



THE LONDON GROUP

Economic Impact and Development Analysis

Proposed Sports Entertainment District

Prepared For:

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The London Group[®] 2010

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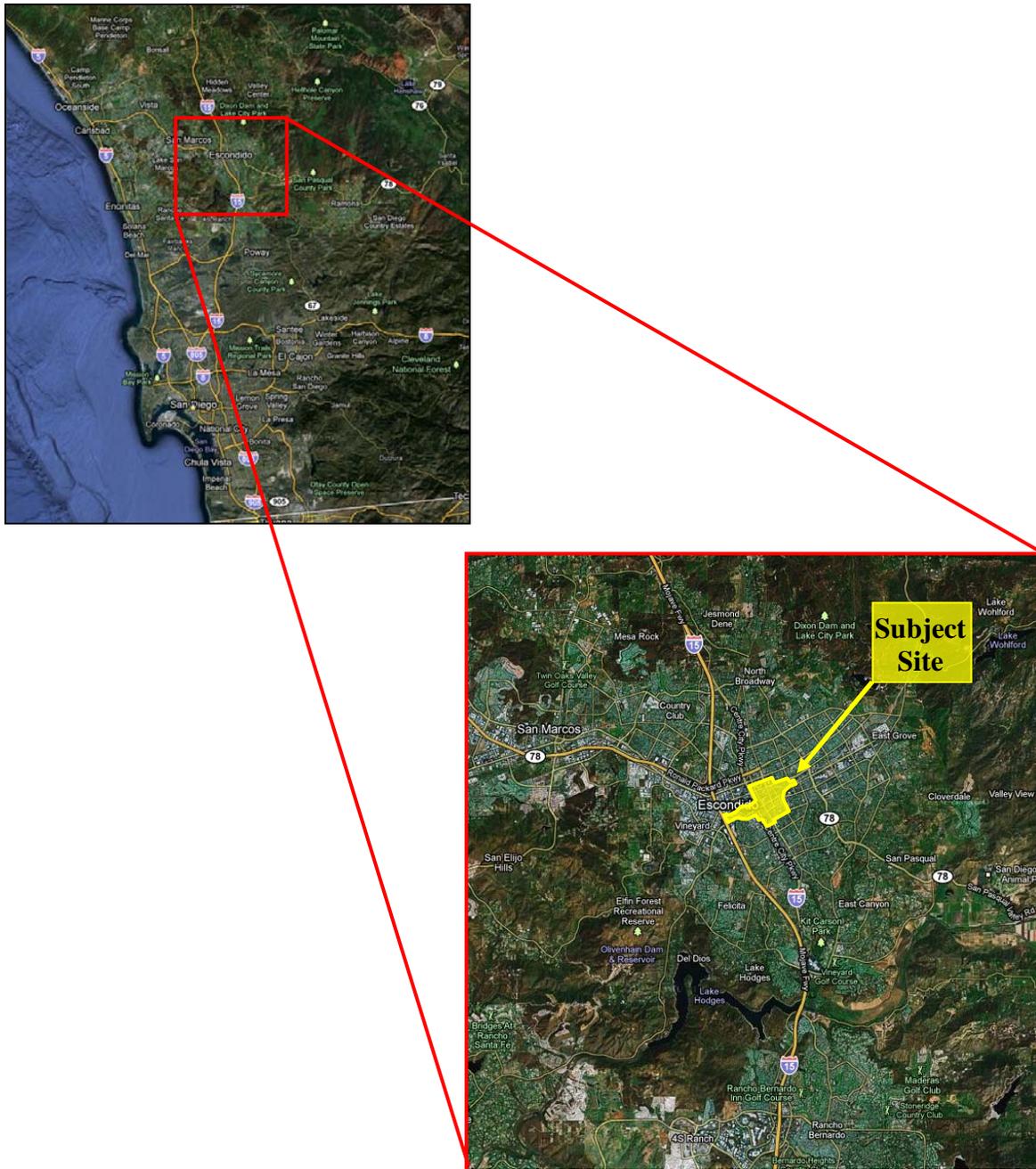
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INTRODUCTION

The London Group Realty Advisors has been commissioned by the City of Escondido to conduct market and financial analysis to determine the fiscal and economic impact of the development of a Sports Entertainment District in the City of Escondido. The subject site is located just southeast of the intersection of Highway 78 and Interstate 15 as shown in the following map.





Our analysis has focused on the following aspects of the proposed project:

- Subject site development timeline
- Tax increment and bonding capacity
- Economic and fiscal impacts of the proposed project

To determine the success of the Sports Entertainment District, we have conducted real estate analyses to answer the following questions.

- ➔ How quickly will residential condos at the subject site sell?
- ➔ What price will the condos sell for?
- ➔ How quickly will office space at the subject site be absorbed?
- ➔ What lease rate will be achieved for the office space?

The purpose of this report is to address these and related questions. The tasks that we undertook to perform this study included:

1. Analysis of sales trends and pricing of single family home, condo, and townhome sales over the past ten years.
2. Determination of future market share of condo sales at the subject site.
3. Analysis of absorption and lease rates trends of office space in surrounding market areas.
4. Determination of future market share of office space absorption at the subject site.
5. A projected financial performance of the proposed facilities at the subject site.

Research for this project was completed in November 2010. 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.



EXECUTIVE SUMMARY

The London Group Realty Advisors has evaluated the anticipated economic impact of a proposal to create a Sports Entertainment District in Escondido. The proposal includes the development of a minor league ballpark as well as other land use elements which would be planned and anticipated as a result of the development of the ballpark. This report details our analysis of the potential fiscal and economic benefits that might be generated by the creation of this new district and the development of the ballpark, including market-supportable residential and commercial projects.

The proposed district comprises approximately 150 total acres. Based on our analysis we believe that the development build out capacity for the site would be 560,000 square feet of commercial office, 200,000 square feet of retail, 4.4 million square feet of residential (3,220 units), two hotels and a 10,000-seat ballpark.

Development Timeline

Based on our research of the residential and commercial markets, we have determined that the development plan for the proposed Sports Entertainment District can be programmed over 10 years. This timeline is based on the projected market absorption for residential and commercial space, as detailed in our market analysis (see [Projected Absorption and Values](#)). This is a conceptual plan which we believe can ultimately be achieved, although the timeline could change depending on market conditions and level of commitment.

Development Timing Schedule

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2 Years of Planning and Adoption of Plan		Development of Ballpark (2013)		PHASE 1			PHASE 2			PHASE 2			
		Necessary Infrastructure & Planning for Ancillary Development		34% of Master Plan Residential: 960 units Office: 200,000 S.F. Retail: 200,000 S.F.			33% of Master Plan Residential: 960 units Office: 360,000 S.F. Retail: none			33% of Master Plan Residential: 1,300 units Office: none Retail: none			



The timeline summarizes the proposed development schedule, which assumes approximately two years for planning, followed by two years for ballpark construction (2013) and further planning of ancillary development. The initial delivery of product would commence in 2015. Total development of the project area is anticipated to occur through 2024.

Tax Increment & Bonding Capacity

The total tax increment generated by the development is approximately \$12.2 million annually which represents a total bondable value of approximately \$180 million over a series of three bond issuances, as shown in the following table.

Escondido Ballpark District Proposal
Development Phasing & Bonding Capacity

Development Phasing				
Phase	% of Total Development	Office S.F.	Retail S.F.	Residential Units
Phase 1	34%	200,000	200,000	960
Phase 2	33%	360,000	0	960
Phase 3	33%	0	0	1,300
Total		560,000	200,000	3,220

Bond Issuance			
Phase	Year	Tax Increment	Bond Value
Phase 1	2017	\$3,728,509	\$55,287,107
Phase 2	2020	\$3,858,804	\$57,219,159
Phase 3	2024	\$4,575,762	\$67,850,361
Total		\$12,163,076	\$180,356,627

Source: The London Group Realty Advisors

Economic & Fiscal Impacts

Additional economic and fiscal impacts of the project are as follows:

- ➡ **\$3.5 million additional bond value related to tax increment of the ballpark facility.**
- ➡ **\$774,000 in local sales tax revenue per year (\$7.7 million over ten years)**
- ➡ **\$1.4 million in hotel TOT revenue per year (\$14.4 million over ten years)**



- **Office creation ranging from 2,240 to 2,520 new office jobs and \$112 million to \$164 million in employee wages.**
- **Retail job creation ranging from 1,027 to 1,118 new retail jobs and \$20.5 million to \$33.5 million in employee wages.**

There are benefits that are not quantified in this analysis that would be generated from the development of property. These would include development which would inevitable occur outside of the actual 150-acre Sports Entertainment District. Furthermore, while this analysis analyzed the venue strictly as a ballpark, which would host an estimated 71 baseball games per year, there are other events that could be held at the facility that would add revenue.

Our development timeline is projected over a ten year period on the premise that the inclusion of the ballpark as an “anchor” to the redevelopment district will serve to both catalyze the timing and the intensity of development. We cannot be exact in our projection of timing, but it is important to understand that these revenues will materialize.

However, without the ballpark, it is probable that project absorption would be drawn out over a longer period and that the development intensity may not be realized. This is because the ballpark should serve as a draw to the area, effectively attracting a larger market which should translate into more development opportunity than might otherwise be the case without it.



HYPOTHETICAL DEVELOPMENT CONCEPT

Land Use Yield

We have prepared a hypothetical development concept for the 150-acre site proposed for the Sports Entertainment District. It is our understating the site is divided between 75 acres to the north and 75 acres to the south of Washington Avenue.

The following table demonstrates that one-half of the property (75 acres) is allocated to open space, circulation, streets and parking. For the balance of the property we have assumed that the ballpark will comprise 15 acres, while 50 acres is dedicated for residential and 10 acres for commercial office and retail.

Proposed Sports Entertainment District Hypothetical Development Concept														
				Residential										
N of Washington	Acres	FAR	Development S.F.	Av. Unit S.F.	# Units¹									
Residential	45	2.0	3,920,400	1,150	2,898									
Office	5	1.7	360,000											
<u>Open Space / Circulation / Streets</u>	<u>25</u>		<u>N/A</u>											
Subtotal	75		4,280,400											
				Residential										
S of Washington	Acres	FAR	Development S.F.	Av. Unit S.F.	# Units¹									
Ballpark	15		N/A											
Residential	5	2.0	435,600	1,150	322									
Commercial	5	1.8	400,000											
<i>Office</i>			200,000											
<i>Retail</i>			200,000											
<u>Open Space / Circulation / Streets / Parking</u>	<u>50</u>		<u>N/A</u>											
Subtotal	75		1,235,600											
				<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Residential</td> <td>4,356,000 SF</td> <td>3,220 Units</td> </tr> <tr> <td>Office</td> <td>560,000 SF</td> <td></td> </tr> <tr> <td>Retail</td> <td>200,000 SF</td> <td></td> </tr> </table>		Residential	4,356,000 SF	3,220 Units	Office	560,000 SF		Retail	200,000 SF	
Residential	4,356,000 SF	3,220 Units												
Office	560,000 SF													
Retail	200,000 SF													
<u>Notes:</u>														
¹ Assumes building efficiency of 85%.														

Source: The London Group Realty Advisors

We estimate that 3,220 residential units can be constructed on 50 acres at an FAR (floor area ratio) of 2.0, which yields four to five story structures. On the 10 commercial acres we estimate



that 560,000 square feet of office and 200,000 square feet of retail can be constructed at an FAR of 1.7 to 1.8. In addition to this development, we believe there is also an opportunity to develop two hotels (200 rooms each, for a total of 400 rooms).

Projected Absorption and Values

We have completed comprehensive analyses of the residential and commercial markets to determine the level of absorption, sale prices and rental rates for the development in the subject area (see [Residential Market Analysis](#) and [Office Market Analysis](#)). The following summarizes our base values (today's dollars) and captures of absorption for each product type:

- **Residential Absorption**: approximately 320 units sold per year, which represents 40.5% of the average of all residential sales in the PMA over the last ten years.
- **Residential Sale Prices**: average sale price of approximately \$287,500 (\$275 per square foot), which is 31.5% higher than the average sale price of approximately \$197,000 (\$161 per square foot) for new condo sales over the last ten years in the PMA. It is also 6.8% less than the average sale price of approximately \$307,000 (\$260 per square foot) of new condo sales in the PMA during the market peak of 2004 to 2007.
- **Office Absorption**: approximately 100,000 square feet of office for the first two years and 120,000 square feet for the following three years. The first two years of office absorption (100,000 square feet annually) represents 36% of the approximately 278,000 square feet absorbed from 2000 to 2005 in the Secondary Market Area (SMA), which includes the Escondido, Rancho Bernardo, San Marcos and Vista submarkets. The following three years of office absorption (120,000 square feet annually) represents 43.2% of the approximately 278,000 square feet absorbed in the SMA from 2000 to 2005. These capture rates are larger than what has been realized historically because Rancho Bernardo is nearly built out (as is much of the remaining I-15 corridor), and Escondido, particularly the proposed Sports Entertainment District, can be positioned to attract and increase your share of new office demand. This can be a capture of regional demand.
- **Office Rental Rates**: average monthly lease rate of \$2.50 per square foot, which is 8.2% less than the average office lease rate of \$2.72 in Rancho Bernardo, the dominant submarket in the SMA, from 2006 to 2009. The average lease rate at the subject project is 16.2% more than the average lease rate in Escondido and 7.8% more than the average lease rate of \$2.32 in the entire SMA from 2006 to 2009.
- **Retail Component**: the 200,000 square feet of retail is anticipated to be associated with the Ballpark and is assumed to be developed in the first phase. The assumed average monthly lease rate is \$3.20 per square foot.



TAX INCREMENT & BONDING CAPACITY

The purpose of this section is to determine the tax increment generated by the 150-acre proposed development. This section also demonstrates the bonding capacity for development phase.

Phased Development

An important benefit of redevelopment areas is the tool of tax increment. Tax increment is the difference between the current “in place” assessed value of the property and the new taxable value once the redevelopment has taken place. We have analyzed property tax records and determined that the average taxable value in the area is approximately \$29 per square foot of land. However, more research is required to determine the true base assessed value at inception of the redevelopment area.

Based on the timing, values and absorption of the hypothetical development, we have forecasted the property tax revenue and tax increment that can be captured by the City. The following bullet points and table on the next page summarize the tax increment and bonding capacity for each phase of development. **The total tax increment generated by the development is approximately \$12.2 million annually. This represents a total bondable value of approximately \$180 million over a series of three bond issuances.**

- By 2017, Phase 1 is forecasted to be complete and generate approximately \$3.7 million in annual tax increment. The bondable value, assuming a 4.5% discount rate and 25 years, is approximately \$55.3 million.
- By 2020, Phase 2 is forecasted to be complete and generate approximately \$3.9 million in annual tax increment. The bondable value, assuming a 4.5% discount rate and 25 years, is approximately \$57.2 million.
- By 2024, Phase 3 is forecasted to be complete and generate approximately \$4.6 million in annual tax increment. The bondable value, assuming a 4.5% discount rate and 25 years, is approximately \$67.9 million.



Escondido Ballpark District Proposal
Development Phasing & Bonding Capacity

Development Phasing				
Phase	% of Total Development	Office S.F.	Retail S.F.	Residential Units
Phase 1	34%	200,000	200,000	960
Phase 2	33%	360,000	0	960
Phase 3	33%	0	0	1,300
Total		560,000	200,000	3,220

Bond Issuance			
Phase	Year	Tax Increment	Bond Value
Phase 1	2017	\$3,728,509	\$55,287,107
Phase 2	2020	\$3,858,804	\$57,219,159
Phase 3	2024	\$4,575,762	\$67,850,361
Total		\$12,163,076	\$180,356,627

Source: The London Group Realty Advisors

The table on the following page details the annual tax increment for the City of Escondido on an annualized basis.



Escondido Ballpark District Proposal
Forecast (Straightline)
 Program Analysis / Benchmark Valuation / Revenue Forecast

						PHASE 1			PHASE 2			PHASE 3							
						2015	2016	2017	2018	2019	2020	2021	2022	2023	2024				
Delivery Schedule																			
	Total	2011	2012	2013	2014														
Residential Units	3,220	0	0	0	0	320	320	320	320	320	320	320	320	320	340				
Retail S.F.	200,000	0	0	0	0	0	100,000	100,000	0	0	0	0	0	0	0				
Office	560,000	0	0	0	0	0	100,000	100,000	120,000	120,000	120,000	0	0	0	0				
Cumulative Development & Assessed Value																			
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024				
Development Totals																			
Residential Units		0	0	0	0	320	640	960	1,280	1,600	1,920	2,240	2,560	2,880	3,220				
Retail		0	0	0	0	0	100,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000				
Office		0	0	0	0	0	100,000	200,000	320,000	440,000	560,000	560,000	560,000	560,000	560,000				
Cumulative Acres Absorbed																			
Residential Acres		0.0	0.0	0.0	0.0	5.0	10.0	15.0	20.0	25.0	30.0	35.0	40.0	45.0	50.0				
Office & Retail Acres		0.0	0.0	0.0	0.0	0.0	2.5	5.0	6.7	8.3	10.0	10.0	10.0	10.0	10.0				
Total Acres		0.0	0.0	0.0	0.0	5.0	12.5	20.0	26.7	33.3	40.0	45.0	50.0	55.0	60.0				
Valuation & Tax Base Forecast																			
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024				
Residential																			
Appreciation / Value PSF	3.00%	\$250	\$258	\$265	\$273	\$281	\$290	\$299	\$307	\$317	\$326	\$336	\$346	\$356	\$367				
Annual Increase / Total Tax Base	2.00%	\$0	\$0	\$0	\$0	\$103,546,811	\$212,270,962	\$326,369,192	\$446,044,972	\$571,508,718	\$702,978,026	\$840,677,893	\$984,840,967	\$1,135,707,788	\$1,301,971,114				
Retail																			
Appreciation / Value PSF	3.00%	\$486	\$501	\$516	\$532	\$547	\$564	\$581	\$598	\$616	\$635	\$654	\$673	\$693	\$714				
Annual Increase / Total Tax Base	2.00%	\$0	\$0	\$0	\$0	\$0	\$56,387,091	\$115,593,536	\$117,905,407	\$120,263,515	\$122,668,786	\$125,122,161	\$127,624,605	\$130,177,097	\$132,780,639				
Office																			
Appreciation / Value PSF	3.00%	\$312	\$321	\$331	\$340	\$351	\$361	\$372	\$383	\$395	\$407	\$419	\$431	\$444	\$458				
Annual Increase / Total Tax Base	2.00%	\$0	\$0	\$0	\$0	\$0	\$36,122,980	\$74,052,109	\$121,520,595	\$171,318,074	\$223,532,514	\$228,003,165	\$232,563,228	\$237,214,492	\$241,958,782				
Tax Increment Forecast																			
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024				
Total Tax Base		\$0	\$0	\$0	\$0	\$103,546,811	\$304,781,033	\$516,014,838	\$685,470,974	\$863,090,308	\$1,049,179,326	\$1,193,803,219	\$1,345,028,800	\$1,503,099,377	\$1,676,710,535				
Less: Base Valuation Assessment	\$29 psf	\$0	\$0	\$0	\$0	(\$6,316,200)	(\$15,790,500)	(\$25,264,800)	(\$33,686,400)	(\$42,108,000)	(\$50,529,600)	(\$56,845,800)	(\$63,162,000)	(\$69,478,200)	(\$75,794,400)				
Incremental Assessed Value		\$0	\$0	\$0	\$0	\$97,230,611	\$288,990,533	\$490,750,038	\$651,784,574	\$820,982,308	\$998,649,726	\$1,136,957,419	\$1,281,866,800	\$1,433,621,177	\$1,600,916,135				
Annual Property Tax Revenue (Increment)	1.12%	\$0	\$0	\$0	\$0	\$1,086,348	\$3,228,862	\$5,483,101	\$7,282,324	\$9,172,753	\$11,157,814	\$12,703,112	\$14,322,170	\$16,017,706	\$17,886,876				
Less: Pass-through	32.00%	\$0	\$0	\$0	\$0	(\$347,631)	(\$1,033,236)	(\$1,754,592)	(\$2,330,344)	(\$2,935,281)	(\$3,570,500)	(\$4,064,996)	(\$4,583,094)	(\$5,125,666)	(\$5,723,800)				
Revenue to City		\$0	\$0	\$0	\$0	\$738,717	\$2,195,626	\$3,728,509	\$4,951,980	\$6,237,472	\$7,587,313	\$8,638,116	\$9,739,075	\$10,892,040	\$12,163,076				



Ballpark Use

To estimate the property taxes generated by the ballpark, we have assumed total construction costs of approximately \$40 million. Based on the property tax rate of 1.11729%, the estimated annual property taxes generated is approximately \$447,000.

The following table demonstrates the bonding capacity strictly related to the ballpark property taxes. We have assumed a base assessed value of \$29 per square foot of land, which was determined by analyzing property tax records for the surrounding area. The total tax increment generated from the ballpark is approximately \$237,000 annually. Based on a discount rate of 4.5% and a term of 25 years, the bond value is estimated at approximately \$3.5 million.

Ballpark Area

Property Taxes and Bonding Capacity

Acres		14.89
\$/S.F. of Land		\$29
Assessed Value		\$18,809,644
Prop Taxes	1.11729%	\$210,158
New Ballpark Property Taxes		\$447,000
Tax Increment		\$236,842
Bond Value		\$3,511,939



ECONOMIC & FISCAL IMPACTS

The purpose of this section is to detail the economic and fiscal impacts in addition to the tax increment and bonding capacity of the City.

Sales Tax Revenue

Retail Uses

The total retail space assumed on the 150-acre site is 200,000 square feet. Based on our research, we have applied an average sales volume of \$250 per square foot, which results in a total annual sales volume of \$50 million.

As the following table details, the estimated annual sales tax revenue at a rate of 8.75% is approximately \$4.4 million. This revenue is divided between the County and City revenue of \$750,000 per year and the State of \$3.6 million per year.

Proposed Sports Entertainment District Estimated Annual Sales Tax Revenue from Retail Uses		
Retail S.F.		200,000
Annual Sales Volume PSF		\$250

Subtotal Annual Taxable Sales		\$50,000,000
Total Annual Taxable Sales		\$50,000,000
	<u>Tax Rate</u>	<u>Total</u>
County Transportation Funds	0.25	\$125,000
City and County operations	0.75	\$375,000
<u>San Diego Regional Transportation Commission</u>	<u>0.5</u>	<u>\$250,000</u>
Total Local Sales Taxes	1.5	\$750,000
State's Share	7.25	\$3,625,000
Total Annual Sales Tax Revenue	8.75	\$4,375,000

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



Ballpark Use

The following table details the sales tax impact as it relates to the ballpark activities. Based on our conversations with the owners, there are anticipated to be 71 games per year with an average attendance of 6,760 people per game. The estimated annual concession sales are approximately \$2.6 million per year. We have assumed that 40% of this figure is subject to sales tax (namely alcohol sales) since most food items are not taxed. By adding an estimated \$550,000 in retail sales, the total taxable sales related to ballpark activities is approximately \$1.6 million per year.

Based on a sales tax rate of 8.75%, there is approximately \$140,000 generated in sales tax revenue. This is divided between approximately \$24,000 captured by the county and city and \$116,000 by the State.

Proposed Sports Entertainment District		
Estimated Annual Sales Tax Revenue from Ballpark Operations		
Ballpark Related Sales		
Ballpark Capacity (Seats)		10,000
Attendance %		68%
<u>Average Attendance</u>		<u>6,760</u>
No. of Games Per Year		71
No. of Attendees Per Year		479,960
Estimated Concessions		\$2,620,000
<u>% Concession Taxable</u>		<u>40%</u>
Concession Taxable		\$1,048,000
<u>Estimated Retail Sales</u>		<u>\$550,000</u>
Total Annual Ballpark Taxable Sales		\$1,598,000
Total Annual Taxable Sales		\$1,598,000
	<u>Tax Rate</u>	<u>Total</u>
County Transportation Funds	0.25	\$3,995
City and County operations	0.75	\$11,985
<u>San Diego Regional Transportation Commission</u>	<u>0.5</u>	<u>\$7,990</u>
Total Local Sales Taxes	1.5	\$23,970
State's Share	7.25	\$115,855
Total Annual Sales Tax Revenue	8.75	\$139,825

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



Hotel TOT Revenue

We have assumed that two hotels could be built in the Sports Entertainment District. Each hotel comprises 200 rooms for a total of 400 hotel rooms. Assuming an average daily rate (ADR) of \$125 and an annual occupancy of 75%, the total revenue generated from room sales is approximately \$13.7 million. As the following table demonstrates, the total annual transient occupancy tax (TOT) revenue generated is approximately \$1.4 million per year.

Proposed Sports Entertainment District Estimated Hotel TOT Revenue	
N of Washington	
No. of Hotels	1
<u>Av. Room Count</u>	<u>200</u>
Total Number of Rooms	200
<hr/>	
Av. Occupancy	75%
Average Daily Rate (ADR)	\$125
Annual Revenue from Room Sales	\$6,843,750
S of Washington	
No. of Hotels	1
<u>Av. Room Count</u>	<u>200</u>
Total Number of Rooms	200
<hr/>	
Av. Occupancy	75%
Average Daily Rate (ADR)	\$125
Annual Revenue from Room Sales	\$6,843,750
Total Revenue from Room Sales	\$13,687,500
TOT Tax Rate	10.5
Annual Hotel TOT Revenue	\$1,437,188

Source: The London Group Realty Advisors



Jobs & Wages Creation

The office and retail space in Phase 1 and Phase 2 of development will directly result in new jobs and wages. The following table demonstrates the creation of office jobs for the 560,000 square feet of new office space. Phase 1 is estimated to create 800 to 900 office jobs and \$40 million to \$58.5 million in employee wages. Phase 2 is estimated to create 1,440 to 1,620 office jobs and \$72 million to \$105 million in employee wages. The total combined job creation ranges from 2,240 to 2,520 new office jobs and \$112 million to \$164 million in employee wages.

Office Jobs & Wages 560,000 S.F. of Office								
	PHASE 1				PHASE 2			
Total Office Space (S.F.)	200,000				360,000			
Stabilized Occupancy Rate	90%				90%			
Occupied Office Space (S.F.)	180,000				324,000			
Square Feet Per Employee Office Jobs	Low		High		Low		High	
	225		200		225		200	
	800		900		1,440		1,620	
Office Wage Per Employee	Low	High	Low	High	Low	High	Low	High
	\$50,000	\$65,000	\$50,000	\$65,000	\$50,000	\$65,000	\$50,000	\$65,000
Total Office Wages	\$40,000,000	\$52,000,000	\$45,000,000	\$58,500,000	\$72,000,000	\$93,600,000	\$81,000,000	\$105,300,000

Sources: The London Group Realty Advisors, CA Board of Equalization

The following table demonstrates the creation of retail jobs for the 200,000 square feet of new retail space. We estimate there to be a range of 1,027 to 1,118 new retail jobs and \$20.5 million to \$33.5 million in employee wages.

Retail Jobs & Wages 200,000 S.F. of Retail				
	PHASE 1			
Total Retail Space (S.F.)	200,000			
Stabilized Occupancy Rate	95%			
Occupied Retail Space (S.F.)	190,000			
Square Feet Per Employee Retail Jobs	Low		High	
	185		170	
	1,027		1,118	
Retail Wage Per Employee	Low	High	Low	High
	\$20,000	\$30,000	\$20,000	\$30,000
Total Retail Wages	\$20,540,541	\$30,810,811	\$22,352,941	\$33,529,412

Sources: The London Group Realty Advisors, CA Board of Equalization

The total combined impact for the office and retail development, which excludes the ballpark activities ranges from 3,267 to 3,638 new jobs and \$133 million to \$197 million in employee wages.

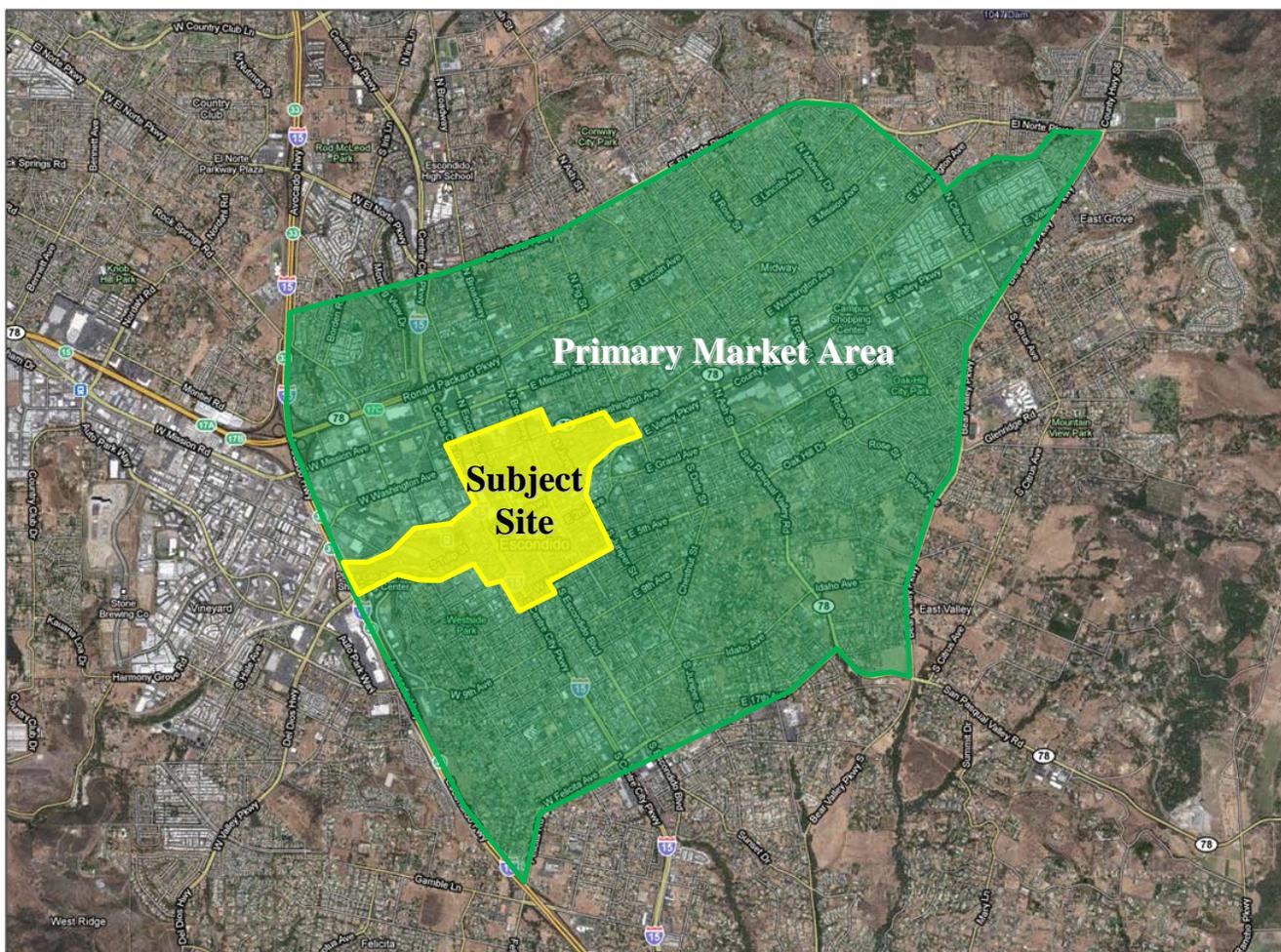


RESIDENTIAL MARKET ANALYSIS

The purpose of this section is to detail our market analysis of the for sale residential market. While the most probable use for the subject site is high density residential, we have also included sales statistics and trends for the single family home and townhome market to offer absorption and pricing perspective.

Primary Market Area (PMA)

The following map depicts the geographical boundaries that we have to be determined to be most relevant for determining property values and absorption for the proposed project. These areas represent the immediately adjacent neighborhoods to the subject site. We have compiled sales data from year 2000 through present to analyze absorption rates and base values and market pricing.





The following table summarizes all residential sales in the PMA from 2000 to 2010. The average annual number of total sales was 791 and average sale price was approximately \$271,000. The average annual number of sales during the market peak from 2004 to 2006 was 843 and the average sale price was approximately \$394,000.

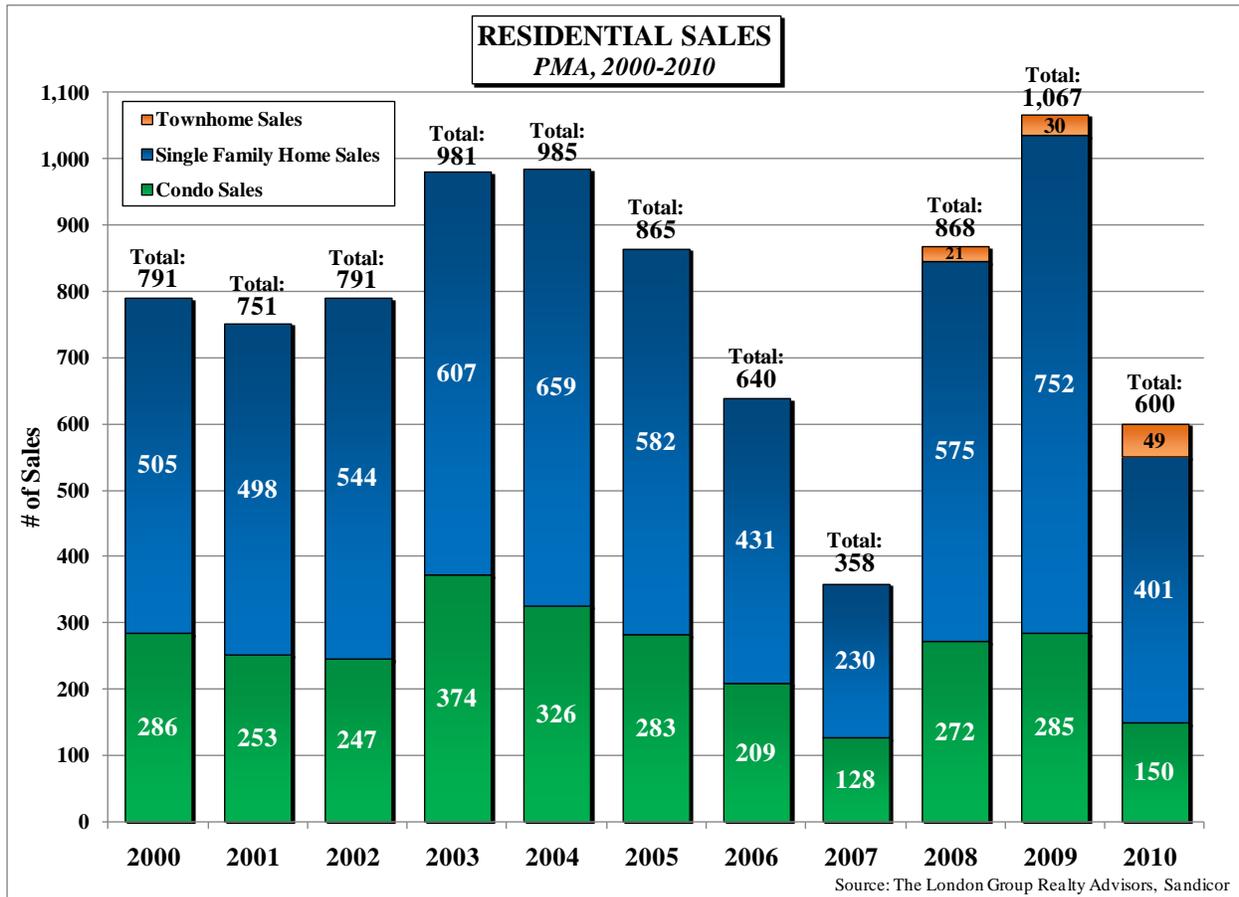
RESIDENTIAL SALES																
<i>Primary Market Area, 2000-2010</i>																
Year	Single Family Home				Condo				Townhome				Total			
	# of Sales	Avg Sale Price	Avg Unit Size	Avg Price per S.F.	# of Sales	Avg Sale Price	Avg Unit Size	Avg Price per S.F.	# of Sales	Avg Sale Price	Avg Unit Size	Avg Price per S.F.	# of Sales	Avg Sale Price	Avg Unit Size	Avg Price per S.F.
2000	505	\$193,110	1,441	\$505	286	\$113,042	1,095	\$286					791	\$164,160	1,316	\$791
2001	498	\$221,948	1,440	\$498	253	\$135,505	1,108	\$253					751	\$192,827	1,328	\$751
2002	544	\$275,008	1,503	\$544	247	\$158,562	1,051	\$247					791	\$238,646	1,362	\$791
2003	607	\$323,386	1,452	\$607	374	\$200,201	1,053	\$374					981	\$276,422	1,300	\$981
2004	659	\$411,357	1,438	\$659	326	\$253,601	1,033	\$326					985	\$359,145	1,304	\$985
2005	582	\$466,208	1,422	\$582	283	\$298,048	1,049	\$283					865	\$411,192	1,300	\$865
2006	431	\$479,340	1,499	\$431	209	\$286,923	1,032	\$209					640	\$416,504	1,347	\$640
2007	230	\$419,756	1,497	\$230	128	\$250,747	1,024	\$128					358	\$359,328	1,328	\$358
2008	575	\$262,901	1,483	\$575	272	\$134,997	1,034	\$272	21	\$133,796	1,087	\$21	868	\$219,697	1,333	\$868
2009	752	\$220,667	1,447	\$752	285	\$97,954	984	\$285	30	\$114,063	1,083	\$30	1,067	\$184,892	1,313	\$1,067
2010	401	\$260,718	1,444	\$401	150	\$108,122	986	\$150	49	\$146,568	1,114	\$49	600	\$213,247	1,302	\$600
Total	5,784				2,813				100				8,697			
Average	526				256				33				791			
2000-2003	539	\$253,363	1,459	\$539	290	\$151,827	1,077	\$290					829	\$218,014	1,326	\$829
2004-2006	557	\$452,302	1,453	\$557	273	\$279,524	1,038	\$273					830	\$395,614	1,317	\$830
2007-2010	490	\$291,010	1,468	\$490	209	\$147,955	1,007	\$209	33	\$131,476	1,095	\$33	723	\$244,291	1,319	\$723

Source: The London Group Realty Advisors, Sandicor



Absorption

The following chart depicts the residential sales in the PMA from 2000 to 2010. The most sales were in 2009 (1,067 sales) and the least sales were in 2007 (358 sales). The average number of sales for the ten year period was 791.



We have determined that the marketplace will support absorption of 320 units per year at the subject project, which represents 40.5% of the market average for the past ten years and 30% of the market peak in 2009.

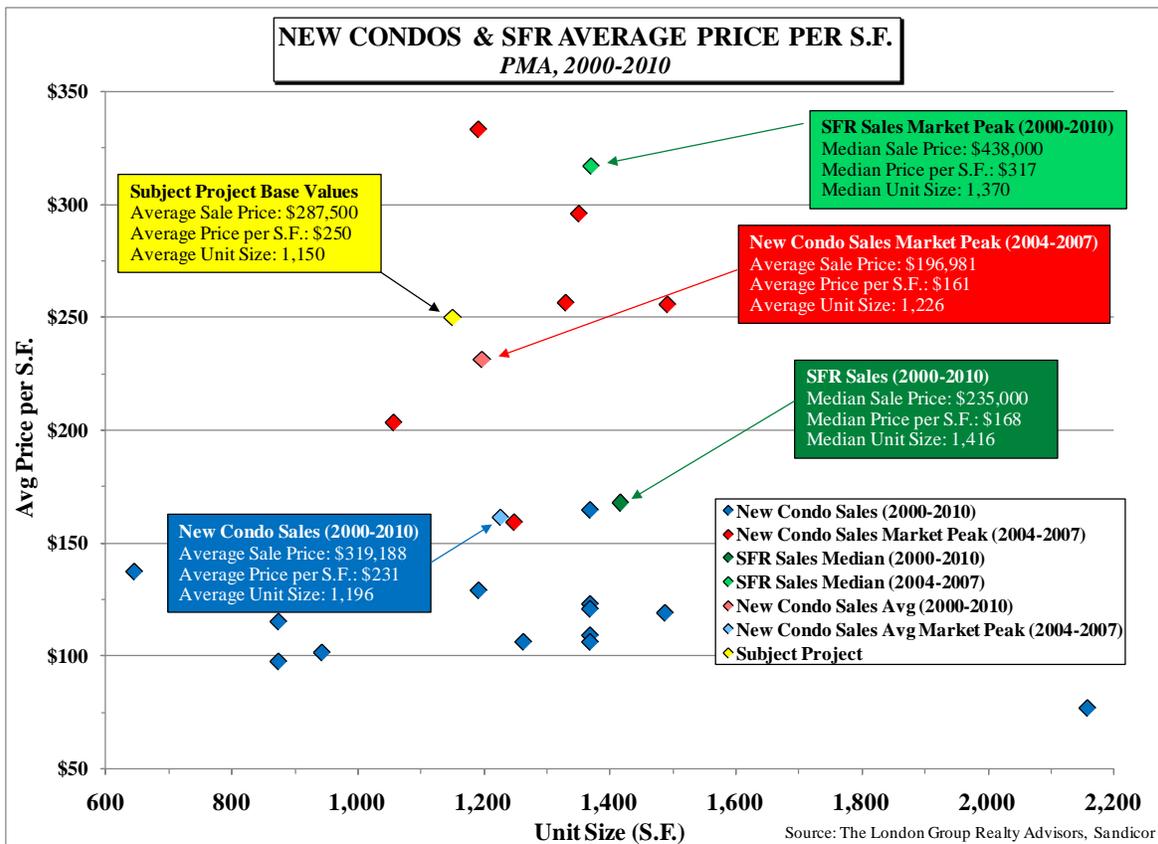
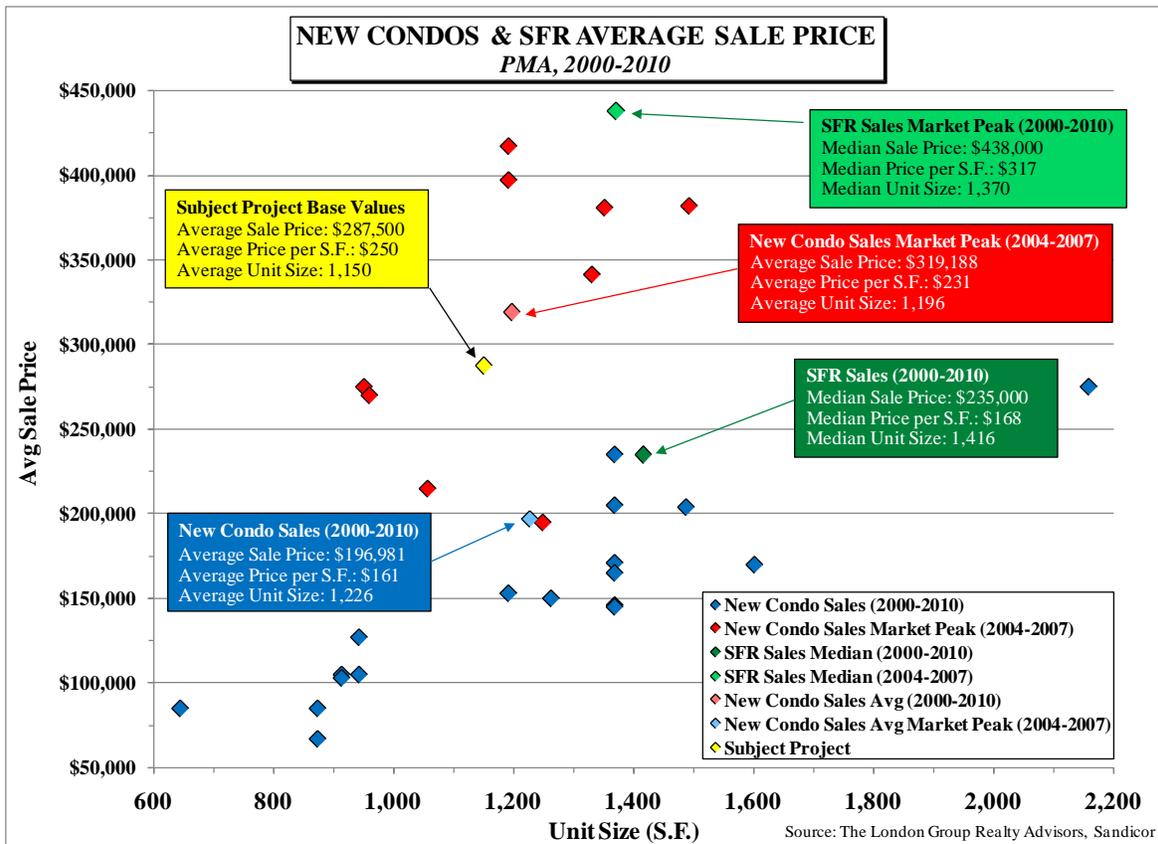


Residential Base Value

To determine the base values for the residential units sold at the subject project, we have analyzed new condo sales and the median of single family home resales in the PMA.

- **New Condo Sales** - There were 28 sales in the PMA during the past ten years of condos that were built within ten years of the sale date. The average sale price of these was approximately \$197,000 (\$231 per square foot). The average sale price of the new condos sold during the market peak from 2004 to 2007 was approximately \$319,000 (\$231 per square foot).
- **Median Single Family Home Resales** - Median single family home resale prices are another indication of new condo sale prices. The median single family home price during the past ten years was approximately \$235,000 (\$168 per square foot). The median single family home price during the market peak from 2004 to 2007 was approximately \$438,000 (\$317 per square foot).

Based on the new condo sales and median single family home resales, we have determined the base value for the residential units at the subject project to be \$287,500 (\$250 per square foot). The charts on the following page show that this value is between the average new condo sales price and median single family home sale price for the past ten years and the average new condo sales price and median single family home sale price for the market peak from 2004 to 2007.





OFFICE MARKET ANALYSIS

The purpose of this section is to detail our office market analysis. The map on the following page depicts the geographical boundaries that we have to be determined to be most relevant to the proposed project. The Primary Market Area (PMA) consists of the Escondido office market and the Secondary Market Area (SMA) is comprised of the Escondido, San Marcos, Vista, and Rancho Bernardo office markets.

The heart of the San Marcos office market is approximately 8 minutes from the subject site via SR-78. Vista is further west along SR-78, approximately 15 from the subject site. The heart of the Rancho Bernardo office market is approximately 10 minutes south of the subject site via Interstate-15, as shown in the following drive-time table.

Office Submarket	Estimated Drivetime
San Marcos	8 minutes
Vista	15 minutes
Rancho Bernardo	10 minutes



Historical Absorption

The following table details office absorption and vacancy rates in the PMA and SMA during the past ten years. Average annual SMA absorption from 2000 to 2005 was 278,000 square feet. Absorption from 2000 to 2010 was approximately 272,000 square feet. Rancho Bernardo comprised 78% of the total SMA absorption from 2000 to 2005 and 87% from 2000 to 2010.

OFFICE ABSORPTION & VACANCY								
PMA & SMA, 2000-2010								
	PMA		SMA					
	Escondido	Escondido	Escondido	Rancho Bernardo	San Marcos	Vista	Total SMA	Total SMA
	Absorption	Vacancy	Absorption					
2000	10,881	3.6%	10,881	490,045	20,635	61,120	582,681	6.5%
2001	(1,471)	3.9%	(1,471)	(55,387)	28,733	10,373	(17,752)	9.6%
2002	26,198	4.1%	26,198	204,401	49,576	22,267	302,442	13.3%
2003	29,423	4.6%	29,423	152,121	9,922	15,164	206,630	11.7%
2004	19,874	6.6%	19,874	319,111	(13,154)	11,062	336,893	7.7%
2005	29,805	5.3%	29,805	189,763	21,653	15,245	256,466	7.6%
2006	(16,641)	5.3%	(16,641)	(102,507)	40,688	110,012	31,552	8.7%
2007	67,778	7.4%	67,778	312,190	(6,815)	(7,808)	365,345	13.4%
2008	(20,047)	11.4%	(20,047)	179,645	(69,588)	(25,213)	64,797	17.8%
2009	(35,130)	12.9%	(35,130)	357,395	28,533	(5,728)	345,070	20.4%
2010	(75,164)	15.7%	(75,164)	553,799	26,109	17,250	521,994	16.3%
2000-2005 Avg	19,118		19,118	216,676	19,561	22,539	277,893	
2000-2010 Avg	3,228		3,228	236,416	12,390	20,340	272,374	

Source: The London Group Realty Advisors, CoStar



Absorption Projections

The average annual absorption in the SMA from 2000 to 2005 was approximately 278,000 square feet. To determine absorption in the SMA and at the subject project, we assume that the SMA will continue to absorb office space at this rate for the next ten years. This is a conservative estimate because absorption in the last two years was significantly more than the absorption projections. Absorption in 2009 was 19.5% higher (345,000 square feet) and absorption this year to date is already 46.8% higher (522,000 square feet).

As the economy slowed and vacancy skyrocketed to more than 20% in 2009, new office development deliveries dropped off precipitously. As 278,000 square feet of office space is absorbed annually over the next few years, vacancy will stabilize at 10% by 2013. When vacancy stabilizes, stalled planned projects will start delivering office space again. There is approximately 1.4 million square feet of office space planned in the SMA. We estimate these projects will be delivered between 2013 and 2019. As this space and the subject project are delivered and absorbed, vacancy will drop to 9% in 2019 and 8% in 2020. This will allow new office product that is not currently planned or proposed at the subject project to be built and absorbed by the market.

Although there is currently 1.4 million square feet of planned office space in the SMA, the ballpark and other amenities at the subject project will provide a comparative advantage over other projects. We project that the subject project will absorb 100,000 square feet annually in 2016 and 2017, and 120,000 square feet annually from 2018 to 2020. This represents a market capture of 36% to 43% of the 278,000 square feet of total annual absorption in the SMA. The total office space at the subject project is 560,000 square feet. The table on the following page shows vacancy and absorption in the SMA and at the subject project from 2000 to 2020.



OFFICE ABSORPTION & VACANCY
SMA & SUBJECT PROJECT, 2000-2020

	SMA					Subject Project	Other Project Deliveries	Vacant Inventory	Total Inventory	Total SMA Vacancy
	Escondido	Rancho Bernardo	San Marcos	Vista	Total SMA					
	Absorption									
2000	10,881	490,045	20,635	61,120	582,681			536,328	8,299,664	6.5%
2001	(1,471)	(55,387)	28,733	10,373	(17,752)			817,763	8,484,153	9.6%
2002	26,198	204,401	49,576	22,267	302,442			1,224,478	9,202,327	13.3%
2003	29,423	152,121	9,922	15,164	206,630			1,086,921	9,260,278	11.7%
2004	19,874	319,111	(13,154)	11,062	336,893			718,559	9,313,046	7.7%
2005	29,805	189,763	21,653	15,245	256,466			712,719	9,437,151	7.6%
2006	(16,641)	(102,507)	40,688	110,012	31,552			844,713	9,708,782	8.7%
2007	67,778	312,190	(6,815)	(7,808)	365,345			1,423,399	10,642,255	13.4%
2008	(20,047)	179,645	(69,588)	(25,213)	64,797			2,024,604	11,343,601	17.8%
2009	(35,130)	357,395	28,533	(5,728)	345,070			2,481,026	12,139,199	20.4%
2010	(75,164)	553,799	26,109	17,250	521,994			1,974,524	12,146,625	16.3%
2011	19,118	216,676	19,561	22,539	277,893			1,696,631	12,146,625	14.0%
2012	19,118	216,676	19,561	22,539	277,893			1,418,737	12,146,625	11.7%
2013	19,118	216,676	19,561	22,539	277,893		80,000	1,220,844	12,226,625	10.0%
2014	19,118	216,676	19,561	22,539	277,893		310,000	1,252,951	12,536,625	10.0%
2015	19,118	216,676	19,561	22,539	277,893		310,000	1,285,057	12,846,625	10.0%
2016	19,118	116,676	19,561	22,539	277,893	100,000	210,000	1,317,164	13,156,625	10.0%
2017	19,118	116,676	19,561	22,539	277,893	100,000	210,000	1,349,271	13,466,625	10.0%
2018	19,118	96,676	19,561	22,539	277,893	120,000	190,000	1,381,377	13,776,625	10.0%
2019	19,118	96,676	19,561	22,539	277,893	120,000	83,530	1,307,014	13,980,155	9.3%
2020	19,118	96,676	19,561	22,539	277,893	120,000		1,149,121	14,100,155	8.1%

Source: The London Group Realty Advisors, CoStar



Lease Rate

The chart on the following page shows the average monthly lease rate per square foot in the PMA, SMA, and Rancho Bernardo during the past ten years. Although Rancho Bernardo is a subset of the SMA, it is included in this chart because it is likely to be most comparable to the subject project of the four submarkets comprising the SMA. The subject project will attract the same top quality builders and tenants as Rancho Bernardo, which has consistently achieved the highest lease rate and absorption.

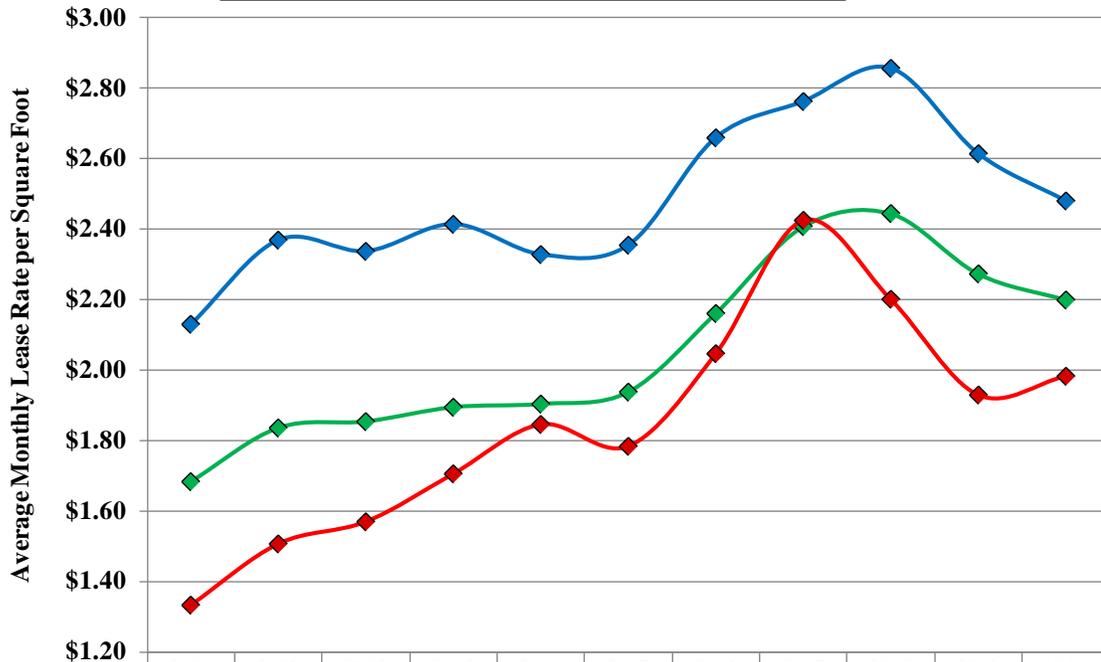
Based on the average lease rates in the PMA and SMA over the last ten years, we have determined the base lease rate for the subject project to be \$2.50 per square foot. This rate is 2-3% higher than the PMA peak of \$2.43 per square foot in 2007 and the SMA peak of \$2.44 per square foot in 2008.

When Rancho Bernardo is built out over the next several years, the subject project will attract a large share of the Class A office space demand previously captured by Rancho Bernardo. The ballpark and other amenities at the subject project are a comparative advantage to other submarkets. The subject project is likely to achieve a comparable lease rate to Rancho Bernardo during the market peak. The base lease rate of \$2.50 at the subject project is 12% lower than the Rancho Bernardo average lease rate peak of \$2.86 per square foot in 2008, making it a conservative estimate.

The subject project base lease rate of \$2.50 is the same as the average Rancho Bernardo lease rate from 2003 to 2007. It is also 21% higher than the average SMA lease rate of \$2.04 from 2003 to 2007. However, these market averages include all classes of office space. The blended all-class market average lease rate is expected to be lower than the lease rate of the subject project, which will exclusively consist of Class A office space.



OFFICE (ALL CLASSES) AVERAGE LEASE RATES
PMAAND SMA, 2000-2010



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
◆ Rancho Bernardo	\$2.13	\$2.37	\$2.34	\$2.41	\$2.33	\$2.35	\$2.66	\$2.76	\$2.86	\$2.61	\$2.48
◆ SMA Average	\$1.68	\$1.84	\$1.85	\$1.89	\$1.90	\$1.94	\$2.16	\$2.41	\$2.44	\$2.27	\$2.20
◆ PMA (Escondido)	\$1.33	\$1.51	\$1.57	\$1.71	\$1.85	\$1.78	\$2.05	\$2.43	\$2.20	\$1.93	\$1.98

Source: The London Group Realty Advisors, CoStar



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This market analysis study was prepared by The London Group Realty Advisors and was commissioned by the City of Escondido.

Research for this project was completed in November 2010. 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. **Chris White**, Investment Analyst, conducted analysis and prepared the exhibits in this report. **Gary London**, President, provided strategic consultation and recommendations. For further information or questions contact us at:

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