THE LONDON GROUP
Realty Advisors

San Marcos Creek District
Phase II Market and Financial Analysis

Prepared For:

City of San Marcos

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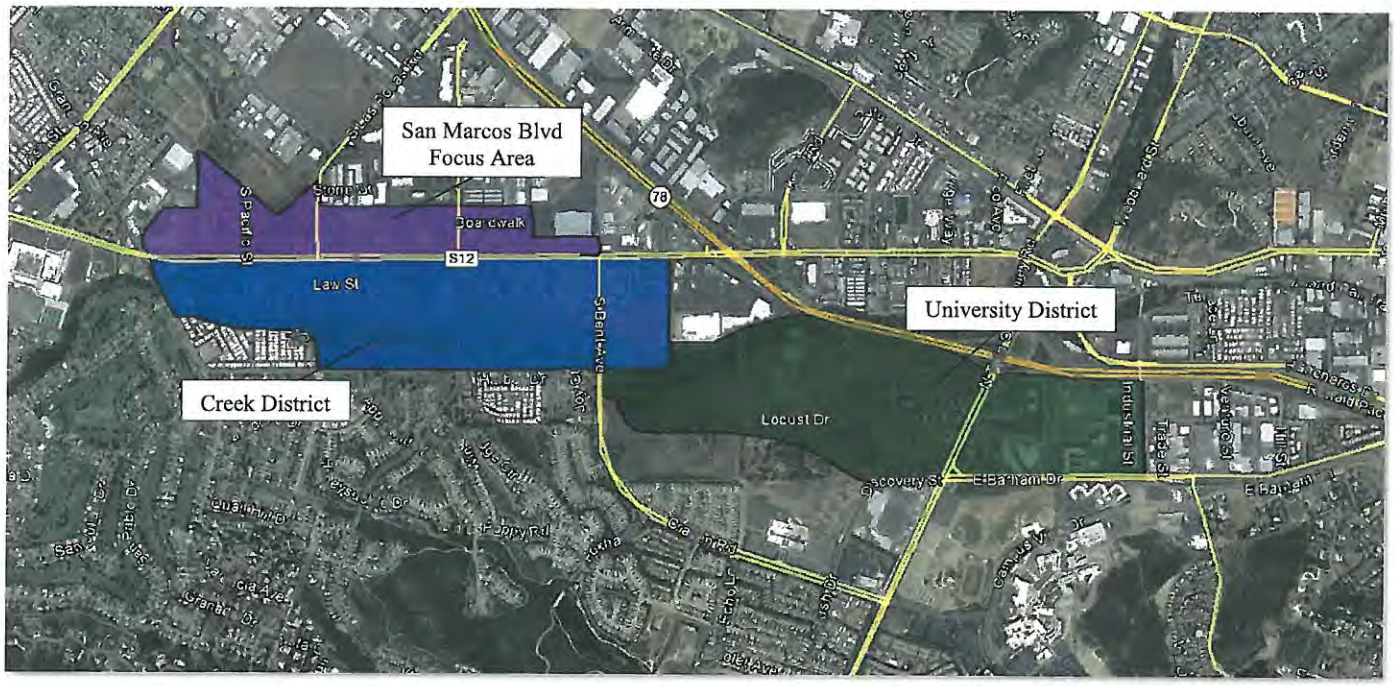
INTRODUCTION

The London Group Realty Advisors previously prepared a comprehensive market analysis report (August 2015) pertaining to the commercial element of the San Marcos Creek District Specific Plan which was adopted in 2007. Our analysis determined how much and what type (tenants) of commercial space can reasonably be supported in the District in the coming years.

The focus of this second phase is to offer a market supportable framework on how to restructure the Specific Plan so that it's vision is achievable within the context of economic conditions, market demand and project feasibility. This report utilizes the land planning and cost engineering expertise of Latitude 33, who provided the development yields and costs associated with the recommended conceptual land use plan.

The plan area consists of approximately 214 acres along San Marcos Creek, bounded on the north by San Marcos Boulevard, on the south and west by Discovery Street, and on the east by Grand Avenue and SR-78. The following map depicts the Creek District relative to the other areas targeted for development (University District and San Marcos Boulevard Focus Area).



Research for this project was completed in June 2016. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report *will* vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise of property owners, investors, developers, lenders, public agencies, operators or tenants.

CONCLUSIONS & RECOMMENDATIONS

Conceptual Land Use Plan

The purpose of this section is to detail our recommended conceptual land use plan for the San Marcos Creek District. The following table details the approximate acreages and development yields for the property. In total, there are an estimated 73.8 acres of net buildable development parcels.

This plan includes a total of 195 single family homes, 625 townhomes or zero lot line homes, and 1,638 apartments.[1] It also includes approximately 50,000 square feet of retail and commercial space.

Conceptual Recommended Land Uses & Development Yields
San Marcos Creek District

Land Use Areas	Net Acres	Net S.F. Land	Units	DU/Ac.	S.F.
Single Family Residential	8.0	348,480	105	13	
Single Family Residential*	7.0	304,920	90	13	
Mixed-Use or Commercial Core (Similar to Main Square)	6.0	261,360	664		50,000
Townhomes/Zero Lot Line	5.0	217,800	125	25	
Townhomes/Zero Lot Line*	3.5	152,460	88	25	
Townhomes/Zero Lot Line	3.5	152,460	87	25	
Townhomes/Zero Lot Line	6.0	261,360	150	25	
Townhomes/Zero Lot Line	7.0	304,920	175	25	
Rental Apartments*	6.5	283,140	228	35	
Rental Apartments	12.5	544,500	437	35	
Rental Apartments (or Substitute Hotel/Office/Mixed-Use)	7.3	317,988	256	35	
Rental Apartments	1.5	65,340	53	35	
Subtotal Development Parcels	**73.8**	**3,214,728**	**2,458**		**50,000**
Open Space / Recreation Space / Under Development	37.2				
Main Square Project - Phases 1 & 2	6.0	261,360	664		91,000
Total Acres	**117.0**	**3,476,088**	**3,122**		**141,000**

* A financial proforma is included that analyzes project feasibility for this use.

Source: The London Group Realty Advisors, Latitude 33

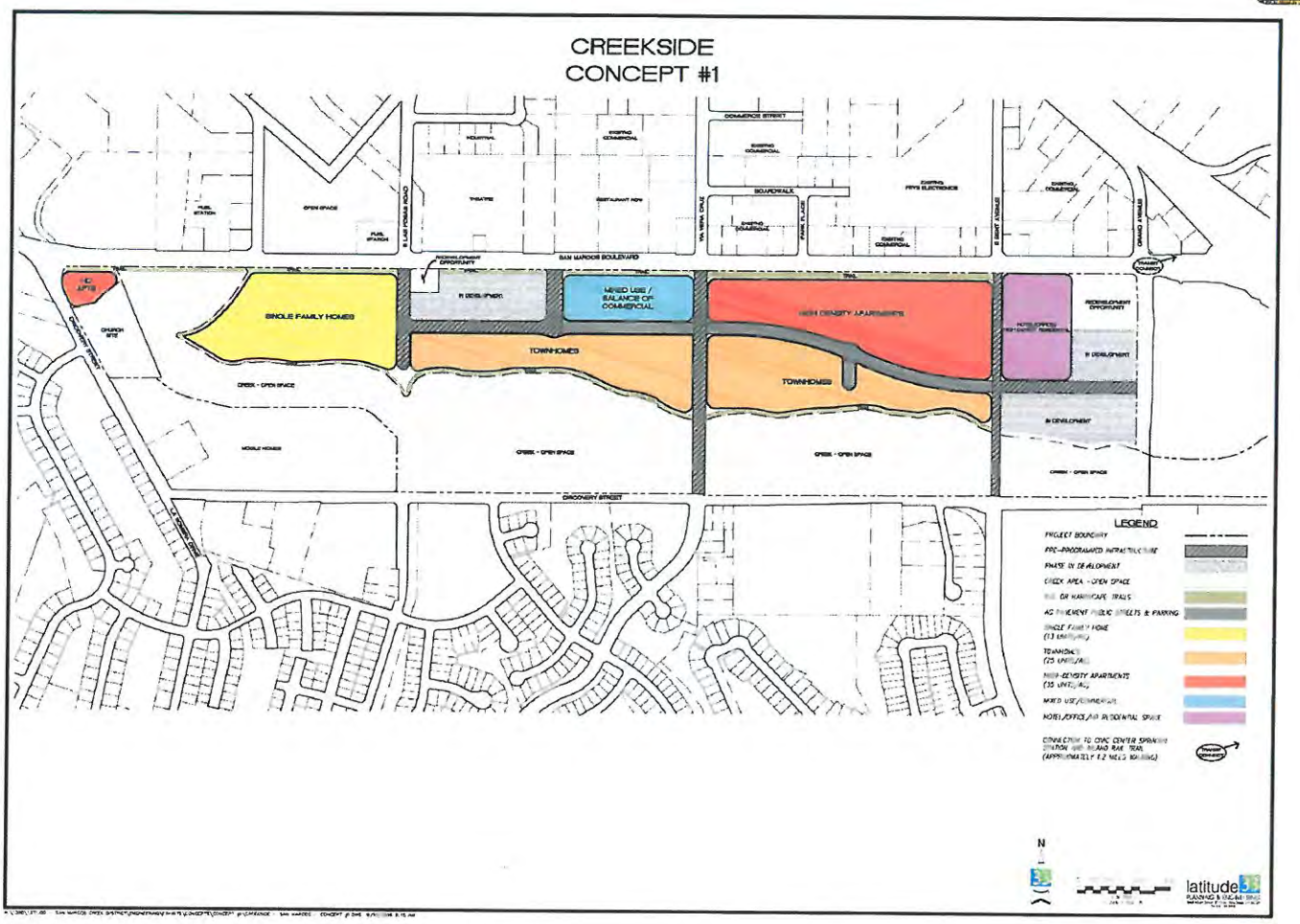
[1] The plan also includes approximately 7.3 acres of higher density mixed-use, which could include additional residential. Assuming 256 additional residential units are built on this parcel, the total unit count for the planning area totals 2,458 units.

This plan reflects a high density mixed-use/commercial core as a focal point of the district. This area is located along San Marcos Blvd between Las Posas Rd and Via Vera Cruz. The concept is based on the current application submitted by the land owner for a project called Main Square, which is planned for 664 rental apartments and 91,000 square feet of space with underground parking on 6.0 acres of land.

Based on our analysis (see Supportable Retail Space) an estimated 136,000 to 155,000 square feet of retail space can be supported by the future residents at the Creek District. As such, we have included a balance of 50,000 square feet of retail in our recommended plan, which would total 141,000 square feet if the Main Square project is successful.

Our plan includes 2,458 units to accommodate a proposed project with a high density/commercial core. However, we do not believe that it is feasible to achieve this level of intensity, principally due to parking and other related costs. We recommend that the Creek District maintain a less dense commercial component that would result in a total of 1,753 units within the district. If the core project (Main Square) does move forward, it can be accommodated as an alternative.

The map on the following page depicts the general location of the land uses envisioned for the property.


CREEKSIDE
CONCEPT #1
SAN MARCOS BOULEVARD
SINGLE FAMILY HOMES
MIXED USE / BALANCE OF COMMERCIAL
TOWNHOMES
TOWNHOMES
CREEK - OPEN SPACE
CREEK - OPEN SPACE
CREEK - OPEN SPACE
DISCOVERY STREET
LEGEND
PROJECT BOUNDARY
CREEK AREA - OPEN SPACE
SINGLE FAMILY HOME
TOWNHOMES
MIXED USE/COMMERCIAL
N
latitude

Feasibility Analysis

The purpose of this section is to discuss our financial analysis that analyzes the feasibility of the various residential land uses we recommend for the site.

Infrastructure Costs

A key development factor, which has been a significant hurdle for developers, is the level of infrastructure costs required to improve the District. Latitude 33 has provided construction cost estimates for improving the site, which result in a developable pad (finished lot status) for each of the development parcels. The construction budget is included in the Appendix (see Latitude 33 Cost Budget).

The total estimated cost budget is approximately $27 million. This budget is composed of approximately $22.9 million to improve the balance of the 117-acre site and $4.13 million for improvements along San Marcos Blvd. The following table summarizes the development costs allocated on a per unit basis and per square foot of net developable land.

Summary of Infrastructure & Improvement Costs San Marcos Creek District	
Net Land Acreage	**73.8**
Net Land S.F. (Buildable)	**3,214,728**
# Units	**2,458**
Infrastructure Costs	
Total Costs	**$22,904,075**
$/Unit	$9,318
$/S.F. of Land	$7.12
San Macos Blvd Improvement Costs	
Total Costs	**$4,130,500**
$/Unit	$1,680
$/S.F. of Land	$1.28

Source: The London Group Realty Advisors, Latitude 33

Financial Proforma Analysis

The purpose of this section is to analyze the feasibility of developing the residential uses and densities, recommended in our conceptual land use plan. Our proformas analyze typical development for the single family, townhomes/zero lot line homes and apartment land uses. The detailed proformas are included in the Appendix (see Financial Proformas).

A key component to determining project feasibility is whether the development can support the required infrastructure and site improvement costs, which is estimated to total $22.9 million ($9,318 per unit). Our analysis factors in this cost into the proformas. While we have allocated it evenly between the land uses, it is likely that a different fee structure could be implemented (e.g. single family home development could support a higher per unit fee than rental apartments).

We have not factored in the improvement costs for San Marcos Blvd. Ideally, this fee would be allocated to only those parcels that have frontage along San Marcos Blvd. rather than the entire site. Alternatively, the total estimated costs of $4.13 million might be structured as a special assessment for all parcels, which would represent a nominal fee to the end user or residents.

Single Family Homes

This proforma analyzes 90 single-family homes on 7.0 acres of land. Based on our market research, the homes envisioned for the property include three bedrooms (2,000 square feet) and four bedrooms (2,400 square feet). The average sales prices are estimated to be $600,000 ($300 per square foot) for three-bedroom homes and $675,000 ($281 per square foot) for four-bedroom homes.

The project is assumed to be constructed over a 23-month period. Based on our recommendations for unit sizes and rental rates (see Detached Market Analysis), we anticipate a project absorption of four homes per month.

Total construction costs are estimated at $48.6 million ($540,322 per home), which includes a land acquisition cost of $18 million ($200,000 per lot) and land improvement costs of $838,620 ($9,318 per lot).

The net profit from the development of 90 single-family homes is estimated to be $8.7 million. This represents a profit margin of 15.2%, which exceeds the typical profit range for single-family home developments of 11% to 13%.

Townhomes / Zero Lot Line Homes

This proforma analyzes 88 townhomes on 3.5 acres of land. Based on our market research, the townhomes envisioned for the property include two bedrooms (1,300 square feet) and three bedrooms (1,500 square feet). The average sales prices are estimated to be $400,000 for two bedrooms ($308 per square foot) and $440,000 ($293 per square foot).

The project is assumed to be constructed over a 24-month period. Based on our recommendations for unit sizes and rental rates (see Townhome Market Analysis), we anticipate a project absorption

of four townhomes per month. At this rate, all 88 townhomes should sell in approximately 1.5 years.

Total construction costs are estimated to be $31.2 million, which includes a land acquisition cost of $4.8 million and land improvement costs of $819,984 million ($9,318 per unit). At a loan-to-cost value of 75%, approximately $7.8 million of equity is required to fund the construction loan.

Gross profit from the development of 88 townhomes is estimated to be $4.8 million. The timing of cash flows results in an Internal Rate of Return of 36%. The project's profit margin of 12.7% is in the typical profit range for townhome development of 11% to 13%.

Rental Apartments

This proforma analyzes 228 townhomes on 6.5 acres of land. Based on our research, the average monthly rent is $1,871 with an average unit size of 866 square feet ($2.16 per square foot).

Total construction costs are estimated to be $60.5 million, which includes land acquisition of $5.7 million and land improvement costs of $2.1 million ($9,318 per unit). At a loan-to-cost value of 70%, approximately $18.2 million of equity is required to fund the construction loan.

The project is assumed to be constructed over a 24-month period. Based on our recommendations for unit sizes and rental rates (see Apartment Market Analysis), we anticipate a project absorption of 15 units per month. We anticipate that it will take 15 months to stabilize at 95% occupancy (assumes two months of preleasing 15 units).

The stabilized Net Operating Income in Year 5 is estimated to be $3.8 million.

We have assumed that the project is held for five years and is sold at a 5.5% capitalization rate. This cap rate is approximately 50 to 100 basis points higher than current levels in the market. We utilized a higher cap rate to reflect the anticipated interest rate increases in the near term future.

The total five-year cash flow, or net profit, from this investment is estimated to be $16.6 million. The timing of cash flows represents an Internal Rate of Return of 17% for the capital of $18.2 million that is invested for five years, which is the typical minimum IRR for apartment rental projects.

MARKET ANALYSIS

The purpose of this section is to provide detailed market information relevant to the potential residential component in the San Marcos Creek District. We have divided this section into three parts:

- **Apartment Market Analysis:** Detailed descriptions of those projects which we have identified as most comparable to the San Marcos Creek District in terms of unit size, mix, location and price points. Product and positioning recommendations for potential apartment units are included.

- **Townhome Market Analysis:** Detailed analysis of recent resale and new townhome activity which we have identified as most comparable to the San Marcos Creek District in terms of unit size, mix, location and price points. Product and positioning recommendations for potential townhome units are included.

- **Detached Market Analysis:** Detailed analysis of recent resale and new detached home activity which we have identified as most comparable to the San Marcos Creek District in terms of unit size, mix, location and price points. Product and positioning recommendations for potential detached homes are included.

- **Supportable Retail Space**: in which we detail our calculations of how much retail square footage is supportable by the new residents of the Creek District.

Apartment Market Analysis

Product Recommendations

We have conducted an analysis of three competitive projects considered most competitive to the San Marcos Creek District in terms of unit size, mix, rental rates and proximity. We recommend the following unit mix, unit sizes and rental rates for potential apartment units.

Our rental rate and unit recommendations are summarized in the following bullet points and table:

- One-bedroom units are recommended at an average size of 700 square feet. Recommended rental rates average $1,600 per month ($2.29 per square foot) for these units, which comprise 50% of the recommended total unit mix.

- Two-bedroom units are recommended at an average size of 1,000 square feet. Recommended rental rates average $2,100 per month ($2.10 per square foot) for these units, which comprise 45% of the recommended total unit mix.

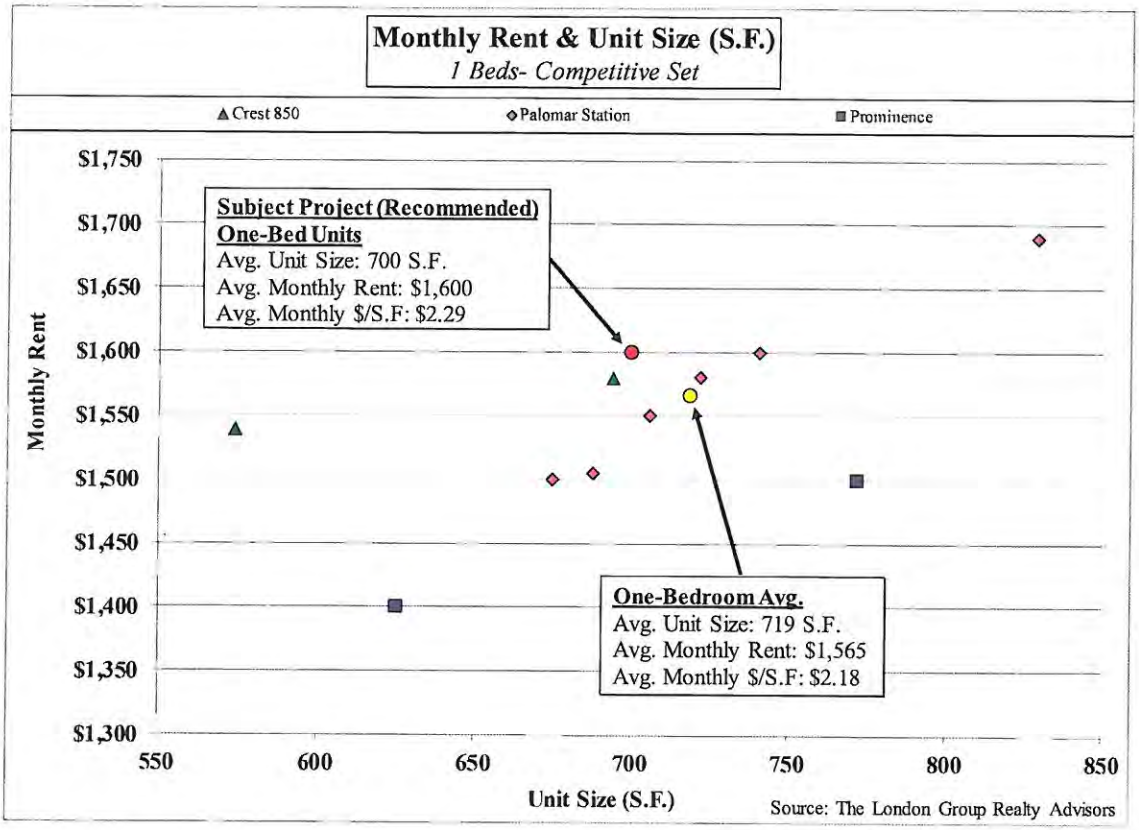
- Three-bedroom units are recommended at an average size of 1,300 square feet. Recommended rental rates average $2,500 per month ($1.92 per square foot) for these units, which comprise 5% of the recommended total unit mix.

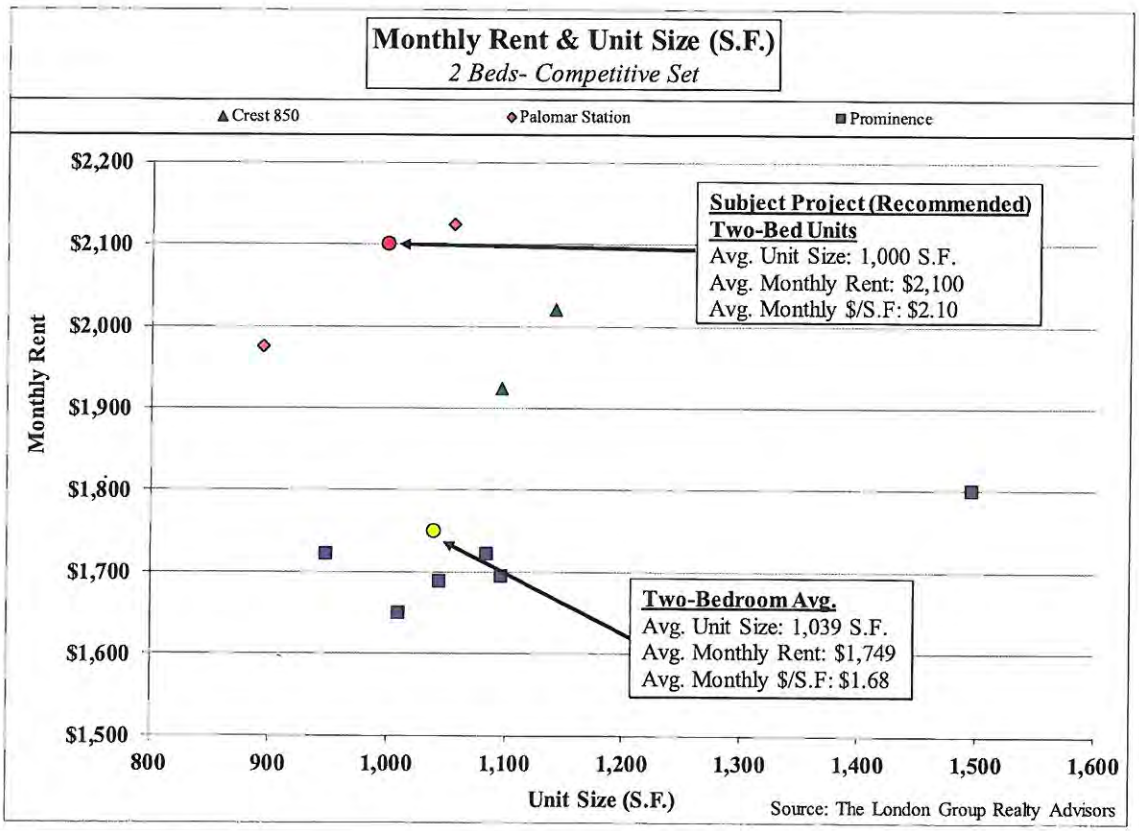
Recommended Unit Mix, Unit Size & Rental Rates
Subject Project- Proposed Apartments

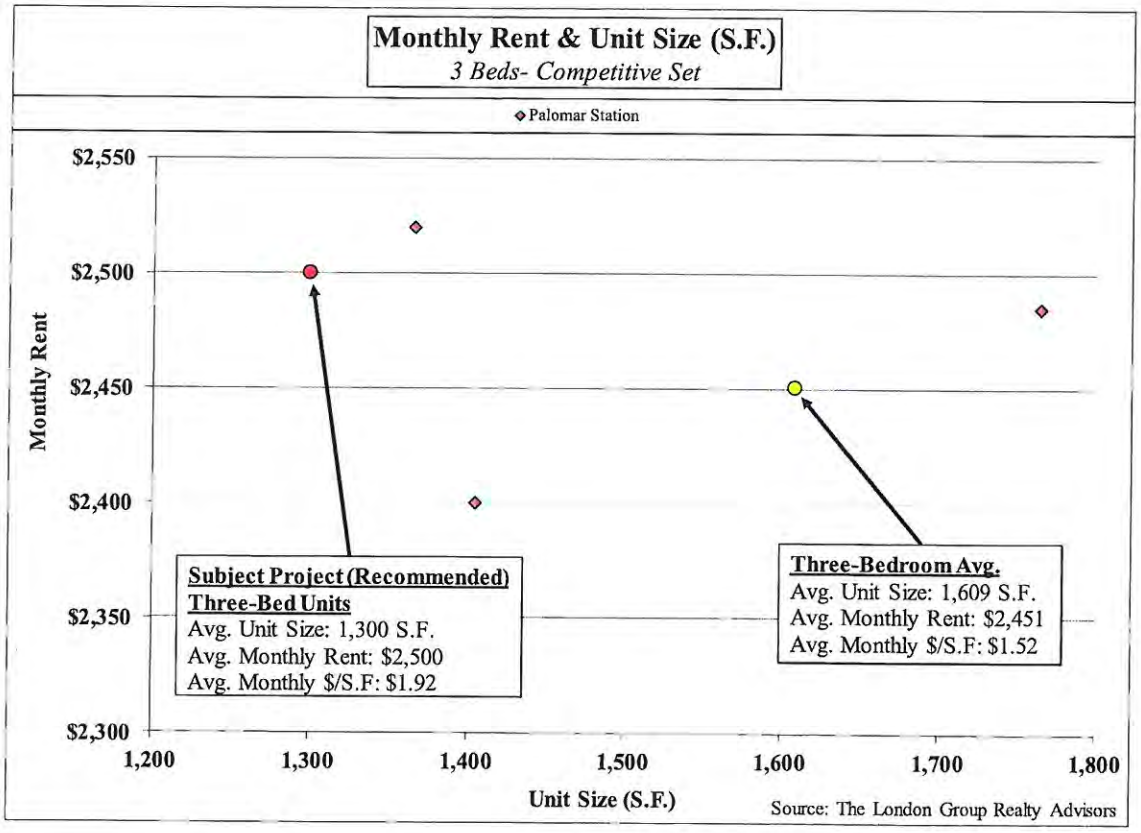
Type	# of Units	% of Total	# of Beds	# of Baths	Avg. S.F	Average Rental Rate	$/S.F.
1 Bed	50	50%	1	1	700	$1,600	$2.29
2 Bed	45	45%	2	2	1,000	$2,100	$2.10
3 Bed	5	5%	3	2	1,300	$2,500	$1.92
Total / Average	**100**	**100.0%**	**1.6**	**1.5**	**865**	**$1,870**	**$2.16**

Source: The London Group Realty Advisors

The following charts provide visual perspective of our recommended positioning by unit type within the competitive set.


Monthly Rent & Unit Size (S.F.)
1 Beds- Competitive Set
Crest 850
Palomar Station
Prominence
Subject Project (Recommended)
One-Bed Units
Avg. Unit Size: 700 S.F.
Avg. Monthly Rent: $1,600
Avg. Monthly $/S.F: $2.29
One-Bedroom Avg.
Avg. Unit Size: 719 S.F.
Avg. Monthly Rent: $1,565
Avg. Monthly $/S.F: $2.18
Monthly Rent
$1,750
$1,700
$1,650
$1,600
$1,550
$1,500
$1,450
$1,400
$1,350
$1,300
550
600
650
700
750
800
850
Unit Size (S.F.)
Source: The London Group Realty Advisors


Monthly Rent & Unit Size (S.F.)
2 Beds- Competitive Set
Crest 850
Palomar Station
Prominence
Subject Project (Recommended)
Two-Bed Units
Avg. Unit Size: 1,000 S.F.
Avg. Monthly Rent: $2,100
Avg. Monthly $/S.F: $2.10
Two-Bedroom Avg.
Avg. Unit Size: 1,039 S.F.
Avg. Monthly Rent: $1,749
Avg. Monthly $/S.F: $1.68
Monthly Rent
$2,200
$2,100
$2,000
$1,900
$1,800
$1,700
$1,600
$1,500
800
900
1,000
1,100
1,200
1,300
1,400
1,500
1,600
Unit Size (S.F.)
Source: The London Group Realty Advisors


Monthly Rent & Unit Size (S.F.)
3 Beds- Competitive Set
Palomar Station
$2,550
$2,500
$2,450
$2,400
$2,350
$2,300
Monthly Rent
1,200
1,300
1,400
1,500
1,600
1,700
1,800
Unit Size (S.F.)
Subject Project (Recommended)
Three-Bed Units
Avg. Unit Size: 1,300 S.F.
Avg. Monthly Rent: $2,500
Avg. Monthly $/S.F: $1.92
Three-Bedroom Avg.
Avg. Unit Size: 1,609 S.F.
Avg. Monthly Rent: $2,451
Avg. Monthly $/S.F: $1.52
Source: The London Group Realty Advisors

Competitive Set of Projects

We have identified three apartment projects in the market area that would be most competitive with San Marcos Creek District in terms of unit size, mix and proximity. We have targeted the three newest projects within close proximity to the San Marcos Creek District.

In these three projects, there are a total of 990 apartment units. Apartment unit sizes in the competitive set range from 574 to 1,765 square feet with an overall weighted average size of 1,018 square feet.

Monthly rental rates range from $1,400 to $2,520 per month with a total weighted average of $1,771 per month. The lowest monthly rent in the competitive set is $1,400 (Prominence) while the highest rent is $2,520 (Palomar Station). The following table details the rental rates and unit size ranges for the PMA competitive set.

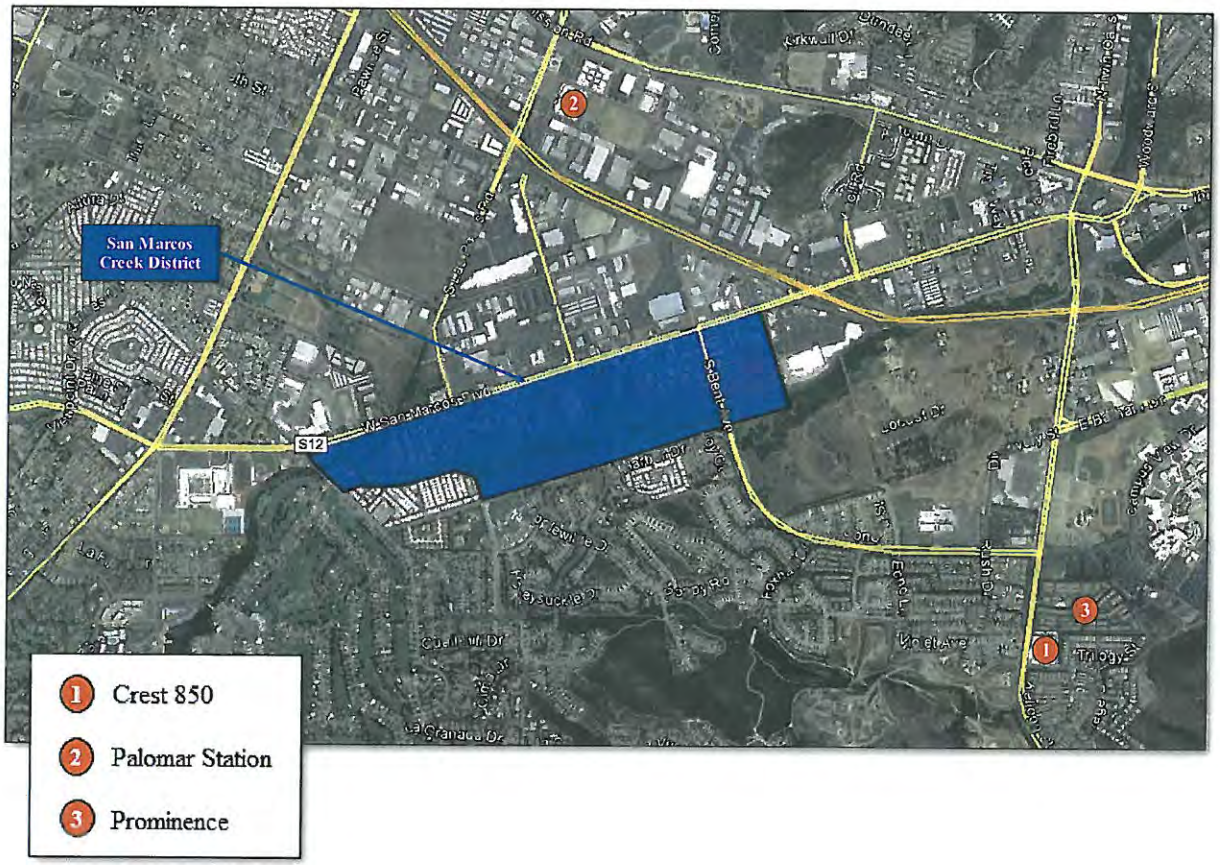
Competitive Apartment Projects
Primary Market Area

Map #	Project	Units	Sqft Range			Rent Range			$/Sqft Range		
			Low	High	Wt.Avg.	Low	High	Wt.Avg.	Low	High	Wt.Avg.
1	Crest 850	108	574	1,142	825	$1,539	$2,021	$1,714	$1.76	$2.68	$2.08
2	Palomar Station	336	675	1,765	1,045	$1,500	$2,520	$1,904	$1.41	$2.22	$1.82
3	Prominence	546	625	1,550	1,040	$1,400	$1,820	$1,699	$1.17	$2.24	$1.63
Total / Average		**990**	**574**	**1,765**	**1,018**	**$1,400**	**$2,520**	**$1,771**	**$1.17**	**$2.68**	**$1.74**

Source: The London Group Realty Advisors

Monthly per square foot rents also vary among the competitive set. The monthly rent in the competitive projects ranges from $1.17 to $2.68 per square foot, with a total weighted average of $1.74 per square foot. The lowest rent per square foot is $1.17 (Prominence) while the highest is $2.62 per square foot (Crest 850).

The following map depicts that location of the three competitive projects relative to the San Marcos Creek District:



Townhome Market Analysis

Product Recommendations

We have conducted an analysis of townhome resale activity in the 92078 zip code of San Marcos. We have also considered the only actively selling townhome development in San Marcos, Caprice by D.R. Horton. Based on this analysis, we recommend the following unit mix, unit sizes and sales prices for potential townhome units.

Our sales price and unit recommendations are summarized in the following bullet points and table:

- Two-bedroom townhomes are recommended at an average size of 1,300 square feet. Recommended sales prices average $400,000 ($308 per square foot) for these units, which comprise 45% of the recommended total unit mix.

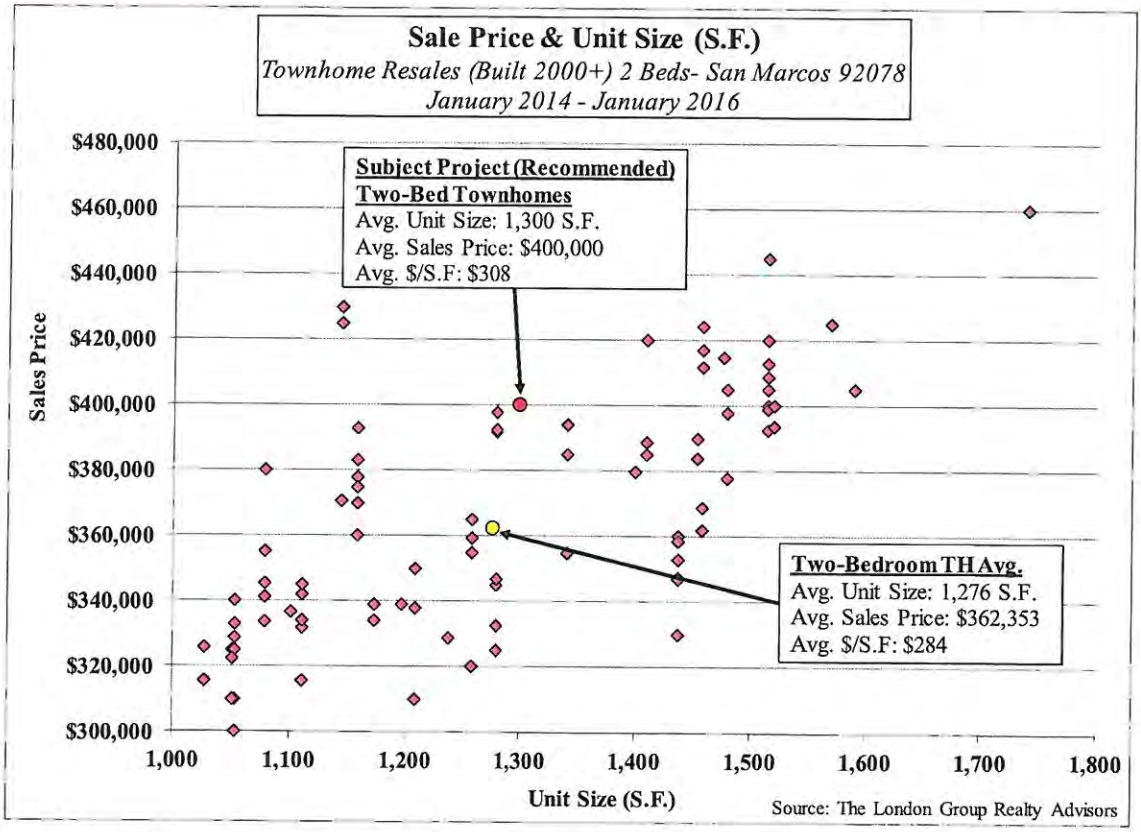
- Three-bedroom townhomes are recommended at an average size of 1,500 square feet. Recommended sales prices average $440,000 ($293 per square foot) for these units, which comprise 55% of the recommended total unit mix.

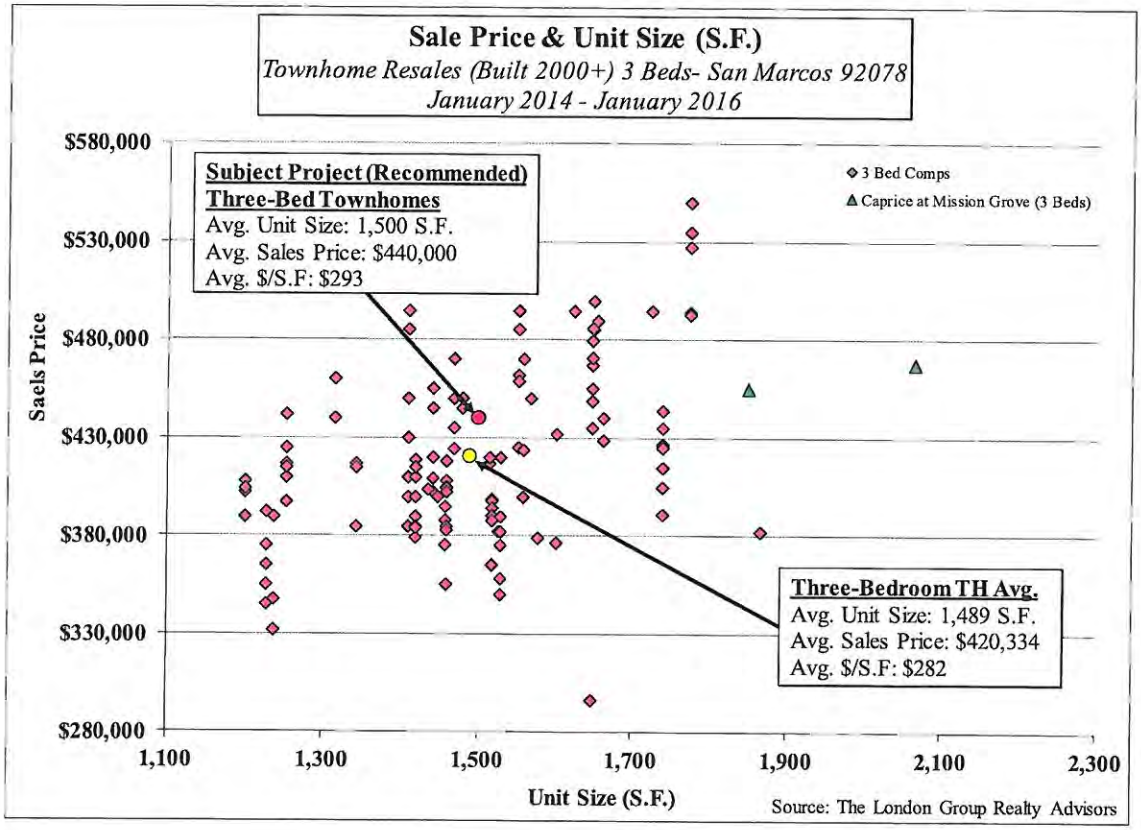
Recommended Unit Mix, Unit Size & Sales Prices
Subject Project- Proposed Townhomes

Type	# of Units	% of Total	# of Beds	# of Baths	Avg. S.F	Average Sales Price	$/S.F.
2 Bed	45	45%	2	2.5	1,300	$400,000	$308
3 Bed	55	55%	3	2.5	1,500	$440,000	$293
Total / Average	**100**	**100.0%**	**2.5**	**2.5**	**1,400**	**$420,000**	**$300**

Source: The London Group Realty Advisors

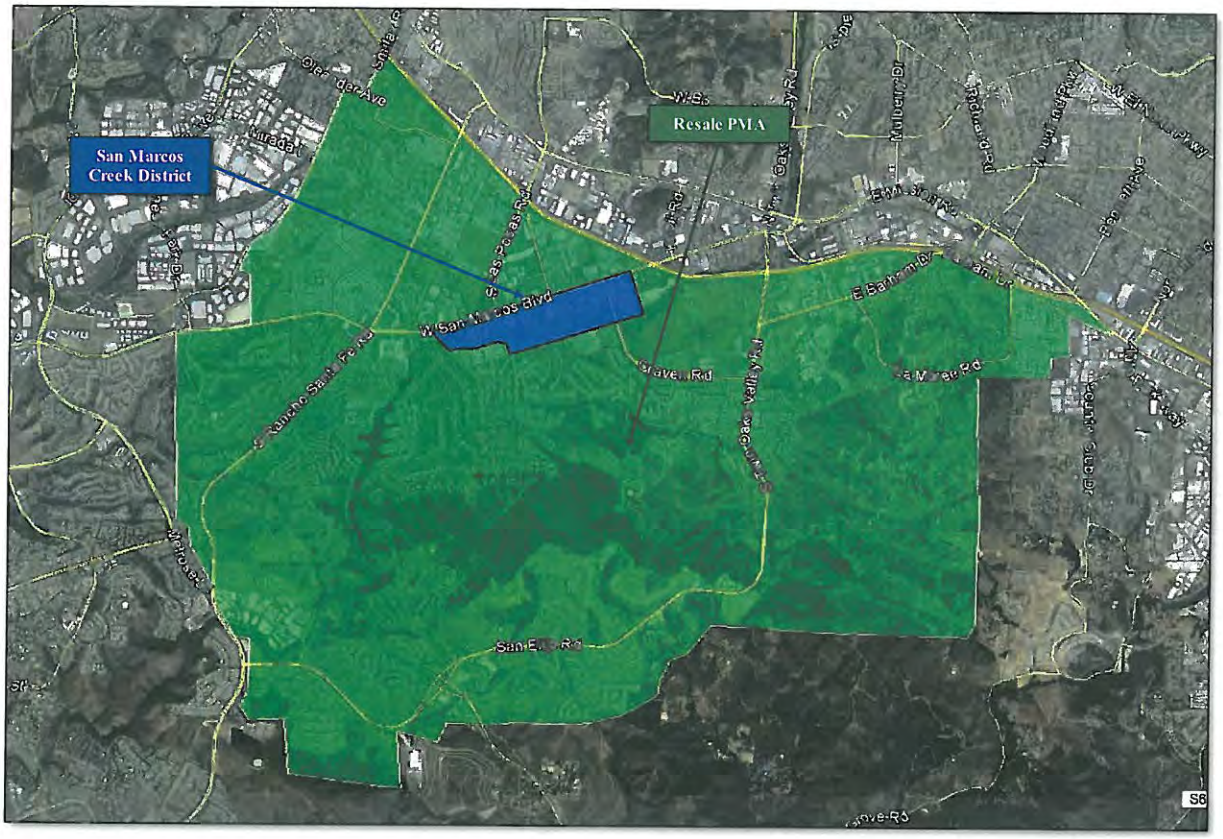
The following charts provide visual perspective of our recommended positioning by bedroom count within the resale product and the actively selling project.


Sale Price & Unit Size (S.F.)
Townhome Resales (Built 2000+) 2 Beds- San Marcos 92078
January 2014 - January 2016
Subject Project (Recommended)
Two-Bed Townhomes
Avg. Unit Size: 1,300 S.F.
Avg. Sales Price: $400,000
Avg. $/S.F: $308
Two-Bedroom TH Avg.
Avg. Unit Size: 1,276 S.F.
Avg. Sales Price: $362,353
Avg. $/S.F: $284
Sales Price
$480,000
$460,000
$440,000
$420,000
$400,000
$380,000
$360,000
$340,000
$320,000
$300,000
1,000
1,100
1,200
1,300
1,400
1,500
1,600
1,700
1,800
Unit Size (S.F.)
Source: The London Group Realty Advisors


Sale Price & Unit Size (S.F.)
Townhome Resales (Built 2000+) 3 Beds- San Marcos 92078
January 2014 - January 2016
Subject Project (Recommended)
Three-Bed Townhomes
Avg. Unit Size: 1,500 S.F.
Avg. Sales Price: $440,000
Avg. $/S.F: $293
3 Bed Comps
Caprice at Mission Grove (3 Beds)
Three-Bedroom TH Avg.
Avg. Unit Size: 1,489 S.F.
Avg. Sales Price: $420,334
Avg. $/S.F: $282
Saels Price
$580,000
$530,000
$480,000
$430,000
$380,000
$330,000
$280,000
1,100
1,300
1,500
1,700
1,900
2,100
2,300
Unit Size (S.F.)
Source: The London Group Realty Advisors

Primary Market Area Resales

The designated resale Primary Market Area ("PMA") encompasses the 92078 zip code in San Marcos. Within this zip code we have identified 238 resale townhomes that were constructed in 2000 or after. These sales occurred between January 2014 and January 2016.



Of the 238 resales, 96% were in townhomes which offered two or three bedrooms and 65% were between 1,000 and 1,500 square feet. Combined, the 238 resale townhomes achieved an average sales price of $399,837 for an average 1,409 square foot home, or $284 per square foot. The following table summarizes these resale homes by size range and bedroom count:

Townhome Resale Summary by Bedroom Count & Unit Size Range
January 2014 - January 2016

Bedroom Count	Unit Size Range (S.F.) < 1,000	1,000 - 1,249	1,250 - 1,499	1,500 - 1,749	1,750 - 1,999	Total
2						
Avg Sales Price	$290,000	$338,061	$373,889	$413,382		$362,353
Avg Unit Size (S.F.)	879	1,109	1,386	1,541		1,276
Avg $/S.F.	$330	$305	$270	$268		$284
# of Sales	1	44	37	14		96
3						
Avg Sales Price		$374,692	$415,576	$428,098	$496,917	$420,334
Avg Unit Size (S.F.)		1,222	1,405	1,613	1,790	1,489
Avg $/S.F.		$307	$296	$265	$278	$282
# of Sales		13	60	54	6	133
4						
Avg Sales Price				$496,778		$496,778
Avg Unit Size (S.F.)				1,655		1,655
Avg $/S.F.				$300		$300
# of Sales				9		9
Total Avg Sales Price	**$290,000**	**$346,416**	**$399,675**	**$433,450**	**$496,917**	**$399,837**
Total Avg Unit Size (S.F.)	**879**	**1,135**	**1,397**	**1,605**	**1,790**	**1,409**
Total Avg $/S.F.	**$330**	**$305**	**$286**	**$270**	**$278**	**$284**
Total # of Sales	**1**	**57**	**97**	**77**	**6**	**238**

Source: The London Group Realty Advisors, Sandicor

Two-bedroom townhomes achieved an average sales price of $362,353 for an average 1,276 square foot home, or $284 per square foot. Three-bedroom townhomes achieved an average sales price of $420,334 for an average 1,489 square foot home, or $282 per square foot. Four-bedroom townhomes achieved an average sales price of $496,778 for an average 1,655 square foot home, or $300 per square foot.

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New Home Market Analysis

For additional perspective, we surveyed the sole new-townhome development in the vicinity of the San Marcos Creek District. The following map depicts the location of this project in relation to the San Marcos Creek District:

The following table summarizes the current home types that are offered at this new-home project:

New Townhome Project

Project	Developer	Unit Size Bed	Bath	(SF)	List Price	$/SF
Caprice at Mission Grove	DR Horton	3	2.5	1,851	$455,000	$246
71 total homes		3	2.5	2,066	$467,990	$227
		4	3.5	2,190	$481,990	$220

Source: The London Group Realty Advisors

Caprice at Mission Grove will ultimately contain 71 townhomes The townhomes range in size from 1,851 to 2,190 square feet. Current list prices range from $455,000 to $481,990, or between $220 and $246 per square foot.

Detached Market Analysis

Product Recommendations

We have conducted an analysis of single-family detached resale activity in the 92078 zip code of San Marcos. We have also considered an actively selling development in San Marcos, Setina by D.R. Horton. Based on this analysis, we recommend the following unit mix, unit sizes and sales prices for potential detached homes.

Our sales price and unit recommendations are summarized in the following bullet points and table:

- Three-bedroom townhomes are recommended at an average size of 2,000 square feet. Recommended sales prices average $600,000 ($300 per square foot) for these units, which comprise 50% of the recommended total unit mix.

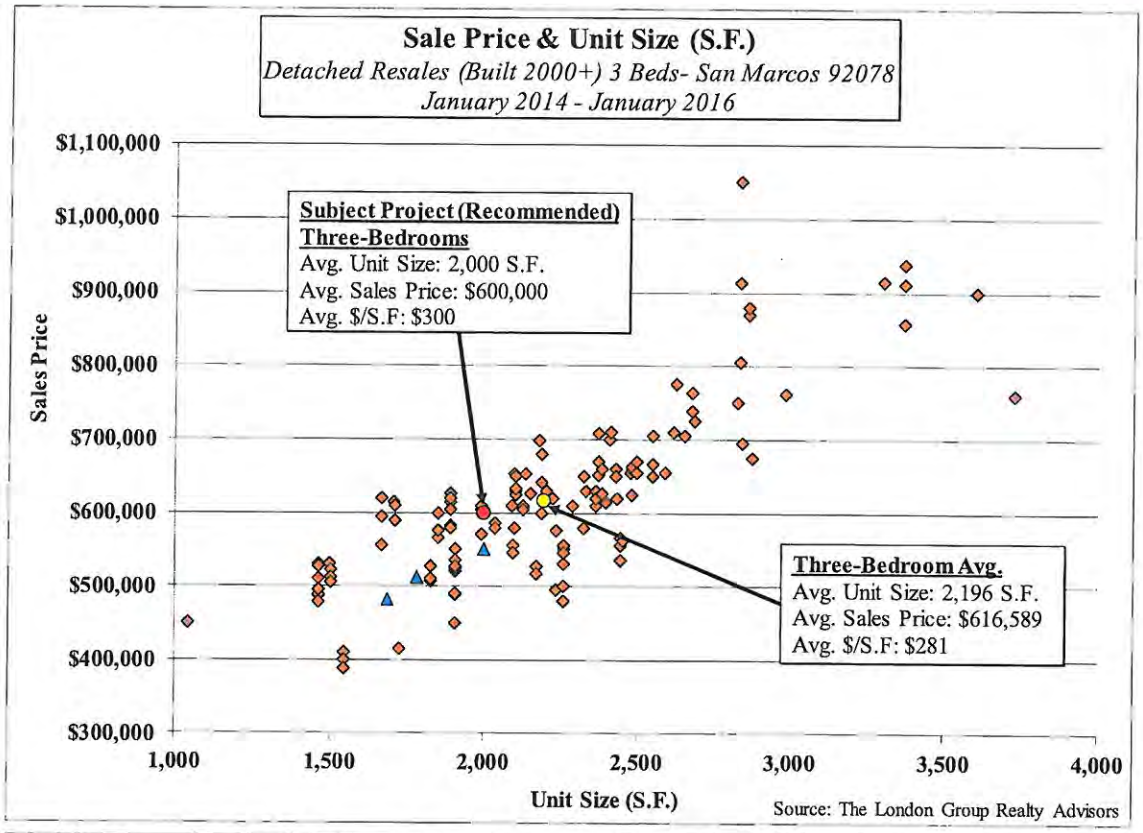
- Four-bedroom townhomes are recommended at an average size of 2,400 square feet. Recommended sales prices average $675,000 ($281 per square foot) for these units, which comprise 50% of the recommended total unit mix.

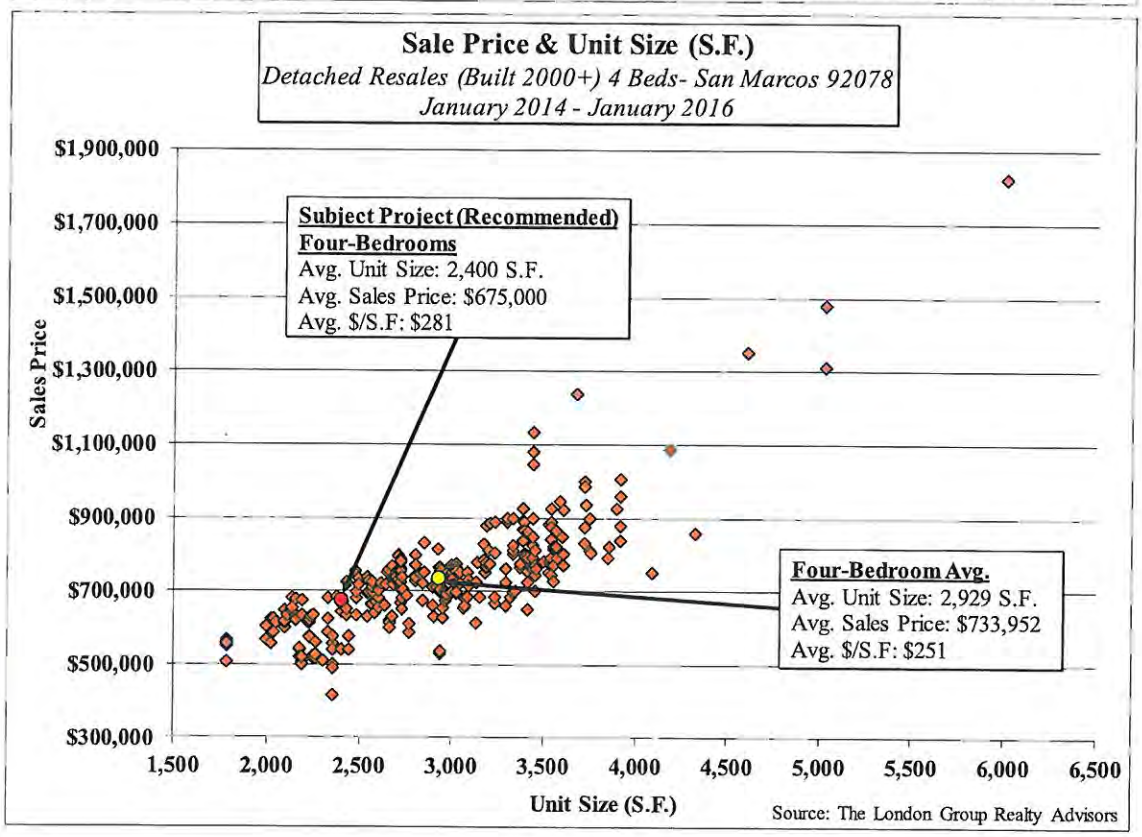
Recommended Unit Mix, Unit Size & Sales Prices
Subject Project- Proposed Detached Homes

Type	# of Units	% of Total	# of Beds	# of Baths	Avg. S.F	Average Sales Price	$/S.F.
3 Bed	50	50%	3	2.5	2,000	$600,000	$300
4 Bed	50	50%	4	3	2,400	$675,000	$281
Total / Average	**100**	**100.0%**	**3.5**	**2.8**	**2,200**	**$637,500**	**$290**

Source: The London Group Realty Advisors

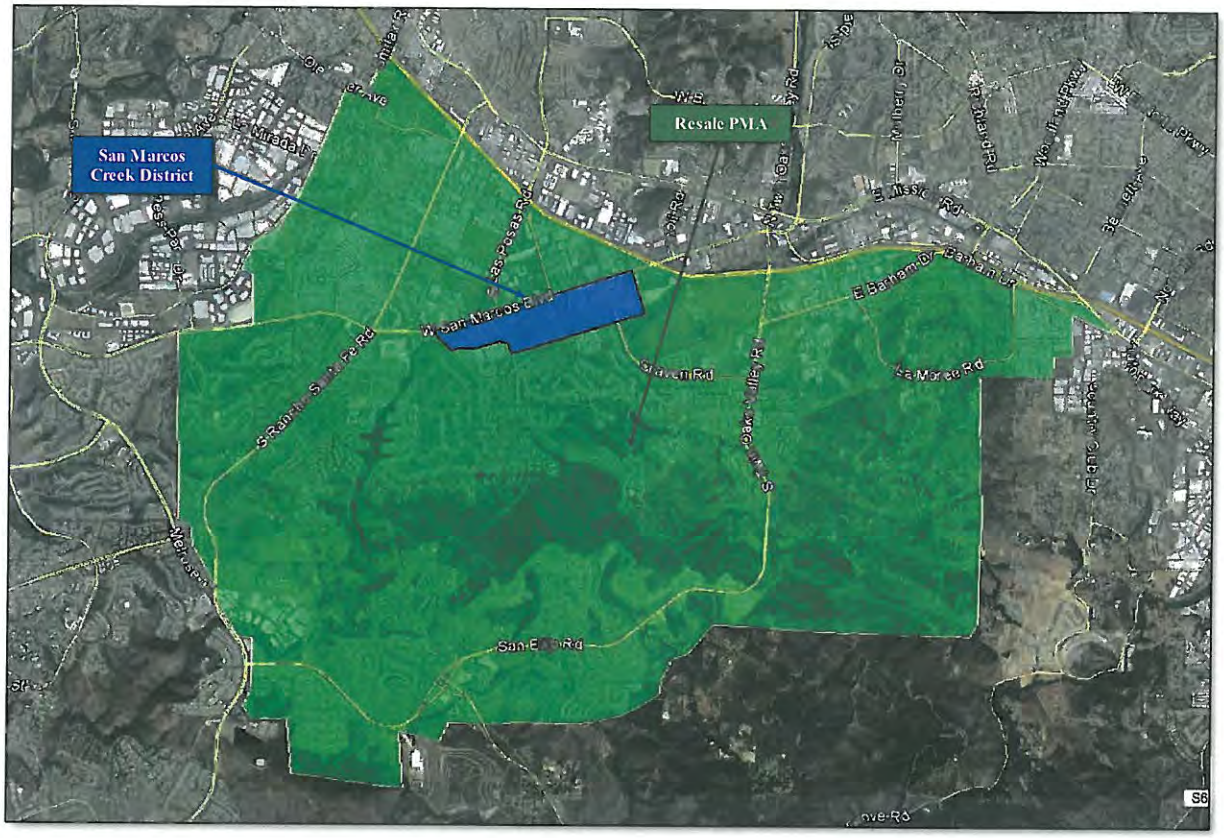
The following charts provide visual perspective of our recommended positioning by bedroom count within the resale product and the actively selling project.


Sale Price & Unit Size (S.F.)
Detached Resales (Built 2000+) 3 Beds- San Marcos 92078
January 2014 - January 2016
Subject Project (Recommended)
Three-Bedrooms
Avg. Unit Size: 2,000 S.F.
Avg. Sales Price: $600,000
Avg. $/S.F: $300
Three-Bedroom Avg.
Avg. Unit Size: 2,196 S.F.
Avg. Sales Price: $616,589
Avg. $/S.F: $281
Sales Price
$1,100,000
$1,000,000
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
1,000
1,500
2,000
2,500
3,000
3,500
4,000
Unit Size (S.F.)
Source: The London Group Realty Advisors


Sale Price & Unit Size (S.F.)
Detached Resales (Built 2000+) 4 Beds- San Marcos 92078
January 2014 - January 2016
Subject Project (Recommended)
Four-Bedrooms
Avg. Unit Size: 2,400 S.F.
Avg. Sales Price: $675,000
Avg. $/S.F: $281
Four-Bedroom Avg.
Avg. Unit Size: 2,929 S.F.
Avg. Sales Price: $733,952
Avg. $/S.F: $251
Sales Price
$1,900,000
$1,700,000
$1,500,000
$1,300,000
$1,100,000
$900,000
$700,000
$500,000
$300,000
1,500
2,000
2,500
3,000
3,500
4,000
4,500
5,000
5,500
6,000
6,500
Unit Size (S.F.)
Source: The London Group Realty Advisors

Primary Market Area Resales

The designated resale Primary Market Area ("PMA") encompasses the 92078 zip code in San Marcos. Within this zip code we have identified 589 detached resale homes that were constructed in 2000 or after. These sales occurred between January 2014 and January 2016.



Of the 589 resales, 99% were in homes which offered three to five bedrooms and 69% were between 2,000 and 3,500 square feet. Combined, the 589 detached resale townhomes achieved an average sales price of $727,921 for an average 2,906 square foot home, or $250 per square foot. The following table summarizes these resale homes by size range and bedroom count:

Detached Resale Summary by Bedroom Count & Unit Size Range
January 2014 - January 2016

Bedroom Count	Unit Size Range (S.F.) < 1,500	1,500 - 1,999	2,000 - 2,499	2,500 - 2,999	3,000 - 3,499	3,500 - 3,999	4,000 &>	Total
3								
Avg Sales Price	$499,722	$543,490	$610,398	$762,795	$905,310	$830,000		$616,589
Avg Unit Size (S.F.)	1,417	1,804	2,275	2,734	3,355	3,666		2,196
Avg $/S.F.	$353	$301	$268	$279	$270	$226		$281
# of Sales	9	40	62	19	4	2	0	136
4								
Avg Sales Price		$557,650	$604,234	$709,605	$782,486	$857,224	$1,237,379	$733,952
Avg Unit Size (S.F.)		1,827	2,268	2,774	3,250	3,654	4,751	2,929
Avg $/S.F.		$305	$266	$256	$241	$235	$260	$251
# of Sales	0	10	65	92	82	40	7	296
5								
Avg Sales Price			$741,125	$702,677	$754,024	$835,608	$1,010,598	$807,138
Avg Unit Size (S.F.)			2,468	2,814	3,263	3,678	4,348	3,454
Avg $/S.F.			$300	$250	$231	$227	$232	$234
# of Sales	0	0	4	24	54	48	21	151
6								
Avg Sales Price					$785,000	$975,000	$1,000,438	$960,292
Avg Unit Size (S.F.)					3,437	3,810	4,384	4,131
Avg $/S.F.					$228	$256	$228	$232
# of Sales	0	0	0	0	1	1	4	6
Total Avg Sales Price	**$499,722**	**$546,322**	**$611,331**	**$715,859**	**$775,088**	**$846,518**	**$1,058,936**	**$727,921**
Total Avg Unit Size (S.F.)	**1,417**	**1,809**	**2,278**	**2,776**	**3,260**	**3,669**	**4,440**	**2,906**
Total Avg $/S.F.	**$353**	**$302**	**$268**	**$258**	**$238**	**$231**	**$238**	**$250**
Total # of Sales	**9**	**50**	**131**	**135**	**141**	**91**	**32**	**589**

Source: The London Group Realty Advisors, Sandicor

Three-bedroom homes achieved an average sales price of $616,589 for an average 2,196 square foot home, or $281 per square foot. Four-bedroom homes achieved an average sales price of $733,952 for an average 2,929 square foot home, or $251 per square foot. Five-bedroom homes achieved an average sales price of $807,138 for an average 3,454 square foot home, or $234 per square foot. Six-bedroom homes achieved an average sales price of $960,292 for an average 4,131 square foot home, or $232 per square foot.

Additionally, the larger the lot, the larger the home that can be constructed. This ultimately leads to higher achievable sales prices. Of the 422 detached resale homes where a lot size was indicated, 64% were in homes that featured a lot size between 4,000 and 8,000 square feet. Combined, the 271 detached resale homes with lot sizes between 4,000 and 8,000 square feet achieved an average sales price of $688,891 for an average 2,756 square foot home, or $250 per square foot. The following table summarizes these resale homes by lot size range and bedroom count:

Detached Resale Summary by Bedroom Count & Lot Size Range
January 2014 - January 2016

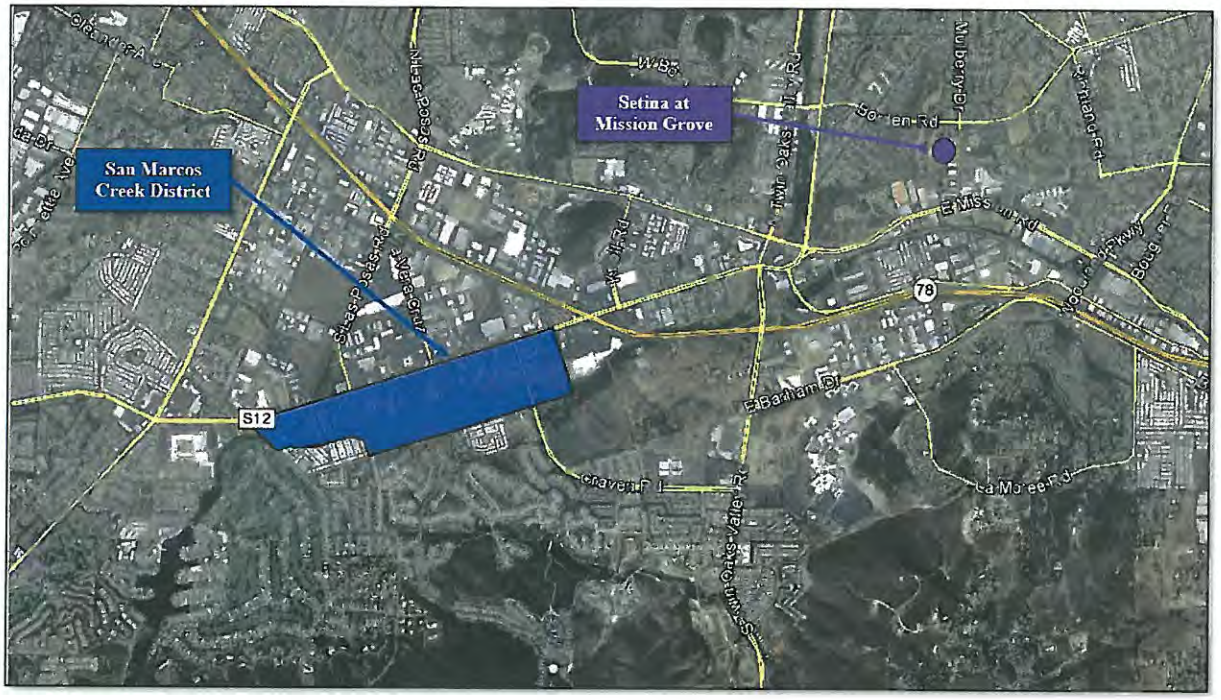
Bedroom Count	Lot Size Range (S.F.) 3,000 - 3,999	4,000 - 4,999	5,000 - 5,999	6,000 - 6,999	7,000 - 7,999	8,000 - 8,999	9,000 - 9,999	10,000 &>	Total
3									
Avg Sales Price	$577,500	$579,376	$623,429	$633,955	$615,775	$702,400	$907,495	$705,309	$630,246
Avg Unit Size (S.F.)	1,943	2,089	2,209	2,210	2,299	2,485	3,454	2,491	2,249
Avg $/S.F.	$297	$277	$282	$287	$268	$283	$263	$283	$280
# of Sales	2	29	21	11	4	5	2	11	85
4									
Avg Sales Price	$671,500	$608,746	$681,520	$732,492	$735,898	$785,676	$763,096	$828,333	$734,831
Avg Unit Size (S.F.)	2,464	2,377	2,736	2,983	2,988	3,201	3,071	3,409	2,975
Avg $/S.F.	$273	$256	$249	$246	$246	$245	$248	$243	$247
# of Sales	2	24	45	48	27	12	19	48	225
5									
Avg Sales Price			$735,800	$761,894	$771,025	$785,957	$917,250	$860,318	$791,131
Avg Unit Size (S.F.)			3,175	3,286	3,293	3,512	3,394	3,699	3,406
Avg $/S.F.			$232	$232	$234	$224	$270	$233	$232
# of Sales	0	0	15	26	20	20	4	23	108
6									
Avg Sales Price				$785,000				$980,583	$931,688
Avg Unit Size (S.F.)				3,437				4,392	4,153
Avg $/S.F.				$228				$223	$224
# of Sales	0	0	0	1	0	0	0	3	4
Total Avg Sales Price	**$624,500**	**$592,675**	**$676,511**	**$729,388**	**$740,252**	**$774,574**	**$799,313**	**$826,440**	**$730,040**
Total Avg Unit Size (S.F.)	**2,203**	**2,220**	**2,681**	**2,981**	**3,054**	**3,272**	**3,153**	**3,404**	**2,950**
Total Avg $/S.F.	**$283**	**$267**	**$252**	**$245**	**$242**	**$237**	**$253**	**$243**	**$247**
Total # of Sales	**4**	**53**	**81**	**86**	**51**	**37**	**25**	**85**	**422**

Source: The London Group Realty Advisors, Sandicor

Detached homes on lot sizes between 4,000 and 5,000 square feet achieved an average sales price of $592,675 for an average 2,220 square foot home, or $267 per square foot. Homes with lot sizes between 5,000 and 6,000 square feet achieved an average sales price of $676,511 for an average 2,681 square foot home, or $252 per square foot. Homes with lot sizes between 6,000 and 7,000 square feet achieved an average sales price of $729,388 for an average 2,981 square foot home, or $245 per square foot. Homes with lot sizes between 7,000 and 8,000 square feet achieved an average sales price of $740,252 for an average 3,054 square foot home, or $242 per square foot.

New Home Market Analysis

For additional perspective, we surveyed a new detached-home development in the vicinity of the San Marcos Creek District. An additional detached home project is nearing sell-out in the San Elijo Hills neighborhood of San Marcos. However, the homes are on significantly larger lots than what is planned for the San Marcos Creek District. Therefore, we eliminated it from our analysis. The following map depicts the location of this project in relation to the San Marcos Creek District:



The following table summarizes the current home types that are offered at this new-home project:

New Detached Project

Project	Developer	Unit Size Bed	Bath	(SF)	List Price	$/SF
Setina at Mission Grove	DR Horton	3	2.5	1,685	$481,990	$286
55 total homes		3	2.5	1,781	$511,990	$287
approx 2,000sf lots		3	2.5	2,000	$550,990	$275

Source: The London Group Realty Advisors

Setina at Mission Grove will ultimately contain 55 homes The homes range in size from 1,685 to 2,000 square feet. Current list prices range from $481,990 to $550,990, or between $275 and $287 per square foot. Although the homes at Setina are detached, the individual lots are owned by an association of the owners and is managed by a homeowner's association.

Supportable Retail Space

The purpose of this section is to detail the supportable retail space by the estimated 2,458 households in our recommended conceptual land use plan for the Creek District (see Conceptual Land Use Plan).

The following details our methodology for determining the demand generated:

- We utilize the 2007 Census of Retail Trade from the U.S. Census Bureau, which demonstrates that 34.02% of income represents retail expenditures (excluding auto related and parts).

- Based on the U.S. Census Annual Retail Trade Survey, approximately 11.0% of retail expenditures are internet expenditures. We have subtracted internet expenditures from retail expenditures to determine the "net" available retail expenditure amount that is available to support "physical" retail space.

- We then divide the available retail expenditures in the market by the average sales volume required by retail centers and establishments. Based on the ULI Dollars and Cents of Shopping Centers, the 2015 adjusted annual average sales volume is $373 per square foot for Convenience and Neighborhood retail centers. We have utilized a range of $350 to $400 per square foot.

The tables on the following pages detail our demand calculations. The estimated 2,458 housing units are anticipated to be achieved. These households are estimated to achieve approximately $179.3 million in total household income. Of this amount, approximately $54.3 million is forecasted to represent local retail expenditures at convenience and neighborhood centers. Based on a sale volume range of $350 to $400 per square foot, this level of demand supports approximately 136,000 to 155,000 square feet of retail space. This is a higher demand estimated because it assumes that 100% of these household expenditures is captured by the local retailers in the Creek District.

Should the Creek District be built out with a less intense commercial core, then a total of 1,753 households are anticipated to achieve approximately $127.8 million in total household income. Of this amount, approximately $38.7 million is forecasted to represent local retail expenditures at convenience and neighborhood centers. Based on a sale volume range of $350 to $400 per square foot, this level of demand supports approximately 97,000 to 111,000 square feet of retail space. This is a higher demand estimated because it assumes that 100% of these household expenditures is captured by the local retailers in the Creek District.

Forecasted Demand for Retail Space Based on Household Growth San Marcos Creek District - High Density Mixed Use Core	
# of Households at Creek District	2,458
Average Income (2015$)[1]	$72,930
Annual Change in Income	$179,261,940
% Retail Expenditures[2]	34.02%
Total Retail Expenditures	$60,993,358
Internet & Electronic Purchases (%)[3]	11.0%
Internet & Electronic Purchases ($)	($6,709,269)
New Available Retail Expenditures	**$54,284,089**

Retail S.F. Required (All Retail Categories)	
Supportable S.F. (LOW)[4] @ $400	135,710
Supportable S.F. (HIGH)[4] @ $350	155,097

Notes:

[1]Income is in current dollars (2015$). 2015 average income from Claritas. Change in real income based on SANDAG Series 13 Forecast.

[2]Sources: The London Group Realty Advisors; U.S. Census Bureau, "2007 Census of Retail Trade", "2007 Census of Accommodations & Food Services", "2007 American Community Survey"; Claritas

[3]Source: U.S. Census Bureau, Annual Retail Trade Survey. Increase in percentage is based on change of 2010-2015 period. Percentage of expenditures is capped at 20%.

[4]Source: ULI Dollars and Cents of Shopping Centers. The 2015 adjusted annual average sales volume is $373 per square foot for Convenience and Neighborhood retail centers. We have elected to utilize a range of $350 to $400 per square foot, of which $375 is the midpoint.

Source: The London Group Realty Advisors, SANDAG

Forecasted Demand for Retail Space Based on Household Growth San Marcos Creek District - Less Intense Commercial Core	
# of Households at Creek District	1,753
Average Income (2015$)[1]	$72,930
Annual Change in Income	$127,846,290
% Retail Expenditures[2]	34.02%
Total Retail Expenditures	$43,499,332
Internet & Electronic Purchases (%)[3]	11.0%
Internet & Electronic Purchases ($)	($4,784,926)
New Available Retail Expenditures	**$38,714,405**

Retail S.F. Required (All Retail Categories)	
Supportable S.F. (LOW)[4] @ $400	96,786
Supportable S.F. (HIGH)[4] @ $350	110,613

Notes:

[1]Income is in current dollars (2015$). 2015 average income from Claritas. Change in real income based on SANDAG Series 13 Forecast.

[2]Sources: The London Group Realty Advisors; U.S. Census Bureau, "2007 Census of Retail Trade", "2007 Census of Accommodations & Food Services", "2007 American Community Survey"; Claritas

[3]Source: U.S. Census Bureau, Annual Retail Trade Survey. Increase in percentage is based on change of 2010-2015 period. Percentage of expenditures is capped at 20%.

[4]Source: ULI Dollars and Cents of Shopping Centers. The 2015 adjusted annual average sales volume is $373 per square foot for Convenience and Neighborhood retail centers. We have elected to utilize a range of $350 to $400 per square foot, of which $375 is the midpoint.

Source: The London Group Realty Advisors, SANDAG

APPENDIX

Latitude 33 Cost Budget

6/10/2016

latitude 33
PLANNING & ENGINEERING

ENGINEER COST ESTIMATE
CREEKSIDE - SAN MARCOS CONCEPT #1

Engineer:	**MJS/JRG**		
Company:	Latitude 33	**JN:**	1371.00
Grading			$5,028,640
Storm Drain			$2,258,126
Sewer			$1,296,231
Water			$3,511,101
Surface Improvements			$4,459,480
Miscellaneous			$4,130,500
Contingency		10%	$2,068,408
Consultant Fees		12%	$2,482,089
Agency Fees, permits, map recordation			$1,800,000
Total Cost			**$27,034,575**

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9968 Hibert Street 2nd Floor, San Diego, CA 92131
Tel 858.751.0633

CREEKSIDE - SAN MARCOS
CONCEPT #1

6/10/2016

Engineer:	MJS/JRG Latitude 33	JN No:	1371.00

ITEM	QUANTITY	UNIT	UNIT PRICE	COST
Earthwork & Finish Grading				
Mobilization(s)	1	LS	$ 100,000.00	$100,000
Grading- Excavate and Fill	126,000	CY	$ 10.47	$1,319,220
Grading- Excavate and Export	46,000	CY	$ 26.57	$1,222,220
Finish Pads, Streets and Slopes	3,500,000	SF	$ 0.13	$455,000
Construction Water (1 unit = 748 gal)	10,000	UNIT	$ 5.72	$57,200
Site Prep, Clearing & Grubbing	1	LS	$ 50,000.00	$50,000
Demolition	1	LS	$ 500,000.00	$500,000
Sub-Total				**$3,703,640**
Erosion Control				
Erosion Control	1	LS	$ 250,000.00	$250,000
Sub-Total				**$250,000**
Walls & Fences				
Decorative Site Fence	13,000	LF	$ 25.00	$325,000
Sub-Total				**$325,000**
Total				**$5,028,640**

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Tel 858.751.0633

CREEKSIDE - SAN MARCOS
CONCEPT #1

6/10/2016

Engineer:	MJS/JRG Latitude 33	**JN No:**	1371.00

ITEM	QUANTITY	UNIT	UNIT PRICE	COST
Storm Drain				
Curb Inlet Type "A"	20	EA	$ 4,928.00	$98,560
24" Brooks Box	30	EA	$ 960.00	$28,800
4" PVC	15000	LF	$ 28.00	$420,000
18" HDPE	4500	LF	$ 92.30	$415,350
24" RCP	3000	LF	$ 143.00	$429,000
Storm Drain Clean Out	12	EA	$ 6,368.00	$76,416
Headwall	10	EA	$ 4,000.00	$40,000
Sub-Total				**$1,508,126**
Water Quality				
Bio-filtration/HMP Measures	25,000	SF	$ 30.00	$750,000
Sub-Total				**$750,000**
Total				**$2,258,126**

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Tel 858.751.0633

CREEKSIDE - SAN MARCOS
CONCEPT #1

6/10/2016

Engineer:	MJS/JRG Latitude 33	**JN No:**	1371.00

ITEM	QUANTITY	UNIT	UNIT PRICE	COST
Sewer				
8" PVC Sewer Main	5,500	LF	$ 96.75	$532,125.00
10" PVC Sewer Main	5,000	LF	$ 107.07	$535,350.00
Sewer Manhole	32	EA	$ 4,803.00	$153,696.00
4" Sewer Lateral (house connection)	882	EA	$ 80.00	$70,560.00
Connect to Existing Sewer Main	3	EA	$ 1,500.00	$4,500.00
Total				**$1,296,231**

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CREEKSIDE - SAN MARCOS
CONCEPT #1

6/10/2016

Engineer:	MJS/JRG Latitude 33	JN No:	1371.00

ITEM	QUANTITY	UNIT	UNIT PRICE	COST
Water				
8" PVC Water Main	5,500	LF	$ 74.24	$408,320.00
12" PVC Water Main	5,213	LF	$ 89.60	$467,084.80
Thrust Block, PER W-17	53	EA	$ 447.00	$23,691.00
Fire Hydrant (3 way)	24	EA	$ 5,800.00	$139,200.00
Water Service 1" w/ 1" Meter	869	EA	$ 2,487.00	$2,161,203.00
Water Service 2" w/ 2" Meter	6	EA	$ 2,866.00	$17,196.00
Water Service 4" w/ 4" Meter	2	EA	$ 4,000.00	$8,000.00
4" Fire Service	18	EA	$ 800.00	$14,400.00
12" Gate Valve	68	EA	$ 3,700.00	$251,600.00
Connect to Existing	4	EA	$ 1,600.00	$6,400.00
Air & Vacuum Valve	4	EA	$ 2,247.50	$8,990.00
Blowoff Assembly	4	EA	$ 1,254.00	$5,016.00
Total				**$3,511,101**

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9968 Hibert Street 2nd Floor, San Diego, CA 92131
Tel 858.751.0633

CREEKSIDE - SAN MARCOS
CONCEPT #1

6/10/2016

Engineer:	MJS/JRG Latitude 33	**JN No:**	1371.00

ITEM	QUANTITY	UNIT	UNIT PRICE	COST
Surface Improvements				
Driveway	5,500	SF	$ 6.00	$33,000.00
Street Name Sign	18	EA	$ 400.00	$7,200.00
3" AC Paving (Parking)	145,500	SF	$ 2.18	$317,190.00
4" AC Paving (Road)	85,000	SF	$ 2.94	$249,900.00
Alley Paving w/ Ribbon Gutter	275,000	SF	$ 4.00	$1,100,000.00
Paving preparation of subgrade	505,500	SF	$ 0.32	$161,760.00
Curb Ramps, Per SDG-132	16	EA	$ 1,500.00	$24,000.00
CL 2 AB Base 9" (Parking-Alley)	420,500	SF	$ 0.96	$403,680.00
CL 2 AB Base 18" (Road)	85,000	SF	$ 1.92	$163,200.00
4" PCC Sidewalk	90,000	SF	$ 6.40	$576,000.00
6" Median Curb	4,300	LF	$ 16.50	$70,950.00
6" Curb and Gutter	9,300	LF	$ 22.00	$204,600.00
Gas	6,400	LF	$ 35.00	$224,000.00
Gas Meters	1,500	EA	$ 100.00	$150,000.00
Electrical	6,400	LF	$ 35.00	$224,000.00
Franchise Utility Structures (Surface)	30	EA	$ 10,000.00	$300,000.00
Franchise Utility Structures (Pad-Mounted)	10	EA	$ 25,000.00	$250,000.00
Total				**$4,459,480**

latitude 33
PLANNING & ENGINEERING
9968 Hibert Street 2nd Floor, San Diego, CA 92131
Tel 858.751.0633

CREEKSIDE - SAN MARCOS
CONCEPT #1

6/10/2016

Engineer:	MJS/JRG Latitude 33	JN No:	1371.00

ITEM	QUANTITY	UNIT	UNIT PRICE	COST
Miscellaneous				
Trails (DG/ Hardscape)	12000	LF	$ 35.00	$420,000.00
Offsite Transit Connections	1	LS	$ 350,000.00	$350,000.00
Traffic Calming Upgrade (San Marcos Blvd	23000	LF	$ 20.00	$460,000.00
Median/Frontage Landscaping	120000	SF	$ 1.00	$120,000.00
Park/Field Landscaping	450000	SF	$ 0.29	$130,500.00
Decorative Concrete/Pavers	90000	SF	$ 15.00	$1,350,000.00
Wayfinding/District Signage	1	LS	$ 550,000.00	$550,000.00
Traffic Signal Modifications	3	EA	$ 250,000.00	$750,000.00
Total				**$4,130,500**

Approximately 50% of the budget for trails will apply to the project frontage along the south Right-of-way of San Marcos Boulevard.
Offsite transit connection is assumed to employ the use of signage and hardscape to direct the community from the project site to the nearest Sprinter station.
Traffic calming upgrades to San Marcos Boulevard are assumed to consist of the replacement of curb/gutter along both sides of San Marcos Boulevard and throughout the median as well. A weighted unit price to include median curb as well s standard curb & gutter has been provided.
Median/Frontage Landscaping along San Marcos Boulevard is assumed to take place on the frontage of each side of San Marcos Boulevard as well as within the median along the entire project frontage.
Approximately 25% of the budget for Wayfinding/Signage will apply to the project frontage along of San Marcos Boulevard.
Traffic Signal Modifications are assumed to be required at each of the 3 intersection connections along San Marcos Boulevard and will include enhanced pedestrian crossing elements. A lump sum number for each of the modifications is provided.

Financial Proformas

San Marcos Creek District

For-Sale Single-Family Homes - 90 Units on 7.0 Acres

Assumptions & Results

	Plan 1	Plan 2	Total		Sales %
Type	3 Bd	4 Bd			
Avg. Square Footage	2,000	2,400			
Avg. Sale Price PSF	$300.00	$281			
Base Sale Price	$600,000	$675,000			
Unit Count	45	45	90		
Direct Const. Cost PSF	$82.00	$79.00	$80.50		
Base Sales Price Revenue	$27,000,000	$30,375,000	$57,375,000		
Lot Premiums		-	-		
Options	-	-	-		
Model Upgrade Recovery	-	-	-		
Total Sales	$27,000,000	$30,375,000	$57,375,000		100.0%
Cost of Sales:				Per Unit	
Land Acquisition	$9,000,000	$9,000,000	$18,000,000	$200,000	31.4%
Land Improvement Costs	$419,310	$419,310	$838,620	$9,318	1.5%
Dev. Carry During Land Improvements	$188,386	$188,386	$376,772	$4,186	
Architecture & Engineering	$675,000	$675,000	$1,350,000	$15,000	2.4%
Fees & Permits	$1,665,000	$1,665,000	$3,330,000	$37,000	5.8%
Direct Construction Costs	$7,380,000	$8,532,000	$15,912,000	$176,800	27.7%
Total Cost of Sales	$19,327,696	$20,479,696	$39,807,392	$442,304	69.4%
Gross Margin	$7,672,304	$9,895,304	$17,567,608	$195,196	30.6%
	28.4%	32.6%	30.6%		
Indirect Construction Costs	$900,000	$900,000	$1,800,000	$20,000	3.1%
Property Tax Payments	$183,750	$183,750	$367,500	$4,083	0.6%
Developer Fee (3.0% of Revenue)	$810,000	$911,250	$1,721,250	$19,125	3.0%
Title/Insurance	$33,750	$33,750	$67,500	$750	0.1%
Warranty	$630,000	$630,000	$1,260,000	$14,000	2.2%
Marketing & Models	$45,000	$45,000	$90,000	$1,000	0.2%
Finance Costs	$1,057,351	$1,057,351	$2,114,702	$23,497	3.7%
Contingencies @ 5%	$668,993	$731,655	$1,400,648	$15,563	2.4%
Total Operating Expenses	$4,328,844	$4,492,756	$8,821,600	$98,018	15.4%
Net Profit	$3,343,460	$5,402,548	$8,746,008	$97,178	15.2%
Profit Percent of Sales	12.4%	17.8%	15.2%		

Source: The London Group Realty Advisors

Proforma Line Item Calculations

Land Acres	7.0	**Land + Improvements Loan**	
Land S.F.	304,920	Lot cost	$209,318
Price Per S.F.	$59.03	Yearly Interest Rate	5.00%
Land Price	$18,000,000	Interest Per Year/ Per Lot	$10,466
Acquisition Cost	0.00	divided by 12 months	$872.16
Price per Lot:	**200,000**	Mapping + Construction Starts	8
		Total Interest Per Lot	$6,977
Anticipated Sales Per Month	4.0	60% (A&D Carry per Lot)	$4,186
Project Duration (in mos):			
Mapping	6		
Construction Starts	2		**Const Loan**
Sales/Closings Duration	23	# of Plans	2
Project Duration	31	Average SF size	2,200
		Avg Cost per SF	81
Property Tax Payments		Avg Construction Costs	$501,263
1% of Land Price	180,000.00		
divided by 12 mos	15,000.00	Yearly Interest Rate	5.00%
Construction Starts + Last Closing	25	Interest Per Year/ Per Lot	25,063
		divided by 12 months	$2,088.59
		sales period duration	23
= Total Property Tax Pymts	$367,500.00	Total Average Interest Per Home	$46,993
Carry per unit =	4,083.33	50% (Const Loan Carry per Lot)	$23,497

San Marcos Creek District

For-Sale Townhomes - 88 units on 3.5 Acres

Assumptions & Results

FINANCING

Loan Amount	$23,380,083
Loan to Value	75%
Interest Rate	5.00%

DEVELOPMENT SUMMARY

Project FAR	0.81
Units Per Acre	25.1
Land Acres	3.5

RESIDUAL LAND VALUE

Land Value	$4,840,000
Land Value Per Unit	$55,000
Land Value Per SF	$31.75

DISPOSITION

Commission	3.0%
Other Costs of Sale	0.5%
Construction Cost Inflation	2.5%
Sales Price Inflation	3.0%

PROJECT SUMMARY

Floor Plan	# of Units	% of Mix	Unit Size	Total Net S.F.	Sale Price	$/S.F.
2 BR	40	45%	1,300	52,000	$400,000	$308
3 BR	48	55%	1,500	72,000	$440,000	$293
Total	**88**	**100%**	**1,409**	**124,000**	**$421,818**	**$299**

CONSTRUCTION BUDGET

		Total Cost	Cost Per Net S.F.	Cost/Unit
Land Cost		$4,840,000	$39.03	$55,000
Site Costs		$819,984	$6.61	$9,318
Direct Construction		$19,840,000	$160	$225,455
Indirect Construction	20%	$3,968,000	$32.00	$45,091
Financing Fees		$221,010	$1.78	$2,511
Contingency	5%	$1,484,450	$11.97	$16,869
Total Project Costs		**$31,173,444**	**$251.40**	**$354,244**
Less: Loan Amount		$23,380,083		
Initial Investment:		$7,793,361		

INVESTMENT PERFORMANCE

Gross Revenues	**$38,598,557**
Sales Commission	($1,157,957)
Other Costs of Sale	($192,993)
Net Sales Revenues	**$37,247,608**
Land Cost	($4,840,000)
Development Costs	($26,542,914)
Interest Expense	($968,053)
Gross Profit	**$4,896,640**
Margin on Total Cost	**15.1%**
Margin on Gross Revenue	**12.7%**
Equity Investment	$7,793,361
Return On Investment (ROI)	**63%**
IRR	**36%**

Source: The London Group Realty Advisors

San Marcos Creek District
For-Sale Townhomes - 88 units on 3.5 Acres
Development & Capitalization

Phase	Construction Period	Absorption Period	Units
1	1	2	60
2	2	3	28
3			
4			
Total			**88**

	Period		**1**	**2**	**3**
	Year		1	2	3
	Inflation		*1*	*1.025*	*1.051*
Total	**Development**				
88	Units Constructed		60	28	0
	Phase 1		60	0	0
	Phase 2		0	28	0
	Phase 3		0	0	0
	Phase 4		0	0	0
$26,542,914	Construction Cost		$17,954,621	$8,588,294	$0
	Phase 1		$17,954,621	$0	$0
	Phase 2		$0	$8,588,294	$0
	Phase 3		$0	$0	$0
	Phase 4		$0	$0	$0
$37,247,608	Net Revenues		$0	$25,155,971	$12,091,637
$26,542,914	Construction Loan Draw		$17,954,621	$8,588,294	$0
($26,542,914)	Development Costs (Excl. Int.)		($17,954,621)	($8,588,294)	$0
$37,247,608	**Available Cash Flow**		**$0**	**$25,155,971**	**$12,091,637**
$0	**Required Equity Funding**		**$0**	**$0**	**$0**
Total	**Source of Capital**				
$37,247,608	Available Cash Flow		$0	$25,155,971	$12,091,637
$26,542,914	Construction Loan Draw		$17,954,621	$8,588,294	$0
$0	Equity Investment		$0	$0	$0
$63,790,522	**Total Capital Available**		**$17,954,621**	**$33,744,264**	**$12,091,637**
Total	**Repayment of Capital**				
$26,542,914	Construction Loan Repayment		$0	$17,954,621	$8,588,294
$0	Repayment to Equity		$0	$0	$0
$9,736,640	Profit Distribution (or shortfall)		$0	$6,662,712	$3,073,928
$968,053	Interest Expense @ 60% Loan Outstanding		$0	$538,639	$429,415
$37,247,608	**Total Use of Available Cash**		**$0**	**$25,155,971**	**$12,091,637**
Total	**Owner's Equity**				
$0	Additional Capital Contributions		$0	$0	$0
	Cash In				
	Net Revenues	$0	$0	$25,155,971	$12,091,637
	Equity Contributions	$4,840,000	$0	$0	$0
	Construction Loan Draw	$0	$17,954,621	$8,588,294	$0
	Total Cash In	**$4,840,000**	**$17,954,621**	**$33,744,264**	**$12,091,637**
	Cash Outflows				
	Land Acquisition	$4,840,000			
	Development Costs	$0	$17,954,621	$8,588,294	$0
	Construction Loan Repayment	$0	$0	$17,954,621	$8,588,294
	Return of Equity & Preferred Distribution	$0	$0	$0	$0
	Profit Distribution (or shortfall)	$0	$0	$6,662,712	$3,073,928
	Interest Expense	$0	$0	$538,639	$429,415
	Total Cash Out	**$4,840,000**	**$17,954,621**	**$33,744,264**	**$12,091,637**

Source: The London Group Realty Advisors

San Marcos Creek District
For-Sale Townhomes - 88 units on 3.5 Acres
Cash Flow Forecast

	Period	Initial	1	2	3
	Year		1	2	3
	Inflation		*1*	*1.030*	*1.061*
Total	**Sales Absorption**				
	Phase 1		0	60	0
	Phase 2		0	0	28
	Phase 3		0	0	0
	Phase 4		0	0	0
88	**Units Sold**		**0**	**60**	**28**
Total					
$38,598,557	**Total Revenue**		**$0**	**$26,068,364**	**$12,530,193**
($1,157,957)	Sales Commission		$0	($782,051)	($375,906)
($192,993)	Other Costs of Sale		$0	($130,342)	($62,651)
$37,247,608	**Net Sales Revenue**		**$0**	**$25,155,971**	**$12,091,637**
$26,542,914	Construction Loan Draw		$17,954,621	$8,588,294	$0
($26,542,914)	Less: Development Costs		($17,954,621)	($8,588,294)	$0
($26,542,914)	Less: Construction Loan Repayment		$0	($17,954,621)	($8,588,294)
($968,053)	Less: Interest Expense		$0	($538,639)	($429,415)
$9,736,640	**Total Developer Cash Flow**	**($4,840,000)**	**$0**	**$6,662,712**	**$3,073,928**

Source: The London Group Realty Advisors

San Marcos Creek District

For-Rent Apartments - 228 Units on 6.5 Acres

Assumptions & Results

HOLDING & DISPOSITION

Holding Period:	5.00
Cap Rate On Sale (Residential):	5.50%
Cap Rate On Sale (Retail):	6.50%
Commissions & Closing Costs:	2.00%
Value at Time of Sale (Year 5)	$73,507,067
Asset Value PSF	$372

BUILDING ASSUMPTIONS

Project FAR	0.82
Units Per Acre	35
Land Acres	6.5
Land S.F.	283,140
Gross Building Area (85% Efficienc	232,235
Efficiency	85%
Net Rentable Area	197,400

FINANCING

Construction Financing:		
Loan Amount		$42,354,265
Loan to Cost		70%
Interest Rate		5.0%
Term (Months)		36
Refinance:		NO
Refinance at End of Year:		0
Permanent Loan Amount		$0
Less: Construction Loan		$0
Less: Loan Fees	0.00%	$0
Net Proceeds From Refinance		$0
Permanent Loan Info:		
Loan Amount		$0
Amortization		30
Interest Rate		0.0%
Annual Debt Service		$0

RESIDUAL LAND VALUE

Land S.F.	283,140
Land Value	$5,662,800
$/S.F. of Land	$20
$/Unit	$24,837

PROJECT SUMMARY

Floor Plan	# of Units	% of Mix	Unit Size	Total Net Rentable	Monthly Rent	$/S.F. Rent	Parking Ratio	Parking Spaces
1 BR	114	50%	700	79,800	$1,600	$2.29	1.0	114
2 BR	102	45%	1,000	102,000	$2,100	$2.10	1.5	153
3 BR	12	5%	1,300	15,600	$2,500	$1.92	1.5	18
Total	**228**	**100%**	**866**	**197,400**	**$1,871**	**$2.16**		**285**
Retail S.F.		**0**						
Retail NNN Rent/Mo.		**$0.00**						

CONSTRUCTION COSTS

	Total Cost	Cost Per Unit	Cost Per Net S.F.
Land Costs	$7,787,304	$34,155	$39.45
Hard Costs	$40,234,765	$176,468	$203.82
Soft Costs	$8,046,953	$35,294	$40.76
Financing	$4,437,071	$19,461	$22.48
Total Project Costs	**$60,506,093**	**$265,378**	**$306.52**
Less: Loan Amount	$42,354,265	$185,764	$214.56
Initial Investment:	$18,151,828	$79,613	$91.95

INVESTMENT PERFORMANCE

Stabilized NOI	Year 4	$3,779,947
Total Project Costs		$60,506,093
Stabilized Yield On Cost		**6.2%**
	Cash On Cash	Cash Flow
Initial		($5,662,800)
Year 1	-68.8%	($12,489,028)
Year 2	0.0%	$0
Year 3	8.8%	$1,589,270
Year 4	9.2%	$1,662,234
Year 5	173.4%	$31,474,265
Total Profit		**$16,573,941**
Before Tax IRR		**17%**
Equity Multiple		**1.9**

Source: The London Group Realty Advisors

San Marcos Creek District

For-Rent Apartments - 228 Units on 6.5 Acres

Construction Costs

Units	228
Gross S.F.	232,235

		Costs	$/Unit	$/SF Gross		
Land Costs						
Land Acquisition		$5,662,800	$24,837	$24.38		
Site Costs		$2,124,504	$9,318	$9.15		
Subtotal Land Costs		$7,787,304	$34,155	$33.53		
Hard Costs						
Underground Parking	0 spaces	$0	$0	$0.00	$0	/ space
Residential Construction		$38,318,824	$168,065	$165	psf	
Retail Construction		$0	$0	$0.00		
Contingency	5.0%	$1,915,941	$8,403	$8.25		
Subtotal Hard Costs		$40,234,765	$176,468	$173.25		
Soft Costs						
Indirects	20.0%	$8,046,953	$35,294	$34.65		
Subtotal Soft Costs		$8,046,953	$35,293.65	$34.65		
Financing Costs						
Construction Loan Interest		$4,121,073	$18,075	$17.75		
Loan Fee	0.75%	$315,998	$1,386	$1.36		
Subtotal Financing Costs		$4,437,071	$19,461	$19.11		
Total Construction Costs		**$60,506,093**	**$265,378**	**$261**		

Source: The London Group Realty Advisors

San Marcos Creek District
For-Rent Apartments - 228 Units on 6.5 Acres
Cash Flow Forecast

	Initial	Year 1 2015	Year 2 2016	Year 3 2017	Year 4 2018	Year 5 2019
	0	1	2	3	4	5
Total Units				228	228	228
Units Leased (Market Rate)				113	219	219
Units Leased (Affordable)				0	0	0
Units Vacant		Construction	Construction	116	9	9
Occupancy Rate				49.3%	96.1%	96.1%
Vacancy Rate				50.7%	3.9%	3.9%
Monthly Rent (Market Rate)		$1,871	$1,927	$1,985	$2,045	$2,106
Monthly Rent Per S.F. (Market Rate)		$2.16	$2.23	$2.29	$2.36	$2.43
Annual Increase In Rent (Market Rate)			3.0%	3.0%	3.0%	3.0%
Gross Rental Income (Market Rate Units)		$0	$0	$5,430,959	$5,593,888	$5,761,705
Retail Income (NNN)		$0	$0	$0	$0	$0
Less: Vacancy & Credit Loss (Residential)		$0	$0	($2,751,210)	($216,722)	($223,224)
Net Rental Income		**$0**	**$0**	**$2,679,750**	**$5,377,166**	**$5,538,481**
	Per Unit	**% Increase**				
Less: Operating Expenses[1]	($4,200)	2.0%	$0	$0	($501,421)	($996,379)	($1,016,306)
Less: Property Taxes[2]	($2,435)	2.0%	$0	$0	($589,059)	($600,840)	($612,857)
Operating Expenses Per Unit	**($6,635)**		**$0**	**$0**	**($1,090,480)**	**($1,597,219)**	**($1,629,163)**
Operating Expense Ratio					**41%**	**30%**	**29%**
Net Operating Income			**$0**	**$0**	**$1,589,270**	**$3,779,947**	**$3,909,318**
Less: I/O (interim) financing			$0	$0	$0	($2,117,713)	($2,117,713)
Less: Permanent Debt Service			$0	$0	$0	$0	$0
Subtotal			**$0**	**$0**	**$0**	**($2,117,713)**	**($2,117,713)**
Net Proceeds from Refinance:			**$0**	**$0**	**$0**	**$0**	**$0**
Cash Flow From Operations			**$0**	**$0**	**$1,589,270**	**$1,662,234**	**$1,791,604**
Cash On Cash					8.8%	9.2%	9.9%

Disposition

Residential	
Cap Rate	5.50%
Next Year NOI	$4,042,889
Asset Value	$73,507,067
Asset Value Per Net SF	$372
Asset Value Per Unit	$322,399
Retail	
Cap Rate	6.50%
Next Year NOI	$0
Asset Value	$0
Asset Value Per Net SF	$0
Sale Price	$73,507,067
Less: Commissions & Closing Costs	($1,470,141)
Less: Principal Balance of Loan O/S	($42,354,265)
Net Proceeds from Disposition	**$29,682,661**

Total Cash Flow Before Taxes		**($5,662,800)**	**($12,489,028)**	**$0**	**$1,589,270**	**$1,662,234**	**$31,474,265**
IRR	17%						

Notes:

[1] $350 per unit per month

[2] 1.1% of 90% of construction costs

Source: The London Group Realty Advisors

COMPANY PROFILE

THE LONDON GROUP
REALTY ADVISORS

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	MAI Valuation
Government Processing	Capital Access	Economic Analysis

The London Group is a full service real estate investment and development consulting, capital access and publishing firm. We determine the answers to the questions: Should I purchase the property? If so, how much should I pay and what is my potential rate of return? What type of project should I invest in or develop? What type of deal should I structure?

To answer these questions we conduct market analysis, feasibility studies, provide financial structuring advice and general economic consulting. Often we 'package' the deal and provide access to capital sources. We also have capabilities in pre-development consulting including asset management and disposition and in providing team coordination, processing and disposition services (packaging and promotion).

The Real Estate & Economic Monitor is a newsletter published by The London Group providing market trend analysis and commentary for the serious real estate investor. The principals of the firm, Gary London and Nathan Moeder, bring acknowledged credentials and experience as advisors and analysts to many successful projects and assignments throughout North America. It is available and regularly updated on the World Wide Web at the following address: http://www.londongroup.com/.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff.

Clients who are actively investigating and investing in apartment projects, retail centers and commercial projects have regularly sought our advice and financial analysis capabilities.

We have analyzed, packaged and achieved capital for a wide variety of real estate projects including hotels, office buildings, retail shopping centers and residential housing communities. We are generalists with experiences ranging from large scale, master planned communities to urban redevelopment projects, spanning all land uses and most development issues. These engagements have been undertaken throughout North America for a number of different clients including developers, investors, financial institutions, insurance companies, major landholders and public agencies.

CONTACT INFORMATION

This analysis was prepared by The London Group Realty Advisors commissioned by the City of San Marcos.

Research for this project was completed in June 2016. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report *will* vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise, of property owners, investors, developers, lenders, public agencies, operators or tenants.

This assignment was completed by the staff of The London Group Realty Advisors. **Nathan Moeder**, Principal, served as project director. **Robert Martinez,** Senior Analyst, conducted analysis and prepared the exhibits in this report. **Eric Feldman,** Analyst, conducted analysis and prepared exhibits in this report. **Gary London,** President, provided strategic consultation and recommendations. For further information or questions contact us at:

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