ATTACHMENT "B"

(The Oakcreek Project Owner, LLC – P13-0035)

The London Group

&

Market Pointe Realty Advisors

THE LONDON GROUP
Realty Advisors

March 8, 2013

Mr. Jack Griffin, City Manager
City of San Marcos

Attention: Mr. Gil Miltenberger
Integral Communities
2235 Encinitas Blvd, suite 216
Encinitas, CA 92024

RE: San Marcos- Oak Creek Market, Economic & Fiscal Analysis

BACKGROUND

The London Group has completed our analysis of the Oak Creek site ("Subject Property") located on the east side of South Santa Fe at Bosstick Boulevard and Norman Strasse Road. This 19-acre (17.5 acres light industrial and 1.5 acres commercial) vacant site is zoned "light industrial" and "commercial". Integral Communities is seeking entitlement to develop this site into a mixed-use project consisting of 312 homes and 12,000 square feet of commercial/retail.

An analysis of the local industrial and residential sector was conducted to assess the best development approach for the Subject Property. We utilized data provided by Lee & Associates as well as a residential market study provided by MarketPointe Realty Advisors. We augmented the market study and data provided with our own research and analysis, particularly as to the fiscal impact.

The following section summarizes the conclusions of our analysis.

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CONCLUSIONS

The purpose of this section is to summarize our conclusions and answer specific questions regarding the market opportunity and development potential of the subject property:

In general, we have concluded that the appropriate development approach for this site is residential housing because it achieves a land use transition between the newly developed single family detached development located to the east, the contiguous fixed rail transit corridor and the income restricted rental community to the southeast. The subject site is also an important buffer between the business park to the west and residential housing to the east. Such an approach is highly desirable as an urban planning solution. In addition, the perfect market solution is to target first time homebuyers, a growing and underserved market segment seeking smaller, single family attached product as starter homes.

Specifically, the report addresses key issues pertaining to the development of the site, summarized as follows:

Viability of the Subject Property as light industrial

- *What is the relationship between the physical attributes of the subject site -- the area, visibility, access, adjacent residential, pad differential, steep grades—and an industrial solution?*

  Given the physical site characteristics, developing light industrial does not represent the best use. Poor visibility, poor access, difficult topography and conflicting adjacent uses are all negative factors that do not support an industrial solution to the development of subject site. See Industrial Site Appropriateness.

- *What level of industrial improvements might be expected?*

  It is likely that if the site were to be developed as industrial land, it would be an industrial use that would attract low-end users who require minimal improvements (e.g. warehousing or storage yards). Other users that are more highly-improved industrial alternatives would not be considered due to the physical deficiencies of the site, especially with higher quality sites available in North County. See Industrial Site Appropriateness.

- *Is the subject site good employment land?*

  Given the most likely low-level industrial usage of the site, it will not create a significant number of jobs. Our analysis indicates that at this usage, a maximum of 40 low-paying jobs will be created. We expect that if the site remains zoned industrial the site will remain vacant land for the foreseeable future. See Potential Employment.

- *What are the reasons a site remain vacant and underutilized for over 25 years if the site was graded/developed ready for building?*

  The site has been vacant because the zoning has been, and is, wrong for the market and wrong for this location. Market demand now dictates a more appropriate zoning to achieve a near-term development solution. Critically, if the zoning remains unchanged, we expect the status of the site to remain unchanged as well.

Viability of the Subject Property as medium/high density residential and retail

- *Is there demand for housing, particularly entry level?*

  Demand for housing, particularly attainably-priced attached housing, is strengthening in the area. New attached sales volume surpassed new detached sales volume in 2012. This is likely a result of the disparity between attached and detached price points. Attached housing represents the most affordable for-sale housing in the area. See Residential Market.

- *Is it a good transition from light industrial to single family residential?*

  A transition between light industrial and single family can be successfully achieved with proper buffering and good site planning and is typical within the city. If developed as single family attached product, the Subject Property represents a good transition from the eastern adjacent single family detached to the western adjacent industrial sites which is situated in a predominately residential area (one-mile radius). In addition, the Subject Property sits above the adjacent industrial, further easing the impact and buffer potential. See Residential Market.

- *How do the physical attributes including the area, visibility, access, conflicts with being next to residential, pad differential above industrial and physical separation affect the site?*

  Given the physical site characteristics, developing attached single family residential represents the most appropriate use. The lack of major street visibility, limited access, height differential above the light industrial and proximity to adjacent single family homes are all positive attributes for the residential development potential. See Residential Market.

- *Is it beneficial to have retail integrated in the project at the southeast corner?*

  Positioning retail at the site entrance creates a buffer between the main street, South Santa Fe, and the residential project. It also provides good connectivity for both vehicular and pedestrian traffic which provides vital access for patrons. Also, the site is flat at that corner, and the topographical separation to the remainder of the site creates natural detachment. Additionally, the existing retail is poor quality and contributes to the blighted corner. In contrast, this mixed-use project would create the impetus to revitalize the commercial corner and general area.

- *Is the subject site good employment land?*

  A mixed-use project will likely add employment. The 12,000 square feet of retail space will translate into about 36 new jobs. The 312 residential units will also add employment in the form of maintenance and management. See Potential Employment.

Potential fiscal impacts of development

- *What fiscal benefits or impacts will be derived from the residential and retail proposed and, alternatively, from industrial (including low improved industrial)?*

  The Subject Property has an annual property tax revenue potential ranging between $50,658 (current vacant land) and $1,342,461 (residential and retail development). Gross retail sales tax revenue could add another $766,937 annually with a potential $9,952,800 in one-time developer fees. The following table summarizes the fiscal benefit potential. See Fiscal Rationale.

Oak Creek Fiscal Potential
Revenue Summary

Land Use	Annual Property Tax Revenue	Annual Retail Sales Tax Revenue*	Development Fees
Vacant Land	$50,658	$0	$0
Storage Yard	$146,272	$0	$990,429
Light Industrial	$293,698	$0	$1,191,529
Residential & Retail (Low)	$1,342,461	$559,291	$9,952,800
Residential & Retail (High)	$1,342,461	$766,937	$9,952,800

*Gross sales tax revenue- not intended to represent revenue received by the City of San Marcos

Source: The London Group Realty Advisors

- *What would be the timing of fiscal benefits or impacts paid to the city?*

The impacts of residential would occur immediately as there is a current opportunity to develop residential product. The industrial impacts are much further off, if the property is ever improved as an industrial use. Currently only the vacant land property tax revenue is being realized by the city. Development fees would be paid as the potential development uses were moved into the entitlement process and through construction completion. Additional revenue sources, including residential property tax and retail sales tax would only be realized as the units are sold.

ANALYSIS

Fiscal Rationale

To assess the revenue potential for the City of San Marcos at the Subject Property, we compared the current vacant land property tax assessment to other proposed development uses for the site. The following table summarizes this analysis and is followed by detail of the methodology.

Oak Creek Fiscal Potential Revenue Summary

Land Use	Annual Property Tax Revenue	Annual Retail Sales Tax Revenue*	Development Fees
Vacant Land	$50,658	$0	$0
Storage Yard	$146,272	$0	$990,429
Light Industrial	$293,698	$0	$1,191,529
Retail Site	$43,162	$144,000	$283,613
Residential (Low)	$1,299,298	$415,291	$9,669,187
Residential (High)	$1,299,298	$622,937	$9,669,187

*Gross sales tax revenue- not intended to represent revenue received by the City of San Marcos

Source: The London Group Realty Advisors

Property Tax Revenue

We calculated property tax potential for three different scenarios. First, a minimally improved storage yard with 40,000 square feet of building space would generate $95,614 in property tax on the newly constructed site that would be in addition to the $50,658 in current land tax for a total of $146,272 per year. A larger, 260,000 total square foot industrial center, a typical ratio of approximately 30% building square footage to land area, would generate $243,040 in additional property tax, or a total of $293,698 per year. If the site were to be developed with both residential and retail, the combined property tax potential would be $1,342,461 annually. The following table outlines these calculations.

Oak Creek Fiscal Potential
Annual Property Tax Revenue: Vacant vs. Developed

Scenario 1		
Storage Yard (Building) S.F.		**40,000**
Infrastructure Costs	$5 per S.F	$4,107,300
Construction Costs	$40 per S.F	$1,600,000
Total Hard Costs		$5,707,300
Soft Costs	20%	$1,141,460
Total Cost to Construct		$6,848,760
90% of Total Cost		$6,163,884
Tax @	1.551%	$95,614
Tax on Vacant Land (current)		$50,658
Total Tax (after constr.)		**$146,272**

Scenario 2		
Light Industrial S.F.[1]		**260,000**
Infrastructure Costs	$5 per S.F	$4,107,300
Construction Costs	$40 per S.F	$10,400,000
Total Hard Costs		$14,507,300
Soft Costs	20%	$2,901,460
Total Cost to Construct		$17,408,760
90% of Total Cost		$15,667,884
Tax @	1.551%	$243,040
Tax on Vacant Land (current)		$50,658
Total Tax (after constr.)		**$293,698**

Scenario 3		
Retail S.F.		**12,000**
Infrastructure Costs	$5 per S.F	$314,631
Construction Costs	$130 per S.F	$1,560,000
Total Hard Costs		$1,874,631
Soft Costs	20%	$374,926
Total Cost to Construct		$2,249,557
90% of Total Cost		$2,024,601
Tax @	1.551%	$31,406
Tax on Vacant Land (current)		$11,757
Total Tax (after constr.)		**$43,162**

Residential	
Average Sales Price	$301,006
Annual Property Tax Rate[2]	1.38%
Annual Property Tax per Unit	$4,164
Number of Units	312
Annual Total Property Tax	**$1,299,298**
Combined Residential & Retail	**$1,342,461**

[1] Lee & Associates recommendation
[2] Includes all taxes and assessments

Source: The London Group Realty Advisors, Lee & Associates, County of San Diego Treasurer

Development Fees

The Subject Property would also generate local revenue prior to, and during, the construction phase. As the table on the following page details, vacant land would generate no fee revenue. A storage yard would produce $990,429 while a higher density industrial center would generate $1,191,529 in development fees. If the site were to be developed as residential and retail, the residential fee would be $9,669,187 with an additional $283,613 for the retail center.

Oak Creek Fiscal Potential
Development Fee Schedule: Vacant vs. Developed

Vacant Land				
Development Fees				**$0**
Storage Yard				
Public Facilities Fees	$50,584 per Acre		18.86 Acres	$953,919
Plan Check Fee	$1,310			$1,310
Tenant Improvement Plan Check Fee	$0.02 per S.F.		40,000 S.F	$800
Tenant Improvement Permit Fee	$0.04 per S.F.		40,000 S.F	$1,600
School Fees	$0.47 per S.F.		40,000 S.F	$18,800
Electrical Code Fee				
Plumbing Code Fee				
Mechanical Code Fee				
Building Permit Fee	$0.35 per S.F.		40,000 S.F	$14,000
Total Storage Yard Fees				**$990,429**
Light Industrial				
Public Facilities Fees	$50,584 per Acre		18.86 Acres	$953,919
Plan Check Fee	$1,310	$25 per 200 S.F	260,000 S.F	$8,810
Tenant Improvement Plan Check Fee	$0.02 per S.F.		260,000 S.F	$5,200
Tenant Improvement Permit Fee	$0.04 per S.F.		260,000 S.F	$10,400
School Fees	$0.47 per S.F.		260,000 S.F	$122,200
Electrical Code Fee				
Plumbing Code Fee				
Mechanical Code Fee				
Building Permit Fee	$0.35 per S.F.		260,000 S.F	$91,000
Total Light Industrial Fees				**$1,191,529**
Residential				
Public Facilities Fees	$12,590 per Unit		312 Units	$3,928,080
Water Fees - Vista Irrigation District	$344,086 per Unit		2 Units	$688,172
Sewer Fees - Buena Vista Sanitation	$2,807 per Unit		312 Units	$875,784
Drainage Fees	$1,709 per Acre		18.86 Acres	$32,229
School Fees	$4.58 per S.F.		425,880 S.F	$1,950,530
Affordable In-Lieu Fee	$4,650 per Unit		312 Units	$1,450,800
Misc Fees	$275,124			$275,124
Building Permit Fee	$1.10 per S.F.		425,880 S.F	$468,468
Total Residential Fees				**$9,669,187**
Retail				
Public Facilities Fees	$186,201 per Acre		1.44 Acres	$268,983
Plan Check Fee	$1,310			$1,310
Tenant Improvement Plan Check Fee	$0.06 per S.F.		12,000 S.F	$720
Tenant Improvement Permit Fee	$0.08 per S.F.		12,000 S.F	$960
School Fees	$0.47 per S.F.		12,000 S.F	$5,640
Electrical Code Fee				$0
Plumbing Code Fee				$0
Mechanical Code Fee				$0
Building Permit Fee	$0.50 per S.F.		12,000 S.F	$6,000
Total Residential Fees				**$283,613**

Source: The London Group Realty Advisors, City of San Marcos, Integral Communities

<u>*Sales Tax Revenue*</u>

We have also calculated the gross sales tax revenue potential for the site if developed as a residential project with a small retail component. Assuming a $300 per square foot annual sales rate for the 12,000 square feet of retail, with 50% of the retail use generating gross sales tax, the annual tax revenue would be $144,000. This represents the total sales tax potential, not the portion that would be allocated to the City of San Marcos.

We then calculated the potential gross sales tax revenue that would be generated by the new households at the site. With a 2013 avergage household income of $81,065 and 312 new housing units at the site, the total spending potential is about $25 million. Based on Claritas data, the typical San Marcos household spends about 51% of their spending potential on taxable retail expenditures. Thus, the total taxable retail expenditure for the new residential is close to $13 million. We assumed that between 40% and 60% would be spent in the city of San Marcos, resulting in a range from $415,291 to $622,937 in gross retail sales tax capture generated by the new households.

Oak Creek Fiscal Potential
Retail Sales Tax*

Retail Site				
Retail Space	12,000 S.F.	Percentage of Space w/No Sales Tax		50%
Retail Sales	$300 per S.F.	Taxable Retail Sales		$1,800,000
Total Retail Sales	$3,600,000	Annual Retail Tax Revenue	@ 8%	**$144,000**
Residential Site- Retail Expenditures				
Dwelling Units (Households)	312	Retail Expenditures San Marcos		$1,275,650,347
Average Household Income	$81,065	Retail Expenditures Percentage		51.3%
New Spending Potential	$25,292,406	New Residential Retail Expenditures		$12,977,847
Sales Tax Rate (Gross)	8.0%	Sales Tax % Capture (Low)	40%	**$415,291**
		Sales Tax % Capture (High)	60%	**$622,937**

*Gross sales tax revenue- not intended to represent revenue receive by the City of San Marcos

Source: The London Group Realty Advisors, Claritas, CA State Board of Equalization

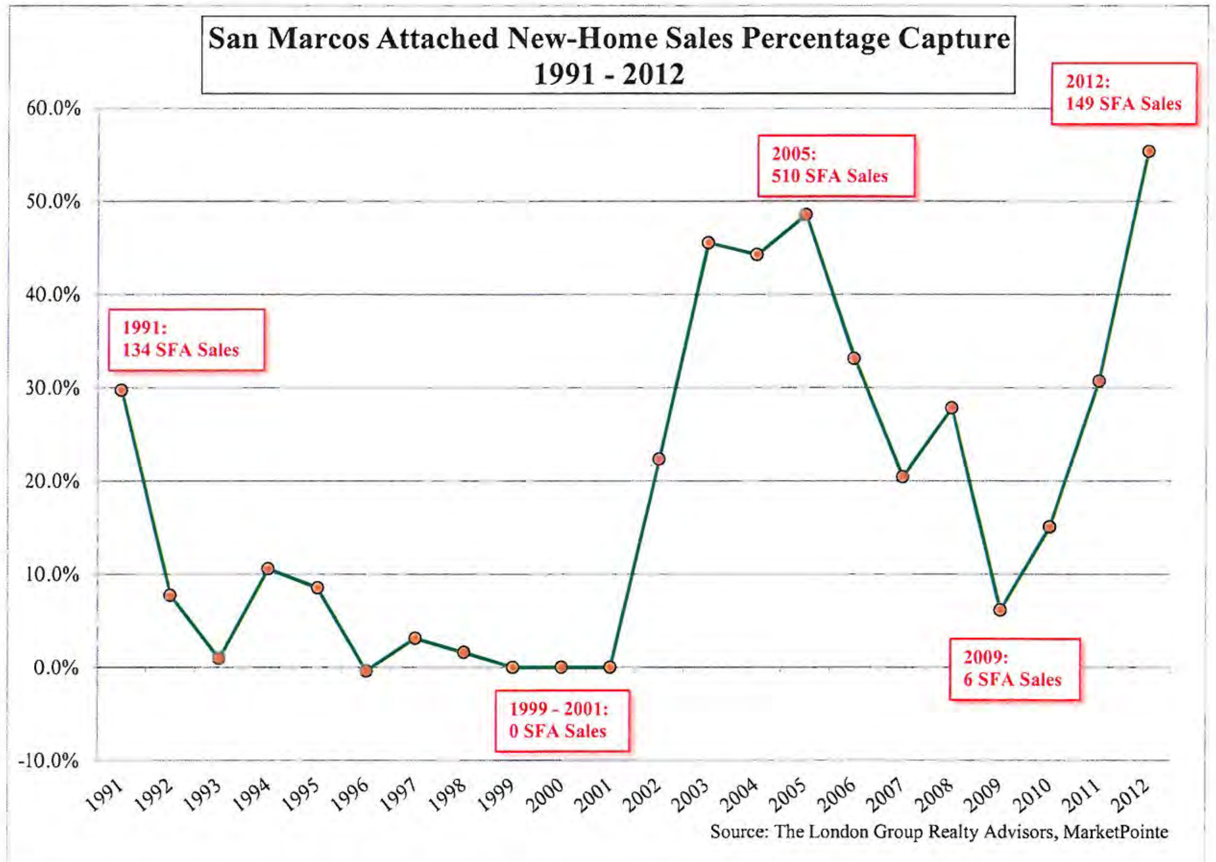
Residential Market

The Subject Property presents not only a suitable transitional site between adjacent land uses, it also represents solid urban planning as available, developable land is increasingly scarce. The development of the Subject Property as attached product represents a desirable transition between the newly developed single family detached projects located to east and the income restricted rental community to the south. The site is transit adjacent and is positioned to fulfill the significant demand for entry-level attached product.

Ultimately, the highest and best use for the Subject Property is residential. Specifically, for-sale attached homes as envisioned in Integral's proposed 312-home development plan and recommended in the market study provided by MarketPointe Realty Advisors. According to this market study, currently available attached supply is limited. Additionally, future attached supply is largely focused in two large master-planned communities located in a different part of town, with major infrastructure barriers that will likely push development off for 10+ years.

The demand for attached for-sale product in the local market is demonstrated in the sales history. According to MarketPointe, there were 149 attached homes sold in San Marcos in 2012, the highest annual total since 2005 and a significant improvement from 2009 when just six attached homes were sold. Compared to the detached market, attached sales volume surpassed that of detached product in 2012, the first time since at least 1991 that the attached market outperformed the detached. This indicates a shift toward affordability as new attached product was priced roughly 45% below new detached in the fourth quarter of 2012[1]. The following chart details the relationship between attached annual sales volume and the attached sector's percentage capture of the overall market.

[1] San Marcos/Oak Creek Market Analysis, MarketPointe Realty Advisors, Nov. 2012, p.4



The Subject Property's physical deficiencies as noted in the Industrial Market section of this report become positive attributes when the site is considered as a residential development. The lack of major street visibility is a positive for a residential use as it results in privacy. Furthermore, the noise associated with traffic is lessened as the distance from the source is increased. The physical slope of the site will add height differentials among the proposed product types that will provide architectural interest to residents and visitors. The Subject Property's proximity to adjacent single family homes creates a much more desirable transition between surrounding land uses rather than an abrupt shift from new single family homes to industrial uses.

The Subject Site's adjacency to the commuter rail line is mostly beneficial, with nearby stations. Any noise impact is mitigable through the use of sound walls and proper buffering.

Industrial Market

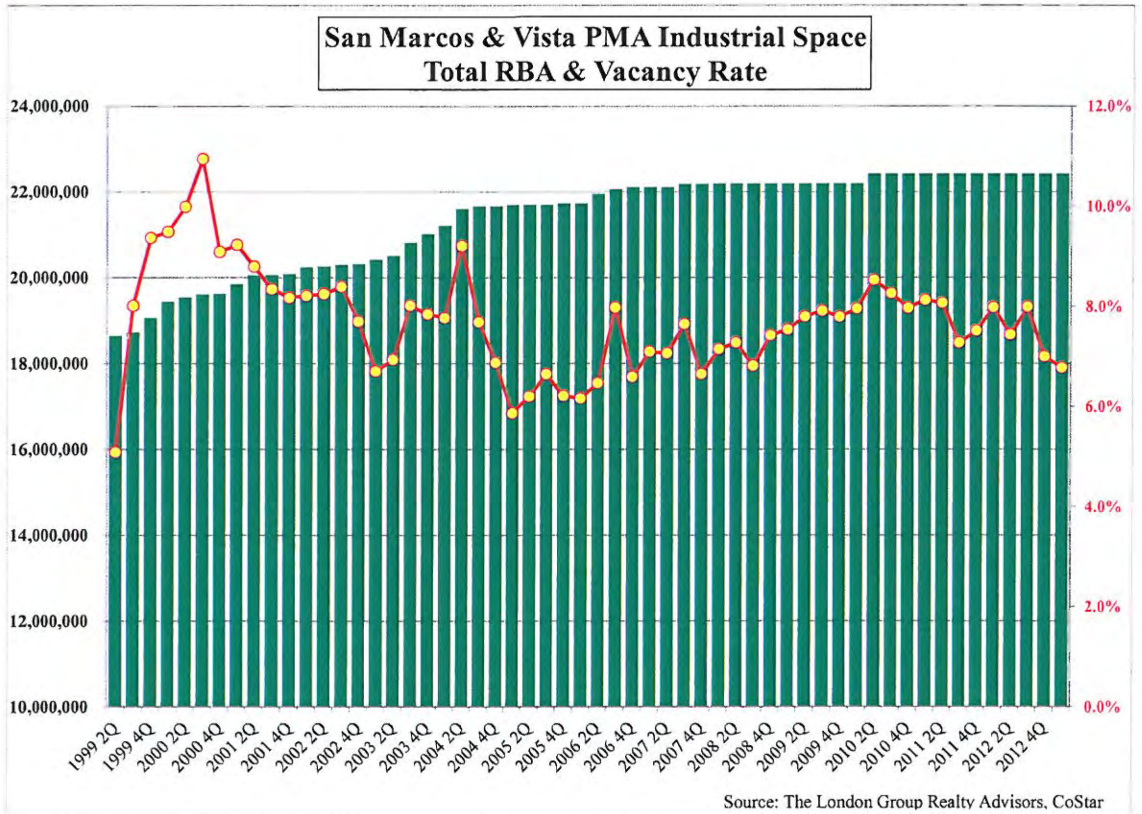
The Subject Property is a roughly 19-acre (17.5 acres light industrial and 1.5 acres commercial) vacant site is zoned light industrial and commercial. The site is vacant undeveloped land and has been for more than 20 years. It is located in the middle of the San Marcos and Vista Primary Market Area ("PMA"). In assessing the development potential for the site as an industrial use, we considered that the site has been offered for sale for roughly two decades.

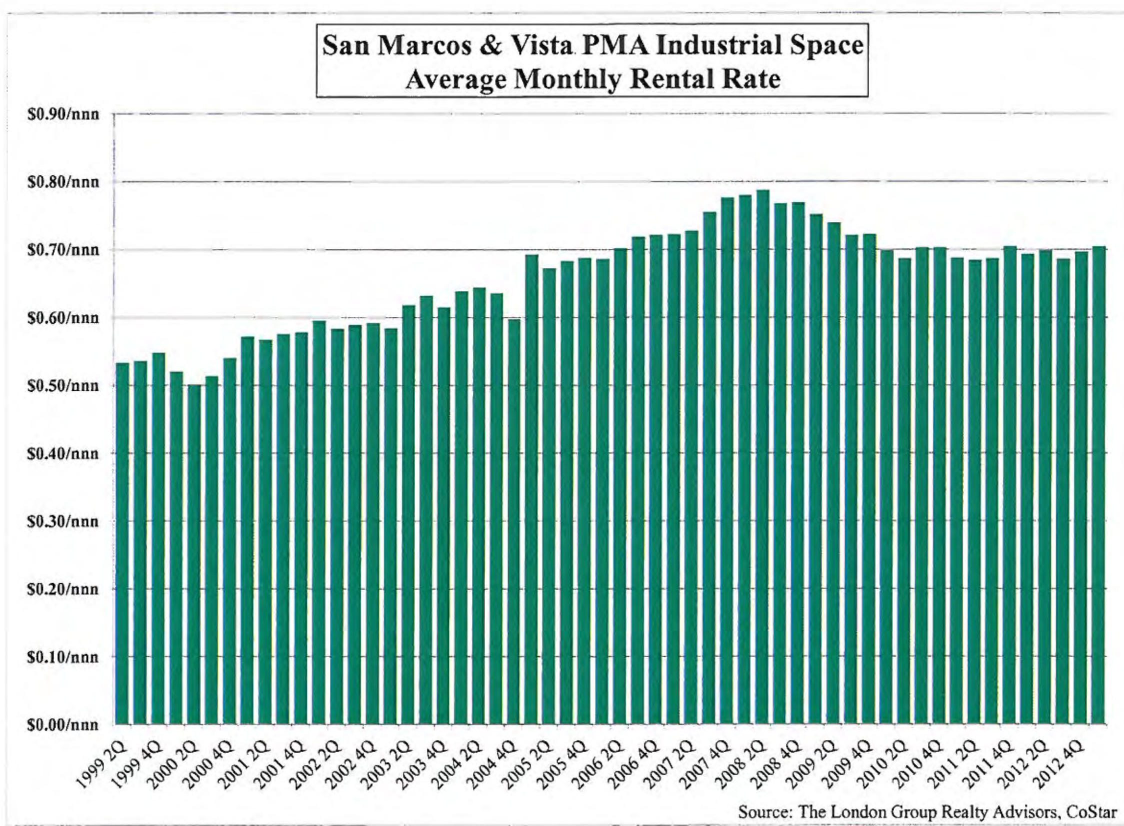
The San Marcos and Vista PMA, the area most competitive to the Subject Property, and wider North County are essentially stable. Little new product has been introduced to the region in recent years with vacancy rates remaining fairly consistent. Although rental rates for industrial product climbed throughout the early 2000's, there has been little to no rent growth in recent years. We expect that future rental rates will remain flat, with the best case scenario noting moderate increases.

The overall North County industrial market is similar to the PMA, although slightly less stable. New product introduction is essentially non-existent with very little new space entering the market in recent years. Vacancy rates are marginally higher in the North County market while monthly rental rates are slightly lower.

While the local industrial market is stable, the Subject Property remains a bottom-of-the-market site. If ever developed, it will likely obtain rent rates at the lowest end of the market spectrum. Higher-end industrial users, and thus higher-rent payers, will seek out higher quality sites, either existing or proposed. The rental rates at the Subject Property would have to increase significantly above the market rate in order for a developer to consider this site viable.

The following charts highlight the industrial trends of the San Marcos and Vista PMA:


San Marcos & Vista PMA Industrial Space
Total RBA & Vacancy Rate
24,000,000
22,000,000
20,000,000
18,000,000
16,000,000
14,000,000
12,000,000
10,000,000
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Source: The London Group Realty Advisors, CoStar


San Marcos & Vista PMA Industrial Space
Average Monthly Rental Rate
$0.90/nnn
$0.80/nnn
$0.70/nnn
$0.60/nnn
$0.50/nnn
$0.40/nnn
$0.30/nnn
$0.20/nnn
$0.10/nnn
$0.00/nnn
Source: The London Group Realty Advisors, CoStar

Industrial Site Appropriateness

The subject site is competitively inferior as an industrial location. To be developed as an industrial site, the Subject Property must overcome the following deficiencies:

- The site has virtually no visibility from South Santa Fe Avenue - the only major road that provides access to the site.
- The site features severe slope differentials which segments the site and limits the size and type of industrial product that can be developed.
- The site is adjacent to new residential single family homes. As industrial space, it does not present a good transition between product types.
- Site access is limited with just three potential access points, South Santa Fe, Norman Strasse Road and Bosstock Blvd.
- Surrounding uses include industrial uses to the west and north, new residential to the east, a light rail line that borders the eastern edge, an affordable attached community on the southeastern edge and a mobile home community to the south.

Overall, given the surrounding land uses and the physical attributes of the Subject Property, industrial development does not present the highest and best use. However, if the site were to be developed as industrial land, the likely development scenario would be an industrial use that would attract low-end users who require minimal improvements, such as warehousing or storage with little employment.

Potential Employment

We analyzed the potential employment if the site were to be developed as a mixed-used project with 312 residential units and 12,000 square feet of commercial/retail use. The retail portion will add about 36 new jobs, calculated at three jobs per 1,000 square feet of building area. The residential portion will ultimately add employment as well, including maintenance and landscaping, and management. The following table summarizes the commercial/retail calculation.

Oak Creek Employment Potential
Developed as Commercial/Retail

Building Type	S.F.	Empl/ 1,000 S.F.	# Employed
Commercial/Retail	12,000	3	36
Total Employment			**36**

Source: The London Group Realty Advisors

We also analyzed the potential employment if the site were to be developed as a low improvement industrial site similar to the storage yard on the northern edge of the Subject Property. We utilized approximately 5% building coverage over the entire Subject Property resulting in about 40,000 square feet of building space. We applied an appropriate employment factor resulting in about 40 new jobs. While these are industry standards, the employee count depends on the type of storage use. For instance, if a self-storage facility were to be developed, the employment count might be just five new jobs. The following table summarizes this calculation.

Oak Creek Employment Potential
Developed as a Storage Yard

Building Type	S.F.	Empl/ 1,000 S.F.	# Employed
Storage Yard	40,000	1	40
Total Employment			**40**

Source: The London Group Realty Advisors

While this analysis represents the *potential* employment for the site, it is important to consider the likelihood that an industrial type of development will occur. Given the history of the site (20+ years vacant and graded with all of the infrastructure at the property line and for sale) and the lack of immediate and near-term demand for industrial product in the area, it is unlikely that this land use is currently viable. If the current zoning remains and is not adjusted to a more appropriate land use, this property is likely to only attract lower intensity industrial uses, such as warehousing or storage.

Vacant Land

In the North County region of San Diego County, there are a total of 1,531.3 acres of vacant commercial and industrial developable land. There are 245.9 acres of vacant commercial and industrial land in the City of San Marcos. The following table summarizes the distribution of vacant land throughout the North County:

Vacant Land by Zoned Use (Acres)
North County San Diego

	Zoned Use
City	**Commercial/Industrial**
Carlsbad	375.0
Escondido	314.5
Oceanside	502.0
San Marcos	**245.9**
Vista	93.8
Total	**1,531.3**

Source: The London Group Realty Advisors, CoStar

Should you have any questions regarding this analysis, please feel free to contact us.

Sincerely,

Gary H. London
President

MarketPointe REALTY ADVISORS

March 9, 2013

Mr. Lance Waite
Integral Communities
2235 Encinitas Blvd, Suite 216
Encinitas, CA 92024

RE: San Marcos/Oak Creek Mixed Residential Housing Market Analysis

Dear Lance:

Per your request, the staff of MarketPointe Realty Advisors has conducted a review and analysis of the San Marcos Competitive Housing Market Area (CHMA) in order to provide you with input relative to the development potential of a 312-unit, 19-acre mixed residential site which will incorporate a mixture of residential housing type identified as Oak Creek.

Prouct	Units	Concept
1	163	Three-Story Townhomes
2	119	2-Story Townhomes
3	30	Hillside Townhomes
	312	

The Oak Creek subject is located in western San Marcos west of S. Santa Fe Avenue at the terminus of Bosstick Boulevard and Norman Strasse Road. Adjacent to the western border of the subject site is a mixed use industrial park. To the east of the site are established modern single family detached neighborhoods built in the early-to-mid-2000's, namely Santalina North by Fieldstone, Paloma by Baldwin, Santa Fe Hills by KB Home and a small stand-alone by Hallmark Communities, Loma Alta. Values at these neighborhoods is focused in the mid-to-high-$500,000's with more recent resale homes averaging in the high-$400,000's to low-$500,000's.

Pricing Averages
Santalina North, Santa Fe Hills, Paloma & Loma Alta

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total
Avg Price	$515,750	$489,000	$506,529	$578,101	$619,314	$578,821	$566,702	$526,361	$698,036	$496,944	$497,931	$512,300	$578,385
Avg Sqft	3,613	3,445	2,879	2,525	2,455	2,169	2,537	3,055	3,056	3,174	3,116	3,244	2,567
# Units	2	2	17	133	110	42	84	29	7	9	3	5	443

Adjacent to the southeastern border of the Oak Creek site is Las Flores Village an affordable townhome rental ($1237 – $1,270 per month) project opened in 2006. Across S. Santa Fe Avenue from the site is an older mobile home park adjacent to an early-1970's duplex project San Marcos Manor which features average 800+ square foot units focused in the $120,000 to $140,000 price range.


Oak Creek
Via Hacienda
Via Santana
Paseo De Las Brisas
Hydra Ct
Loma Alta Dr
Alta Ct
Castle Ln
W Borden Rd
Avenida Leon
Via Cafetal
Avenida Cordoba
Curly Comb Dr
Norman Strasse Rd
S Santa Fe Ave
Meadow Ln
Casa Linda Way
Calinda Dr
Plumosa Ave
Google earth
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LUCIDO II @ SANTA FE HILLS
LORETTO @ PALOMA
ALLICANTE @ PALOMA
SONORA @ PALOMA
LUCIDO @ SANTA FE HILLS
GLEN PARK
RIDGEMORE @ SANTA FE HILLS
NORTHWOOD @ SANTA FE HILLS
TESORO @ SANTA FE HILLS
BRENTFIELD @ SANTA FE HILLS
HACIENDAS II @ RANCHO SANTALINA NORTH
HACIENDAS @ RANCHO SANTALINA NORTH
LOMA ALTA
VISTAS @ RANCHO SANTALINA NORTH
VISTAS II @ RANCHO SANTALINA NORTH
PARKSIDE @ PALOMA
LOS FLORES VILLAGE
REGENCY HILL @ PALOMA
Google earth

The City of San Marcos is a maturing city with limited green field development opportunities and in fact limited product in the entitlement process. As of January 2012, San Marcos had a population base of 85,569 persons residing in 28,966 housing units of which 60 percent is single family.

POPULATION			HOUSING UNITS									
				SINGLE FAMILY		MULTI-FAMILY						
Total	Household	Group Quarters	Total	Single Detached	Single Attached	Two to Four	Five Plus	Mobile Homes	Occupied	Vacancy Rate	Persons per Household
85,569	84,732	837	28,966	15,469	2,151	1,141	6,879	3,326	27,511	5.02%	3.080
				53%	7%	4%	24%	11%			

About two-thirds of San Marcos' 17,620 units of single family housing stock has been added over the past two decades, with about 70 percent of those units built in the 2000's.

SAN MARCOS NEW HOME SALES																							
Style	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL
ATTACHED	134	27	4	43	35	-1	9	4				243	515	722	510	108	65	32	6	11	63	149	2,679
DETACHED	317	322	427	364	375	260	281	248	455	811	833	846	616	909	540	218	253	83	92	62	142	120	8,574
TOTAL	451	349	431	407	410	259	290	252	455	811	833	1,089	1,131	1,631	1,050	326	318	115	98	73	205	269	11,253
									3,304										7,402			547	

Currently there are only nine actively selling projects in the City (5 detached and 4 attached) representing a total 764 units of which 405 have been sold. Generally speaking the detached product actively selling in San Marcos is far from affordable with an average price approaching $620,000. Of the total 359 units of available inventory in these nine projects about 45 percent are attached, with most of those units in one project Magnolia.

San Marcos
Activity Selling New Home Projects
Q4 2012

Dev	Dvlpr	Price	Sqft	$/Sqft	Total Units	Total Sold	Total Inventory	Concept
CANDERA	TRI POINTE HOMES	$343,833	1,720	$199.90	44	36	8	FIVEPLEX
LAUREL @ OLD CREEK RANCH	CORNERSTONE COMMUNITIES	$387,175	1,714	$225.88	98	79	19	DUPLEX
MAGNOLIA @ OLD CREEK RANCH	CORNERSTONE COMMUNITIES	$301,865	1,319	$228.85	193	78	115	TOWNHOMES
SOLAIRE @ OLD CREEK RANCH	COLRICH COMMUNITIES	$311,240	1,204	$258.50	128	106	22	TOWNHOMES
		$339,461	1,501	$226.23	463	299	164	
ALTAIRE @ SAN ELIJO HILLS	D.R. HORTON	$714,486	3,015	$236.97	106	44	62	7800 Sqft Lot
BELLA VISTA @ SAN ELIJO HILLS	RYLAND HOMES	$766,393	3,636	$210.77	59	14	45	7200 Sqft Lot
BELMONT II @ SAN ELIJO HILLS	LENNAR HOMES	$447,545	1,793	$249.60	110	24	86	3000 Sqft Lot
CANDERA - DETACHED	TRI POINTE HOMES	$508,900	2,645	$192.40	8	7	1	7000 Sqft Lot
TERRAZA WEST @ SAN ELIJO HILLS	LENNAR HOMES	$637,528	2,673	$238.50	18	17	1	6000 Sqft Lot
		$619,820	2,679	$231.39	301	106	195	
					764	405	359	

Future supply appears to be relatively limited in San Marcos with fewer than 7,300 units in the entitlement process, 90 percent attached. Much of the future supply in San Marcos is located in either the San Marcos Creek Specific Plan or the University District Specific Plan both of which is years away from development. This 2,200 unit project accounts for 30 percent of the total units in the entitlement process and San Marcos and 33 percent of the attached units. The 2,600 unit University District will feature mostly attached product with 15 percent of the units designated to be affordable. In addition, 800 student housing units are planned which are not demonstrated in the following table. Eliminating San Marcos Creek and the University District from the analysis and San Marcos has ONLY 400 for-sale attached units in planning process, with many of those units not anticipated to enter the market for at least three years.

San Marcos
Proposed Summary by Style & Status
4th Quarter 2012

		status					
style	Data	OFF MARKET	FINAL MAP	FINAL APPROVAL	TENTATIVE APPROVAL	PLANNING	Grand Total
AFFORDABLE	Sum of units			105	84	390	579
	Number of Projects			1	1	1	3
APARTMENTS	Sum of units				370	868	1,238
	Number of Projects				1	2	3
ATTACHED	Sum of units			2,392	72	2,322	4,786
	Number of Projects			3	3	4	10
DETACHED	Sum of units	79	14	366	51	184	694
	Number of Projects	2	1	4	5	6	18
Total Sum of units		79	14	2,863	577	3,764	7,297
Total Number of Projects		2	1	8	10	13	34

The following table summarizes anticipated market entry of the proposed units in the City of San Marcos with the table on the following page detailed individual projects.

San Marcos
Proposed Summary by Style & Market Entry
4th Quarter 2012

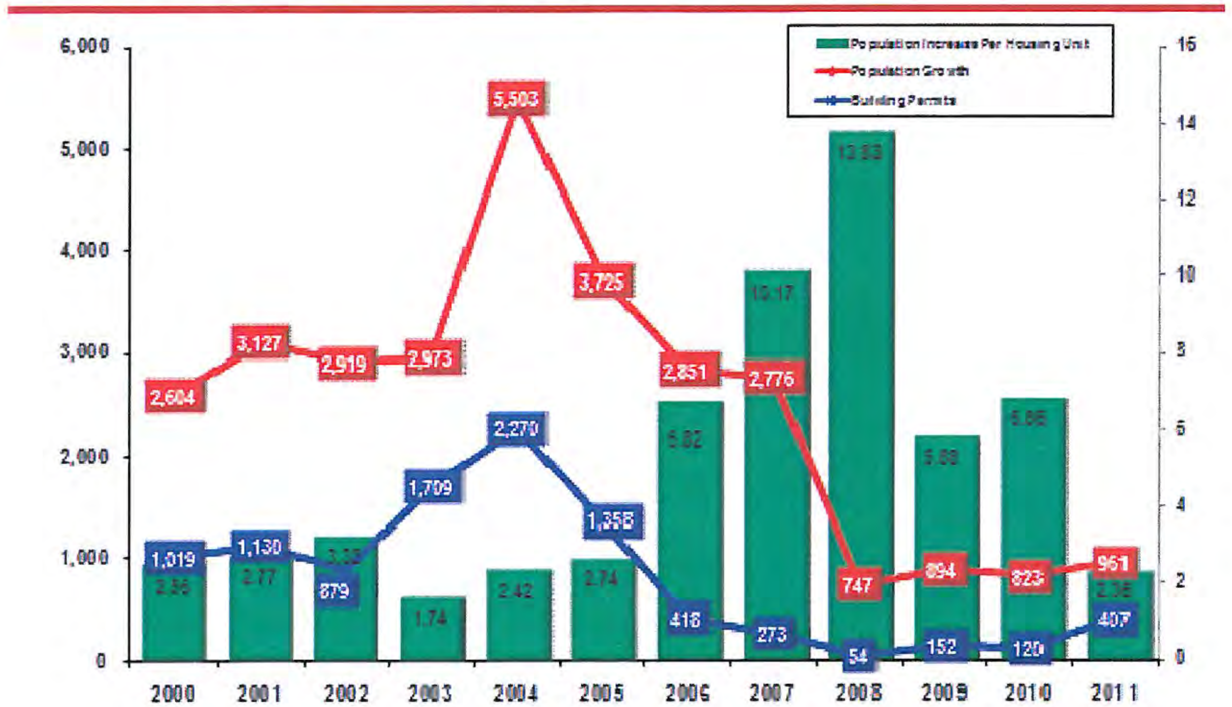
		market entry				
style	Data	1-2 YEARS	3-5 YEARS	5-10 YEARS	10+ YEARS	Grand Total
AFFORDABLE	Sum of units		189	390		579
	Number of Projects		2	1		3
APARTMENTS	Sum of units		370	868		1,238
	Number of Projects		1	2		3
ATTACHED	Sum of units	192	72	112	4,410	4,786
	Number of Projects	2	3	3	2	10
DETACHED	Sum of units	459	51	184		694
	Number of Projects	7	5	6		18
Total Sum of units		651	682	1,554	4,410	7,297
Total Number of Projects		9	11	12	2	34

San Marcos
Proposed Developments Market Entry

recnum	devname	concept	status	market entry	units
8413	THE MASTERPIECE COLLECTION @ MONTAGE	DETACHED	OFFMARKET	1-2 YEARS	37
8414	THE SYMPHONY COLLECTION @ MONTAGE	DETACHED	OFFMARKET	1-2 YEARS	42
2722	LAKE SAN MARCOS COMMERCIAL CENTER	CONDOMINIUM	FINAL APPROVAL	1-2 YEARS	150
4196	LAGO DE SAN MARCOS	CONDOMINIUM	FINAL APPROVAL	1-2 YEARS	42
4791	SAN ELIJO HILLS - PA S (TRACT 400)	DETACHED	FINAL APPROVAL	1-2 YEARS	78
5065	SAN ELIJO HILLS - PA K (TRACT 400)	DETACHED	FINAL APPROVAL	1-2 YEARS	212
2764	HERITAGE RANCH (TRACT 462)	ESTATE LOTS	FINAL APPROVAL	1-2 YEARS	16
4839	SAN ELIJO HILLS - PA O	ESTATE LOTS	FINAL APPROVAL	1-2 YEARS	60
4264	GATEWAY IVEY (VILLA LAS BRISAS)	ESTATE LOTS	FINAL MAP	1-2 YEARS	14
				1-2 YEARS Total	651
8751	PARKVIEW APARTMENTS	AFFORDABLE MF	TENTATIVE APPROVAL	3-5 YEARS	84
4648	PALOMAR STATION (TRACT 464)	APARTMENTS	TENTATIVE APPROVAL	3-5 YEARS	370
8755	CANDERA - ATTAHCED	CONDOMINIUM	TENTATIVE APPROVAL	3-5 YEARS	50
4658	RANCHO OTERA (TRACT 458)	DETACHED	TENTATIVE APPROVAL	3-5 YEARS	18
7058	TRACT 476	DETACHED	TENTATIVE APPROVAL	3-5 YEARS	6
8754	CANDERA - DETACHED	DETACHED	TENTATIVE APPROVAL	3-5 YEARS	8
2730	TRACT 461	ESTATE LOTS	TENTATIVE APPROVAL	3-5 YEARS	11
7268	TWIN OAKS VALLEY VINEYARD ESTATES	ESTATE LOTS	TENTATIVE APPROVAL	3-5 YEARS	8
2726	AUTUMN CONDOMINIUMS- TRACT 460	TOWNHOME	TENTATIVE APPROVAL	3-5 YEARS	10
4200	BELLA VISTA	TOWNHOME	TENTATIVE APPROVAL	3-5 YEARS	12
7478	WESTLAKE VILLAGE	AFFORDABLE MF	FINAL APPROVAL	3-5 YEARS	105
				3-5 YEARS Total	682
9536.1	UNIVERSITY DISTRICT	AFFORDABLE MF	PLANNING	5-10 YEARS	390
4197	UNIVERSITY BUSINESS PARK - PA 2	APARTMENTS	PLANNING	5-10 YEARS	500
9537	DAVIA VILLAGE	APARTMENTS	PLANNING	5-10 YEARS	368
7477	TRACT 470	DETACHED	PLANNING	5-10 YEARS	22
8752	TRACT 467	DETACHED	PLANNING	5-10 YEARS	5
2721	TRACT 466	ESTATE LOTS	PLANNING	5-10 YEARS	18
3470	QUAIL RIDGE	ESTATE LOTS	PLANNING	5-10 YEARS	69
3471	VICTORIA SHANGRILA	ESTATE LOTS	PLANNING	5-10 YEARS	37
4275	MERRIAM WEST RANCH	ESTATE LOTS	PLANNING	5-10 YEARS	33
2727	TRACT 454	TOWNHOME	PLANNING	5-10 YEARS	12
2729	TRACT 452	TOWNHOME	PLANNING	5-10 YEARS	10
4199	URBAN VINEYARDS	TOWNHOME	PLANNING	5-10 YEARS	90
				5-10 YEARS Tota	1,554
5535	SAN MARCOS CREEK SPECIFIC PLAN	ATTACHED	FINAL APPROVAL	10+ YEARS	2,200
9536	UNIVERSITY DISTRICT	ATTACHED	PLANNING	10+ YEARS	2,210
				10+ YEARS Total	4,410
				Grand Total	7,297

In light of the recent and some say ongoing recessionary cycle, housing production has struggled to keep pace with population expansion in San Marcos. Throughout the early part of the 2000's San Marcos added about one housing units for every 2.50 to 3.00 persons added to its population base. By the mid-2000's with housing production falling, San Marcos added one housing units for every six or more persons added to its population base. This trend is similar to the one seen countywide.

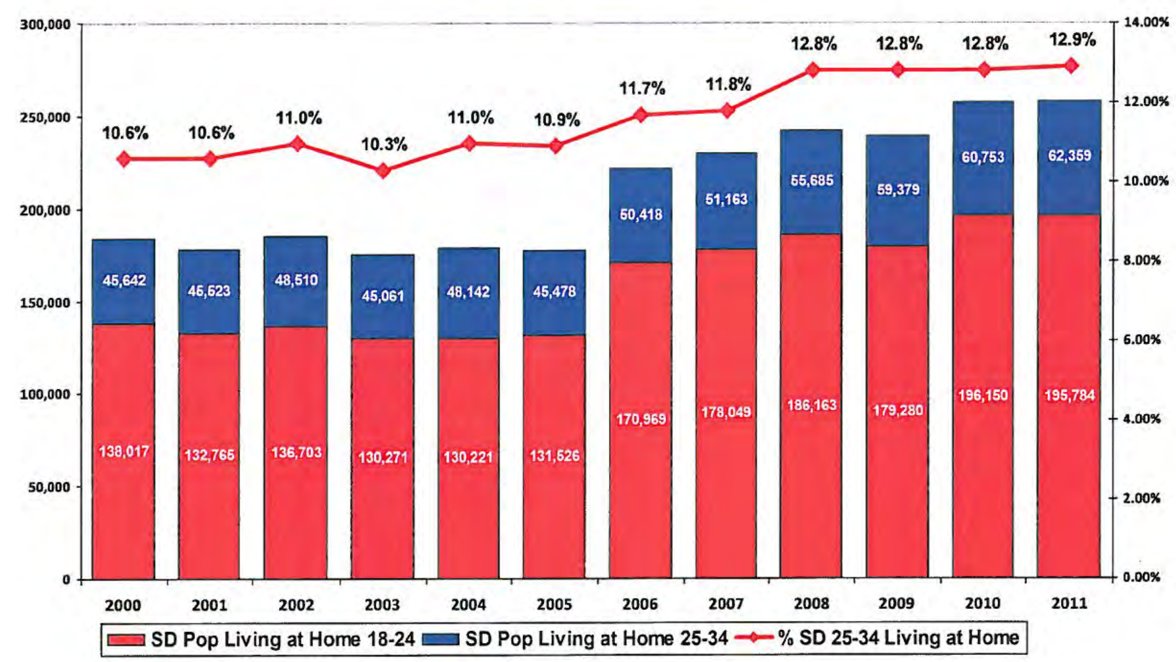
Strong Population Growth Coupled With Low Housing Production Levels Potentially Signaling Future Housing Shortage in San Marcos



Another trend noticeable countywide but not quantifiable for San Marcos is the increasing number of echo boomers living at home. During the early 2000's the percentage of echo boomers 25 to 34 living at home had declined to about 10.5 percent. That percentage has risen over the years to 12.9 percent in 2011. Many of these echo boomers went home because of poor economic conditions, to help their parents or to save money so that when the market improves they would have moneys for down payments.

Another trend we've noticed in the market is more specific rentals. As the economy got worst, many individuals doubled up in rentals to save money. All in all these conditions are not good long term housing solutions and as the economy rebounds many of the doubled up households and boomerangs will be looking for housing creating pressure on an already pent-up demand marketplace.

Tougher Economic Times Have Increased the Percentage of Echo Boomers Living at Home With Their Parents; Statewide They Total 2.8 Million, of Which 258,143 Live in San Diego County



Although the subject site has an underlying commercial land use designation, it is our opinion that the site would be better suited for residential development for a number of reasons.

- First, the site has been graded and vacant for a number of years demonstrating is inability to attract industrial users.
- Given the sites lack of major arterial frontage the site is not a highly desirable industrial/commercial retail site.
- While bordered on to the west by industrial activity, grade changes at the site place the below the industrial land uses.
- To the east of the site and southeast of the site are existing residential uses and if fact the site acts as a natural buffer between the industrial land uses and the single family land uses to the east of the site.
- While an initial look at the 7,900 units in the entitlement process indicates that is a good amount of supply being planned, 25 percent are planned as more discretionary detached product.
- Of the total 6,600 attached units 579 are known to be affordable/income restricted units, over 1,200 are designated as apartments. The bulk of the units planned for San Marcos (nearly 4,800 units) are located in either the San Marcos Creek or University District Specific Plans which most likely are 10 years or more away from development.

- From a fiscal perspective, a relatively easy to develop site providing "workforce" market rate product in the mid-$200,000 to mid-$300,000's will provide the fastest incremental tax increase value at the subject site.

We appreciate the opportunity of preparing this report for your review and we remain available to further assist you as the need arises.

Respectfully submitted,

MARKETPOINTE REALTY ADVISORS

Russell T. Valone II

President

PROJECT SUMMARY

2-STORY HOMES	85
3-STORY HOMES	110
HILLSIDE TOWNHOMES	36
UNIT TOTAL :	231 HOMES
COMMERCIAL :	10,000 S.F.

SAN MARCOS, CA

SITE PLAN

OAKCREEK-MASHBURN

INTEGRAL COMMUNITIES
2235 Encinitas Blvd., Suite 216
Encinitas, CA 92024
(760) 419-5432

Scale 0 60 120 180

APRIL 4, 2013

SUMMA ARCHITECTURE
5256 S. Mission Road, Ste 306
Bonsall, CA 92003
760.724.1198

SAN MARCOS, CA

SITE PLAN

OAKCREEK-MASHBURN

INTEGRAL COMMUNITIES
2235 Encinitas Blvd., Suite 216
Encinitas, CA 92024
(760) 419-5432

Scale 0 60 120 180

JANUARY 9, 2013

SUMMA ARCHITECTURE
5256 S. Mission Road, Ste 306
Bonsall, CA 92003
760.724.1198

Mashburn Property
Residential Property
Residential Property
Chirimoya Dr
S Santa Fe Ave
W Las Posas Rd
W Borden Rd
W Mission Rd
Capalina Rd
Via Perlita
Oleander Ave
Descanso Ave
Corte Dulce
Corte Cielo
Caminito Amarillo
Calle Prospero
Calle Fantasia
Via Caliente
Via Contessa
Avenida Fragata
Avenida Amistad
Avenida Blanco
Feather Dr
Bird Ct
Jay Ct
Camino Magnifico
© 2013 Google
Imagery Date 8/23/2010
1994
Eye alt 9677 ft
Google earth


Existing Industrial
Apartments
Residential Property
Ronald Packard Pkwy
Valpreda Rd
78
Barham Dr
Woodland Pkwy
Hill St
Campus View Dr
Walnut Hills Dr
Edgewater Dr
Shelly Dr
Google earth

Residential Property
COSTCO
CASA VALLECITOS
SENIOR APARTMENTS
RANCHO VALLECITOS
APARTMENTS
E Mission Rd
Bennett Ct
78
© 2013 Google
Google earth
Imagery Date: 8/23/2010
1995
Eye alt 3873 ft

HOLLANDIA
DAIRY
Mulberry Dr
E Mission Rd
Mission Hills Ct
Inland Rail Trail
Prado Verde
© 2013 Google
Google earth
N


KRC
ROCK
W Borden Rd
Windy Point Dr
Borden Rd
Manzanita Ln
Oakfree Ln
Holzapple Ln
Spruce Dr
Ash Ln
Chenin Way
Zillions Ln
Barnett Dr
Hemphill
© 2013 Google
Google earth

Mashburn Property
22
21
20
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2
1
Bostick Blvd
Norman Strasse Rd
S Santa Fe Ave
Las Flores Dr
Via La Venta
Via Hacienda Ct
Via Santalina
Via Anacapa
Paseo De Las Brisas
Hydra Ct
Pegasus Way
Loma Alta Dr
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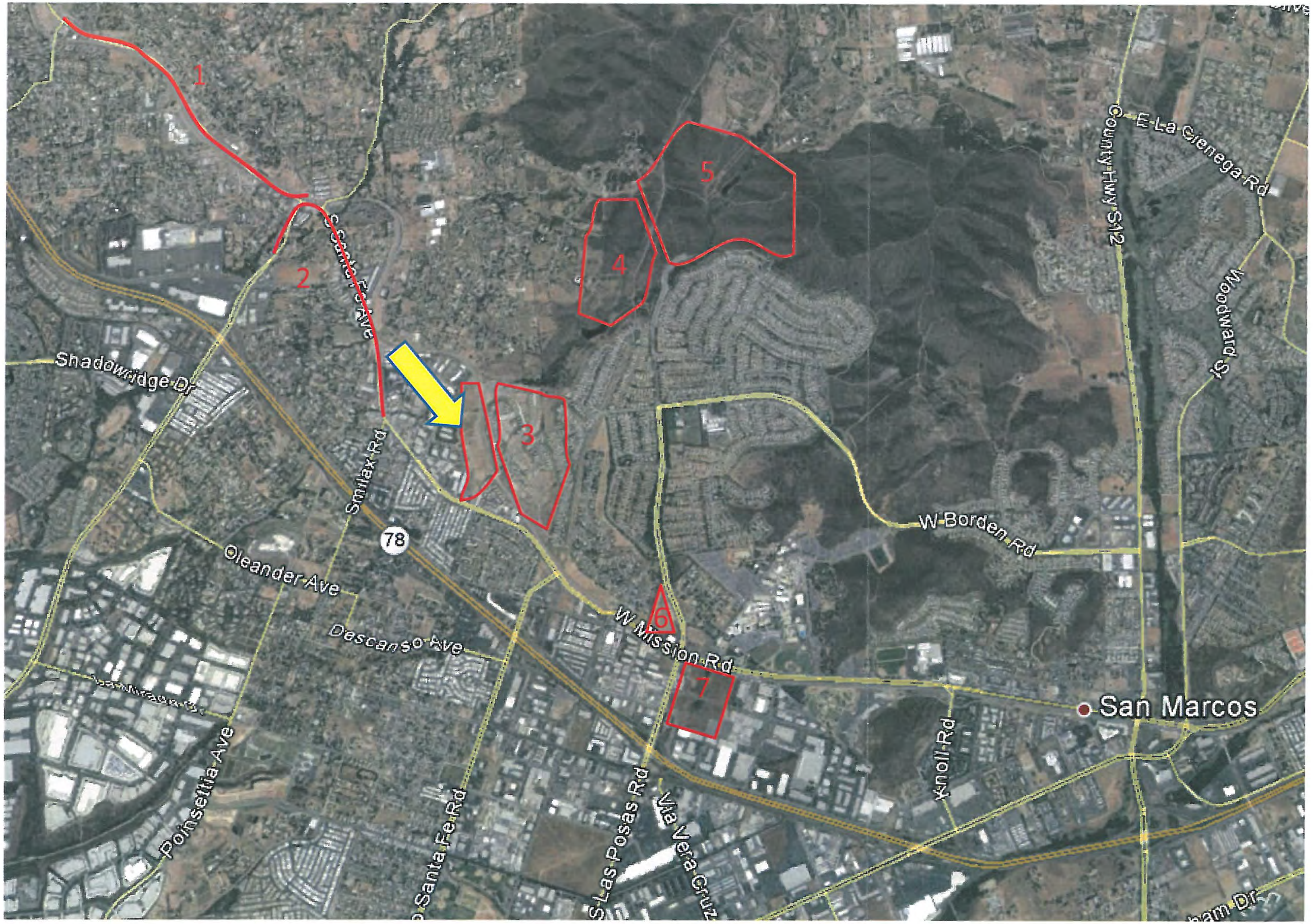
Adjacent Uses

1.	Sonic Galt's Gulch Dippin Dots	2892 S Santa Fe Ave #103, San Marcos, CA 92069(760) 597-0300	Mon-Fri 8:00 – 5:00
2.	Shadowcrest Roofing Apex	2890 S Santa Fe Ave	Mon-Fri 8:00 – 4:00
3.	Impact Project Management	2872 S Santa Fe Ave, San Marcos, CA 92069 (760) 747-6616	Mon- Fri 8:00 – 5:00
4.	Undetermined	2870 Santa Fe Ave, San Marcos, CA 92069	
5.	Sport Car Motion	2766 S Santa Fe Ave, San Marcos, CA 92069 (760) 599-7168	Mon – Fri 10:00 – 6:00
6.	North County Powder Coating	2760 S Santa Fe Ave, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
7.	Action A/C Performance Edge Auto	2750 S Santa Fe Ave, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
8.	North County Powder Coating	2746 S Santa Fe Ave, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
9.	North County Powder Coating	2748 S Santa Fe Ave, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
10.	Vacant	2740 S Santa Fe Ave, San Marcos, CA 92069	
11.	Undetermined	2937 Norman Strasse Road, San Marcos, CA 92069	
12.	Cenzone	2943 Norman Strasse Road, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
13.	Vacant	2951 Norman Strasse Road, San Marcos, CA 92069	
14.	Design Fabrication Inc	100 Bosstick Blvd, San Marcos, CA 92069(760) 727-1800	Mon- Fri 8:00 – 5:00
15.	Undetermined	130 Bosstick Blvd, San Marcos, CA 92069	
16.	Avista Technologies	140 Bosstick Boulevard, San Marcos, CA 92069 (760) 744-0536	Mon- Fri 8:00 – 5:00
17.	California Building Specialties	160 Bosstick Boulevard, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
18.	North Hills Baptist Church Universal Quartz	2910 Norman Strasse Rd #103, San Marcos, CA 92069(760) 412-9322	Mon – Sunday
19.	Oak Tree Vans	2920 Norman Strasse Rd, San Marcos, CA 92069	Mon- Fri 8:00 – 5:00
20.	DCI Corp Elmer's Mold Polishing & Repair	2930 Norman Strasse Road, San Marcos, CA 92069 (760) 727-3318	Mon- Fri 8:00 – 5:00
21.	Rain Harvesting	170 Bosstick Boulevard, San Marcos, CA 92069	
22.	Baja Designs	185 Bosstick Boulevard, San Marcos, CA 92069 (760) 560-2252	Appt

Economic Stimulus

1.	City of Vista S. Santa Fe Improvement	Near completion	**$15,000,000**
2.	County of San Diego Improvement	Started , to complete 10 years	**$75,000,000**
3.	Rancho Santalina Fieldstone	110 homes Completed	**$55,000,000**
3.	Rancho Santalina KB Homes	126 homes in process	**$63,000,000**
4.	Bieri Property	79 homes in entitlement	**$47,400,000**
5.	Kubba Property	198 homes in entitlement	**$118,800,000**
6.	Grocery Store	5 years	**$15,000,000**
7.	Palomar Station	370 units in process	**$100,000,000**
8.	Oak Creek	312 Residential Units / Retail	**$93,600,000**
	TOTAL		**$582,800,000**



Economic Stimulus

City of Vista S. Santa Fe Improvement	5 – 10 years	**$15,000,000**
County of San Diego Improvement	Partially Complete	**$75,000,000**
Rancho Santalina Fieldstone	110 homes Completed	**$55,000,000**
Rancho Santalina KB Homes	126 homes in process	**$63,000,000**
Bieri Property	79 homes in entitlement	**$47,400,000**
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TOTAL		**$582,800,000**

Oak Creek
Mashburn Property
Residential Property
Residential Property
Via Cafetal
Avenida Amigo
Avenida Leon
Corte Brao
Casita Ln
Avenida Cordoba
Pegasus Way
Via Venta
Loma Alta Dr
Curry Comb Dr
Avenida Blanco
Concha Ln
Pommel Way
S Santa Fe Ave
Polley Dr
Hollenbeck Rd
De Leone Rd
Calle Prospero
Calle Fantasia
Avenida Arana
Avenida Fragata
Avenida Amistad
Corte Zafiro
Via Caliente
Via Contessa
Via Barquero
Camino Magnifico
Bird Ct
Feather Dr
Jay Ct
Tesoro Ave
Caminito Amarillo
Corte Dulce
Corte Cielo
Corte Bello
Calle Capistrano
W Borden Rd
W Mission Rd
Capalina Rd
Granite Rd
Comet Cir
Oleander Ave
Via Perlita
Descanso Ave
78
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Google earth
Imagery Date 8/23/2010
1994
Eye alt 9677 ft