

## APPRAISAL REPORT

**DRAFT No. 2**

### **CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2006-1 (SUMMERLY) IMPROVEMENT AREA “HH” (D.R. Horton, Richmond American Homes, Beazer Homes)**

Tracts 17, 18 and 19 within Summerly (Tract 31920)  
City of Lake Elsinore, Riverside County, California  
(Appraisers' File No. 2019-1202)



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**

October 21, 2019

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. 2006-1 IA “HH”  
Of the City of Lake Elsinore  
(Summerly – Richmond American, Beazer, D.R. Horton)  
West of Diamond Drive and Village Parkway 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 Community Facilities District No. 2006-1 Improvement Area “HH” of the City of Lake Elsinore (“Lake Elsinore CFD No. 2006-1 IA HH”). Lake Elsinore CFD No. 2006-1 IA HH consists of approximately 34 acres covered by Tract Maps 31920-17, 31920-18 and 31920-19 which encompass a total of 180 single family detached lots. Out of the total 180 proposed homes, 45 have closed to individuals.

The 180 lots are being developed into three neighborhoods by three builders: Sendero by Richmond American Homes (“Richmond American”), The Glen by Beazer Homes (“Beazer”) and Laurel Pointe by D.R. Horton. Sendero is included in Tract Map 31920-17, The Glen is included in Tract Map 31920-18 and Laurel Pointe is included in Tract Map 31920-19. These three neighborhoods are a portion of the master planned community of Summerly in the City of Lake Elsinore, which consists of 1,677 planned units. McMillin Summerly LLC is the master developer of the entire project. The lots range in condition from completed, individually owned homes to homes under construction and physically finished lots under builder ownership.

The valuation method used in this report is the Sales Comparison Approach along with discounted cash flow analyses and a mass appraisal technique as defined within this report. The fee simple estate of the subject property has been valued subject to the lien of the Lake Elsinore CFD No. 2006-1 IA HH Special Tax Bonds. 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 the Lake Elsinore CFD No. 2006-1 IA HH Special Tax Bonds.

Mr. Jason Simpson  
**City of Lake Elsinore**  
October 21, 2019  
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As a result of our investigation, the concluded Minimum Market Value (as defined within this report) for the subject property is:

<u>Sendero by Richmond American</u>		
Builder Owned (3 homes & 39 lots)	\$ 6,401,773	
Individual Owned (23 homes)	<u>\$ 8,740,340</u>	
Subtotal Sendero		<u>\$ 15,142,113</u>
<u>The Glen by Beazer Homes</u>		
Builder Owned (4 homes & 48 lots)	\$ 7,459,814	
Individual Owned (5 homes)	<u>\$ 1,889,406</u>	
Subtotal The Glen		<u>\$ 9,349,220</u>
<u>Laurel Pointe by D.R. Horton</u>		
Builder Owned (11 homes & 30 lots)	\$ 6,606,455	
Individual Owned (17 homes)	<u>\$ 6,192,960</u>	
Subtotal Laurel Pointe		<u>\$ 12,799,415</u>
<b>Aggregate Value of Lake Elsinore CFD No. 2006-1 IA HH</b>		<b><u>\$ 37,290,748</u></b>

The above values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of October 1, 2019.

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 2018) 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.

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 Boundary Map for City of Lake Elsinore CFD 2006-1  
Tract Maps 31920-17, 31920-18 and 31920-19  
Land Sales Map and Summary Chart  
Improved Residential Sales Map and Summary Chart  
Discounted Cash Flow Analyses  
FEMA Letter  
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 Lake Elsinore CFD No. 2006-1 IA HH.
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. 2006-1 IA HH Special Tax Bonds.

### **HYPOTHETICAL CONDITION**

1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the Lake Elsinore CFD No. 2006-1 IA HH Special Tax Bond proceeds, are completed and in place.

### **EXTRAORDINARY ASSUMPTION**

1. It is assumed that the cost information provided by the builders is true and accurate. We have reviewed and analyzed the remaining costs and they appear reasonable; however, we do not have expertise in cost estimating. If the costs differ, it will affect the value of the property.

**City of Lake Elsinore**  
**Community Facilities District No. 2006-1**  
**Summerly – Improvement Area HH**



## 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. 2006-1 IA HH Special Tax Bonds.

## THE SUBJECT PROPERTY

The subject property consists of 180 proposed single-family detached homes, which represent Tract Maps 31920-17, 31920-18 and 31920-19, being developed into three neighborhoods by Richmond American Homes, Beazer Homes and D.R. Horton respectively. There are 45 homes completed and closed to individuals, six models (none in escrow), 12 homes over 95 percent complete (six in escrow), 39 homes under construction (21 in escrow) and 78 remaining finished lots (six in escrow). Sales began in the subject property in late 2018. Below is a summary of each neighborhood and the status of each lot.

Description	No. Lots	Ownership	Condition/Status
<b><u>Sendero by Richmond American – Tract 31920-17</u></b>			
Lots 4-9, 16-18, 20-21, 54-65	23	Individuals	Complete Houses / Closed
Lots 32-33	2	Richmond American	Model Homes (0 in escrow)
Lot 19	1	Richmond American	Homes over 95% complete (1 in escrow)
Lots 13-15, 22-24, 28-30, 47-53	16	Richmond American	Homes U/C (15 in escrow)
Lots 1-3, 10-12, 25-27, 31, 34-46	<u>23</u>	Richmond American	Finished Lots (6 in escrow)
<b>Subtotal Sendero</b>	<b>65</b>		
<b><u>The Glen by Beazer – Tract 31920-18</u></b>			
Lots 34-37, 44	5	Individuals	Complete Houses / Closed
Lots 5-6	2	Beazer Homes	Model Homes (0 in escrow)
Lots 45-46	2	Beazer Homes	Homes over 95% complete (1 in escrow)
Lots 27-33, 47-50, 53-55	14	Beazer Homes	Homes U/C (6 in escrow)
Lots 1-4, 7-26, 38-43, 51-52, 56-57	<u>34</u>	Beazer Homes	Finished Lots (0 in escrow)
<b>Subtotal The Glen</b>	<b>57</b>		

<b>Laurel Pointe by D.R. Horton – Tract 31920-19</b>			
Lots 10-16, 36-39, 41-46	17	Individuals	Complete Houses / Closed
Lots 56-57	2	D.R. Horton	Model Homes (0 in escrow)
Lots 17, 29-35, 40	9	D.R. Horton	Homes over 95% complete (4 in escrow)
Lots 1-4, 24-28	9	D.R. Horton	Homes U/C (0 in escrow)
Lots 5-9, 18-23, 47-55, 58	<u>21</u>	D.R. Horton	Finished Lots (0 in escrow)
<b>Subtotal Laurel Pointe</b>	<b>58</b>		
<b>CFD 2006-1 IA HH TOTAL</b>	<b>180</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. 2006-1 IA HH 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 builder-owned property or for an individually owned home 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.”

### **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:

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

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

“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. 2006-1 IA HH.

### **Extraordinary Assumption**

The term “extraordinary assumption” is defined by USPAP as:

*“An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusion”*

The Extraordinary Assumption in this report is that the reported remaining land development costs as received from the builders are true and accurate. We have reviewed the costs and they appear reasonable. However, we are not experts in the field of cost estimating and it should be noted that these costs were relied upon in the valuation of the subject property and if the costs change, the values may change.

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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. 2006-1 IA HH. 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 October 1, 2019.

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## **DATE OF REPORT**

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The date of this report is October 21, 2019.

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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 property. 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. 2006-1 IA HH
- Subject Property Descriptions
- Riverside County Housing Market Discussion
- Highest and Best Use Analysis
- Valuation Procedures, Analyses and Conclusions
- Appraisal Report Summary

The subject property consists of 180 proposed single-family detached homes. There are 78 homes sold, 45 of which are closed to individuals, with the remaining homes including models, production homes, homes under construction and remaining lots. 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>

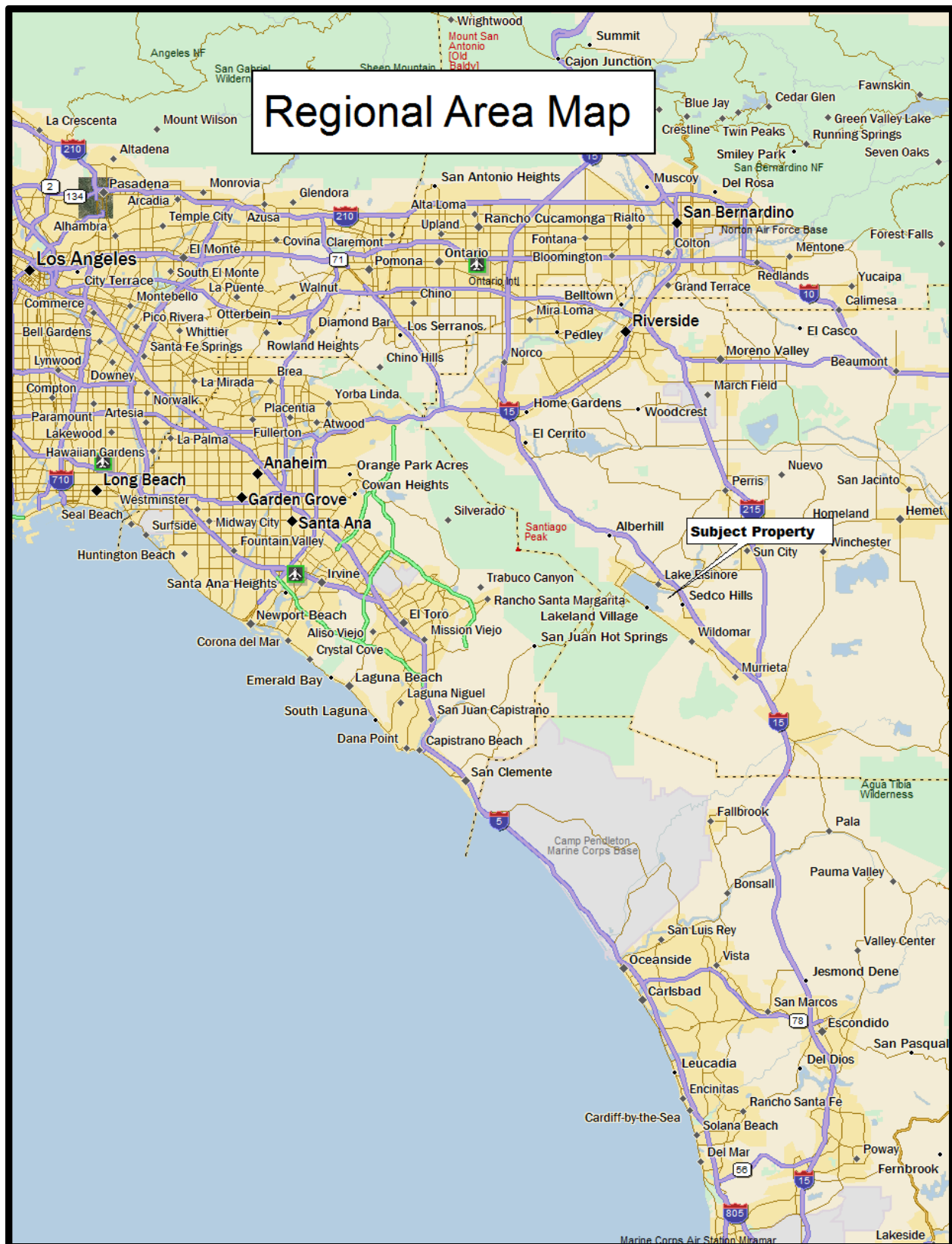
In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject property that have recently been sold, are listed for sale or are under contract. Neither a cost or income approach was utilized as they were not considered necessary to arrive at credible results. In addition, we have utilized a mass appraisal technique which included reviewing all builder sales, determining the prices for each plan type and using statistical analysis to analyze this information.

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

The due diligence of this appraisal assignment included the following:

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 September 15, 2019 and October 15, 2019.
4. Had the property flown for an aerial photograph on September 28, 2019.
5. Interviewed representatives from the builder to obtain available information on the subject properties.
6. Reviewed Preliminary Title Reports on the subject properties.
7. Reviewed soils reports and environmental reports on the property.
8. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable neighborhood.
9. Reviewed sales brochures and sales information on each of the subject neighborhoods.
10. Reviewed actual developer sales information on all closed homes and current escrows.
11. Reviewed Multiple Listing Service ("MLS") information on any re-sales and current listings of existing homes within Lake Elsinore CFD 2006-1 IA HH (none were found).
12. Inspected the subject property for any for-sale or property listing signs for re-sales that may not be listed on the MLS yet (none were found).
13. Searched the area for similar-type land sales and interviewed appropriate parties from each sale in order to ascertain details on each transaction.



## **COUNTY OF RIVERSIDE AREA DESCRIPTION**

### **Location**

The subject property is located in the southern portion of Riverside County (the "County") in the City of Lake Elsinore, on the west side of Interstate 15 at the southeast end of Lake Elsinore. 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 approximately three-quarters mile west of Interstate 15 ("I-15") and approximately one and one-quarter miles south of the Diamond Drive (also known as Railroad Canyon Road) on/off ramps to I-15. I-15 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 approximately five miles northwest and provides access to the west into Orange County on what is also known as Ortega Highway. Interstate 215 is approximately eight miles east, 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 northwest of the subject in San Bernardino County. In addition, the 60 Freeway runs in an east west direction approximately 22 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.

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 40

miles northwest of the subject property while the Orange County Airport is located approximately 30 miles northwest and the San Diego International Airport is located about 60 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, 2019 County population was 2.44 million (most current information from State of California). This represented a one-year increase of 1.1 percent. This compares to an average annual growth rate over the past eight years of 1.24 percent and an average annual growth rate of approximately 2.5 percent for the previous eighteen-year period. Current State projections for Riverside County suggest the population is anticipated to reach approximately 2.857 million by 2030, indicating an average annual increase of approximately 1.4 percent over the next twelve years. The current growth of 1.1 percent is slightly lower than the previous eight-year annual average of 1.24 percent, however significantly lower than the previous 18 years average (2.5 percent) likely due to the Great Recession. 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 the last few years showing historical low unemployment. The unadjusted unemployment rate for the MSA was estimated at 4.4 percent (per the August 2019 Employment Development Department report), 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 August 2019, Riverside County had a 4.6 percent unemployment rate while San Bernardino County had a 4.1 percent rate. The current MSA unemployment rate of 4.4 percent is similar to the California statewide

unemployment rate of 4.2 percent and slightly above the August 2019 National rate of 3.8 percent. Below is a table comparing Riverside County's unemployment rates to the unemployment rates of the surrounding counties.

<u><b>Jurisdiction</b></u>	<u><b>As of</b></u>	<u><b>Unemployment Rate</b></u>
Los Angeles County	8/19	4.7%
<b>Riverside County</b>	<b>8/19</b>	<b>4.6%</b>
San Bernardino County	8/19	4.1%
Orange County	8/19	3.0%
San Diego County	8/19	3.4%

*Source: State of California E.D.D. August 2019 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 seven years, the Inland Empire bounced back slower. Overall Riverside County is nearing the previous median home price peak; however, sales are significantly slower than prior to the recession. In late 2016 Riverside County saw builder land purchases increase however 2018 saw a slowdown in residential land sales once again with 2019 continuing to be sluggish. Builders have slowed production due to the hard lessons learned in the previous recession when inventories sat and some new home projects had to close. The first half of 2019 saw home sales dropping as prices continue to rise, however minimally, however the third quarter of 2019 has seen a sales increase. Most economists think the 2018 to early 2019 slow-down in sales was due to the higher price of housing, the tariff issues and the significant rainy season, rather than a lessor demand. Some economists are now suggesting we have an overheated housing market affecting affordability (in terms of unsustainable annual rates of housing price appreciation) which is creating a market correction in pricing. In surveying new home projects in the Inland Empire, there were some price reductions in early 2019 however prices appear to have stabilized due to the lowering of interest rates.

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 they began raising interest rates. There were nine interest rate hikes by the Board (each time at one-quarter percent) which brought the federal funds rate to 2.25 to 2.5 percent. The final increase in December 2018 appeared to affect the economy with home sales slowing and stock market volatility. In 2019 the Board stopped the increases and dropped the rate one-quarter percent July 31 (first drop in ten years) and another quarter percent September 18. The Federal Interest Rate in the US averaged 5.69 percent from 1971 to 2019 reaching an all-time high of 20 percent in March 1980 and a record low of .25 percent in December 2008. Current factors anticipated to affect the economy in a negative way include the trade conflicts and tariffs which the current administration is enforcing along with the fading of the benefits of the 2017 tax cuts. While the December 2017 adoption of the Tax Cuts and Jobs Act ("TCJA") spurred the economy in early 2018, the Sales and Local Tax limitation ("SALT") portion of the TCJA may be slowing home sales. Economists believe some homebuyers sat on the sidelines until after reviewing their 2018 tax returns and assessing the impact of SALT. The current positive influence on the economy is the low unemployment rate (nationally at 3.8 percent, near a 50-year low) which will accelerate wages and inflation along with mortgage interest rates at near historical lows.

The most recent UCLA Anderson Forecast (dated June 5, 2019) states the national economy may be weaker than it looks. While the U.S. Department of Commerce's release of a 3.1 percent growth rate for the national GDP in the first quarter of 2019 was celebrated as evidence there is no recession in the near future, a closer look at the details behind the 3.1 percent number suggests employment data may not appear as robust as reported. UCLA's research states some of the most reliable indicators include weak residential and intellectual property investment and weak residential construction and consumer durables along with an inverted yield curve all which suggest a possible downturn. The Forecast states "the effect of the first quarter of 2019 data is to increase the recession probabilities from zero to 15 percent for the next year and to between 24

percent to 83 percent for the year after.” The national economy is seeing a downshift to slower growth from 3 percent in 2018 to 2 percent in 2019 and a 1.4 percent growth rate in 2020. When the economy slows to 1 percent growth, the risk of a recession becomes very real. Unknown factors still include the downside risk from increased trade (tariff) tensions and the upside risk from the possibility of housing activity rising out of its stupor.

The UCLA Forecast for California, written by Senior Analyst Jerry Nickelsburg, forecasts a weakening of California’s economic growth in 2020, consistent with the national economy. As a consequence of the slowing U.S. economy, UCLA expects California’s average unemployment rate to rise slightly to an average of 4.6 percent in the first quarter of 2021, up from 4.3 percent in 2020. The logistics industry has been one of the fastest growing sectors in California with a significant presence in the Inland Empire. One bright spot in the Forecast for California is that they are predicting 140,000 new homes in 2020 and up to 146,000 new homes for 2021 which they believe will be a response to easing zoning and regulatory requirement for developers. Personal income in California is anticipated to grow in the upper 2.9 percent range in 2019, then cooling to just below 1.9 percent in 2020 and slightly up to 2.1 percent in 2021.

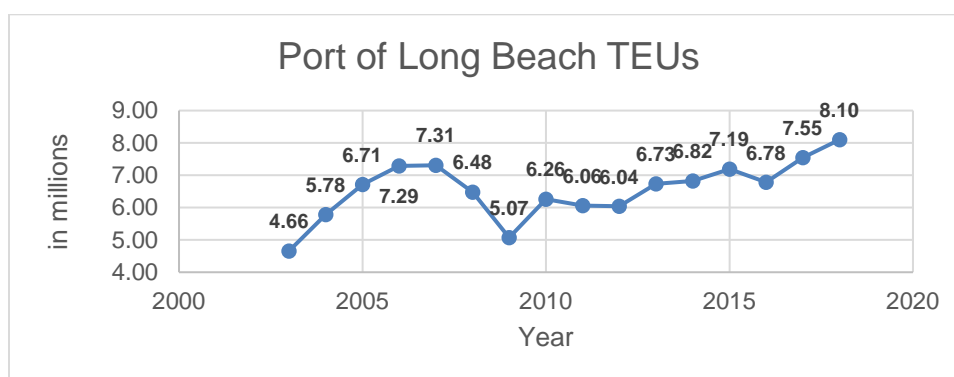
The University of California, Riverside is now reporting an Inland Empire Business Activity Index which draws on employment and other data. The latest report (Q2 of 2019) shows the region’s business activity expanding by 2.5 percent after a lackluster first quarter expansion of just 0.8 percent, a reassuring sign of continued expansion in the Inland Empire’s economy. The growth rate in year over year terms of business activity in the Inland Empire was reported at 1.8% from the second quarter of 2018 to the second quarter of 2019; slightly slower than the 2.3 percent year over year growth rate for the national GDP. While the Inland Empire has the largest number jobs in the health care industry, transportation and warehousing is the most competitive local industry with the least competitive industries being finance, insurance, management, professional and technical services, information and utilities. The strength of the transportation and warehousing industry is being partly driven by the rise in e-commerce, but it’s the need for developable land which the Inland Empire has that makes the region so desirable to the industry.

According to John Husing's Inland Empire Economic Partnership's Quarterly Economic Report dated July 2019, the Inland Empire is poised for growth due to the high cost of housing in the coastal communities. While the second quarter showed growth, it was slower growth than previously estimated with a 1.7 percent growth rate estimated for 2019 for the area. The affordability of homes is near the all-time low, between 20-25 percent, in Los Angeles, San Diego and Orange Counties, while in the Inland Empire the affordability is nearer 40-45 percent. Housing affordability is determined by the share of families that can afford the median priced homes in the county. According to Husing, families are forced to buy at lower inland prices due to income or families wanting a more upscale home that is unaffordable in the coastal markets.

Job growth in the Inland Empire is better balanced than California with 59.4 percent of the added jobs since 2011 being moderate and good paying (\$45,000 and above) while California's average was 45 percent in this category. The President's use of tariffs to impact international trade raises the possibility of significant local economic disruptions. The Inland Empire's employment is heavily dependent on handling imported goods through its logistics sector which has added 82,459 new jobs between 2011- 2018. This powerful local job growth could be adversely affected if trade wars ensue. The Inland Empire's job growth was 3.4 percent in 2018 which exceeded the growth rates of every other California metropolitan area. This was the sixth year in a row that local employment will have increased by close to 45,000 jobs annually. Looking at the period since the Great Recession, the Inland Empire has added 352,208 jobs or 22.8 percent to its local job base. That growth led all metropolitan areas in California. The logistics industry (wholesale trade, trucking and warehousing) has been the primary driver of the inland economy in recent years. The fact e-commerce continues to expand at a 15-16 percent compounded annual rate throughout 2010 – 2019 has forced retailers to begin aggressively embracing and staffing large, regional fulfillment centers. The Inland Empire's location and access from the Port of Long Beach along with land availability has made it the top area in Southern California for building fulfillment centers which typically cover over one-million square feet. The growth in 2018 was down slightly due to the difficulty in finding entitled sites for new buildings rather than a slow-down in demand.

One of the main reasons the MSA was slow to pull out of the recession relates to housing. Both Riverside and San Bernardino Counties saw a considerably steeper rise and then subsequent fall of housing prices than almost anywhere else in the State. Inland Empire median existing housing prices went from \$388,000 at the peak of the market in 2006 to \$155,100 in 2009. The August 2019 MSA median price is \$380,000 per the California Association of Realtors, still slightly below the previous peak.

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. Generally, there has been increases with the exception of a slight dip in 2016 with 2018 hitting an all-time high.



Thus far in 2019, TEU activity is dipping slightly (3.6 percent) from where it was at this time last year.

## **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

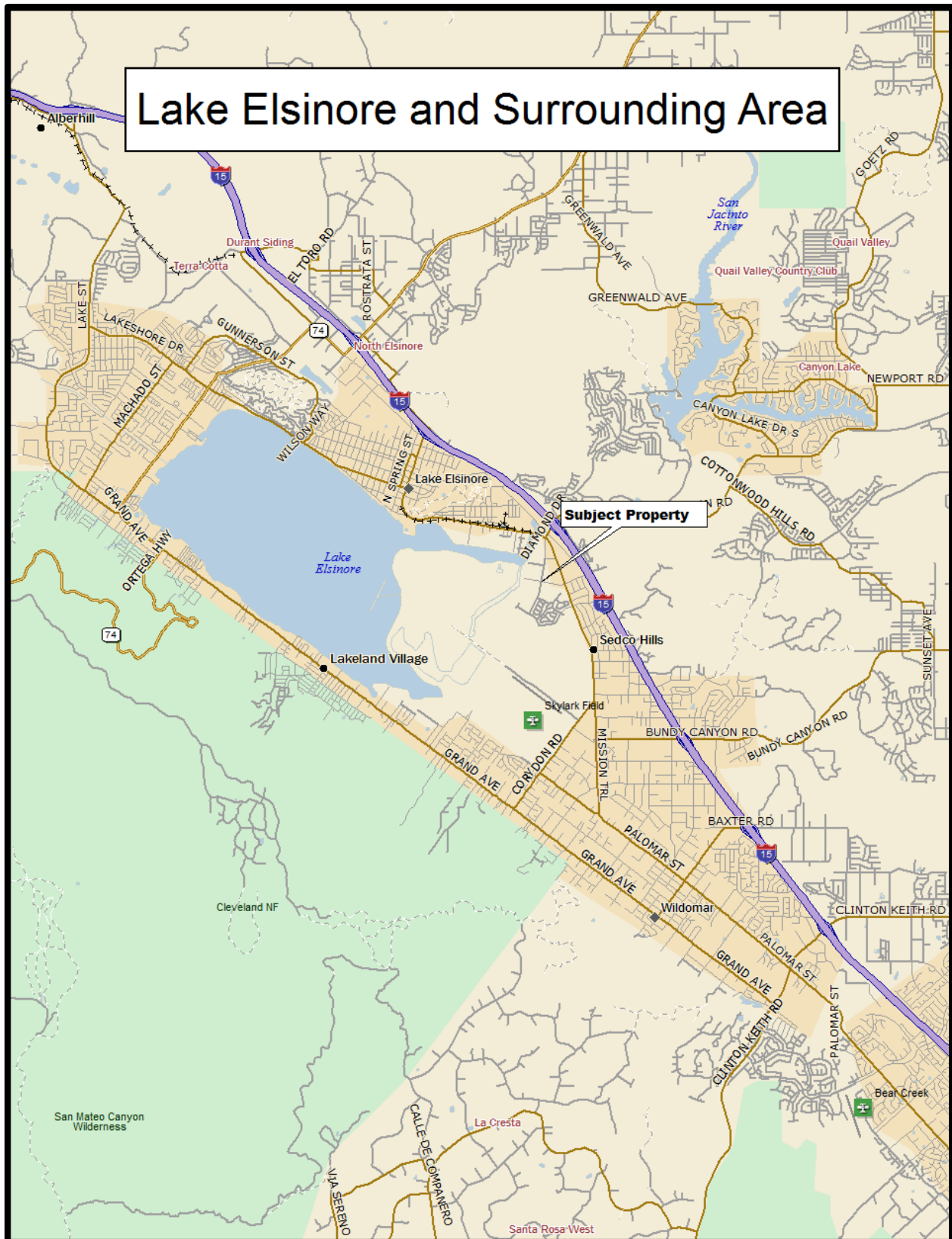
officers and members of various boards and commissions. The Board of Supervisors is elected from five different districts within the County.

### **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. 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 however existing home prices in the Inland Empire are still slightly below the previous peak. The past ten-years average new home sales in the Inland Empire are substantially below the sales numbers for new homes previous to the recession with second quarter 2019 showing a 7.8 percent decline year over year. The economy typically has cycles and most signs are suggesting the U.S. economy and Riverside County's economy which has been on an upswing may be slowing with 12 to 18 months additional in the expansion then possibly a recession in 2021. However, no one is predicting a decline similar to the Great Recession, but rather more of a slowdown. California's new administration is suggesting they want to gear up housing construction, however, time will tell how fast any changes can actually occur. The region's affordability coupled with the rising prices in the coastal market and the need for new housing is setting up for a potential boom in the Inland Empire, however with a slowing economy it is hard to anticipate when this may occur. 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 and housing prices in comparison to adjacent Orange, Los Angeles and San Diego Counties.



## **CITY OF LAKE ELSINORE DESCRIPTION**

The subject property is located within the master planned community of Summerly, in the southerly portion of the City of Lake Elsinore ("City"). Lake Elsinore 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 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), with a most recent January 2019 population estimate of 62,949 per the California Department of Finance. This represents a percentage increase of 1.1 percent year over year which is the same as the overall County population increase. The significant growth between 2000 and 2010 includes the residential boom prior to 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 and Canyon Hills. 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 two master planned communities currently selling homes in the City: Summerly (subject) and Canyon Hills. Summerly, including the Links golf course consists of a total of 700 acres, is proposed for over 1,600 residential units and is approximately 90 percent complete. 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 2018 estimated median household income (per the City website) is \$55,996 as compared to \$56,592 for the County, \$70,489 for the State and \$63,179 for the U.S. per the Federal Reserve Economic Data. Per the City of Lake Elsinore's 2018 Comprehensive Annual Financial Report, the top employers were as reported below.

### **Summary of Major Employers**

<b><u>Employer</u></b>	<b><u>No. of Employees</u></b>
Lake Elsinore Unified School District	2,497
M & M Framing	500
Stater Bros (3 locations)	329
Lake Elsinore Hotel & Casino	275
Costco	265
Walmart	234
Riverside County (Dept. of Social Services)	164
EVMWD	154
Home Depot	130
Target	140

## **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 immediately south 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 directly east of the 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 adjacent to the master planned community of Summerly to the east.

## **Transportation**

Interstate 15 is the major access for the City with State Route 91 approximately 20 miles north and I-215 about 10 miles south. 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 (20 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 intersection to the subject property is the Diamond Drive/Railroad Canyon Road exit (one mile north) where the arterial is Diamond Drive to the west of I-15 and Railroad Canyon Road to the east. 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 20 miles west.

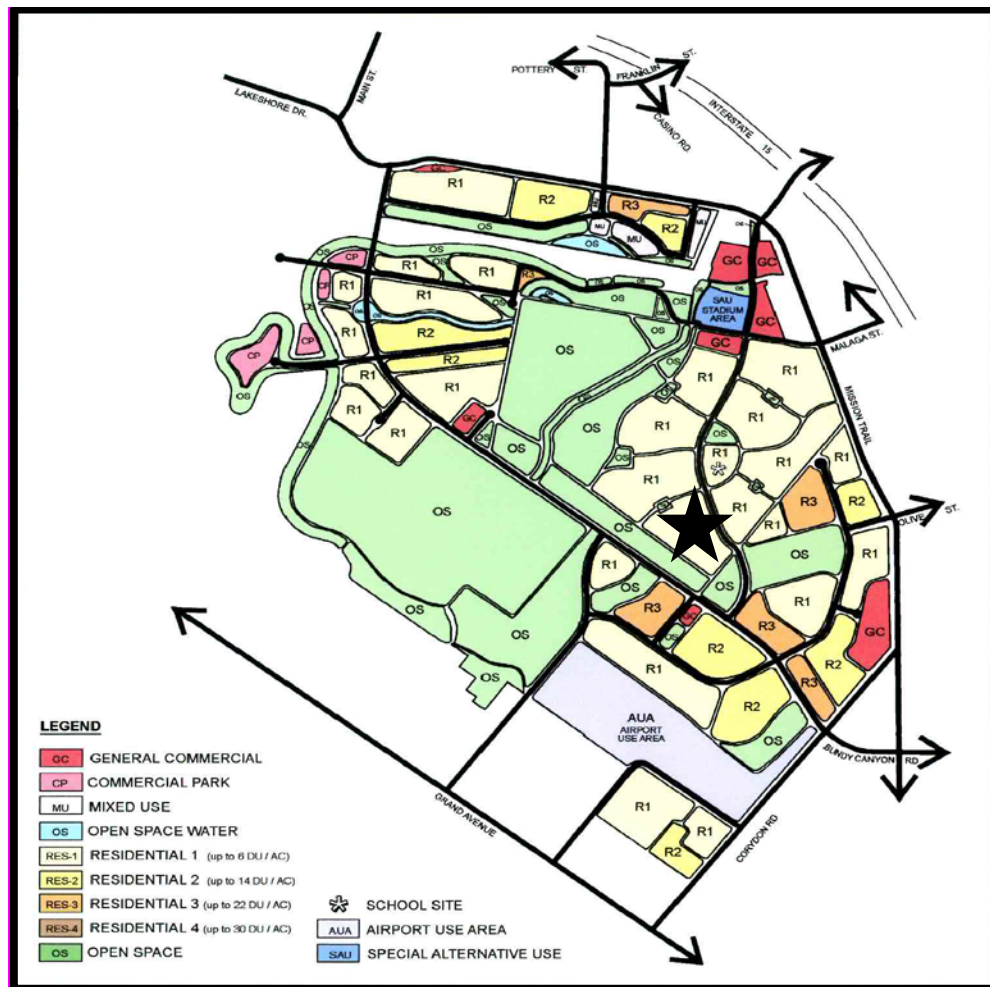
## **Conclusion**

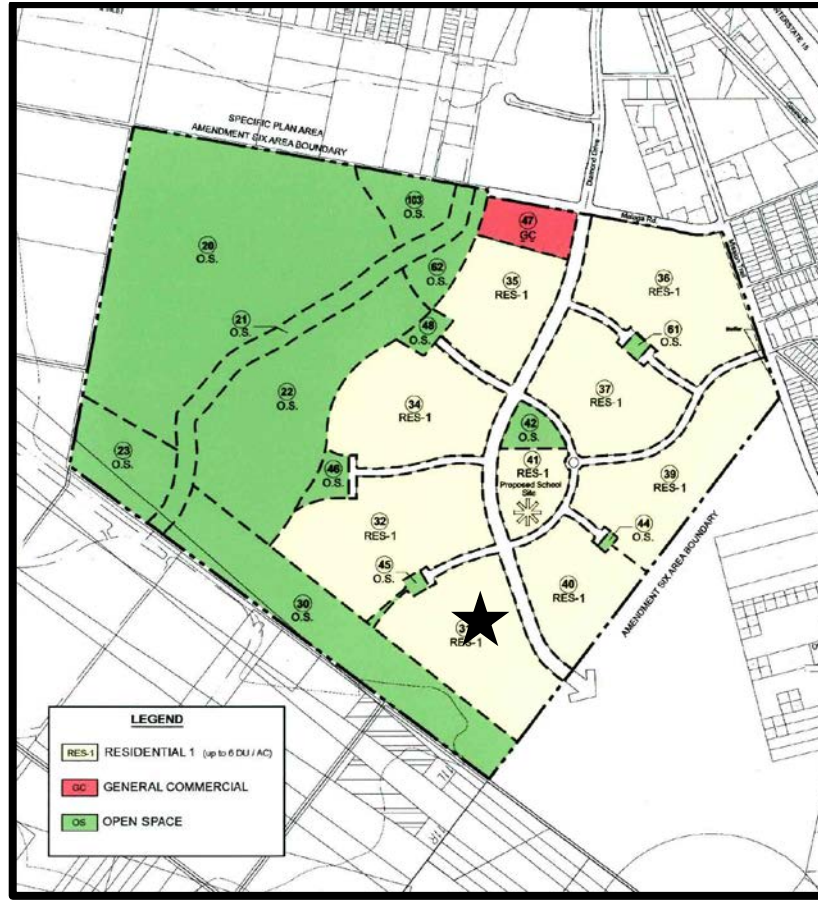
In summary, the City of Lake Elsinore experienced above average growth over the past 17 years, however this past year the population growth is similar to the overall County's growth. Future growth of the City should continue, although at a slower rate than what has previously occurred. Lake Elsinore's housing market is currently healthy and the master planned community of Summerly is being well received in the marketplace at this time. 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.

## THE COMMUNITY OF SUMMERLY DESCRIPTION

### Overview

The community of Summerly consists of 1,677 proposed single-family homes on approximately 700 acres including The Links at Summerly Golf Course located at the southeast end of Lake Elsinore. The community is within the East Lake Specific Plan which encompasses a 3,000-acre area and originally provided for up to 9,000 dwelling units however per the latest Amendment No. 11 allows for 2,640 residential units. Summerly is located within Planning Area 1 of the East Lake Specific Plan Amendment No. 11 and is about 90 percent built out at this time. Below is a land use map showing the East Lake Specific Plan while on the following page is a land use map of Summerly. The black stars on both maps shows the approximate location of the subject property.





The Community of Summerly (black star subject location)

## History

John Laing Homes was the original master developer of Summerly with planning completed and mass grading started in 2007. The majority of the infrastructure within the first phase was completed with some lots finished, three model home complexes built (totaling nine homes), and The Links at Summerly (18-hole golf course) completed. Due to the Great Recession, development of the property then stopped and the project was taken over by Bank of America. In June 2010, McMillin Communities acquired the project and began selling neighborhoods to merchant builders. Between late 2010 and early 2013 Planning Areas 2, 3, 4, 5 and 6 totaling 405 lots were sold to CalAtlantic, Meritage, Richmond American, McMillin and Beazer respectively. In late 2013/2014 Planning Areas 7 and 8 totaling 142 lots were sold to Woodside and CalAtlantic respectively. In around 2015 Planning Areas 12, 13 and 16 totaling 187 lots sold to CalAtlantic, Van Daele and Sea Country respectively. In around 2016 Planning Areas 9, 10 and 11 totaling 181 lots sold to Woodside, Beazer and CalAtlantic respectively. In about 2017 Planning Areas 14,

15, and 24 totaling 211 lots were sold to Richmond American, RSI (now William Lyon Homes) and DR Horton respectively. In late 2018/early 2019 Planning Areas 17, 18 and 19 totaling 180 lots which comprise the subject property were sold to Richmond American, Beazer and D.R. Horton respectively. Since that time Planning Area 20 (101 lots) was purchased by K. Hovnanian, Planning Area 21 (75 lots) was purchased by Woodside and Planning Area 25 (60 lots) was purchased by Meritage. There are two Planning Areas remaining in Summerly, Planning Area 22 with 58 lots and Planning Area 23 with 77 lots.

### **Residential Neighborhoods**

The residential portion of Summerly includes 24 neighborhoods with lot sizes ranging from 3,500 square feet to 7,200 square feet with the overall lot size for the 1,677 lots averaging 5,500 square feet. The 24 neighborhoods are divided into 9 Improvement Areas per the City of Lake Elsinore CFD No. 2006-1. Including the subject neighborhood, 1,542 of the lots have been purchased by homebuilders and developed, or are in the planning stages to be developed, into 22 neighborhoods. There are two neighborhoods totaling 135 lots that are remaining to be sold to builders.

### **Activities**

The Summerly community is adjacent to The Links at Summerly, a Scottish Link 18-hole, 72-par golf course open to the public. Within the Summerly community is The Summer House, formerly known as “Summerly Splash”. The Summer House is now fully complete and open and includes a fitness pool, a resort-type pool, picnic and lawn areas, restrooms, a BBQ Terrace, a Splash Park, an event room and additional outdoor covered dining areas with BBQs. In addition to the Summer House, there are three small neighborhood parks proposed within Summerly. The first, Spirit Park, opened within the first phase of development prior to the recession. Spirit Park includes a BBQ area, a playground, a lawn area and a splash pad. Sunshine Park opened in February of 2017 and includes a tot lot, a lawn area, a BBQ area and a fire pit gathering area. The third neighborhood park, Sunset Park, is the most recent completed park, opening in late 2018 in the subject area. Summerly Community Park, a 24-acre park which will eventually include a dog park, baseball and soccer fields, a basketball court, skate park and tennis

courts along with play areas, picnic lawns and a meeting pavilion has the first two phases complete while the third phase is due to be completed in 2020.

### **Zoning & Entitlements**

Per both the City of Lake Elsinore General Plan and the current Zoning Map the subject property is designated as East Lake Specific Plan, the most recent version was adopted by the Lake Elsinore City Council on November 28, 2017. Per the current Specific Plan, the subject property is shown as R-1 allowing for an average density of 6 units per acre. Tract No. 31920-1 encompasses Summerly, recorded December 7, 2005 and divides the 701.823 acres into 37 lots. The subject three lots are identified as Lots 17, 18 and 19 of Tract 31920-1. In addition, each of the subject neighborhoods is covered by individually recorded tract maps which are detailed under the separate property description sections below.

### **Topography, Seismic, Flood Zone and Utilities**

The subject property appears to have been generally level at surrounding street grade. The property has been graded and developed into physically finished residential lots with one of the neighborhoods having minimum 5,000 square foot lots (Laurel Pointe), one having a minimum of 5,500 square foot lots (Sendero), while the third has minimum 6,000 square foot lots (The Glen). Drainage appears to be going into an engineered street drainage system.

According to the County of Riverside, the subject property is not located within an Alquist Priolo Earthquake Study Zone.

Per the Federal Emergency Management Agency ("FEMA") Map Number 06065C2043G Panel 2043 of 3805 dated August 28, 2008, the subject property is located within the special Flood Hazard Area subject to inundation by the one percent annual chance of flood. However, FEMA has issued a Letter of Map Revision based on Fill ("LOMR-F") which removes the subject property from the Federal requirement for the lender to require flood insurance. A copy of the LOMR-F is located in the Addenda for your review.

All normal utilities are available to serve the subject property by the following companies:

Electrical:	Southern California Edison Company
Natural Gas:	The Gas Company
Sewer/Water:	Elsinore Valley Municipal Water District
Data/Phone:	Frontier (formerly Verizon)
Schools:	Lake Elsinore Unified School District

We have reviewed three G3SoilWorks reports on the three subject tracts, Tract 31920-17, -18 and -19. All reports refer to the grading operations which occurred for DDA Phase F, which includes Tracts 17 through 19. All reports conclude that based upon the observations and density testing, the building pads are suitable for the planned construction from a geotechnical standpoint. Each separate soils report will be addressed under each property description.

We have reviewed the Phase I Environmental Site Assessment covering Summerly Tract 31920 Units 9-11 and 13-23 prepared by C Young Associates of La Jolla, California and dated July 26, 2015. This report covers a portion of the Summerly community which encompasses the subject property and some additional lands. The report concludes that the Environmental Site Assessment found no evidence of recognized environmental conditions in connection with the site.

It is an assumption of this appraisal report that there are no environmental issues that would slow or thwart development of the subject property to its highest and best use.

## IMMEDIATE SURROUNDINGS

The subject property consists of Neighborhoods 17, 18 and 19 of Summerly which is Improvement Area HH of City of Lake Elsinore CFD No. 2006-1. Access into the community is considered to be good via I-15, exit Diamond Drive/Railroad Canyon Road, southwest approximately one-half mile to the entrance to Summerly. The subject is on the west side of Diamond Drive, on both sides of Village Parkway. The overall neighborhood is adjacent to the south end of the Lake and is made up of recently developed homes within Summerly, existing neighborhoods, the Links at Summerly (public golf course), vacant lands within Summerly, Diamond Stadium, Skylark Airport and drop zone, an off-road motorcycle park, existing apartments and some existing retail and commercial development.

Summerly is surrounded by Diamond Stadium and existing commercial along with vacant lands to the north, The Links and the Lake to the northwest and west, the Skylark Airport and Drop Zone along with the Lake Elsinore Motor Sports Park to the south and southeast and existing housing and commercial uses to the east. The commercial uses consist of a Stater Brother's Supermarket and Big Lots anchored neighborhood center, an entertainment center with a bowling alley and movie theatres, a Walgreens and several multi-tenant strip centers.

Diamond Stadium is a state-of-the-art baseball stadium managed by Storm Entertainment, a division of Storm Baseball. The stadium seats 8,000 for minor league baseball and can be converted to approximately 14,000 seats for a concert venue. The Links at Summerly is a 72-par links course in the traditional Scottish style which is open to the public. The Skylark Airport is a private airport with three turf runways ranging from 1,850 to 2,800 feet in length. Skylark is the home of Skydive Elsinore which is advertised as the premier skydiving center of Southern California. Lake Elsinore Motorsports is an outdoor racing facility offering several dirt tracks for various levels of racing. The Lake is

the largest natural lake in Southern California and offers several activities including boating, swimming, water skiing, fishing along with an RV Park and Marina.

Shopping is available within one-half mile at the northwest corner of Malaga Road and Mission Trail at the neighborhood center anchored by Stater Brothers Market. Additional shopping is available across I-15 (within one mile) with a Walmart anchored center while regional shopping is available at the Lake Elsinore Outlet Center approximately five miles north on I-15.

The subject property is at the southeastern portion of the Summerly community, generally at the southwest corner of Summerly Place and Diamond Drive. Access is available from Mission Trail to Diamond Drive or via Village Parkway. Immediately surrounding the subject property to the north is Sunset Park and future neighborhoods; to the east is existing Summerly communities; to the south by vacant lands and the aforementioned Lake Elsinore Motorsports park; and immediately adjacent to the west, open space to the southwest and future Summerly neighborhoods to the northwest.

## **CITY OF LAKE ELSINORE CFD NO. 2006-1 IMPROVEMENT AREA “HH”**

We have reviewed the Community Facilities District Report for the City of Lake Elsinore 2006-1 (Summerly), prepared by Harris & Associates and dated February 17, 2006 (“CFD Report”). Per the CFD Report there were plans to construct 1,491 single family dwelling units within Summerly (increased since then to a current proposed 1,677 units) and the City proposed to form a CFD for the purpose of financing certain infrastructure and public facilities and maintenance for the benefit of Summerly. The facilities include the acquisition and/or construction of street, streetscape, flood control/storm drain improvements and park/landscape improvements, City fees and fees and improvements of the Elsinore Valley Municipal Water District.

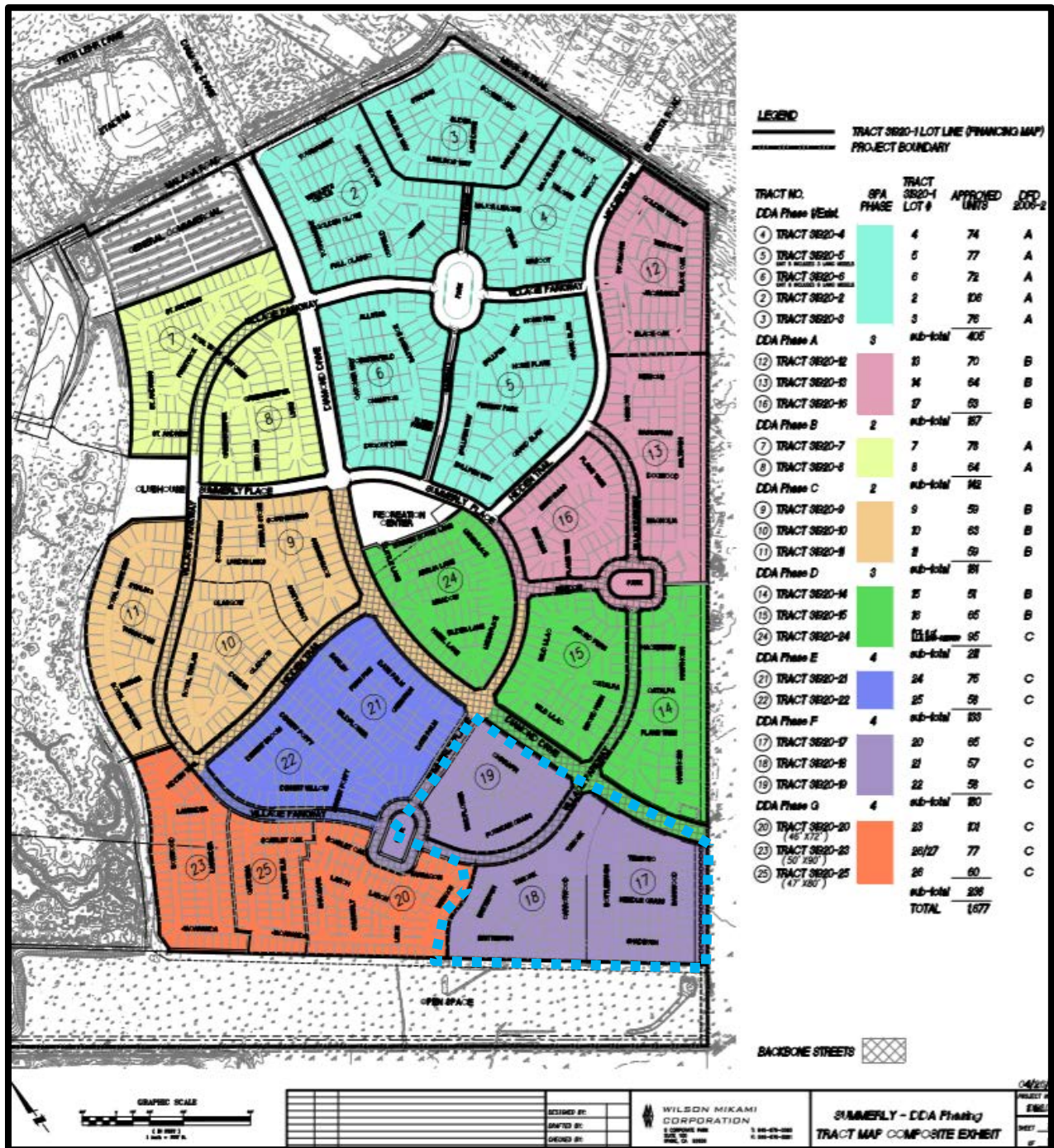
The development of Summerly was halted during the Great Recession and ownership changed along with a changing housing market. Several specific plan amendments were approved which created the need to make some changes to the original CFD Report. Resolution No. 2014-011 was adopted February 25, 2014 which stated the intention of the City Council of the City of Lake Elsinore to incur bonded indebtedness in the amounts not to exceed \$9,000,000 for Improvement Area HH.

The estimated Project Fund Deposit to be generated from the sale of the Lake Elsinore CFD No. 2006-1 IA HH Bonds per the latest CFD Bond Sizing is \$6,115,043 and a total Bond Par amount estimated at \$5,360,000 with the difference including the Premium, Debt-Service Reserve Fund, Capitalized Interest and costs of issuance (above amounts are subject to change. A copy of the Lake Elsinore CFD No. 2006-1 boundary map showing all improvement areas including HH is located in the Addenda for your review.

## SUBJECT PROPERTY DESCRIPTIONS

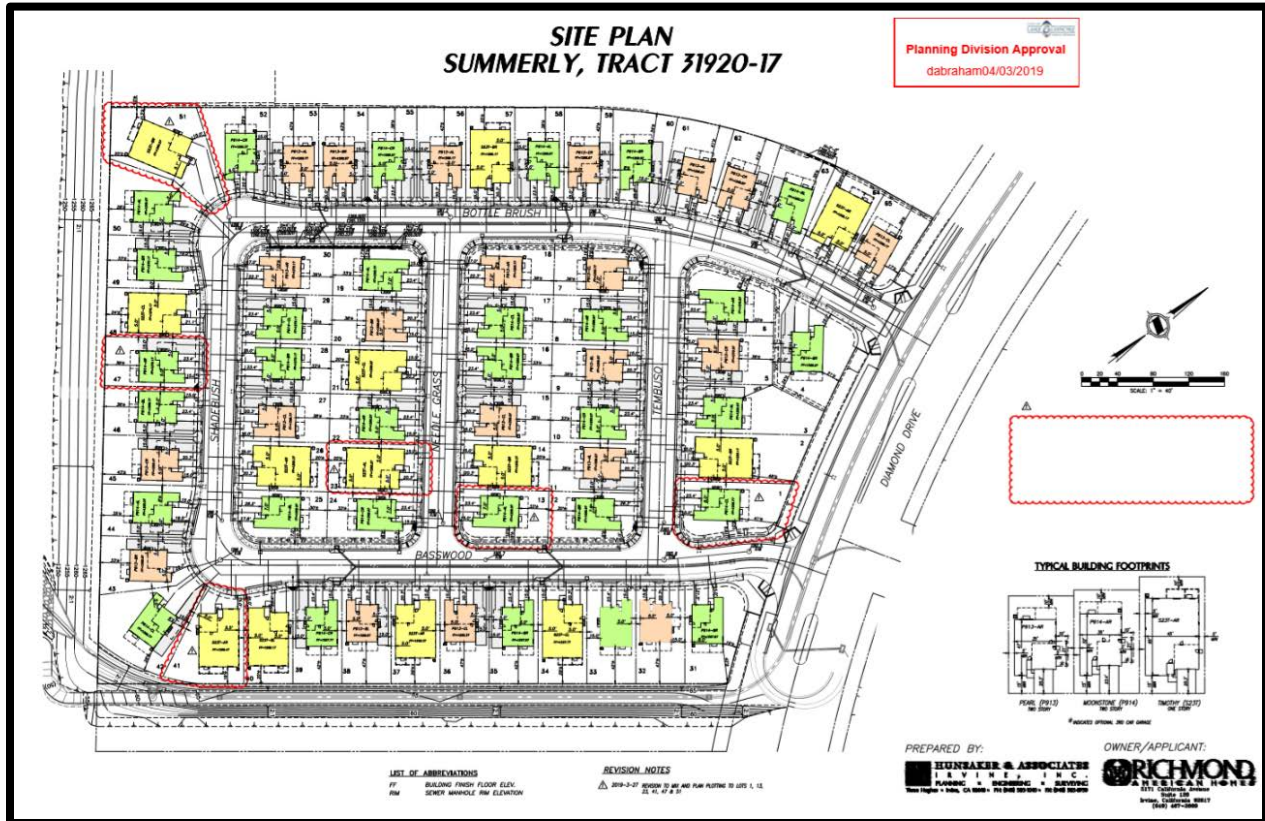
The subject property consists of 180 proposed single-family detached homes, constituting a portion of the master planned community of Summerly. The 180 lots are being built out into three neighborhoods: Sendero by the Season's brand by Richmond American, The Glen by Beazer, and Laurel Pointe by D.R. Horton. The property is shown on the maps below with the subject property (Lake Elsinore CFD No. 2006-1 IA HH) outlined in bright blue dashes (boundaries approximate) on each map. The first map is the current marketing map for Summerly while the map on the following page is the phasing map per the master developer. Each neighborhood is described on the following pages.





Master Developer's Phasing Map

**Sendero by Season's by Richmond American Homes (Tract 31920-17):**



**Location:** West side of Diamond Drive, located south of the Diamond Drive and Village Parkway intersection, Community of Summerly, City of Lake Elsinore, Riverside County.

**Legal Property Description:** Lots 1-65 of Tract 31920-17 in the City of Lake Elsinore, County of Riverside, State of California. (A subdivision of Lot 20 of Tract No. 31920-1.) A copy of Tract 31920-17 is located in the Addenda.

**Property Owner:** Richmond American Homes, as to Lots 1-3, 10-15, 19, and 22-53 of Tract 31920-17; Individual owners as to Lots 4-9, 16-18, 20-21, 54-65 of Tract 31920-17.

**Assessors**

**Parcel Nos.:** 371-450-001 thru 006; 371-451-001 thru 012; 371-452-001 thru 012 and 371-453-001 thru 035.

**Property Taxes:** We have reviewed a sample tax bill from Tract 31920-17 which is located on APN 371-453-003. The total assessed value is \$86,765 which suggests it was a partially improved lot at time of assessment. The total taxes for the 2019-20 fiscal year are \$4,950.52 which includes \$867.64 in Ad-Valorem taxes, \$411.82 for CFD 2003-1 (Public Safety), \$1,216.68 for CFD No. 2006-2 IA C (LEUSD),

\$319.30 for CFD 2006-1 (Services) and \$1,852.38 for CFD No. 2006-1 (Facilities) and miscellaneous charges of \$282.70. It appears there will be a supplemental tax invoice for the Ad-Valorem tax increase and miscellaneous charges due to the final improvements being constructed.

**Three-Year  
Sales History:**

Per the seller, Richmond American Homes purchased Tract 31920-17 from McMillin Summerly, LLC in January 2018. The sales price has been retained in our files at the request of the seller. Richmond American Homes began closing completed houses to individual homebuyers in April 2019. Twenty-three homes have closed to individuals between April 23, 2019 and September 30, 2019.

**Size and Shape:**

Tract 31920-17 is roughly rectangular in shape and contains 11.88 gross acres per the recorded Tract Map.

**Entitlements:**

The subject property is covered by Tract Map 31920-17 which recorded May 14, 2018 and divided the subject 11.88 acres into 65 single family detached lots with a minimum lot size of 5,500 square feet. A copy of the tract map is located in the Addenda.

**Soils Review:**

Per G3SoilWorks Rough Grade Compaction Report for Tract 311920-17 dated December 13, 2017, the building pads are considered suitable for the planned construction from a geotechnical standpoint. It is assumed all recommendations contained in the report were adhered to.

It is an assumption of this report that the soils are adequate to support the highest and best use.

**Easements and  
Encumbrances:**

We have reviewed a Preliminary Title Report on Tract 31920-17 prepared by First American Title Company dated January 19, 2018. The exceptions are as follows:

Item Nos. 1 through 8 refer to taxes and assessments including CFD 2003-1 (law, fire and paramedic); CFD 2006-2 (Lake Elsinore Unified) and CFD 2006-1 (subject CFD). Item No. 9 refers to Ordinance No. 793 recorded on the property in 1999. Item No. 10 pertains to the development agreement recorded on the property. Item NO. 11 refers to the recorded Tract Map No. 31920-1 Lot 20 (subject property prior to subdivision map 31920-17 being recorded) designating drainage easements. Item No. 12 states the property is within the San Jacinto Watershed drainage plan and subject to the associated fees. Item No. 13 pertains to a restrictive covenant recorded on the property in 2010. Item No. 14 is in regards to the school Facilities Funding and Mitigation Agreement recorded on the property in 2013. Item No. 15 refers to public utility easements. Item

No. 16 refers to the CC & Rs recorded on the site in 2018. Item No. 17 is in regards to a Memorandum of option, first right of refusal and profit participation recorded in January 2018.

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than Lake Elsinore CFD No. 2006-1 IA HH and the other aforementioned CFDs.

**Streets/Access:** Access to the subject project is via I-15 to Railroad Canyon Road/Diamond Drive, southwest on Diamond Drive past Village Parkway where there is an entrance to Sendero via Bottlebrush or Basswood, both of which are directly off Diamond Drive.

I-15 is a major north/south freeway providing access to international borders both north and south. I-15 is the main access into the City of Lake Elsinore from the north and south.

Railroad Canyon Road/Diamond Drive has on/off ramps at I-15 and provides access easterly (Railroad Canyon Road) into the eastern portion of Lake Elsinore on the east side of I-15 while to the west the arterial is known as Diamond Drive and provides access to Diamond Stadium and into the main entrance of Summerly. East of I-15 Railroad Canyon Road becomes Newport Road as it crosses into the City of Menifee approximately three miles east of the freeway. West of I-15 Diamond Drive currently terminates in the community of Summerly.

Mission Trail/Malaga Road generally parallels I-15 in southern Lake Elsinore. Lakeshore Drive becomes Mission Trail at Diamond Drive and provides access into south Lake Elsinore. Mission Trail/Malaga Road merges into Palomar Street near the City boundaries with Wildomar.

Village Parkway is an internal street within Summerly providing access in a loop to the entire community. The southern portion of Village parkway provides access into the three subject communities, Tract 31920-17, 31920-18 and 31920-19.

Internal streets within Sendero include Bottlebrush, Tembuso, Needle Grass, Shadbush, and Basswood. There are two entrances into the community, both from Diamond Drive (via Bottlebrush or Basswood).

**Current Condition:** The subject property has been developed into 65 single family detached lots with a minimum lot size of 5,500 square feet. There are two models for the project, both of which are located on Basswood. There are 23 completed homes owned by individuals,

Home Owner  
Association:

three homes over 95 percent complete (two of which are models), 16 additional homes under construction and 23 remaining finished lots.

Current homeowner dues for the Summerly Homeowner's Association are \$117 per month and are anticipated to be at or below that amount at build-out. The Association maintains the Summer House, three pocket parks and the parkway/median landscaping within Summerly.

**Costs to Complete:** We have received estimated remaining development costs and fees provided by the homebuilder. The subject lots are in a near physically finished condition however there are remaining development costs (final street lift, sandbags, repair) plus fees up to building permit fees that total \$465,000. The remaining development costs and fees are associated with the builder-owned property only as the individual homeowners are not responsible for any of these costs. Twenty-three of the 65 homes are owned by individuals with Richmond American Homes owning the remaining 42 lots. Dividing the \$465,000 in remaining costs and fees by the 42 builder-owned lots suggests an average per lot amount of \$11,071.43. These remaining costs will be taken into consideration in the final valuation for Tract 31920-17, later within this report.

Improvement  
Description:

Sendero includes 65 proposed homes being built by Richmond American Homes. The homes are of a California living style, featuring both Ranch and two-story designs. All of the home exteriors that include concrete roofing, dual glazed white vinyl windows, and dry-walled 2-car direct access garages (with an option third car garage at select plans) with roll up sectional insulated garage doors. Interiors include ceramic tile entries with carpet, raised panel doors and wood cabinetry. The master suites include walk-in closets and a master bathroom with walk in shower. Gourmet kitchens include large eat-in kitchens with breakfast bar islands, and stainless-steel appliances. All homes appear to be in excellent condition with no visible depreciation. Two of the plans feature two stories while the final is single story. The first floor of all plans features 9-foot ceilings and all plans offer optional covered patios.

We have reviewed sales information from the builder which included the homes closing from April 23, 2019 through September 30, 2019. Sales prices range from \$382,837 to \$473,694. Per public record, there have been no re-sales and per our inspection there were no homes listed for sale. Base asking prices are from \$385,990 to \$401,990. The sizes per the brochure are as shown below however, the building permits show slightly different square footages of 2,324 square feet for Plan 1; 2,378 square feet for Plan 2 and 2,630 square feet for Plan 3. This appraisal will use the brochure and advertised

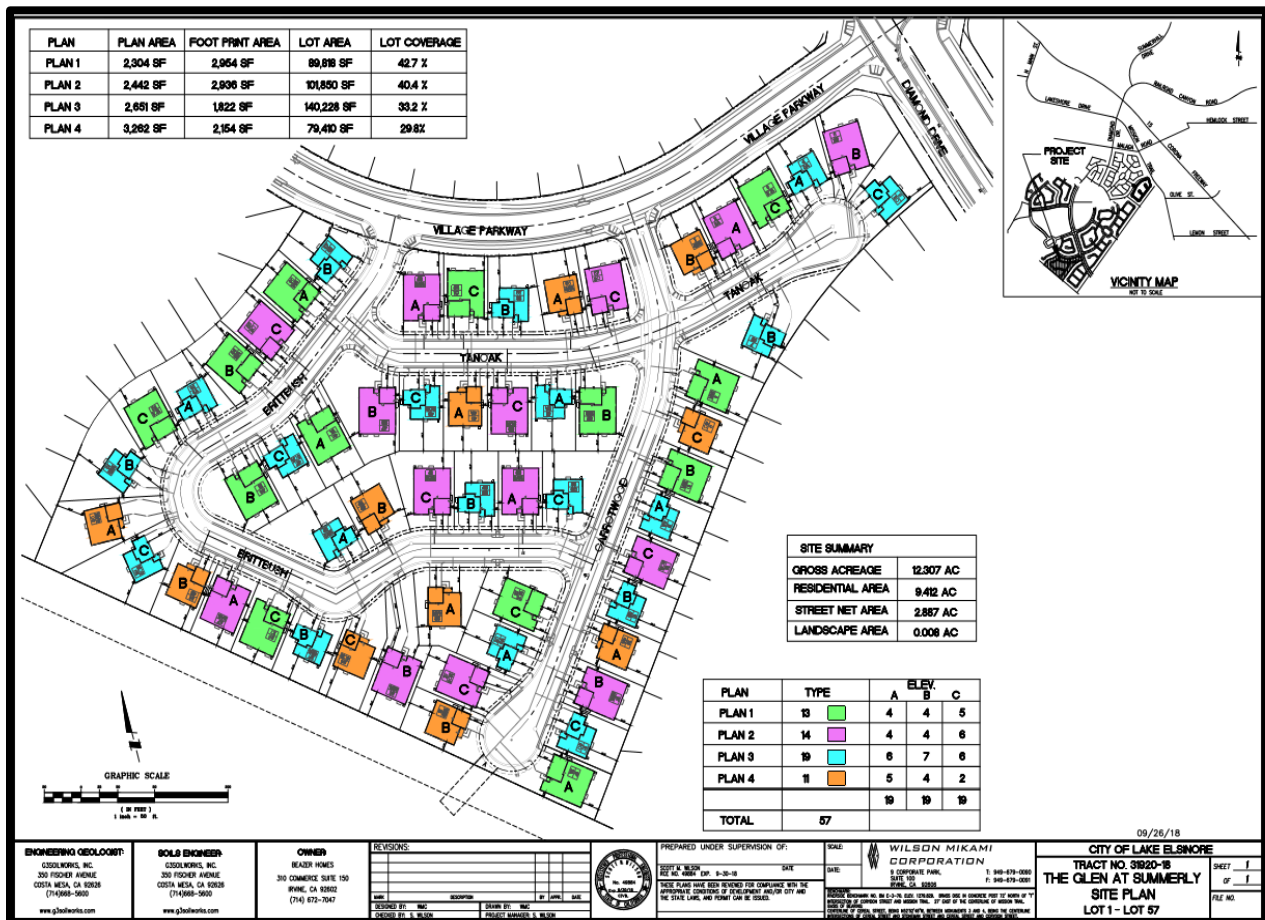
square footages as shown below. The houses which are over 95 percent completed are detailed on the following page.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Own	Bldr. Own
1	3 / 2	1 / 2	2,320	3	0
2	3 / 2.5	2 / 2	2,380	11	1*
3	4 / 2.5	2 / 2	2,640	9	2*
Totals				23	3

\*One of each of these plans is a model home.

In addition to the above detailed houses there are 16 homes under construction (under 95 percent complete) and 23 finished lots.

### The Glen by Beazer Homes (Tract 31920-18):



Location: Southwest corner of Diamond Drive and Village Parkway, Community of Summerly, City of Lake Elsinore, Riverside County

**Legal Property  
Description:**

Lots 1-57 of Tract 31920-18 in the City of Lake Elsinore, County of Riverside, State of California. (A subdivision of Lot 21 and portion of Lot BBB of Tract No. 31920-1.) A copy of Tract 31920-18 is located in the Addenda.

**Property Owner:**

Beazer Homes as to Lots 1-33, 38-43, 45-57 of Tract 31920-18; and Individual owners as to 34-37 and 44 of Tract 31920-18.

**Assessors**

**Parcel Nos.:**

The subject was comprised of Assessor Parcel Numbers 371-460-001 thru 029; 371-460-033 thru 040; 371-461-001 thru 015 and 371-462-001 thru 005.

**Property Taxes:**

We have reviewed a sample tax bill from Tract 31920-18 which is located on APN 371-460-005. The total assessed value is \$92,735 which suggests it was unimproved property at time of assessment. The total taxes for the 2019-20 fiscal year are \$4,841.38 which includes \$927.35 in Ad-Valorem taxes, \$411.82 for CFD 2003-1 (Public Safety), \$1,119.32 for CFD No. 2006-2 IA C (LEUSD), \$319.30 for CFD 2006-1 (Services) and \$1,792.64 for CFD No. 2006-1 (Facilities) and miscellaneous charges of \$270.95. It appears there will be a supplemental tax invoice for the Ad-Valorem tax increase and miscellaneous charges due to the final improvements being constructed.

**Three-Year**

**Sales History:**

Per the seller, Beazer Homes purchased Tract 31920-18 from McMillin Summerly, LLC in May 2018. The sales price has been retained in our files at the request of the seller. Beazer began closing completed houses to individual homebuyers in June of 2019. Five homes have closed to individuals between June 27, 2019 (first closing) and September 3, 2019.

**Size and Shape:**

Tract 31920-18 is irregular in shape and contains 12.307 gross acres per the recorded Tract Map.

**Entitlements:**

The subject property is covered by Tract Map 31920-18 which recorded September 19, 2018 and divided the subject 12.307 acres into 57 single family detached lots with a minimum lot size of 6,000 square feet. A copy of the tract map is located in the Addenda.

**Soils Review:**

Per G3SoilWorks Rough Grade Compaction Report for Tract 311920-18 dated April 12, 2018, the building pads are considered suitable for the planned construction from a geotechnical standpoint. It is assumed all recommendations contained in the report were adhered to.

Easements and  
Encumbrances:

We have reviewed a Preliminary Title Report on Tract 31920-18 prepared by First American Title Company dated December 18, 2018. The exceptions at that time are as follows:

Item Nos. 1 thru 6 refer to general and special taxes on the property including the special tax assessment for CFD No. 2003-1 (Law Enforcement, Fire and Paramedic Services) and CFD No. 2006-2 (Improvement Area B – Lake Elsinore Unified School District) and CFD No. 2006-1 (subject CFD). Item Nos. 7 and 9 are in regards to CC & Rs recorded on the property. Item No. 8 pertains to Ordinance No. 793 recorded in 1999 on the property. Item No. 10 refers to the Easements, Covenants and Conditions contained in the deed from the Redevelopment Agency of the City of Lake Elsinore. Item No. 11 refers to the Development Agreement recorded on the property in 2004. Item No. 12 pertains to the School Facilities and Mitigation Agreement. Item No. 13 is in regards to the Declaration of Development Covenants Conditions and Restrictions recorded in 2018 on the property. Item No. 14 pertains to an Option, Right of First Refusal and Profit Participation agreement on the site. Item Nos. 15 thru 18 refer to public easements on the property. Item No. 19 was for a lien on the property for Property taxes, however per the Tax Assessor the taxes are not paid current. Item No. 20 refers to the Master Association Property Easement Agreement for Summerly while Item No. 21 is in regards to the Supplemental Master Declaration of Restrictions Establishing Dispute Resolution and Solar Shade Restrictions recorded on the property.

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than Lake Elsinore CFD No. 2006-1 IA HH and the other aforementioned CFDs.

Streets/Access:

Access to the subject project is via I-15 to Railroad Canyon Road/Diamond Drive, southwest on Diamond Drive to Village Parkway, where there are two entrances to the community via Carrotwood and Brittbusch.

I-15 is a major north/south freeway providing access to international borders both north and south. I-15 is the main access into the City of Lake Elsinore from the north and south.

Railroad Canyon Road/Diamond Drive has on/off ramps at I-15 and provides access easterly (Railroad Canyon Road) into the eastern portion of Lake Elsinore on the east side of I-15 while to the west the arterial is known as Diamond Drive and provides access to Diamond Stadium and into the main entrance of Summerly. East of I-15 Railroad Canyon Road becomes Newport Road as it crosses into the

City of Menifee approximately three miles east of the freeway. West of I-15 Diamond Drive currently terminates in the community of Summerly.

Mission Trail/Malaga Road generally parallels I-15 in southern Lake Elsinore. Lakeshore Drive becomes Mission Trail at Diamond Drive and provides access into south Lake Elsinore. Mission Trail/Magala Road merges into Palomar Street near the City boundaries with Wildomar.

Village Parkway is an internal street within Summerly providing access in a loop to the entire community. The southern portion of Village parkway provides access into the three subject communities, Tract 31920-17, 31920-18 and 31920-19.

Internal streets within The Glen include Carrotwood, Tanoak, and Brittbusch. There are two entrances into the community, both from Village Parkway (via Brittbusch and Carrotwood).

Current Condition: The subject property has been developed into 57 single family detached lots with a minimum lot size of 6,000 square feet. The models for the project are located on Tanoak at the cul-de-sac terminus. There are five completed homes owned by individuals, two model homes, two production homes over 95 percent complete (one of which is in escrow), 14 additional homes under construction (six of which are in escrow) and 34 remaining finished lots.

Home Owner  
Association:

Current homeowner dues for the Summerly Homeowner's Association are approximately \$117 per month with the build-out amount anticipated to be equal or less than the current amount. The Association maintains the recreation center, three pocket parks and the parkway/median landscaping within Summerly.

Costs to Complete: Per the builder there are remaining development costs of \$51,563 and remaining fees of \$1,268,538 for a total remaining land development cost of \$1,320,101. These costs are associated with the remaining builder-owned property within Tract 31920-18. Spreading these costs between the 52 developer-owned lots suggest \$25,386.55 in remaining costs per lot. These remaining costs will be taken into consideration in the final valuation for Tract 31920-18 later within this report.

Improvement  
Description:

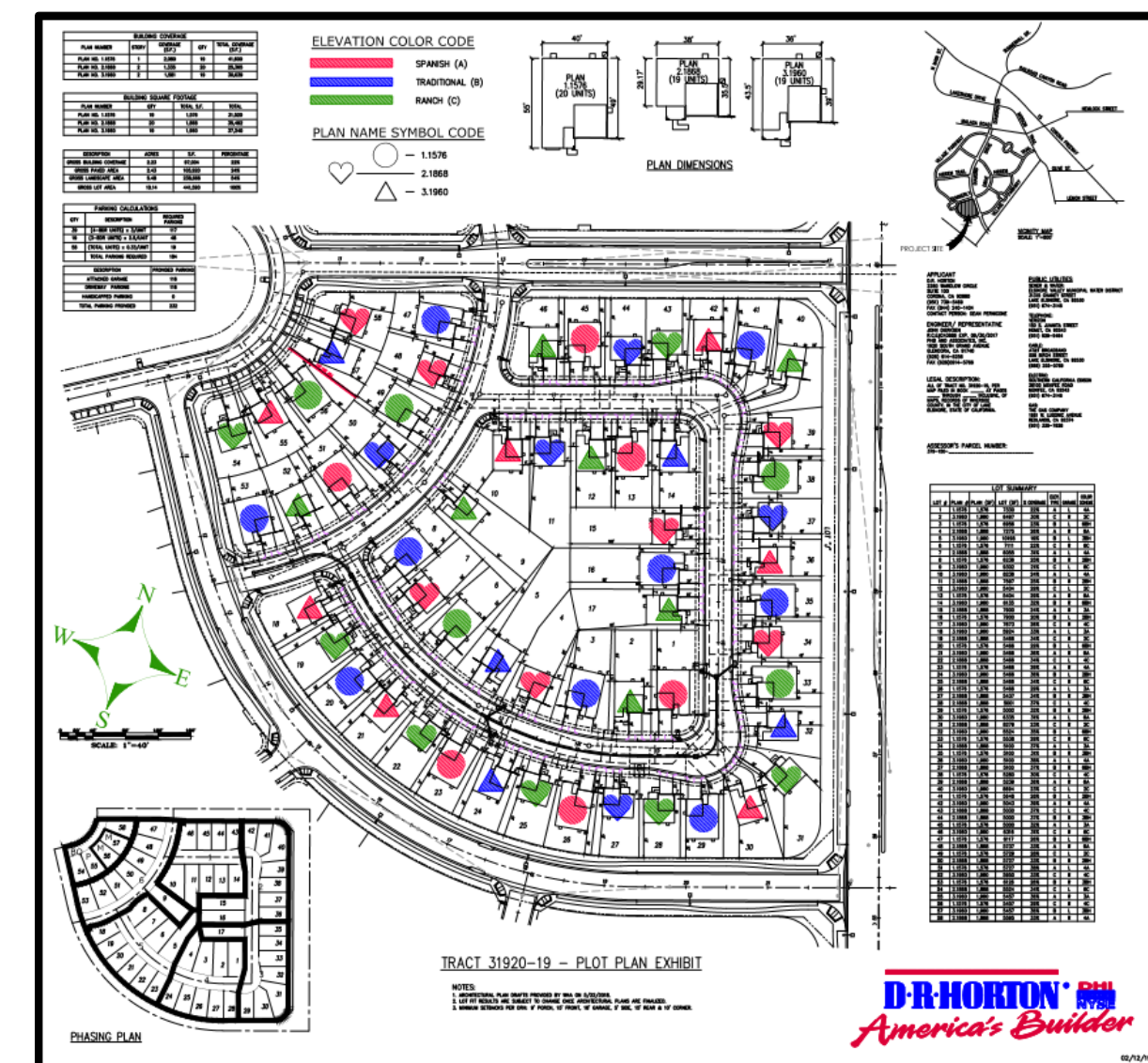
The Glen includes 57 proposed homes being built by Beazer Homes. The homes feature exteriors of Craftsman, Spanish and Traditional designs. All of the home exteriors include concrete roofing, dual glazed white vinyl windows, and dry-walled 2-car to 3-car direct access garages with roll up sectional insulated garage doors. All homes are ENERGY STAR® certified. The master suites include walk-in closets and a master bathroom, with the option to do a master bathtub in addition to walk in shower at no extra charge. Gourmet kitchens include large eat-in kitchen islands, Whirlpool stainless steel appliances, and large pantries. All homes appear to be in excellent condition with no visible depreciation. Two of the four floorplans are two-story plans while the the other two are single story.

We have reviewed sales information from the builder which included the homes closing from June 27, 2019 through September 3, 2019. Per the builder actual sales prices ranged from \$408,325 to \$434,990. Per public record, there have been no re-sales and per our inspection there were no re-sale homes listed for sale. Base asking prices are from \$394,990 to \$432,990. The houses which are over 95 percent completed are detailed below.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Owne	Bldr. Owne
1	3 / 2.5	1 / 3	2,304	3	1
2	3 / 2.5	1 / 2	2,442	1	1*
3	3 / 2.5	2 / 3	2,651	1	2*
4	4 / 3	2 / 3	3,053	0	0
Totals				<u>5</u>	<u>4</u>

\*One of each of these plans is a model home.

In addition to the above detailed houses there are 14 homes under construction (under 95 percent complete) and 34 finished lots.



Location: Southeast corner of Diamond Drive and Summerly Place, adjacent to Village Parkway, Community of Summerly, City of Lake Elsinore, Riverside County.

**Legal Property Description:** Lots 1-58 of Tract 31920-19 in the City of Lake Elsinore, County of Riverside, State of California. (A subdivision of Lot 22 and a portion of Lots “BBB” and “CCC” of Tract No. 31920-1.) A copy of Tract 31920-19 is located in the Addenda.

Property Owner: D.R. Horton, as to Lots 1-9, 17-35, 40, 47-58 of Tract 31920-19; and Individual owners as to Lots 10-16, 36-39, 41-46 of Tract 31920-19.

**Assessors**

**Parcel Nos.:** The subject was comprised of Assessor Parcel Numbers 371-470-001 thru 017, 371-471-001 thru 022 and 024 thru-030; and, 371-472-001 thru 012.

**Property Taxes:** We have reviewed a sample tax bill from Tract 31920-19 which is located on APN 371-472-010. The total assessed value is \$100,528. The total taxes for the 2019-20 fiscal year are \$4,369.12 which includes \$1,005.27 in Ad-Valorem taxes, \$411.82 for CFD 2003-1 (Public Safety), \$924.90 for CFD No. 2006-2 IA C (LEUSD), \$319.30 for CFD 2006-1 (Services) and \$1,434.10 for CFD No. 2006-1 (Facilities) and miscellaneous charges of \$273.73.

**Three-Year  
Sales History:**

Per the seller, D.R. Horton purchased Tract 31920-19 from McMillin Summerly, LLC in June 2018. The sales price has been retained in our files at the request of the seller. Horton began closing completed houses to individual homebuyers in April 2019. Seventeen homes have closed to individuals between April 5, 2019 (first closing) and September 13, 2019 (most recent closing).

**Size and Shape:** Tract 31920-19 is irregular in shape and contains 10.17 gross acres per the recorded Tract Map.

**Entitlements:** The subject property is covered by Tract Map 31920-19 which recorded October 31, 2018 and divided the subject 10.17 acres into 58 single family detached lots with a minimum lot size of 5,000 square feet. A copy of the tract map is located in the Addenda.

**Soils Review:** Per G3SoilWorks Rough Grade Compaction Report for Tract 311920-19 dated April 12, 2018, the building pads are considered suitable for the planned construction from a geotechnical standpoint. It is assumed all recommendations contained in the report were adhered to.

**Easements and  
Encumbrances:**

We have reviewed a Preliminary Title Report on Tract 31920-19 prepared by First American Title Company dated November 29, 2018. The exceptions at that time are as follows:

Item Nos. 1 thru 6 refer to general and special taxes on the property including the special tax assessment for CFD No. 2006-2 (Lake Elsinore Unified School District) and CFD No. 2006-1 (subject CFD). Item Nos. 7, 10 and 12 refer to CC & Rs recorded on the site. Item No. 8 pertains to Easements, Covenants and Conditions in a deed from the Redevelopment Agency of the City of Lake Elsinore. Item No. 9 refers to a First Amended and Restated Development Agreement. Item No. 11 pertains to the School Facilities Funding and Mitigation Agreement. Item No. 13 pertains to a memorandum of

right of first refusal and profit participation payment agreement. Item No. 14 is in regards to a public utility easement. Item No. 15 refers to matters disclosed by the filing of said Tract Map. Item No. 16 pertains to the Master Dispute Resolution for Laurel Pointe at Summerly. Item No. 17 is the Master Association Property Easement Agreement for Summerly.

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than Lake Elsinore CFD No. 2006-1 IA HH and the other aforementioned CFDs.

**Streets/Access:** Access to the subject project is via I-15 to Railroad Canyon Road/Diamond Drive, southwest on Diamond Drive to Summerly Place where there is an entrance to Laurel Pointe via Windflower, which connects Summerly Place to Village Parkway.

I-15 is a major north/south freeway providing access to international borders both north and south. I-15 is the main access into the City of Lake Elsinore from the north and south.

Railroad Canyon Road/Diamond Drive has on/off ramps at I-15 and provides access easterly (Railroad Canyon Road) into the eastern portion of Lake Elsinore on the east side of I-15 while to the west the arterial is known as Diamond Drive and provides access to Diamond Stadium and into the main entrance of Summerly. East of I-15 Railroad Canyon Road becomes Newport Road as it crosses into the City of Menifee approximately three miles east of the freeway. West of I-15 Diamond Drive currently terminates in the community of Summerly.

Mission Trail/Malaga Road generally parallels I-15 in southern Lake Elsinore. Lakeshore Drive becomes Mission Trail at Diamond Drive and provides access into south Lake Elsinore. Mission Trail/Magala Road merges into Palomar Street near the City boundaries with Wildomar.

Village Parkway is an internal street within Summerly providing access in a loop to the entire community. The southern portion of Village parkway provides access into the three subject communities, Tract 31920-17, 31920-18 and 31920-19.

Internal streets within Laurel Pointe include Windflower, Chinkapin and Fountain Grass. There are two entrances into the community, both via Windflower (from Summerly Place and from Village Parkway).

**Current Condition:** The subject property has been developed into 58 single family detached lots with a minimum lot size of 5,000 square feet. The models for the project are located on Summerly Place, directly across the street from Sunset Park. There are 17 completed houses owned by individuals, 11 houses over 95 percent complete including two model homes, nine houses under construction and 21 remaining finished lots.

**Homeowner's  
Association:**

Current homeowner dues at Laurel Pointe are quoted by the onsite Sales Counselor as \$120 per month with the projected amount at build-out to be at the current rate or less. The Association maintains the Summer House, three pocket parks and the parkway/median landscaping within Summerly.

**Costs to Complete:** Per the builder there are \$577,930 remaining development hard costs and \$515,080 in remaining development fees resulting in a total of \$1,093,010 in remaining costs. Dividing the \$1,093,010 by the 41-remaining builder-owned lots suggests there is an average of \$26,658.78 remaining costs per lot. These remaining costs will be taken into consideration in the final valuation for Tract 31920-19, later within this report.

**Improvement  
Description:**

Laurel Pointe includes 58 proposed homes being built by D.R. Horton under their "Express" line. The homes feature exteriors of Spanish, Ranch, and Craftsman inspired architecture. All of the home exteriors include concrete roofing, dual glazed white vinyl windows, and dry-walled 2-car garages. Interiors include flush mount fire sprinklers, tankless water heaters, recessed LED lighting and whole house attic fans. The master suites include large walk-in closets and a master bath with dual sinks and a spacious master shower. Gourmet kitchens include Frigidaire stainless steel appliances, granite slab countertops and white pressed steel sinks. All homes appear to be in excellent condition with no visible depreciation. Two plans feature two story, while the third is a single story, and all include attached two car garages.

We have reviewed sales information from the builder which included the homes closing from April 5, 2019 through September 29, 2019. Per the builder actual sales prices ranged from \$366,920 to \$404,740. Per public record, there have been no re-sales and per our inspection there were no re-sale homes listed for sale. Current base asking prices are from \$364,990 to \$387,990. The houses which are over 95 percent completed are detailed on the following page.

<b>Plan</b>	<b>Room Count</b>	<b>Floors/ Parking</b>	<b>Sq. Ft.</b>	<b>Ind. Own</b>	<b>Bldr. Own</b>
1	3 / 2	1 / 2	1,576	5	4*
2	3 / 2.5	2 / 2	1,868	6	2
3	4 / 3	2 / 2	1,960	6	5*
<b>Totals</b>				<u>17</u>	<u>11</u>

\*One of each of these plans is a model home.

In addition to the above homes, there are nine homes under construction (less than 95% complete) and an additional 21 finished lots.

## **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 1.1 percent increase over the past year. This compares to the 2.5 percent average annual percentage increase prior to the recession. 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 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. The unemployment rate for Riverside County was 4.6 percent (per the August 2019 Employment Development Department), significantly lower than the high of 15.1 percent in July 2010. The current rate is similar to California's

unemployment rate of 4.2 percent and slightly higher than the August 2019 National rate of 3.8 percent.

The housing market was a significant factor in magnifying 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.

Home ownership during this period across the U.S. saw a significant decline. Historically, since the 1970s, home ownership generally was between 64 and 66 percent until around 2000 when it began growing with a peak at 69.2 percent in fourth quarter 2004 prior to the Great Recession. After falling to a low of 62.9 percent in second quarter 2016, home ownership has been climbing with the current rate at 64.1 percent per 2019 second quarter data from FRED (Federal Reserve Economic Data). After the first quarter of 2019, Riverside County's home ownership rate was estimated at 64.4 percent, slightly higher than the overall US average.

The December 2017 approval of the Tax Cuts and Job Act ("TCJA") by the Federal Government caused concern for homebuyers. The two largest changes for homeowners are 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 mortgage deduction amount does not affect most people looking to

buy subject-type homes in the Inland Empire (generally in the \$350,000 to \$500,000 range), the SALT deduction may limit their tax deductions which could affect the more discretionary new-homebuyers in the market. While it is still too early to tell how much the TCJA will actually affect the new home market, it is thought that it may be playing a part in the sales slowdown as homebuyers wait to see what happens. One positive is that the TCJA 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 more.

Home loan mortgage rates have been and are still playing a large part in the housing market. The Federal Reserve Board had held mortgage rates at all-time lows after the Great Recession in an attempt to assist the housing market. The Board had 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. There were eight subsequent one-quarter point increases with the December 2018 increase bringing the Federal Rate to 2.25-2.5 percent. This increase appeared to affect the market with sales slowing. On July 30, 2019 the Board reduced the rate one-quarter percent (the first reduction in over 10 years) in an effort to spur the economy with a second reduction in September 2019. Low rates appeared to help for quite a while however first-time buyers are now having a hard time entering the housing market due to rising prices. The quoted average U.S. rate for a 30-year fixed mortgage per FRED (Federal Reserve Economic Data) as of September 19, 2019 was 3.73 percent, however that is up from the last low of 3.4 percent which occurred in the third quarter of 2016. Projections are for the Board to either keep the rate at 2.0 – 2.25 percent or possibly decrease the rate again. The decreases by the Board and the current low rates should help the remainder of the 2019 home buying season.

### **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 2019, there has been a general incline in amount of actively selling projects and pricing, which has prompted an increase in land development activity. The increase in housing prices

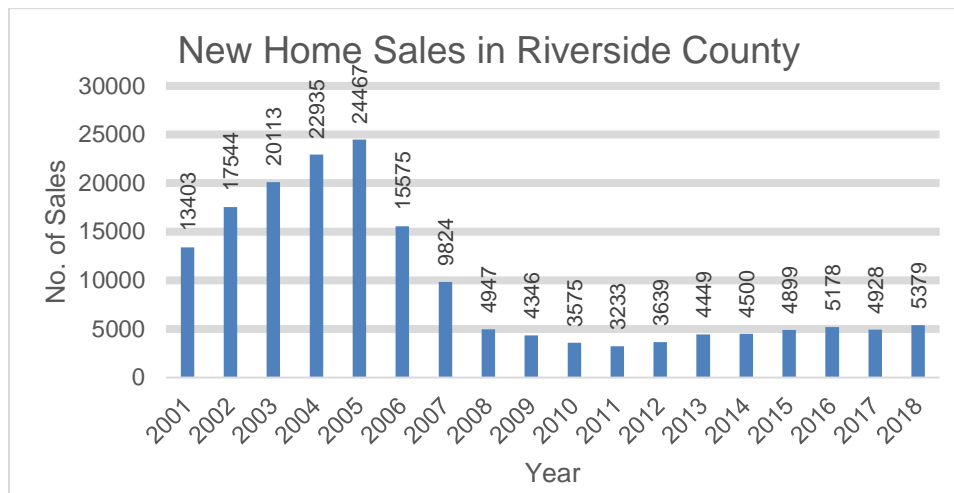
coupled with the limited availability of supply has made land development feasible once again for homebuilders, however master plan developers are sparse. Currently there is only one master planned community supplying lots to home builders in Lake Elsinore which is Summerly (subject). Spencer's Crossing in the French Valley is still supplying lots to builders along with Audie Murphy Ranch in Menifee. In addition, D.R. Horton has recently opened four neighborhoods in their new master planned community of Santa Rosa Highlands in Murrieta. All of these projects represent a rejuvenation of the Inland Empire's growth since the end of the recession. It is interesting to note that land developers of large specific plans which offer developed or partially developed lots to builders appear to be few and far between. The reason is thought to be two-fold: less profit for the middle developer due to higher land prices; and, the significant amount of red-tape to get a large-scale project approved in Southern California. Our search for land sales resulted in 11 sales since early-2018 which are considered to be comparable to the subject property (listing located in Addenda).

### **Home Sales and Pricing**

We have researched new single-family homes within the subject real estate market in order to reflect residential trends. It should be noted these sales numbers and prices pertain to new home sales while later in this section we discuss existing home sales. While overall new home sales in Riverside County were up 8.2 percent year over year from the second quarter of 2018 to the second quarter of 2019 (from 1,356 new home sales in Q2 2018 to 1,467 sales in Q2 2019) there appears to be a slowdown. When taking into account all of the Inland Empire, new home sales are actually down 7.6 percent year over year (from the second quarter of 2018 to the second quarter of 2019) due to San Bernardino showing a significant decrease. This decrease is thought to be due to the high home prices rather than a slowdown in demand.

The second half of 2018 saw new home sales slow which made builders pull back on starts of new homes. Typical projects that were building phases of 10-12 new homes cut back to 4-6 new homes in a phase. However, due to the high number of land sales in 2017, new homes projects have increased 36 percent in the Inland Empire from 164 new home projects in August 2018 to 223 new home projects in the same area in August 2019

(according to Ryness Company Report dated August 11, 2019). While this sounds like a huge increase, the number of new home projects and sales is still running about 75 percent below the average of 2002 through 2006. The fact that new homes sales volume has only increased eight percent in Riverside County over the past year while new home projects have increased 36 percent (from 164 to 223), suggests there is a slowdown in average absorption rates for new home projects. Below is a graph showing Riverside County new home sales (both attached and detached SFR) between 2001 and 2018 with 2018 reflecting 5,379 new home sales. This compares with Riverside County's population growth suggesting the need for about 10,000 new residential units per year. Thus far in 2019 there has been 2,549 new home sales in Riverside County, an increase from 2018 of 5.8 percent.



Source: John Husing Quarterly Reports January 2019

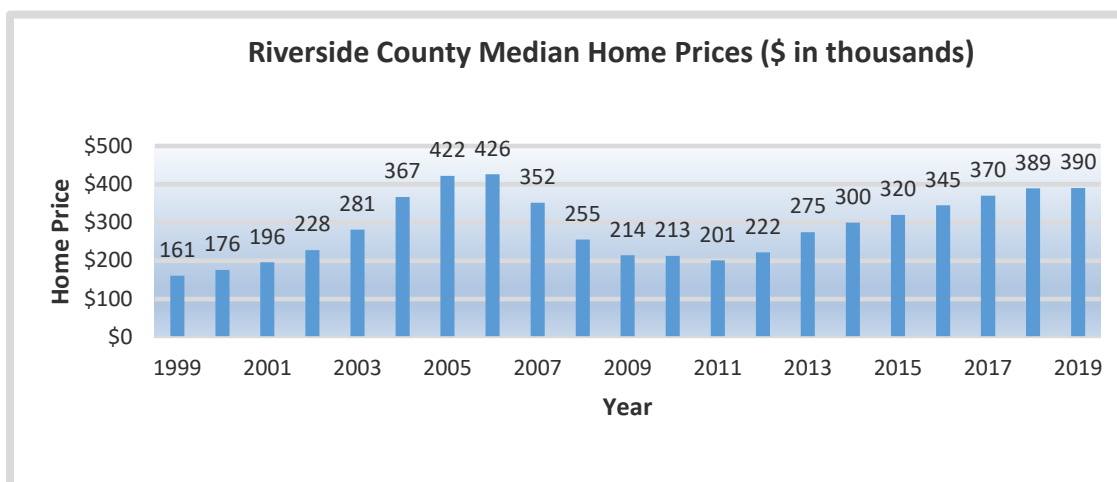
New single-family home prices (combines both attached and detached) in the Inland Empire has also seen changes, however, not as drastic as the changes in sales numbers. The median new home price changed from the peak value of \$437,200 in the third quarter of 2006 to \$275,000 in the first quarter of 2009 (decrease of 47 percent) while the current new home median price is \$435,000 per John Husing's second quarter 2019 information. This reflects an increase of almost 60 percent from the bottom of the cycle and an increase of 1.4 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.

Existing single-family homes (again, combined both attached and detached) in the Inland Empire has seen similar changes to the new home sales prices. The median existing home price changed from the peak value of \$389,924 in third quarter 2006 to \$155,319 in 2009 (decrease of over 60 percent) while the second quarter 2019 existing home median price is \$390,000 per Husing, nearing the previous peak for existing home price. This reflects an increase of over 150 percent from the bottom of the cycle and an increase of 3.9 percent from the previous year.

One major cause of the slower sales of new homes in the area since the recession is thought to be the FHA loan limits. FHA financing requires a three percent down payment which allows for first time homebuyers to enter the market easier than the typical 20 percent down payment. 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 2019 FHA loan limits within Riverside County increased to a single-family home limit at \$431,250. 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 \$445,000 range. With the Riverside County's second quarter 2019 median new home price at \$435,000, it shows a little more than half of the new home buyers can use FHA financing. The subject property featured base pricing less concessions from \$375,000 to \$632,900 with about one-half of the plans within FHA loan limits. This limits the homebuyers within the subject community. Since the recession mortgage financing was extremely tight with typically only 20 percent down options other than FHA financing. Recently some new financing opportunities have been coming on the market allowing for less than a 20 percent down payment, some of which don't require PMI (mortgage insurance). Within Riverside County the current median home price (including both new and existing homes) is \$390,000 (within the FHA home loan limits), which reflects an increase of 2.6 percent from one year prior (CoreLogic, August 2019 Southern California Data Brief).

Our search for comparable new home projects within the competitive market area resulted in twelve new home projects (including the four actively selling within the subject) with pricing generally ranging from \$375,000 to \$640,000 (not taking into account incentives). The subject's current base pricing (as of September 2019) ranges from \$365,000 to \$433,000 (not including incentives). It is interesting to note that the subject offers the lowest priced plans in the subject market.

The median home price in Riverside County of \$390,000 is up nearly 100 percent from the low in 2011 however not yet back to the peak in 2006. Below is a chart showing Riverside County median home prices (combined both new and existing).



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 August 2019 (\$535,000) is down 0.9 percent month over month from July 2019 (\$540,000), and the same when compared year over year from \$535,000 in August 2018. The current median home price in overall Southern California is higher than the previous 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. Home sales in Southern California were down 1.2 percent overall in Southern California in August 2019 based on a year-over-year change from 22,284 sales in August 2018 and 20,025 sales in August 2019. This appears to be due to several factors including affordability constraints, stock market volatility, concerns that home prices may have peaked and uncertainty over the tariff issues. Home sales in Southern California were also down 0.2 percent month over month; from 22,073 sales in July 2019 to 22,025 sales in

August 2019. Shown below is a table comparing August 2018 to August 2019 for home sales and pricing (combining both new and existing homes) in Southern California by county and for Southern California as a whole.

<b>Southern California (New and Used) Home Sales</b>						
<b>County</b>	<b>No. Sold Aug. 18</b>	<b>No. Sold Aug. 19</b>	<b>Percent Change</b>	<b>Median Aug. 18</b>	<b>Median Aug. 19</b>	<b>Percent Change</b>
Los Angeles	7,506	7,063	-5.9%	\$615,000	\$619,000	0.7%
Orange	3,317	3,217	-3.0%	\$727,000	\$719,500	-1.0%
Riverside	3,735	3,984	6.7%	\$380,000	\$390,000	2.6%
San Bernardino	2,982	2,906	-2.5%	\$328,500	\$346,000	5.3%
San Diego	3,765	3,835	1.9%	\$584,500	\$584,000	-0.1%
Ventura	979	1,020	4.2%	\$586,500	\$599,000	2.1%
<b>SoCal</b>	<b>22,284</b>	<b>22,025</b>	<b>-1.2%</b>	<b>\$535,000</b>	<b>\$535,000</b>	<b>0.0%</b>

Source: CoreLogic August 2019 Data Brief (most recent Data Brief)

Based on August 2019 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 \$194,000 as compared to San Diego County, \$209,000 as compared to Ventura County, \$229,000 as compared to Los Angeles County and \$329,500 as compared to Orange County. That is, in August 2019, the median priced home in Riverside County was \$329,500 less (or 45.7 percent less) than the median priced home in Orange County (\$719,500). However, San Bernardino County has a \$44,000 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 on the following page.

Community Name	ZIP Code	Border To Subject	Sales of SFD Homes Aug 2019	Aug 2019 Price Median SFD	Aug 2019 Median Price/ Sq. Ft.	Price % Change from Aug 2018
Summerly SE of Lake	92530	Subject	69	\$373,000	\$206	2.1%
Corona (southernmost)	92883	North	66	\$480,000	\$220	-7.4%
Perris	92570	Northeast	29	\$323,000	\$227	-14.0%
Lake Elsinore	92532	East	43	\$395,000	\$161	0.3%
Menifee	92584	Southeast	112	\$391,000	\$190	-2.1%
Wildomar	92595	South	35	\$410,000	\$193	-2.4%
Murrieta (east side)	92562	West	110	\$454,000	\$209	5.6%

Source: CoreLogic Southern California Home Resale Activity August 2019 (most recent)

The median home price of a detached resale home in the subject's zip code is \$373,000, the second lowest within the immediate surrounding area. The above price trends are opposite of CoreLogic's overall Riverside County increase of 2.6 percent year over year from August 2018 to August 2019. However, it's important to note that the subject's zip code is the only one with a significant price increase from last year, and only one of two that showed an increase rather than a decrease. Therefore, the subject's zip code's median price is out-performing its immediate surroundings, but not outperforming the County average.

### **Sendero, The Glen and Laurel Pointe Sales and Pricing**

The subject neighborhoods (Sendero, The Glen, and Laurel Pointe) began the sale of homes in October 2018 (Sendero) and January 2019 (for both The Glen and Laurel Pointe) with the first closing in all three projects occurring within Sendero in April 2019. Within the three projects there has been a total of 78 sales with 45 closed to date. The sales rate equates to an overall average per month of 6.5 home sales (combined all three projects since January), considered average for the subject market for a master planned community. When reviewing the neighborhoods individually, Sendero has had 45 sales to date suggesting an average sales rate of 3.75 sales per month, considered to be good to very good for the subject market. The Glen has had 12 sales suggesting an average absorption of 1.33 sales per month. Laurel Pointe, the smallest and lowest priced of the three, has had 21 sales demonstrating an average absorption of 2.33 sales per month.

Our search for competitive new home neighborhoods resulted in 12 active new home projects (including the subjects) which are listed in the Addenda. All are detached homes and feature square footages similar to the subject. Four of the comparable projects (including the subjects) are in Lake Elsinore, all of which are in Summerly. Five are in Menifee in the master planned community of Audie Murphy Ranch, two are in Murrieta of which are in the newly opened master plan called Santa Rosa Highlands and one in a newly opened community in the city of Wildomar.

### **Summary**

Riverside County has seen a substantial increase in pricing since 2012 with mid-2016 through mid-2018 showing some double-digit increases. The slowing sales numbers in early 2019 appear to be slowing the appreciation. The Riverside County new home market is performing well, resulting in average to good sales rates within the comparable projects in the area. The Lake Elsinore area saw an increase in pricing consistent with most of Southern California in 2018 and the first half of 2019. While there appeared to be a market disruption in the fourth quarter 2018, sales appear to be picking up with loans becoming easier to obtain and interest rates declining. It is generally thought the new tax laws may be keeping some buyers on the sidelines. Despite some uncertainty still clouding the current housing market, most observers agree that the Riverside County housing market is still positive 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 sites probable uses, 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 three contiguous parcels separated by existing streets. The first contains 11.88 acres, the second 12.307 acres and the third 10.17 acres. The sites are located in the City of Lake Elsinore in southwest Riverside County. The three sites originally topography was generally level and subject to flooding, however all of the parcels were brought up to non-flood levels and have been developed into single family detached lots ranging from 5,000 square foot minimum to 6,000 square foot minimum lot sizes. The site is surrounded by future new homes and a new community park, Sunset

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

Park, to the north; existing Summerly communities to the east; vacant lands to the south; and open space to the southwest with future Summerly neighborhoods to the northwest. All of the surrounding residential lands (both developed and undeveloped to the west, north and east) are within the master planned community of Summerly. All three parcels have been developed into finished lots with both internal and surrounding streets improved with utilities within the streets and pulled to each lot. Soils and environmental reports covering the property were reviewed. 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 has been designed to alleviate any potential flooding problems and to control project water runoff. All standard utilities serve the subject properties. The overall site has good access via I-15 to Diamond Drive exit to Summerly Drive. There is neighborhood shopping within one-half mile of the subject site at the intersection of Mission Trail and Malaga Road with a supermarket anchored shopping center.

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, suggest 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 City General Plan and Zoning Map the subject property is shown as East Lake Specific Plan. Per the current Specific Plan, the subject property is shown as R-1 allowing for an overall average density in Summerly of 6 units per acre. In addition, Tract Maps 31920-17, 31920-18 and 31920-19 have been recorded on the three parcels, subdividing each into 65 lots with a minimum lot size of 5,500 square feet, 57 lots with a minimum lot size of 6,000 square feet and 58 lots with a minimum lot size of 5,000 square feet respectively. The three tracts total 34.357 acres, thus the mapped 180 total lots (average of 5.23 dwelling units per acre) are consistent with the R-

1 allowed 6 dwelling units per acre. The surrounding lands to the west, north and east include both new residential development and vacant lands slated for future residential development. The approved mapping on the three parcels is consistent with their current zoning. Based on the legality of use analysis, the type of development for which the subject properties can be utilized is narrowed to residential use with maximum density of 6.0 dwelling units per acre. 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 pricing and stabilized sales the past two years. Within Lake Elsinore CFD No. 2006-1 IA HH there have been 78 home sales and 45 home closings. All structures appear to be in excellent condition with no physical depreciation apparent. Within the new home market in the Lake Elsinore area we found 12 projects (including the subjects) to be most comparable to the subject however there are additional new homes projects in the market area. The subject sites were purchased in a blue-top, semi-finished condition. The three parcels are surrounded by the west north and east by residential lands within Summerly, either built out in the last five years or vacant lands being graded for future residential development. In addition, there is a golf course and swim club along with a new sports park, all within walking distance of the subject parcels. Population growth is still occurring in the area and will continue to create the need for housing. New land sales are occurring in Summerly and in the surrounding market area

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**

Based on the market activity of residential lands in the immediate area, we have concluded there is a need/demand for residential lands.

### **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 Sendero by Richmond American Homes, The Glen by Beazer Homes and Laurel Pointe by D.R. Horton, all within the master planned community of Summerly. The entire Summerly project consists of 1,677 proposed homes; however, this appraisal is for 180 of the proposed homes. The lots were developed in 2017 with the first home closings occurring in April 2019. Sendero began sales in October 2018 while both The Glen and Laurel Pointe opened for sale in January 2019. Laurel Pointe is the smallest sized homes with a range of 1,576 to 1,960 square feet and base pricing from \$364,990 to \$387,990. There have been 21 sales within Laurel Pointe resulting in an average sales rate of 2.33 sales per month. Sendero is the mid-sized homes ranging from 2,320 to 2,640 square feet on 5,500 square foot lots with base pricing from \$385,990 to \$401,990. Sendero has sold 45 homes to date suggesting an average sales rate of 3.75 homes per month. The Glen has the largest homes with sizes from 2,304 to 3,053 square feet on 6,000 square foot lots and base pricing from \$394,990 to \$432,990. The Glen has sold 12 homes to date suggesting an average sales rate of 1.33 homes per month. While The Glen has experienced a slower absorption rate at 1.33 sales per month, Laurel Pointe’s absorption of 2.33 homes per month is considered to be average and Sendero’s absorption of 3.75 homes per month is considered to be very good. The average new neighborhood absorption rate in overall Riverside County thus far in 2019 per The Ryness Company (a new home tracking firm) is 3.38 home sales per month. The higher sales rates in Sendero and Laurel Pointe is thought to be due to the price points being within FHA limits and more attainable for first time homebuyers. It appears that each of the three products is being well received and the neighborhoods are selling at or near the correct price points for the area. Our search within the subject area found 12 projects (including the subjects) considered to be comparable with similar sized homes. The sales rates within these projects ranged from 1.33 units per month to 3.81

units per month, typical for the current marketplace. Our search of the Multiple Listing Service and on-site inspection revealed zero current re-sale listings and zero re-sales within the subject neighborhoods.

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 rates, 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

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 single-family detached 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 considered 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 home sale is the unit of comparison. In determining the value for each existing 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 each neighborhood. 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 consider 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 considering 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. All of the value conclusions will take into consideration the improvements to be funded by the Lake Elsinore CFD No. 2006-1 IA HH 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**

Within Sendero there are a total of 23 individually owned homes, 3 homes over 95 percent complete (including two model homes), sixteen homes under construction, and twenty-three finished lots. The homes under construction (under 95 percent complete) will be valued on the basis of a finished lot rather than attribute value to a partially completed house; therefore, thirty-nine lots will be valued. The lots within Sendero are minimum 5,500 square feet.

Within The Glen there are a total of five individually owned homes, four homes over 95 percent complete (including two model homes), 14 homes under construction, and 34 finished lots. The homes under construction (under 95 percent complete) will be valued on the basis of a finished lot rather than attribute value to a partially completed house; therefore, forty-eight lots will be valued. The lots within The Glen have a minimum lot size of 6,000 square feet.

Within Laurel Pointe there are a total of seventeen individually owned homes, eleven homes over 95 percent complete (including two models), nine homes under construction, and twenty-one finished lots. The remaining thirty lots will be valued in this section. The lots within Laurel Pointe have a minimum lot size of 5,000 square feet.

We have searched the area and found the 11 transactions summarized in the Addenda to be most comparable to the subject property. Three of the 11 sales are located within the same master-planned community of Summerly as the subject property, three are located within master-planned community of Audie Murphy Ranch in the City of Menifee,

two are located within Mosaic in the City of Menifee, one is located in the new master-planned community of Menifee Town Center in the City of Menifee while the final two are also located in the City of Menifee. 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 true “finished lots”. 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, 2 and 3** pertain to the most recent land transactions in the master planned community of Summerly in the City of Lake Elsinore. Over the last few years, Summerly has consistently supplied merchant builders with blue-topped lots.

Land Sale No. 1 refers to the most recent closing in Summerly. Meritage Homes purchased 60 lots from McMillin Summerly LLC in August 2019. The lots had a minimum lot size of 3,750 square feet and were sold in a blue-topped condition with a recorded final map. We have retained the actual sales price and the estimated finished lot price due to a confidentiality clause in the sales and purchase agreement, however we have considered these amounts in our analysis. This transaction is considered to be a good comparable due to being the most recent transaction in the Summerly master-planned community however the lots are smaller than the subject lot sizes. In comparison with the subject property, this transaction is considered similar in regards to location, amenities, and schools.

Land Sale No. 2 refers to the July 2019 closing of 75 lots within Summerly in neighborhood 25. Woodside Homes purchased the 5,000 square foot minimum lots on the basis of a finished lot range of \$150,000 to \$160,000. While we have the actual transaction details, due to a confidentiality clause, we have retained the actual sales price and estimated finished lot price in our files, however have considered it in our analysis.

Land Sale No. 3 refers to another closing in Summerly. K. Hovnanian Homes purchased 101 lots from McMillin Summerly LLC in May 2018. The lots have a minimum lot size of 3,500 square feet and were sold in a blue-topped condition, similar to all the closings in Summerly. The site sold based on a finished lot range of \$140,000 to \$150,000. Again, due to a confidentiality clause in the purchase and sale agreement, we are not reporting the actual sales price or estimated finished lot price. The actual prices have been utilized in our analysis. This transaction is considered to be a good comparable due to being in the same master-planned community as the subject property. In comparison with the subject property, this transaction is considered similar in regards to location, amenities, and schools. It is considered slightly inferior due to lot size.

**Land Sale No. 4** refers to the end-of-the year sale of the last planning area within the master-planned community of Menifee Town Center in the City of Menifee about eight miles northeast of Summerly. Menifee Town Center is planned as a mixed-use town center with residences within walking distance of retail, dining, and entertainment uses, as well as the Santa Rosa Academy, a K-12 charter school. Lennar purchased Planning Areas 5A and 5B totaling 149 lots in December 2018 for \$8,300,000 with an estimated blended finished lot value of \$138,000. Approximately two-thirds of the lots have a minimum lot size of 5,000 square feet with the final third having a minimum lot size of 7,200 square feet. Lennar purchased this property in a 28-day deal after William Lyon Homes had dropped their escrow on the lots and the seller wanted to transact before the end of the year. The property closed upon an approved tentative tract map in sheet graded / mass graded condition. The property is located southwest of Haun Road and La Pierda, adjacent to the Santa Rosa Academy. This transaction is considered to be inferior to the Subject Property due to the new nature of the project and lack of amenities.

**Land Sale Nos. 5, 6, and 8** include the most recent land transactions in the master-planned community of Audie Murphy Ranch about five miles northeast of Summerly. Over the last few years, Audie Murphy Ranch has supplied merchant builders with blue-topped and/or finished lots in the Menifee market. These transactions are in the northern portion of Audie Murphy Ranch as the southern portion (south of Newport Road) has been sold to builders with most projects either sold out or nearing build-out. When compared to the

subject property, these three transactions are considered to be similar due the amenities and location, however superior in the school district comparison.

Land Sale No. 5 pertains to the purchase of Planning Area 9 within Audie Murphy Ranch. Richmond American Homes purchased the 43 lots (known as Valor) in December 2018 for \$4,814,868 with an estimated finished lot value of \$155,900. Richmond American is now building their Valor product on the site. The lots have a minimum lot size of 7,000 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 eight percent profit margin for the buyer. This sale was transacted at the end of 2018 with interest rates rising, high volatility in the stock market and a significant slow down in new home sales. The buyer was able to negotiate a lower price along with agreeing to close by year-end.

Land Sale No. 6 refers to the purchase of Planning Area 8 within Audie Murphy Ranch. RSI Communities LLC (a related entity to William Lyon Homes) purchased 32 lots in December 2018 for \$4,099,000 with an estimated finished lot value of \$156,000. 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 eight percent profit margin for the buyer. The purchase of Planning Area 8 is anticipated to be a continuation of their Willow Tree community, which is actively selling currently within Audie Murphy Ranch.

Land Sale No. 8 refers to the purchase of Planning Area 12 within Audie Murphy Ranch. Richmond American Homes purchased 93 lots in September 2018 for \$11,931,500 with an estimated finished lot value of \$168,000. The lots have a minimum lot size of 5,500 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 eight percent profit margin for the buyer. Richmond American is building their Vaquero product on the site. It should be noted this sale, while smaller lots, is adjacent to Land Sale No. 4 which traded at a lower price due to the timing on the sale.

**Land Sale No. 7** refers to the closing of the property known as Silver Trail in the city of Menifee about seven miles west of Summerly. Woodside Homes purchased 30 lots for an estimated finished lot price of \$151,000. The site was sold with an approved Tentative Tract map with the majority Final Engineering approved in a blue-topped condition. The site sold December 2018 for \$2,025,000 or \$67,500 per lot based on a reported finished lot of \$151,000. This transaction is considered a good comparable due to the location, but is considered inferior due to the small number of lots. Most major homebuilders want in the neighborhood of 50 – 100 lots to develop a new home community.

**Land Sale No. 9** refers to the sale of Talavera, which consists of 173 lots purchased by KB Home from True Life Company in February 2018. Talavera is located in northern Menifee, about ten miles northeast of Summerly. The minimum lot size for all the lots within Talavera are 7,200 square feet. They were purchased in a blue-topped condition with an approved final map. The land sold for \$5,000,000 or \$28,902 per lot with an estimated finished lot value of approximately \$132,000. The property is not associated with a master-planned community, but is located northwest of McCall Road and Menifee Road, westerly-adjacent to Lennar's Heritage Lake master-planned community. In comparison to the subject property this located is further out, thus considered inferior.

**Land Sale Nos. 10 and 11** refer to the sale of the last two sections of Tract Map No. 28206, known as Mosaic, but are now actively selling as Brixton and Windsor, respectively. Pulte Homes purchased 64 lots, known as Brixton, from McKinley Capital and 63 lots, known as Windsor, from Watt Communities in February 2018. These neighborhoods are located about seven miles east of Summerly. The minimum lot size for both transactions is 7,200 square feet. They were purchased in generally rough-grade condition with approved final engineering. Brixton was sold for \$4,125,000 or \$64,453 per lot in rough-grade condition with an estimated finished lot value of approximately \$140,000; Windsor was sold for \$3,377,000 or \$53,603 per lot in rough-grade condition with an estimated finished lot value of approximately \$140,000. In comparison to the subject these lots are not associated with a master planned community, thus do not have the amenities (neighborhood parks and pool/social club) which is considered to be inferior.

The following chart summarizes the considerations used in adjusting the market data to the Subject Properties.

<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 / Lake Elsinore	9/19	3,750	Conf.	Similar – Location, Amenities, Schools Inferior – Lot Size
2	Summerly / Lake Elsinore	7/19	5,000	\$150,000 - \$160,000	Similar – Location, Amenities, Schools
3	Summerly / Lake Elsinore	1/19	3,500	\$140,000 - \$150,000	Similar – Location, Amenities, Schools Inferior – Lot Size
4	Menifee Town Center / Menifee	12/18	Various	\$138,000	Inferior – Amenities, New MPC.
5	Audie Murphy Ranch, Menifee	12/18	7,000	\$155,900	Similar – Location, Amenities Superior – Schools
6	Audie Murphy Ranch, Menifee	12/18	5,000	\$156,000	Similar – Location, Amenities Superior – Schools
7	Menifee	12/18	7,200	\$151,000	Similar – Location Inferior – Project Size
8	Audie Murphy Ranch, Menifee	9/18	5,500	\$168,000	Similar – Location, Amenities Superior – Schools
9	Northern Menifee	2/18	7,200	\$132,000	Inferior – Location
10	Menifee	2/18	7,200	\$140,000	Inferior – Amenities
11	Menifee	2/18	7,200	\$140,000	Inferior – Amenities

The market data has an overall finished lot range from \$132,000 - \$168,000. Data No. 7 at the high end of the range is considered superior due to better schools. Land Sales 1 and 2 refer to sales with in Summerly with a finished lot price range of \$140,000 - \$150,000 for lots ranging in size from 3,500 to 5,000 square feet. Data No. 8 at \$168,000 per finished lot is at the lowest end of the range and refers to a project called Talavera which is located in the Northern area of Menifee, considered to be inferior in location due to a longer commute to business centers. Based on the above information, we have concluded that the subject lots have a finished lot value of \$155,000 for the 6,000 square

foot lots, \$150,000 for the 5,500 square foot lots and \$145,000 for the 5,000 square foot lots.

As discussed under the Property Description Section there are remaining costs which will be considered in the valuations below. Based on the above analysis the value conclusion for the subject builder owned lots are as follows:

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

Sendero by Richmond American Homes – Richmond American owns sixteen lots which are under construction and twenty-three remaining lots, all with a minimum lot size of 5,500 square feet. As concluded above the 5,500 square foot minimum lots have a finished lot current market value of \$150,000. The homes under construction will be valued as a finished lot rather than attribute value to a partially complete improvement. As previously discussed, there are \$25,118.93 in remaining hard costs per lot and \$853,605 in remaining fees. The remainder of the hard costs will be considered under the builder-owned houses. The value is as follows:

39 Lots x \$150,000	\$ 5,850,000
Less: Remaining Costs (11,071.43 x 39)	<u>(431,786)</u>
“As is” Value for Sendero Lots	<b><u>\$ 5,418,214</u></b>

The Glen by Beazer Homes – Beazer Homes owns 14 lots with homes under construction and 34 remaining lots, however we are valuing a lot that is under construction (under 95 percent complete) as a finished lot rather than give value to partially completed improvements; thus, we are valuing 48 lots. The Glen lots have a minimum lot size of 6,000 square feet. As concluded above, the 6,000 square foot minimum lots have a finished lot value of \$155,000. As previously discussed, there are \$25,386.56 per lot in remaining costs and fees associated with the builder owned property. The remainder of the costs will be considered under the builder owned houses. The value is as follows:

48 Lots x \$155,000	\$ 7,440,000
Less: Remaining Costs (25,386.56 x 48)	<u>(1,218,555)</u>
“As is” Value for The Glen Lots	<b><u>\$ 6,221,445</u></b>

Laurel Pointe by D.R. Horton – D.R. Horton owns nine lots with homes under construction and twenty-one remaining lots, however we are valuing a lot that is under construction (under 95 percent complete) as a finished lot rather than give value to partially completed improvements; thus, we are valuing 30 lots. The Laurel Pointe lots have a minimum lot size of 5,000 square feet. As concluded above, the 5,000 square foot minimum lots have a finished lot value of \$145,000. As previously discussed, there are \$26,658.78 per lot in remaining costs and fees associated with the builder owned property. The remainder of the costs will be considered under the builder owned houses. The value is as follows:

30 Lots x \$145,000	\$ 4,350,000
Less: Remaining Costs (\$26,658.78 x 30)	<u>(799,763)</u>
“As is” Value for Laurel Pointe Lots	<u><b>\$ 3,550,237</b></u>

### **Builder-Owned Retail House Valuations**

Due to the single ownership of multiple houses by the builders within the Sendero, The Glen, and Laurel Pointe neighborhoods, including both models 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 homes within each neighborhood. First, a retail value for each plan within each neighborhood will be concluded. Next, a DCF will be utilized which will take into consideration 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 for each neighborhood. These DCF analyses will be followed by a reporting of the concluded values for the individually owned homes within each neighborhood 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.

### **Sendero at Summerly by Richmond American Homes**

Sendero consists of twenty-three individually owned homes, three completed builder owned houses (including two models), sixteen houses under construction (under 95

percent complete) and 23 remaining lots. The remaining lots and homes under construction (under 95 percent complete) were valued above.

Below is a summary of the floor plans within Sendero. It should be noted that the permits have slightly different square footages (2,324 for Plan 1, 2,378 for Plan 2 and 2,630 for Plan 3) while the website and the brochure show the sizes listed below. For purposes of this analysis, we are using the marketing information for the neighborhood which is what is reflected in the table below. A listing of the improved residential comparable properties is located in the Addenda of this report. The improved residential properties are located within Lake Elsinore, Menifee, Murrieta, and Wildomar. Our search of the subject property and the local Multiple Listing Service (MLS) has resulted in no current listings and no re-sales within Sendero.

Plan	Bd/Ba	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
<b>Sendero</b>					
1	3 / 2	1 / 2	2,320	3	0
2	3 / 2.5	2 / 2	2,380	11	1*
3	4 / 2.5	2 / 2	2,640	9	2*
Subtotal				<u>23</u>	<u>3</u>

\*One of each of these plans is a model home. In addition to the above there are 16 homes under construction and 23 finished lots.

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

Data	Model	Rm. Ct.	Firs/Pkg.	Sq. Ft.	Price/SF
Subj.	1	3 / 2	1 / 2	2,320	--
2	1	3 / 2.5	1 / 3	2,304	\$166.23
2	2	3 / 2.5	1 / 2	2,442	\$160.93
6	2	3 / 2.5	1 / 2	2,122	\$188.50
7	1	3 / 2.5	1 / 2	2,260	\$186.57
8	1	3 / 2.5	1 / 2	2,290	\$174.09

All new home comparables are located within Lake Elsinore and Menifee. 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 Sendero

Plan 1 has an asking base price less concessions of \$161.85 per square foot. The new homes comparables have a base price less concessions range from \$160.93 per square foot to \$188.50 per square foot. There have been three closings of Sendero Plan 1 with sales prices ranging from \$169.75 to \$174.75 per square foot. There are four current escrows with a sales price range of \$172.01 to \$201.61 per square foot. It should be noted that these 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. It has been concluded that Sendero Plan 1 has a base current market value of \$160.00 per square foot. This calculates as follows:

$$2,320 \text{ sf} \times \$160.00 = \$371,200$$

The most appropriate new home comparable data for Sendero 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>
Subj.	2	3 / 2.5	2 / 2	2,380	--
1	3	4 / 2.5	2 / 2	2,640	\$148.29
2	3	3 / 2.5	2 / 3	2,651	\$152.77
7	2	4 / 3	2 / 2	2,269	\$176.73
7	3	4 / 3	2 / 2	2,485	\$169.78
9	2	3 / 2.5	2 / 3	2,370	\$175.72
10	3	4 / 3	2 / 2	2,365	\$190.27

All new home comparables are located within Lake Elsinore, Menifee and Murrieta. 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 Sendero Plan 2 has a current asking base price less concessions of \$159.87 per square. The new homes comparables have a base price less concessions range from \$148.29 to \$190.27 per square foot. There have been eleven closings of Sendero Plan 2 with sales prices ranging from \$160.85 to \$174.12 per square foot. There are six current escrows with a sales price range of \$162.89 to \$717.63 per square foot. It should be noted that these 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. It has been concluded

that Sendero Plan 2 has a base current market value of \$157.00 per square foot. This calculates as follows:

$$2,380 \text{ sf} \times \$157.00 = \$373,660$$

The most appropriate new home comparable data for Sendero Plan 3 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>
Subj.	3	4 / 2.5	2 / 2	2,640	--
2	3	3 / 2.5	2 / 3	2,651	\$152.77
5	2	5 / 3	2 / 2	2,782	\$157.98
6	3	4 / 2.5	2 / 2	2,686	\$156.36
7	5	4 / 3	2 / 2	2,744	\$160.59
8	2	4 / 2.5	2 / 2	2,720	\$149.78
9	3	4 / 3.5	2 / 2	2,628	\$160.78
11	2	4 / 3.5	2 / 2	2,764	\$181.62

All new home comparables are located within Lake Elsinore, Menifee and Murrieta. 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 Sendero Plan 3 has a current asking base price less concessions of \$148.29 per square foot. The new homes comparables have a base price less concessions range from \$149.78 to \$181.62 per square foot. There have been nine closings of Plan 3 with sales prices ranging from \$162.02 to \$179.42 per square foot. There are twelve current escrows with a sales price range of \$159.70 to \$175.99 per square foot. It should be noted that these 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. It has been concluded that Sendero Plan 3 has a base current market value of \$148.00 per square foot. This calculates as follows:

$$2,640 \text{ sf} \times \$148.00 = \$390,720$$

### Retail Values - Sendero by Richmond American Homes

Within Sendero there are three builder owned homes which include two models (not released for sale) that are over 95 percent complete. 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. The retail base value conclusions for the builder-owned homes within Sendero are calculated below:

Plan 1 (0 x \$371,200)	\$ 0
Plan 2 (1 x \$373,660)	373,660
Plan 3 (2 x \$390,720)	781,440
Model Upgrades (2 x \$35,000)	<u>70,000</u>
Total Sendero Retail Value	<u>\$1,225,100</u>

### Absorption Period

In order to arrive at an absorption period for the builder-owned homes in each neighborhood, the absorption rate for each neighborhood along with the surrounding developments have been reviewed. As discussed under the Highest and Best Use section earlier within this report, the three subject neighborhoods have average sales rates from 1.33 to 3.75 sales per month with the subject neighborhood experiencing a 3.75 sales per month average. The sales rates within the comparable projects range from 1.33 to 3.81 sales per month. Within Sendero there are 3 builder owned homes, two models not yet released and 1 production home which is in escrow. Based on the previous sales rate within Sendero of 3.75 sales per month along with other comparable neighborhoods, it has been concluded that the three builder owned homes will be absorbed within a two-month period at the concluded values.

### Remaining Costs

As discussed under the remaining costs section within the Sendero Property Description section earlier within this report there are an average of \$11,071.43 remaining costs per lot associates with the builder-owned lots. We have considered the remaining costs associated with the existing builder homes of \$33,214 (\$11,071.43 x 3) in the analysis for

Sendero. For purposes of this analysis we have determined the remaining costs will be spread evenly over the two-month absorption period.

### 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 Great Recession this range was lowered considerably to, at time, six 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/Menifee/Murrieta/Wildomar 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 the subject property began selling in October 2018 with Sendero having an absorption rate of 3.75 sales per month which is considered to be good for the area. 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 each neighborhood is \$983,550.

### **Sendero – Richmond American Ownership**

Richmond American owns 3 homes over 95 percent complete (production and models), sixteen lots which are under construction and twenty-three remaining lots within the Sendero neighborhood. The final value conclusion for the builder owned property is shown below.

39 Lots "As Is" Condition	\$5,418,214
3 Houses	<u>983,559</u>
Total Sendero Builder-owned	<b><u>\$6,401,773</u></b>

### **Individual Owners Valuation – Sendero by Richmond American**

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes which is considered a minimum market value. This is due to homebuyers typically purchasing some addition upgrades, options or pay some premiums for the lot.

Sendero- The concluded values for the individually owned homes within Sendero are:

Plan 1 (3 x \$371,200)	\$ 1,113,600
Plan 2 (11 x \$373,660)	4,110,260
Plan 3 (9 x \$390,720)	<u>3,516,480</u>
Total Sendero Individuals Value	<b><u>\$8,740,340</u></b>

In an additional review, we have reviewed the original builder sales prices for the homes within the neighborhood of Sendero. Closings for the twenty-three homes occurred between April 2019 to September 2019. The builder's reported closing prices for the individually owned homes total \$9,622,752. 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 consideration any options, premiums or upgrades which were purchased by the buyers. The above

concluded values are within 9.2 percent of the actual sales prices on Sendero. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

### **The Glen at Summerly by Beazer Homes**

The Glen consists of five individually owned homes, four completed builder owned houses (including two models), 14 houses under construction and 34 finished lots. The homes under construction (under 95 percent complete) and lots were valued earlier within this report.

Below is a summary of the floor plans within The Glen. 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, Menifee, Murrieta, and Wildomar. Our search of the subject property and the local Multiple Listing Service (MLS) has resulted in no current re-sale listings and no re-sales within The Glen.

Plan	Bd/Ba	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
<b>The Glen</b>					
1	3 / 2.5	1 / 3	2,304	3	1
2	3 / 2.5	1 / 2	2,442	1	1*
3	3 / 2.5	2 / 3	2,651	1	2*
4	4 / 3	2 / 3	3,053	0	0
Totals				5	4

\*One of each of these plans is a model home. In addition to the above there are 14 homes under construction and 34 finished lots for a total of 48 lots.

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

Data	Model	Rm. Ct.	Firs/Pkg.	Sq. Ft.	Price/SF
Subj.	1	3 / 2.5	1 / 3	2,304	--
1	1	3 / 2	1 / 2	2,320	\$161.85
2	2	3 / 2.5	1 / 2	2,442	\$160.93
5	1	4 / 2	1 / 2	2,474	\$169.96
6	2	3 / 2.5	1 / 2	2,122	\$188.50
7	1	3 / 2.5	1 / 2	2,260	\$186.57
8	1	3 / 2.5	1 / 2	2,290	\$174.09
9	1	3 / 2.5	1 / 2	2,164	\$190.85

All new home comparables are located within Lake Elsinore, Menifee and Murrieta. All are of similar quality, design and appeal. Adjustments were considered for location, master plan amenities, lot size, stories, sales concessions, CFD taxes, common area benefits, square footage, room count, garage space and other amenities. The Glen Plan 1 has a current asking base price less the incentive of \$166.23 per square foot. The new homes comparables have a base price less concessions wide range from \$160.93 to \$190.85 per square foot. There have been three closings of The Glen Plan 1 with sales prices ranging from \$171.99 to \$180.55 per square foot. There is one current escrow of Plan 1 with a sales price of \$187.58 per square foot. 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. It has been concluded that The Glen Plan 1 has a base current market value of \$160.00 per square foot. This calculates as follows:

$$2,304 \text{ sf} \times \$160.00 = \$368,640$$

The most appropriate new home comparable data for The Glen 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>
Subj.	2	3 / 2.5	1 / 2	2,442	--
1	1	3 / 2	1 / 2	2,320	\$161.85
2	1	3 / 2.5	1 / 3	2,304	\$166.23
5	1	4 / 2	1 / 2	2,474	\$169.96
6	2	3 / 2.5	1 / 2	2,122	\$188.50
7	1	3 / 2.5	1 / 2	2,260	\$186.57
8	1	3 / 2.5	1 / 2	2,290	\$174.09
12	4	4 / 2	1 / 2	2,206	\$199.00

All new home comparables are located with Lake Elsinore, Menifee, Murrieta, and Wildomar. 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 Glen Plan 2 has a current asking base price of \$160.93 per square foot. The new homes comparables have a base price less concessions range from \$161.85 to \$199.00 per square foot. There has been one closing of a Plan 2 with a sales price of

\$171.98 per square foot. There are three current escrows of The Glen Plan 2 with a sales price range of \$173.12 to \$183.64 per square foot. 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. It has been concluded that The Glen Plan 2 has a base current market value of \$158.00 per square foot. This calculates as follows:

$$2,442 \text{ sf} \times \$158.00 = \$385,836$$

The most appropriate new home comparable data for The Glen Plan 3 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>
Subj.	3	3 / 2.5	2 / 3	2,651	--
1	3	4 / 2.5	2 / 2	2,640	\$148.29
2	4	4 / 3	2 / 3	3,053	\$137.89
5	2	5 / 3	2 / 2	2,782	\$157.98
6	3	4 / 2.5	2 / 2	2,686	\$156.36
7	4	4 / 2.5	2 / 2	2,571	\$163.36
9	3	4 / 3.5	2 / 2	2,628	\$160.78
11	2	4 / 3.5	2 / 2	2,764	\$181.62

All new home comparables are located with Lake Elsinore, Menifee and Murrieta. 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 Glen Plan 3 has a current asking base price of \$152.77 per square foot. The new homes comparables have a base price less concessions range from \$137.89 to \$181.62 per square foot. There has been one closing of The Glen Plan 3 with a sales price of \$164.08 per square foot. There are two current escrows of Plan 3 with a sales price range of \$172.65 to \$183.64 per square foot. 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. It has been concluded that The Glen Plan 3 has a base current market value of \$150.00 per square foot. This calculates as follows:

$$2,651 \text{ sf} \times \$150.00 = \$397,650$$

The most appropriate new home comparable data for The Glen Plan 4 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>
Subj.	4	4 / 3	2 / 3	3,053	--
1	3	4 / 2.5	2 / 2	2,640	\$148.29
2	3	3 / 2.5	2 / 3	2,651	\$152.77
5	3	5 / 4	2 / 3	3,124	\$156.85
5	4	5 / 3.5	2 / 2	3,172	\$150.42
6	4	5 / 3.5	2 / 3	2,912	\$146.63
8	3	4 / 2.5	2 / 3	2,920	\$142.84
9	4	3 / 2.5	2 / 3	2,849	\$151.58

All new home comparables are located with Lake Elsinore, Menifee and Murrieta. 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 Glen Plan 4 has a current asking base price of \$137.89 per square foot. The new homes comparables have a base price less concessions range from \$142.84 to \$156.85 per square foot. There have been zero closings of The Glen Plan 4. There are zero current escrows of Plan 4. 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. It has been concluded that The Glen Plan 4 has a base current market value of \$135.00 per square foot. This calculates as follows:

$$3,053 \text{ sf} \times \$135.00 = \$412,155$$

#### Retail Values – The Glen by Beazer Homes

Within The Glen there are four builder owned homes which include two models and two production homes over 95 percent complete. As discussed above, a consideration of a \$35,000 premium has been included with each of the model homes. The retail base value conclusions for the builder-owned homes within The Glen are calculated as follows:

Plan 1 (1 x \$368,640)	\$ 368,640
Plan 2 (1 x \$385,836)	385,836
Plan 3 (2 x \$397,650)	795,300
Plan 4 (0 x \$412,155)	0
Model Upgrades (2 x \$35,000)	<u>70,000</u>
Total The Glen Retail Value	<u>\$1,619,776</u>

### Absorption Period

In order to arrive at an absorption period for the builder-owned homes in each neighborhood, the absorption rate for each neighborhood along with the surrounding developments have been reviewed. As discussed under the Highest and Best Use section earlier within this report, the three subject neighborhoods have average sales rates from 1.33 to 3.75 sales per month with the subject project having a 1.33 average sales per month absorption. The sales rates within the comparable projects range from 1.33 to 3.81 sales per month. Within The Glen there are 4 builder owned homes, two models not yet released and two production homes, one which is in escrow. Based on the previous sales rate within The Glen of 1.33 sales per month along with other comparable neighborhoods, it has been concluded that the 4 builder owned homes will be absorbed within a three-month period at the concluded values.

### Remaining Costs

As discussed under the remaining costs section within the Glen Property Description section earlier within this report there are an average of \$25,386.56 remaining costs per lot associates with the builder-owned homes. We have considered the remaining costs associated with the existing builder homes of \$101,546 ( $\$25,386.56 \times 4$ ) in the analysis for The Glen. For purposes of this analysis we have determined the remaining costs will be spread evenly over the three-month absorption period.

### 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 Great Recession this range was lowered considerably to, at time, six 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/Menifee/Murrieta/Wildomar 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 The Glen began selling in January 2019 with an average absorption rate of 1.33 which is considered to be average for the area. 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 each neighborhood is \$1,238,369.

### The Glen – Builder Ownership

Beazer Homes owns 4 homes over 95 percent complete (production and models) and 14 homes under construction and 34 remaining lots within the Glen neighborhood. The homes under construction (under 95 percent complete) have been valued on the basis of a finished lot rather than attribute value to a partially complete improvement. The final value conclusion for the builder owned property is shown below.

48 Lots "As Is" Condition	\$ 6,221,445
4 Houses	<u>\$ 1,238,369</u>
Total The Glen Builder-Owned	<b><u>\$7,459,814</u></b>

### **Individual Ownership Valuation – The Glen by Beazer Homes**

Plan 1 (3 x \$368,640)	\$ 1,105,920
Plan 2 (1 x \$385,836)	385,836
Plan 3 (1 x \$397,650)	397,650
Plan 4 (0 x \$412,155)	<u>0</u>
Total The Glen Individual Value	<b><u>\$ 1,889,406</u></b>

In an additional review, we have reviewed the original builder sales prices for the homes within the neighborhood of The Glen. Closings for the 5 homes occurred between June 27, 2019 and September 3, 2019. The builder's reported closing prices for the individually owned homes total \$2,102,054. 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 consideration any options, premiums or upgrades which were purchased by the buyers. The above concluded values are within 10.1 percent of the actual sales prices on The Glen. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

### **Laurel Pointe at Summerly by D.R. Horton**

Laurel Pointe consists of 17 individually owned homes, eleven completed builder owned houses (including two models), nine homes under construction and twenty-one finished lots. The remaining lots were valued above. This valuation will be for the eleven builder-owned houses.

Below is a summary of the floor plans within Laurel Pointe. 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, Menifee, Murrieta, and Wildomar. Our search of the subject property and the local Multiple Listing Service (MLS) has resulted in no current re-sale listings and no re-sales within Laurel Pointe.

Plan	Bd/Ba	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
<b>Laurel Pointe</b>					
1	3 / 2	1 / 2	1,576	5	4*
2	3 / 2.5	2 / 2	1,868	6	2
3	4 / 3	2 / 2	1,960	6	5*
Totals				17	11

\*One of each of these plans is a model home. In addition to the above there are 9 homes under construction and 21 finished lots for a total of 30 lots.

The most appropriate new home comparable data for Laurel Pointe Plan 1 are shown below.

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	1	3 / 2	1 / 2	1,576	--
3	2	3 / 2.5	2 / 2	1,868	\$202.08
4	1	3 / 2	1 / 2	1,391	\$242.27
4	2	3 / 2.5	2 / 2	1,685	\$204.75
6	1	3 / 2.5	1 / 2	1,990	\$190.45
9	1	3 / 2.5	1 / 2	2,164	\$190.85
12	2	3 / 2	1 / 2	1,557	\$265.89
12	3	3 / 2	1 / 2	1,891	\$224.74

All new home comparables are located within Lake Elsinore, Menifee, Menifee, and Wildomar. All are of similar quality, design and appeal. Adjustments were considered for location, master plan amenities, lot size, stories, sales concessions, CFD taxes, common area benefits, square footage, room count, garage space and other amenities. The Laurel Pointe Plan 1 has a current asking base price less the incentive of \$228.42 per square foot. The new homes comparables have a base price less concessions range from \$190.45 (for a larger home) to \$265.89 per square foot. There have been five closings of Laurel Pointe Plan 1 with sales prices ranging from \$233.81 to \$236.66 per square foot. There is one current escrow of Plan 1 with a sales price of \$240.83 per square foot. 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. It has been concluded that Laurel Pointe Plan 1 has a base current market value of \$225.00 per square foot. This calculates as follows:

$$1,576 \text{ sf} \times \$225.00 = \$354,600$$

The most appropriate new home comparable data for Laurel Pointe 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>
Subj.	2	3 / 2.5	2 / 2	1,868	--
1	2	3 / 2.5	2 / 2	2,380	\$159.87
3	3	4 / 3	2 / 2	1,960	\$195.40
4	2	3 / 2.5	2 / 2	1,685	\$204.75
4	3	4 / 3	2 / 2	1,775	\$199.44
7	2	4 / 3	2 / 2	2,269	\$176.73
10	1	3 / 2.5	2 / 2	1,986	\$214.00
10	2	4 / 3	2 / 2	2,065	\$210.17

All new home comparables are located with Lake Elsinore, Menifee and Murrieta. 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 Laurel Pointe Plan 2 has a current asking base price of \$202.08 per square foot. The new homes comparables have a base price less concessions range from \$159.87 (for a larger home) to \$214.00 per square foot. There have been six closings of Laurel Pointe Plan 2 with sales prices ranging from \$196.42 to \$208.77 per square foot. There are two current escrows of Plan 2 with prices ranging from \$198.70 to \$208.04 per square foot. 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. It has been concluded that Laurel Pointe Plan 2 has a base current market value of \$195.00 per square foot. This calculates as follows:

$$1,868 \text{ sf} \times \$195.00 = \$364,260$$

The most appropriate new home comparable data for Laurel Pointe Plan 3 are shown below.

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	3	4 / 3	2 / 2	1,960	--
1	2	3 / 2.5	2 / 2	2,380	\$159.87
3	2	3 / 2.5	2 / 2	1,868	\$202.08
4	2	3 / 2.5	2 / 2	1,685	\$204.75
4	3	4 / 3	2 / 2	1,775	\$199.44
7	2	4 / 3	2 / 2	2,269	\$176.73
10	1	3 / 2.5	2 / 2	1,986	\$214.00
10	2	4 / 3	2 / 2	2,065	\$210.17

All new home comparables are located with Lake Elsinore, Menifee and Murrieta. 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 Laurel Pointe Plan 3 has a current asking base price of \$195.40 per square foot. The new homes comparables have a base price less concessions range from \$176.73 to \$214.00 per square foot. There have been six closings of Laurel Pointe Plan 3 with sales prices ranging from \$193.77 to 206.50 per square foot. There is one current escrow of a Plan 3 with a sales price of \$202.03 per square foot. 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. It has been concluded that Laurel Pointe Plan 3 has a base current market value of \$190.00 per square foot. This calculates as follows:

$$1,960 \text{ sf} \times \$190.00 = \$372,400$$

#### Retail Values - Laurel Pointe by D.R. Horton

Within Laurel Pointe there are eleven builder owned homes which include two models and nine production homes over 95 percent complete. As discussed above, a consideration of a \$35,000 premium has been included with each of the model homes. The retail base value conclusions for the builder-owned homes within the Laurel Pointe are calculated as follows:

Plan 1 (4 x \$354,600)	\$ 1,418,400
Plan 2 (2 x \$364,260)	728,520
Plan 3 (5 x \$372,400)	1,862,000
Model Upgrades (2 x \$35,000)	<u>70,000</u>
Total Laurel Pointe Retail Value	<u>\$ 4,078,920</u>

### Absorption Period

In order to arrive at an absorption period for the builder-owned homes in each neighborhood, the absorption rate for each neighborhood along with the surrounding developments have been reviewed. As discussed under the Highest and Best Use section earlier within this report, the three subject neighborhoods have average sales rates from 1.33 to 3.75 sales per month. The sales rates within the comparable projects range from 1.33 to 3.81 sales per month with the subject having an average sales rate of 2.33 sales per month which is considered to be average to good within the subject market. Within Laurel Pointe there are a total of 11 builder owned homes including two models not yet released and nine production homes, four which are in escrow. Based on the previous sales rate within Laurel Pointe of 2.33 sales per month along with other comparable neighborhoods, it has been concluded that the 11 builder owned homes will be absorbed within a five-month period at the concluded values.

### Remaining Costs

As discussed under the remaining costs section within the Laurel Pointe Property Description section earlier within this report there are an average of \$26,658.78 remaining costs per lot associates with the builder-owned lots. We have considered the remaining costs associated with the existing builder homes of \$293,247 ( $\$26,658.78 \times 11$ ) in the analysis for Laurel Pointe. For purposes of this analysis we have determined the remaining costs will be spread evenly over the five-month absorption period.

### 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 Great Recession this range was lowered considerably to, at time, six 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/Menifee/Murrieta/Wildomar 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 Laurel Pointe began selling in February 2019 with an average absorption rate of 2.33 homes per month which is considered to be excellent for the area. 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 each neighborhood is \$3,056,218

### **Laurel Pointe – D.R. Horton Ownership**

D.R. Horton owns 11 homes over 95 percent complete (production and models) and 30 remaining lots within the Laurel Pointe neighborhood. The homes under construction (under 95 percent complete) have been valued on the basis of a finished lot rather than attribute value to a partially complete improvement. The final value conclusion for the builder owned property is shown below.

30 Lots "As Is" Condition	\$3,550,237
11 Houses	<u>\$3,056,218</u>
Total Laurel Pointe Builder-owned	<b><u>\$6,606,455</u></b>

### **Individual Owners Value Conclusion – Laurel Pointe**

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes which is considered a minimum market value. This is due to homebuyers typically purchasing some addition upgrades, options or pay some premiums for the lot.

Plan 1 (5 x \$354,600)	\$ 1,773,000
Plan 2 (6 x \$364,260)	2,185,560
Plan 3 (6 x \$372,400)	<u>2,234,400</u>
Total Laurel Pointe Individual Value	<b><u>\$6,192,960</u></b>

In an additional review, we have reviewed the original builder sales prices for the homes within the neighborhood of Laurel Pointe. Closings for the 17 homes occurred between April 2019 and September 2019. The builder's reported closing prices for the individually owned homes total \$6,378,830. 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 consideration any options, premiums or upgrades which were purchased by the buyers. The above concluded values are within 2.9 percent of the actual sales prices on Laurel Pointe. For first time homebuyer product the options and upgrades are typically minimal as the homebuyer does not have the luxury of bringing equity from a previous home and is putting their cash into the down-payment. 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 consists of lands within Lake Elsinore CFD No. 2006-1 IA HH which consists of 180 proposed single-family homes being built out into three neighborhoods within the master planned community of Summerly in the City of Lake Elsinore in Riverside County. The three neighborhoods include Sendero by Richmond American, The Glen by Beazer Homes and Laurel Pointe by D.R. Horton. Out of the total 180 proposed homes, 45 are completed and have closed to individuals with the remainder of the lots ranging from completed model homes to homes under construction to finished lots. We have reviewed the builder sales and reviewed the areas Multiple Listing Service. Our search resulted in no re-sales or current listings of re-sale homes within the three neighborhoods.

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 considered the improvements/benefits to be funded by Lake Elsinore CFD No. 2006-1 IA HH bond proceeds along with the Lake Elsinore CFD No. 2006-1 IA HH special tax lien. As a result of our investigation, the concluded value for the subject property is:

<u>Sendero by Richmond American</u>		
Builder Owned (3 homes & 39 lots)	\$ 6,401,773	
Individual Owned (23 homes)	<u>\$ 8,740,340</u>	
Subtotal Sendero		<u>\$ 15,142,113</u>
<u>The Glen by Beazer Homes</u>		
Builder Owned (4 homes & 48 lots)	\$ 7,459,814	
Individual Owned (5 homes)	<u>\$ 1,889,406</u>	
Subtotal The Glen		<u>\$ 9,349,220</u>
<u>Laurel Pointe by D.R. Horton</u>		
Builder Owned (11 homes & 30 lots)	\$ 6,606,455	
Individual Owned (17 homes)	<u>\$ 6,192,960</u>	
Subtotal Laurel Pointe		<u>\$ 12,799,415</u>
<b>Aggregate Value of Lake Elsinore CFD No. 2006-1 IA HH</b>		<b><u>\$ 37,290,748</u></b>

The above values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of October 1, 2019.

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## APPRAISER'S CERTIFICATION

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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**

**CITY OF LAKE ELSINORE 2006-1**  
**BOUNDARY MAP**

**SECOND AMENDED BOUNDARY MAP OF  
COMMUNITY FACILITIES DISTRICT NO. 2006-1 (SUMMERLY)  
OF THE CITY OF LAKE ELSINORE,  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

THIS MAP AMENDS THE AMENDED MAP RECORDED IN BOOK 76 OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICT PAGE 80 AS INSTRUMENT NO. 2014-0085080 IN THE OFFICE OF THE COUNTY RECORDER, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA.

FILED IN THE OFFICE OF THE CITY CLERK, CITY OF LAKE ELSINORE, THIS 25<sup>th</sup> DAY OF January, 2017.

Ernest M. Simon  
CITY CLERK OF THE CITY OF LAKE ELSINORE

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2006-1 (SUMMERLY), CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE AT A REGULAR SCHEDULED MEETING THEREOF, HELD ON 24<sup>th</sup> DAY OF January, 2017.  
BY RESOLUTION NO. 2017-016

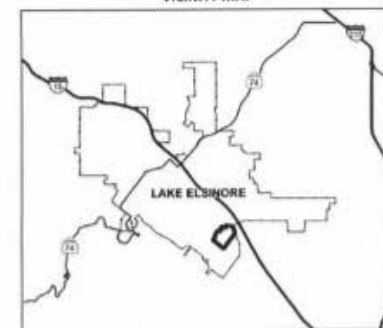
Ernest M. Simon  
CITY CLERK OF THE CITY OF LAKE ELSINORE

FILE THIS 31<sup>st</sup> DAY OF JANUARY, 2017 AT THE HOUR OF 9:53 O'CLOCK A.M. IN BOOK 80 OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS PAGE 42-18 AS INSTRUMENT NO. 2017-0040104 IN THE OFFICE OF THE COUNTY RECORDER, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA. FEE: \$12.00

BY: Marion Heuser J. Johnson  
COUNTY RECORDER OF THE COUNTY OF RIVERSIDE, DEPUTY



VICINITY MAP



**LEGEND**

- CFD 2006-1 District Boundary
- Improvement Area Boundary
- EE Improvement Area



THIS BOUNDARY MAP CORRECTLY SHOWS THE BOUNDARIES OF THE COMMUNITY FACILITIES DISTRICT. FOR DETAILS CONCERNING THE LINES AND DIMENSIONS OF LOTS OR PARCEL REFER TO THE COUNTY ASSESSOR'S MAPS FOR FISCAL YEAR 2016-17.

**TRACT MAPS 31920-17, -18 & -19**

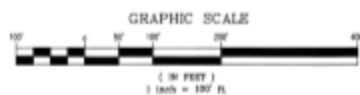
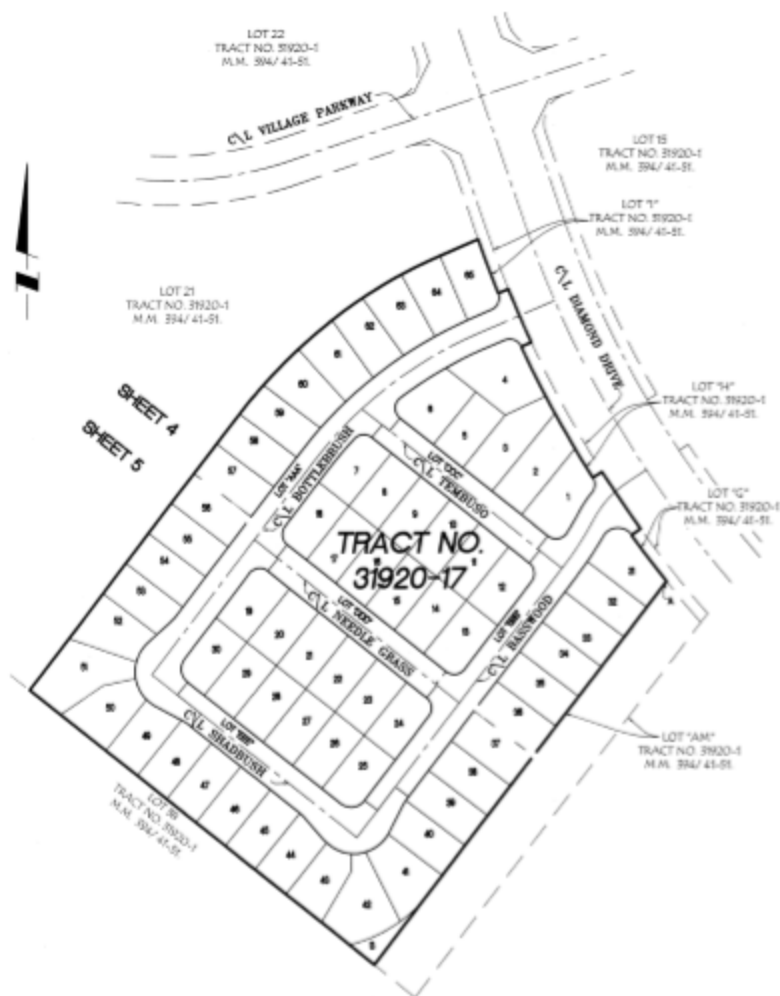
SHEET 3 OF 5 SHEETS

BEING A SUBDIVISION OF LOT 20 OF TRACT NO. 31920-1, PER MAP FILED IN BOOK 394 OF MAPS, AT PAGES 41 THROUGH 51, INCLUSIVE, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

WILSON MIYAKI CORPORATION

RICHARD A. TETREAU LT P.L.S.-7418

## INDEX SHEET



SEE SHEET 2 FOR BOUNDARY &amp; MONUMENT NOTES

## EASEMENT NOTES:

- ① INDICATES A 4' WIDE P.U.E. DEDICATED HEREON TO THE CITY OF LAKE ELSHORE.
- ② INDICATES AN EASEMENT TO THE CITY OF LAKE ELSHORE, FOR STORM DRAIN PURPOSES, RECORDED AUGUST 28, 2015, AS DOCUMENT NO. 2015-0380493, OF OFFICIAL RECORDS.

# TRACT NO. 31920-18

BEING A SUBDIVISION OF LOT 21 AND A PORTION OF LOT "BBB" OF TRACT NO. 31920-1, PER MAP FILED IN BOOK 394 OF MAPS, AT PAGES 41 THROUGH 51, INCLUSIVE, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

WILSON MIKAMI CORPORATION

RICHARD A. TETREAU P.L.S. 7418

## INDEX SHEET



**TRACT NO. 31920-19**

BEING A SUBDIVISION OF LOT 22 AND A PORTION OF LOTS "BBB" AND "CCC" OF TRACT NO. 31920-1,  
PER MAP FILED IN BOOK 394 OF MAPS, AT PAGES 41 THROUGH 51,  
INCLUSIVE, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

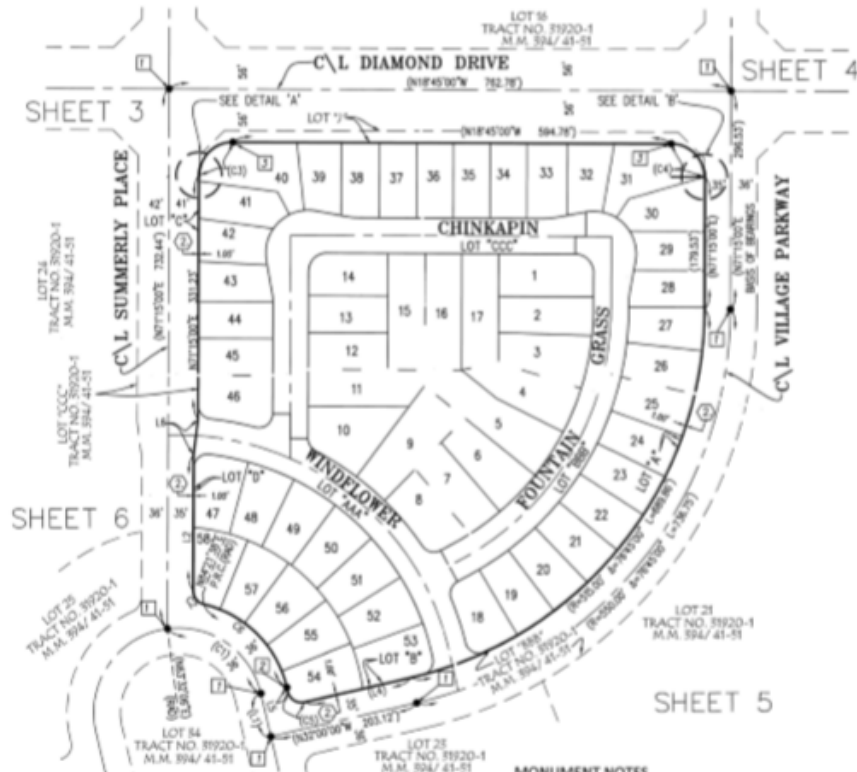
WILSON MIKAMI CORPORATION

RICHARD A. TETREAU LT P.L.S. 7418

VICINITY MAPBOUNDARY AND INDEX SHEETDETAIL 'A'  
SCALE 1"=10'DETAIL 'B'  
SCALE 1"=10'

LINE	BEARING	LENGTH
L1	N58°02'00"E	60.00'
L2	N71°15'00"E	184.89'
L3	N71°15'00"E	8.54'
L4	N32°00'00"W	148.12'
L5	N58°02'00"E	6.00'
L6	N78°25'00"E	48.09'

CURVE	RADIUS	DELTA	LENGTH
C1	115.00'	84°27'54"	169.53'
C2	18.00'	76°53'22"	35.20'
C3	49.00'	90°00'00"	70.68'
C4	46.00'	115°08'07"	9.81'
C5	18.00'	90°00'00"	29.89'
C6	181.00'	63°38'22"	167.72'

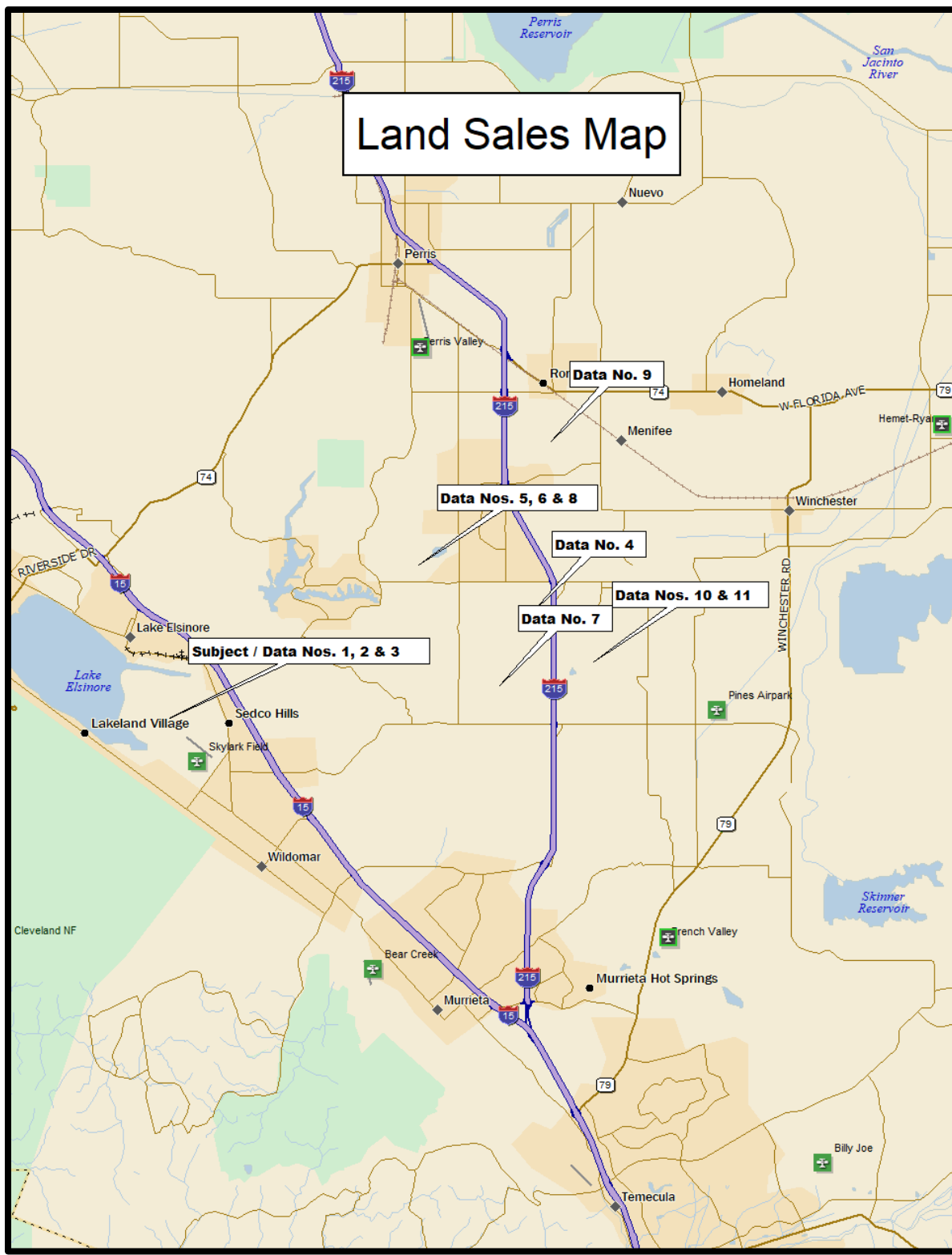
BASIS OF BEARINGS

THE BASIS OF BEARINGS FOR THIS SURVEY IS THE  
CENTERLINE OF VILLAGE PARKWAY, WHICH BEARS  
N71°15'00"E AS SHOWN ON TRACT NO. 31920-1, FILED  
IN BOOK 394, PAGES 41 THROUGH 51, INCLUSIVE OF  
MAPS IN THE OFFICE OF THE COUNTY RECORDER IN THE  
COUNTY OF RIVERSIDE.

MONUMENT NOTES

- FOUND MONUMENTS AS NOTED.
- ① 1" I.P. AND TAG, "LS 7418", FLUSH PER RIVERSIDE COUNTY STANDARD "X", TO BE SET PER TRACT NO. 31920-1 M.B. 394/41-51.
- ② LEAD, TACK AND TAG, "LS 7418", IN TOP OF CURB ON LOT SIDELINES.

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



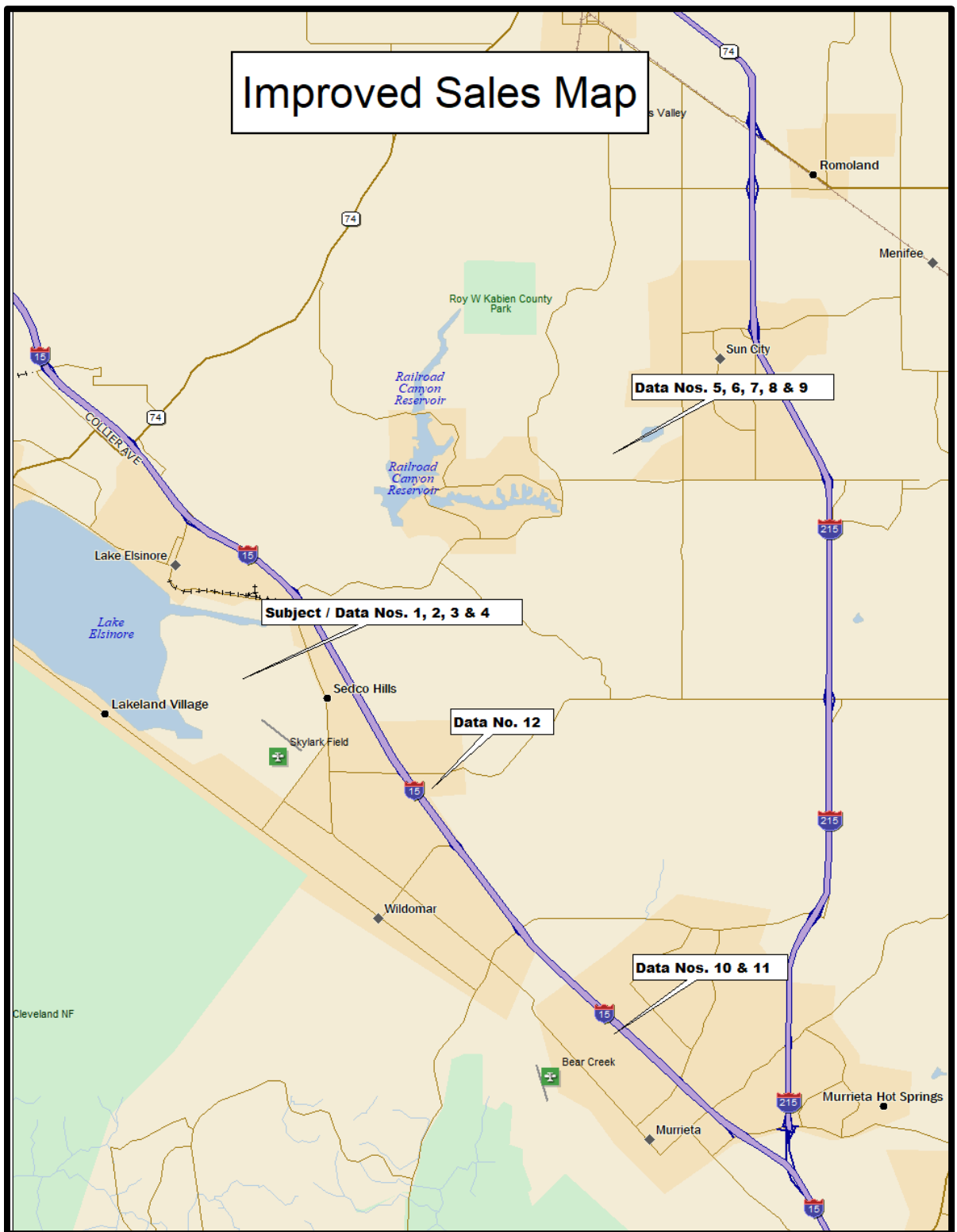
### **FINISHED LOT LAND SALES SUMMARY CHART**

<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>
Subj.	Laurel Pointe at Summerly, SE of Malaga Road & Diamond Drive, Lake Elsinore / 371-270-025, 371-270-007 / DR Horton / McMillin Summerly LLC	06 / 18	58	5,000	Conf.	Conf.	Closed in blue-topped / semi-finished condition with an approved final map. Price retained in our files at request of the seller.
Subj.	The Glen at Summerly, SE of Malaga Road & Diamond Drive, Lake Elsinore / 371-270-024 / Beazer Homes / McMillin Summerly LLC	05 / 18	57	6,000	Conf.	Conf.	Closed in blue-topped / semi-finished condition with an approved final map. Price retained in our files at the request of the seller.
Subj.	Sendero at Summerly, SE of Malaga Road & Diamond Drive, Lake Elsinore / 371-270-023 / Richmond American Homes / McMillin Summerly LLC	01 / 18	65	5,500	Conf.	Conf.	Closed in blue-topped / semi-finished condition with an approved final map. Price retained in our files at the request of the seller.
1	Neighborhood 25 at Summerly, SW of Diamond Drive and Hidden Trail / N/A / Meritage Homes / McMillin Summerly LLC	08 / 19	60	3,760	Conf.	Conf.	Closed in blue-topped / semi-finished condition with an approved final map. Price retained in our files at the request of the seller.
2	Neighborhood 21 at Summerly, SW of Diamond Drive & Hidden Trail / 371-040-015 / Woodside Homes / McMillin Summerly LLC	07 / 19	75	5,000	Conf.	\$150,000 - \$160,000	Closed in blue-topped / semi-finished condition with an approved final map. Information kept in files due to confidentiality clause.
3	Solstice at Summerly, SW of Malaga Road & Diamond Drive, Lake Elsinore / 371-040-014 / K. Hovnanian Homes / McMillin Summerly LLC	01 / 19	101	3,500	Conf.	\$140,000 - \$150,000	Closed in blue-topped / semi-finished condition with an approved final map. Information kept in our files due to confidentiality clause.
4	Planning Area 5 at Menifee Town Center, SW of Haun Road & La Piedra, Menifee / 360-130-013 / Lennar / Regent Properties	12 / 18	149	5,000 / 7,200	\$8,300,000 / \$55,705	\$138,000	Closed in sheet graded / mass graded condition with an approved tentative tract map.
5	Valor at Audie Murphy Ranch, NE of Newport Road & Goetz Road, Menifee / 341-270-001 / Richmond American Homes / Brookfield Residential	12 / 18	43	7,000	\$4,815,000 / \$111,977	\$155,900	Closed in finished condition with an approved final map. Includes 50/50 profit participation over an 8% net profit margin.
6	Planning Area 8 at Audie Murphy Ranch, NE of Newport Road & Goetz Road, Menifee / 341-250-001 / William Lyon Homes / Brookfield Residential	12 / 18	32	5,000	\$4,099,000 / \$128,094	\$156,000	Closed in finished condition with an approved final map. Includes 50/50 profit participation over an 8% net profit margin.

<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>
7	Silver Trail, NW of Garbani Road & Sherman Road, Menifee / 360-250-009 / Woodside Homes / DCI Investments	12 / 18	30	7,200	\$2,025,000 / \$67,500	\$151,000	Closed in blue-topped condition with the majority of final engineering approved.
8	Vaquero at Audie Murphy Ranch, NE of Newport Road & Goetz Road, Menifee / 341-200-008 / Richmond American Homes / Brookfield Residential	09 / 18	93	5,500	\$11,931,500 / \$128,296	\$168,000	Closed in finished condition with an approved final map. Includes 50/50 profit participation over an 8% net profit margin.
9	Talavera, NE of Rouse Road & Dawson Road, Menifee / 331-170-029 / KB Home / Brookfield Residential	02 / 18	173	7,200	\$5,000,000 / \$28,902	\$132,000	Closed in rough graded / blue-topped condition with an approved final map.
10	Brixton, SWC of Craig Avenue & Palomar Road, Menifee / 372-050-032 / Pulte Group / McKinley Capital	02 / 18	64	7,200	\$4,125,000 / \$64,453	\$140,000	Closed in rough graded / blue-topped condition with an approved final map.
11	Windsor, SW of Craig Avenue & Palomar Road, Menifee / 372-050-035 / Pulte Group / Watt Communities	02 / 18	63	7,200	\$3,377,000 / \$53,603	\$140,000	Closed in rough graded / blue-topped condition with an approved final map.

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

# Improved 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	Sendero, Summerly, Richmond American Homes – Subject	1	3 / 2	1 / 2	2,320	5,500	\$385,990	3.75	\$10,500 towards closing with preferred lender	\$375,490	\$161.85
		2	3 / 2.5	2 / 2	2,380		\$390,990			\$380,490	\$159.87
		3	4 / 2.5	2 / 2	2,640		\$401,990			\$391,490	\$148.29
2	The Glen, Summerly Beazer Homes - Subject	1	3 / 2.5	1 / 3	2,304	6,000	\$394,990	2.330	\$12,000 towards closing with preferred lender	\$382,990	\$166.23
		2	3 / 2.5	1 / 2	2,442		\$404,990			\$392,990	\$160.93
		3	3 / 2.5	2 / 3	2,651		\$416,990			\$404,990	\$152.77
		4	4 / 3	2 / 3	3,053		\$432,990			\$420,990	\$137.89
3	Laurel Pointe, Summerly, Express Homes (DR Horton) – Subject	1	3 / 2	1 / 2	1,576	5,000	\$364,990	1.333	\$5,000 towards closing with preferred lender	\$359,990	\$228.42
		2	3 / 2.5	2 / 2	1,868		\$382,490			\$377,490	\$202.08
		3	4 / 3	2 / 2	1,960		\$387,990			\$382,990	\$195.40
4	Solstice, Summerly, K. Hovnanian	1	3 / 2	1 / 2	1,391	3,500	\$342,000	2.02	\$5,000 towards closing costs with preferred lender	\$337,000	\$242.27
		2	3 / 2.5	2 / 2	1,685		\$350,000			\$345,000	\$204.75
		3	4 / 3	2 / 2	1,775		\$359,000			\$354,000	\$199.44
5	Tribute, Audie Murphy Ranch, Goetz Road and Normandy Road, Menifee / D.R. Horton	1	4 / 2	1 / 2	2,474	6,000	\$425,490	3.81	\$5,000 towards closings with preferred lender	\$420,490	\$169.96
		2	5 / 3	2 / 2	2,782		\$444,490			\$439,490	\$157.98
		3	5 / 4	2 / 3	3,124		\$494,990			\$489,990	\$156.85
		4	5 / 3.5	2 / 2	3,172		\$482,135			\$477,135	\$150.42
6	Kingston, Audie Murphy Ranch, Goetz Road and Normandy Road, Menifee / Meritage Homes	1	3 / 2.5	1 / 2	1,990	5,000	\$383,990	3.24	\$5,000 towards closings with preferred lender	\$378,990	\$190.45
		2	3 / 2.5	1 / 2	2,122		\$404,990			\$399,990	\$188.50
		3	4 / 2.5	2 / 2	2,686		\$424,990			\$419,990	\$156.36
		4	5 / 3.5	2 / 3	2,912		\$431,990			\$426,990	\$146.63
7	Willow Tree, Audie Murphy Ranch, William Lyon Homes	1	3 / 2.5	1 / 2	2,260	5,000	\$431,650	3.69	\$10,000 towards closings costs	\$421,650	\$186.57
		2	4 / 3	2 / 2	2,269		\$410,900			\$400,990	\$176.73
		3	4 / 3	2 / 2	2,485		\$431,900			\$421,900	\$169.78
		4	4 / 2.5	2 / 2	2,571		\$429,900			\$419,990	\$163.36
		5	4 / 3	2 / 2	2,744		\$450,650			\$440,650	\$160.59
8	Vaquero, Audie Murphy Ranch, Richmond American	1	3 / 2.5	1 / 2	2,290	5,500	\$410,990	2.28	3% towards closing costs with preferred lender	\$398,660	\$174.09
		2	4 / 2.5	2 / 2	2,720		\$419,990			\$407,390	\$149.78
		3	4 / 2.5	2 / 3	2,920		\$429,990			\$417,090	\$142.84
9	Dakota, Audie Murphy Ranch, Woodside Homes	1	3 / 2.5	1 / 2	2,164	5,500	\$420,490	2.38	\$7,500 closing cost with preferred lender	\$412,990	\$190.85
		2	3 / 2.5	2 / 3	2,370		\$423,960			\$416,460	\$175.72
		3	4 / 3.5	2 / 2	2,628		\$430,040			\$422,540	\$160.78
		4	3 / 2.5	2 / 3	2,849		\$439,360			\$431,860	\$151.58
10	Sequoia, Santa Rosa Highlands, Jefferson Avenue and Lemon Street, Murrieta / D.R. Horton	1	3 / 2.5	2 / 2	1,986	4,500	\$430,000	3.16	\$5,000 towards closing with preferred lender	\$425,000	\$214.00
		2	4 / 3	2 / 2	2,065		\$439,000			\$434,000	\$210.17
		3	4 / 3	2 / 2	2,365		\$455,000			\$450,000	\$190.27

11	The Oaks, Santa Rosa Highlands, Jefferson Avenue and Lemon Street, Murrieta / D.R. Horton	1	4 / 3	2 / 2	2,413	5,000	\$487,990	2.16	\$5,000 towards closing with preferred lender	\$482,990	\$200.16
		2	4 / 3.5	2 / 2	2,764		\$506,990			\$501,990	\$181.62
		3	4 / 3	2 / 2	3,042		\$509,490			\$504,490	\$165.84
12	Summerhill, Wildomar KB Home	1	3 / 2	1 / 2	1,479	2,500	\$409,990	N/A	None (new project)	\$409,990	\$277.21
		2	3 / 2	1 / 2	1,557		\$413,990			\$413,990	\$265.89
		3	3 / 2	1 / 2	1,891		\$424,990			\$424,990	\$224.74
		4	4 / 2	1 / 2	2,206		\$438,990			\$438,990	\$199.00

# **DISCOUNTED CASH FLOW ANALYSES**

### **Sendero Builder-Owned Houses Discounted Cash Flow Analysis**

MONTH	Months	<u>MONTH 1</u>	<u>MONTH 2</u>	<b><u>TOTAL</u></b>
	2			
INCOME:				
Retail Sales	1,225,100	\$612,550	\$612,550	\$1,225,100
TOTAL INCOME		<u>\$612,550</u>	<u>\$612,550</u>	<u>\$1,225,100</u>
EXPENSES:				
Remaining Costs		(\$16,607)	(\$16,607)	(\$33,214)
Marketing & Carrying Expenses	8%	(\$49,004)	(\$49,004)	(\$98,008)
Profit	8%	<u>(\$49,004)</u>	<u>(\$49,004)</u>	<u>(\$98,008)</u>
TOTAL EXPENSES		(\$114,615)	(\$114,615)	(\$229,230)
NET CASH FLOW		\$497,935	\$497,935	\$995,870
Discount Factor	10%	<u>0.9917</u>	<u>0.9835</u>	
DISCOUNTED CASH FLOW		\$493,820	\$489,739	\$983,559
CUMULATIVE DISCOUNTED CASH FLOW		<b><u>\$493,820</u></b>	<b><u>\$983,559</u></b>	<b><u>\$983,559</u></b>

### The Glen Builder-Owned Houses Discounted Cash Flow Analysis

MONTH	Months	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
	3				
INCOME:					
Retail Sales	1,619,776	\$539,925	\$539,925	\$539,925	\$1,619,776
TOTAL INCOME		<u>\$539,925</u>	<u>\$539,925</u>	<u>\$539,925</u>	<u>\$1,619,776</u>
EXPENSES:					
Remaining Costs		(\$33,849)	(\$33,849)	(\$33,849)	(\$101,546)
Marketing & Carrying Expenses	8%	(\$43,194)	(\$43,194)	(\$43,194)	(\$129,582)
Profit	8%	(\$43,194)	(\$43,194)	(\$43,194)	(\$129,582)
TOTAL EXPENSES		(\$120,237)	(\$120,237)	(\$120,237)	(\$360,710)
NET CASH FLOW		\$419,689	\$419,689	\$419,689	\$1,259,066
Discount Factor	10%	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	
DISCOUNTED CASH FLOW		\$416,220	\$412,780	\$409,369	\$1,238,369
CUMULATIVE DISCOUNTED CASH FLOW		<u>\$416,220</u>	<u>\$829,000</u>	<u>\$1,238,369</u>	<u>\$1,238,369</u>

### Laurel Pointe Builder-Owned Houses Discounted Cash Flow Analysis

MONTH	Months	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>MONTH 4</u>	<u>MONTH 5</u>	<u>TOTAL</u>
	5						
INCOME:							
Retail Sales	4,078,920	\$815,784	\$815,784	\$815,784	\$815,784	\$815,784	\$4,078,920
TOTAL INCOME		<u>\$815,784</u>	<u>\$815,784</u>	<u>\$815,784</u>	<u>\$815,784</u>	<u>\$815,784</u>	<u>\$4,078,920</u>
EXPENSES:							
Remaining Costs		(\$58,649)	(\$58,649)	(\$58,649)	(\$58,649)	(\$58,649)	(\$293,247)
Marketing & Carrying Expenses	8%	(\$65,263)	(\$65,263)	(\$65,263)	(\$65,263)	(\$65,263)	(\$326,314)
Profit	8%	<u>(\$65,263)</u>	<u>(\$65,263)</u>	<u>(\$65,263)</u>	<u>(\$65,263)</u>	<u>(\$65,263)</u>	<u>(\$326,314)</u>
TOTAL EXPENSES		(\$189,175)	(\$189,175)	(\$189,175)	(\$189,175)	(\$189,175)	(\$945,874)
NET CASH FLOW		\$626,609	\$626,609	\$626,609	\$626,609	\$626,609	\$3,133,046
Discount Factor	10%	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	<u>0.9673</u>	<u>0.9594</u>	
DISCOUNTED CASH FLOW		\$621,431	\$616,295	\$611,201	\$606,150	\$601,141	\$3,056,218
CUMULATIVE DISCOUNTED CASH FLOW		<u>\$621,431</u>	<u>\$1,237,725</u>	<u>\$1,848,927</u>	<u>\$2,455,077</u>	<u>\$3,056,218</u>	<u>\$3,056,218</u>

# **FEMA LETTER**



## Federal Emergency Management Agency

Washington, D.C. 20472

December 10, 2013

THE HONORABLE BOB MAGEE  
MAYOR, CITY OF LAKE ELSINORE  
130 SOUTH MAIN STREET  
LAKE ELSINORE, CA 92530

CASE NO.: 14-09-0292A  
COMMUNITY: CITY OF LAKE ELSINORE, RIVERSIDE  
COUNTY, CALIFORNIA  
COMMUNITY NO.: 060636

DEAR MR. MAGEE:

This is in reference to a request that the Federal Emergency Management Agency (FEMA) determine if the property described in the enclosed document is located within an identified Special Flood Hazard Area, the area that would be inundated by the flood having a 1-percent chance of being equaled or exceeded in any given year (base flood), on the effective National Flood Insurance Program (NFIP) map. Using the information submitted and the effective NFIP map, our determination is shown on the attached Letter of Map Revision based on Fill (LOMR-F) Determination Document. This determination document provides additional information regarding the effective NFIP map, the legal description of the property and our determination.

Additional documents are enclosed which provide information regarding the subject property and LOMR-Fs. Please see the List of Enclosures below to determine which documents are enclosed. Other attachments specific to this request may be included as referenced in the Determination/Comment document. If you have any questions about this letter or any of the enclosures, please contact the FEMA Map Assistance Center toll free at (877) 336-2627 (877-FEMA MAP) or by letter addressed to the Federal Emergency Management Agency, LOMC Clearinghouse, 847 South Pickett Street, Alexandria, VA 22304-4605.

Sincerely,

Luis Rodriguez, P.E., Chief  
Engineering Management Branch  
Federal Insurance and Mitigation Administration

**LIST OF ENCLOSURES:**

LOMR-F DETERMINATION DOCUMENT (REMOVAL)

cc: State/Commonwealth NFIP Coordinator  
Community Map Repository  
Region  
Mr. Scott M. Wilson



**Federal Emergency Management Agency**  
Washington, D.C. 20472

**LETTER OF MAP REVISION BASED ON FILL  
DETERMINATION DOCUMENT (REMOVAL)**

COMMUNITY AND MAP PANEL INFORMATION		LEGAL PROPERTY DESCRIPTION
COMMUNITY	CITY OF LAKE ELSINORE, RIVERSIDE COUNTY, CALIFORNIA	Lots 1, 7 through 19, 27, 32, and 33, Tract No. 31920-1, as shown on the Plat recorded as Document No. 05-1010706, in Book 394, Pages 41 through 51, in the Office of the Recorder, Riverside County, California
	COMMUNITY NO.: 060636	
AFFECTED MAP PANEL	NUMBER: 06065C2043G DATE: 8/28/2008	

FLOODING SOURCE: LAKE ELSINORE APPROXIMATE LATITUDE & LONGITUDE OF PROPERTY: 33.646, -117.301  
SOURCE OF LAT & LONG: GOOGLE EARTH PRO DATUM: NAD 83

**DETERMINATION**

LOT	BLOCK/ SECTION	SUBDIVISION	STREET	OUTCOME WHAT IS REMOVED FROM THE SFHA	FLOOD ZONE	1% ANNUAL CHANCE FLOOD ELEVATION (NAVD 88)	LOWEST ADJACENT GRADE ELEVATION (NAVD 88)	LOWEST LOT ELEVATION (NAVD 88)
1	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1265.9 feet


**Special Flood Hazard Area (SFHA)** - The SFHA is an area that would be inundated by the flood having a 1-percent chance of being equaled or exceeded in any given year (base flood).

ADDITIONAL CONSIDERATIONS (Please refer to the appropriate section on Attachment 1 for the additional considerations listed below.)

DETERMINATION TABLE (CONTINUED) SUPERSEDES PREVIOUS DETERMINATION  
REVISED BY LETTER OF MAP REVISION  
STUDY UNDERWAY

This document provides the Federal Emergency Management Agency's determination regarding a request for a Letter of Map Revision based on Fill for the property described above. Using the information submitted and the effective National Flood Insurance Program (NFIP) map, we have determined that the property(ies) is/are not located in the SFHA, an area inundated by the flood having a 1-percent chance of being equaled or exceeded in any given year (base flood). This document revises the effective NFIP map to remove the subject property from the SFHA located on the effective NFIP map; therefore, the Federal mandatory flood insurance requirement does not apply. However, the lender has the option to continue the flood insurance requirement to protect its financial risk on the loan. A Preferred Risk Policy (PRP) is available for buildings located outside the SFHA. Information about the PRP and how one can apply is enclosed.

This determination is based on the flood data presently available. The enclosed documents provide additional information regarding this determination. If you have any questions about this document, please contact the FEMA Map Assistance Center toll free at (877) 336-2627 (877-FEMA MAP) or by letter addressed to the Federal Emergency Management Agency, LOMC Clearinghouse, 847 South Pickett Street, Alexandria, VA 22304-4605.

  
Luis Rodriguez, P.E., Chief  
Engineering Management Branch  
Federal Insurance and Mitigation Administration



**Federal Emergency Management Agency**  
Washington, D.C. 20472

**LETTER OF MAP REVISION BASED ON FILL  
DETERMINATION DOCUMENT (REMOVAL)**

ATTACHMENT 1 (ADDITIONAL CONSIDERATIONS)

**DETERMINATION TABLE (CONTINUED)**

LOT	BLOCK/ SECTION	SUBDIVISION	STREET	OUTCOME WHAT IS REMOVED FROM THE SFHA	FLOOD ZONE	1% ANNUAL CHANCE FLOOD ELEVATION (NAVD 88)	LOWEST ADJACENT GRADE ELEVATION (NAVD 88)	LOWEST LOT ELEVATION (NAVD 88)
7	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.9 feet
8	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.9 feet
9	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1270.8 feet
10	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1269.4 feet
11	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.9 feet
12	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.8 feet
13	--	Tract 31920-1	--	Property	X (unshaded)	1265.8 feet	--	1271.4 feet
14	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.9 feet
15	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.9 feet
16	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1268.9 feet

This attachment provides additional information regarding this request. If you have any questions about this attachment, please contact the FEMA Map Assistance Center toll free at (877) 336-2627 (877-FEMA MAP) or by letter addressed to the Federal Emergency Management Agency, LOMC Clearinghouse, 847 South Pickett Street, Alexandria, VA 22304-4605.

Luis Rodriguez, P.E., Chief  
Engineering Management Branch  
Federal Insurance and Mitigation Administration



**Federal Emergency Management Agency**  
Washington, D.C. 20472

**LETTER OF MAP REVISION BASED ON FILL  
DETERMINATION DOCUMENT (REMOVAL)**

**ATTACHMENT 1 (ADDITIONAL CONSIDERATIONS)**

LOT	BLOCK/ SECTION	SUBDIVISION	STREET	OUTCOME WHAT IS REMOVED FROM THE SFHA	FLOOD ZONE	1% ANNUAL CHANCE FLOOD ELEVATION (NAVD 88)	LOWEST ADJACENT GRADE ELEVATION (NAVD 88)	LOWEST LOT ELEVATION (NAVD 88)
18	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1267.4 feet
19	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1269.4 feet
27	--	Tract 31920-1	--	Property	X (unshaded)	1265.8 feet	--	1272.7 feet
32	--	Tract 31920-1	--	Property	X (unshaded)	1265.8 feet	--	1271.4 feet
33	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1267.4 feet
17	--	Tract 31920-1	--	Property	X (shaded)	1265.8 feet	--	1269.1 feet

**REVISED BY LETTER OF MAP REVISION (This Additional Consideration applies to the preceding 17 Properties.)**

The effective National Flood Insurance Program map for the subject property, has since been revised by a Letter of Map Revision (LOMR) dated 3/25/2010. The 3/25/2010 LOMR has been used in making the determination/comment for the subject property.

**STUDY UNDERWAY (This Additional Consideration applies to all properties in the LOMR-F DETERMINATION DOCUMENT (REMOVAL))**

This determination is based on the flood data presently available. However, the Federal Emergency Management Agency is currently revising the National Flood Insurance Program (NFIP) map for the community. New flood data could be generated that may affect this property. When the new NFIP map is issued it will supersede this determination. The Federal requirement for the purchase of flood insurance will then be based on the newly revised NFIP map.

This attachment provides additional information regarding this request. If you have any questions about this attachment, please contact the FEMA Map Assistance Center toll free at (877) 336-2627 (877-FEMA MAP) or by letter addressed to the Federal Emergency Management Agency, LOMC Clearinghouse, 847 South Pickett Street, Alexandria, VA 22304-4605.

Luis Rodriguez, P.E., Chief  
Engineering Management Branch  
Federal Insurance and Mitigation Administration



**Federal Emergency Management Agency**  
Washington, D.C. 20472


**LETTER OF MAP REVISION BASED ON FILL  
DETERMINATION DOCUMENT (REMOVAL)**

**ATTACHMENT 1 (ADDITIONAL CONSIDERATIONS)**

**SUPERSEDES OUR PREVIOUS DETERMINATION (This Additional Consideration applies to all properties in the LOMR-F DETERMINATION DOCUMENT (REMOVAL))**

This Determination Document supersedes our previous determination dated 10/8/2013, for the subject property.

This attachment provides additional information regarding this request. If you have any questions about this attachment, please contact the FEMA Map Assistance Center toll free at (877) 336-2627 (877-FEMA MAP) or by letter addressed to the Federal Emergency Management Agency, LOMC Clearinghouse, 847 South Pickett Street, Alexandria, VA 22304-4605.

  
Luis Rodriguez, P.E., Chief  
Engineering Management Branch  
Federal Insurance and Mitigation Administration

## **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, 2018 and 2019  
Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011