

## APPRAISAL REPORT

**DRAFT No. 1**

### COMMUNITY FACILITIES DISTRICT NO. 2007-5 (COTTAGE LANE BY FRONTIER COMMUNITIES) OF THE CITY OF LAKE ELSINORE

City of Lake Elsinore, Riverside County, California  
(Appraiser's File No. 2018-1174)



Prepared For  
City of Lake Elsinore  
130 S. Main Street  
Lake Elsinore, CA 92530

Prepared By  
Kitty Siino & Associates, Inc.  
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**KITTY SIINO & ASSOCIATES, INC.**  
**REAL ESTATE APPRAISERS & CONSULTANTS**

April 2, 2018

Mr. Jason Simpson, Assistant City Manager  
City of Lake Elsinore  
130 S. Main Street  
Lake Elsinore, CA 92530

Reference: Appraisal Report – Community Facilities District No. 2007-5  
Of the City of Lake Elsinore  
(Cottage Lane by Frontier Communities)  
Northeast of the Grand Avenue / Riverside Drive (Highway 74) Intersection,  
City of Lake Elsinore, California

Dear Mr. Simpson:

At the request and authorization of the City of Lake Elsinore, we have completed an Appraisal Report for a portion of Community Facilities District No. 2007-5 of the City of Lake Elsinore ("Lake Elsinore CFD No. 2007-5"). Lake Elsinore CFD No. 2007-5 consists of 46 single family detached homes within Tract No. 32996 on approximately 10.29 acres. Five of the homes were constructed in 2008 and sat vacant for several years during the recession and were sold in 2014 and 2015. At the request of the client we are reporting the assessed value for these five homes. A reporting of assessed value is not to be misconstrued as an appraised value. Please note that the five homes are NOT included in this appraisal report. The remaining 41 homes are known as "Cottage Lane" and are being built out by Frontier Communities. Frontier began selling the homes in May of 2017 and is nearing build-out. The lots range in condition from completed, individually owned homes to homes under construction under builder ownership.

This appraisal report is to value the 41 homes within Cottage Lane which is a portion of Lake Elsinore CFD No. 2007-5. The valuation method used in this report is the Sales Comparison Approach along with a mass appraisal technique as defined within this report. The fee simple estate of the subject property has been valued subject to the Lake Elsinore CFD No. 2007-5 special tax lien. This report is written with the hypothetical condition that the subject property is enhanced by the improvements and/or fee credits to be funded by bonds issued by Lake Elsinore CFD No. 2007-5.

As a result of our investigation, the concluded market value for the subject property is:

**Cottage Lane:**

Total Frontier Ownership	\$ 4,221,539
Individual Owners (24 houses)	\$ 8,146,940
<b>Total Aggregate Value</b>	<b><u>\$12,368,479</u></b>

Reporting of Assessed Value of five Single-Family Homes within Lake Elsinore CFD No. 2007-5  
(Not to be misconstrued as Appraised Value)  
\$1,614,514

The above values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of March 15, 2018.

Mr. Jason Simpson  
**City of Lake Elsinore**  
April 2, 2018  
Page Two

Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. This Appraisal Report is intended to comply with both the Uniform Standards of Professional Appraisal Practice ("USPAP" January 2016) and with the Appraisal Standards of the California Debt and Investment Advisory Commission ("CDIAC"). The appraiser is not responsible for unauthorized use of this report.

The appraised value contained within this report is being estimated with the hypothetical condition of the special tax lien of Lake Elsinore CFD No. 2007-5.

This letter of transmittal is part of the attached report, which sets forth the data and analyses upon which our opinion of value is, in part, predicated.

Respectfully submitted,

**KITTY SIINO & ASSOCIATES, INC.**

**DRAFT**

Kitty S. Siino, MAI  
California State Certified General  
Real Estate Appraiser (AG004793)

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### **ADDENDA**

CFD No. 2007-5 Boundary Map  
Assessed Value of Five Lots within CFD No. 2007-5 but outside of Subject Property  
Discounted Cash Flow Analysis  
Residential Land Sales Map and Summary Chart  
Improved Residential Sales Map and Summary Chart  
Appraiser's Qualifications

## **ASSUMPTIONS AND LIMITING CONDITIONS**

1. This report is an Appraisal Report that is intended to comply with the reporting requirements set forth under Standard Rule 2 of the Uniform Standards of Professional Appraisal Practice. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. The property is appraised subject to the special tax lien of City of Lake Elsinore CFD No. 2007-5.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable, however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures that would render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee regarding accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.

12. It is assumed that the utilization of the land and improvements are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed there are no environmental concerns that would slow or thwart development of the subject property and that the soils are adequate to support the highest and best use conclusion.
18. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document in association with the Lake Elsinore CFD No. 2007-5 Special Tax Bonds.

## **HYPOTHETICAL CONDITION**

1. It is assumed that all improvements and/or benefits to the subject properties, which are to be funded by the Lake Elsinore CFD No. 2007-5 Special Tax Bond proceeds, are completed and in place or have accrued to the property.



**City of Lake Elsinore**  
**Community Facilities District No. 2007-5**  
**Cottage Lane by Frontier Communities**





## PURPOSE OF THE APPRAISAL

The purpose of this appraisal report is to estimate the value of the fee simple interest of the subject property, subject to the special tax lien of the Lake Elsinore CFD No. 2007-5 Special Tax Bonds.

## THE SUBJECT PROPERTY

The subject property consists of 41 single-family homes on which are covered by Tract Map 32996 and were developed into a neighborhood known as Cottage Lane by Frontier Communities. Tract Map 32996 includes a total of 51 lots, however Cottage Lane only includes 41 of these lots. Lots 24, 25 and 49 of Tract Map 32996 are a detention basin and will not be developed. Lot 50 is a neighborhood park and Lot 51 is an open space area. Lots 1-3 and 47-48 of Tract Map 32996 include five homes that were built in 2008, however sat empty during the recession and were sold to homeowners in 2014/15. These five homes are not included in this appraisal report. Cottage Lane, the subject of this appraisal, includes 41 developable lots that are detailed as follows:

Description of Lot Numbers	No. Lots	Ownership	Condition
<b>Cottage Lane by Frontier Communities</b>			
Lots 12-19, 26-28, 31, 34-44 and 46 of Tract 32996	24	Individuals	Completed Homes
Lots 4-6 of Tract 32996	3	Frontier	Model Homes (1 in escrow)
Lots 11, 20-23, 29-30, 32-33, 45 of Tract 32996	10	Frontier	Over 95% complete (10 in escrow)
Lots 7-10 of Tract 32996	4	Frontier	Homes Under Construction (3 in escrow)
<b>TOTAL</b>	<b>41</b>		

## INTENDED USE OF THE REPORT

It is the appraiser's understanding that the client, the City of Lake Elsinore, will utilize this report in disclosure documents associated with selling bonds for Lake Elsinore CFD No. 2007-5 and that this report is to be included in the Official Statement or similar document to be distributed in connection with the offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

## DEFINITIONS

### **Market Value**

The term "Market Value" as used in this report is defined as:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."<sup>1</sup>

Inherent in the Market Value definition is exposure time or the time the property would have had to have been exposed on the open market prior to the appraisal in order to sell at the concluded values. In the case at hand and considering current market conditions the exposure time for each individually owned home or the entire builder ownership is under twelve months.

### **Minimum Market Value**

The term "Minimum Market Value" as used in this report is defined as:

"The base market value of a home. That is, most buyers purchase some upgrades, options and/or lot premiums when purchasing a new home. The sales price for the new home typically includes the base price for the plan, plus any upgrades, options or lot premiums, less concessions, if any, which were given or paid for by the builder. The concluded minimum market value is for the base value of the plan only, not taking into consideration any upgrades, options or premiums."

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<sup>1</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition

## **Mass Appraisal**

The term “Mass Appraisal” as used in this report is defined as:

“The process of valuing a universe of properties as of a given date using standard methodology employing common data and allowing for statistical testing”<sup>2</sup>

In the case at hand, the statistical testing included reviewing all original builder sales, reviewing the Multiple Listing Service for re-sales and current escrows (if any) and determining the actual range of sales and escrow prices for each plan type which is utilized in the valuation process.

## **Hypothetical Condition**

The Term “Hypothetical Condition” is defined by USPAP as:

“That which is contrary to what exists but is supposed for the purpose of the analysis”

The Hypothetical Condition within this report is that subject property is enhanced by the improvements and/or fee credits to be funded by bonds issued by Lake Elsinore CFD No. 2007-5.

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## **PROPERTY RIGHTS APPRAISED**

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The property rights being appraised are of a fee simple interest, subject to easements of record and Lake Elsinore CFD No. 2007-5. The definition of “fee simple estate” is defined by USPAP as:

“absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”

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## **EFFECTIVE DATE OF VALUE**

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The subject property is valued as of March 15, 2018.

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<sup>2</sup> USPAP 2016-2017 Edition

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## DATE OF REPORT

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The date of this report is April 2, 2018.

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## SCOPE OF APPRAISAL

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As previously stated, the purpose of this appraisal is to report the appraiser's best estimate of the market value for the subject properties. This appraisal will be presented in the following format:

- County of Riverside Description
- City of Lake Elsinore Description
- Immediate Surroundings Description
- Brief Description of Lake Elsinore CFD No. 2007-5
- Subject Property Description
- Riverside County Housing Market Discussion
- Highest and Best Use Analysis
- Valuation Procedures, Analyses and Conclusions
- Appraisal Report Summary

The subject property consists of 41 proposed single-family homes. Twenty-four of the 41 homes are completed and closed to individuals. In valuing the subject property the value estimates will be based upon the highest and best use conclusion, using the Sales Comparison Approach. The Sales Comparison Approach to value is defined as:

“...a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparable sales is available.”<sup>3</sup>

In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject property that have recently been sold, are listed for sale or are under contract. Neither a cost or income approach was utilized as they were not considered necessary to arrive at credible results.

The due diligence of this appraisal assignment included the following:

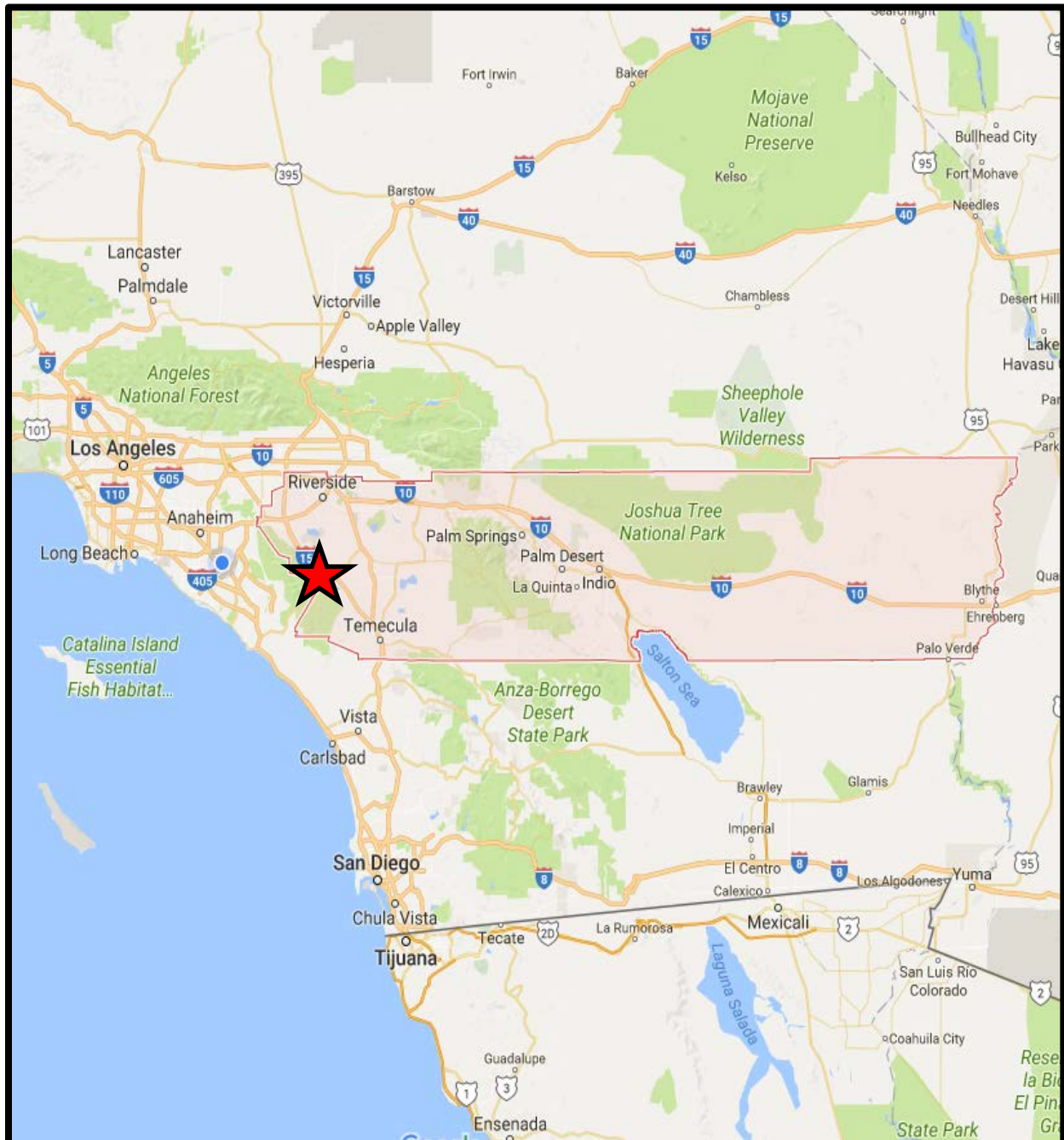
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<sup>3</sup>Dictionary of Real Estate Appraisal, 4<sup>th</sup> Edition, 2002



1. Compiled demographic information and related that data to the subject properties to perform a feasibility/demand analysis.
2. Gathered and analyzed information on the subject marketplace, reviewed several real estate brokerage publications on historical and projected growth in the subject market and researched the micro and macroeconomics within Riverside County and the Lake Elsinore area.
3. Inspected the subject property between February 10, 2018 and March 15, 2018.
4. Had the property flown for an aerial photograph on March 12, 2018.
5. Interviewed representatives from the builder to obtain available information on the subject property.
6. Reviewed a preliminary title report on portions of the subject property.
7. Reviewed a soils report and a Phase I environmental site assessment on the property.
8. Searched the area for relevant residential land sale transactions considered to be comparable to the subject property and interviewed representatives involved in the sale, when available, or a broker familiar with the sale.
9. Reviewed the Cottage Lane Specific Plan.
10. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable neighborhood.
11. Reviewed sales brochures and sales information on each of the subject neighborhoods.
12. Reviewed actual developer sales information on all closed homes and current escrows.
13. Reviewed Multiple Listing Service ("MLS") information on re-sales and current listings of existing homes within Lake Elsinore CFD No. 2007-5.
14. Inspected the subject property for any for-sale or property listing signs that may not be listed on the MLS yet.

**Riverside County Regional Area Map**  
(Red Star is approximate subject location)



## **COUNTY OF RIVERSIDE AREA DESCRIPTION**

### **Location**

The subject property is located in the southern portion of Riverside County (the "County") northwest of the merging of Interstate 15 ("I-15") and Interstate 215 ("I-215") and northwest of the Lake. The development is located near the western boundary of the City of Lake Elsinore (the "City").

The County encompasses approximately 7,300 square miles, which includes large expanses of undeveloped deserts, valleys, canyons and mountains. The County is the major recipient of outward urban pressure from Orange and Los Angeles Counties as well as northerly growth from San Diego County. Although located at the periphery of most urban activity in Southern California, Riverside County, in particular the south and westerly region, is clearly perceived by most observers as a major growth area well into the foreseeable future. Because of mountain ranges limiting road access into Los Angeles and Orange Counties, Riverside and San Bernardino Counties belong to the same Metropolitan Statistical Area ("MSA"). This MSA is designated as (and commonly referred to as) the Inland Empire.

### **Transportation**

The subject property is situated south/west of I-15, just northwest of Highway 74 and east of Lake Street/Grand Avenue, in the northwestern portion of the City of Lake Elsinore. I-15 is located approximately three miles east of Cottage Lane and travels in a northerly/southerly direction and provides access to Barstow and Nevada to the north and San Diego to the south. Highway 74 is less than one quarter mile southeast and provides access to the southwest into Orange County on what is also known as Ortega Highway and to the northeast into the City of Perris. Interstate 215 is approximately twelve miles east, and travels in a northerly/southerly direction within the County, branching off from I-15 and heading generally north where it parallels I-15 to the east and merges back into I-15 approximately 40 miles north of the subject in San Bernardino County. The subject is approximately 18 miles south of the 91 Freeway, which provides access into Orange County via the 55 Freeway in Anaheim. In addition, the 60 Freeway runs in an east west

direction approximately 24 miles north of the subject providing access into Los Angeles County to the west and merges with Interstate 10 to the east which provides access across California. Finally, the subject is approximately 20 miles north east of Interstate 5.

The County is served by Amtrak and Metrolink as well as several rail freight lines. The Ontario International Airport provides regional air service and is located approximately 36 miles north of the subject property while the Orange County Airport is located approximately 30 miles west and the San Diego International Airport is located about 75 miles south. In addition, the County has extensive trucking corridors along the previously referred to interstates, highways and state freeways.

### **Population**

The County has experienced population growth for several decades and is anticipated to continue to do so in the foreseeable future. Per the California Department of Finance, the January 1, 2017 County population was 2,384,783. This represents a one-year increase of 1.6 percent and an average annual growth rate of approximately 2.5 percent for the previous sixteen-year period. Current County projections suggest the population is anticipated to reach approximately 2.546 million by 2020 and 2.862 million by 2030, indicating an average annual increase of approximately 2.20 percent for the next three years and an average annual increase of approximately 1.41 over the next 13 years. The current growth of 1.6 percent is lower than the previous 16 years average likely due to the Great Recession, however higher than the previous year (1.3 percent). The future growth is predicted assuming a more stable market than was seen prior to the Great Recession.

### **Economy**

As with the rest of the nation, the Inland Empire experienced a significant multi-year recession, now known as the Great Recession, between 2007 and mid-2012. The MSA, which had strong employment over the previous decade, saw unemployment rates increase significantly between 2007 and 2010. Unemployment has declined substantially since that time with recent reports showing historical low unemployment. The unadjusted



unemployment rate for the MSA was estimated at 4.4 percent (per the February 2018 Employment Development Department) which is similar to the pre-recession low of 4.3 percent in January 2006 and a significant decrease since the unemployment peak in July 2010 of 15.1 percent. As of February 2018, Riverside County had a 4.6 percent unemployment rate while San Bernardino County had a 4.3 percent rate. The current MSA unemployment rate of 4.4 percent is similar to the current California statewide unemployment rate of 4.3 percent and slightly higher than the February 2018 national unemployment rate of 4.1 percent. Below is a table comparing Riverside County's unemployment rates to the unemployment rates of the surrounding counties.

<u>Jurisdiction</u>	<u>As of</u>	<u>Unemployment Rate</u>
Los Angeles County	2/18	4.5%
<b>Riverside County</b>	<b>2/18</b>	<b>4.6%</b>
San Bernardino County	2/18	4.3%
Orange County	2/18	3.1%
San Diego County	2/18	3.5%

*Source: State of California E.D.D. February 2018 Report*

Over the past 20 years, the Riverside County economy has had significant cycles with home prices almost doubling from 1995 to 2005, then falling by over 50 percent during the Great Recession, taking prices back to 2002 levels. Home values appeared to hit bottom in 2009 then remained essentially flat for two to three years with the majority of the Riverside County housing market seeing an improvement beginning in mid-2012. While coastal Southern California housing enjoyed significant increases over the past five years, the Inland Empire has bounced back slower. Riverside County is still not yet at the previous median home price peak and sales are significantly slower than prior to the recession. In late 2016 Riverside County saw builder land purchases increase as sales of new homes picked up. In 2017, the County saw good increases in both sales and pricing. These upward trends appear to be continuing in 2018.

The Federal Government attempted to correct the struggling economy by implementing several economic stimulus packages during the Great Recession. The Federal Reserve Board ("Board") kept interest rates below historical averages, dropping rates to zero in December 2008 until the December 2015 Board meeting, when interest rates were raised one quarter of a percent, followed by a quarter percent rate hike in December 2016 and

three one-quarter percent increases in 2017 and one thus far in 2018 bringing the benchmark interest rate to 1.75 percent. Current estimates are for additional increases in 2018. This signifies the possibility for robust growth nationally however the beginning of 2018 has seen volatility in the markets driven by possible changes in trade policies, proposed tariffs and the uncertainty of inflation and the Federal Fund rate increases.

The 2016 election of Donald Trump into the United States Presidency is anticipated to have a profound effect on the economy. While the Trump Administration aimed to positively affect the national economy with plans to roll back financial regulations, implement tax cuts, enact new taxes on imports, and increase infrastructure spending, the national and international skepticism of the new administration's economic policy is abundant. With the December 2017 adoption of the Tax Cuts and Jobs Act ("TCJA"), uncertainty is proliferating as the Country enters 2018. While the TCJA aims to save taxes and spur the economy, there are some limitations which may negatively affect real estate, particularly in California. It is too early to know how the TCJA will affect homeowner at this time, however mortgage interest rates have begun to increase.

California's labor markets make it easy to understand why the mid-2000s downturn is being called the Great Recession. After peaking at 15.454 million non-farm jobs in June 2007, the State shed over 1.33 million non-farm positions by February 2010. Since hitting bottom, California has now added back 2.80 million jobs for a total of 17.05 million non-farm jobs as of January 2018, per the California Employment Development Department. This well surpasses the previous peak, however, there are a high number of part-time jobs included in this number.

According to the most recent UCLA Anderson Forecast (*"Forecast" – December 6, 2017*), there is a mixed outlook. For the nation, the near-term outlook is optimistic anticipating 3 percent growth in 2018 however by the end of 2019 they believe real GDP growth could be running at a rate below 1.5 percent. They believe the momentum coming from the recent strength in 2017 of strong equipment spending, the likelihood of a tax cut (now completed) and consumer confidence, will carry through 2018. They also believe defense spending will likely be on the rise over the next several years, increasing by 2.7 percent

in 2018 and 2019 respectively. Possible risks include the consequences of the Fed's reducing its balance sheet and the potential failure of the ongoing North American Free Trade Agreement ("NAFTA") negotiations which would hit the U.S. automobile industry. If the US leaves NAFTA, the outlook would deteriorate and the chance of a recession in late 2018 or 2019 would increase. The Forecast states that in order to "Make America Great Again", we need to solve three problems: (1) how to increase the rate of growth of the working age population; (2) how to increase the rate of growth of hours by making more of the new jobs full-time and not part-time; and (3) how to increase the rate of growth of productivity in the nation.

In discussing the national housing outlook, the Forecast notes that the housing industry continues to slowly grind higher as it has since the cyclical bottom in 2009. The puzzling thing about the slow recovery is that it is occurring against a backdrop of modest economic and employment growth and a sustained period of very low mortgage interest rates. Explanations for the long, slow recovery in housing include slow income growth, much tighter credit standards and the millennial generation's reluctance to making long-term commitments. In addition, regressive zoning and environmental regulations have played a role in reducing the overall supply of housing. The Forecast anticipated household formations averaged 1.2 million per year from 2012 to 2017 and are forecast to accelerate to about 1.5 million in 2018 and 2019, well above the forecast of the number of units.

The UCLA California Forecast for December 2017 discusses how the State Forecast differs from the National Forecast in two ways. First the new tax bill may dampen the housing market which would reduce economic growth in the state. Second the investment incentive (bringing forward investment because of expensing) increases the forecasted growth rate for employment and income in 2018, though reduces it slightly by the end of 2019. They state California's unemployment rate will fall to 4.6 percent by the end of the forecast period (2019), however the current rate is 4.3 percent.

The Forecast states that homebuilding in California will continue at about 118,000 units per year. Los Angeles' increasingly expensive and unaffordable home prices (particularly

for first-home buyers in southern California) is making it tough for both buyers and renters. Housing market research suggests that limited supply is one of the major causes of high home prices in coastal California. According to the Forecast, despite its stronger economic recovery, California has relatively limited housing supply because of its stringent regulations such as the California Environmental Quality Act ("CEQA") as well as a NIMBY (not in my back yard) culture. It should be noted that the December Forecast was done prior to the approval of the TCJA.

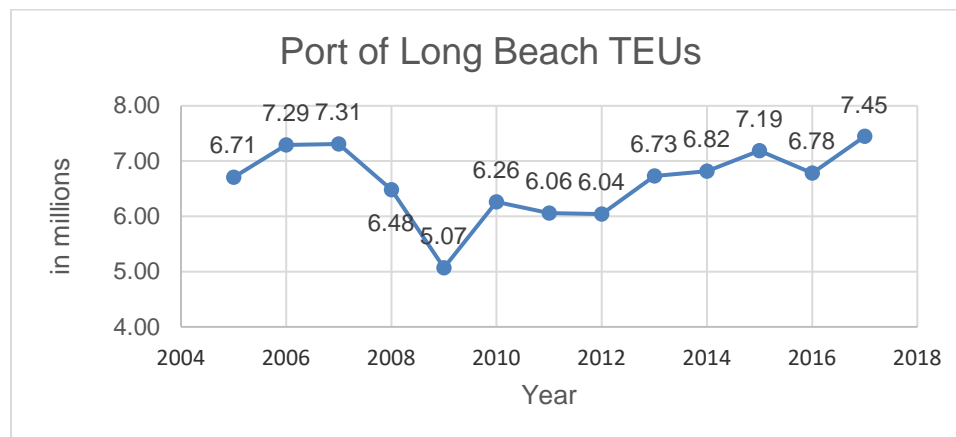
According to John Husing's Inland Empire Economic Partnership's Quarterly Economic Report dated January 2018, the Inland Empire is poised for job growth that is better balanced than the State. The Inland Empire has added 292,797 jobs since 2011 with approximately 75 percent of those jobs in the moderate paying (\$45,000 - \$60,000) and good paying sector (\$60,000 plus) while in overall California the moderate and good paying new jobs captured 61 percent. The 2017 data on job growth in the Inland Empire remains strong with over 43,000 new jobs this past year. The region is headed for a new employment record (1,445,667 – an increase of 3 percent) with job quality as good as before the recession. This is in contrast to the State's record where middle income sectors are growing weakly.

John Husing also reports on the housing industry stating within the Inland Empire's home market, price rises continue however volume of home sales remains flat. In the fourth quarter 2017 the Inland Empire recorded 16,493 existing and new home sales which results in volume being essentially flat for the past eight years. However, Husing predicts that 2018 will bring about added volume growth returning to the market. Price trends, however have increased over six percent in the past year with the median existing home price in the Inland Empire rising to \$334,697 and the new home price in the Inland Empire rising to \$439,612 over the past year. The existing home price is still 14.2 percent below the 2006 peak (\$389,924) however the new home price is now 0.6 percent above the prior peak (\$437,200).

As a final indicator of overall economic activity for the region, we have reviewed the rise or fall of TEUs (Twenty-foot Equivalent Units – i.e., containers) being processed in the



local ports. This is especially important for the inland communities as it represents much of the growth in development of West Coast distribution centers and warehouses linked to supply-chain nodes in the Pacific Rim. The chart below shows TEU activity at the Port of Long Beach. The activity resulted in a flattening of TEUs during 2006 and 2007, decreases occurring in 2008 and 2009, and an increase in 2010 followed by stabilization until 2013 with increases until 2016 which showed a 5.7 percent slowdown. The year 2017 showed a ten percent increase over 2016 with 7.45 million TEUs. The chart below shows historical TEU activity with the 2017 total showing a new peak.



## **Government**

A Board of Supervisors oversees the County as the governing body of the County, certain County special districts, and the County Housing Authority. The Board enacts ordinances and resolutions, adopts the annual budget, approves contracts and appropriates funds, determines land use zoning for unincorporated areas, and appoints certain County officers and members of various boards and commissions. The Board of Supervisors is elected from five different districts within the County.

## **Education**

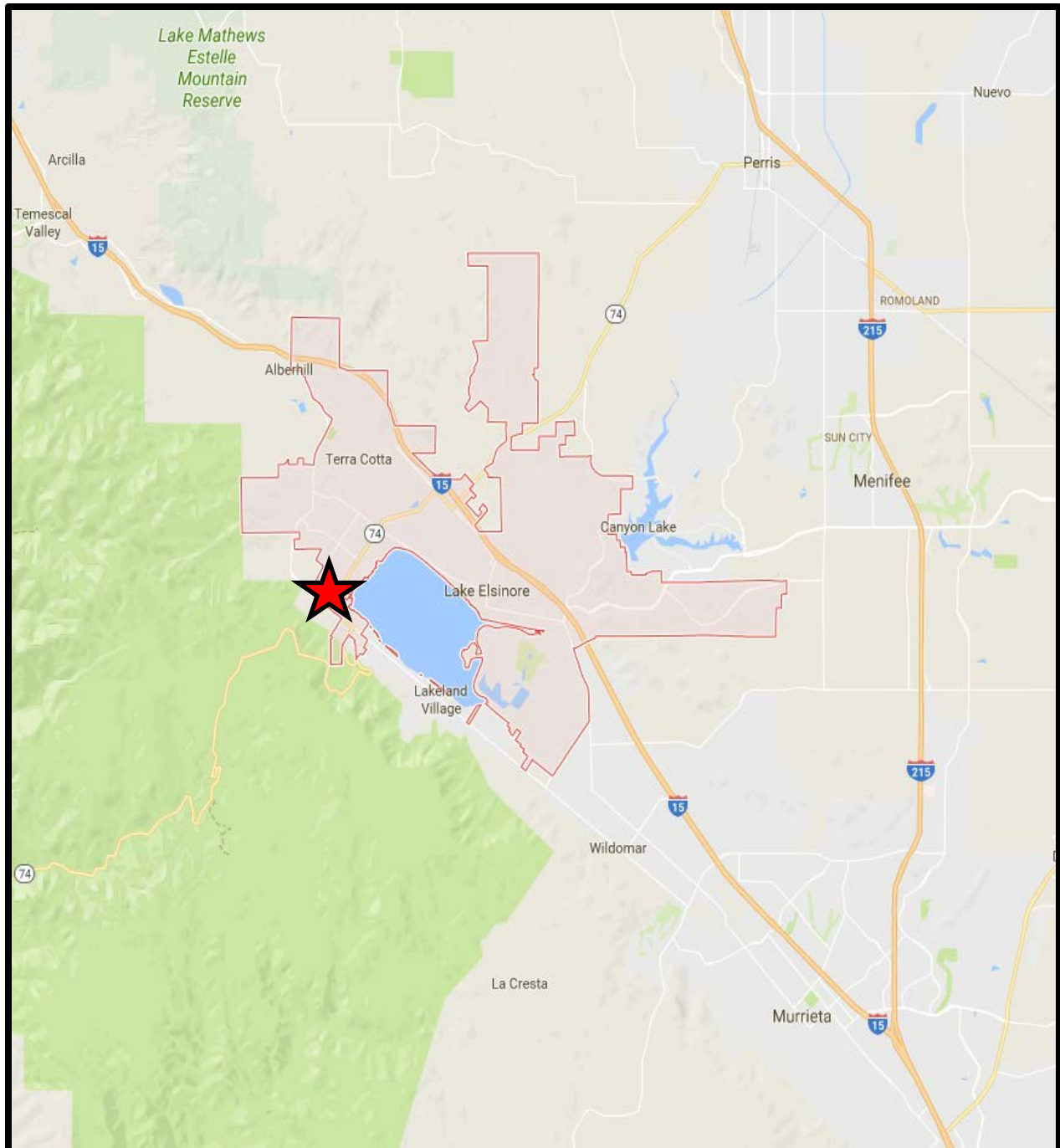
The subject area is served by the Lake Elsinore Unified School District which operates eleven elementary schools, two K-8 schools, four middle schools, three high schools, one continuation school, one adult school and one alternative school. The subject property is located adjacent to Lakeside High School, one of the three high schools in the district. Higher education is available within an hour's drive at the University of California

campuses at Riverside and Irvine or California State University campuses in San Bernardino, San Marcos, Fullerton and Pomona along with several additional private colleges. The closest community college is Mt. San Jacinto College.

### **Conclusion**

Population in the County has increased over the past 30 years with predictions for continued population growth. The nation's economy stalled starting in 2006 due to the housing downturn, unemployment and the credit crisis. The housing market saw a resurgence beginning the second half of 2012 with prices and sales increasing by double digits through 2013 with pricing growth slowing to more normal levels and sales essentially flat until 2016 when builders started buying land once again. The economy typically has cycles and most signs are suggesting the U.S. economy and Riverside County's economy is on an upswing. However, unlike previous recovering economies, housing growth has been slow to come back. While the new Administration is suggesting there will be changes in the economy, time will tell how fast the changes actually occur. The year 2017 brought new optimism from economists in terms of the Inland Empire housing market which has continued into 2018. The region's affordability coupled with the rising prices of the coastal market is setting up for a potential boom in the Inland Empire. In conclusion, the County is expected to continue to grow in population due to its Southern California location, the availability of land and the relatively lower land prices in comparison to adjacent Orange, Los Angeles and San Diego Counties.

**Lake Elsinore Area Map**  
(Red Star is approximate subject location)



## **CITY OF LAKE ELSINORE DESCRIPTION**

The subject property is located northwest of Lake Elsinore in the northwestern portion of the City of Lake Elsinore ("City"). The City is approximately half way between the cities of Los Angeles and San Diego, about 25 miles east of the Pacific Ocean. Downtown Riverside, which houses the County seat, is approximately 20 miles north. The City is situated along I-15 at the intersection of State Route 74 and encompasses an estimated 41 square miles. It is generally surrounded by unincorporated County lands to the north and east, the City of Wildomar to the south and the Ortega Mountains and the Cleveland National Forest to the west.

### **History**

The Luiseno Native Americans are the earliest known inhabitants of the Elsinore Valley prior to when settlers came in the early 1800s due to the natural springs which were said to have healing qualities. In the 1850s, the area housed a stagecoach stop for the Butterfield Overland Mail route between the Temecula station (20 miles south) and the Temescal Station (10 miles north). The rich and fertile farm lands and natural resources of clay, coal, sand and gravel within the Elsinore Valley kept people in the area. At incorporation in 1888 the City was originally in San Diego County however became part of Riverside County upon its creation in 1893. The City was named Elsinore after a city in Denmark which is featured in the Shakespeare play, Hamlet. In the 1920s and 1930s, the area became a Hollywood getaway with many stars building homes in the hills surrounding the Lake.

Lake Elsinore (the "Lake") was originally known as Laguna Grande and is the largest natural lake in Southern California. The Lake is situated at the lowest point within the 750-mile San Jacinto River watershed with headwaters from the western slopes of San Jacinto Peak and Lake Hemet. Lake Elsinore levels are at 1,244 feet above sea level with a volume of 30,000-acre feet that use to change substantially prior to federal grants to prevent the flooding and ebbing of the lake. The largest flooding came in the 1930s when the Lake rose from 8,000-acre feet to 92,000-acre feet. In 1951, the Lake dried up and remained dry for about 10 years. In 1981 and 1983, the El Nino rains again flooded the

area and in 1984 the City was successful in obtaining Federal grants for the major project to regulate the Lake and end the cycle of flooding and drying. Now at 1,255 feet, the Lake spills into the outflow channel known as the Temescal Wash, flowing northwest along I-15 to Temescal Creek which dumps into the Santa Ana River near the city of Corona and flows to Orange County and out into the Pacific Ocean.

### **Population**

The City had enjoyed rapid population growth in the mid-2000's which altered the appearance of the City from a small lakeside town of 3,800 people in 1976, to a bedroom community of upper middle-class professionals. From 2000 to 2008 the City was known as the 12<sup>th</sup> fastest growing city in the State going from 28,928 residents in 2000 to 51,821 residents in 2010 which suggests an average annual increase of 6.0 percent. Between 2010 and 2015 the city increased to 59,142 residents (average annual increase of 2.67 percent) and between January 2016 and January 2017 the City experienced a 2.0 percent population increase, with a January 2017 population estimate of 62,092. This significant growth between 2000 and 2010 includes the residential boom prior to the Great Recession while the slowdown between 2010 and 2015 reflects the Great Recession. The past year's growth is partially due to the increase of available new homes in the area, including the master planned communities of Summerly, Canyon Hills and Alberhill Ranch along with a few independent projects such as Cottage Lane (subject property). The growth in the City is due to the more affordable housing with convenient access along the I-15 corridor providing access to the employment centers in Riverside, Orange, Los Angeles and San Diego Counties. The population has a very diverse racial make-up with the median age estimated at 30.7 years old.

There are three master planned communities currently selling homes in the City: Summerly, Alberhill Ranch and Canyon Hills. Summerly consists of a total of 700 acres and is proposed for about 1,500 residential units and is approximately 50 percent complete. Alberhill Ranch is currently proposed for around 1,000 residential units and is about 30 percent built-out. Canyon Hills is proposed for approximately 4,300 residential units and is approximately 95 percent built out.

## **Economy**

The City of Lake Elsinore has enjoyed industrial and commercial development along the I-15 Corridor including the Lake Elsinore Outlet Center which was opened in the 1990s as one of the first Outlet Malls in Southern California. The City has been promoting its economic platform by becoming more business friendly. The 2016 estimated median household income (most recent data per Census.gov) is \$63,306 as compared to \$57,972 for the County and \$63,783 for the State. Per the City of Lake Elsinore's 2017 Comprehensive Annual Financial Report, the top employers were as reported below.

<b><u>Summary of Major Employers</u></b>	
<b><u>Employer</u></b>	<b><u>No. of Employees</u></b>
Lake Elsinore Unified School District	2,644
M & M Framing	500
Stater Bros (3 locations)	319
Lake Elsinore Hotel & Casino	275
Costco	259
Walmart	234
Riverside County (Dept. of Social Services)	173
EVMWD	154
Home Depot	150
Target	150

## **Entertainment**

While the area was a get-away from the movie industry in the 1920s, the area also began emerging as an entertainment/sports area when it hosted Olympic teams for training along with high speed boat racing on the Lake. In 1964 the Skylark Airport (located approximately five miles southeast of the subject) emerged as a world class skydiving drop zone due to the thermals from the surrounding mountains. This is still one of the most prominent drop zones in Southern California. The Lake Elsinore Motorsports Park for off-road racing is located about five miles southeast of the subject lands, near the Skylark Airport. In 1991, the Lake Elsinore Outlet Center opened boasting 100 outlets while in 1994 Diamond Stadium was constructed which is the home of the Lake Elsinore Storm, an affiliate of minor league baseball. Diamond Stadium is located about five miles east of the subject, while the Outlets at Lake Elsinore are three miles northeast.

## **Transportation**

Interstate 15 is the major access for the City with State Route 91 approximately 18 miles north and I-215 about 12 miles southeast. I-15 provides access to State borders to the north in Nevada and to the south where it merges with I-5 before going into Mexico. State Route 91 (18 miles north on I-15) provides freeway access into Orange and Los Angeles Counties to the west and to San Bernardino County to the east. I-215 provides northerly access connecting to State Route 60 which provides access to the west into Los Angeles and to the east where it merges with I-10 and provides access to the State border with Arizona. The nearest freeway intersection to the subject property is the State Route 74/Central Avenue exit (less than four miles away) from I-15, located to the east of the subject. State Route 74 is a winding road through the Ortega Mountains (also known as Ortega Highway west of Lake Elsinore) that provides a more direct access into South Orange County which is located approximately one-quarter mile southeast of the subject.

## **Conclusion**

In summary, the City of Lake Elsinore experienced above average growth over the past 17 years. Future growth of the City should continue, although at a slower rate than what has previously occurred. Lake Elsinore's housing market is currently healthy and the subject's community of Cottage Lane has been well received in the marketplace. The City's abundant recreation, expanding employment opportunities, location, reasonable land prices and the availability of land for development combine to make the City a prime area for future growth.



## **IMMEDIATE SURROUNDINGS**

The subject property consists of a portion of City of Lake Elsinore CFD No. 2007-5. CFD No. 2007-5 is contiguous with Tract Map Number 32996 which encompasses a total of 46 developable residential lots. The subject property consists of 41 of the 46 lots and is known as Cottage Lane. The subject is not located within a master planned community. Cottage Lane is located less than one half mile from the northwestern corner of Lake Elsinore, and in the northwestern portion of the City. The subject is northwest of State Route 74 and southwest of Interstate 15. More specifically, Cottage Lane is one parcel northwest of State Route 74.

Cottage Lane is adjacent to existing rural homes to the northwest and apartment homes to the southwest. The existing residential homes are situated on large lots and are older homes with the majority being built in the 1970s and 1980s. These homes lie on both sides of Ulla Lane and on one side of Tiller Lane; the two access points to the subject. There are newer single-family homes on Tiller Lane closer to Machado Street, but these are not adjacent to the subject. The apartments that are adjacent to the subject and lie on the other side of Tiller Lane are the Shoreline Apartments and Grand Oak Apartments. The Shoreline Apartments are newer and of a contemporary design while the Grand Oak Apartments are more affordable but are older and not as modern in design. Lakeside High School sits northeast adjacent to the subject, more specifically, the school's track and stadium. To the southeast of the subject is a large vacant parcel planned for residential use. This vacant parcel has frontage along State Route 74 which separates the subject and vacant parcel from a mobile home park (Butterfield Village Mobile Home). The vacant parcel is being planned for residential land use. Just north and east of the mobile home park lies the Lake Elsinore Marina and RV Resort which sit on the Lake's edge.

The closest major grocery shopping is located one and one-half miles from the subject on Lakeshore Drive and State Route 74. This intersection features a multitude of dining options in addition to a gas station, Albertsons Market and Stater Bros Market. The Lake Elsinore Market is the closest market and is located less than one mile southeast of the

subject on State Route 74 and Grand Avenue. The closest mall to the subject is the Outlets at Lake Elsinore which are located three miles northeast of the subject off I-15.

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**CITY OF LAKE ELSINORE CFD NO. 2003-2 IMPROVEMENT AREA "E"**

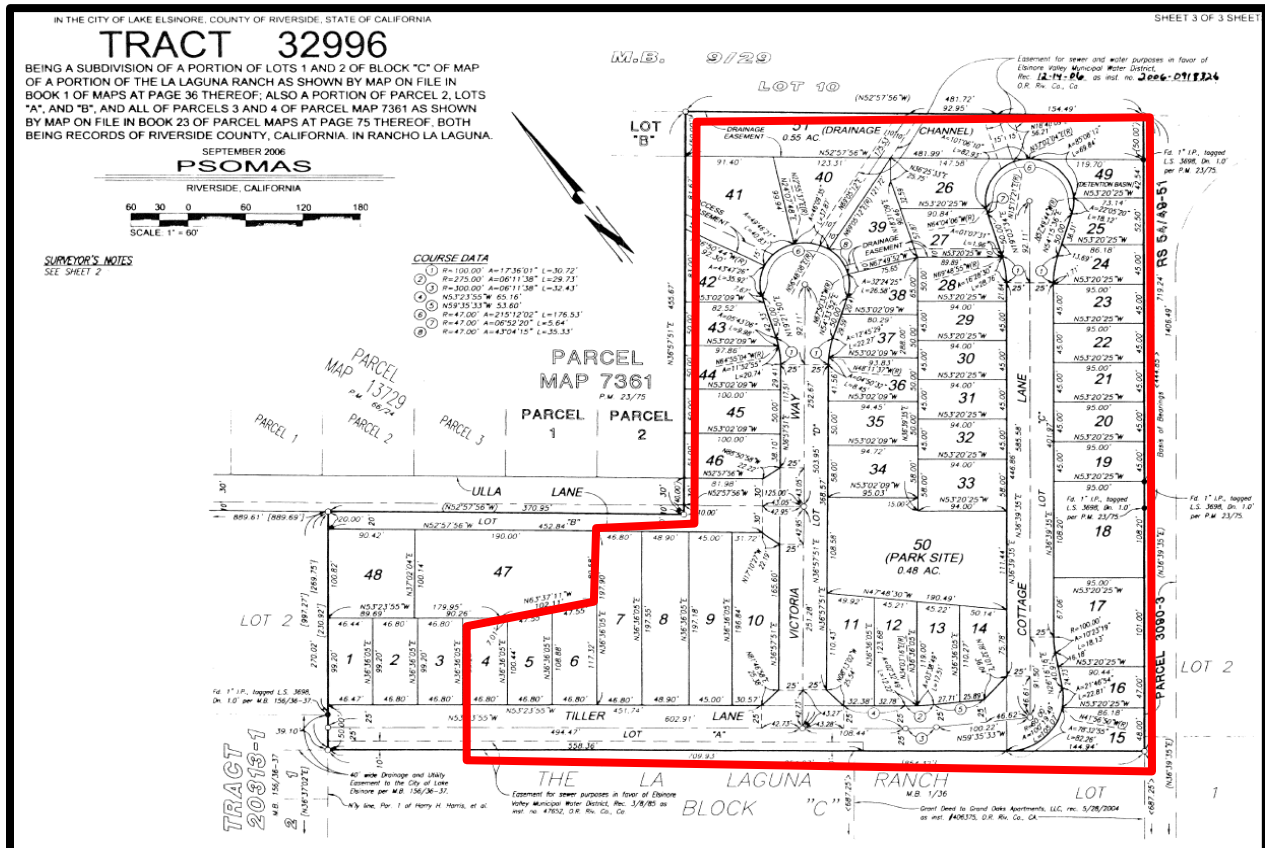
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We have reviewed the Community Facilities District Report for the City of Lake Elsinore CFD No. 2007-5 (formerly known as Red Kite) dated December 27, 2007. The introduction states the City Council of the City of Lake Elsinore did establish its intentions to form a community facilities district to be referred to as CFD No. 2007-5. In the CFD Report the project description states the developed plans to construct 48 single family detached dwelling units which, at the time, were going to be known as Red Kite (a previous name for Tract Map No. 32996). Two of the lots were needed for a larger detention basin for the project leaving 46 developable lots. Five homes were built in 2008, prior to the Great Recession, sat empty and were sold in 2014/15. These five homes are within Lake Elsinore CFd No. 2007-5, however are not included in this appraisal report. The CFD was formed for the purpose of financing certain infrastructure and public facilities and maintenance for the benefit of "Red Kite". CFD No. 2007-5 encompasses approximately 10.29 acres with 6.54 of these acres anticipated to be developed for residential uses. CFD No. 2007-5 is to finance City fees and fees of the Elsinore Valley Municipal Water District. In addition to the improvements, the CFD is anticipated to cover the on-going costs for maintenance of the public parks, open space and storm drain improvements. At time of the CFD Report, the estimated City Impact Fees were estimated at \$470,242 and the EVMWD Impact Fees were estimated at \$636,432. The maximum authorized bonded indebtedness for CFD No. 2007-5 is \$2,500,000.

The current estimated proceeds to be generated from the sale of the Lake Elsinore CFD No. 2007-5 Bonds per the latest CFD Bond Sizing is \$????? with an additional \$???? of incidental expenses (includes Debt Service reserve fund and costs of issuance offset by the original issue discount) associated with the formation and issuance of the Bonds (all amounts are subject to change). A copy of the Lake Elsinore CFD No. 2007-5 boundary map is located in the Addenda for your review.

## SUBJECT PROPERTY DESCRIPTION

The property consists of 41 single-family homes on which are covered by Tract Map 32996 and were developed into a neighborhood known as Cottage Lane by Frontier Communities. The neighborhood is described below.



Subject Property (41 lots) Boundary in RED (excepting Lots 24, 25, 49, 50 and 51 which are not developable). Lots 1,2,3, 47 & 48 are existing homes built in 2008 and are not included in this appraisal.

**Location:** Northside of Tiller Lane at Cottage Lane and Victoria Way, Lake Elsinore, California.

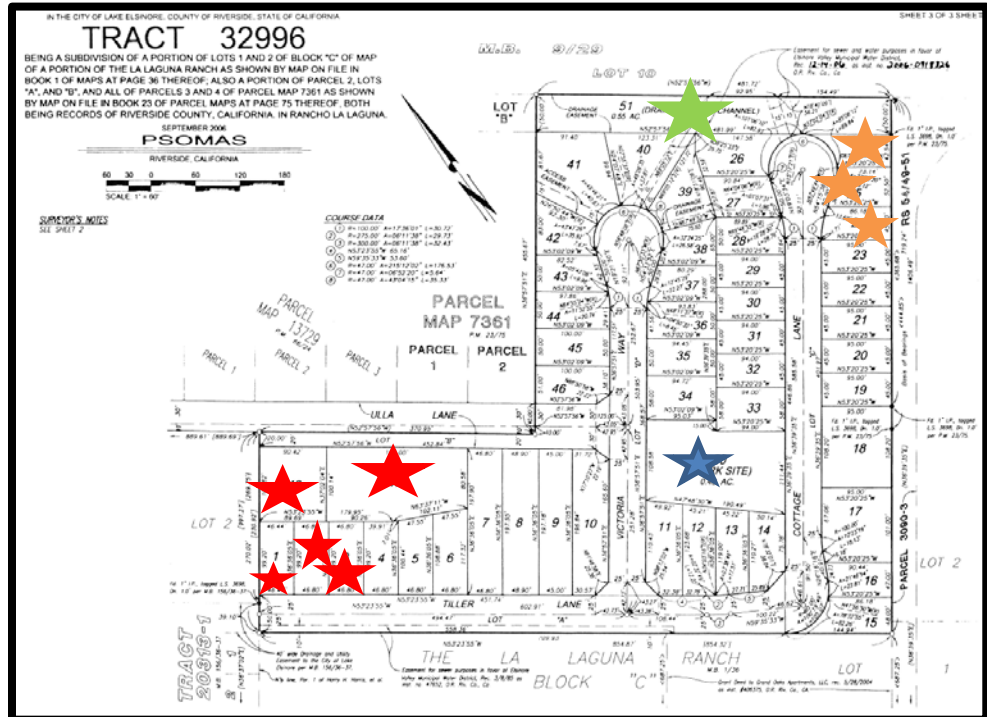
**GPS Coordinates:** 33.667843, -117.385614

**Legal Description:** Lots 4 through 46 and 49 through 51 of Tract 32996 located in City of Lake Elsinore, County of Riverside, California. It should be noted that Lots 24, 25 and 49 are a detention basin, Lot 50 is a park and Lot 51 is a drainage channel – all undevelopable.

**Owner of Record:** Individual owners as to Lots 12-19, 26-28, 31, 34-35 of Tract 32996. Frontier Homes as to Lots 4-11, 20-23, 29-33 and 45.

**Three-Year Sales History:** Frontier Communities (DBA FH II, LLC) purchased the land from LE Cottage Lane, LLC in December of 2016 for \$1,660,500 per public

	record. The subject began selling new homes in May of 2017 and has closed 24 homes to individuals.
Assessor's Parcel Numbers:	379-490-004 through 010, 379-491-001 through -039. APNs 379-491-15, 16 and 38 are a detention basin for the project and undevelopable. APN 379-491-008 is a neighborhood park. APN 379-491-39 is a drainage channel and open space area.
Property Taxes:	Per the Riverside County Assessor's Office the 2017/2018 taxes for APN 379-490-004 (sample property with 2,466 square foot Plan 3 home) the overall property taxes are \$539.54. The assessed value is \$48,699 with ad valorem taxes of \$504.36 and \$35.18 in Special Assessments and Fixed Charges. At time of the creation of the tax bill the property was assessed as land only and since the property was undeveloped at that time, CFD 2007-5 was not yet on the roll. It appears there will be a supplemental tax bill
Flood Zone:	Per the County of Riverside, the subject is not located in a flood zone. Per the City of Lake Elsinore, the subject is in a 500-year flood zone, but not a 100-year flood zone.
Size and Shape:	The subject property is irregular shaped and contains approximately 9.78 acres including open space, detention basin, park site, internal streets and setback areas. Tract Map 32996 which includes five lots not included in this appraisal contains approximately 10.72 acres and is "L" shaped.
Zoning:	The subject is part of the Cottage Lane Specific Plan which allows for 48 dwelling units on approximately 12 acres per the Specific Plan document. Per the Specific Plan, the subject is zoned for single family detached lots with a minimum lot size of 4,000 square feet.
Entitlements:	The subject property is covered by recorded Tract Map 32996 which recorded December 14, 2006 (shown on the following page with a larger copy located in the Addenda). Tract Map 32996 originally allowed for 48 single family detached lots (41 of which are included in this appraisal) with a minimum lot size of 4,000 square feet. Lot Nos. 24 and 25 originally were residential lots however have been assembled with Lot 49 (original detention basin) to create a larger detention basin at the northeast corner of Tract 32996 (identified by the orange stars). Lot Nos. 1, 2, 3, 48 and 49 (identified by red stars) were constructed in 2008 and sold in 2014/15 and are not included in this appraisal. Lot No. 50 is the park site (identified by the blue star) and Lot 51 is an open space drainage channel site (identified by the green star). The remainder of the lots reflect the subject property.



#### Topography:

The original topography appears to have been relatively flat, and the subject property is at street level of the surrounding streets. The lands have been developed into single family detached lots. Drainage is within an engineered street drainage system with a detention basin on site.

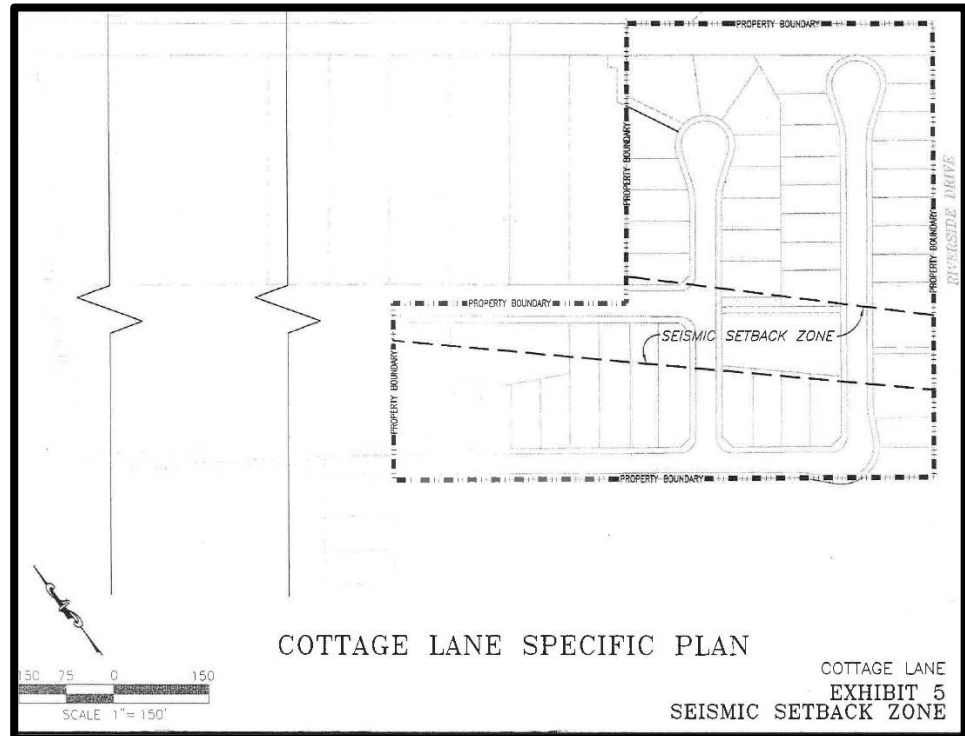
#### Soils Condition:

We reviewed a soils report from GeoTek Inc. of Corona, California that covers Lots 4-46 and 49-51 of Tract 32996 dated June 29, 2016. The report concluded the development of the site appears feasible from a geotechnical viewpoint provided all recommendations were incorporated. It is an assumption of this report that the soils are adequate to support the highest and best use conclusion.

#### Seismic Conditions:

Per the State of California Department of Conservation the property is not located within an Alquist Priolo Earthquake Study Zone. However, as discussed in the Cottage Lane Specific Plan the Glen Ivy North fault extends along the northeast side of the lake, trending parallel with Lakeshore Drive. The 2005 approved Specific Plan states "Recent geologic testing has proven the presence of a fault passing through the site that meets State criteria for an active fault, as applied to residential construction. This is based upon abrupt changes in groundwater elevations and soil evaluation and testing in the field and under laboratory conditions. The fault zone is narrow and free of subsidiary trace faults". The limits of the fault zone were surveyed and plotted on mapping for the site. Mitigation of this

hazard consists of avoidance and the implementation of a 50-foot “Restricted Use Zone” setback from the fault trace. Below is a diagram from the Cottage Lane Specific Plan showing the seismic setback zone.



#### Environmental Concerns:

We have reviewed a Phase I Environmental Site Assessment (ESA) Report for the subject prepared by GeoTek, Inc. of Corona, California and prepared June 24, 2016. The report revealed that the site was used for agricultural purposes and suggested consideration should be given to performing soil testing for elevated concentrations of chemicals contain possible health risks. There was no further evidence of environmental conditions in connection with the subject site.

This appraisal assumes that there are no environmental issues that would slow or thwart development of the site. This is supported by existing development on the subject lands which were overseen by City inspectors.

#### Easements/ Encumbrances:

We have reviewed a Preliminary Title Report prepared by Orange Coast Title Company as Order Number 140-1934674-32 and is dated February 14, 2018. The report is on Lots 4-11, 18, 20 – 25, 27-30, 32, 33 and 45 of Tract 32996 (the property owned by FH II, LLC at time of report). The report is summarized below and had the following exceptions.

Item Nos. 1 through 4 pertain to property taxes. Item No. 5 refers to CFD 2007-1 (???)\_. Item Nos. 6 and 7 refer to CFD No. 2007-5 (subject CFD). Item No. 8 pertains to CFD 2015-2 (maintenance and services for landscaping, lighting, parkways, streets, roads, open space, water quality improvements, storm drain, public street sweeping and certain administrative costs). Item No. 9 refers to water rights. Item Nos. 10, 11, 13, 14, 15, 17, 18, 19, 25 and 32 refer to easements for public utilities, drainage, pipelines, access and the right to pump from a well located on the subject property. Item No. 12 refers to the recitals as shown on Tract Map 32996. Item 16 refers to a declaration establishing easement rights and cost sharing. Item Nos. 20 and 21 state the land is within the boundaries of the Rancho Laguna Project Area No. I and II redevelopment area. Item Nos. 22 and 23 refer to easement agreements recorded on the property. Item No. 24 refers to a covenant to reimburse the City of Lake Elsinore for maintenance of an off-site retention basin. Item No. 26 pertains to a Deed of Trust to FHII, LLC for \$40,000,000 dated April 7, 2017. Item No. 27 refers to CC & Rs recorded on the property. Item No. 28 pertains to assessments due to the current managing association. Item No. 29 is in regards to a master homeowner Title 7 Declaration for Cottage Lane. Item No. 30 pertains to a declaration establishing drainage easements. Item No. 31 refers to an instrument titled storm water management facilities operations and maintenance agreement and right of entry. Item No. 33 states the requirement that a notice of completion be recorded and that the statutory lien period expire or that a satisfactory indemnity be established with the title company to eliminate said lien period.

It is an assumption of this report that the subject property is free and clear of any liens and/or encumbrances with the exception of City of Lake Elsinore CFD 2007-5 and the other aforementioned special assessments.

Utilities: All normal utilities serve the subject site by the following companies:

- Electrical: Southern California Edison Company
- Natural Gas: Southern California Gas Company
- Sewer/Water: Elsinore Valley Municipal Water District
- Schools: Lake Elsinore Unified

Streets/Access: There are various access routes to the subject property via either I-15 or State Route 74. From I-15, exit Lake Street and head south/west. Follow Lake Street for approximately five miles as it turns into Grand Avenue and then east on Ulla Street which terminates at the subject.

State Route 74/Ortega Highway is a two lane Southern California highway connecting south Orange County to Lake Elsinore by



paralleling San Juan Creek and cutting through Caspers Wilderness Park and Cleveland National Forest, as well as winding through the Santa Ana Mountains. From State Route 74, continue onto Grand Avenue and take Grand Avenue approximately one mile to Ulla Lane. State Route 74 turns into Grand Avenue and then turns to Riverside Drive when it veers northeast at the subject.

Internal streets within Tract 32996 include Tiller Lane, Ulla Lane, Victoria Way and Cottage Lane.

**Current Condition:** The subject property has been developed into 41 single family homes. The lots are in a physically finished condition with streets complete and utilities stubbed to each lot and completed homes on each lot. Twenty-five of the 41 homes have closed to individuals.

**Homeowner's Association:**

Cottage Lane is within a Homeowner's Association that takes care of the common area landscaping and irrigation, the water quality basin and a recreation lot that includes grassy areas, a basketball half court and a gazebo area. The homeowner's association is \$157.25 per month per home within Cottage Lane.

**Remaining Costs:**

There are no remaining costs associated with the development of the 41 lots.

**Improvement Description:**

Tract 32996 has been built out as Cottage Lane by Frontier Communities. There are three floorplans plans with sizes ranging from 1,893 to 2,466 square feet, with three to five bedrooms (or four plus loft) and 2.5 to three bathrooms. The homes are of Spanish, Cottage and Craftsman architecture and are all two stories with two car garages. The homes include front yard landscaping, stucco with stone accented exteriors, and block wall and wood fencing. Interiors feature stainless steel appliances, granite countertops in the kitchen, fiberglass tubs and showers, vinyl and carpet flooring, and centralized heating and air conditioning with a programmable thermostat as well as tankless water heaters. Twenty-four of the 41 proposed homes have closed to individual homebuyers with closing dates between September 1, 2017 through March 15, 2018. Actual sales prices (including premium, upgrades, options and incentives) within Cottage Lane ranged from \$330,420 to \$379,354. Our search of the MLS revealed there have no re-sales and there are no current listings within Cottage Lane. Our physical search noted all homes appear to be in excellent condition. The plans are detailed below.

Cottage Lane					
Plan	Bd/Ba	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
1	3 / 2.5	2 / 2	1,893	6	5*
2	4 / 3	2 / 2	2,189	8	6*
3	4 / 3	2 / 2	2,466	<u>10</u>	<u>2*</u>
Total				24	13

\*One of each of these plans is a model home. In addition to the above shown houses, there are 4 houses under construction.

## **RIVERSIDE COUNTY HOUSING MARKET**

In analyzing the County's housing market, population growth and economic conditions need to first be considered.

### **Population**

The County population grew at a 1.28 percent increase over the past year. This compares to the 2.5 percent average annual percentage increase over the previous sixteen years. The slowdown in population growth is primarily due to the sluggish national economy. This slowdown is similar to other Southern California counties during this time period. Predictions are for the County to grow at an average annual rate of 1.4 percent over the next four years. This equates to an increase of approximately 35,000 residents per year suggesting the need for about 10,000 homes per year within the County.

### **Economic Conditions**

Over the past twenty-five years the Inland Empire has seen various cycles in the housing market. The recession of the early 1990s impacted the Inland Empire significantly and resulted in a longer recovery period than in other areas of Southern California. The rise and then fall of housing prices in the Inland Empire between 2004 and 2009 was considerably steeper than almost anywhere in the state. Unfortunately, this meant that the people who bought near the peak of the market likely faced significant negative equity. After essentially remaining flat for a few years, housing prices began to increase in late 2012. The price appreciation in the housing market since then has helped alleviate the negative equity situation in the Inland Empire.

Economic growth in the Inland Empire was strong between 2002 and 2007. Job losses occurred between 2007 and 2009, with a leveling out in 2010, a slight upturn in 2011, and generally increases since that time with current rates near all-time lows. The unemployment rate for Riverside County was 4.6 percent (per the February 2018 Employment Development Department), significantly lower than the high of 15.1 percent in July 2010. The current rate is slightly higher than California's unemployment rate of 4.3 percent and the February 2018 National rate of 4.1 percent.

The housing market was a significant factor in strengthening the impact of the Great Recession. Due to increased interest rates and rising home prices between June 2004 and mid-2006, the market reaction was to create non-conventional financing alternatives, such as sub-prime and non-conventional mortgages, to artificially maintain the boom housing market of 2004 and 2005. In 2007 the housing market saw a shake-up due to the problems in the sub-prime and non-conventional mortgage markets. In March 2007, the Federal Government initiated efforts to stop or limit sub-prime mortgages. Unfortunately, the damage had already been done with sub-prime mortgages playing a role in the 2008 shake out of Wall Street and contributing significantly to the U.S. economic downturn. Due to stricter income verification on new loans and the lack of available credit, coupled with job losses and declining home prices, sales of new homes slowed for the next few years. With the exception of a small increase in 2010, primarily due to government offered homebuyer credits, prices/sales essentially remained flat until mid-2012, when prices began a steady climb with double-digit increases into 2013, with a slower appreciation between 2013 and 2016 when appreciation began strong once again. The increase of the housing market generally follows the lowering of the unemployment rate – as jobs grow, so do home sales and prices.

There were several factors adding to the recent price appreciation including limited supply and constrained lending. The main factor in prices rising is an imbalance in supply and demand. Near the bottom of this past real estate cycle it was not financially feasible to develop land and build a house in portions of Riverside County. Thus, land development slowed, significantly restricting supply. Home ownership across the U.S. has declined to 63.9 percent (Third Quarter 2017 Census.gov) from a high of 69.2 percent in 2004. This downward trend in home ownership is anticipated to stabilize at 63 percent. One major cause of slow sales of new homes in the area is thought to be the FHA Loan Limits. During the recession, the FHA Loan Limits were increased in order to make financing via the Federal Housing Authority easier. However, in January 2015 the FHA loan limits were reduced in Riverside County to \$356,500. The 2018 FHA Loan Limits were recently announced, with Riverside county's single-family home limit at \$405,950. This is a step in the right direction from the 2015 limit, but still not completely in tune with the Riverside

County housing market. A three percent down payment (minimum allowed with FHA financing) suggests the maximum price paid for a home purchased through FHA financing would be in the \$418,000 range. With Riverside County's fourth quarter 2017 median new home price at \$422,500 (up 0.6% from fourth quarter 2016), it is obvious that there is a slight disconnect. The subject property features base home prices from \$335,000 to \$362,000, all within the FHA loan limits. This benefit is reflected in the good absorption rate of the subject property. Within Riverside County the current median detached home price (existing – not new) is \$383,000, also within the FHA home loan limits, which reflects an increase of 8.7 percent from one year prior (California Association of Realtors).

The December 2017 approval of the TCJA by the Federal Government is causing concern that home sales may slow once again. The two largest changes for homes owners is the limitation at \$10,000 for the deduction for state income tax and local taxes ("SALT"), along with a limitation on the mortgage deduction for loans that exceed \$750,000. While this amount does not affect most people looking at subject-type homes in the Inland Empire (generally in the under \$500,000 range), the SALT deduction may limit their tax deductions. It is still too early to tell how much the TCJA will actually affect the new home market, however it is thought that it won't affect the Inland Empire as much as the California coastal cities where mortgages are generally larger due to higher home costs and therefore may be affected.

Home loan mortgage rates were playing a large part in the housing market. The Federal Reserve had held mortgage rates at all-time lows for the past few years in an attempt to assist the housing market. Low rates appeared to help for quite a while however first-time buyers are now having a hard time entering the housing market. The Federal Reserve Board ("Board") has kept interest rates below historical averages dropping rates to zero in December 2008 until the December 2015 Board meeting when interest rates were raised one quarter of a percent. In 2017 the Board increased its benchmark interest rate three times, one quarter point each time. It appears 2018 will have at least three additional increases. This signifies the possibility for robust growth nationally. Unlike the 2008 to 2015 decisions to maintain the rates at zero, regular hikes are anticipated for the foreseeable future. The current quoted average U.S. rate for a 30-year fixed mortgage

per FRED (Federal Reserve Economic Data) as of March 1, 2018 is 4.43 percent. This is up from an average of 3.65 percent over 2016. These increases are also putting pressure on homebuyers.

### **Residential Land Development**

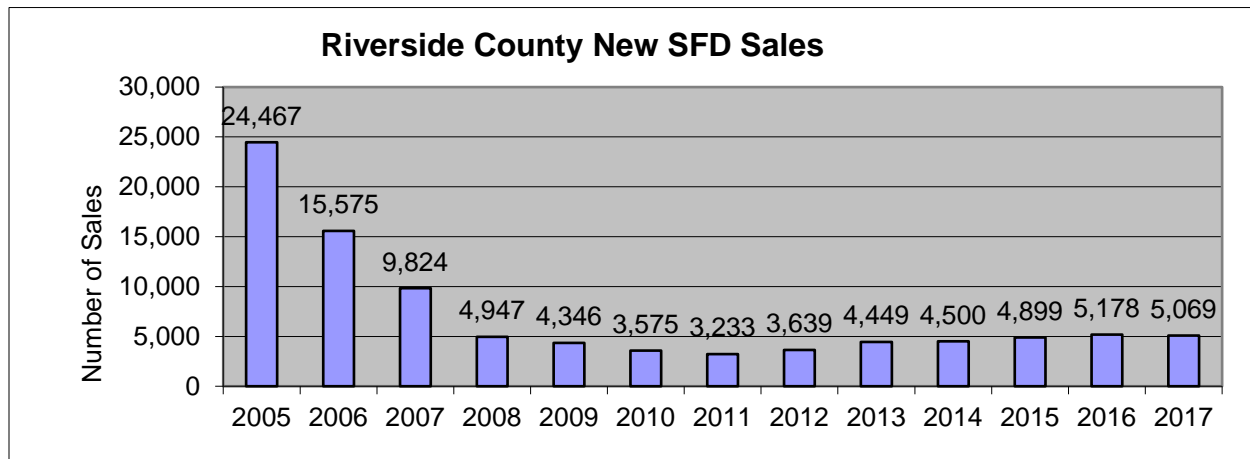
While there had been little land development going on in most of the Inland Empire during the years 2008-2011, the second half of 2012 saw a resurgence. From 2013 to 2018, there has been a general incline in the amount of actively selling projects and pricing, which has prompted an increase in land development activity. The increase in housing prices coupled with the limited availability of supply has made land development more feasible once again for homebuilders. In recent years in the subject's immediate area, master planned community activity includes Canyon Hills, Alberhill Ranch and Summerly, all in the City of Lake Elsinore. In addition, Audie Murphy Ranch, Pacific Mayfield and Menifee Town Center, are all within ten miles.

According to The Ryness Report, a real estate consulting company, there are 37 new home selling projects within the "South Riverside" market which includes the communities of Lake Elsinore, Menifee, Winchester, French Valley and Wildomar. Our search for land sales resulted in seven land sales since late 2016 which are considered to be comparable to the subject property (listing located in Addenda).

### **New Home Sales and Pricing**

We have researched new single-family homes within the subject real estate market in order to reflect residential trends. While overall new home sales in Riverside County were down 2.1 percent year over year (from 5,178 new home sales in 2016 to 5,069 sales in), this slight downturn is not considered significant, as the general trend for new home sales in Riverside County appears to be rising. It should be noted these sales numbers and prices pertain to new home sales while later in this section we discuss existing home sales. Below is a graph showing Riverside County new home sales (both attached and detached single family residences) between 2005 and 2017. It is interesting to note that average annual home sales are still at a level that is approximately one-third of the

average annual sales between 2005 and 2006. It is thought the downturn between 2016 and 2017 is due to limited availability rather than limited demand.



New single-family detached home pricing in Riverside County has also seen changes, however, not as drastic as the changes in sales numbers. The median new home price changed from \$520,152 in the third quarter of 2006 to \$275,000 in the first quarter of 2009 (decrease of 47 percent) while the current new home median price is \$422,500 per John Husing, an area economist's fourth quarter 2017 information. This reflects an increase of over 54 percent from the bottom of the cycle and an increase of 0.6 percent year-over-year. New home sale prices fluctuate based on the land value more than the cost of building the home. While finishes and sizes of homes can change, the basic costs on a per square foot basis do not fluctuate as much as land values, however there have been inflationary increases in construction costs adding to this increase.

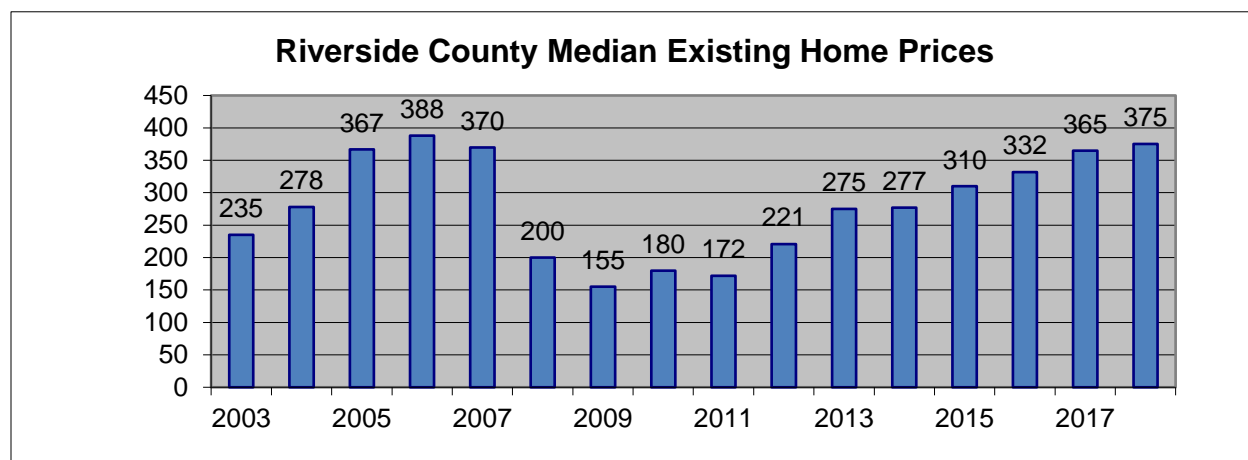
Our search for comparable new home projects within the competitive market area resulted in nine new home Single Family Detached projects, all within the City, with pricing generally ranging from \$335,000 to \$430,000.

### **Existing Home Sales and Pricing**

The median existing detached home price in Riverside County of \$375,000 (as of February 2018 per CoreLogic) is up over 100 percent from the low in second quarter 2009 (\$155,100) and up 8.7 percent from the previous year. It should be noted that the median



existing home price in Riverside County is still down approximately 3.4 percent from the median price at the peak in 2006 (\$388,000). Thus, even though the housing market is recovering, it is still below the previous cycle's peak.



According to CoreLogic, within Southern California (Los Angeles, Riverside, San Diego, Ventura, San Bernardino and Orange counties), the median price paid for a home (both new and existing) in February 2018 (\$506,750) is down 0.54 percent from the revised all-time high of \$509,500 in December 2017, but up 10.2 percent year over year from \$460,000 in February 2017. The current median existing home price in overall Southern California is above to the peak in mid-2007 when the median price was \$505,000 and up more than 100 percent from the low point of the cycle which was a \$247,000 median price in April 2009. However, when adjusted for inflation, the February 2018 median sales price is 14.3 percent below the 2007 peak. Home sales in Southern California were up 0.6 percent overall in Southern California in February 2018 based on a year-over-year change. Shown below is a table comparing February 2017 to February 2018 for both new and existing home sales and pricing in Southern California by county and for Southern California as a whole. Sales numbers are still below historical numbers however this is due to fewer homes for sale rather than fewer buyers on the market. This limited supply is putting pressure on prices which is seen in the table below.

Southern California (New and Used) Home Sales						
County	No. Sold Feb. 17	No. Sold Feb. 18	Percent Change	Median Feb. 17	Median Feb. 18	Percent Change
Los Angeles	4,915	4,765	-3.1%	\$525,000	\$580,000	10.5%
Orange	2,267	2,296	1.3%	\$645,000	\$710,000	10.1%
Riverside	2,732	2,771	1.4%	\$345,000	\$375,000	8.7%
San Bernardino	1,965	2,020	2.8%	\$290,000	\$336,500	16.0%
San Diego	2,631	2,692	2.3%	\$492,000	\$535,000	8.7%
Ventura	581	645	11.0%	\$520,000	\$555,000	6.7%
<b>SoCal</b>	<b>15,091</b>	<b>15,189</b>	<b>0.6%</b>	<b>\$460,000</b>	<b>\$506,750</b>	<b>10.2%</b>

Source: CoreLogic February 2018 Data Brief (most recent Data Brief)

Based on February 2018 median new and existing homes prices, in comparison to the majority of the surrounding counties, Riverside County has a definite price advantage. The "Riverside County Advantage" (price difference between Riverside and surrounding counties) is \$160,000 as compared to San Diego County, \$180,000 as compared to Ventura County, \$205,000 as compared to Los Angeles County and \$335,000 as compared to Orange County. That is, in February 2018, the median priced home in Riverside County was \$335,000 less (or 47 percent less) than the median priced home in Orange County (\$710,000). However, San Bernardino County has a \$38,500 price advantage over Riverside County. As the price advantage widens, homebuyers are more open to commuting to further out areas.

In a separate attempt to capture the increase in home prices, the resale activity of existing homes in the subject area (per CoreLogic) has been reviewed. The number of sales and sale prices of existing homes within market areas in the immediate area of the subject are shown in the table below. We have not included Orange County which is beyond the Cleveland National Forest to the west of Lake Elsinore as it is not relevant.

Community Name	Zip Code	Border To Subject	Sales of SFD Homes Feb. 2018	Feb. 2018 Price Median SFR	Feb. 2018 PSF Median SFR	Price % Change from Feb. 2017
Lake Elsinore	92530	Subject	43	\$306,000	\$203	1.8%
Lake Elsinore	92532	Northeast	31	\$375,000	\$166	5.6%
Menifee/Sun City	92584	East	62	\$380,000	\$181	7.0%
Temescal Valley	92883	North	39	\$493,000	\$215	14.5%
Murrieta	92562	South	60	\$400,000	\$201	0.1%
Wildomar	92595	Southeast	24	\$402,000	\$176	4.4%

Source: CoreLogic Southern California Home Resale Activity February 2018

The median home price of a detached resale home in the subject's zip code is \$306,000, the lowest of the surrounding ZIP codes. The subject and all of the surrounding ZIP codes have had increases over the past year. The above price increases relate to CoreLogic's overall Riverside County increase of 8.7 percent year over year from February 2017 to February 2018.

### **Cottage Lane Sales and Pricing**

Cottage Lane homes square footages range from 1,893 to 2,466 square feet with base pricing ranging from \$334,990 to \$361,990. Cottage Lane has only three homes left to sell: the two models and one additional Plan 1 home. The average lot size at the community is just over 5,700 square feet, with actual lot sizes ranging from 4,081 to 10,632 square feet. Cottage Lane opened for sale at the end of May 2017 resulting in an average sales pace of 4.0 sales per month over the 9.5 months it has been selling (as of March 15, 2018).

### **Summary**

Riverside County saw a substantial increase in both sales and pricing between mid-2012 and late 2013. It appears the significant appreciation of homes slowed to a more normal sustainable rate in 2014 through mid-2016 with a more significant increase in the past 18 months. New home sales are still slightly below the previous peak; but have recently begun increasing at a higher rate than the previous few years. The Lake Elsinore residential market has remained strong with fourteen detached new home neighborhoods within the city currently active in the market. Communities within the Lake Elsinore submarket are experiencing above average sales rates, partially due to prices being within FHA loan limits. While loans are still difficult to obtain and rates have risen slowly, rates have continued to be at historical lows. Despite some uncertainty still clouding the current housing market, most observers are in agreement that the housing market is still gaining strength and healthy population growth is occurring in the County. It is believed that as population continues to increase, housing growth will also continue.

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## HIGHEST AND BEST USE ANALYSIS

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The highest and best use is a basic concept in real estate valuation due to the fact that it represents the underlying premise (i.e., land use) upon which the estimate of value is based. In this report, the highest and best use is defined as:

*"the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value"<sup>4</sup>*

Proper application of this analysis requires the subject properties to first be considered "As If Vacant" in order to identify the "ideal" improvements in terms of use, size and timing of development. The existing improvements (if any) are then compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a more productive or ideal use.

### **"As If Vacant"**

In the following analysis, we have considered the site's probable use, or those uses which are physically possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible uses, or those uses which generate a positive return on investment; and the maximally productive uses, or those probable permissible uses which combine to give the owner of the land the highest net return on value in the foreseeable future.

### **Physically Possible Uses**

The subject property consists of an approximate ten-acre parcel located one parcel northwest of Riverside Drive (also known as Highway 74) in the western portion of the City of Lake Elsinore. Highway 74 is the main route through the City that goes around the Lake. The property has good access from I-15 via Nichols Road to Collier Avenue to Riverside Drive or via I-15, exit Lake Avenue to Grand Avenue. The property has been graded and developed into single family detached lots, with internal streets completed and all utilities installed and servicing the property. The site is surrounded by apartments

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<sup>4</sup> The Appraisal of Real Estate, 11<sup>th</sup> Edition

to the southwest, older existing rural homes on large lots to the northwest, Lakeside High School to the northeast and a vacant parcel beyond which is Riverside Drive to the southeast. We have reviewed a soils report and an environmental assessment on the subject property and both concluded development was feasible if all recommendations in the reports were adhered to. There is an identified fault crossing the property which has a 50-foot restricted use zone setback for buildings which appears to have been mitigated per the existing homes on the property. It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that there are no environmental issues which would slow or thwart development of the site. This is evidenced by City approvals along with City inspectors on site during construction. An engineered drainage system and an on-site detention basin appears to have been designed to alleviate any potential flooding problems and to control project water runoff. All standard utilities serve the subject property. There is neighborhood shopping within two miles of the subject site.

Based on the physical analysis, the size, access and topography make the subject property physically suited for numerous types of development; however, the grading and development that has occurred on the site along with the surrounding uses, suggests single-family residential use.

### **Legality of Use**

The subject property is located within the City of Lake Elsinore, the entity responsible for land use and zoning regulation. Per the Cottage Lane Specific Plan, the subject site is designated for residential land use with a minimum lot size of 4,000 square feet. In addition, Tract Map No. 32996 was recorded on the property and additional lands. Tract 32996 subdivides the property and additional lands into 48 single family detached lots with a minimum lot size of 4,000 square feet which includes the subject 41 lots. The approved mapping is consistent with the current zoning on the property. Based on the legality of use analysis, the type of development for which the subject properties can be utilized is narrowed to residential use. This is consistent with the findings of the physically possible uses.

### **Feasibility of Development**

The third and fourth considerations in the highest and best use analysis are economic in nature, i.e., the use that can be expected to be most profitable. As discussed under the Riverside County Housing Market section earlier within this report, the market has showed strong increases in both sales and pricing in 2017. Within Lake Elsinore CFD No. 2007-5, 38 of the 41 homes have been sold since opening for sale at the end of May, 2017. All structures appear to be in excellent condition with no physical depreciation apparent. Within the new home market in the subject area we found eight projects to be most comparable to the subject however there are many additional new homes projects in the market area. The nearby communities of Summerly, Alberhill Ranch and Canyon Hills, all in Lake Elsinore have had land sales to builders in the past 18 months. Population growth is still occurring in the area and will continue to create the need for new housing.

Based on the above analysis, the highest and best use for the subject property appears to be for single-family detached residential development at the right price points.

### **Maximum Productivity**

The current housing market is still giving some mixed messages. Market conditions of a sluggish economy and limited credit availability had kept sales slow in 2014 and 2015 with an uptick in sales in 2016, strong sales in 2017 and a strong start showing for 2018. However, sales are still significantly slower than the average few years prior to the recession. The limited availability of homes for sale created higher prices and attracted developers to begin new projects which is seen in the increasing number of new home projects in the area. Based on the current active projects in the area coupled with population growth projected in the subject marketplace, it is our opinion that the subject property is feasible for residential development.

### **Highest and Best Use Conclusion – “As If Vacant”**

The final determinant of highest and best use, as vacant, is the interaction of the previously discussed factors (i.e., physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is our opinion that the highest and best use for the subject property “As if Vacant” is for residential development.

### **Highest and Best Use – “As Improved”**

The subject property consists of the neighborhood of Cottage Lane, being developed by Frontier Communities. There is a total of 41 houses with 38 sold between the end of May 2017 (when project opened for sale) and March 15, 2018 with closings of 24 homes by March 15, 2018. There is one remaining production home for sale and two remaining model homes which were recently released for sale. This suggests an average overall sales rate within Cottage Lane of 4.0 homes per month. This is considered to be a good sales rate within the Inland Empire. Our search within the subject area found eight projects considered to be comparable with similar sized homes. The sales rates within these projects ranged from 2.8 sales per month to 6.1 sales per month with the average of the projects sales rate at 4.3 units per month. The subject's average absorption of 4.0 homes per month is similar to the average of the comparable projects. Our search of the Multiple Listing Service and on-site inspection revealed no re-sales within the nearly sold-out community of Cottage Lane.

The sales rate within the subject and the competitive projects in the immediate area suggest there is demand for new homes in the current market at the right price points. All of the homes are of good design and appear to be of good quality workmanship. Based on the subject neighborhood's sales rate, it is our conclusion that the highest and best use for the subject property is for the continued use, as improved.



## VALUATION ANALYSIS AND CONCLUSIONS

There are 24 homes owned by individuals, 13 homes over 95% complete owned by Frontier Communities (ten in escrow) and four homes currently under construction (three in escrow). A home under construction will be valued on the basis of a finished lot rather than attribute value to a partially completed improvement. The Sales Comparison Approach will be used to value the subject property. This approach compares similar properties that have recently sold or are in escrow. In determining the value for the property, a unit of comparison needs to be addressed. For detached single-family lots, the lots are typically sold on a finished lot basis. That is, the sales price is determined by a finished lot value and then the remaining costs to develop the property to a finished lot condition are taken into account in the sales price. Therefore, in determining a current market value for the lands, the current condition of the lots will be considered. In the case of the existing home valuations, a single new-home sale is the unit of comparison. Our search will include all new home projects within the subject's immediate and surrounding market area to find comparable new homes for sale. In determining the value for each house, a base value will be concluded for each plan which will be considered a minimum market value as most buyers typically purchase some premiums, upgrades or options which increase the price of the home.

The valuation will be presented as follows. First, a discussion of the single-family detached lot market data will be given. Each of the comparable market data (on a finished lot basis) will be detailed along with a comparison discussion of their relationship to the subject property. The remaining construction costs and development fees will be taken into consideration. This analysis will be followed by a finished lot value conclusion for the subject property. Houses which are under construction (under 95 percent complete) will be valued on the basis of a finished lot rather than attribute value to a partially complete improvement. In the case of the completed (over 95 percent complete) builder owned models and production units, the homes will be valued using the Sales Comparison Approach to value to conclude on a retail base value for each plan, followed by a Discounted Cash Flow ("DCF") Analysis due to the "bulk" or single ownership. The DCF will take into account the fair market value of the completed homes (utilizing the Sales

Comparison Approach), any remaining development costs, the marketing and carrying costs associated with selling off the homes, a profit due to the developer of the homes, and a discount rate reflecting both the risk associated with selling off the homes along with the time value of money during the estimated absorption period. In the case of the individually owned homes, a concluded base value will be used for each plan and a mass appraisal technique will be addressed. In determining the concluded base value, new home sales in the area will be reviewed and compared with sales of the subject completed homes using standard methodology and statistical testing. In addition, resales, if any, will be taken into consideration. All of the value conclusions will take into consideration improvements funded by the Lake Elsinore CFD No. 2007-5 Special Tax Bonds and their lien. A summary of the final value conclusions will be reported at the end of this valuation section.

### **Market Data Discussion – Detached Residential Lots**

We have searched the area and found the seven transactions summarized in the Addenda to be most comparable to the subject property. Three of the seven transactions are located within Summerly, two are within Audie Murphy Ranch, one is located within the new master-planned community of Menifee Town Center and one is not associated with a master-planned community, however is located within the city limits of Lake Elsinore. The sales are reported both on a purchase price basis (when available) and on a “finished lot” basis. The actual purchase price is typically less, depending on the condition of the land (lots) at the time the property was acquired. Although some of the sales refer to lands in a nearly finished condition, they are typically physically finished lots with some fees remaining to be paid in order to be considered a true “finished lots.” Four of the transactions occurred over one year ago. As stated in the Riverside County Housing Market earlier within this report, prices have been increasing over the past year. Below are the details of each of the comparable land sales along with a discussion of each transaction in relationship to the subject lands.

**Land Sale Nos. 1, 4, and 6** pertain to the most recent and most comparable land transactions in the master planned community of Summerly. Over the last few years,

Summerly has consistently supplied merchant builders with blue-topped and finished lots in the Lake Elsinore market. Summerly provides significant amenities within its master plan including neighborhood pools and parks. All of these transactions are considered to be good comparables due to being similar sized lots and being located in the City of Lake Elsinore.

Land Sale No. 1 refers to the recent closing of Neighborhood 17 within Summerly. Richmond American Homes purchased the 65 lots with a minimum lot size of 5,500 square feet for a finished lot value of \$147,000 per lot and a per lot purchase price of \$83,400. The closing occurred in January 2018 and the lots were delivered in a finished condition. In comparison with the subject property, Land Sale No. 1 is considered superior in amenities due to the master planned community.

Land Sale No. 4 refers to the May 2017 closing of Neighborhood 15 within Summerly. RSI Communities purchased the 65 lots with a minimum lot size of 5,500 square feet for a finished lot value of \$125,000 per lot and a price per lot of \$66,154. The lots were delivered in a blue-topped condition with a final map ready to record. In comparison with the subject property, Land Sale No. 4 is considered superior in regards to amenities, however inferior due to date of sale.

Land Sale No. 6 refers to the April 2017 closing of the "Linden Pointe" Neighborhood within Summerly. D.R. Horton purchased the 95 lots with a minimum lot size of 3,600 square feet for a finished lot value of \$115,000 per lot and a price per lot of \$51,921. The lots were delivered in a blue-topped condition with a final map ready to record. In comparison with the subject property, Land Sale No. 6 is considered superior in regards to amenities, however is considered inferior in lot size and date of sale.

**Land Sale Nos. 2 and 7** refers to the most recent and most comparable land transactions in the master planned community of Audie Murphy Ranch. Over the last few years, Audie Murphy Ranch has also supplied merchant builders with blue-topped lots in the Menifee market. All of these transactions are considered to be good comparables due to being just a few miles northeast of the subject property in the City of Menifee. Audie Murphy

Ranch has significant amenities including two community pool areas, a sports park and several neighborhood parks. In addition Audie Murphy Ranch is located in a superior school district.

Land Sale No. 2 refers to the sale of Planning Areas 15 and 15A within Audie Murphy Ranch. Meritage Homes purchased the 102 lots in November 2017 for \$10,656,500 based on an estimated finished lot value of \$154,000. The lots have a minimum lot size of 5,000 square feet and were sold in a physically finished condition with fees remaining to be paid. The transaction includes a 50/50 profit participation to the seller over an 8 percent profit margin. In comparison with the subject property, Land Sale No. 2 is considered to be superior in amenities and location.

Land Sale No. 7 pertains to the sale of Planning Area 20 and 8 in Audie Murphy Ranch, which was purchased by RSI Communities in October 2016 for \$8,848,500 based on an estimated finished lot value of \$122,000. The 102 lots have a minimum lot size of 5,000 square feet. The lots were delivered in a physically finished condition with remaining fees to be paid. The deal included a 50/50 profit participation to the seller over an eight percent profit. This transaction appears to have sold at a lower price due to it being the first land sale within this newly graded area of Audie Murphy Ranch. In comparison with the subject property, Land Sale No. 7 is considered superior due to amenities and location and inferior due to the possible discount for the first sale in the new area and date of sale.

**Land Sale No. 3** refers to the sale of Planning Area 1 in the new master-planned community of Menifee Town Center in the city of Menifee. RSI Communities purchased 151 lots with an average 4,600 square feet for an estimated finished lot value of \$126,000. The site was delivered in a super pad condition for a per lot purchase price of \$64,560. This is the first transaction in the new master-planned community of Menifee Town Center. In comparison with the subject property, Land Sale No. 3 is considered similar in lot size, superior in location however inferior due to it being the first sale in a new community.

**Land Sale No. 5** refers to the sale of 81 lots northwest of Lakeshore Drive and Machado Street in the city of Lake Elsinore. D.R. Horton purchased the lots for estimated finished lot value of \$126,000 and a per lot price of \$70,370. The lots have a minimum lot size of 7,200 square feet and were delivered in a rough graded condition with an approved final map. The site is now actively selling as Makenna Pointe. In comparison with the subject property, Land Sale No. 5 is considered similar in location (located a few blocks away), superior in lot size and inferior due to date of sale.

The following chart summarizes the considerations used in adjusting the market data to the subject property.

<b>Data No.</b>	<b>Location</b>	<b>Date of Sale</b>	<b>Lot Size / Density</b>	<b>Finished Lot Price</b>	<b>Comparison to Subject</b>
1	Summerly	1/2018	5,500	\$147,000	Superior – Amenities
2	Audie Murphy Ranch	11/2017	5,000	\$154,000	Superior – Amenities, Location
3	Menifee Town Center	11/2017	5,500	\$126,000	Superior – Location
4	Summerly	5/2017	5,500	\$125,000	Superior – Amenities Inferior – Date of Sale
5	Lake Elsinore	4/2017	7,200	\$126,000	Superior – Lot Size Inferior – Date of Sale
6	Summerly	2/2017	3,600	\$115,000	Superior – Amenities Inferior – Date of Sale
7	Audie Murphy Ranch	10/2016	5,000	\$122,000	Superior – Amenities, Location Inferior – First sale in new area, Date of Sale

The market data has an overall finished lot range from \$115,000 - \$154,000. The market has seen an increase over the past 18 months. Data No. 1, is the most current comparable transaction, however is superior in amenities due to the master planned community affiliation. Data Nos. 2 and 3 also refer to recent transactions, however both are located in Menifee within a superior school district and have superior lot sizes. Data No. 3 was the first sale within the new master-planned community of Menifee Town

Center. Data No. 5 is located a mile away from the subject property in the City, has larger lots (considered superior), however this transaction is now one year old. We have concluded that the subject lots have a current market value of \$140,000. The value conclusion for the lots are detailed below.

#### **Value Conclusion – “As Is” Residential Lots**

Frontier Communities owns 13 homes that are over 95% complete (ten in escrow) and four homes currently under construction (three in escrow). The homes under construction will be valued as a finished lot rather than attribute value to a partially complete improvement, therefore, we will value 4 lots in this analysis. As concluded above, the value for a 4,000 square foot lot is estimated at \$140,000 in a finished condition. As previously discussed under the property description section, the lots are in truly finished condition with all development fees paid. The value is calculated as follows:

4 Lots x \$140,000	<b>\$ 560,000</b>
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#### **Retail House Valuation**

Due to the single ownership of multiple houses by the builder including model homes and production homes over 95 percent complete, a Discounted Cash Flow (“DCF”) analysis is needed in order to arrive at a bulk value for the builder-owned homes within Cottage Lane. First, a retail value for each plan within the subject neighborhood will be concluded followed by a DCF which will take into account the absorption time to sell off the builder owned houses, the costs associated with selling off the homes and any remaining costs owed by the builder within each neighborhood. The resulting revenue will be discounted using an appropriate rate to determine the builder owned bulk value. This DCF analyses will be followed by a reporting of the concluded values for the individually owned homes within Cottage Lane using the concluded base retail value for each plan with a separate check of the analysis utilizing a mass appraisal technique based on actual sales prices of the homes.

Cottage Lane consists of 24 individually owned homes, 13 builder owned homes (ten in escrow) and four homes under construction (three in escrow). Below is a summary of the

floor plans within Cottage Lane. A listing of the improved residential comparable properties is located in the Addenda of this report. All of the improved residential properties are located within Lake Elsinore.

Cottage Lane					
Plan	Bd/Ba	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
1	3 / 2.5	2 / 2	1,893	6	5*
2	4 / 3	2 / 2	2,189	8	6*
3	4 / 3	2 / 2	2,466	10	2*
Total				24	13

\*One of each of these plans is a model home. In addition to the above shown houses, there are 4 houses under construction.

The most appropriate new home comparable data for Cottage Lane Plan 1 are shown below.

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
1	1	3 / 2.5	2 / 2	1,893	--
1	2	4 / 3	2 / 2	2,189	\$157.14
2	1	3 / 2.5	2 / 2	2,151	\$164.10
6	3	3 / 2.5	2 / 2	1,974	\$190.47
7	2	4 / 3	2 / 2	1,790	\$195.58
7	3	4 / 3	2 / 2	1,895	\$182.05

All new home comparables are located within Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, master plan amenities, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The Cottage Lane Plan 1 current asking price is \$173.26 per square foot. The new homes comparables have a base price less concessions range from \$157.14 to \$195.58 per square foot. There have been six closings of Plan 1 with sales prices ranging from \$174.55 to \$185.15 per square foot. There are currently four escrows of Plan 1 with sales prices ranging from \$179.61 to \$180.94. It should be noted that the reported sales prices include upgrades, premiums and options along with any concessions given by the builder while the concluded value relates to a base price for the plan. All of the homes appear to be in excellent condition with no depreciation visible. Our search of the local MLS resulted in no Plan 1 re-sales and none currently listed.

for sale. It has been concluded that Plan 1 has a base current market value of \$170.00 per square foot. This calculates as follows:

$$1,893 \text{ sf} \times \$170.00 = \$321,810$$

The most appropriate new home comparable data for Cottage Lane Plan 2 are shown below.

<b>Data</b>	<b>Model</b>	<b>Rm. Ct.</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
1	2	4 / 3	2 / 2	2,189	--
1	1	3 / 2.5	2 / 2	1,893	\$173.26
1	3	4 / 3	2 / 2	2,466	\$142.33
2	1	3 / 2.5	2 / 2	2,151	\$164.10
2	2	4 / 3.5	2 / 2	2,339	\$153.91
6	3	3 / 2.5	2 / 2	1,974	\$190.47
8	3	3 / 2.5	2 / 2	2,232	\$176.51

All new home comparables are located within Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, master plan amenities, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The Cottage Lane Plan 2 current asking price is \$157.14 per square foot. The new homes comparables have a base price less concessions range from \$142.33 to \$190.47 per square foot. The lowest price is for the largest comparable and the highest price is for the smallest comparable which is typical due to the economies of scale when building a new home. There have been nine closings of Plan 2 with sales prices ranging from \$157.34 to \$164.60 per square foot. There are currently five escrows of the plan 2 with sale prices range from \$159.74 to \$167.97. It should be noted that the reported sales prices include upgrades, premiums and options along with any concessions given by the builder while the concluded value relates to a base price for the plan. All of the homes appear to be in excellent condition with no depreciation visible. Our search of the local MLS resulted in no Plan 2 resales and none currently listed for sale. It has been concluded that Plan 2 has a base current market value of \$155.00 per square foot. This calculates as follows:

$$2,189 \text{ sf} \times \$155.00 = \$339,295$$



The most appropriate new home comparable data for Cottage Lane Plan 3 are shown below.

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
1	3	4 / 3	2 / 2	2,466	--
1	2	4 / 3	2 / 2	2,189	\$157.14
2	2	4 / 3.5	2 / 2	2,339	\$153.91
2	3	4 / 3.5	2 / 2	2,493	\$147.21
4	1	4 / 3	2 / 2	2,539	\$146.51
5	2	3 / 2.5	2 / 2	2,521	\$160.68
8	4	4 / 2.5	2 / 2	2,537	\$160.81
9	3	4 / 3	2 / 2	2,508	\$150.71

All new home comparables are located within Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, master plan amenities, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The Cottage Lane Plan 3 current asking price is \$143.95 per square foot. The new homes comparables have a base price less concessions range from \$146.51 to \$160.81 per square foot. There have been ten closings of Plan 3 with sales prices ranging from \$144.60 to \$153.83 per square foot. There are currently three escrows of the Plan 3 with a sales price range of \$149.85 to \$153.76. It should be noted that the reported sales prices include upgrades, premiums and options along with any concessions given by the builder while the concluded value relates to a base price for the plan. All of the homes appear to be in excellent condition with no depreciation visible. Our search of the local MLS resulted in no re-sale of a Plan 3 and none currently listed for sale. It has been concluded that Plan 3 has a base current market value of \$142.00 per square foot. This calculates as follows:

$$2,466 \text{ sf} \times \$142.00 = \$350,172$$

#### Builder Owned Retail Values – Cottage Lane by Frontier Communities

Within Cottage Lane there are 13 builder-owned homes over 95% complete, including three models. Ten of the 13 homes are in escrow and due to close upon completion. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar for dollar basis. Based

on historical information, home sizes and fixtures, actual model home sales within the subject area and the current real estate market, a consideration of a \$35,000 premium has been included with each of the model homes. As concluded above, the minimum market retail base value conclusions for the individually owned homes in Cottage Lane are calculated as follows:

Plan 1 (5 x \$321,810)	\$1,609,050
Plan 2 (6 x \$339,295)	2,035,770
Plan 3 (2 x \$350,172)	700,344
Model Upgrades (3 x \$35,000)	<u>105,000</u>
Total Builder Ownership in Cottage Lane	<b><u>\$ 4,450,164</u></b>

#### Absorption Period

In order to arrive at an absorption period for the builder-owned homes, the absorption rate for subject property along with the surrounding developments have been reviewed. Cottage Lane has sold 38 homes between May 28, 2017 (first closing) and March 15, 2018. The 38 sales suggest an average absorption rate of 4.0 units per month. For purposes of this analysis we have concluded the 13 homes will be absorbed in four months.

#### Remaining Costs

There are no remaining costs.

#### Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Six percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of eight percent in expenses for this analysis.

#### Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject properties. In the early 2000s, developers typically attempted to achieve a 10 to 12 percent profit based on gross sales

proceeds. During the early 1990s recession, this range was lowered considerably to six to 10 percent with some builders drastically lowering their profit potential in order to maintain their work force. As the market improved, so did the profits. This appears to be occurring once again as prices have been increasing. An eight percent profit is considered appropriate in the analysis for this project.

### Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with merchant builders in the Lake Elsinore area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject property

The homes within Cottage Lane began closing in September 2017 with 4.0 sales per month as the average sales rate. There are only three homes still available, two model homes and one production homes that is under construction. Based on the sales rate within the subject project, the competition, the product and location, a 10 percent discount rate is considered appropriate for this analysis.

### Discounted Cash Flow Summary

The discounted revenue (see DCF Analyses in addenda) for the builder owned homes within Cottage Lane is **\$3,661,539**.

### Frontier Communities Ownership Valuation Total

Frontier Communities owns 13 homes over 95 percent complete (ten in escrow) and four additional lots with homes under construction (under 95 percent complete). The lots are in a finished condition with no remaining costs. The final value conclusion for the builder owned property is shown below.

Four Lots	\$ 560,000
13 Houses	<u>3,661,539</u>
Total Frontier Owned Property	<b><u>\$ 4,221,539</u></b>

### **Cottage Lane – Individual Owned Homes Valuation Conclusion**

There are 24 individually owned homes within Cottage Lane. Based on the concluded value for each plan, the individually owned homes within Cottage Lane are:

Plan 1 (6 x \$321,810)	\$1,930,860
Plan 2 (8 x \$339,295)	2,714,360
Plan 3 (10 x \$350,172)	<u>3,501,720</u>
Total Builder Ownership in Cottage Lane	<b><u>\$ 8,146,940</u></b>

In an additional review, we have reviewed the original builder sales prices for the homes within the neighborhood of Cottage Lane. Closings for the 24 homes occurred between September 2017 and March 2018. The builder reported closing prices for the individually owned homes total \$8,500,471. The builder's reported prices include premiums, upgrades and purchased options as well as took into consideration the concessions given by the builder. The above valuation is for the minimum market value as it takes into consideration the base plan price only and does not take into account any options, premiums or upgrades which were purchased by the buyers. The above concluded values are within 4.3 percent of the actual sales prices within Cottage Lane. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

## APPRAISAL REPORT SUMMARY

The appraisal assignment was to value the subject property which is a portion of CFD No. 2007-5 of the City of Lake Elsinore, consisting of a portion of a residential tract developed by Frontier Communities known as Cottage Lane. Twenty-four of the 41 proposed homes have closed to individual homebuyers with closing dates between September 1, 2017 through March 2018. The subject is nearly sold out with only three homes remaining to be sold.

Cottage Lane is located adjacent Lakeside High School, near the northwestern corner of Lake Elsinore. We have reviewed the builder sales, completed statistical testing and reviewed the areas Multiple Listing Service for any resales or current listings within the subject property. Our search resulted in no resales or current listings within Cottage Lane.

The subject property was valued using the Sales Comparison Approach to value and a mass appraisal technique. A minimum value was determined for the existing homes by concluding at a base value for each plan. The valuation took into account the improvements/benefits to be funded by Lake Elsinore CFD No. 2007-5 bond proceeds along with the Lake Elsinore CFD No. 2007-5 special tax lien. As a result of our investigation, the concluded market value for the subject property is shown below.

**Cottage Lane:**

Total Frontier Ownership	\$ 4,221,539
Individual Owners (24 houses)	<u>\$ 8,146,940</u>
<b>Total Aggregate Value</b>	<b><u>\$12,368,479</u></b>

The above values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of March 15, 2018.

## APPRAISER'S CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino has made a personal inspection of the property that is the subject of this report.
8. Kitty Siino has not performed any appraisal services on the subject property in the past three years.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.

**DRAFT**

Kitty S. Siino, MAI  
State Certified General  
Real Estate Appraiser (AG004793)

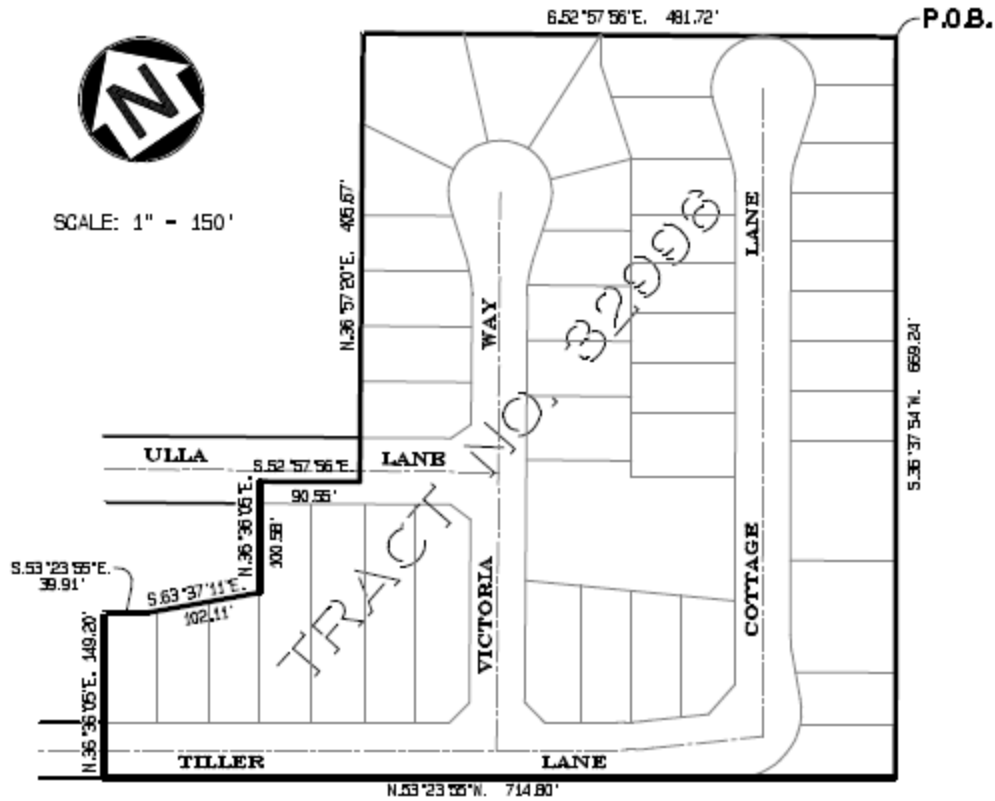
# **ADDENDA**

## **CFD 2007-5 BOUNDARY MAP**





SCALE: 1" = 150'



SEC. 10, T6S, R5W, S.B.M.

PREPARED UNDER THE SUPERVISION OF:  
**SD ENGINEERING & ASSOCIATES**  
242 E. AIRPORT DRIVE, SUITE 212  
SAN BERNARDINO, CA 92408  
(909) 884-7090



**VICINITY MAP**  
NTS



**CFD ANNEXATION - TRACT NO. 32996**

THIS PLAT IS SOLELY AN AID IN LOCATING THE PARCEL IN THE ATTACHED DOCUMENT

SHEET 1 OF 1

**TRACT MAP 32996**

## TRACT 32996

BEING A SUBDIVISION OF A PORTION OF LOTS 1 AND 2 OF BLOCK "C" OF MAP OF A PORTION OF THE LA LAGUNA RANCH AS SHOWN BY MAP ON FILE IN BOOK 1 OF MAPS AT PAGE 36 THEREOF; ALSO A PORTION OF PARCEL 2, LOTS "A", AND "B", AND ALL OF PARCELS 3 AND 4 OF PARCEL MAP 7361 AS SHOWN BY MAP ON FILE IN BOOK 23 OF PARCEL MAPS AT PAGE 75 THEREOF, BOTH BEING RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, IN RANCHO LA LAGUNA.

SEPTEMBER 2006

PSOMAS

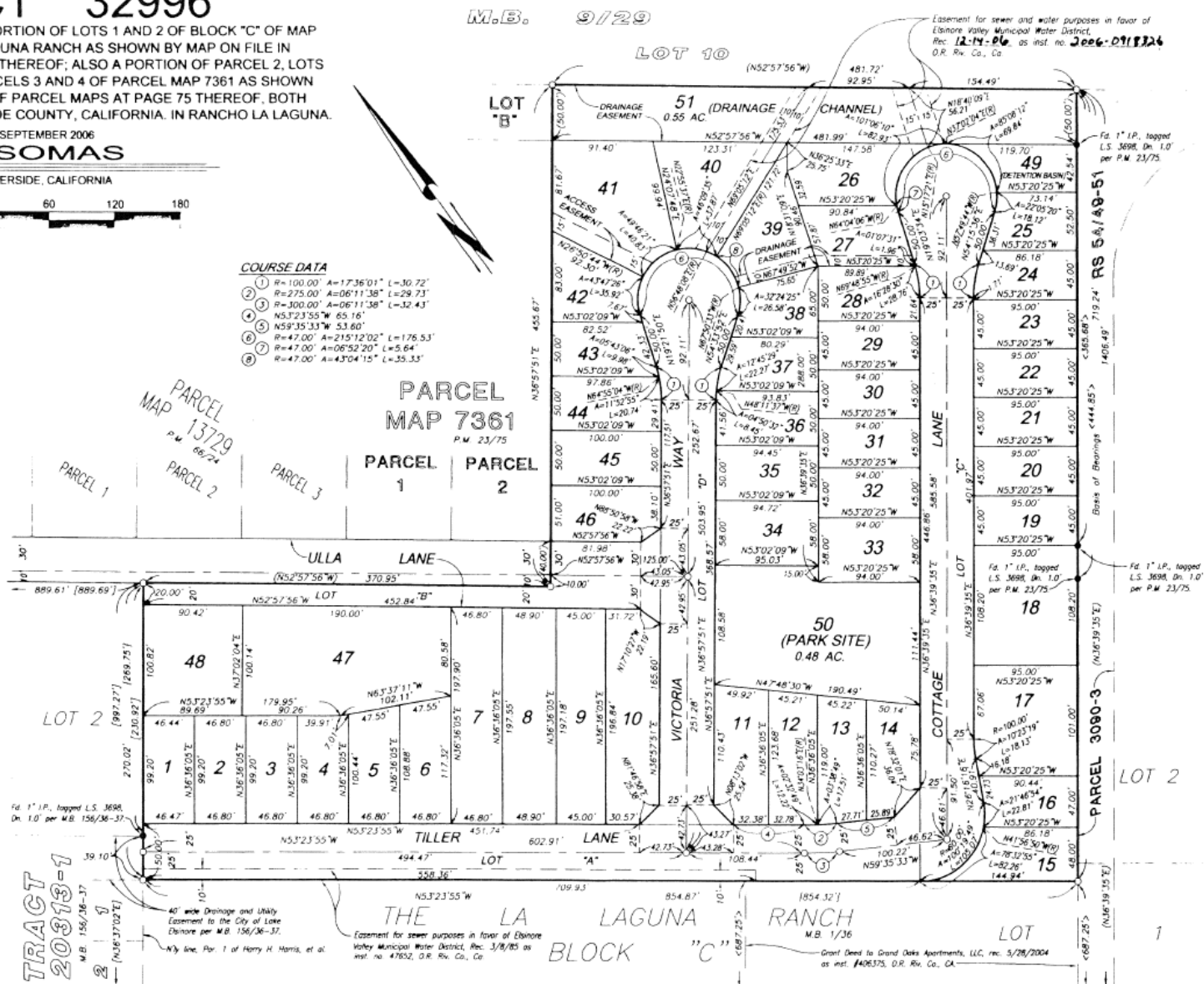
RIVERSIDE, CALIFORNIA



SURVEYOR'S NOTES  
SEE SHEET 2

## COURSE DATA

- ①  $R=100.00'$   $A=1736^{\circ}01'$   $L=30.72'$   
 $R=275.00'$   $A=06^{\circ}11'38''$   $L=29.73'$
- ②  $R=300.00'$   $A=06^{\circ}11'38''$   $L=32.43'$   
 $N53^{\circ}23'55''W$   $65.16'$
- ③  $N59^{\circ}35'33''W$   $63.60'$
- ④  $R=47.00'$   $A=215^{\circ}12'02''$   $L=176.53'$   
 $R=47.00'$   $A=06^{\circ}52'20''$   $L=5.64'$
- ⑤  $R=47.00'$   $A=43^{\circ}04'15''$   $L=35.33'$



**ASSESSED VALUE OF FIVE PARCELS WITHIN  
CFD 2007-5, HOWEVER NOT INCLUDED IN THIS  
APPRAISAL REPORT**

Assessor's Parcel No.	2017/18 Assessed Value
379-490-001	\$294,270
379-490-002	\$279,599
379-490-003	\$292,025
370-490-011	\$367,620
370-490-012	<u>\$381,000</u>
	<b><u>\$1,614,514</u></b>

# **DISCOUNTED CASH FLOW ANALYSIS**

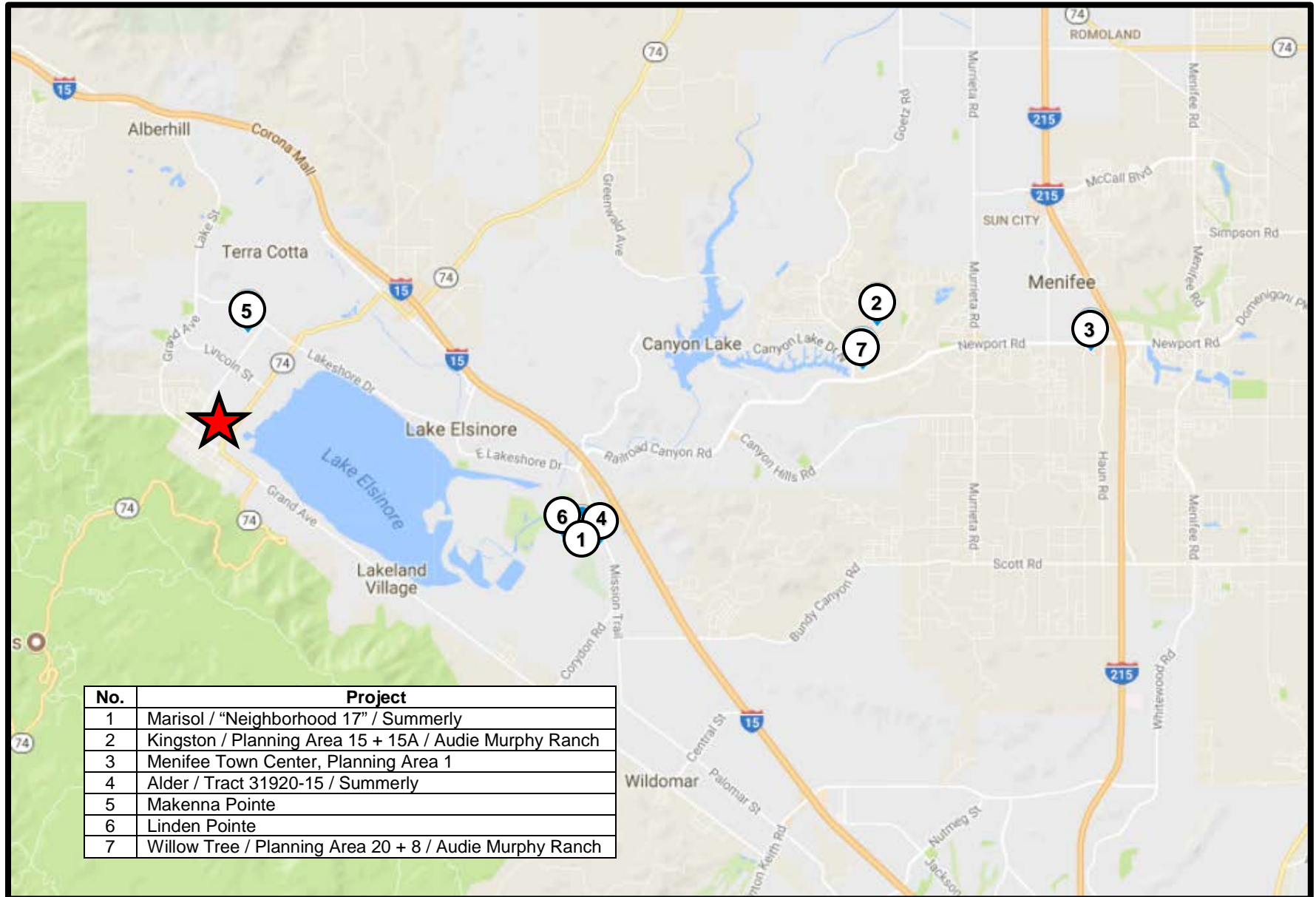
### Cottage Lane Discounted Cash Flow Analysis

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>MONTH 4</u>	<u>TOTAL</u>
INCOME:					
Retail Sales	\$1,112,541	\$1,112,541	\$1,112,541	\$1,112,541	\$4,450,164
TOTAL INCOME	<u>\$1,112,541</u>	<u>\$1,112,541</u>	<u>\$1,112,541</u>	<u>\$1,112,541</u>	<u>\$4,450,164</u>
EXPENSES:					
Remaining Costs					
Marketing & Carrying Expenses	(\$89,003)	(\$89,003)	(\$89,003)	(\$89,003)	(\$356,013)
Profit	<u>(\$89,003)</u>	<u>(\$89,003)</u>	<u>(\$89,003)</u>	<u>(\$89,003)</u>	<u>(\$356,013)</u>
TOTAL EXPENSES	(\$178,007)	(\$178,007)	(\$178,007)	(\$178,007)	(\$712,026)
NET CASH FLOW	\$934,534	\$934,534	\$934,534	\$934,534	\$3,738,138
Discount Factor	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	<u>0.9673</u>	
DISCOUNTED CASH FLOW	\$926,811	\$919,151	\$911,555	\$904,022	\$3,661,539
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$926,811</u>	<u>\$1,845,962</u>	<u>\$2,757,518</u>	<u>\$3,661,539</u>	<u>\$3,661,539</u>

**FINISHED LOT LAND SALES MAP**  
**& SUMMARY CHART**



## FINISHED LOT LAND SALES MAP

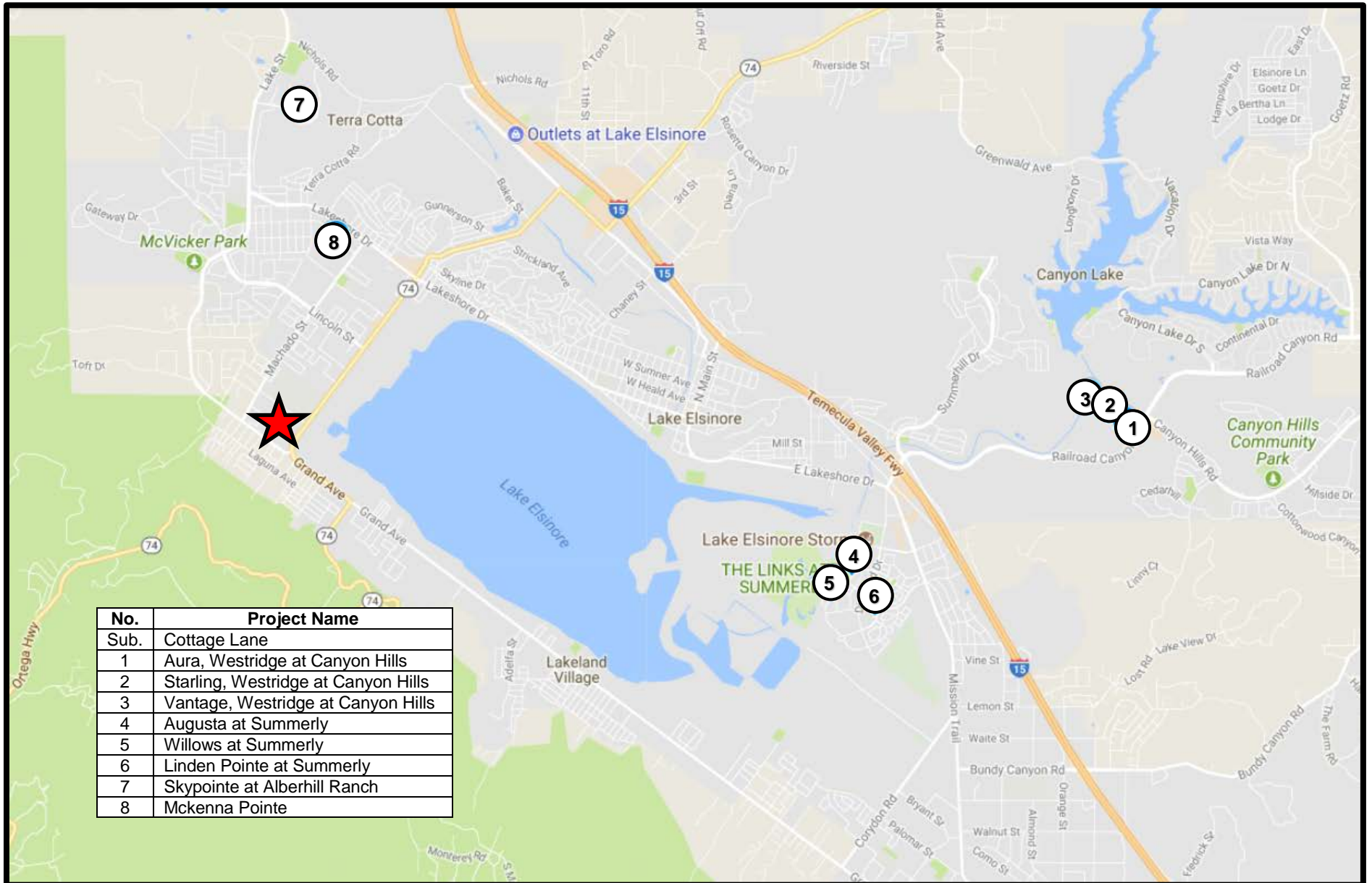


### **FINISHED LOT LAND SALES SUMMARY CHART**

<b>Data No.</b>	<b>Location / APN / Buyer / Seller</b>	<b>Sales Date</b>	<b># Lots</b>	<b>Lot Size</b>	<b>Sales Price / Price per Lot</b>	<b>Est. Finished Lot Price</b>	<b>Comments</b>
1	Marisol / "Neighborhood 17" / Summerly / SE of Malaga Road & Diamond Drive / Lake Elsinore / 371-270-023 / Richmond American Homes / DMB Pacific Ventures	01/2018	65	5,500 sf	\$5,421,000 / \$83,400	\$147,000	Delivered in finished condition with a final map ready to record. It is actively selling now.
2	Kingston / Planning Area 15 + 15A / Audie Murphy Ranch / NE of Newport Road & Goetz Road / Menifee / 358-070-009 / Meritage Homes / Brookfield Residential	11/2017	102	5,000 sf	\$10,656,500 / \$104,475	\$154,000	Delivered in finished condition with a final map ready. Includes 50/50 profit participation over an 8% profit margin. It is expected to open soon as an actively selling community.
3	Menifee Town Center, Planning Area 1 / SW of Newport Road & Town Center Drive / Menifee / 360-080-067 thru -072 / RSI Communities / Regent Properties	11/2017	151	4,600 sf	\$9,748,500 / \$64,560	\$126,000	Delivered in super pad condition with an approved tentative tract map.
4	Alder / Tract 31920-15 / Summerly / SW of Mission Trail & Malaga Road / Lake Elsinore / 371-270-020 / RSI Communities / McMillin Summerly	05/2017	65	5,500 sf	\$4,300,000 / \$66,154	\$125,000	Delivered in blue-topped condition with a final map ready to record. It is actively selling now.
5	Makenna Pointe / NW of Lakeshore Drive & Machado Street / Lake Elsinore / 379-150-050 / D.R. Horton / Spring Pacific Capital	04/2017	81	7,200 sf	\$5,700,000 / \$70,370	\$126,000	Delivered in rough graded condition with an approved final map. It is actively selling now.
6	Linden Pointe / SE of Diamond Drive & Summerly Place / Lake Elsinore / 371-270-004, 371-270-022 / D.R. Horton / DMB Pacific Ventures	02/2017	95	3,600 sf	\$4,932,500 / \$51,921	\$115,000	Delivered in blue-topped condition with a final map ready to record. It is actively selling now.
7	Willow Tree / Planning Area 20 + 8 / Audie Murphy Ranch / NEC Newport Road & Goetz Road, Menifee / 358-070-010 / RSI Communities / Brookfield Residential	10/2016	101	5,000 sf	\$8,848,500 / \$87,609	\$122,000	Delivered in a finished condition with a final map ready to record. Consists of PA 20 and a portion of PA 8 within Audie Murphy Ranch. It is actively selling now.

**IMPROVED RESIDENTIAL SALES MAP**  
**& SUMMARY CHART**

## IMPROVED RESIDENTIAL SALES MAP



### IMPROVED RESIDENTIAL SALES SUMMARY CHART

No.	Project Name Location / Developer	Plan	Room Count	Floors / Parking	Size (SF)	Lot Size	Base Sales Price	Absorp. Rate	Incentives/ Concessions	Price Less Incentives	Price/SF After Incentives
1	Cottage Lane, Tiller Lane and Victoria Way, Lake Elsinore, Frontier Communities	1	3 / 2.5	2 / 2	1,893	4,000	\$334,990	4.0	\$7,000 towards closing with preferred lender	\$327,990	\$173.26
		2	4 / 3	2 / 2	2,189		\$350,990			\$343,990	\$157.14
		3	4 / 3	2 / 2	2,466		\$361,990			\$354,990	\$143.95
2	Aura, Westridge – Canyon Hills, SW of Railroad Canyon Road and Canyon Hills Road / Pardee Homes	1	3 / 2.5	2 / 2	2,151	3,500	\$364,000	3.7	\$11,000 towards closing with preferred lender	\$353,000	\$164.10
		2	4 / 3.5	2 / 2	2,339		\$371,000			\$360,000	\$153.91
		3	4 / 3.5	2 / 2	2,493		\$378,000			\$367,000	\$147.21
3	Starling, Westridge – Canyon Hills, SW of Railroad Canyon Road and Canyon Hills Road / Pardee Homes	1	5 / 4	2 / 2	2,936	4,500	\$418,000	2.8	\$12,000 towards closing with preferred lender	\$406,000	\$138.28
		2	5 / 3	2 / 2	3,037		\$423,000			\$411,000	\$135.33
		3	5 / 4	2 / 2	3,255		\$429,000			\$417,000	\$128.11
4	Vantage, Westridge – Canyon Hills, SW of Railroad Canyon Road and Canyon Hills Road, / Pardee Homes	1	4 / 3	2 / 2	2,539	3,500	\$384,000	4.4	\$12,000 towards closing with preferred lender	\$372,000	\$146.51
		2	5 / 3	2 / 2	2,789		\$394,500			\$382,500	\$137.14
		3	5 / 3	2 / 2	2,870		\$400,500			\$388,500	\$135.36
5	Augusta, Summerly, Railroad Canyon and Diamond Drive / Woodside (Subject)	1	3 / 2.5	1 / 2	2,182	5,500	\$389,090	3.0	\$5,000 towards closing with preferred lender	\$384,090	\$176.02
		2	3 / 2.5	2 / 3	2,521		\$410,085			\$405,085	\$160.68
		3	4 / 3.5	2 / 3	2,742		\$436,905			\$431,905	\$157.51
6	Willows, Summerly, SW of Mission Trail and Malaga Rd. / Beazer Homes (Subject)	1	3 / 2	1 / 2	1,552	5,000	\$364,990	4.2	\$5,000 towards closing with preferred lender	\$359,990	\$231.95
		2	3 / 2	1 / 2	1,790		\$375,990			\$370,990	\$207.25
		3	3 / 2.5	2 / 2	1,974		\$380,990			\$375,990	\$190.47
7	Linden Pointe, Summerly, Diamond Drive and Summerly Place / D.R. Horton	1	3 / 2	1 / 2	1,387	3,525	\$348,990	6.1	\$5,000 towards closing with preferred lender	\$343,990	\$248.01
		2	4 / 3	2 / 2	1,769		\$350,990			\$345,990	\$195.58
		3	4 / 3	2 / 2	1,895		\$359,990			\$344,990	\$182.05
8	Skypointe, Alberhill Ranch, Alberhill Ranch Road and Hudson Lane / KB Home	1	3 / 2	1 / 2	1,860	6,000	\$382,990	5.8	None	\$382,990	\$205.90
		2	3 / 2	1 / 2	1,946		\$389,990			\$389,990	\$200.40
		3	3 / 2.5	2 / 2	2,232		\$393,990			\$393,990	\$176.51
		4	4 / 2.5	2 / 2	2,537		\$407,990			\$407,990	\$160.81
		5	4 / 2.5	2 / 2	2,898		\$419,990			\$419,990	\$144.92
9	Mckenna Pointe, Lakeshore Drive and Machado Street, Lake Elsinore / D.R. Horton	1	3 / 2	1 / 2	2,052	7,200	\$365,990	4.7	\$5,000 towards closing with preferred lender	\$360,990	\$175.92
		2	4 / 3	1 / 2	2,319		\$385,990			\$380,990	\$164.29
		3	4 / 3	2 / 2	2,508		\$382,990			\$377,990	\$150.71
		4	3 / 3.5	2 / 2	2,709		\$406,490			\$401,490	\$148.20

\*Pricing is reported final sales price from builder taking into consideration concessions.

## **APPRAISER'S QUALIFICATIONS**

## QUALIFICATIONS OF KITTY S. SIINO, MAI

### Education

Bachelor of Arts in Business Administration, Financial Investments, California State University, Long Beach, California (1980)

Post-Graduate Study, Real Estate Development, University of California, Irvine, California

Appraisal Institute Classes: Uniform Standards of Professional Appraisal Practice, A & B; Appraisal Principles; Appraisal Procedures; Basic Income Capitalization; Advanced Income Capitalization; Narrative Report Writing; Advanced Applications, Case Studies. Successfully completed all classes in addition to successfully completing the writing of a Demonstration Report and taking the Comprehensive Exam. Became a Member of the Appraisal Institute in December 1996. Have completed over 100 hours of continuing education through the Appraisal Institute every five years.

### Employment

#### 1988 - Present:

Self-Employed Real Estate Appraiser. Duties include the appraisal of various types of properties such as commercial, retail, industrial and vacant land. More complex assignments include easements, right-of-ways and special assessment districts. From 1996 to present, specialized in special assessment districts and community facilities districts appraisals for public entities, including Jurupa Community Services District, Corona Norco Unified School District, City of Corona, City of Chula Vista, City of San Marcos and City of Moreno Valley.

#### 1986-1988:

Project Manager of Development for Ferguson Partners, Irvine, California. Duties included land acquisitions; review of fee appraisals and valuations; analysis of proposed development; planning and design; and management of development, construction and lease-up. The types of properties developed were commercial and industrial. Duties ranged from raw, vacant site development through property management of recently developed projects.

#### 1981 - 1986

Manager of Finance, Construction for Community Development Division, The Irvine Company, Irvine, California. Duties included originating and managing a newly formed division of finance to bridge between the accounting functions and project management functions. Worked with analysis and budgets for Community Development Division. Coordinated with cities in forming new Assessment Districts and Community Facilities Districts to finance major infrastructure improvements. Types of properties were apartments and single-family residential lots on a for sale basis to apartment and homebuilders.

#### 1980 - 1981

Investment Counselor, Newport Equity Funds, Newport Beach, California. Duties included obtaining private financing for residential properties, working with appraisals of properties and analyzing the investments.

#### Licenses

Real Estate Sales Person, State of California, 1980

Certified General Appraiser, State of California (#AG004793)

#### Organizations

MAI #11145 - The Appraisal Institute

#### Public Financing

CASTOFF Meetings, 2006, 2007, 2008, 2009, 2010, 2011, 2013, 2014, 2015, 2016, 2017 and 2018

Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011