS			MIX	COMPETITIVE MARKET PRICING SUMMARY									
Project Name <u>Location</u>	Management Address	Product Details	Size SF	Asking Rents (Annual)			Annual \$/SF						
				Low	-	High	Average	Low	-	High			
338 Via Vera Cruz San Marcos	Pacific Rim 338 Via Vera Cruz		1	1,385	\$29,916	-	\$29,916	\$29,916	\$21.60	-	\$21.60	\$21.60	
Product: Class B	Total SF: 27,391		1	752	\$16,243	-	\$16,243	\$16,243	\$21.60	-	\$21.60	\$21.60	
Building Stories: 2-Story	Total Leased SF: 25,254												
Parking (Included): Surface	Vacant SF: 2,137												
Year Built: 1989	Occupancy %: 92.2%												
	Terms: Mod. Gross												
Totals/Averages:				2	1,069	\$23,080	-	\$23,080	\$23,080	\$21.60	-	\$21.60	\$21.60
334 Via Vera Cruz San Marcos	Crushman & Wakefield 334 Via Vera Cruz		1	5,461	\$114,681	-	\$134,341	\$124,511	\$21.00	-	\$24.60	\$22.80	
Product: Class B	Total SF: 28,911		1	698	\$14,658	-	\$17,171	\$15,914	\$21.00	-	\$24.60	\$22.80	
Building Stories: 2-Story	Total Leased SF: 19,879		1	730	\$15,330	-	\$17,958	\$16,644	\$21.00	-	\$24.60	\$22.80	
Parking (Included): Surface	Vacant SF: 9,032		1	653	\$13,713	-	\$16,064	\$14,888	\$21.00	-	\$24.60	\$22.80	
Year Built: 1982	Occupancy %: 68.8%		1	1,486	\$31,206	-	\$36,556	\$33,881	\$21.00	-	\$24.60	\$22.80	
Totals/Averages:				5	1,806	\$37,918	-	\$44,418	\$41,168	\$21.00	-	\$24.60	\$22.80
950 Boardwalk Avenue San Marcos	Cushman & Wakefield 950 Boardwalk Avenue		1	2,353	\$42,354	-	\$42,354	\$42,354	\$18.00	-	\$18.00	\$18.00	
Product: Class B	Total SF: 38,514												
Building Stories: 3-Story	Total Leased SF: 36,161												
Parking (Included): Surface	Vacant SF: 2,353												
Year Built: 2006	Occupancy %: 93.9%												
Totals/Averages:				1	2,353	\$42,354	-	\$42,354	\$42,354	\$18.00	-	\$18.00	\$18.00
Westview Plaza San Marcos	Lockwood Commercial Realty 1582 W. San Marcos Blvd		1	1,179	\$19,100	-	\$22,637	\$20,868	\$16.20	-	\$19.20	\$17.70	
Product: Class A	Total SF: 18,690		1	2,837	\$40,853	-	\$54,470	\$47,662	\$14.40	-	\$19.20	\$16.80	
Building Stories: 5-Story	Total Leased SF: 14,674												
Parking (Included): Surface	Vacant SF: 4,016												
	Occupancy %: 78.5%												
	Terms: Modified Gross												
* price negotiable													
Totals/Averages:				2	2,008	\$29,976	-	\$38,554	\$34,265	\$15.30	-	\$19.20	\$17.25

Source: Broker representatives, Loopnet

Office Lease Comparables (Continued)

OFFICE BUILDING AND LEASING DETAILS			MIX	COMPETITIVE MARKET PRICING SUMMARY									
Project Name <u>Location</u>	Management Address	Product Details	Size SF	Asking Rents (Annual)			Annual \$/SF						
				Low	-	High	Average	Low	-	High			
744 Grand Avenue San Marcos	WestMar 744 Grand Avenue		1	1,317	\$31,608	-	\$31,608	\$31,608	\$24.00	-	\$24.00	\$24.00	
Product: Class A	Total SF: 9,246												
Building Stories: 2-Story	Total Leased SF: 7,929												
Parking (Included): Surface	Vacant SF: 1,317												
Year Built: 2006	Occupancy %: 85.8%												
	Terms: Modified Gross												
Totals/Averages:				1	1,317	\$31,608	-	\$31,608	\$31,608	\$24.00	-	\$24.00	\$24.00
904 W San Marcos Blvd San Marcos	Colliers International 904 W San Marcos Blvd		1	1,164	\$21,650	-	\$21,650	\$21,650	\$18.60	-	\$18.60	\$18.60	
Product: Class B	Total SF: 8,000		1	1,258	\$21,889	-	\$21,889	\$21,889	\$17.40	-	\$17.40	\$17.40	
Building Stories: 2-Story	Total Leased SF: 5,578												
Parking (Included): Surface	Vacant SF: 2,422												
Year Built:	Occupancy %: 69.7%												
	Terms:												
Totals/Averages:				2	1,211	\$21,770	-	\$21,770	\$21,770	\$18.00	-	\$18.00	\$18.00
Corner@2Oaks San Marcos	Colliers International N Twin Oaks Valley Road		1	7,600		-				-			
Product: Class B	Total SF: 14,400		1	6,800		-				-			
Building Stories: 2-Story	Total Leased SF: 0												
Parking (Included): Surface	Vacant SF: 14,400												
Year Built: 2018	Occupancy %: 0.0%												
* Price Negotiable	Terms: NNN												
Totals/Averages:				2	7,200		-			-			
955 Boardwalk San Marcos	JLL 955 Boardwalk		1	1,873	\$66,304	-	\$66,304	\$66,304	\$35.40	-	\$35.40	\$35.40	
Product: Class B	Total SF: 24,396												
Building Stories: 3-Story	Total Leased SF: 22,523												
Parking (Included): Surface	Vacant SF: 1,873												
Year Built: 2008	Occupancy %: 92.3%												
	Terms: NNN												
Totals/Averages:				1	1,873	\$66,304	-	\$66,304	\$66,304	\$35.40	-	\$35.40	\$35.40

Source: Broker representatives, Loopnet

Office Lease Comparables (Continued)

OFFICE BUILDING AND LEASING DETAILS			MIX	COMPETITIVE MARKET PRICING SUMMARY								
Project Name <u>Location</u>	Management Address	Product Details	Size SF	Asking Rents (Annual)			Annual \$/SF					
				Low	-	High	Average	Low	-	High		
North County Corp Center San Marcos	Colliers International 277 Rancheros Drive		1 10,469	\$307,789	-	\$307,789	\$307,789	\$29.40	-	\$29.40	\$29.40	
Product: Class A	Total SF: 20,845		1 890	\$26,166	-	\$26,166	\$26,166	\$29.40	-	\$29.40	\$29.40	
Building Stories: 3-Story	Total Leased: 6,357		1 3,129	\$91,993	-	\$91,993	\$91,993	\$29.40	-	\$29.40	\$29.40	
Parking (Included): Assigned	Vacant SF: 14,488											
Year Built: 2000	Occupancy %: 30.5%											
	Terms: Modified Gross											
Totals/Averages:				3 4,829	\$141,982	-	\$141,982	\$141,982	\$29.40	-	\$29.40	\$29.40
570 Rancheros Drive San Marcos	Colliers International 570 Rancheros Drive		1 3,917	\$105,759	-	\$105,759	\$105,759	\$27.00	-	\$27.00	\$27.00	
Product: Class B	Total SF: 45,327		1 3,515	\$94,905	-	\$94,905	\$94,905	\$27.00	-	\$27.00	\$27.00	
Building Stories: 2-Story	Total Leased: 36,106		1 1,789	\$48,303	-	\$48,303	\$48,303	\$27.00	-	\$27.00	\$27.00	
Parking (Included): Surface	Vacant SF: 9,221											
Year Built: 1992	Occupancy %: 79.7%											
	Terms: Modified Gross											
Totals/Averages:				3 3,074	\$82,989	-	\$82,989	\$82,989	\$27.00	-	\$27.00	\$27.00
Nordahl Medical Centre San Marcos	JLL 838 Nordahl Road		1 4,210	\$126,300	-	\$126,300	\$126,300	\$30.00	-	\$30.00	\$30.00	
Product: Class A	Total SF: 57,208		1 14,920	\$447,600	-	\$447,600	\$447,600	\$30.00	-	\$30.00	\$30.00	
Building Stories: 2-Story	Total Leased: 32,914		1 5,164	\$154,920	-	\$154,920	\$154,920	\$30.00	-	\$30.00	\$30.00	
Parking (Included): Surface	Vacant SF: 24,294											
Year Built: 2009	Occupancy %: 57.5%											
	Terms: NNN											
Totals/Averages:				3 8,098	\$242,940	-	\$242,940	\$242,940	\$30.00	-	\$30.00	\$30.00
Campus Pointe (Planned) San Marcos	Cushman & Wakefield 337 E. Carmel Street		1 27,097	\$731,619	-	\$731,619	\$731,619	\$27.00	-	\$27.00	\$27.00	
Product: Class A	Total SF: 81,291		1 27,097	\$731,619	-	\$731,619	\$731,619	\$27.00	-	\$27.00	\$27.00	
Building Stories: 3-Story	Total Leased: 0		1 27,097	\$731,619	-	\$731,619	\$731,619	\$27.00	-	\$27.00	\$27.00	
Parking (Included): Surface	Vacant SF: 81,291											
Year Built: TBD	Occupancy %: 0											
	Terms: NNN											
Totals/Averages:				3 27,097	\$731,619	-	\$731,619	\$731,619	\$27.00	-	\$27.00	\$27.00

Source: Broker representatives, Loopnet

Office Lease Comparables (Continued)

OFFICE BUILDING AND LEASING DETAILS			MIX	COMPETITIVE MARKET PRICING SUMMARY									
Project Name <u>Location</u>	Management Address	Product Details	Size SF	Asking Rents (Annual)				Annual \$/SF					
				Low	-	High	Average	Low	-	High	Average		
1223 Pacific Oaks PI Escondido	Horizon Resources, Inc. 1223 Pacific Oaks PI		1	2,000	\$48,000	-	\$48,000	\$48,000	\$24.00	-	\$24.00	\$24.00	
Product: Class B	Total SF: 17,242												
Building Stories: 2-Story	Total Leased: 15,242												
Parking (Included): Surface	Vacant SF: 2,000												
Year Built: 2008	Occupancy %: 88.4%												
	Terms: Full Service												
Totals/Averages:				1	2,000	\$48,000	-	\$48,000	\$48,000	\$24.00	-	\$24.00	\$24.00
960 S. Andreasen Drive Escondido	Colliers International 960 S. Andreasen Drive		1	4,440	\$55,944	-	\$55,944	\$55,944	\$12.60	-	\$12.60	\$12.60	
Product: Office	Total SF: 30,000												
Building Stories: 2-Story	Total Leased: 25,560												
Parking (Included): Surface	Vacant SF: 4,440												
Year Built: 1997	Occupancy %: 85.2%												
	Terms: Modified Gross												
Totals/Averages:				1	4,440	\$55,944	-	\$55,944	\$55,944	\$12.60	-	\$12.60	\$12.60

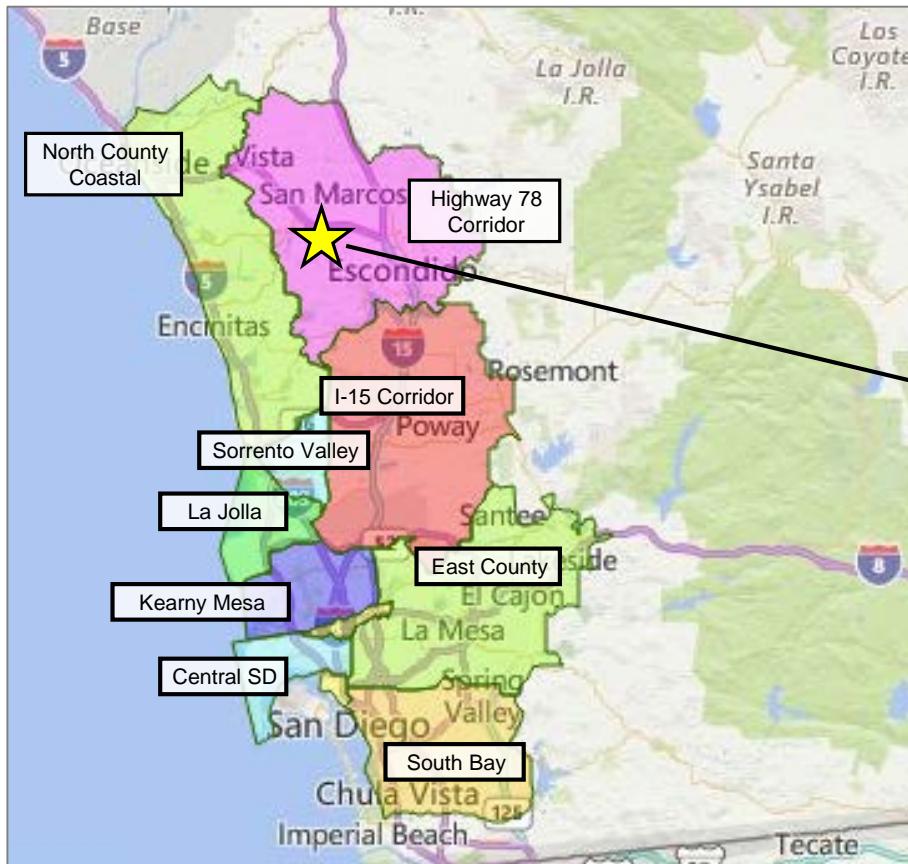
Source: Broker representatives, Loopnet

Office Market Trends

Discovery Village South, San Marcos, California

Definition of San Diego Office Submarkets

The San Diego MSA is comprised of nine office submarkets; the Discovery Village site is located in the Highway 78 Corridor submarket, which includes San Marcos, Vista and Escondido.

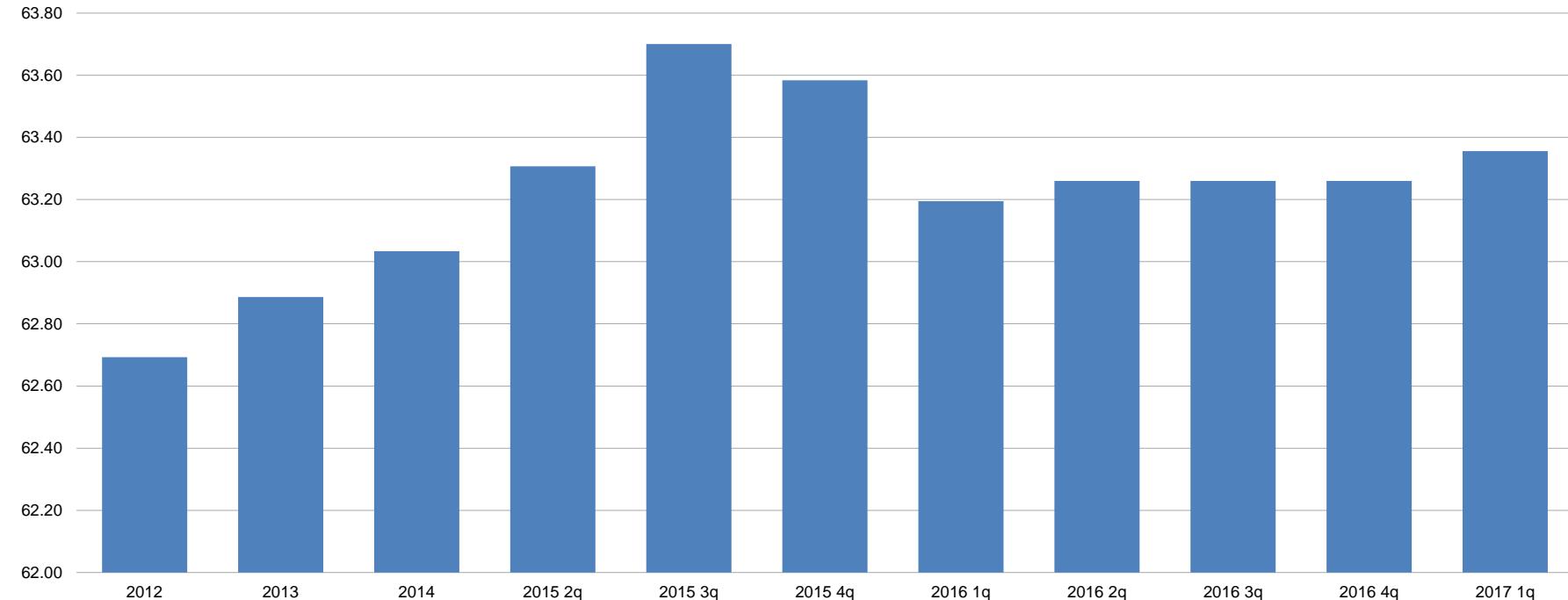


Source: REIS, Bing Maps

San Diego MSA Office Inventory is Increasing Slowly

Office inventory in San Diego has increased by 160,000 square feet over the past year, which follows 500,000 square feet of reduction of inventory in late 2015/ early 2016 (likely a result of older office teardowns and redevelopment to other uses).

Office Inventory (in Millions Square Feet)

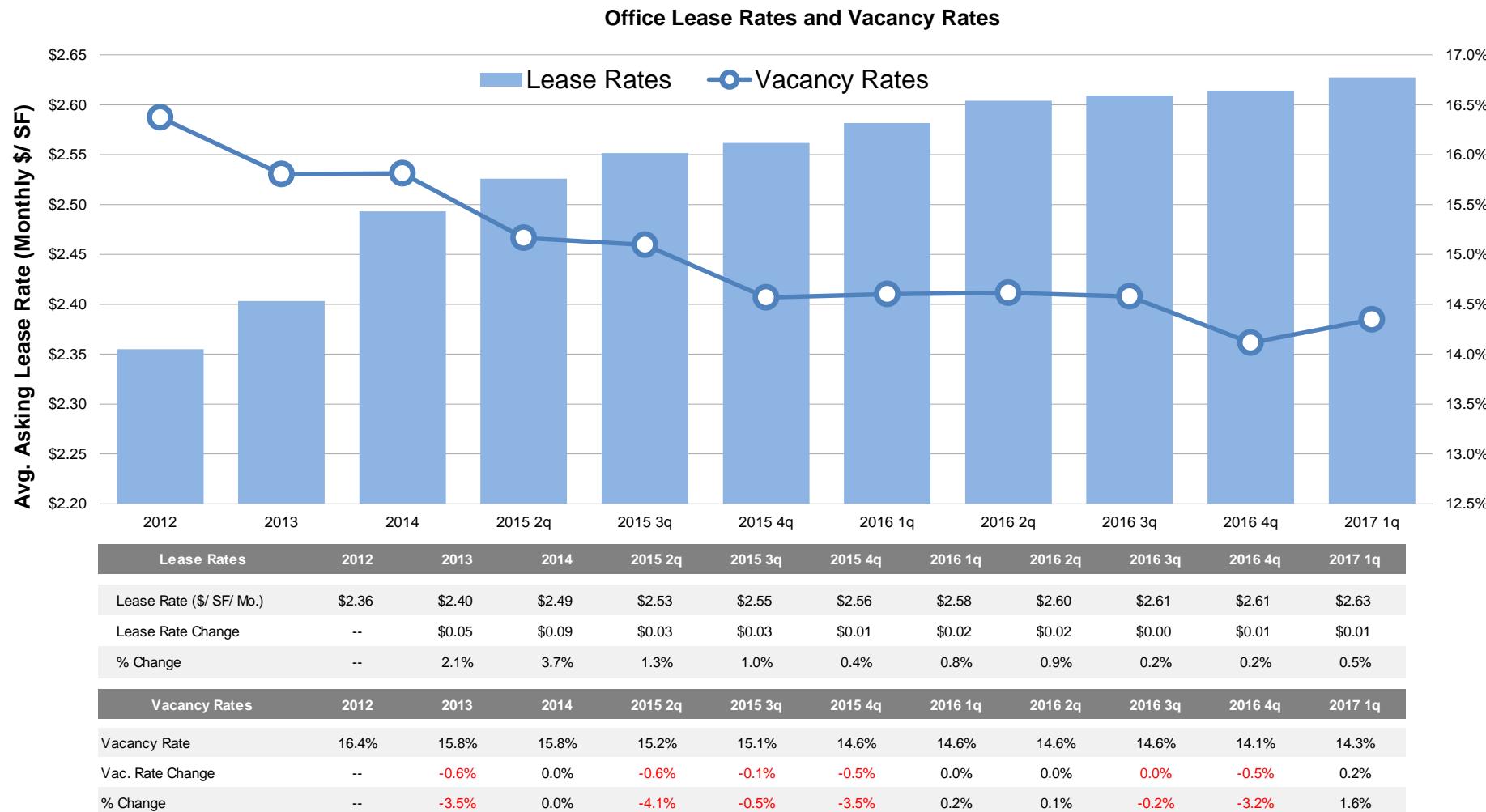


Inventory	2012	2013	2014	2015 2q	2015 3q	2015 4q	2016 1q	2016 2q	2016 3q	2016 4q	2017 1q
Total Inventory (SF)	62,693,000	62,886,000	63,034,000	63,307,000	63,700,000	63,584,000	63,195,000	63,260,000	63,260,000	63,260,000	63,356,000
Inventory Change	--	193,000	148,000	273,000	393,000	-116,000	-389,000	65,000	0	0	96,000
% Change	--	0.3%	0.2%	0.4%	0.6%	-0.2%	-0.6%	0.1%	0.0%	0.0%	0.2%

Source: REIS

San Diego MSA Lease Rates Are Up, But Vacancy is High

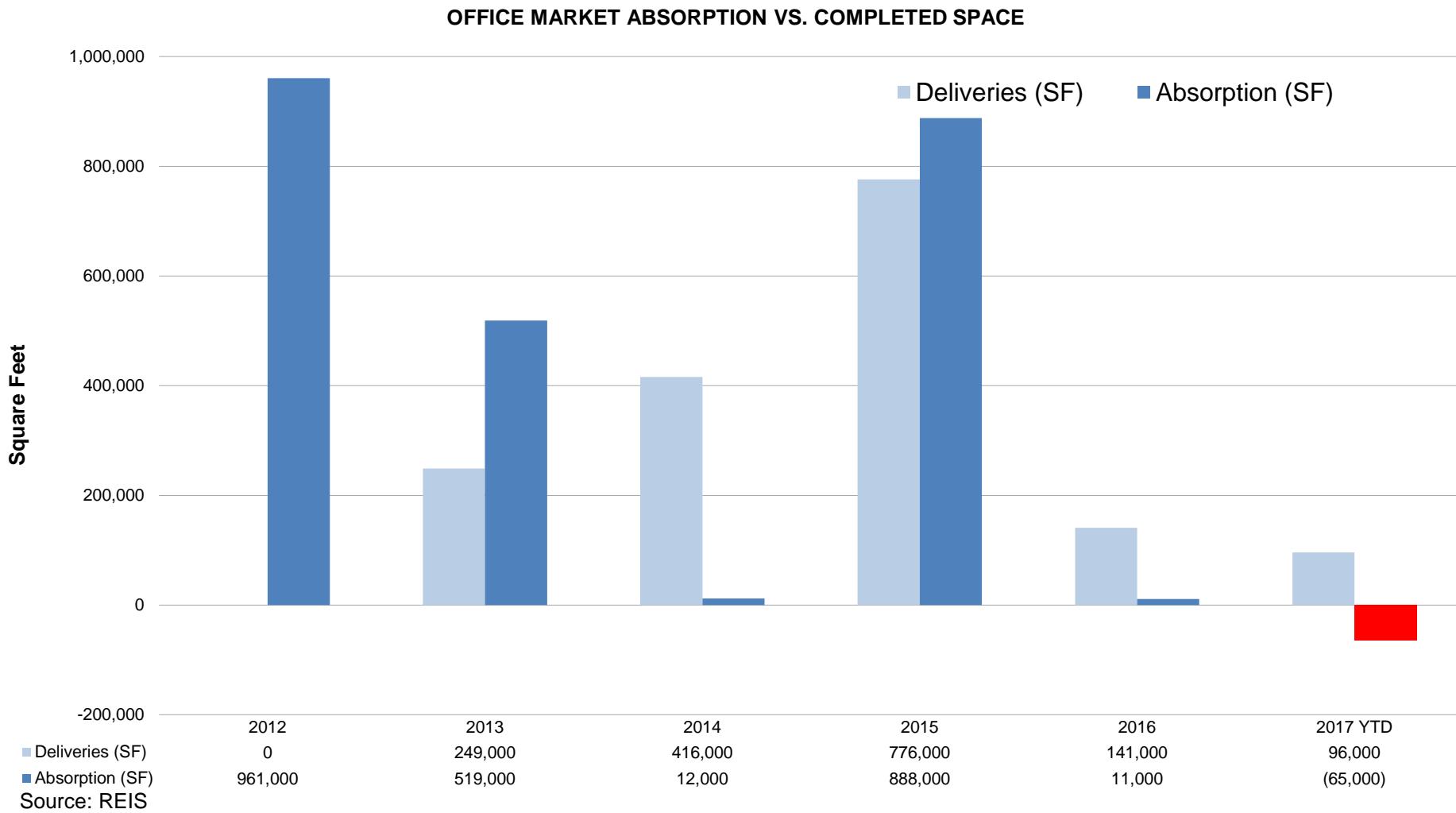
Average office lease rates have increased recently, to a high of \$2.63 per square foot per month in the most recent quarter. The vacancy rate has trended downward since 2012, from 16.4% to 14.3% in the most recent quarter, which is still a relatively high vacancy rate.



Source: REIS

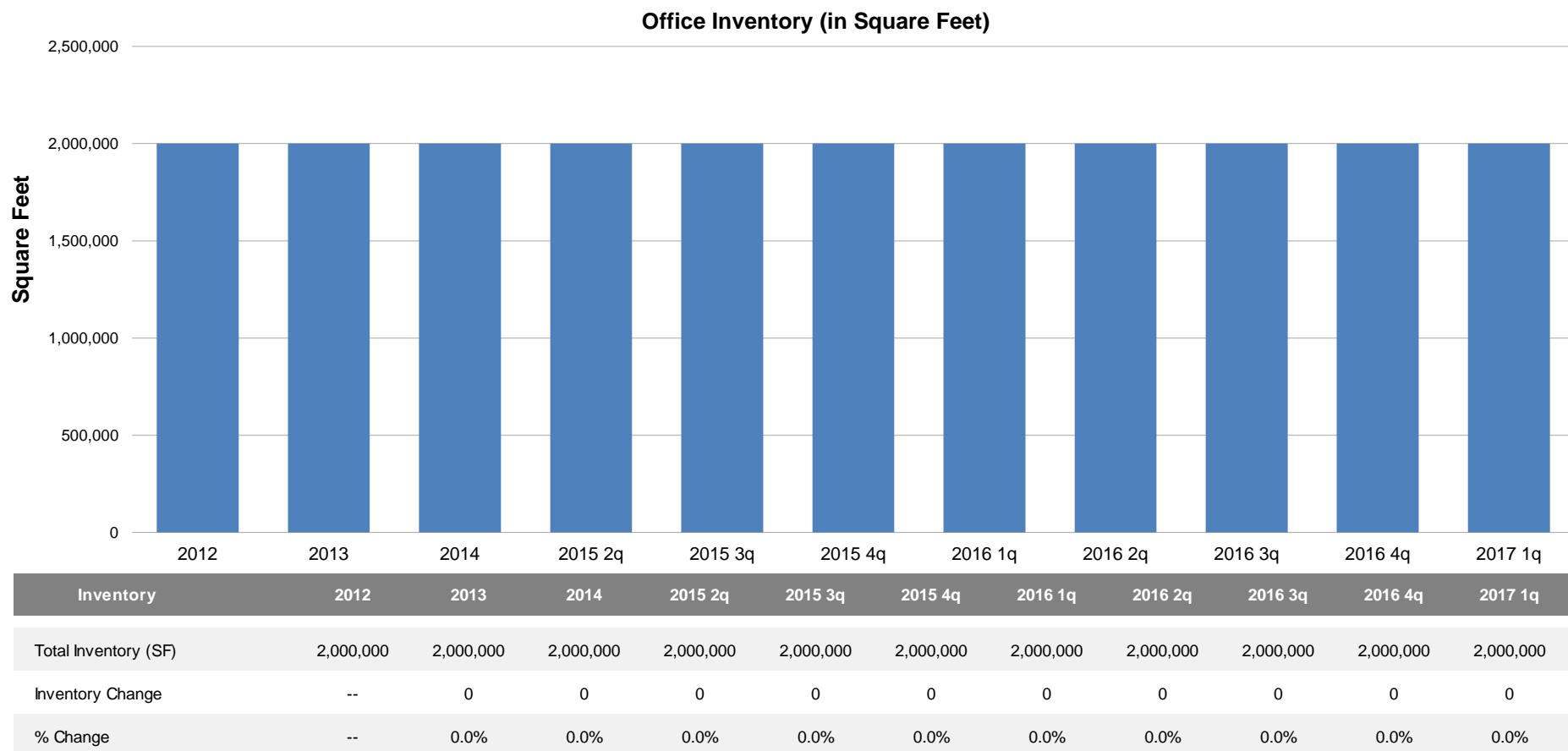
Absorption and Completed Activity is Limited

San Diego office market deliveries (new supply) have outpaced absorption (demand) in three out of the past four years (including 2017 to date). In 2017, there is some negative absorption (-65,900 square feet) versus 95,000 square feet of newly completed space.



Highway 78 Submarket Office Inventory is Flat

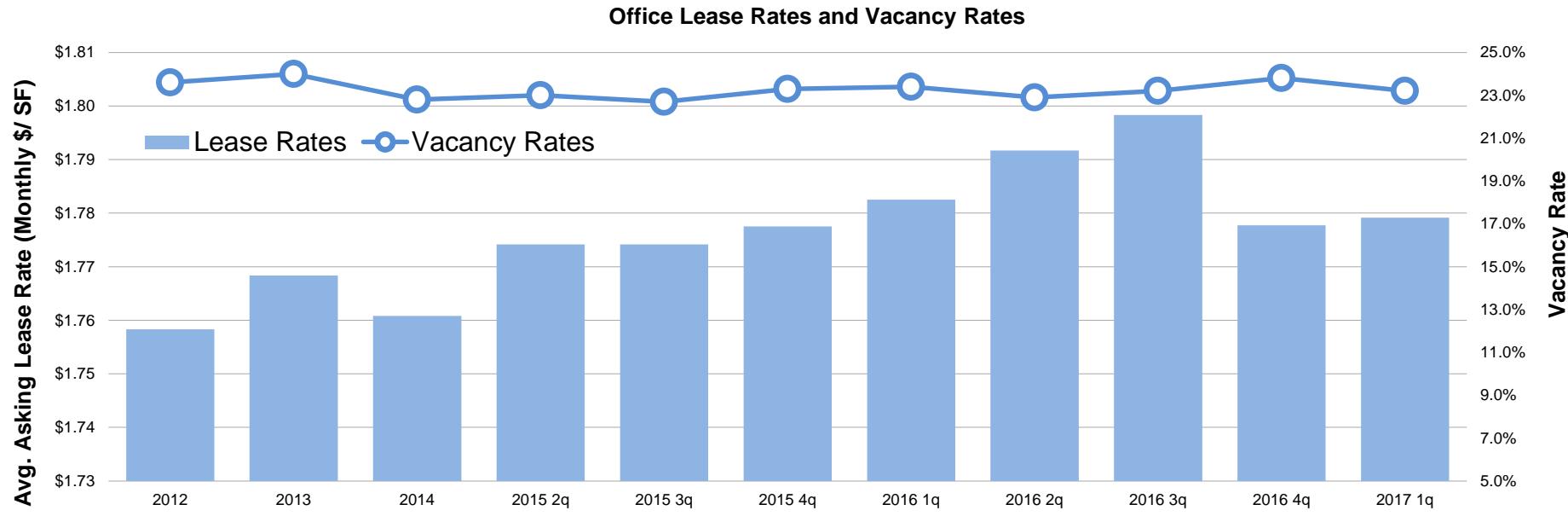
Office inventory in the Highway 78 submarket been flat over the past two years, with a total of 2.0 million square feet of office space. This lack of development in the submarket indicates that the submarket has not fully recovered from the Great Recession and/or has weak fundamentals (high vacancies and low lease rates) that do not support new office development (see the following page).



Source: REIS

Highway 78 Lease Rates are Flat, Vacancy is Relatively High

Average office lease rates have been flat in the submarket over the past five years, at approximately \$1.78 per square foot per month during this entire period. The vacancy rate has also been relatively stable at about 23%, which is a high vacancy rate—these indicators suggest that the office market is stable but not very strong, and generally does not support new construction office development.

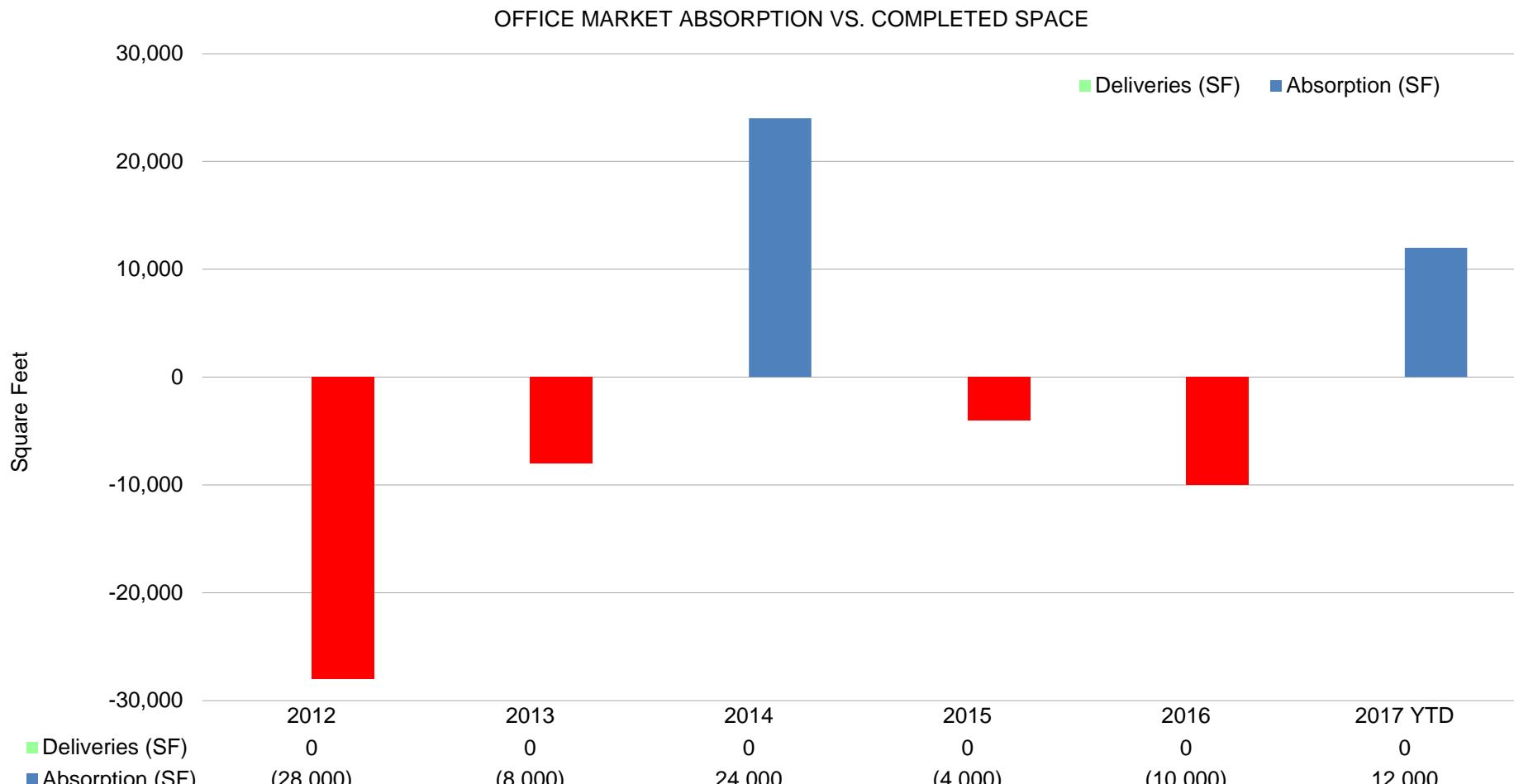


Lease Rates		2012	2013	2014	2015 2q	2015 3q	2015 4q	2016 1q	2016 2q	2016 3q	2016 4q	2017 1q
Lease Rate (\$/ SF/ Mo.)		\$1.76	\$1.77	\$1.76	\$1.77	\$1.77	\$1.78	\$1.78	\$1.79	\$1.80	\$1.78	\$1.78
Lease Rate Change		\$1.76	\$0.01	(\$0.01)	\$0.01	\$0.00	\$0.00	\$0.01	\$0.01	\$0.01	(\$0.02)	\$0.00
% Change		--	0.6%	-0.4%	0.8%	0.0%	0.2%	0.3%	0.5%	0.4%	-1.1%	0.1%
Vacancy Rates		2012	2013	2014	2015 2q	2015 3q	2015 4q	2016 1q	2016 2q	2016 3q	2016 4q	2017 1q
Vacancy Rate		23.6%	24.0%	22.8%	23.0%	22.7%	23.3%	23.4%	22.9%	23.2%	23.8%	23.2%
Vac. Rate Change		23.6%	0.4%	-1.2%	0.2%	-0.3%	0.6%	0.1%	-0.5%	0.3%	0.6%	-0.6%
% Change		--	1.7%	-5.0%	0.9%	-1.3%	2.6%	0.4%	-2.1%	1.3%	2.6%	-2.5%

Source: REIS

Highway 78 Absorption Activity is Marginal

Annual net absorption fluctuates by year, from negative levels of absorption in 2015 and 2016 to some positive absorption activity in 2017 to date. It is important to note that the amount of absorption is low in any given year; negative absorption was only 10,000 square feet in 2016, and positive net absorption is just 12,000 square feet in 2017 to date.



Source: REIS

Appendix

Discovery Village South, San Marcos, California

Competitive For-Sale Floorplan Detail – Stand Alone

Active stand-alone new detached projects in San Marcos, east Oceanside and Vista are outlined below. There are very few actively selling units left in these two cities.

Community Specifics and Sales Pace		Floorplan Summary				Competitive Market Pricing Summary												Monthly Payment Inputs			
Project Name Location	Builder Name Master Plan	Size SF	Bed	Bath	Level	Pkg	Base Price/ Sq. Ft.	Current Incentives			Net Base Price (\$)	Net Base Price/ Sq. Ft.	Typical			Total Price/ SF	Monthly Payment Inputs				
								Reduction	Upgrades	Other			Options / Upgrades	Premiums	Total Price		HOA	Base Tax	Addl Taxes	80.0% 4.5% Mo.Pmt.	
Francia at Mission Lane Oceanside	Beazer Homes -	2,348	3	2.5	2	2	\$647,990	\$276	\$0	\$0	(\$5,000)	\$647,990	\$276	\$35,000	\$7,500	\$690,490	\$294	\$104	1.10%	0.08%	\$3,581
Product: Single Family	Total Units: 59	2,395	4	2.5	2	2	\$661,990	\$276	\$0	\$0	(\$5,000)	\$661,990	\$276	\$35,000	\$7,500	\$704,490	\$294	\$104	1.10%	0.08%	\$3,651
Configuration: 4,900	Units Sold: 7																				
	3 Months Sold: 5																				
Sales Open Date: Jul-17	Units Remaining: 52																				
Overall Sales Rate: 1.8	% Remaining: 88%																				
3 Mon. Sales Rate: 1.7																					
Totals/Averages:		2,469					\$666,990	\$270	\$0	\$0	(\$5,000)	\$666,990	\$270	\$35,000	\$7,500	\$709,490	\$287	\$104	1.10%	0.08%	\$3,676
Laurel Pointe Vista	Pulte Homes -	3,067	3	2.0	2	2	\$661,990	\$216	\$0	\$0	(\$12,000)	\$661,990	\$216	\$60,000	\$15,000	\$736,990	\$240	\$252	1.10%	0.00%	\$3,915
Product: Single Family	Total Units: 159	3,368	4	2.0	2	3	\$745,990	\$221	\$0	\$0	(\$12,000)	\$745,990	\$221	\$60,000	\$15,000	\$820,990	\$244	\$252	1.10%	0.00%	\$4,332
Configuration: 6,000	Units Sold: 155																				
Lot Dimensions: 55x120	3 Months Sold: 3																				
Sales Open Date: Feb-14	Units Remaining: 4																				
Overall Sales Rate: 3.4	% Remaining: 3%																				
3 Mon. Sales Rate: 1.0																					
Totals/Averages:		3,337					\$104,649	\$31	\$0	\$0	(\$12,000)	\$697,657	\$209	\$60,000	\$15,000	\$772,657	\$232	\$252	1.10%	0.00%	\$4,092
Presidio Vista	Lennar -	3,061	5	4.0	2	3	\$749,990	\$245	\$0	\$0	(\$5,000)	\$749,990	\$245	\$20,000	\$7,500	\$777,490	\$254	\$280	1.10%	0.00%	\$4,144
Product: Single Family	Total Units: 31	3,381	4	3.5	2	3	\$795,990	\$235	\$0	\$0	(\$5,000)	\$795,990	\$235	\$20,000	\$7,500	\$823,490	\$244	\$280	1.10%	0.00%	\$4,373
Configuration: 6,000	Units Sold: 15																				
Sales Open Date: Sep-17	Units Remaining: 16																				
Overall Sales Rate: 5.8	% Remaining: 52%																				
3 Mon. Sales Rate: 5.8																					
Totals/Averages:		3,349					\$791,990	\$236	\$0	\$0	(\$5,000)	\$791,990	\$236	\$20,000	\$7,500	\$819,490	\$245	\$280	1.10%	0.00%	\$4,353
Montessa San Marcos	CalAtlantic Homes -	3,017	5	4.0	2	3	\$739,900	\$245	\$0	(\$5,000)	(\$2,500)	\$739,900	\$245	\$35,000	\$5,000	\$774,900	\$257	\$150	1.15%	0.00%	\$4,034
Product: Single Family	Total Units: 19	3,449	5	4.0	2	3	\$761,900	\$221	\$0	(\$5,000)	(\$2,500)	\$761,900	\$221	\$35,000	\$5,000	\$796,900	\$231	\$150	1.15%	0.00%	\$4,144
Configuration: 6,000	Units Sold: 0																				
Lot Dimensions: 60 x 100																					
Sales Open Date: May-17	Units Remaining: 19																				
Overall Sales Rate: NEW	% Remaining: 100%																				
3 Mon. Sales Rate: NEW																					
Totals/Averages:		3,233					\$750,900	\$232	\$0	(\$5,000)	(\$2,500)	\$750,900	\$232	\$35,000	\$5,000	\$785,900	\$243	\$150	1.15%	0.00%	\$4,089

Competitive For-Sale Floorplan Detail – Harmony Grove

Whittingham is the newest community in Harmony Grove, set to open December 9, 2017.

Community Specifics and Sales Pace				Floorplan Summary				Competitive Market Pricing Summary													
Project Name		Builder Name		Size	Base Price/	Current Incentives			Net Base Price/	Net Base Price/	Typical			Total Price/	Monthly HOA	Payment Inputs	80.0% 4.5%				
Location	Master Plan	Sales Summary	Bed	Bath	Level	Pkg	Reduction	Upgrades	Other	Upgrades	Premiums	Price/ SF	Base Tax	Addl Taxes							
Lusitano Escondido	CalAtlantic Homes Harmony Grove Village	1,686	3	2.0	2	2	\$559,900	\$332	\$0	(\$12,500)	(\$12,500)	\$559,900	\$332	\$20,000	\$0	\$567,400	\$337	\$230	1.12% 0.82% \$3,447		
Product:	Single Family	Total Units:	97	1,873	3	2.0	2	2	\$598,900	\$320	\$0	(\$12,500)	(\$12,500)	\$598,900	\$320	\$20,000	\$0	\$606,400	\$324	\$230	1.12% 0.77% \$3,642
Configuration:	2,550	Units Sold:	84	2,018	4	3.0	2	2	\$602,900	\$299	\$0	(\$12,500)	(\$12,500)	\$602,900	\$299	\$20,000	\$0	\$610,400	\$302	\$230	1.12% 0.76% \$3,661
Lot Dimensions:	30x85	3 Months Sold:	13																		
Sales Open Date:	May-15	Units Remaining:	13																		
Overall Sales Rate:	2.8	% Remaining:	13%																		
3 Mon. Sales Rate:	4.3																				
Totals/Averages:				1,859					\$587,233	\$316	\$0	(\$12,500)	(\$12,500)	\$587,233	\$316	\$20,000	\$0	\$594,733	\$320	\$230	1.12% 0.78% \$3,583
Canteridge Escondido	CalAtlantic Homes Harmony Grove Village	2,075	3	2.0	2	2	\$656,900	\$317	\$0	(\$12,500)	(\$12,500)	\$656,900	\$317	\$30,000	\$5,000	\$679,400	\$327	\$230	1.12% 0.70% \$4,014		
Product:	Single Family	Total Units:	71																		
Configuration:	2,550	Units Sold:	67																		
Lot Dimensions:	30x85	3 Months Sold:	7																		
Sales Open Date:	May-15	Units Remaining:	4																		
Overall Sales Rate:	2.2	% Remaining:	6%																		
3 Mon. Sales Rate:	2.5																				
Totals/Averages:				2,075					\$656,900	\$317	\$0	(\$12,500)	(\$12,500)	\$656,900	\$317	\$30,000	\$5,000	\$679,400	\$327	\$230	1.12% 0.70% \$4,014
Seabreeze Escondido	CalAtlantic Homes Harmony Grove Village	2,185	4	3.0	2	2	\$628,900	\$288	\$0	(\$12,500)	(\$12,500)	\$628,900	\$288	\$35,000	\$7,500	\$658,900	\$302	\$142	1.12% 0.83% \$3,886		
Product:	Single Family	Total Units:	109	2,277	4	3.0	2	2	\$633,900	\$278	\$0	(\$12,500)	(\$12,500)	\$633,900	\$278	\$35,000	\$7,500	\$663,900	\$292	\$142	1.12% 0.83% \$3,911
Configuration:	3,600	Units Sold:	77	2,519	3	3.0	2	2	\$624,900	\$248	\$0	(\$12,500)	(\$12,500)	\$624,900	\$248	\$35,000	\$7,500	\$654,900	\$260	\$142	1.12% 0.84% \$3,866
Lot Dimensions:	36x100	3 Months Sold:	13	2,783	4	3.0	2	2	\$658,900	\$237	\$0	(\$12,500)	(\$12,500)	\$658,900	\$237	\$35,000	\$7,500	\$688,900	\$248	\$142	1.12% 0.80% \$4,036
Sales Open Date:	May-15	Units Remaining:	32																		
Overall Sales Rate:	2.6	% Remaining:	29%																		
3 Mon. Sales Rate:	4.3																				
Totals/Averages:				2,441					\$636,650	\$261	\$0	(\$12,500)	(\$12,500)	\$636,650	\$261	\$35,000	\$7,500	\$666,650	\$273	\$142	1.12% 0.83% \$3,925
Andalucia Escondido	CalAtlantic Homes Harmony Grove Village	2,980	4	3.0	2	2	\$721,900	\$242	\$0	(\$12,500)	(\$12,500)	\$721,900	\$242	\$50,000	\$5,000	\$764,400	\$257	\$168	1.12% 0.84% \$4,513		
Product:	Single Family	Total Units:	129	3,027	4	4.0	2	3	\$744,900	\$246	\$0	(\$12,500)	(\$12,500)	\$744,900	\$246	\$50,000	\$5,000	\$787,400	\$260	\$168	1.12% 0.81% \$4,628
Configuration:	5,460	Units Sold:	70	3,182	4	4.0	2	3	\$726,900	\$228	\$0	(\$12,500)	(\$12,500)	\$726,900	\$228	\$50,000	\$5,000	\$769,400	\$242	\$168	1.12% 0.83% \$4,538
Lot Dimensions:	42x130	3 Months Sold:	9	3,640	5	4.0	2	3	\$727,900	\$200	\$0	(\$12,500)	(\$12,500)	\$727,900	\$200	\$50,000	\$5,000	\$770,400	\$212	\$168	1.12% 0.83% \$4,543
Sales Open Date:	May-15	Units Remaining:	59																		
Overall Sales Rate:	2.3	% Remaining:	46%																		
3 Mon. Sales Rate:	3.0																				
Totals/Averages:				3,207					\$730,400	\$228	\$0	(\$12,500)	(\$12,500)	\$730,400	\$228	\$50,000	\$5,000	\$772,900	\$241	\$168	1.12% 0.83% \$4,556
Whittingham Escondido	CalAtlantic Homes Harmony Grove Village	3,183	3	3.5	1	3	\$770,000	\$242	\$0	(\$2,500)	(\$7,500)	\$770,000	\$242	\$55,000	\$10,000	\$832,500	\$262	\$120	1.12% 0.96% \$4,938		
Product:	Single Family	Total Units:	120	3,778	5	4.5	2	3T	\$793,000	\$210	\$0	(\$2,500)	(\$7,500)	\$793,000	\$210	\$55,000	\$10,000	\$855,500	\$226	\$120	1.12% 0.94% \$5,053
Configuration:	10,000	Units Sold:	-	4,025	5	4.5	2	3T	\$816,000	\$203	\$0	(\$2,500)	(\$7,500)	\$816,000	\$203	\$55,000	\$10,000	\$878,500	\$218	\$120	1.12% 0.91% \$5,168
Lot Dimensions:	85x117			4,155	5	4.5	2	4T	\$838,000	\$202	\$0	(\$2,500)	(\$7,500)	\$838,000	\$202	\$55,000	\$10,000	\$900,500	\$217	\$120	1.12% 0.89% \$5,277
Sales Open Date:	-	Units Remaining:	N/Av																		
Overall Sales Rate:	-	% Remaining:	N/Av																		
Totals/Averages:				3,785					\$804,250	\$212	\$0	(\$2,500)	(\$7,500)	\$804,250	\$212	\$55,000	\$10,000	\$866,750	\$229	\$120	1.12% 0.92% \$5,109

Competitive For-Sale Floorplan Detail – Rancho Tesoro

Rancho Tesoro is a new community located very close to the Subject selling at between 2 and 4 units per month.

Community Specifics and Sales Pace			Floorplan Summary					Competitive Market Pricing Summary										Monthly Payment Inputs			
Project Name Location Product Details	Builder Name Master Plan Sales Summary	Size				Base Price/ Sq. Ft.	Current Incentives			Net Base Price (\$) Price/ Reduction	Net Base Price/ Sq. Ft.	Typical			Total Price/ SF	Monthly Payment Inputs					
		SF	Bed	Bath	Level		Price Reduction	Options Upgrades	Closing Other			Options / Upgrades	Premiums	Monthly HOA		Base Tax	Addl Taxes	4.5% Mo.Pmt.			
Terracina San Marcos	Brookfield Residential Rancho Tesoro	2,211	3	2.5	2	2	\$652,000	\$295	\$0	\$0	(\$5,000)	\$652,000	\$295	\$30,000	\$5,000	\$687,000	\$311	\$209	1.12%	0.41%	\$3,870
		2,392	4	3.5	2	2	\$667,000	\$279	\$0	\$0	(\$5,000)	\$667,000	\$279	\$30,000	\$5,000	\$702,000	\$293	\$209	1.12%	0.41%	\$3,950
Product:	Single Family	Total Units:	117																		
Configuration:	1,900	Units Sold:	29																		
		3 Months Sold:	15																		
Sales Open Date:	Jun-17	Units Remaining:	88																		
Overall Sales Rate:	4.9	% Remaining:	75%																		
3 Mon. Sales Rate:	4.9																				
Totals/Averages:		2,337					\$665,500	\$285	\$0	\$0	(\$5,000)	\$665,500	\$285	\$30,000	\$5,000	\$700,500	\$300	\$209	1.12%	0.41%	\$3,942
Vientos San Marcos	Brookfield Residential Rancho Tesoro	2,458	4	3.0	2	2	\$693,000	\$282	\$0	\$0	(\$5,000)	\$693,000	\$282	\$35,000	\$5,000	\$733,000	\$298	\$209	1.09%	0.45%	\$4,121
		2,646	4	3.0	2	2	\$721,000	\$272	\$0	\$0	(\$5,000)	\$721,000	\$272	\$35,000	\$5,000	\$761,000	\$288	\$209	1.09%	0.45%	\$4,270
Product:	Single Family	Total Units:	107																		
Configuration:	2,100	Units Sold:	14																		
		3 Months Sold:	7																		
Sales Open Date:	Jun-17	Units Remaining:	93																		
Overall Sales Rate:	2.4	% Remaining:	87%																		
3 Mon. Sales Rate:	2.4																				
Totals/Averages:		2,704					\$715,667	\$265	\$0	\$0	(\$5,000)	\$715,667	\$265	\$35,000	\$5,000	\$755,667	\$279	\$209	1.09%	0.45%	\$4,242
Candela San Marcos	Brookfield Residential Rancho Tesoro	2,691	4	3.0	2	2	\$773,914	\$288	\$0	(\$2,500)	(\$5,000)	\$773,914	\$288	\$45,000	\$9,000	\$825,414	\$307	\$194	1.10%	0.39%	\$4,565
		3,359	5	3.5	3	2	\$849,937	\$253	\$0	(\$2,500)	(\$5,000)	\$849,937	\$253	\$45,000	\$9,000	\$901,437	\$268	\$194	1.10%	0.39%	\$4,967
Product:	Single Family	Total Units:	56																		
Configuration:	3,300	Units Sold:	13																		
Lot Dimensions:	47' x 70'	3 Months Sold:	6																		
Sales Open Date:	Jun-17	Units Remaining:	43																		
Overall Sales Rate:	2.2	% Remaining:	77%																		
3 Mon. Sales Rate:	2.2																				
Totals/Averages:		3,205					\$836,305	\$261	\$0	(\$2,500)	(\$5,000)	\$836,305	\$261	\$45,000	\$9,000	\$887,805	\$277	\$194	1.10%	0.39%	\$4,895
Westerly San Marcos	California West Rancho Tesoro	2,801	4	3.0	2	2	\$773,900	\$276	\$0	(\$12,500)	(\$5,000)	\$773,900	\$276	\$54,999	\$4,000	\$820,399	\$293	\$164	1.10%	0.48%	\$4,570
		2,862	4	3.0	2	2	\$746,900	\$261	\$0	(\$12,500)	(\$5,000)	\$746,900	\$261	\$54,999	\$4,000	\$793,399	\$277	\$164	1.10%	0.48%	\$4,425
Product:	Single Family	Total Units:	70																		
Configuration:	3,914	Units Sold:	19																		
Lot Dimensions:	45x86	3 Months Sold:	10																		
Sales Open Date:	Jun-17	Units Remaining:	51																		
Overall Sales Rate:	3.2	% Remaining:	73%																		
3 Mon. Sales Rate:	3.2																				
Totals/Averages:		3,039					\$776,900	\$256	\$0	(\$12,500)	(\$5,000)	\$776,900	\$256	\$54,999	\$4,000	\$823,399	\$271	\$164	1.10%	0.48%	\$4,586

Competitive For-Sale Floorplan Detail – Large Escondido Lots

The Subject is generally priced in line with the large lot communities selling in Escondido, which are all more than half way through their inventory (Pradera is almost sold out).

Community Specifics and Sales Pace		Floorplan Summary				Competitive Market Pricing Summary												Monthly Payment Inputs			
Project Name Location	Builder Name Master Plan	Size SF	Bed	Bath	Level	Pkg	Base Price Per Sq. Ft.	Current Incentives			Net Base Price (\$)	Net Base Price/ Sq. Ft.	Typical			Total Price/ SF	Monthly Payment Inputs				
Product Details	Sales Summary							Reduction	Options / Upgrades	Closing / Other			Options / Upgrades	Premiums	Total Price		Monthly HOA	Base Tax	Addl Taxes	4.5% Mo.Pmt.	
Lexington Escondido	KB Home	2,473	3	2.0	1	2	\$693,490	\$280	\$0	\$0	\$693,490	\$280	\$55,479	\$10,000	\$758,969	\$307	\$143	1.16%	0.00%	\$3,953	
		2,875	4	3.0	2	2	\$689,990	\$240	\$0	\$0	\$689,990	\$240	\$55,199	\$10,000	\$755,189	\$263	\$143	1.16%	0.00%	\$3,934	
		3,192	4	3.0	2	2	\$705,990	\$221	\$0	\$0	\$705,990	\$221	\$56,479	\$10,000	\$772,469	\$242	\$143	1.16%	0.00%	\$4,021	
		Product:	Single Family	Total Units:	39																
		Configuration:	10,000	Units Sold:	26																
				3 Months Sold:	2																
		Sales Open Date:	Aug-16	Units Remaining:	13																
		Overall Sales Rate:	1.6	% Remaining:	33%																
		3 Mon. Sales Rate:	0.7																		
		Totals/Averages:		2,847			\$696,490	\$245	\$0	\$0	\$696,490	\$245	\$55,719	\$10,000	\$762,209	\$268	\$143	1.16%	0.00%	\$3,969	
Heritage Collection at Canyon Grov Escondido	Shea Homes	2,325	3	2.5	1	3	\$654,230	\$281	\$0	\$0	(\$5,000)	\$654,230	\$281	\$30,000	\$12,000	\$696,230	\$299	\$195	1.16%	0.00%	\$3,690
		2,641	4	3.5	1	3	\$674,230	\$255	\$0	\$0	(\$5,000)	\$674,230	\$255	\$30,000	\$12,000	\$716,230	\$271	\$195	1.16%	0.00%	\$3,791
		3,012	4	3.5	0	3	\$679,000	\$225	\$0	\$0	(\$5,000)	\$679,000	\$225	\$30,000	\$12,000	\$721,000	\$239	\$195	1.16%	0.00%	\$3,815
		3,402	4	4.5	0	3	\$734,000	\$216	\$0	\$0	(\$5,000)	\$734,000	\$216	\$30,000	\$12,000	\$776,000	\$228	\$195	1.16%	0.00%	\$4,091
		Product:	Single Family	Total Units:	97																
		Configuration:	10,000	Units Sold:	55																
		Lot Dimensions:	80x125	3 Months Sold:	12																
		Sales Open Date:	Nov-16	Units Remaining:	42																
		Overall Sales Rate:	4.4	% Remaining:	43%																
		3 Mon. Sales Rate:	4.0																		
		Totals/Averages:		2,845			\$685,365	\$241	\$0	\$0	(\$5,000)	\$685,365	\$241	\$30,000	\$12,000	\$727,365	\$256	\$195	1.16%	0.00%	\$3,846
Pradera Escondido	Lennar	2,406	4	3.0	1	2	\$695,000	\$289	\$0	\$0	(\$5,000)	\$695,000	\$289	\$12,000	\$5,000	\$712,000	\$296	\$117	1.16%	0.00%	\$3,691
		3,061	5	4.0	2	3	\$724,000	\$237	\$0	\$0	(\$5,000)	\$724,000	\$237	\$12,000	\$5,000	\$741,000	\$242	\$117	1.16%	0.00%	\$3,837
		3,381	4	3.5	2	3	\$752,000	\$222	\$0	\$0	(\$5,000)	\$752,000	\$222	\$12,000	\$5,000	\$769,000	\$227	\$117	1.16%	0.00%	\$3,977
		3,569	4	3.5	2	3	\$740,000	\$207	\$0	\$0	(\$5,000)	\$740,000	\$207	\$12,000	\$5,000	\$757,000	\$212	\$117	1.16%	0.00%	\$3,917
		3,606	5	4.0	2	3	\$752,000	\$209	\$0	\$0	(\$5,000)	\$752,000	\$209	\$12,000	\$5,000	\$769,000	\$213	\$117	1.16%	0.00%	\$3,977
		Product:	Single Family	Total Units:	70																
		Configuration:	10,200	Units Sold:	60																
		Lot Dimensions:	77' x 126'	3 Months Sold:	8																
		Sales Open Date:	Jan-16	Units Remaining:	10																
		Overall Sales Rate:	2.7	% Remaining:	14%																
		3 Mon. Sales Rate:	2.7																		
		Totals/Averages:		3,205			\$732,600	\$229	\$0	\$0	(\$5,000)	\$732,600	\$229	\$12,000	\$5,000	\$749,600	\$234	\$117	1.16%	0.00%	\$3,880



ASSESSMENT OF MARKET OPPORTUNITY

Discovery Village South, San Marcos, CA