



# Market Analysis Passerelle

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McCullough Design Development

March 1, 2021 (version 2)

[Edited February 1, 2022, to address County comments. No market data was updated at this time, just clarifying text or information added.]

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# BACKGROUND, METHODOLOGY & TERMINOLOGY

# Background & Methodology

## Background

- Client: McCullough Design Development (MDD or Client)
- Subject: Passerelle, located in the Campus Park Specific Plan (aka Horse Creek Ridge or “Horse Creek”)
- Location: NE of SR76 (Mission Rd) and I-15, on Horse Creek Ranch Road (Pankey Rd), Fallbrook, San Diego County, California
- Objective: Between professional office and for-sale small-lot single family detached homes (with a condominium map), determine the use that represents the best market opportunity based on the attributes of the Passerelle site and pertinent supply and demand conditions

## Methodology

- Site: Visit the site and review site-related information
- Data: Compile information on relevant economic and real estate market trends
- Market: Visit pertinent office and residential comps
- Surveys: Interview real estate agents, leasing agents, land brokers, builders, developers and investors
- CMA: Inland North San Diego County market (see following page)

## Contact Information

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# Abbreviations & Terminology



- CMA Competitive Market Area; the geographic area in which uses will compete most directly with each other
- FLV Finished Lot Value – the value of a residential lot including 3 components: 1) the value of the land itself, 2) the cost of all site improvements to bring the land to a ready-to-build on state, and 3) all development fees (schools, parks, water, sewer, etc.)
- IN Inland North (“IN”) We have defined the CMA for Passerelle as the Inland North market. The exact boundaries of the Inland North market may vary slightly by land use and/or data provider, but generally includes: the communities or cities of Fallbrook, Bonsall, Valley Center, Escondido, San Marcos and Vista.
- LTH Lot-to-home price ratio: the FLV of a residential lot divided by the home price (revenue); for example, a property with a \$200K FLV and a \$500K home price would have a 40% LTH ratio.
- MF Multi-family home or unit
- PSF Price per square foot (psf)
- Small-lot Generally refers to SFD homes on lots smaller than 3,000 sf. Homes on lots under 3,000 sf typically differ from homes on larger lots in that the small-lot product usually has zero lot line plotting, often does not have full-length driveways, sometimes has just one private side yard instead of backyards, and sometimes plots with alleys, which are narrower than standard-width streets
- SF Square feet (also sq.ft or sf)
- SFD Single family detached home
- SPA Specific Plan or Specific Plan Amendment
- TH Townhome
- YOY Year-over-year
- ZLL Zero Lot Line – homes plotted on one side of a lot, creating just one side yard instead of a conventional two.

# Professional Office in the Specific Plan

A representative from the County of San Diego reviewed this market study in January of 2022 and subsequently provided some commentary and asked that a few questions be addressed. The County has requested that Clarity ***“address the background information tied to the original development of the Specific Plan for Campus Park as to why the original project incorporated Office Professional at that time.”*** This is our response to that particular request.

- Clarity Real Estate Advisors was not involved in evaluating the market viability of Professional Office space at Campus Park when the Specific Plan for the community was processed in the early-2000s to early-2010s. As such, we do not have first-hand knowledge to directly answer the County’s question.
- In order to provide some response to the County’s request, we had conversations in late-January of 2022 with some participants who have familiarity regarding the processing of the Campus Park SPA. It has been conveyed to us that there were a multitude of factors that ultimately led to the inclusion of a Professional Office designation for the Subject property, ***none necessarily related to market viability***. Below is a summary of the feedback provided to us. We are unable to independently verify the veracity of the information.
  - The Subject parcel was at first being considered as a public-school site. However, the local school district determined that a school site at Campus Park was not necessary, and so alternative uses could then be considered.
  - The northernmost Subject parcel was one of the parcels in Campus Park closest to I-15, and as such, it was thought that a non-residential use would make more sense than a residential use due to freeway visibility and noise. As developable land has become more and more scarce, it is worth noting that new residential developments are being built adjacent to freeways all over southern California today.
  - The County felt that the number of homes being planned on the site was sufficient at the time, and so including non-residential on the Subject parcels was the default decision. More residential units would have been welcomed by the Specific Plan applicant if possible.
  - While processing the original plan, the property owners would have preferred to have included only residential uses and no commercial uses; however, it was the County that pushed for a mixed-use development including Professional Office.
  - To the best of everyone’s knowledge, there never was a market study prepared assessing the market viability of Professional Office at Campus Park when the SPA was being prepared. Therefore, it does not appear that the inclusion of Professional Office was a market-based decision.
- Certainly, there is no denying that much has changed in the over 10 years since the Specific Plan was processed and approved, particularly in the post-COVID world where fewer and fewer people work in offices, and more and more people work from home. There is far less demand for new office space today than 10 to 15 years ago. However, there is a critical shortage of housing that is driving up home prices.
- **It appears that the inclusion of Professional Office space in the Campus Park SPA was not a market-driven decision. Our market analysis has concluded that the clear market-driven best use for the Subject parcels is for-sale single family detached homes, not Professional Office.**

# EXECUTIVE SUMMARY

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


# Market Opportunity – Conclusion



## Best Use Conclusion at Passerelle: For-Sale Small-Lot SFD Homes

(+/-10 to 13 homes per acre, +/-1,750 to 2,200 sf homes)

Our analysis indicates that the offering of for-sale small-lot single family detached homes (condo map) represents a far superior market opportunity at Passerelle than trying to build and market professional office space. There is an almost insatiable demand for new SFD homes in the Inland North San Diego County market area where Passerelle is located, and extremely limited demand for office space. Future supply and demand conditions are much more favorable for SFD development than for office. See the following 2 pages for more details.

For-Sale Small-Lot SFD Homes	Market Characteristics Relative to Passerelle	Professional Office
 Proven demand	Location & Setting	 Too remote
 Extremely favorable	Demand Conditions	 Extremely weak
 Under-supplied	Supply Conditions	 Over-supplied
 Good opportunity	Environmental Justice	 Limited opportunity



# Residential Analysis Summary



**Location: Excellent** – Homebuilders have already demonstrated that there is strong demand for new homes in Campus Park (aka Horse Creek Ridge). At its peak, Horse Creek Ridge was selling +/-280 homes/year. Now that Campus Park is nearing completion, Passerelle will be located within an existing mixed-use community surrounded by a variety of uses including commercial, civic, recreational and open spaces and across the street from a college campus.



**Setting: Compatible with adjacent uses** – The southern Subject parcel is adjacent to a large sports park and existing single family detached homes and both parcels have access to extensive hiking trails. The Passerelle site is far more appropriate for residential development than commercial development.



**Size of Development: Ideal for a new home subdivision** – Most homebuilders are looking for a 2 to 3-year time frame for any given subdivision. Builders want the deal to be large enough to obtain some economies of scale on building, but not so large that the land purchase price becomes too high, or that the neighborhood takes too long to build out. With changing consumer trends, new home projects can become dated after just a few years. Passerelle is proposed for 138 homes and a +/-2.5-year build-out.



**Sustainable communities – Positive impact** – A Park & Ride facility is located at the northwest corner of I-15 & SR76 encouraging car-pooling, reducing traffic, GHG emissions and air pollution. New homes are constructed using energy efficient building standards including the latest in energy-saving features and appliances. A location adjacent to a large sports park and recreation center will provide quality recreational opportunities that promote physical activity among residents. The small-lot SFD homes added to the Horse Creek Ridge community will provide housing opportunities for a broader range of income levels.



**Impact of COVID-19 – Increased demand for SFD homes** – COVID-19 has had multiple long-term impacts on the residential market: with work-from-home a viable option, many households are looking for homes with higher room counts, particularly bedrooms and home offices, fueling rising demand for SFD homes. Many households have also become dissatisfied with their current living situation due to COVID, unlocking additional demand for new SFD homes



**Demand SFD vs. Attached Homes – Stronger demand for SFD** – While prices for SFD homes are higher than for attached homes (all other things being equal), there is higher demand post-COVID for new SFD than attached homes. Just prior to COVID, new SFD projects in San Diego County were averaging 3.9 sales/month compared to 4.6 sales/month for attached. Post-COVID, SFD projects are averaging 4.0 sales/month while attached neighborhoods have dropped to 2.9 sales/month. (Source: Ryness)



**Supply Conditions – Very favorable for new homes** – As of the end of 2020, there were just 75 actively selling new home projects in all of San Diego County, representing a 68% decline from the 20-year average of 236 from 1988 to 2008 (Sources: Hanley, Meyers, MarketPointe). With a lack of developable land and the extreme difficulty of getting new developments entitled, the new home market in San Diego County will remain under-supplied for the foreseeable future.



**Home Prices – Targeted to middle-income households** – If offered with SFD homes on “small lots” as proposed, the home prices at Passerelle will be in the \$500K+ range, which will be attainable to households earning under \$100K per year based on current interest rates and a 33% income to payment ratio. (Clarity estimate)

**Conclusion – Offering for-sale small-lot SFD homes is an optimum opportunity at Passerelle.**

# Office Analysis Summary

**Location: Not the right site** – Office developers considering developing a property with the size and scope of the Subject site usually prefer to be close to a larger worker population base to help ensure that there will be adequate demand to fill the space. The Passerelle site does not have a large worker base in the immediate area to support substantial office uses at the site.

**Setting: Incompatible with adjacent uses** – sandwiched between a large sports park and a community recreation center, and adjacent to existing single family detached homes, the Passerelle site would be far more appropriate for residential development than commercial development.

**Size of Development: Too large for perceived potential users** – To the extent that office developers and brokers thought that there might be any demand for office in this location, the overwhelming consensus was that demand would come primarily from small-space users such as doctors, dentists, real estate agents, insurance agents, financial advisors, etc. Many of these users require less than 1K sf of space and likely could be served within the Town Center portion of Horse Creek Ridge. With 157K sf of office proposed at Passerelle, most of those interviewed felt it would be difficult to reach full occupancy and stay full.

**Financing – Poor opportunity for multi-tenant building** – The vast majority of lenders for new office space typically want to see an up-front commitment with a long-term lease from a large user to reduce the risk of maintaining vacant space. According to conversations with office leasing agents, it is unlikely that a large user would be interested in locating at Passerelle.

**Impact of COVID-19 – Devastating to the office market** – COVID-19 has had multiple negative long-term impacts on the office market: business failures have increased vacancy rates, work-from-home flexibility has decreased the demand for office space, the amount of space available for sub-lease has increased substantially, and rents have flattened and likely will fall for years to come. According to one broker, “The speculative office market is completely dead and will be for years.”

**Vacancy Rate – High & Rising** – In the IN market, vacancy shot up from +/-9% pre-COVID to +/-12% in 4Q 2020, and is expected to continue to rise. In the county as a whole, the vacancy rate is now 12%. Including space available for sublet, the availability rates are even worse, +/-15% in the IN and +/-16% in the county.

**Future Supply (County) – Over-supplied** – There is 118M sf of existing space. +/-3.1M sf is under construction, the most in over a decade, and most of which has not been pre-leased. (Source: CoStar) Brokers are very concerned that the additional supply coming to market is going to push vacancy rates even higher and depress rents.

**Future Supply (IN) – Over-supplied** – There is currently 6.9M sf of existing space, of which 1.0M sf is vacant. There is +/-3.8M sf planned in new developments, representing 55% of what currently exists. Our analysis indicates that there will be demand for only +/-566K sf of space in total over the next 10 years. As such, between current available space and potential future space, the IN could be over-supplied by as much as 4.3M sf in 10 years. (Sources: CoStar and office brokers)

**Conclusion – Office is not a viable market opportunity at Passerelle.**

# New For-Sale SFD Homes in North San Diego County

These are some examples of small-lot SFD for-sale projects now selling or recently sold-out in the north San Diego County market. As envisioned, SFD product at Passerelle would emulate some of the best and most popular attributes of these projects.

## Chaparral Pointe

- Fallbrook
- Horse Creek Ridge
  - DR Horton
  - 2.6K sf lots
  - Sold-out



## Reflection

- Escondido
- Canopy Grove
  - Lennar
  - 2.5K sf lots
  - Active

## Summer

- Valley Center
- Park Circle
- Shea Homes
  - 2.9K sf lots
  - Active



## Arroyo Vista

- Vista
- Meritage Homes
  - 3.2K sf lots
  - Active



## Laurel Creek

- Vista
- DR Horton
- 2.5K sf lots
- Active



## Bear Peak

- Valley Center
- Park Circle
- KB Home
- 2.5K sf lots
- Sold-out



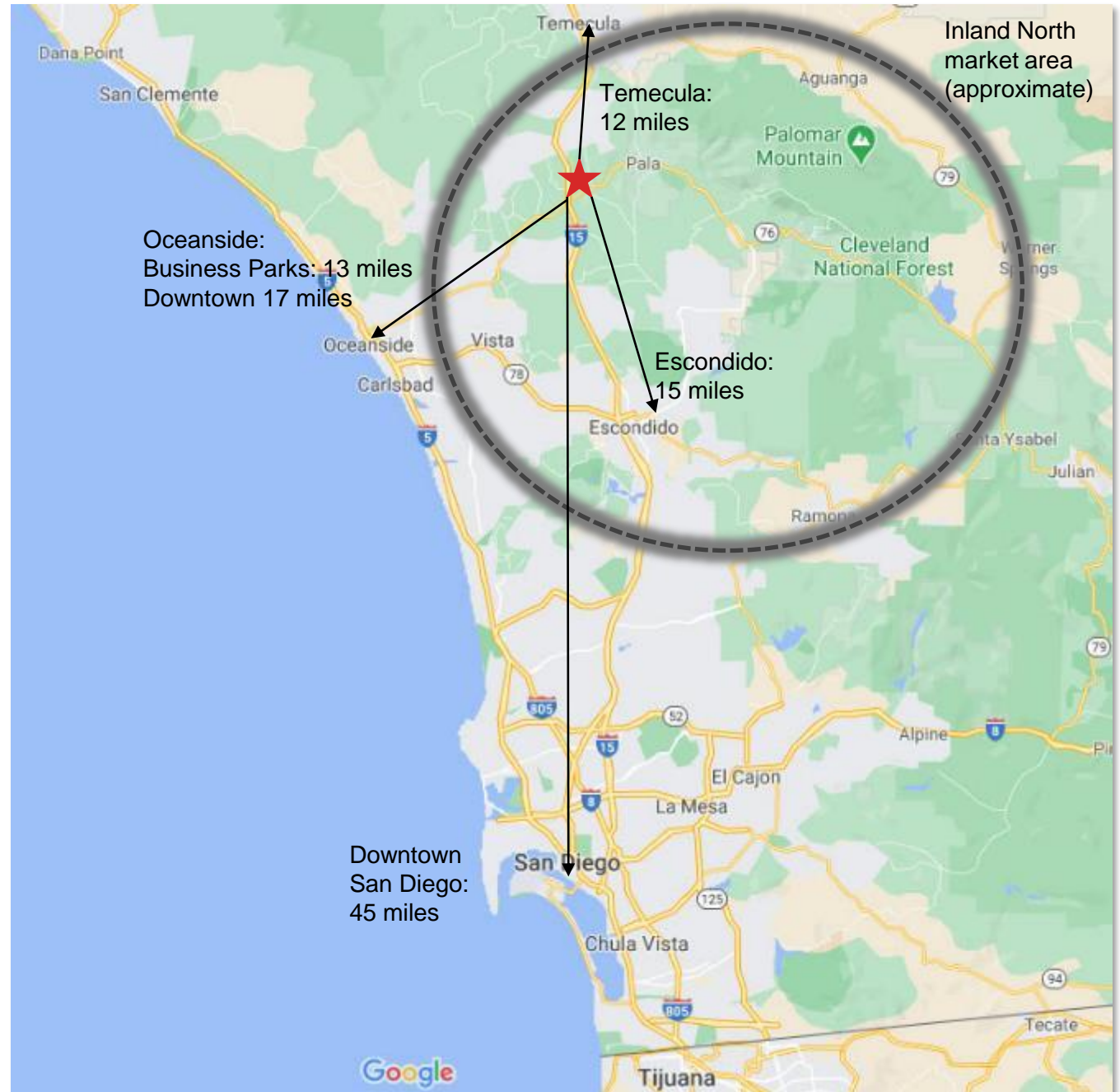
# SUBJECT PROPERTY

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# Regional Location

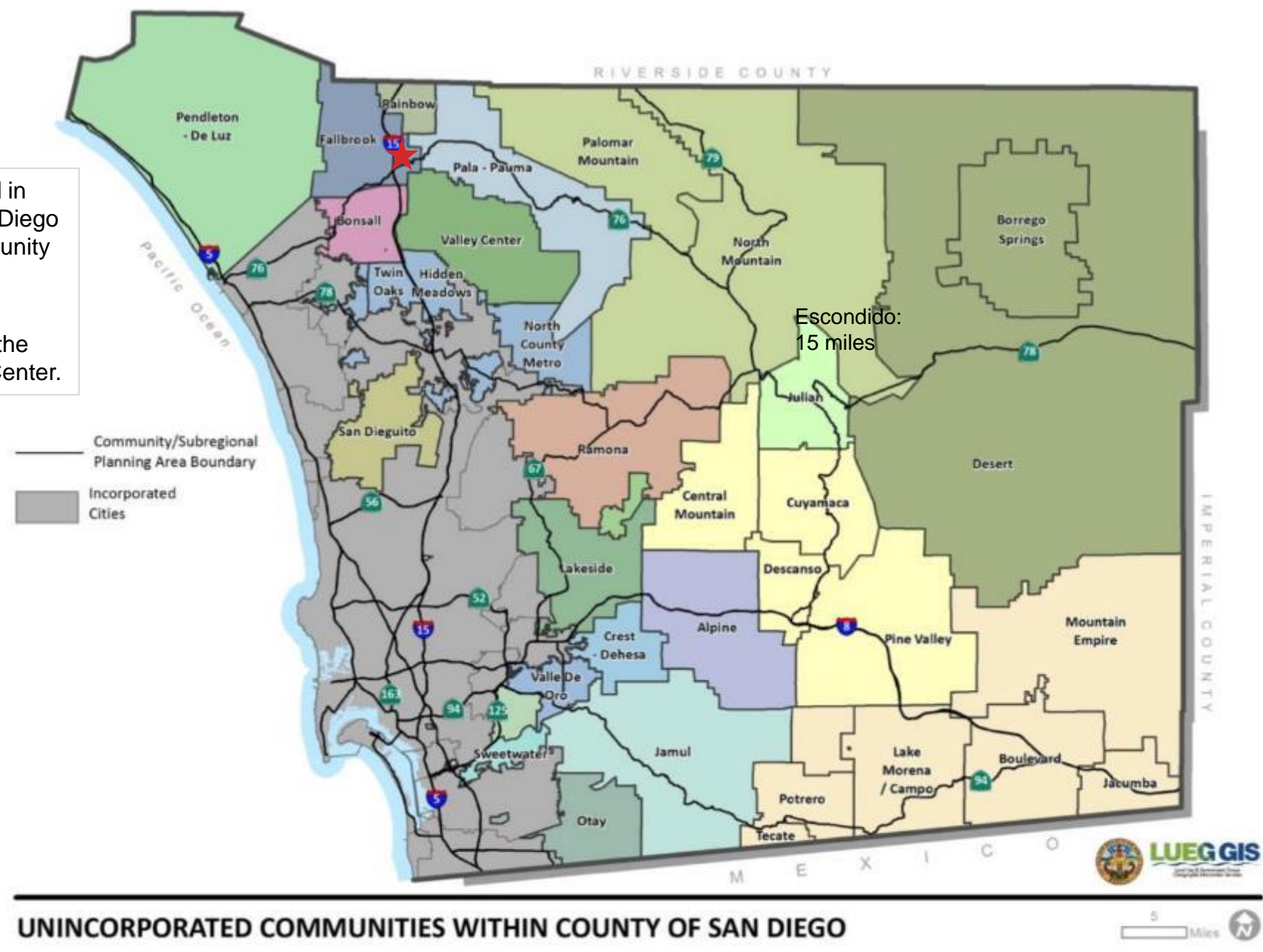
- Passerelle is located in the community of Fallbrook (near the border with Bonsall), in the IN area of San Diego County.
- Recent new home development at the NEC of SR76 and I-15 has established the ability of this geographic area to draw residents, many of whom work in nearby downtown Fallbrook.
- I-5 (coastal) and I-15 (inland) are the two interstate highways connecting San Diego with the rest of southern California to the north.
- SR76 stretches all the way from I-5 on the coast to I-15 inland (location of Passerelle). Traffic volumes on SR76 are significantly higher on the coast (145K AADT) than inland near the Subject (30.5K AADT)
- Traffic volumes are higher on I-5 at SR76 (174K AADT) than at I-15 and SR76 (151K AADT).

AADT – Average Annual Daily Trips. Volumes are measured in both directions. The traffic counts quoted above are the direction with the highest AADT. Sources: Cal-Trans & SANDAG



# Community Location

- Passerelle is located in unincorporated San Diego County, in the community of Fallbrook.
- Nearby communities include Bonsall and the west side of Valley Center.



UNINCORPORATED COMMUNITIES WITHIN COUNTY OF SAN DIEGO

# Passerelle Acreage Estimates

- Current zoning:  
*Professional Office*
- Total developable site area:  
*+/-10.5 acres*
  
- Site 1 (North): +/-2.6 acres
- (APN 108-120-62-00)
  
- Site 2 (South): +/-7.9 acres
- (APN 108-120-61-00)



Color coding for illustrative purposes only.  
Colors do not correspond to zoning.

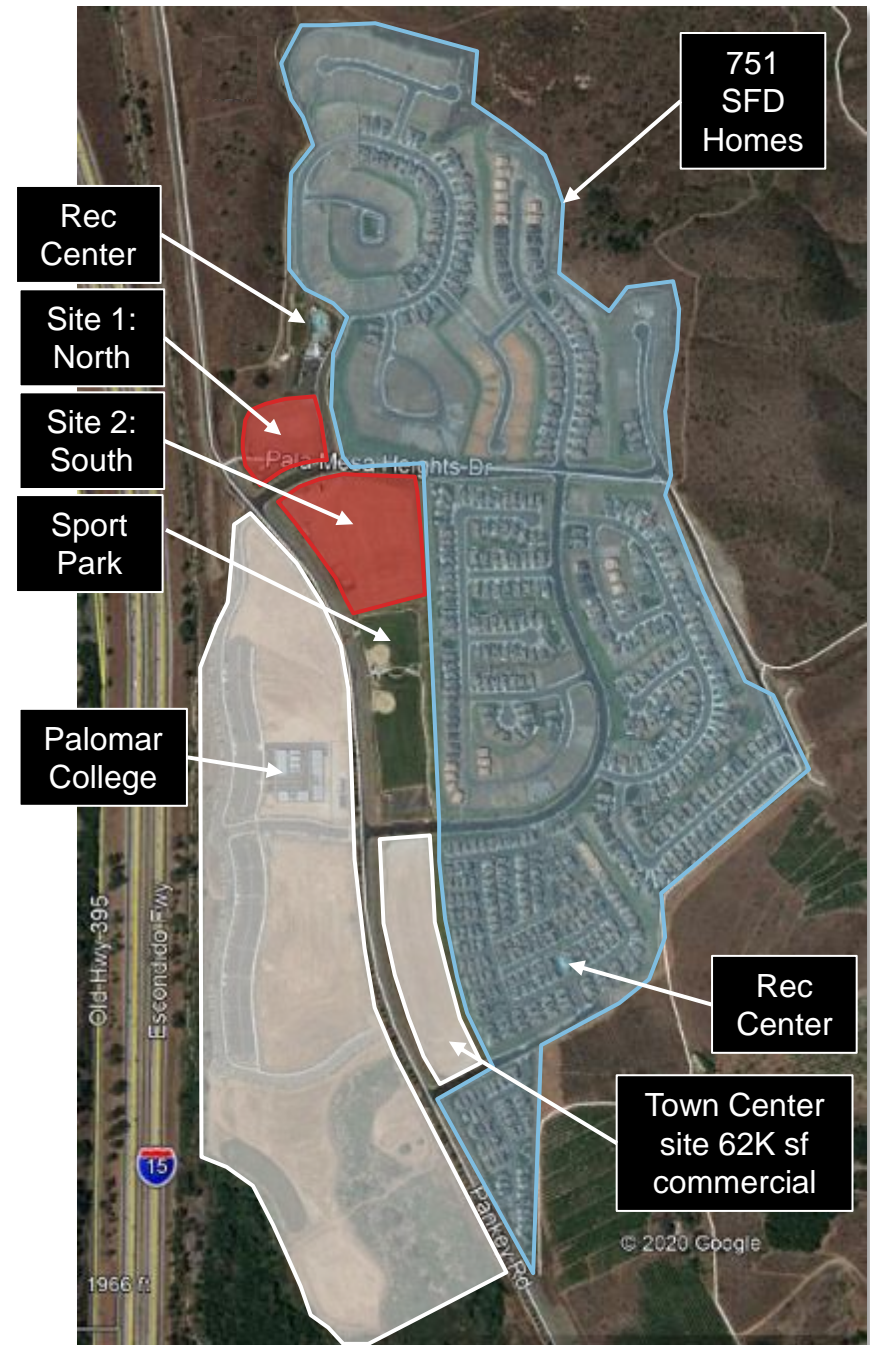
# Horse Creek Ridge Site

- Horse Creek Ridge is the marketing name for Campus Park.
- The mixed-use community was approved for 751 SFD homes in 7 neighborhoods; 157K sf of professional office (the Subject parcels); 61.2K of town center commercial space (not yet developed); and the Palomar College Campus site (temporary structures on site but closed due to COVID-19).
- Home sales began in November of 2017. The community is now almost completely sold out (1 home left). Estimated annual sales:

2017: 76 (opened Nov.)  
 2018: 279 (7 projects)  
 2019: 276 (6-7 projects)  
 2020: 114 (2-4 projects)  
 2021: 6 (sold-out)



Whatever your idea of home is, it's sure to be found within Horse Creek Ridge, a sprawling new community of homes surrounded by Fallbrook's gently rolling hills, ancient oaks, and avocado and citrus orchards. Attuned to the needs of today's varying generational lifestyles, there's something for every taste - and every budget. Yet life here is more than just a home - it's an amenity-rich community with family fun around every corner. Family living meets country charm. Welcome to Horse Creek Ridge.





# Horse Creek Ridge Amenities

Note: Subject residents will have use of the Sports Park, hiking trails and tot lots at Horse Creek, but may or may not be able to access the private HOA recreation facilities.



## The Harvest House

Now Open

- Recreation building with covered patio, outdoor showers, restrooms, community room, indoor/outdoor fireplace, and kitchen
- Swimming pool with toddler area and ADA compliant pool lift
- Pool deck with shade trellis, chaise-lounges, tables and seating
- Raised dining patio with built-in gas barbeque grills



Subject Site 1 (North) is directly adjacent to the southern end of the Harvest House

## The Cove

Now Open

- Swimming pool with ADA compliant pool lift
- Dining patio with barbeque counter and tables and chairs
- Pool deck with shade trellis, chaise-lounges, and chairs



## Horse Creek Ridge Sports Park



Subject Site 2 (South) is directly adjacent to the northern end of the Sports Park

- Soccer pitch with sloped grass seating area
- Baseball fields with sloped grass seating areas, bleachers, dugouts, bullpens
- Picnic area with shade trellis structure and barbeques
- Restroom building
- Nature-inspired, multi-level play structure
- Bicycle racks
- Drinking fountains
- Perimeter trail with four workout stations
- Access stairs to the Oakmont neighborhood park

In addition to the Sports Park and 2 recreation areas, Horse Creek Ridge contains 6 “pocket parks” or “tot lots”.



# Passerelle Subject Site Images



1. Site 1 looking NW from NEC



2. Site 1 looking NE from NWC



3. Site 1 looking NE at I-15 from NEC



4. Site 2 looking SE from S side of Site 1

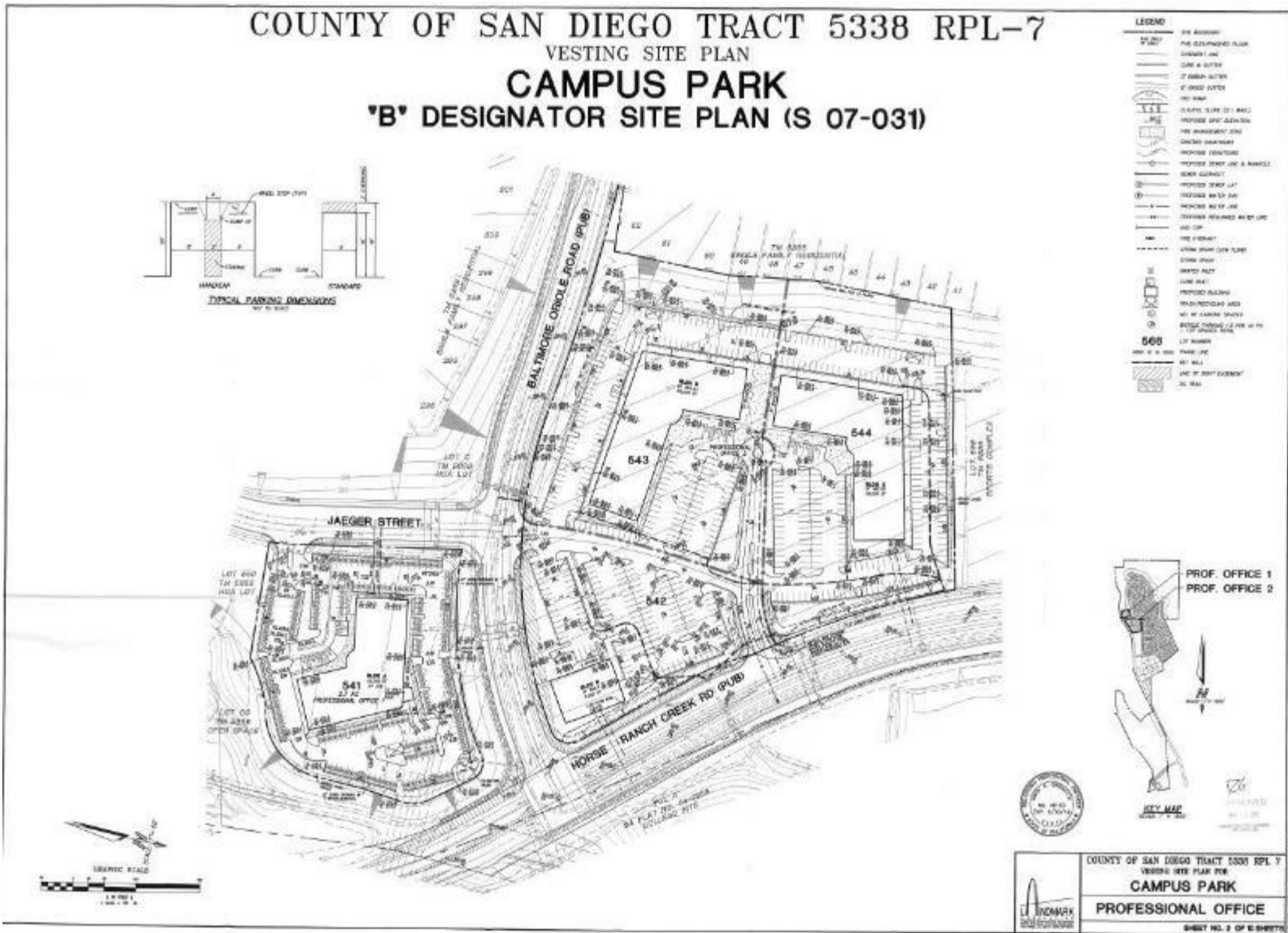


5. Site 2 looking S from N end



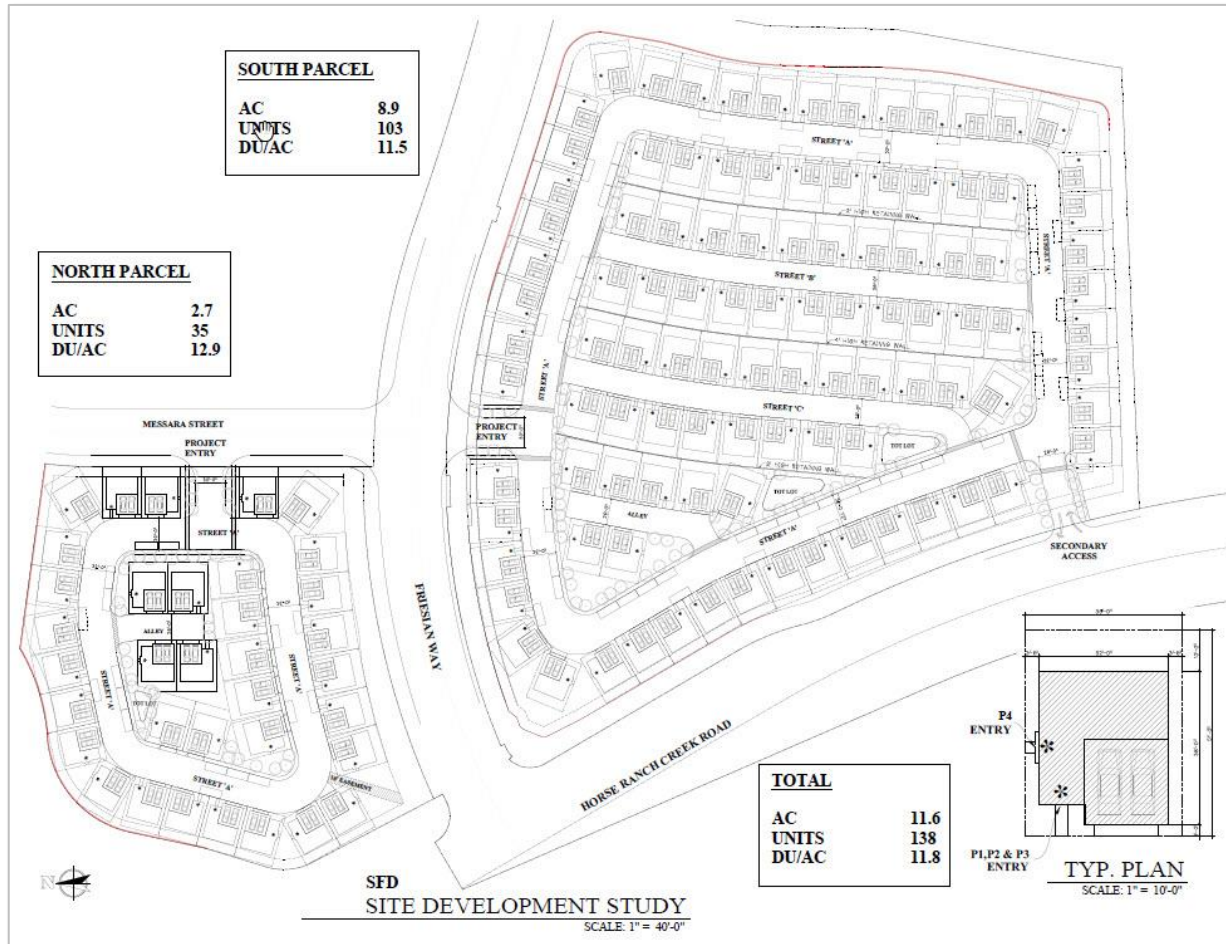
# Passerelle – Conceptual Office Site Plan

- Conceptual site plan for Professional Office, showing 40K sf on the North site and 117K on the South site.
- Coverage ratios are 35% for the North and 34% for the south.
- This plan assumes 2-story office buildings with surface parking.



# Passerelle – Conceptual Residential Plan

- Conceptual site plan for for-sale small-lot SFD, showing 35 homes on the North site and 103 on the South site.
- Includes 3-story homes with direct-access side-by-side 2-car garages, but without full-length driveways.
- All the homes have private side-yard space (the homes are not ZLL).
- The plotting is similar to Chaparral Pointe, a popular project already built in Horse Creek Ridge (sold-out 2019).
- The homes will be located within one-quarter of a mile, or less than a 10-minute walk, from the Town Center’s commercial uses, HOA recreational facilities, and parks, and within one-half of a mile of trails and open space areas.
- The small-lot SFD units will provide housing opportunities for a variety of income levels within the Horse Creek Ridge community with access to a variety of amenities



# Passerelle – Conceptual Town Center Plan

- Conceptual site plan for commercial uses at the Town Center site, totaling +/-61.2K sf.
- This plan assumes 1-story buildings with surface parking.
- The market viability of the Town Center site is not part of this market analysis; however, the proposed Town Center commercial space is being taken into consideration regarding future supply and demand conditions that might impact the market viability of the Subject parcels for Professional Office uses.
- Potential Professional Office tenants can be accommodated at the Town Center site.



# Major Developments E of I-15 at SR76

Homes almost all sold-out, parks complete, no commercial developed to date.

Campus Park	
Land Use	D.U.s / Sq.Ft.
Single-Family	521
Multi-Family	230
Professional Office	157,000sf
Town Center	61,200sf
Park	n/a
Sports Complex	n/a
Community Open Space	n/a
Open Space Preserve	n/a
<b>Total</b>	<b>751 / 218,200sf</b>

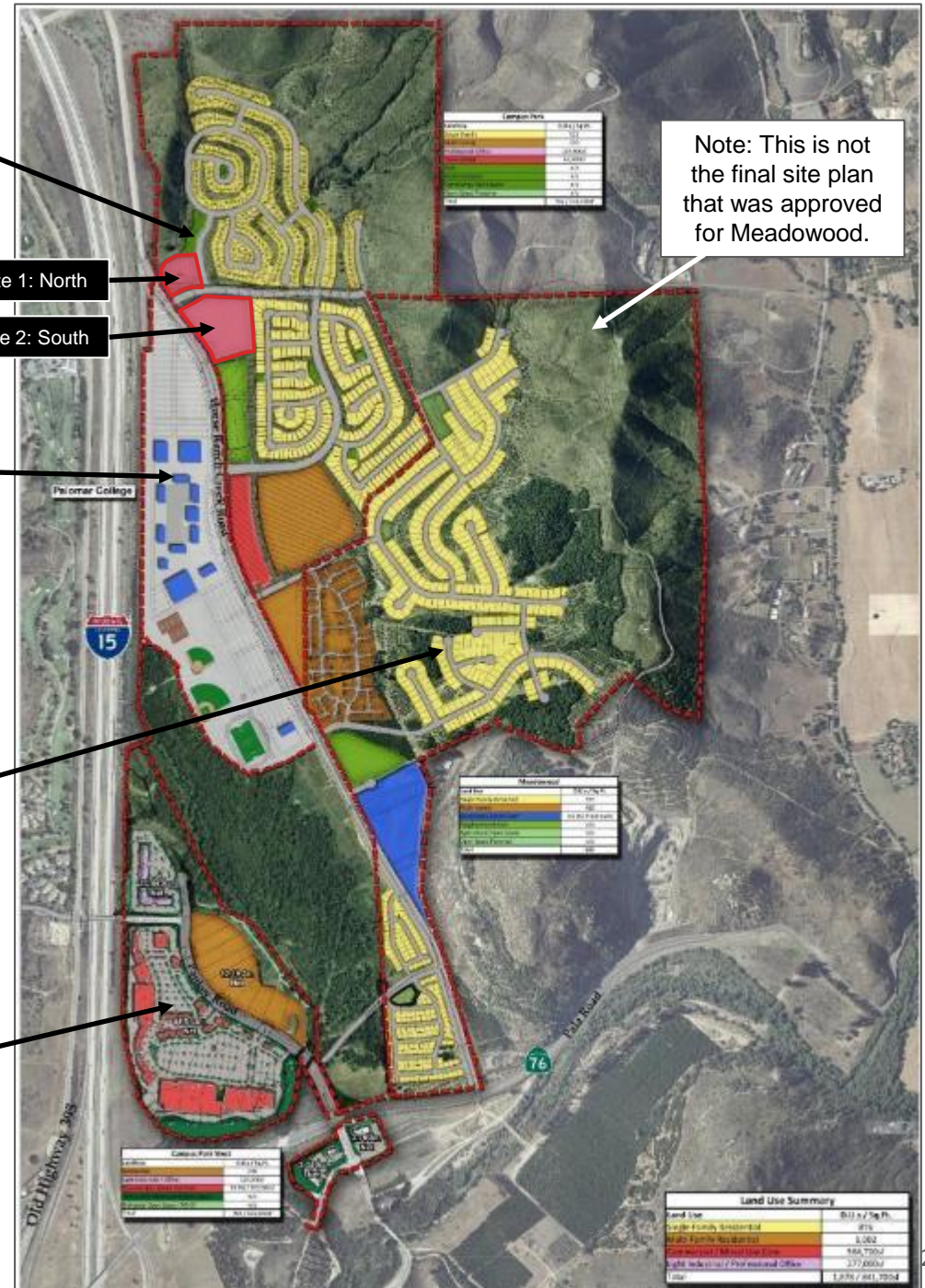
Palomar College Campus. Temporary classrooms & admin buildings are on site. On-site classes closed due to COVID-19.

Site improvements underway. Plan to begin home sales in 2Q/3Q 2021. No commercial. 844 homes if school is built, 886 if not.

Meadowood	
Land Use	D.U.s / Sq.Ft.
Single-Family Detached	355
Multi-Family	489
Elementary School Site*	(42 DU if not built)
Neighborhood Park	n/a
Agricultural Open Space	n/a
Open Space Preserve	n/a
<b>Total</b>	<b>886</b>

No site activity to date. Substantial amount of commercial uses planned. Residential is MF.

Campus Park West	
Land Use	D.U.s / Sq.Ft.
Residential	248
Light Industrial / Office	120,000sf
Commercial / Mixed Use Core	35 DU / 503,500sf
HDA/LLMD-Maintained Open Space	n/a
Biological Open Space / MSCP	n/a
<b>Total</b>	<b>283 / 623,500sf</b>



# Active & Future Developments – SR76 & I-15

9 gross acres, zoned A70, had an offer at \$1.5M for multi-family (\$4 per sf), but deal fell apart over costs and entitlements.

Aurora Heights, 104 new SFD homes by Beazer Homes. Home prices \$650K to \$720K.

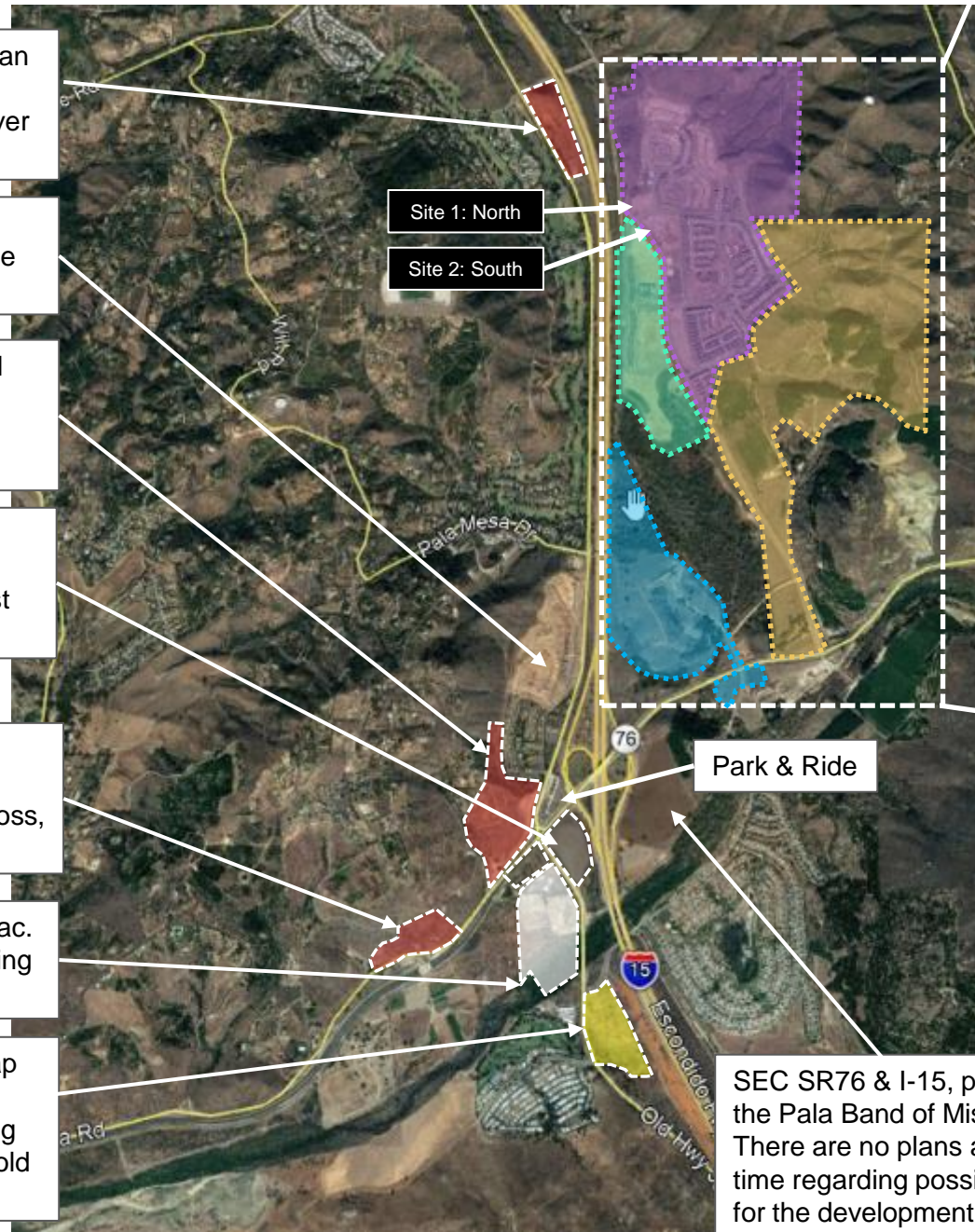
37 gross acres, 10 ac approved comm'l, remainder is zoned residential. Asking \$7.0M as is (\$4.00-\$4.50 per sf).

CalTrans excess right-of-way parcel rumored to be going to auction in next few months. First priority to affordable housing.

14 gross acres, +/-5 ac comm'l zoned, rest is A70 residential, asking \$1.25M (\$2 per sf on gross, \$5-\$6 per sf on comm'l).

Rainbow MWD property, +/-20 ac. developable, currently A70 zoning with public use overlay.

Residential site, had a Final Map for 47 lots, but County was requiring major revisions. Asking price was \$1.75M (\$37K/lot). Sold in 2018 for \$350K.

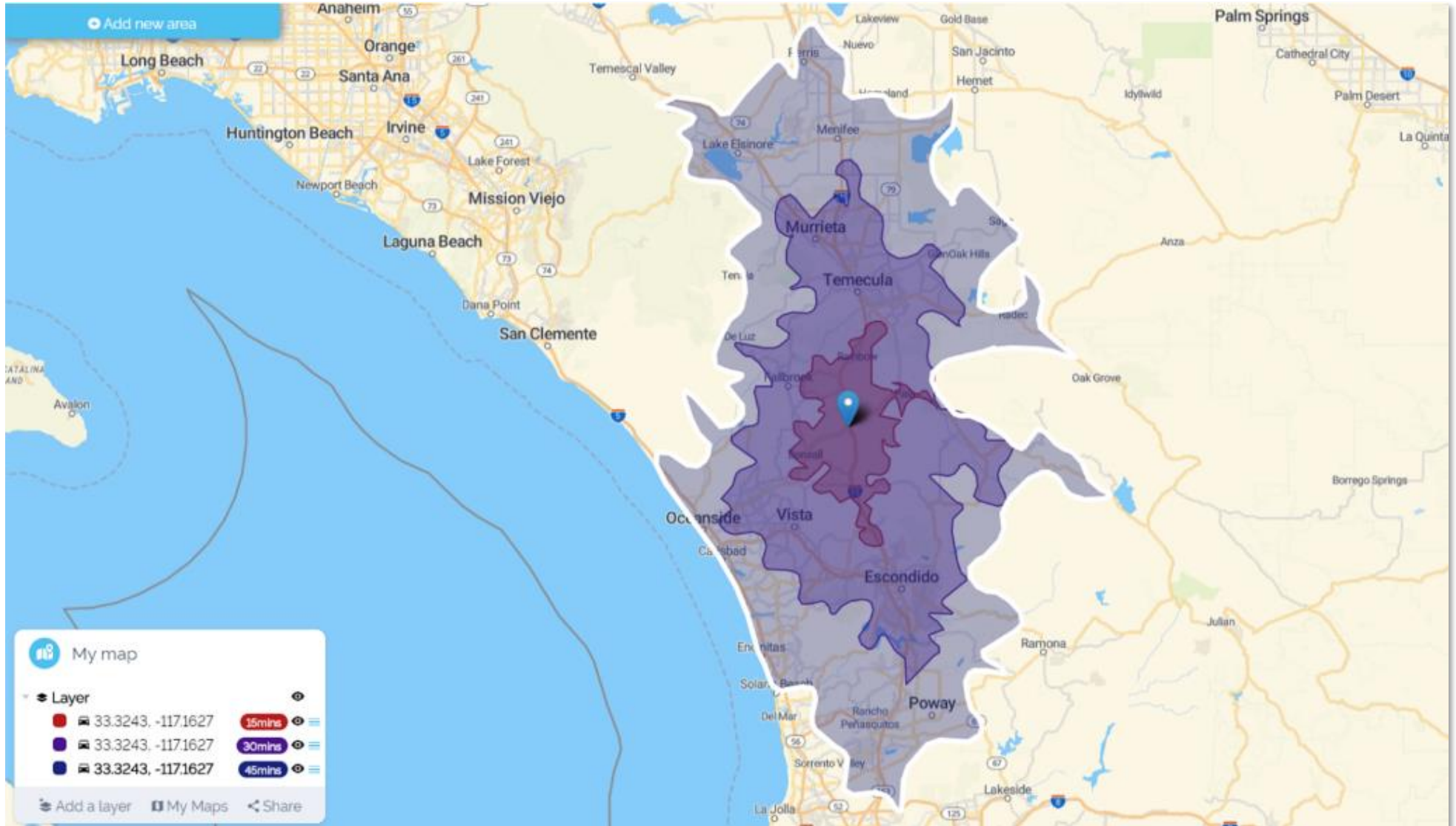


**NE quadrant developments:**  
**Campus Park:** (Horse Creek Ridge): 751 SFD homes (almost complete), 157K sf office, 61.2K sf town center  
**Meadowood:** (grading): 844 or 886 ATT & SFD homes  
**Campus Park West:** 283 ATT homes, 120K sf office/light industrial, 503.5K sf commercial  
**Palomar College Campus**

SEC SR76 & I-15, purchased by the Pala Band of Mission Indians. There are no plans available at this time regarding possible future plans for the development of the property. Current zoning is Rural Residential.

# Rush Hour Commute Times

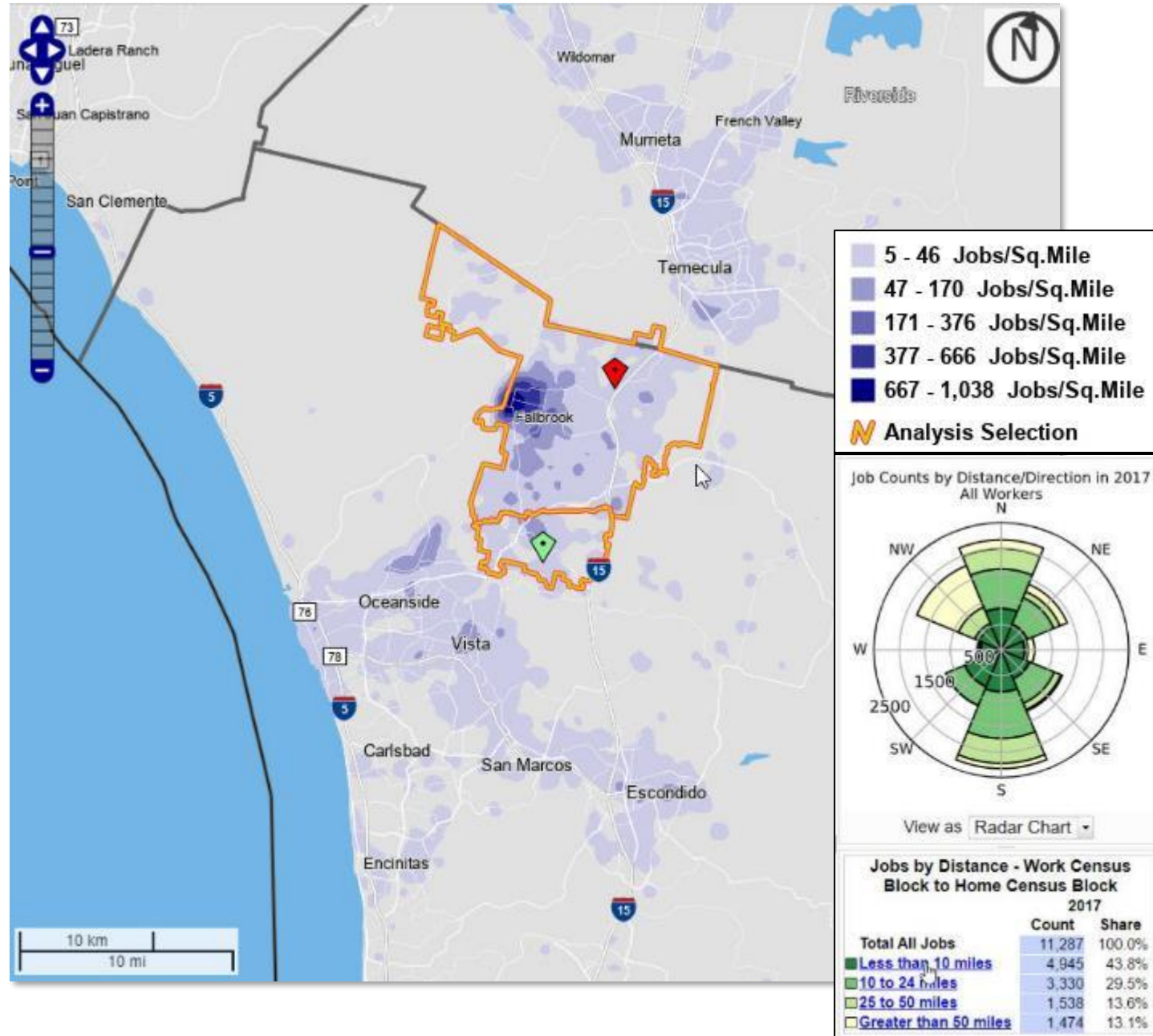
- Most north San Diego County job centers, as well as south Riverside, are within what local sales agents deem to be an acceptable 30-minute rush hour drive time from Passerelle (Escondido, San Marcos, Vista, Oceanside, north Carlsbad and Rancho Bernardo). Downtown San Diego would be +/-60 minutes.
- The majority of potential residents at the Passerelle site are expected to work in the IN area. Residents will be able to make use of a Park & Ride center at the northwest corner of I-15 and SR76.





# Location of Work

- Among people who currently live in zip codes 92028 (Fallbrook, location of Passerelle) and 92003 (Bonsall, just to the south), the highest concentration work in the downtown Fallbrook area.
- Almost 44% of local residents work within 10 miles of their place of residence, and another 30% work within 25 miles.
- A fair number of local residents commute north to jobs in south Riverside County.
- Horse Creek Ridge has already proven that households are willing to buy SFD homes in the immediate area.
- The Passerelle site is appropriate for for-sale SFD housing.



# SANDAG PROJECTIONS

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# SANDAG – Overview & Projections

- SANDAG – the San Diego Association of Governments – is a regional public agency uniting information sharing, strategic planning and policy making among the 18 cities and county government in San Diego County.
- SANDAG periodically publishes growth forecasts for the San Diego region and submarkets within the region. SANDAG's forecasts are widely used by policy makers in guiding decisions regarding future planning and development needs and expenditures.
- The last forecast put out by SANDAG was the Series 13: 2050 Regional Growth Forecast (SR13), published in 2013.
- SANDAG is well into the process of preparing their next forecast, SR14, which is expected to be officially released in 2021.
- SANDAG provided us with some of their preliminary updated forecasts for job growth in the region as a whole and for the submarket in which Passerelle is located – the North County East Major Statistical Area (MSA 5). Although not yet official, we have utilized these new forecast figures as the basis for projections of future growth job in the county and MSA 5.



## Mission Statement

The 18 cities and county government are SANDAG, the San Diego Association of Governments. This public agency serves as the forum for regional decision-making. SANDAG builds consensus; makes strategic plans; obtains and allocates resources; plans, engineers, and builds public transportation, and provides information on a broad range of topics pertinent to the region's quality of life.

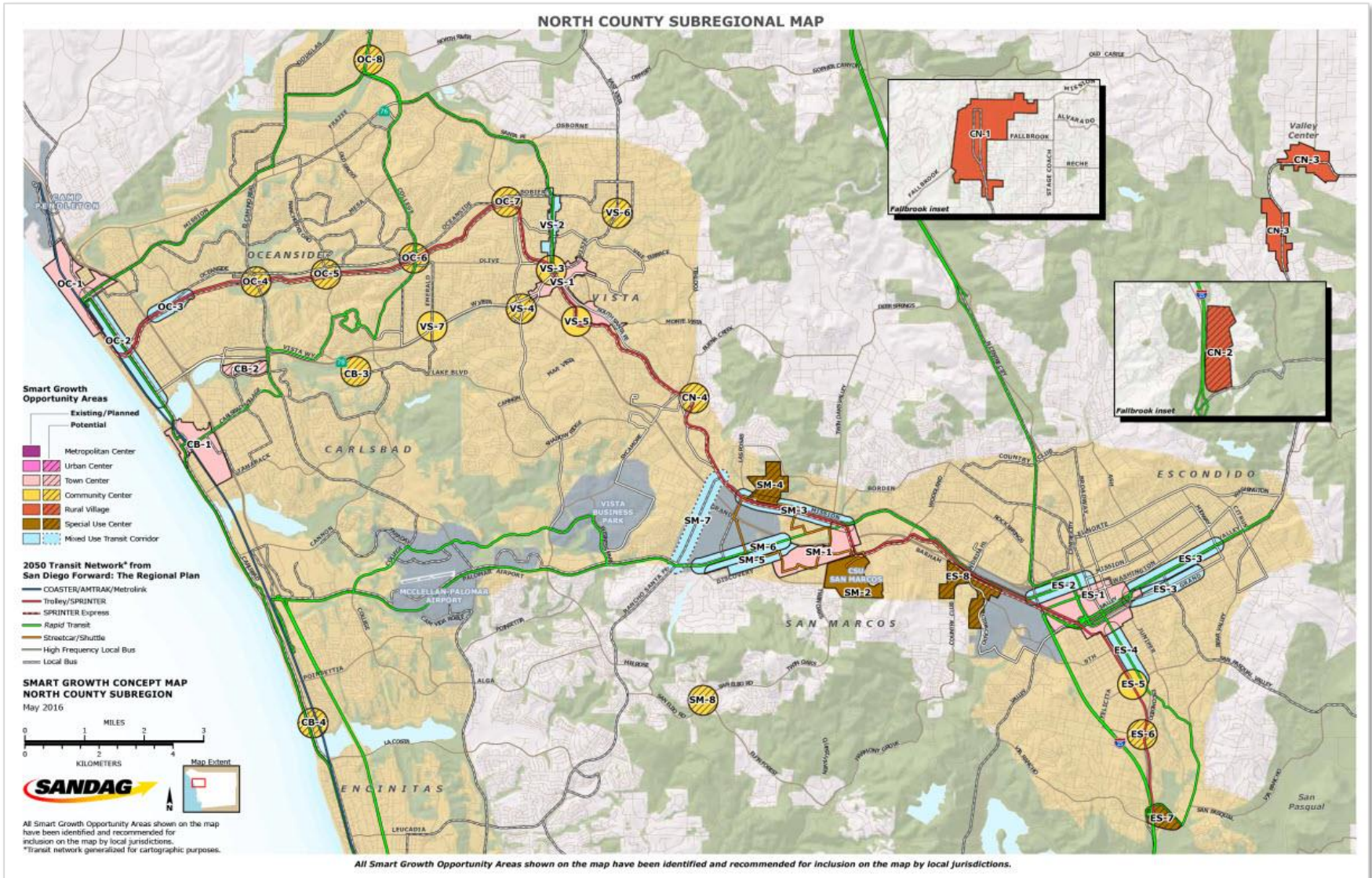
## Series 13: 2050 Regional Growth Forecast

Series 13 is latest forecast, soon to be replaced by Series 14.

On October 15, 2013, the Series 13: 2050 Regional Growth Forecast was accepted by the SANDAG Board of Directors for planning purposes. This forecast serves as the foundation for San Diego Forward: The Regional Plan and other planning documents (e.g., water, general plans) across the region. This summary provides an overview of the regional demographic, economic, and housing trends expected over the next four decades for the San Diego region.

# SANDAG – Smart Growth Map

In 2004, SANDA adopted the Regional Comprehensive Plan (RCP) for the San Diego region. The RCP, which was incorporated into San Diego Forward: The Regional Plan, provides a vision for the region based on smart growth and sustainability. Part of this process was the development of a Smart Growth Concept Map (SGCM). The most recent update of the technical map was completed in May 2016 (shown below). There are seven smart growth “place types” reflecting the notion that smart growth is not a “one-size-fits-all” endeavor. **The Subject is located in the inset map with the location designation “CN-2”. As such, the Subject is in a SANDAG smart growth location.**

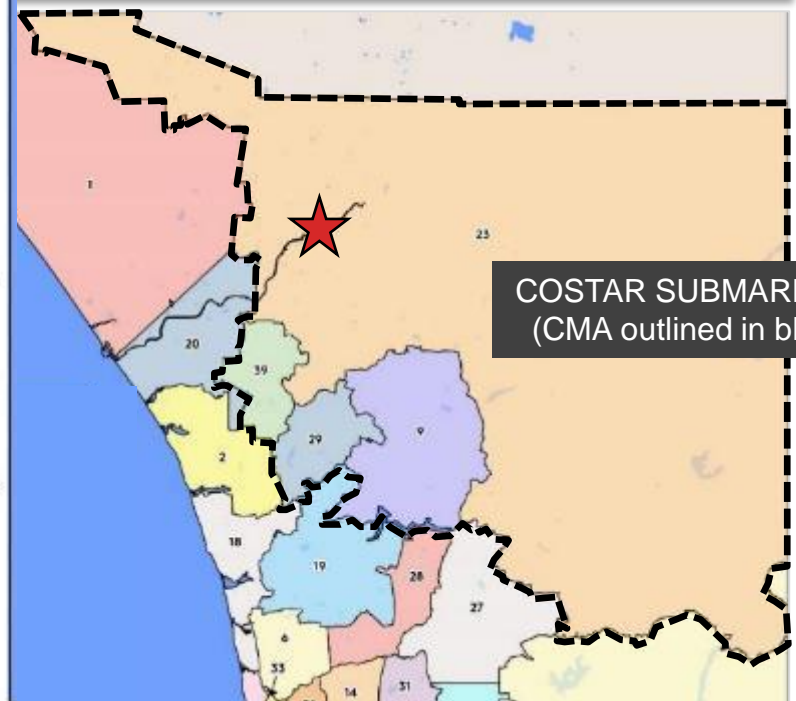


# SANDAG & CoStar Submarkets

- Passerelle is in the SANDAG North County East Major Statistical Area (MSA 5). To estimate future demand for office space at Passerelle we are utilizing SANDAG's SR13 forecasts for population and housing growth and SANDAG's upcoming SR14 preliminary forecasts for job growth.
- For information on supply and demand trends for office space we are utilizing data from the commercial data provider CoStar. The CoStar submarkets that most closely match with the SANDAG North County East MSA include four areas (which we are collectively referring to as the "Inland North" market):
  - 23 – Outlying SD County North
  - 9 – Escondido
  - 29 – San Marcos
  - 39 – Vista
- The SANDAG and CoStar areas do not 100% align. The primary difference between the CoStar IN submarket and the SANDAG North County East MSA 5 is that the CoStar area includes the community of Ramona, while SANDAG does not. The population of Ramona is only about 20K and represents only about 4% of the 460K population in the SANDAG North County East MSA (480K if Ramona is added). We have concluded that the aggregate CoStar IN and SANDAG North County East MSA areas are similar enough for our analytical purposes.



Camp Pendleton - 1
Carlsbad - 2
Chula Vista - 3
College Area - 4
Coronado - 5
Del Mar Hts/Carmel Valley - 6
Downtown - 7
East County - 8
Escondido - 9
Governor Park - 10
Kearny Mesa - 11
La Jolla - 12
MCAS Miramar - 13
Mira Mesa/Miramar - 14
Mission Gorge - 15
Mission Valley - 16
National City - 17
North Beach Cities - 18
North Central County - 19
Oceanside - 20
Old Twn/S Arena/Pt Loma - 21
Otay Mesa - 22
Outlying SD County N - 23
Outlying SD County S - 24
Park East - 25
PB/Rose Canyon/Marena - 26
Poway - 27
Rancho Bernardo - 28
San Marcos - 29
San Ysidro/Imperial Beach - 30
Scripps Ranch - 31
Sorrento Mesa - 32
Sorrento Valley - 33
Southeast San Diego - 34
Torrey Pines - 35
Uptown East - 36
Uptown West/Park West - 37
UTC - 38
Vista - 39



# SANDAG Projections – County – Pop/HHs



- Population growth from 2020 to 2035 in the county is projected at about 27.9K per year.
- Occupied housing unit growth from 2020 to 2035 is projected at about 9.9K per year (SF 2.2K per year, MF 7.8K per year).

## POPULATION AND HOUSING

	2012	2020	2035	2050	2012 to 2050 Change*	
					Numeric	Percent
Total Population	3,143,429	3,435,713	3,853,698	4,068,759	925,330	29%
Household Population	3,039,937	3,325,715	3,738,048	3,949,115	909,178	30%
Group Quarters Population	103,492	109,998	115,650	119,644	16,152	16%
Civilian	61,597	68,103	73,755	77,749	16,152	26%
Military	41,895	41,895	41,895	41,895	0	0%
Total Housing Units	1,165,818	1,249,684	1,394,783	1,491,935	326,117	28%
Single Family	703,101	731,693	758,622	763,226	60,125	9%
Multiple Family	420,147	477,258	597,762	692,709	272,562	65%
Mobile Homes	42,570	40,733	38,399	36,000	-6,570	-15%
Occupied Housing Units	1,103,034	1,178,091	1,326,445	1,407,869	304,835	28%
Single Family	672,496	697,416	730,471	730,020	57,524	9%
Multiple Family	391,534	443,213	560,793	645,548	254,014	65%
Mobile Homes	39,004	37,462	35,181	32,301	-6,703	-17%
Vacancy Rate	5.4%	5.7%	4.9%	5.6%	0.2	4%
Single Family	4.4%	4.7%	3.7%	4.4%	0.0	0%
Multiple Family	6.8%	7.1%	6.2%	6.8%	0.0	0%
Mobile Homes	8.4%	8.0%	8.4%	10.3%	1.9	23%
Persons per Household	2.76	2.82	2.82	2.81	0.1	2%

Multiple Family (MF) could include rental or for-sale homes.

Source: SANDAG SR13 Regional Growth Forecast, released in 2013. The forecast is in the process of being updated with new estimates to be available by the end of 2020 (SR14). According to SANDAG, the new forecast numbers for population and housing units are not expected to be substantially different than forecast in SR13.

# SANDAG Projections – MSA 5 – Pop/HHs

- Population growth from 2020 to 2035 in MSA 5 is projected at about 4.0K per year.
- Occupied housing unit growth from 2020 to 2035 is projected at about 1.3K per year (SF 664 per year, MF 634 per year).
- MSA 5 currently represents 14% of the countywide population and 13% of the countywide supply of housing units.

## POPULATION AND HOUSING

	2012	2020	2035	2050	2012 to 2050 Change*	
					Numeric	Percent
<b>Total Population</b>	438,503	487,700	547,881	573,295	134,792	31%
Household Population	432,566	482,109	541,229	565,889	133,323	31%
Group Quarters Population	5,937	5,591	6,652	7,406	1,469	25%
Civilian	5,937	5,591	6,652	7,406	1,469	25%
Military	0	0	0	0	0	0%
<b>Total Housing Units</b>	148,823	163,094	181,744	191,439	42,616	29%
Single Family	96,104	103,348	112,619	115,143	19,039	20%
Multiple Family	40,869	48,064	57,514	64,837	23,968	59%
Mobile Homes	11,850	11,682	11,611	11,459	-391	-3%
<b>Occupied Housing Units</b>	142,516	155,935	175,276	183,758	41,242	29%
Single Family	93,001	99,720	109,680	111,556	18,555	20%
Multiple Family	38,687	45,507	55,018	61,990	23,303	60%
Mobile Homes	10,828	10,708	10,578	10,212	-616	-6%
<b>Vacancy Rate</b>	4.2%	4.4%	3.6%	4.0%	-0.2	-5%
Single Family	3.2%	3.5%	2.6%	3.1%	-0.1	-3%
Multiple Family	5.3%	5.3%	4.3%	4.4%	-0.9	-17%
Mobile Homes	8.6%	8.3%	8.9%	10.9%	2.3	27%
<b>Persons per Household</b>	3.04	3.09	3.09	3.08	0.0	1%

Multiple Family (MF) could include rental or for-sale homes.

Source: SANDAG SR13 Regional Growth Forecast, released in 2013. The forecast is in the process of being updated with new estimates to be available by the end of 2020 (SR14). According to SANDAG, the new forecast numbers for population and housing units are not expected to be substantially different than forecast in SR13.

# SANDAG Projections – Job Forecasts



## San Diego County Region

- SR13 projected civilian job growth from '20-'50 totals 287K, or 9.6K per year.
- For SR14, SANDAG has preliminarily increased their 30-year growth projection to almost 377K, or about 12.6K per year.
- COVID-19 is expected to substantially impact near-term job conditions (the next 1 to 2 years), but SANDAG has indicated that they do not expect the virus to significantly alter their 2050 projections.

### San Diego County Region

#### Original Forecast (2013)

Category	2012	2020	2035	2050	2020-2035		2020-2050	
					Total	Annual	Change	Annual
Total Jobs	2,093,526	1,624,124	1,769,938	1,911,405	145,814	9,721	287,281	9,576
Civilian Jobs	1,346,969	1,520,180	1,665,994	1,807,461	145,814	9,721	287,281	9,576
Military Jobs	746,557	103,944	103,944	103,944	0	0	0	0

#### Preliminary Updated Forecast (2020)

Category	2012	2020	2035	2050	2020-2035		2020-2050	
					Total	Annual	Change	Annual
Total Jobs	--	1,667,500	1,870,403	2,051,357	202,903	13,527	383,857	12,795
Civilian Jobs	--	1,561,356	1,757,591	1,938,545	196,235	13,082	377,189	12,573
Military Jobs	--	106,144	112,812	112,812	6,668	445	6,668	222

#### Change in Forecast 2020 vs. 2013

Category	2012	2020	2035	2050	2020-2035		2020-2050	
					Total	Annual	Change	Annual
Total Jobs	--	43,376	100,465	139,952	57,089	3,806	96,576	3,219
Civilian Jobs	--	41,176	91,597	131,084	50,421	3,361	89,908	2,997
Military Jobs	--	2,200	8,868	8,868	6,668	445	6,668	222

## North County East (MSA 5)

- SR13 projected civilian job growth from '20-'50 totals 41K, or 1.4K per year.
- For SR14, SANDAG has preliminarily increased their 30-year growth projection to over 45K, or about 1.5K per year.
- The share of countywide jobs in MSA 5 is projected to increase from 11% in 2020 to 12% in 2050.

### North County East (MSA 5)

#### Original Forecast (2013)

Category	2012	2020	2035	2050	2020-2035		2020-2050	
					Total	Annual	Change	Annual
Total Jobs	150,648	172,596	196,823	213,773	24,227	1,615	41,177	1,373
Civilian Jobs	150,648	172,596	196,823	213,773	24,227	1,615	41,177	1,373
Military Jobs	0	0	0	0	0	0	0	0

#### Preliminary Updated Forecast (2020)

Category	2012	2020	2035	2050	2020-2035		2020-2050	
					Total	Annual	Change	Annual
Total Jobs	--	169,510	192,524	214,563	23,014	1,534	45,053	1,502
Civilian Jobs	--	169,510	192,524	214,563	23,014	1,534	45,053	1,502
Military Jobs	--	0	0	0	0	0	0	0

#### Change in Forecast 2020 vs. 2013

Category	2012	2020	2035	2050	2020-2035		2020-2050	
					Total	Annual	Change	Annual
Total Jobs	--	-3,086	-4,299	790	-1,213	-81	3,876	129
Civilian Jobs	--	-3,086	-4,299	790	-1,213	-81	3,876	129
Military Jobs	--	0	0	0	0	0	0	0

Source: SANDAG SR13 Regional Growth Forecast, released in 2013. The forecast is in the process of being updated with new estimates to be released in 2021 (SR14). According to SANDAG, the new forecast numbers for population and housing units are not expected to be substantially different than forecast in SR13.



# ECONOMIC TRENDS & COVID-19

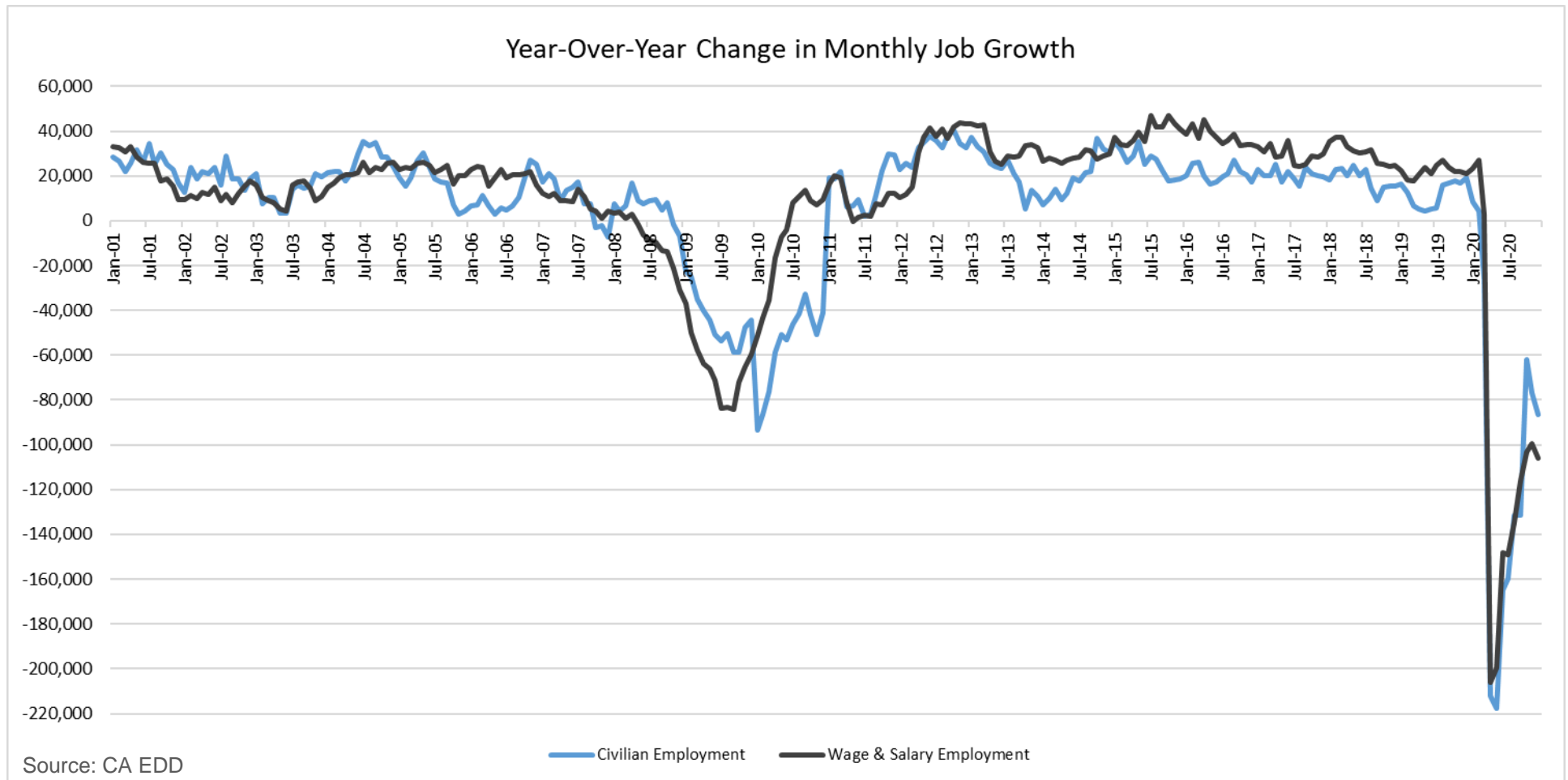
# Mortgage Interest Rates

- As of mid-January 2021, the average conventional 30-year fixed rate mortgage was 2.8%.
- Recent rates are the lowest on record.
- Low interest rates have improved housing affordability but are leading to some degree of asset inflation.
- More prospective home buyers are entering the housing market thanks to the low rates.
- Low rates are also fueling a refinancing boom.
- While low rates are a positive for buyers, low rates can also result in “rate lock” where an existing homeowner with a low mortgage rate and payment decides to stay put in a home instead of purchasing a higher priced home and incurring higher monthly housing payments and potentially higher taxes as well.



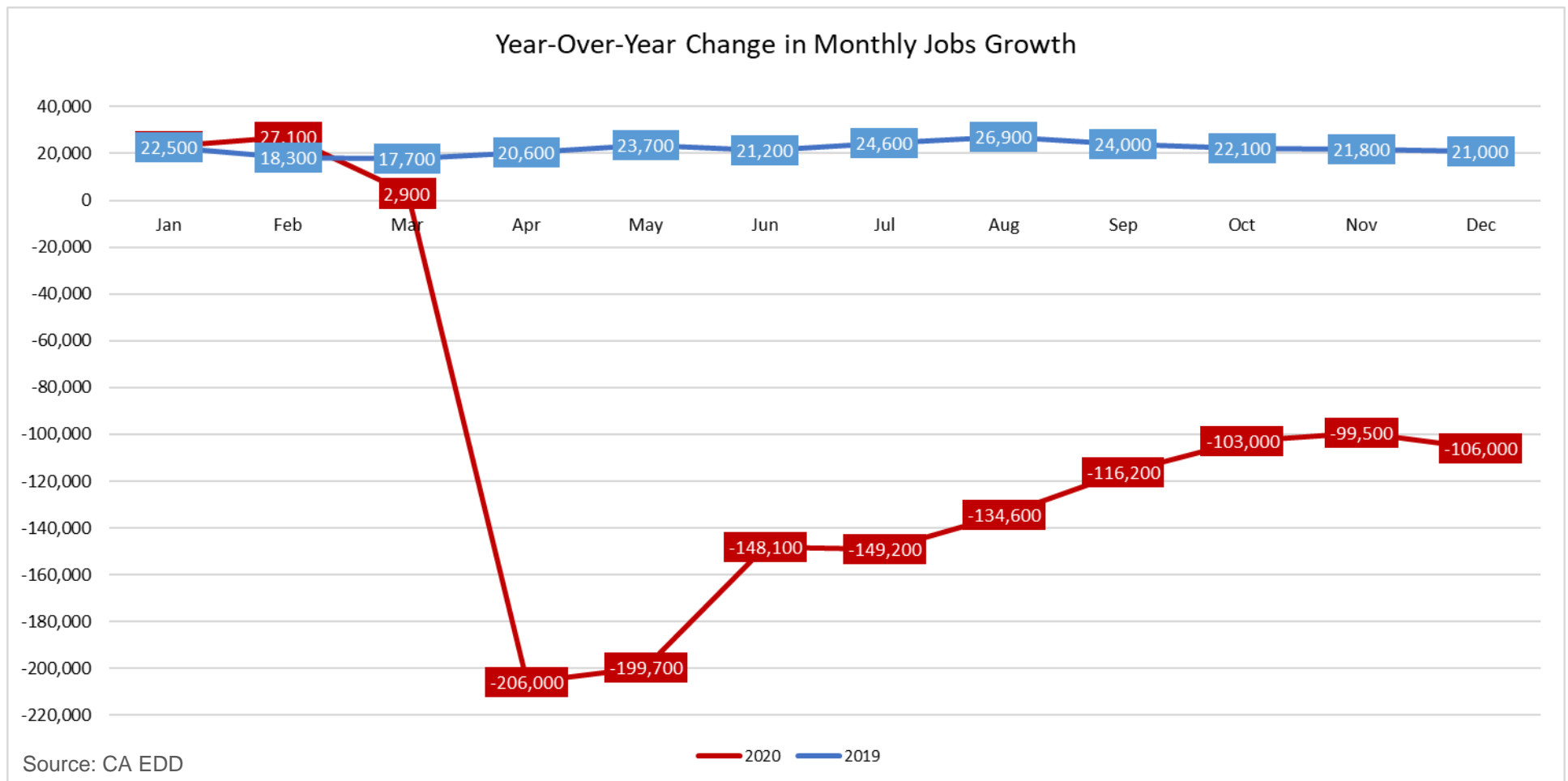
# Job Change – 2001 to 2020

- Prior to the COVID-19 economic lockdown which began in mid-March 2020, the San Diego economy had been adding jobs.
- Major shocks have derailed the San Diego economy twice in the last 20 years: the Great Recession from about 2008 through 2010, and the current COVID-19 crisis. The local economy eventually recovered from the Great Recession, and economists are projecting that positive year-over-year job growth will return to San Diego in 2021.
- As of February of 2020 (pre-COVID-19), the San Diego economy had added 27K jobs YOY, which was above the 20-year average of 16K jobs per year. Excluding the Great Recession from 2008 through 2010, San Diego has added an average of 24K new jobs per year since 2000.



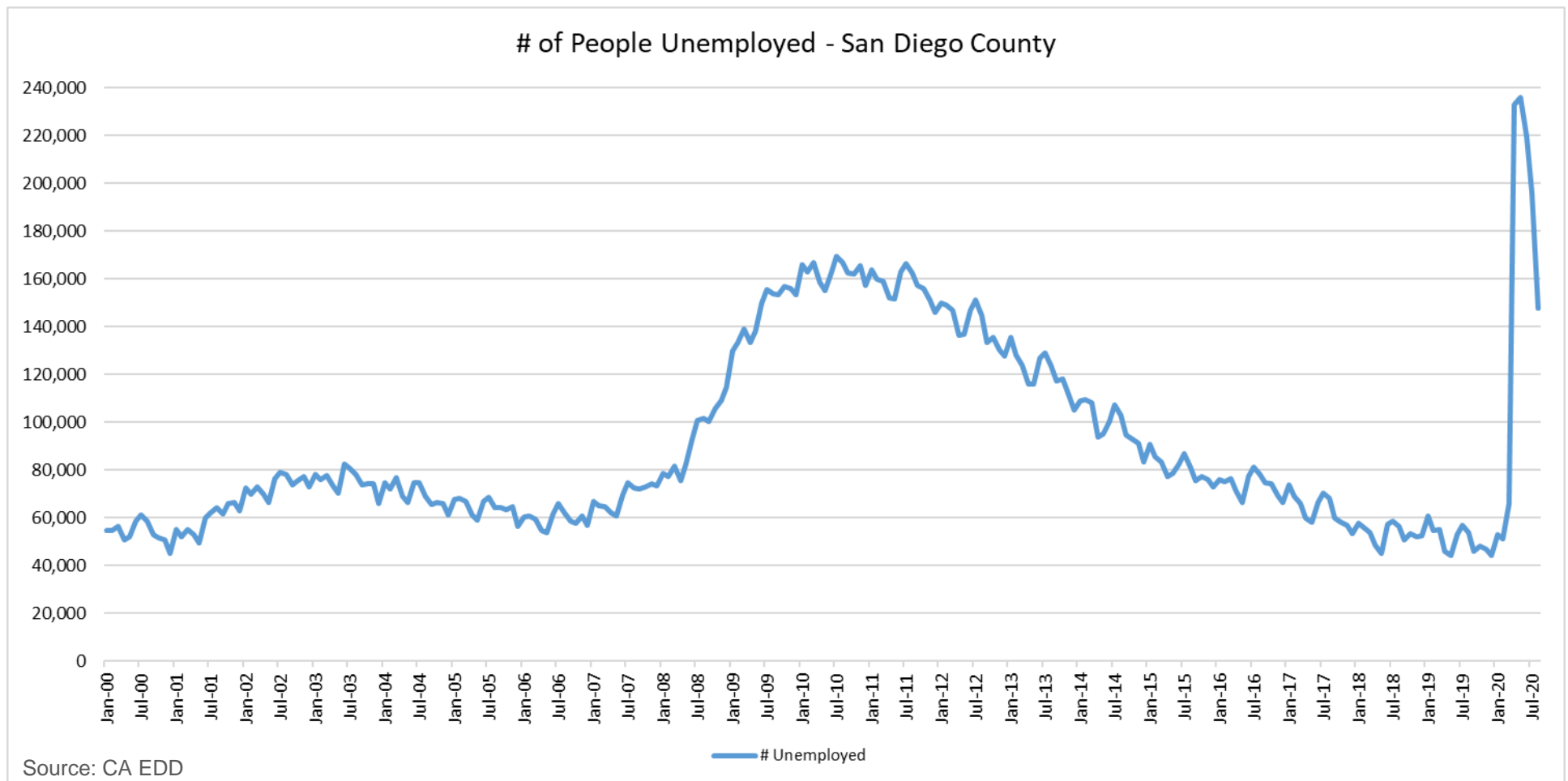
# Monthly Job Change – 2020 vs. 2019

- Just before the virus hit, year-over-year job growth in February of 2020 was 27K; substantially higher than the same month in 2019 (18K). The economy was accelerating in 2020 before the virus hit.
- As adjustments have been implemented to help cope with the virus, many jobs have already returned. From peak year-over-year job losses of (-206K) in April, the job count was down “only” (-106K) as of December, a gain of 100K jobs.
- It is worth noting that while SANDAG expects that the impacts of COVID will be severe in the short-term, they do not expect substantial long-term negative impacts on their projections for future job growth in the region.



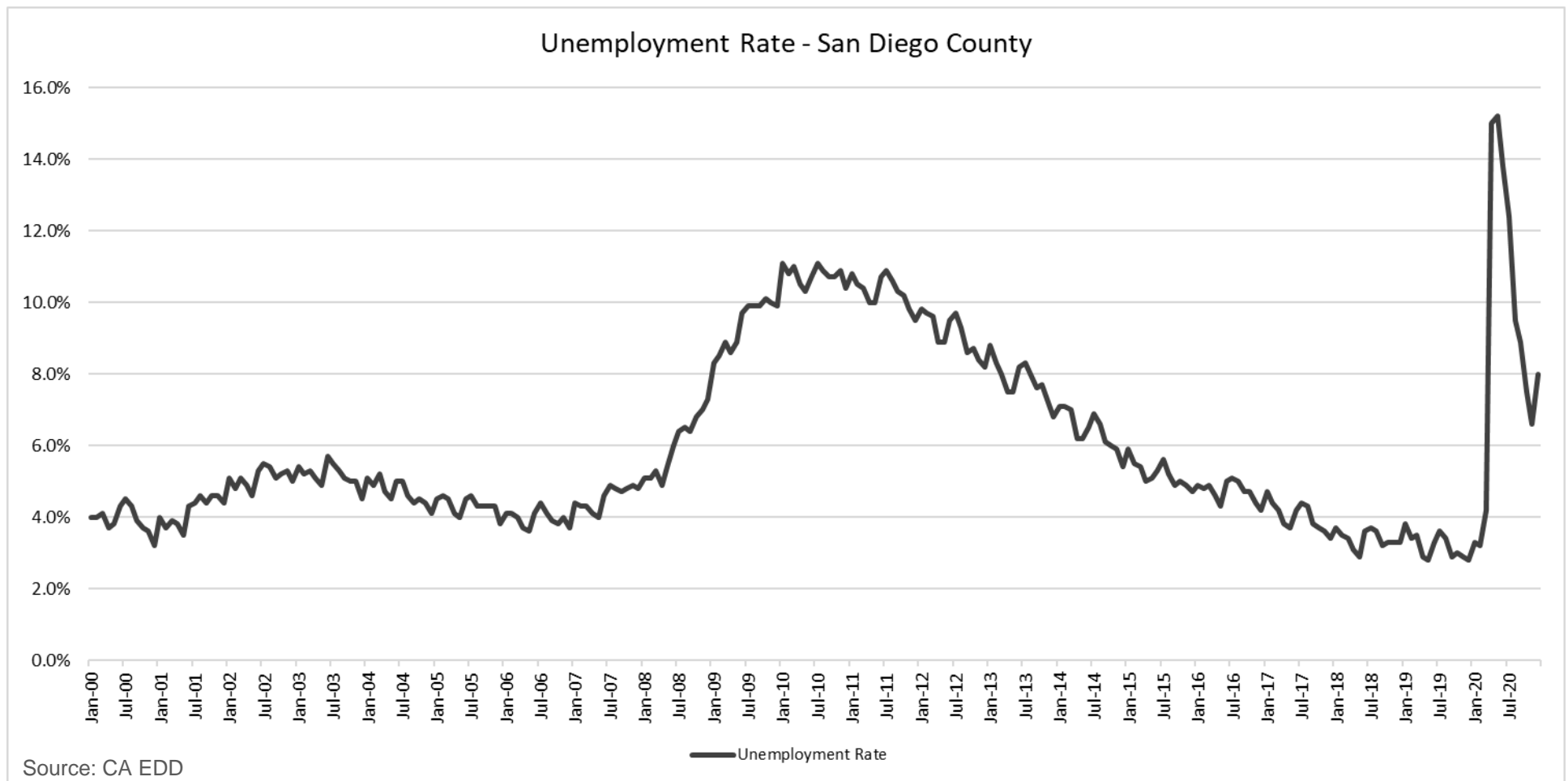
# # Unemployed – 2000 to 2020

- Job losses due to fall-out from COVID-19 quarantines pushed the number of unemployed workers in the county to a record high of almost 240K in April of 2020. The prior high had been about 169K at the depth of the Great Recession.
- Some workers have dropped out of the workforce, however many others have returned to work. As of December, the number of workers unemployed in San Diego County had dropped to under 127K – or +/-42K less than during the worst of the Great Recession.
- It is worth noting that despite record high unemployment, the housing market in San Diego County is currently quite strong as those who do have jobs and qualify for a mortgage are taking advantage of record-low interest rates.



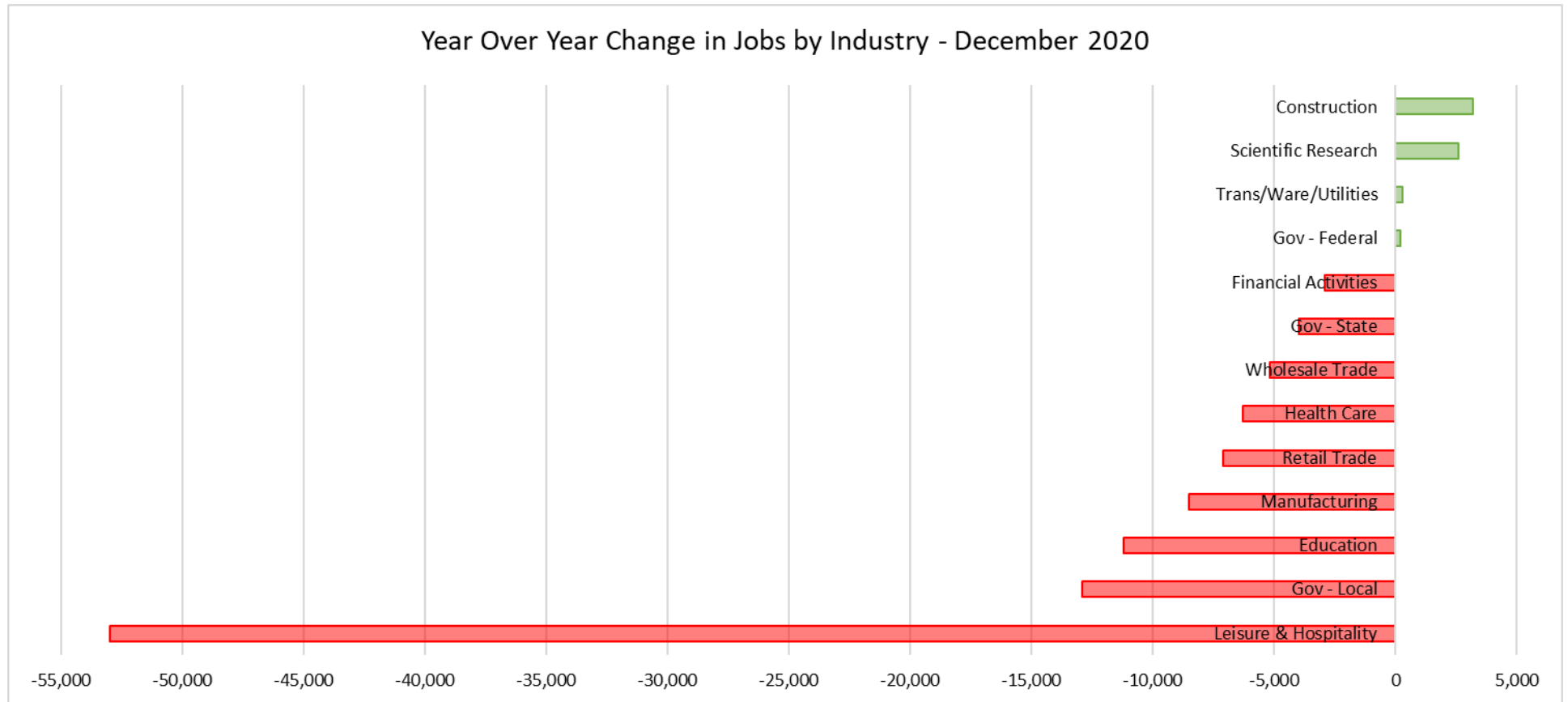
# Unemployment Rate – 2001 to 2020

- Moving in tandem with the rise in the number of workers without jobs, the unemployment rate spiked to over 15% in April and May of 2020.
- As workers have found employment, the unemployment rate dropped to 8% in December of 2020, which is well below the worst years of the Great Recession (+/-11%).



# Unemployment by Industry – Dec 2020

- As a popular tourist destination, San Diego has always had a high proportion of jobs in the leisure & hospitality sector.
- With COVID-19 restricting travel, and major theme parks shut down, the leisure & hospitality sector has been particularly hard hit, with year-over jobs losses totaling 53K positions.
- Pre-COVID, the leisure & hospitality sector represented 13% of all jobs in the county.
- Leisure & hospitality represents 50% of the jobs lost in the county post-COVID.
- Leisure & hospitality jobs tend to be at the lower end of the pay spectrum. As a result, leisure & hospitality job losses are hitting the apartment market harder than the for-sale market, as the lower leisure & hospitality incomes preclude many households from being able to afford to buy a home (unless it is the second income in a dual-income household).



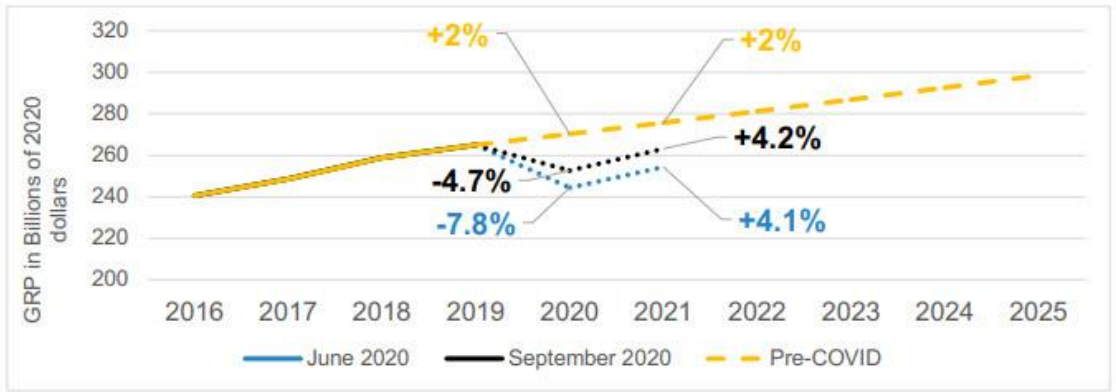
# SANDAG Commentary on COVID-19 Impacts



UPDATE | July 22, 2020

## COVID-19 Impact on the San Diego Regional Economy

It is clear by now that the recovery will take time, and it is very likely that more small businesses will close for good. Figure 6 represents the different recovery scenarios SANDAG is currently considering, with the economy going back to pre-COVID trends in 2023 at the earliest, but potentially much later.



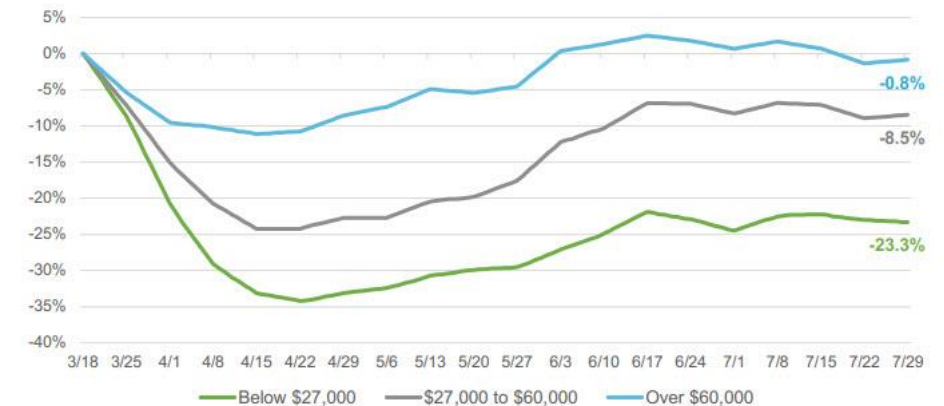
<sup>2</sup> These nine forecasts include: Deloitte, IHS Markit, OECD, U.S. Federal Reserve, Oxford Economics Forecasting, Wells Fargo, Conference Board, Moody's, and Goldman Sachs.

### Possible lasting effects beyond 2026

- Discouraged workers leaving the workforce
- Educational disruptions (students drop out rates)
- Less investment in the capital stock
- Existing capital less productive given restrictions
- Real Estate, Commercial Leasing

**Lower-income workers have been among those most likely to lose their jobs and after over four months, to remain unemployed, compared to middle- and high-income workers.**

Figure 2: Percent Change in Employment by Income Category in the San Diego Region



Source: Estimates based on data from Opportunity Insights Economic Tracker based on research from Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team [tracktherecovery.org/](https://www.tracktherecovery.org/)

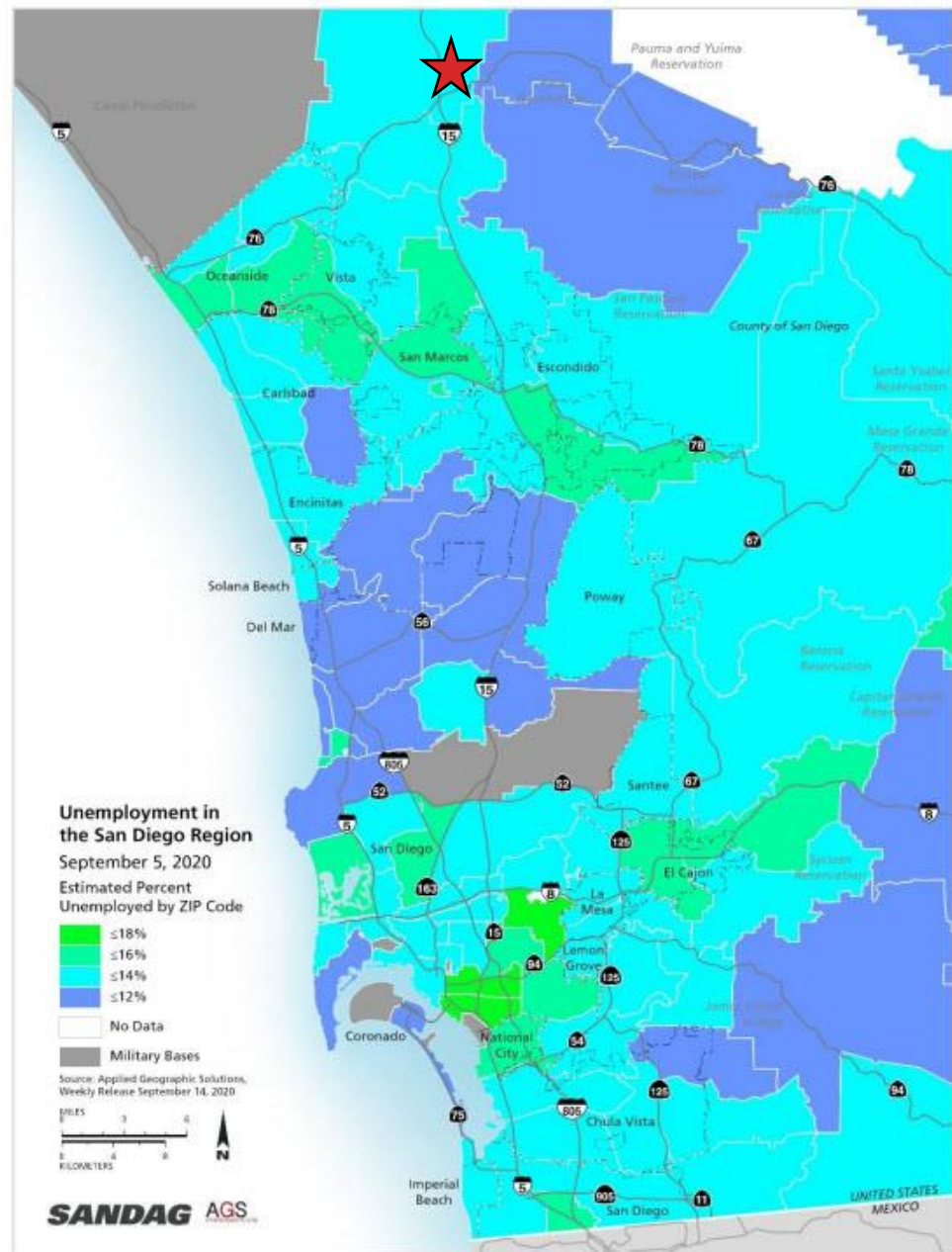


# SANDAG - Unemployment by Zip Code

The new statewide guidelines make it challenging for many businesses to resume full operations. This has resulted in continued high levels of unemployed workers and dramatic declines in economic activity and consumer spending for the foreseeable future.

The areas experiencing the highest unemployment rates remain the same. Estimated unemployment rates for those ZIP Codes are:

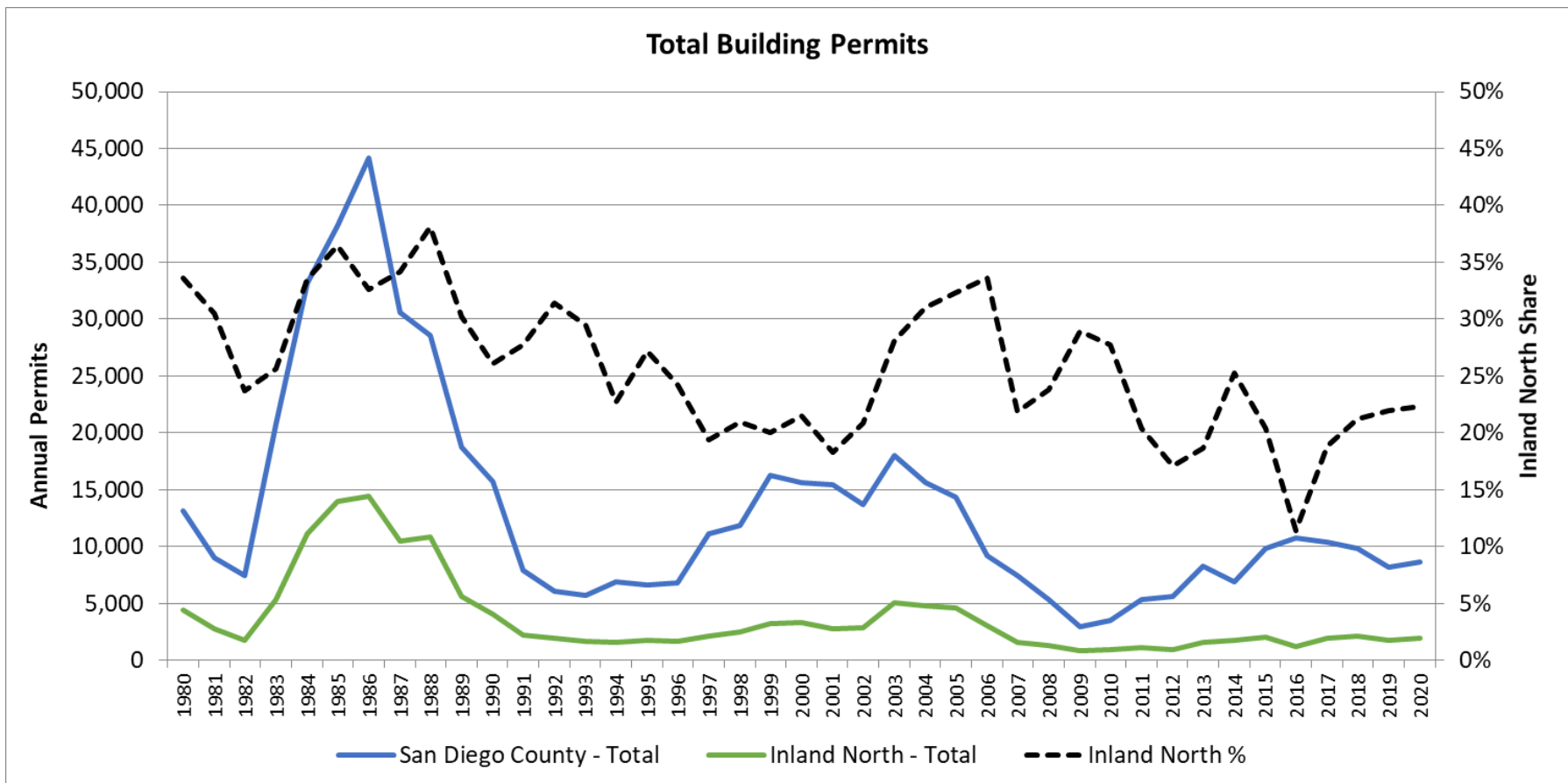
- 92113 Logan Heights (17.6%)
- 92102 Golden Hill (16.5%)
- 92115 College (16.4%)
- 92105 City Heights (15.8%)
- 92054 Oceanside S (15.4%)
- 91950 National City (15.3%)
- 92083 Vista W (14.9%)
- 92081 Vista S (14.8%)
- 92173 San Ysidro (14.7%)
- 92025 Escondido S (14.6%)



Source: Applied Geographic Solutions, Inc., Thousand Oaks, California, Weekly Release September 14, 2020

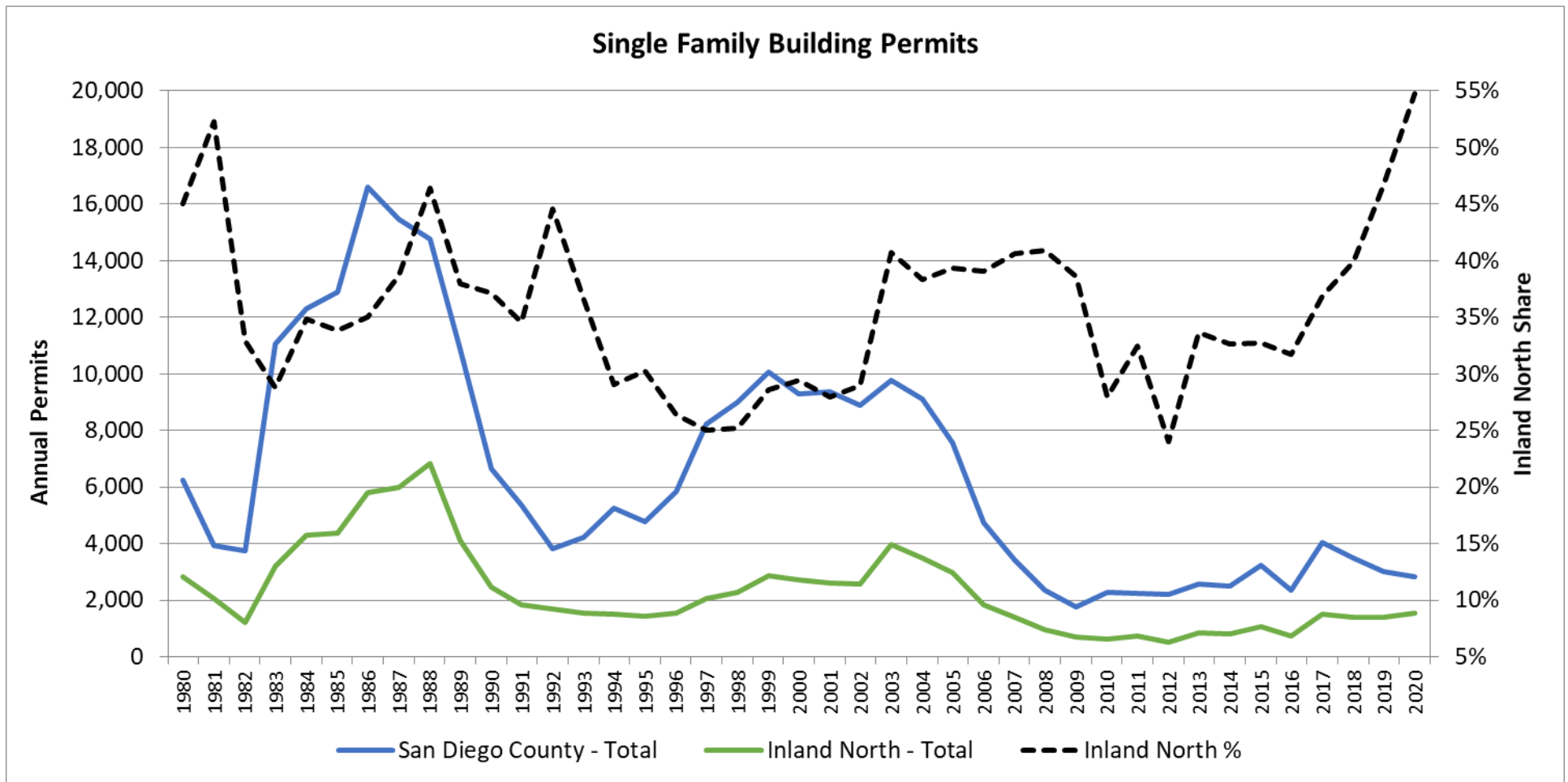
# Building Permits - Total

- After topping 25K permits per year for most of the 1980s, San Diego County has not topped 20K permits in any year since.
- A look at the data from the last 40 years shows a dramatic decline in the number of new homes built. Housing growth has failed to keep up with the demands of a growing population and economy. As a result, prices have steadily risen.
- Since 2006, permit activity has averaged just 7.4K per year, topping 10K only twice (10.8K in 2016 and 10.4K in 2017).
- Permit activity in the IN market also peaked in the 1980s (topping 10K per year each year from 1984 through 1988).
- As large master planned communities located in the IN market such as Discovery Creek and San Elijo Hills got built out from the 1980s to 2000s, and were not replaced by other new communities, the IN share of county-wide permits declined from the 25% to 35% range prior to the mid-1990s, to under 25% since 2010.
- The declining share of the IN market is an indicator that not enough new housing is being built in the submarket, not a lack of demand. From that perspective, offering residential uses at Passerelle would be a logical choice.



# Building Permits – Single Family

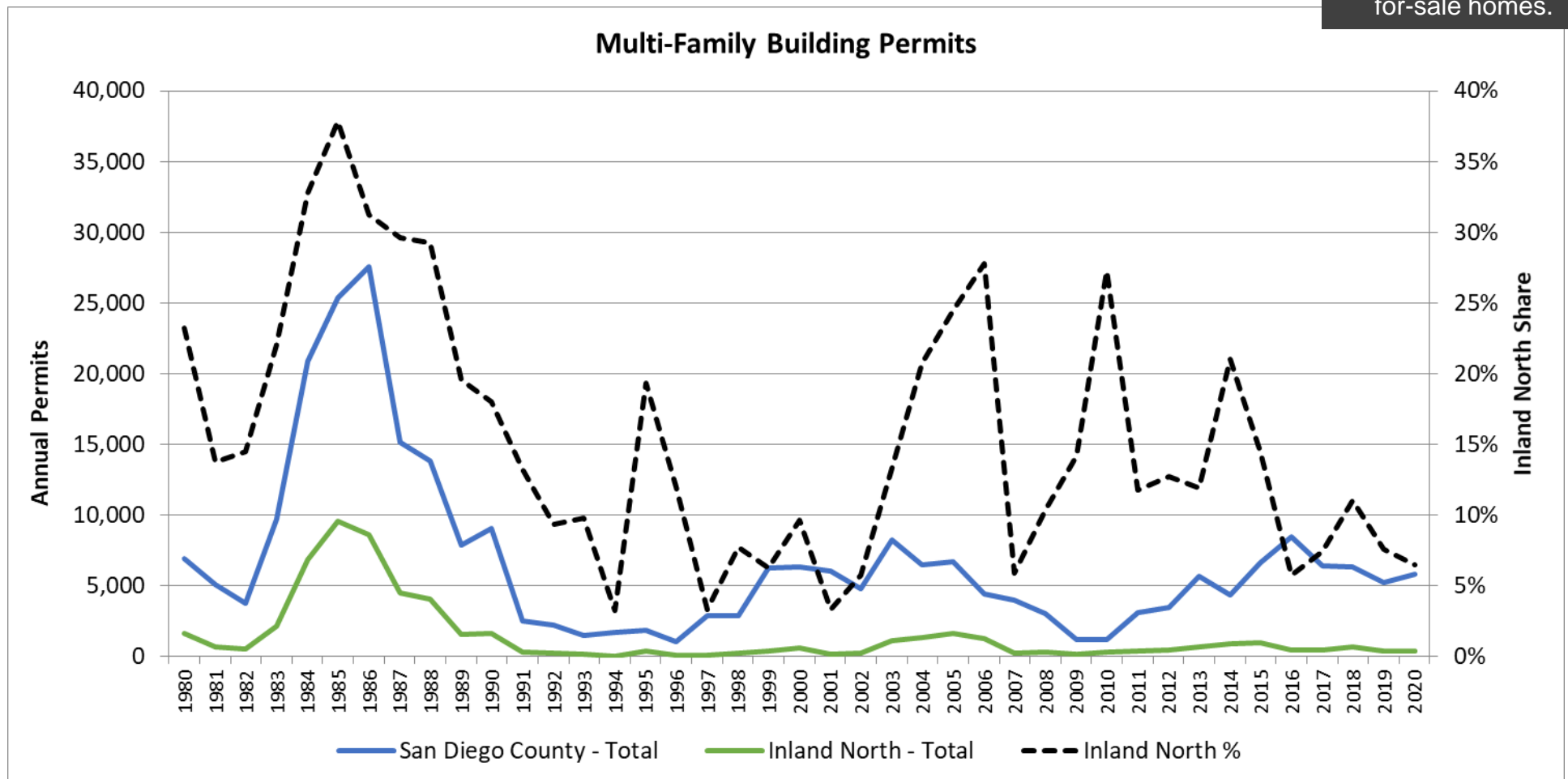
- The IN market has typically had a higher proportion of the SFD home market than the MF market (see following page).
- While the IN's share of total permits has generally declined over the last few decades (see prior page), it's share of SFD permit activity has consistently represented over 25% of the county, and usually over 30%.
- Several large communities opened in the second half of the latest decade that contributed to the IN market share topping 40% in 2018 and 2019, and 50% in 2020; however, those communities are now either sold-out or nearing sell-out (Rancho Tesoro in San Marcos, Harmony Grove just west of Escondido and Horse Creek Ridge in Fallbrook).



# Building Permits – Multi-Family

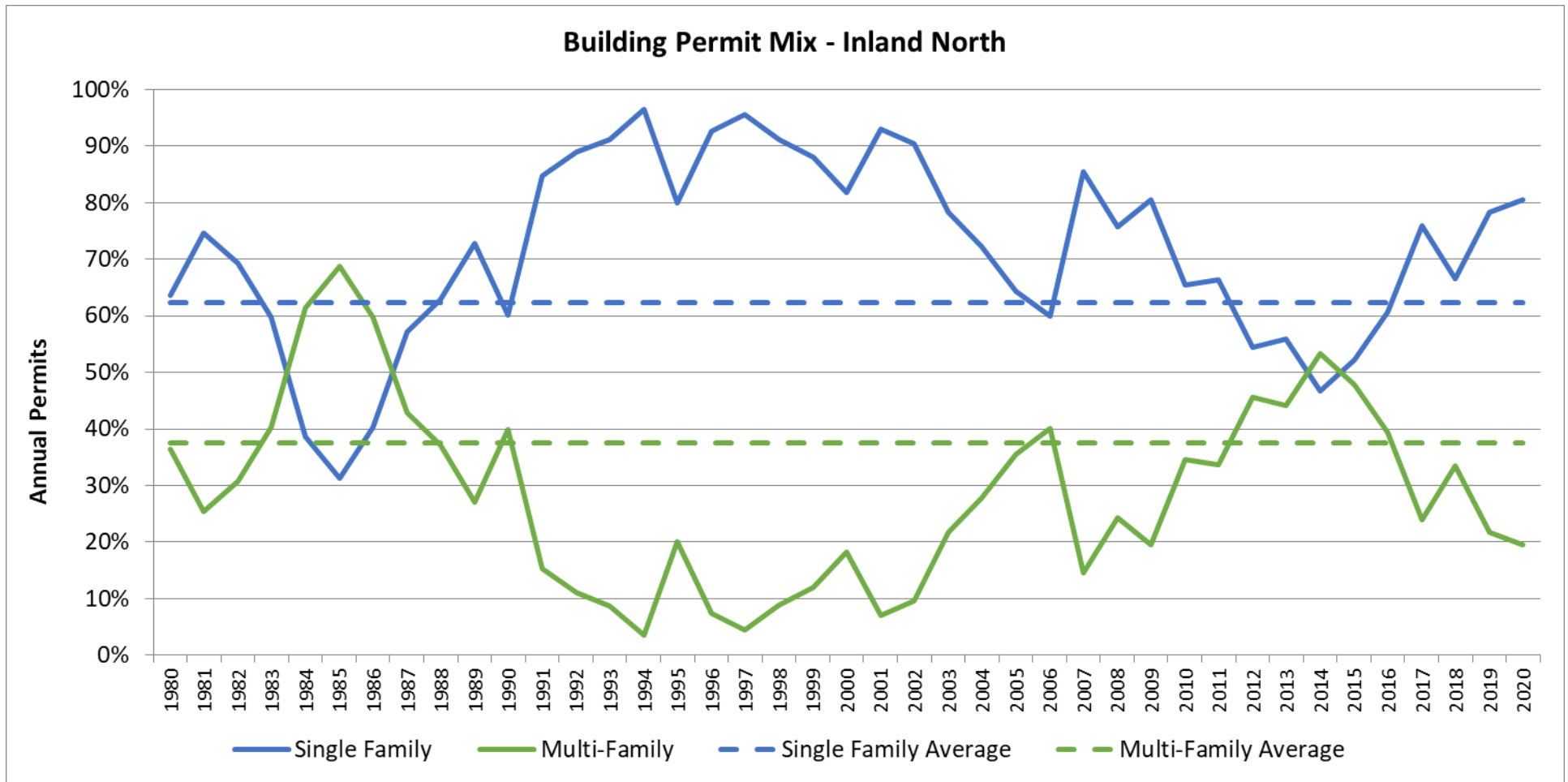
- The majority of housing built to serve this market has been SFD homes.
- Since 1991, the IN has topped 1.5K MF units only once (2005) and has not topped 1.0K units since 2006.
- Since 1991, the IN market has averaged just 511 MF units per year (12% of the countywide total).
- The lack of MF building for almost the last 30 years could indicate that there might be pent-up demand.

Multi-family permits can be for rental or for-sale homes.



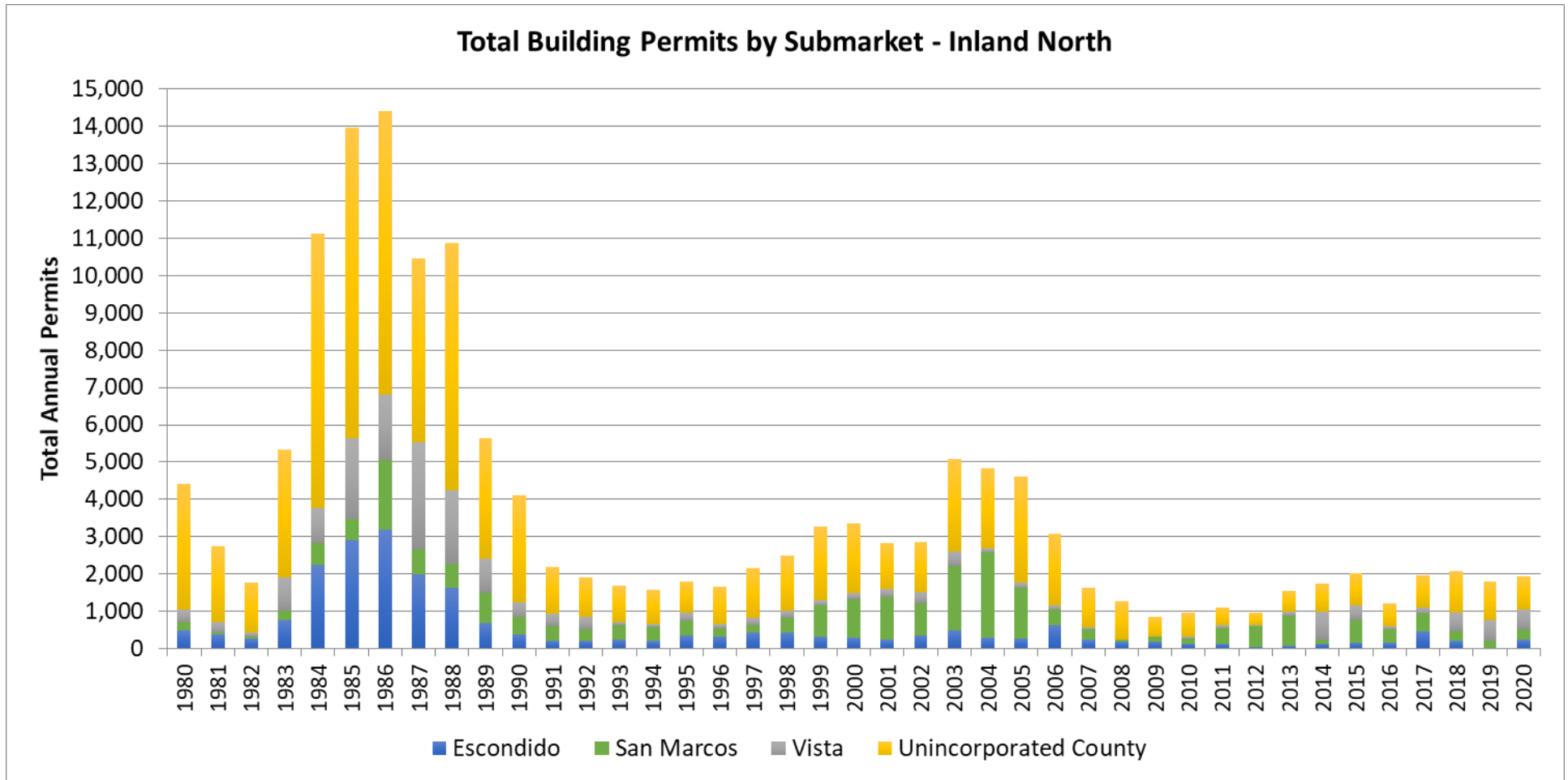
# Building Permits – Inland North Mix

- Since 1980, 62% of all permits issued in the IN market were SFD and 38% MF. In the 2010s the ratio was still 63% SFD and 37% MF.



# Building Permits – Inland North by Submarket

- Unincorporated San Diego County, which includes Fallbrook and Bonsall (but also portions of east and south county) has represented 57% of permit activity in the IN market over the last 40 years.
- Market share has been relatively even in Escondido (15%), San Marcos (15%) and Vista (12%) over the same time period.
- Activity in the unincorporated county has plummeted from 48K permits in the 1980s to just 7K in the 2010s.
- From a demand standpoint, based on historical activity, it appears that the unincorporated county area could support substantially more permit activity than actually occurred over the past 10 years. This would indicate that a location such as Passerelle could be a viable opportunity for new residential development.

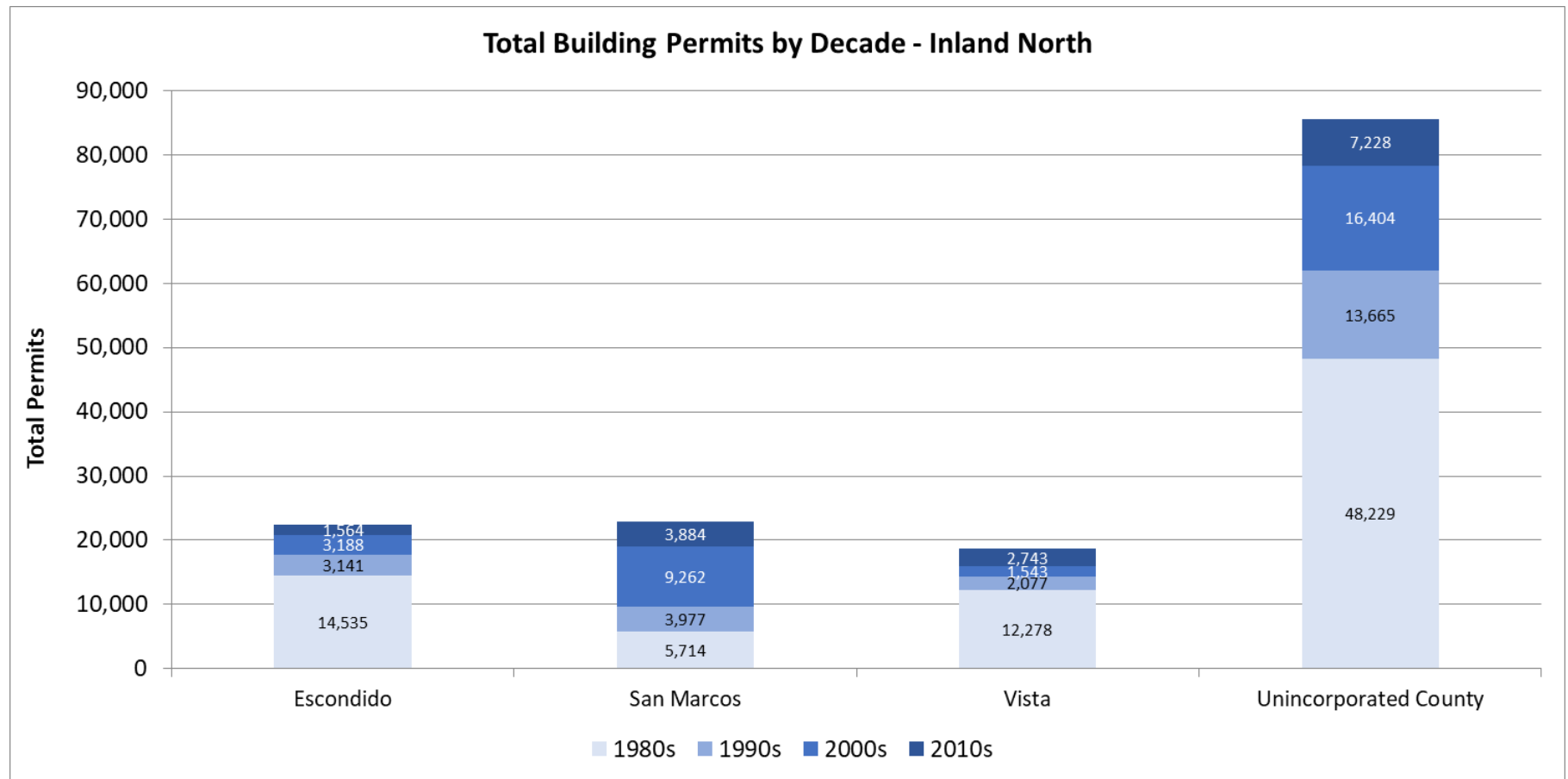


# Building Permits – Inland North by Decade



- Over the last 4 decades, 54% of all permits were issued in the 1980s (81K).
- Reflecting a diminishing supply of land and less political support for new development, only 10% of permits were issued in the 2010s (15K).
- The IN market is clearly undersupplied for new housing today compared to past decades, supporting the opportunity for residential at Passerelle.

Decade	Submarket Total Permits				Permits by Decade	
	Escondido	San Marcos	Vista	Unincorporated County	Total	% of Total
1980s	14,535	5,714	12,278	48,229	80,756	54%
1990s	3,141	3,977	2,077	13,665	22,860	15%
2000s	3,188	9,262	1,543	16,404	30,397	20%
2010s	1,564	3,884	2,743	7,228	15,419	10%
Total	22,428	22,837	18,641	85,526	149,432	100%
% of Total	15%	15%	12%	57%	100%	--



# OFFICE MARKET ANALYSIS

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# Office – San Diego Submarkets (CoStar\*)

- Passerelle is located in the CoStar Outlying SD County North submarket (23).
- We have defined a competitive market area (CMA) that closely aligns with what SANDAG calls the North County East MSA 5. Supply and demand conditions relative to the Passerelle property are impacted by trends within the CMA, which includes the CoStar submarkets of:
  - 23 – Outlying SD County North
  - 9 – Escondido
  - 29 – San Marcos
  - 39 – Vista
- We have named the CoStar market area encompassing the above submarkets as the “Inland North” market area.
- \* CoStar is a nation-wide data provider of commercial market information (office, industrial, retail, multifamily, hospitality and land). CoStar aggregates information from a variety of primary and secondary sources.



**San Diego Office Submarket Overview**



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# Summary of Office Market Trends

## General Outlook for the Office Market

- **COVID-19 is expected to have a lasting negative impact on the office market.**
- For at least the next few years, **companies going out of business are expected to exceed new start-ups** or companies looking to expand their office footprint, pushing vacancy rates up.
- COVID-19 has accelerated the **work-from-home trend** which had already been slowly rising for years. This will negatively impact the demand for new office space.
- Prior to COVID-19, **the office market had been strong** in both the San Diego region and the IN market.

## Inland North Office Stats & Trends (per CoStar)

- There is **6.9M sf of office space in the IN** market; +/-6% of the county as a whole (118.7M sf). The south Riverside market has 6.6M sf of office.
- Vacancy and availability rates are similar in the IN and the county as a whole.
- As of 4Q 2020, the **IN vacancy rate was 11.4%** (9.8% in 4Q 2019) vs. 11.5% in the county (9.1% in 4Q 2019).
- As of 4Q 2020, the **IN availability rate was 14.9%** (11.3% 4Q 2019) vs. 15.7% in the county (12.1% 4Q 2019).
- There is +/-792K sf of vacant space and **+/-1.03M sf of available space** in the IN market.
- The average **lease rate in the IN (\$26/sf)** is lower than the county as a whole (\$35/sf); the lease rate in the Outlying SD N market is \$23/sf, and south Riverside is \$24/sf.
- **+/-3.0M sf of new office space was under construction** in the county as a whole as of 4Q 2020 – the highest in 12 years. According to CoStar (4Q 2020 report):  
*“San Diego has more speculative office space under development than at any other time in the past decade, and almost none of it is pre-leased. That will add further upward pressure on San Diego’s vacancy rate once it begins delivering this year.”*
- CoStar estimates **office absorption was (-1.8M) sf over the L12M** in the county .

# Office – Broker Insights (1 of 2)

Office brokers familiar with the IN and/or Fallbrook and Bonsall markets were interviewed to gain insights into overall office market trends and trends in the local market. Highlights of the interviews are presented below.

## General Outlook for Office Space

- **More brokers were pessimistic than optimistic** regarding future opportunities for new office space.
- The overwhelming consensus is that **vacancies are going to rise** over the next 1-2 years as some businesses fail, and **fewer new business** start up to take their place.

## Work From Home vs. Working in an Office

- **The work-from-home movement has been accelerated by COVID-19.** It is highly likely that a portion of former office workers now working from home will not return to an office work environment at all. Others may return to an office only on a part-time basis. Both of these trends could reduce the demand for office space in the future.
- Some brokers note that there is already a growing recognition of the **benefits of employees working together** in a central office as opposed to the increasingly apparent shortcomings of remote working and on-line video calls. However, even brokers who are optimistic about workers returning to offices recognize that **open-space floor plan layouts may transition to a return to more private space.** Some believe that this **may increase the demand for office** space as each employee may need more space than in an open plan.
- The housing market has seen a surge in demand for homes with a **home office**, den, or extra bedroom that can serve as an office space. Work from home is freeing up many people to live in areas that might not have been possible for them even six months ago.

## Comments on Potential Office Users at Passerelle

- Although brokers like the freeway access and visibility of the Passerelle property, all felt that any demand for office space in the area would be **limited to local-serving users** such as doctor's offices, dentists, attorneys, insurance companies, real estate agents, and the like. Many of these users only need around 1,000 sf of space. Under current zoning, all of these uses could be accommodated in the Town Center site in Horse Creek Ridge. Lack of a major space-using tenant would make it difficult for an office developer to obtain financing at Passerelle.

# Office – Broker Insights (2 of 2)

## Office Demand at I-15 & SR76

- There is a feeling that Fallbrook is already an adequately served office market, and the **River Village center (185K sf)** captures the local demand from northeast Oceanside, Bonsall and Fallbrook (4.7 miles west of I-15 & SR76).
- Despite all of the new housing being built near SR76 and I-15, most brokers felt that there is **not enough of a nucleus** of households to warrant much more than about 20K to 40K sf of office space to serve the area, and that it would be very difficult to get a speculative office developer to build in anticipation of these types of users.

## Broker Quotes on the Office Market

- “The speculative **office market is completely dead** and will be for years.”
- “To finance a new office building, you need a solid long-term 10-15-year lease commitment from a credit tenant. **Good luck with that.**”
- “**Office vacancies are going to rise and demand is going to fall for years to come.**”
- “**A government anchor is no guarantee of demand** for other office users. San Marcos city hall area has struggled.”
- “Larger tenants want to be close to a **large population base**. The local area just doesn’t have it and it won’t.”
- “**Do not build 2-story buildings** with ground floor retail and office above – it won’t work.”
- “Watch. **People will start working in offices again** sooner than later. Jobs will come back and there will be demand for office space.”

## Office Land Value at Passerelle

- “**There is no demand so there is no value.**”
- There is very little interest in office land today. Estimated values for entitled office land in the SR76/I-15 ranged from about **\$4 to \$8 per square foot (about \$175K to \$350K per acre)**.
- But, every broker with land available says that they can go **years with no offers**, so estimated values for the area may be high because little to nothing is transacting to be able to truly gauge a supportable value.

## Rising vacancies, falling rents: 'The office market, it's like a slow-motion car wreck.'

**Michael Braga** USA TODAY

Published 12:01 a.m. ET Nov. 30, 2020 | Updated 2:16 p.m. ET Nov. 30, 2020

Hybrid models of remote work are likely to persist in the wake of the pandemic, mostly for a highly educated, well-paid minority of the workforce.

McKinsey Global Institute, November 23, 2020

## Office Markets Under Pressure as Coronavirus Squeezes Cities

Companies rethink rented space as remote work takes hold; fears of urban malaise begin to swirl

Wall St. Journal, August 4, 2020

### Q4 2020 SAN DIEGO OFFICE REPORT

At the end of Q4 2020, San Diego's direct office vacancy was 14.2%, an increase of 100 basis points (bps) from the previous quarter and 280 bps from a year ago.

Cushman-Wakefield, 1/19/2021

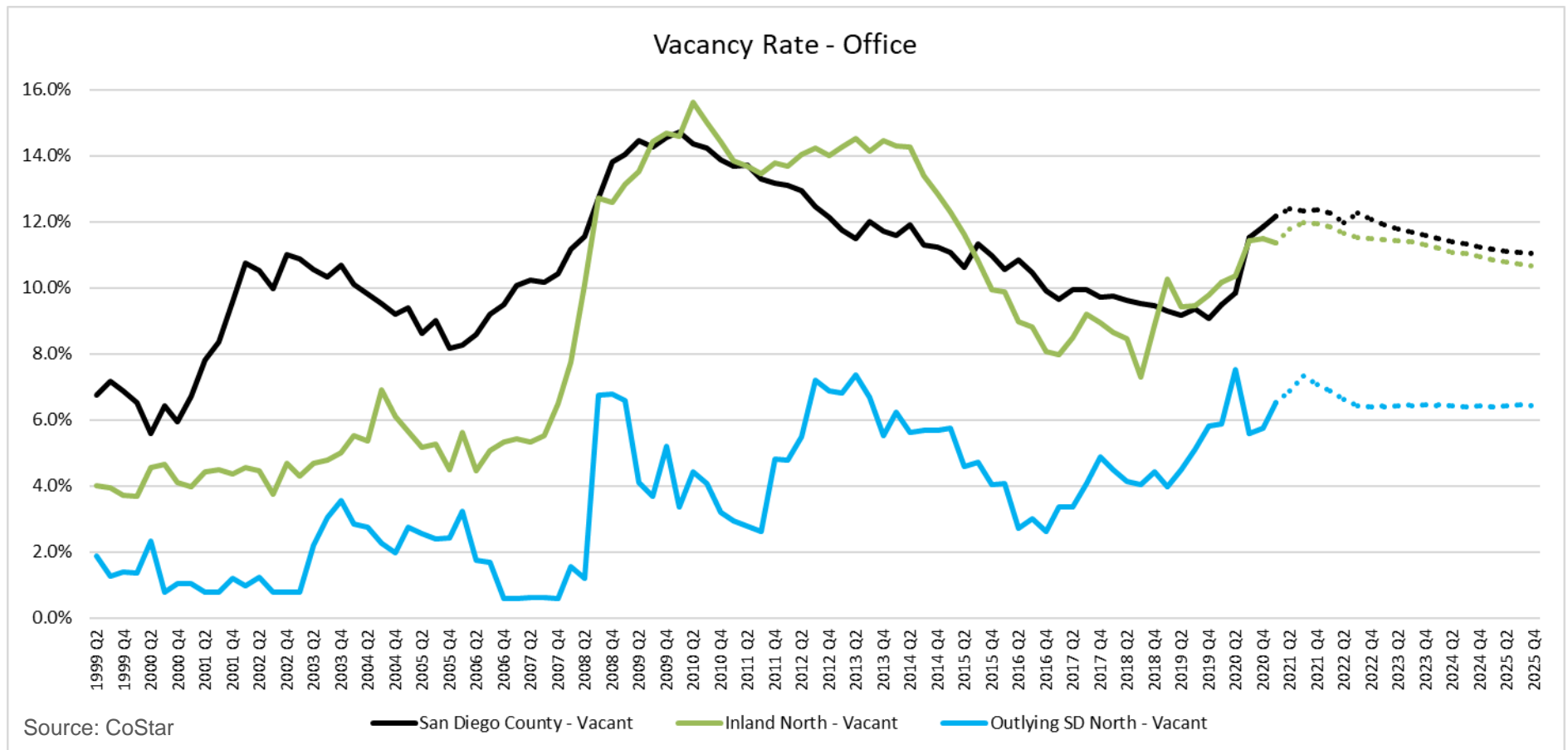
## What does working from home mean for the office market? - Remote Work Is Here to Stay

A [Gartner survey](#) of company leaders found that 80% plan to allow employees to work remotely at least part of the time after the pandemic, and 47% will allow employees to work from home full-time. In a [PwC survey](#) of 669 CEOs, 78% agree that remote collaboration is here to stay for the long-term.

FlexJobs, December 21, 2020

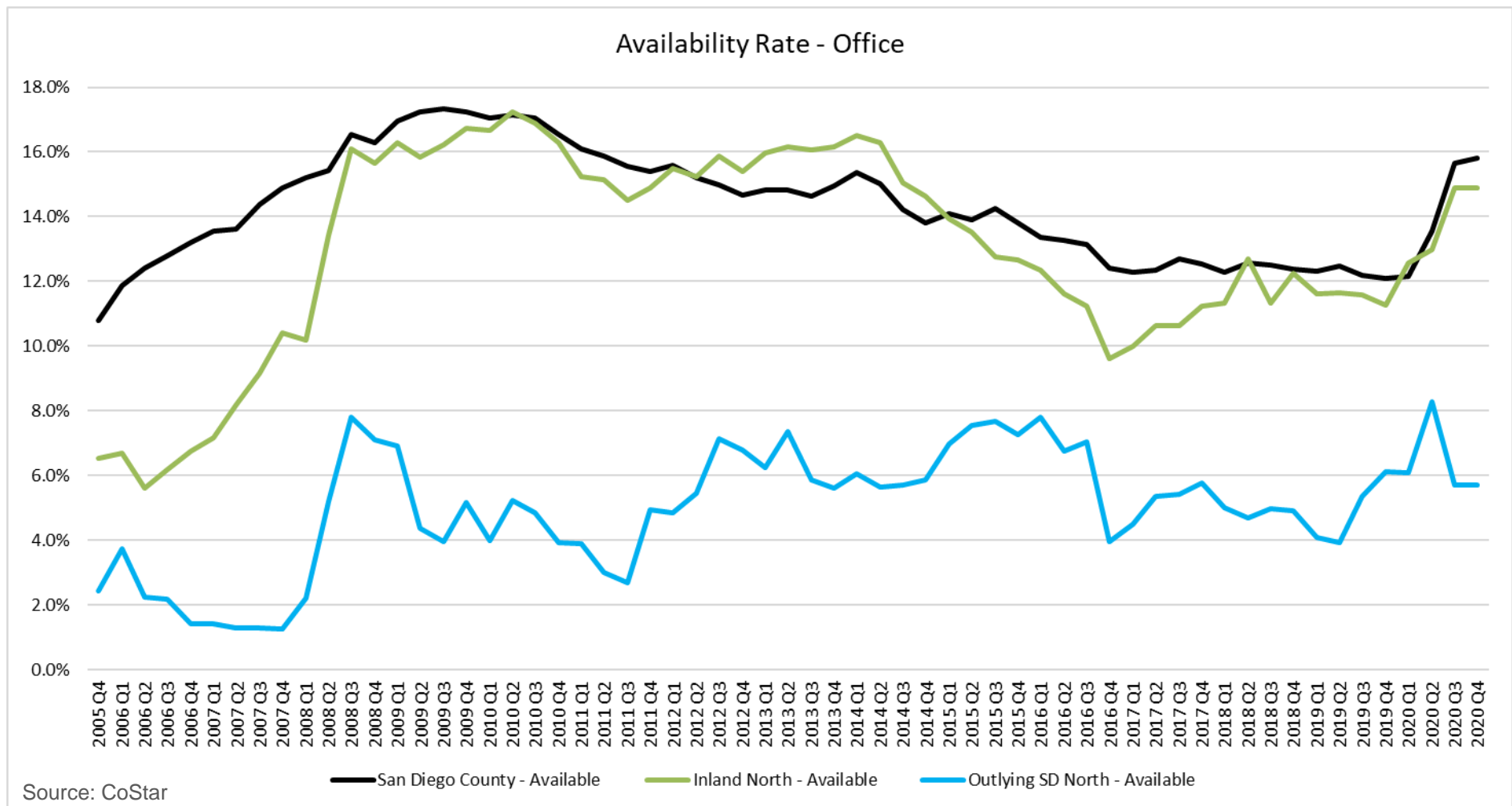
# Office – Vacancy Rate (Unleased Space)

- Speculative building in the mid-2000s and the Great Recession in the mid-to-late 2000s pushed vacancy rates in the county and in the IN market to over 14% in 2009. Until COVID-19 hit in March 2020, vacancy rates had been trending down and were at +/-9% in Q4 2019.
- The economic slowdown caused by COVID-19 is pushing vacancy rates back up as many businesses are struggling to survive or have shuttered. The vacancy rate in the county and the IN market has risen over 300 bp since Q4 2019, hitting 12% in the county in Q4 2020.
- The Outlying SD County North market has less than 1% of the office inventory in the county, consisting primarily of 1, 2 and 3-star properties (on a scale of 1 to 5 with 5 being best). With a relatively low inventory of space, and with very low rents compared to other parts of the county, office vacancy rates in the Outlying SD County North market have typically been lower than in the county as a whole and the rest of the IN market. While vacancy is typically lower in the Outlying SD County North market, rates have more than doubled over the last few years, rising from around 3% in 2016, to almost 7% today.



# Office – Availability Rate

- Available space includes vacant space plus space that is already leased but is on the market (typically is relet/sublet space).
- Reflecting the negative impacts of COVID, the availability rate in the county and the IN market has increased +/-400bp in the last year, reaching almost 16% in the county and 15% in the IN; the highest levels since the worst of the Great Recession in 2009/2010.
- Office spaces in the Outlying SD North market tend to be smaller (median +/-2K sf), on average, than in other parts of the county (median size of top 40 largest leases in the county over the L12M was 46K sf), resulting in less relet activity in the IN market than the county.



# Office – Net Absorption L12M

- Reflecting the negative impact that COVID-19 is having on the economy, net absorption of office space in the county as a whole was (-1.8M) sf over the L12M.
- CoStar is projecting that there will be negative absorption of just (-56K) sf over the next 12 months. Given current weakness in the office market, that projection appears to be overly optimistic.
- Over the L12M, the Outlying SD County N market experienced positive absorption of 390 sf.
- There is currently only about 43K sf of space available in the Outlying SD County N submarket, representing a 5.8% vacancy rate.
- The remaining IN submarkets have significantly more space available than the Outlying SD County N market:
  - Escondido: 251K available, 9.4%, L12M (+44K sf)
  - San Marcos: 149K available, 8.6%, L12M (-47K sf)
  - Vista: 354K available, 19.7%, L12M (-43K sf)
  - Total: 754K available)

SUBMARKET VACANCY & NET ABSORPTION

No.	Submarket	Vacancy			12 Month Absorption			
		SF	Percent	Rank	SF	% of Inv	Rank	Construc. Ratio
1	Carlsbad	1,128,157	14.7%	29	3,711	0%	8	3.6
2	Chula Vista	213,551	6.2%	16	(20,629)	-0.6%	18	-
3	College Area	81,542	5.1%	11	(29,573)	-1.9%	22	-
4	Coronado	2,732	1.5%	3	(1,417)	-0.8%	15	-
5	Del Mar Hts/Carmel Valley	760,891	14.8%	30	204,833	4.0%	1	1.4
6	Downtown	2,652,458	19.0%	35	(40,894)	-0.3%	24	-
7	East County	278,657	4.9%	10	21,835	0.4%	3	3.9
8	Escondido	250,862	9.4%	24	44,278	1.7%	2	1.8
9	Governor Park	144,988	16.1%	33	(64,587)	-7.2%	28	-
10	Keamy Mesa	1,400,711	12.0%	26	(311,507)	-2.7%	36	-
11	La Jolla	258,956	15.7%	32	(70,192)	-4.3%	30	-
12	MCAS Miramar	-	-	-	0	0%	-	-
13	Mira Mesa/Miramar	86,416	5.7%	14	10,004	0.7%	5	-
14	Mission Gorge	9,958	1.4%	2	987	0.1%	12	-
15	Mission Valley	1,100,045	15.0%	31	(447,666)	-6.1%	38	-
16	National City	22,507	2.8%	4	(3,804)	-0.5%	16	-
17	North Beach Cities	234,289	7.1%	17	(71,556)	-2.2%	31	-
18	North Central County	37,092	9.1%	21	(17,965)	-4.4%	17	-
19	Oceanside	181,057	9.1%	22	(21,555)	-1.2%	19	-
20	Old Twn/S Arena/Pt Loma	149,534	5.1%	12	(52,574)	-1.8%	27	-
21	Otay Mesa	10,335	4.7%	8	1,328	0.6%	10	-
22	Outlying SD County N	42,614	5.8%	15	390	0.1%	13	-
23	Outlying SD County S	6,251	3.4%	5	5,000	2.7%	6	-
24	Park East	16,237	4.8%	9	1,047	0.3%	11	-
25	PB/Rose Canyon/Morena	106,037	5.6%	13	(22,083)	-1.2%	20	-
26	Poway	63,313	3.8%	7	(29,441)	-1.8%	21	-
27	Rancho Bernardo	896,701	12.9%	28	(237,080)	-3.4%	35	-
28	San Marcos	148,898	8.6%	20	(46,814)	-2.7%	26	-
29	San Ysidro/Imperial Beach	640	0.3%	1	4,737	1.9%	7	-
30	Scripps Ranch	543,512	18.4%	34	(65,580)	-2.2%	29	-
31	Sorrento Mesa	1,173,433	12.3%	27	(185,967)	-1.9%	34	-
32	Sorrento Valley	154,991	22.5%	37	(72,406)	-10.5%	32	-
33	Southeast San Diego	71,352	10.8%	25	13,148	2.0%	4	-
34	Torrey Pines	238,775	7.4%	19	(32,258)	-1.0%	23	-
35	Uptown East	11,030	3.8%	6	1,764	0.6%	9	-
36	Uptown West/Park West	243,378	7.2%	18	(106,025)	-3.1%	33	-
37	UTC	805,892	9.2%	23	(333,185)	-3.8%	37	-
38	Vista	354,164	19.7%	36	(42,505)	-2.4%	25	-

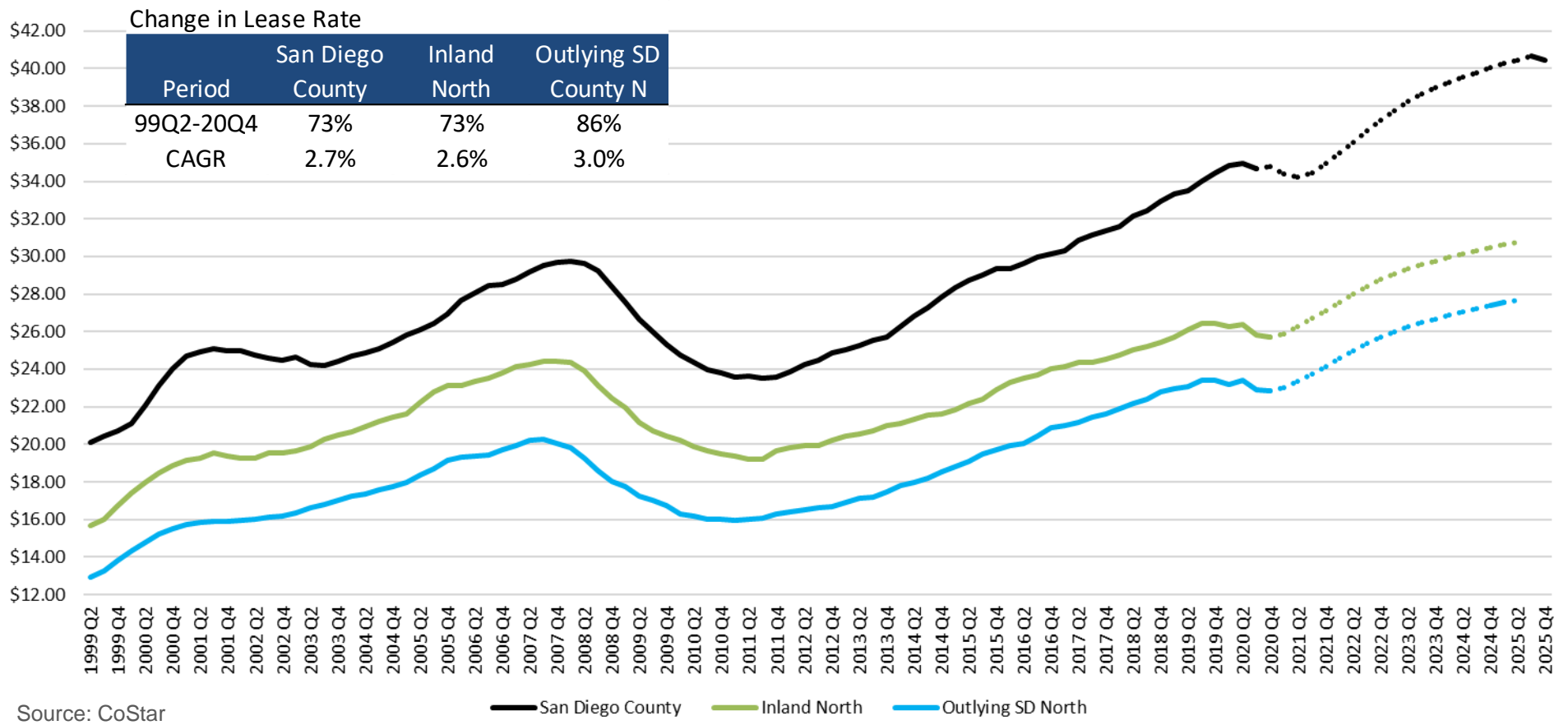
Source: CoStar



# Office – Lease Rate

- Lease rates in the IN market, and particularly in the Outlying SD North area, are substantially lower than the county average.
- The current average lease rate in the Outlying SD North market is only about \$23 psf per year, compared to about \$35 in the county as a whole and \$26 in the IN market.
- Since 1999, lease rates have increased 73% in the county and the IN, and 86% in Outlying SD North. The slower rent growth in the IN market is reflective of higher vacancy rates than in the Outlying SD North market.
- Low lease rates translate into lower returns for investors and are a deterrent to the construction of new office space in the Outlying SD North market. Lower lease rates also translate into lower achievable land values than in higher rent locations.

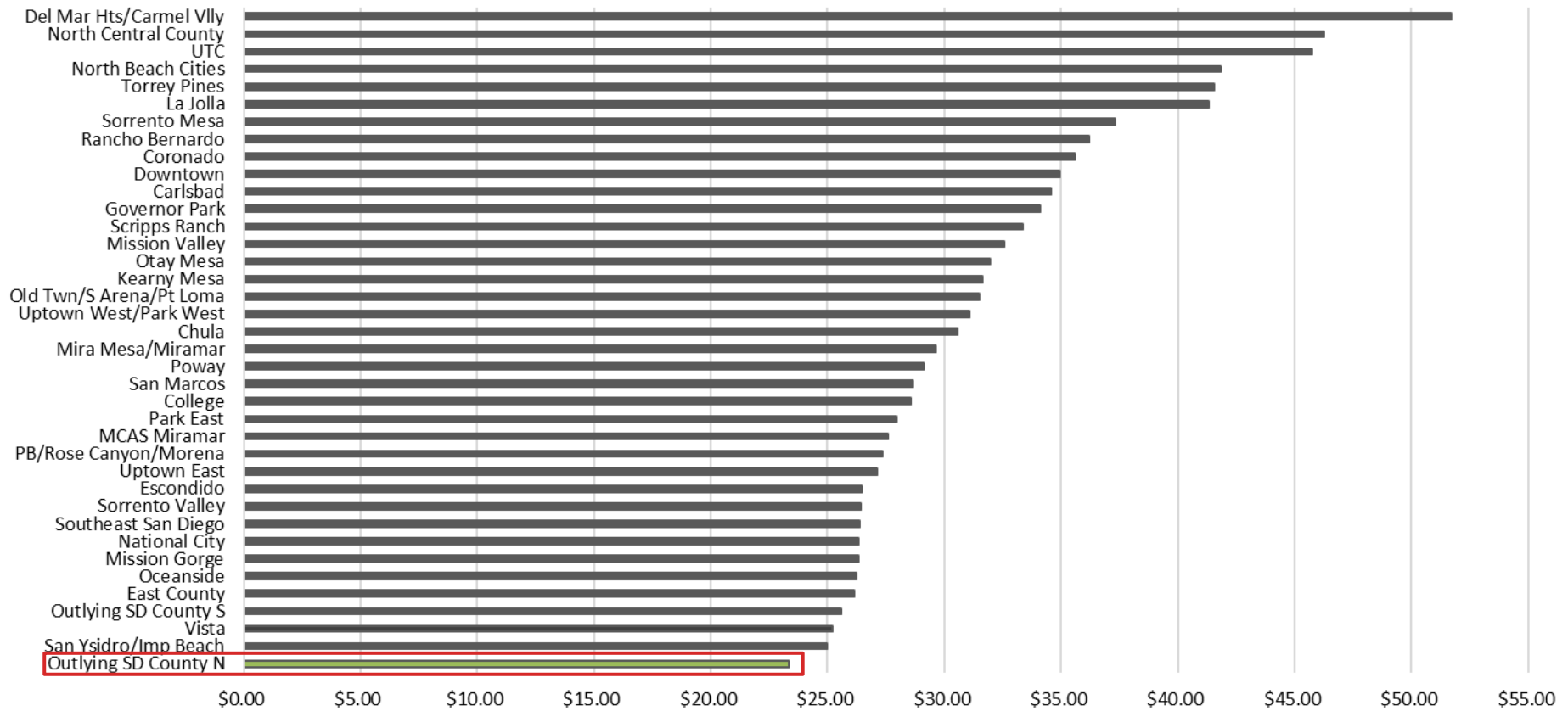
Annual Lease Rate - Office



# Office – Lease Rate Comparison

- Annual lease rates range from under \$25 per square foot in the Outlying SD County N and San Ysidro / Imperial Beach markets, to over \$45 per square foot in Del Mar Heights, Carmel Valley and UTC.
- The Outlying SD County N market has the lowest average lease rates out of the 38 San Diego area submarkets.
- Low lease rates in the Outlying SD County N submarket translate into low interest from developers for new retail construction and lower land values. Most new construction over the past 10 to 20 years in the submarket has been small owner/user or build-to-suit space.

Annual Lease Rate by Submarket - 4Q 2020



Source: CoStar

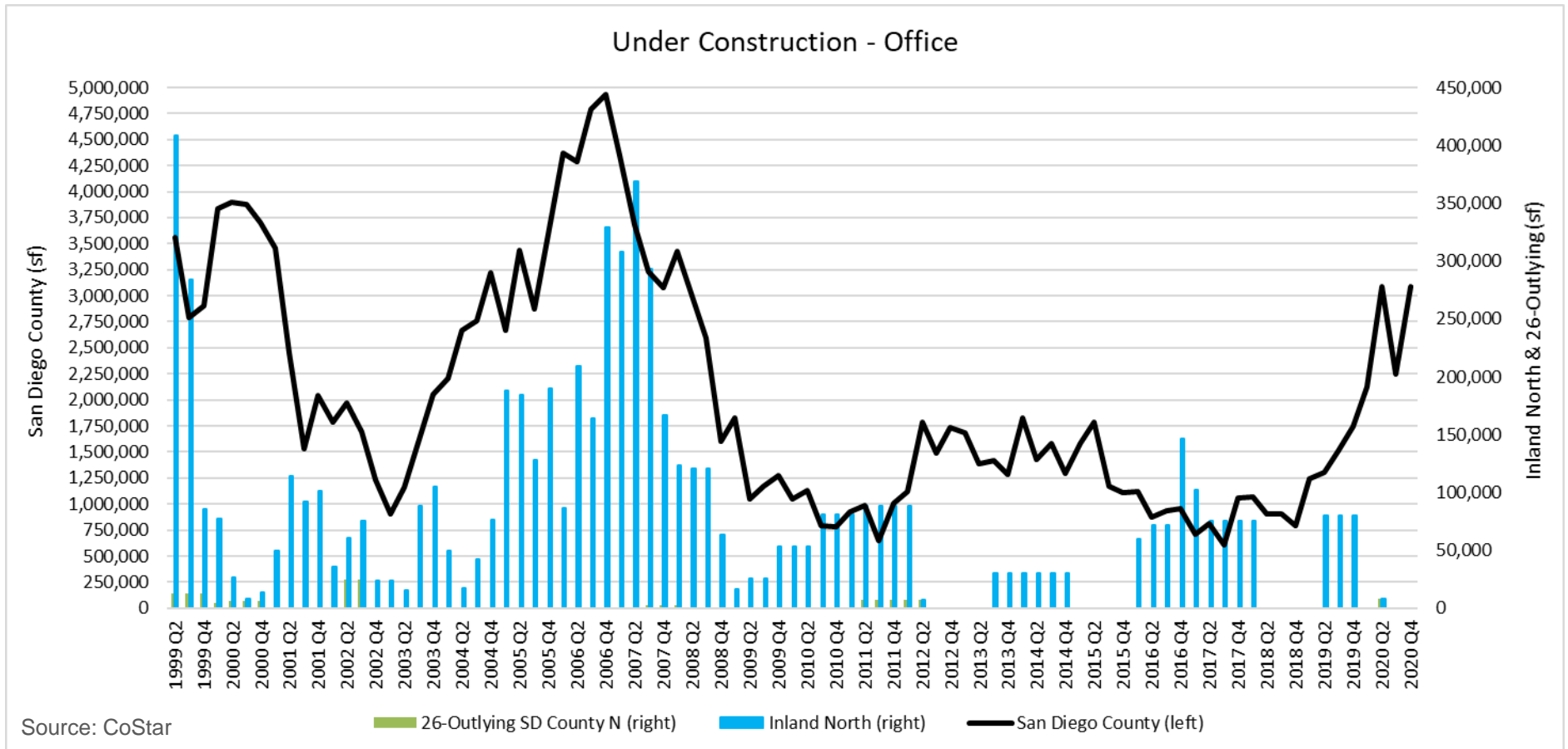
Annual Lease Rate Per SF

# Office – New Construction

- There is currently 3.1M sf of office space under construction in the county, about 8K in the IN market and none in the Outlying SD North market.
- With vacancy rates rising and lease rates expected to fall over the next 1 to 2 years, the pace of new office construction likely will slow over the next few years.
- Continued economic fall-out from COVID-19 and an acceleration of work-from home likely will result in less demand for new office space for at least the next few years and will further depress new construction.

Office Inventory & Under Construction - 4Q 2020

Geography	Current Inventory	Under Construction	Under Construction vs. Current Inventory
San Diego County	117,597,782	3,089,594	2.63%
Inland North	6,935,059	7,650	0.11%
Outlying SD County N	740,857	7,650	1.03%



# Office – Outlying SD County N



Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	0	-	-	-	0	0	0
3 Star	130,601	0%	\$27.52	0%	0	0	7,650
1 & 2 Star	610,256	7.0%	\$22.43	7.0%	(1,150)	0	0
<b>Submarket</b>	<b>740,857</b>	<b>5.8%</b>	<b>\$23.34</b>	<b>5.7%</b>	<b>(1,150)</b>	<b>0</b>	<b>7,650</b>

- **All of the office space in the Outlying SD County N submarket is rated as 1-3 Stars** (5-Star is best) compared to 67% 1-3 Stars in the county as a whole. Among the other IN submarkets, Vista also has no 4-5 Star space, but Escondido (8%) and San Marcos (38%) do have 4-5 Star space.
- **Office space** is intended to house employees of companies that produce a product or service primarily for support services such as administration, accounting, marketing, information processing, consulting, human resources, management, financial and insurance services, education services, medical services, and other professional services. Office buildings are characterized by work efficient floor plans, work areas, comfortable heating and cooling, cabling for phones and computers, and other conveniences. Most offices are configured for space to worker ratios of 150 to 300 sf per person or more, and less than 25% of the demised floor space is allocated to industrial or retail uses.
- **1 and 2-Star space has a higher vacancy rate (7.0%) and higher availability rate (7.0%), than 3-Star space (0.0% / 0.0%), despite lower rents.** This may be due the greater availability of 1 and 2-Star space (610K sf) compared to 3-Star space (131K sf).
- The current submarket **vacancy rate of 5.8% is up from a 5-year low of 2.6% in Q4 2016**, and a more recent low of 4.0% in Q3 2018.

Source: CoStar

# Office – River Village (Bonsall)

- +/-5 miles SW of SR76 & I-15 interchange
- 5256 S. Mission Road, Bonsall, CA 92003
- Built 1990. Originally conceived as retail with 2<sup>nd</sup>-floor office, but retail struggled. Transitioned to primarily office and service-oriented businesses.
- 185,000 sf on +/-15 acres = 28% coverage ratio.
- +/-90% occupied (+/-18K sf available)
- \$1.85 to \$2.25 psf per month, gross.
- Mix of 1-2 story buildings. Surface parking.

SPACE	SIZE	TERM	RATE	TYPE @
1st Fl-Ste 308	1,600-1,800 SF	Negotiable	\$22.00 /SF/YR	TBD



**Space Use:** Office  
**Condition:** Full Build-Out  
**Availability:** 60 Days

Beautifully Renovated Office space in the River Village Shopping Center. Space ranges from approx 1600 sq ft with 3-4 offices including a full kitchen size kitchen and private bath to approx 1800 sq.ft. with 4-5 offices, a private kitchen, and a bath. This space is part of an existing RE office and will be remodeled based on the tenant's preference of size.



Business Name	Suite #
Allstate Insurance	906
AWC Entertainment	405
Ameriprise / Russ Jacobs	301
AP Design	901
Aston's	704
Avo Aesthetics Med Spa	102/102
Blue Ridge Enterprises, LLC	204
Bonsall Barber shop	841-A
Bonsall Chamber of Commerce	311
Bonsall Dry Cleaners	1004
Bonsall Fine Wine & Spirits	841
Bonsall Photo & Postal	703
Brew Freeze Frozen Yogurt Bar	831
Caldwell Banker Village Properties	310
Dorrell's Market	701
Edmond Jones Investments	807
Family Dentistry	1101
Fit By Design	809
Fresco's Grill & Bar	801
Home Salon	705
Jack In The Box	500
Jessie Grinstead & Assoc., CPA's	103-104
Leibson's Oral Surgery	1103
La Sola	706
Law Office of Robert Meitz	303
Lawling & Hovato CPA's	1280

Management de Novo	307
Mareilly Group / Mareilly Mortgage	801
Merrill Lynch Wealth Management	1005
Moffet Financial Group	903
n-GAP Inc.	210
North County Academy of Dance	805-806-820
North County Investments	905
Pacific Western Bank	1001
Peking Wok	303
Performance Horse Supply	708
PJA Insurance Service	306
R. Greene & Associates Inc.	205
Sage Yoga Studios	707
Sheriff's Dept. Substation	401
Sprint Funding	1006
Summs Architecture	404
Tekila Cocina Mexicana	907
Yemenka Valley Cardiology	802
Urinic Here / Laest 30	206
Vince Chiropractic	406
Village Espresso	106
Village Pizza	831
Z Cafe	1301



Daniel's Market: 17,000 sf – closest full-service grocery store to I-15/SR76 interchange. Many Horse Creek Ridge residents shop here.



# Office – Fallbrook Medical Arts

- +/-6 miles NW of Passerelle in downtown Fallbrook
- 521 E. Elder St., Fallbrook, CA 92028
- Built 1988. 30 parking spaces = 1 space/1,000 sf
- 32,760 sf on +/-2 acres = 38% coverage ratio.
- 13,132 sf available = 60% occupied
- \$2.00 psf per month
- 2-story buildings. Surface parking.



Suite 103  
2,640 RSF



Suite 202  
2,076 RSF



Suite 205  
1,872 RSF



Suite 206  
1,899 RSF



Suite 207  
1,525 RSF



Suite 208  
3,120 RSF

SPACE	SIZE	TERM	RATE	SPACE USE
1st Fl-Ste 103	2,640 SF	Negotiable	\$24.00 /SF/YR	Medical
2nd Fl-Ste 206	1,899 SF	Negotiable	\$24.00 /SF/YR	Medical
2nd Fl-Ste 202	2,076 SF	Negotiable	\$24.00 /SF/YR	Office/Medical
2nd Fl-Ste 205	1,872 SF	Negotiable	\$24.00 /SF/YR	Office/Medical
2nd Fl-Ste 207	1,525 SF	Negotiable	\$24.00 /SF/YR	Office
2nd Fl-Ste 208	3,120 SF	Negotiable	\$24.00 /SF/YR	Office/Medical

**FALLBROOK MEDICAL ARTS**  
521 East Elder Street Fallbrook, CA



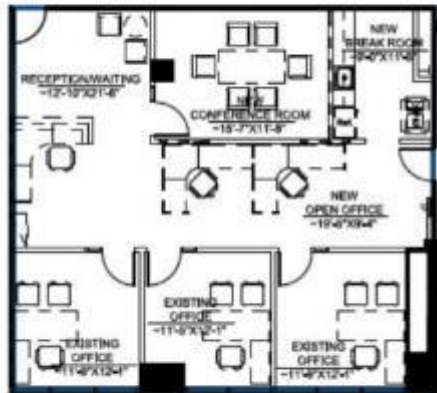
# Office – One Civic Center (San Marcos)

- +/-13 miles S of Subject off Hwy 78 in San Marcos
- 1 Civic Center Dr, San Marcos, CA 92069 (San Marcos City Hall)
- Built 1995, 4-stories & 4-story parking structure
- 147,000 sf on +/-9 acres = 38% coverage ratio
- +/-22K sf available = 85% occupied (IRS & City of San Marcos major tenants)
- Vacant space has been available for 2+ years
- \$2.55 psf per month (including janitorial), plus electric



SUITE 320 | 1,494 SF

SUITE 320 VIRTUAL TOUR



SUITE DESCRIPTION

- RECEPTION
- CONFERENCE ROOM
- 3 WINDOW-LINE OFFICES
- OPEN OFFICE AREA
- BREAK ROOM

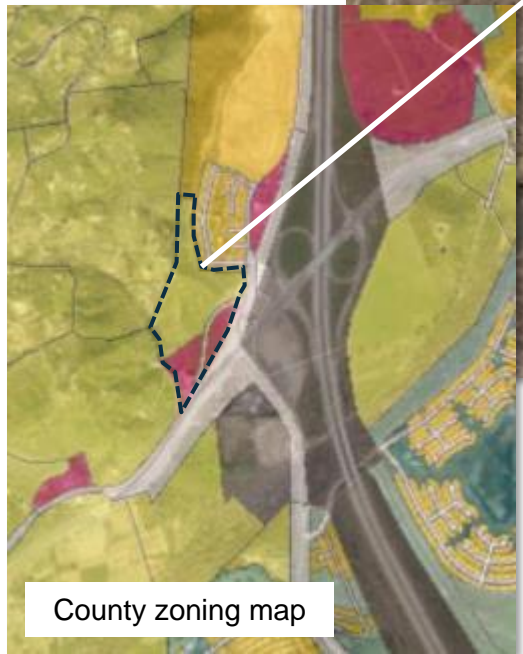


ONE CIVIC CENTER DRIVE		
CITY OFFICES - CHECK-IN AT RECEPTION DESK	→ 230	SAN MARCOS FAMILY DENTAL DR. REPPAS & DR. EL-MASRI
110 DR. SUSAN KAYLOW, D.D.S., INC.	← 240	THE STATE LIFE INSURANCE COMPANY
120 DR. SCOTT, D.M.D.	← 260	SIMON SCHOLARS SAN DIEGO
130	← 264	EDWARD JONES SPENCER BIRCH
140	← 270	UCSD CENTER FOR HEALTHY EATING AND ACTIVITY RESEARCH (CHEAR)
150 SAN MARCOS VETERANS CENTER	←	THIRD FLOOR SUITES
SECOND FLOOR SUITES	200	ENERGY INSPECTORS GROUP
200 C.I. GROUP	118	EPT INSTITUTE
210 WORKSPOT	320	AVAILABLE FOR LEASE
	330	ACCLAIM LAW GROUP
	340	MONARCH ERS INSURANCE SERVICES
	350	KINGSTON WEALTH MANAGEMENT
	354	FULCRUM
	360	AVAILABLE FOR LEASE
	370	AVAILABLE FOR LEASE
	380	CITY OF SAN MARCOS REAL PROPERTY SERVICES
		FOURTH FLOOR SUITES
	400	INTERNAL REVENUE SERVICE



# Commercial – Available Land – NWC SR76/Hwy 395

- +/-2 miles SW of Subject at the NWC of SR76 & Old Highway 395
- +/-37 acres total, a +/-10 acre portion along SR76 is zoned commercial; remainder of site is residential (current zoning 1 unit per 2 acres)
- Zoning C44 & S-90
- Site has been on the market for +/-1.5 years.
- Has “several interested buyers” who are looking into entitlement and cost to improve questions
- Asking \$7.0M = \$189,189 per acre, about \$4.00 to \$4.50 per square foot.



County zoning map

<input checked="" type="checkbox"/>	Planned Land Use
<input type="checkbox"/>	Spaced Rural Residential
<input type="checkbox"/>	General Single Family or SF Detached
<input type="checkbox"/>	Single Family Attached
<input type="checkbox"/>	Mobile Homes
<input type="checkbox"/>	Multiple Family
<input type="checkbox"/>	Commercial, Office, Mixed Use

Prime land for commercial or residential multi-family development. Slightly elevated with visibility from Interstate 15.



# Commercial – Land – Pala Mesa

## 9 GROSS ACRES WITH I-15 FREEWAY FRONTAGE

1720 OLD HWY 395 | FALLBROOK, CA



### PROPERTY HIGHLIGHTS:

- APN: 108-411-11-00
- Over 1,900 linear feet of 1-15 freeway frontage, water, sewer, and power within 6 blocks of the NWC
- ±139,000 CPD on 1-15 Fwy
- Across the 1-15 from two Master Planned Communities totaling 858 acres
- Contiguous to Cornita/Stewart Canyon 1-15 underpass
- Pala Mesa Golf Course directly across the street
- Mission Road and Hwy 76 on/off ramps approximately 1.8 miles north and south

- +/-0.5 miles W of Subject on Old Highway 395 (W of I-15)
- 1720 Old Highway 395, Fallbrook, CA 92003
- 9 gross acres, zoned A70
- Has been on the market for “some time”
- Offer a few years ago @ +/--\$1.75M to build as self-storage, if fully entitled, but deal fell apart (high costs & opposition from community planning group) = \$4 to \$5 psf
- Had an offer for \$1.5M from MF builder, if fully entitled, but fell apart over costs; about \$4 per square foot (estimated \$60,000 per door)
- “No one wants to do retail or industrial on the site due to plans for development at sites east of I-15.”
- “Industrial developers say drayage costs are not favorable to build industrial/logistics/warehouse space here.”



# Office – Land – San Marcos

- 337 E. Carmel St., San Marcos (15 mi SW of Subject)
- Asking price \$4,995,000, 6.24 acres = \$18 psf
- Site is currently in escrow (for the 4<sup>th</sup> time), likely below asking price, site has been on the market for 4+ years
- “No one is interested in the site for office or retail.”
- Current buyer is looking at the site for MF residential

<b>Location:</b>	Located at 337 E. Carmel Street in San Marcos, CA, this property is adjacent to North City, California State San Marcos, the sprinter station and Highway 78.
<b>apn:</b>	220-201-01-00 & 220-201-02-00
<b>jurisdiction:</b>	City of San Marcos
<b>acreage:</b>	6.24 Acres
<b>zoning:</b>	"Heart of the City Specific Plan Area", City of San Marcos BP - Business Park <a href="#">Click Here to View Allowable Uses &amp; Permit Requirements.</a>
<b>square footage:</b>	111,970 SF - 4 Stories with Condo Map
<b>permits &amp; approvals</b>	Fully entitled with permits. Entitlements include: <ul style="list-style-type: none"> <li>• Site Development Plan (SDP) #06-319</li> <li>• Final/Parcel Map (TPM) #651</li> <li>• Grading Plan Approved June 30, 2008</li> <li>• Mitigated Negative Declaration (ND) #06-748</li> <li>• Zone Reclassification (R) #06-137</li> <li>• General Plan Amendment (GPA) #06-97</li> <li>• Specific Plan Amendment (SP) #87-29 (06M #21)</li> <li>• Text Amendment (TA) #06</li> <li>• Approved Condo Map</li> <li>• Improvement Plans Submitted with Comments</li> <li>• Bonds Posted</li> </ul>
<b>traffic counts:</b>	Highway 78 - 169,000 ADT



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 DRE #01323215

**LEE & ASSOCIATES**  
 COMMERCIAL REAL ESTATE SERVICES

# Office – Inland North Supply vs. Demand

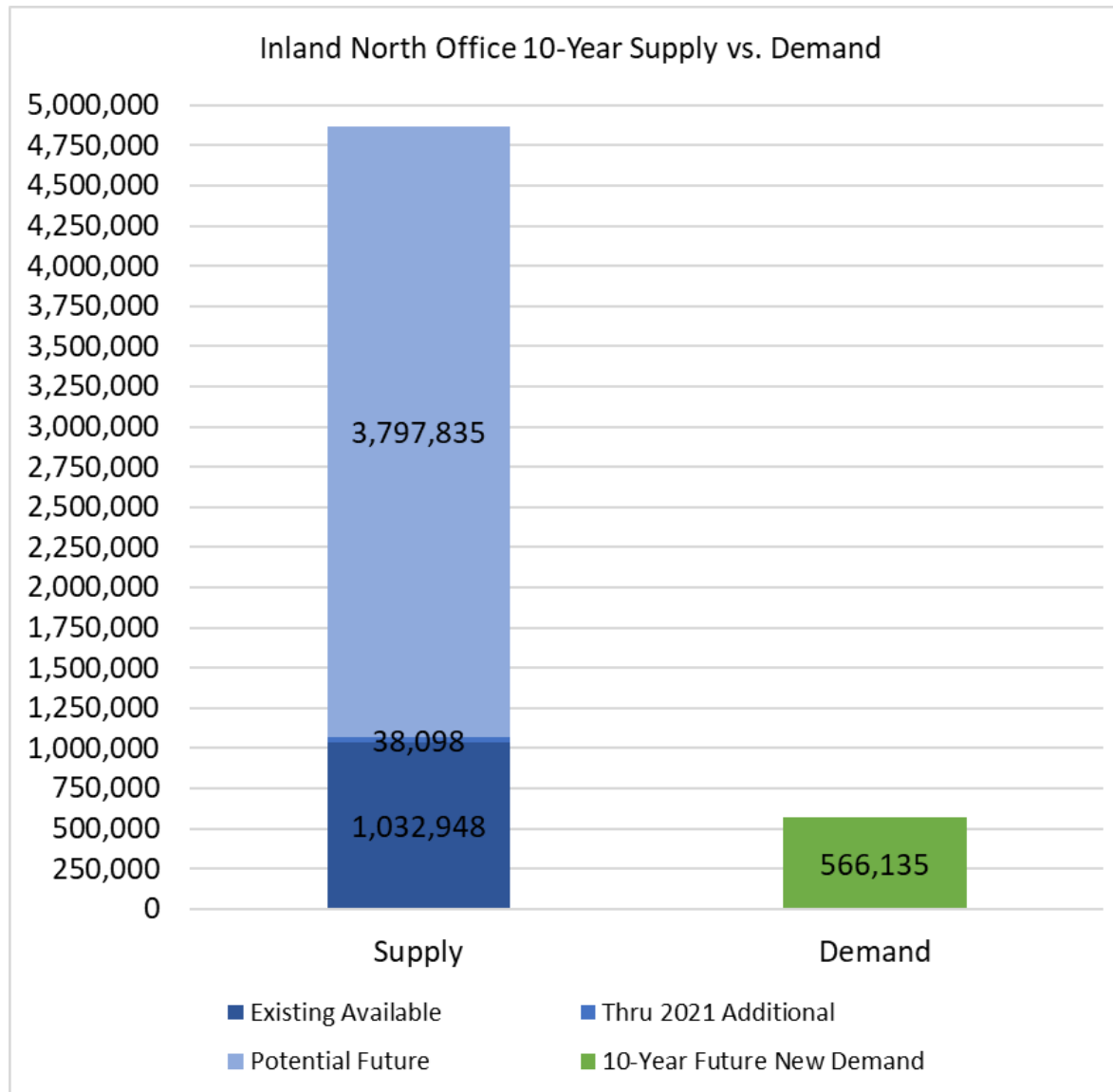
- To determine future office supply and demand conditions in the IN market where Passerelle is located, we prepared estimates of potential demand for new office space (I & II to right) and compared that to space in existing office buildings (III) and known approved or announced new office buildings (IV).
- Demand was determined based on the current ratio of occupied office space to office workers (C) applied to projected future office job growth (D), less 20% to account for the work-from-home trend (G) at the expense of brick and mortar space (while many workers are returning to offices, many others will not).
- Future demand (I) was compared to the current amount of available space (J), and additional space expected to become available due to COVID-19 (K). This shows that existing centers could absorb all future demand, and still have vacant space available (M).
- Future demand was also compared to the potential future supply of new office space (U), along with available space thru 2021 (L). If all the potential space is built as proposed, the IN market will be over-supplied by 4.3M sf over the next 10 years (V).
- IN supply and demand conditions do not support office space at the Passerelle property.**

Demand Component	Demand Estimate	
	All Office Categories	
<b>I. Existing Conditions</b>		
A. Occupied Office Space Sq.Ft. (CoStar 4Q 2020)	6,143,483	+
B. Total Office Workers (SANDAG 2020)	37,602	
C. Existing Occupied Office Sq.Ft./Employee (A/B)	163	=
<b>II. Projected Change in Office Demand from Job Growth</b>		
D. Annual Job Growth for Office Workers (SANDAG 2020-2050 rate)	433	×
E. Current Occupied Office Sq.Ft. Per Worker (C)	163	
F. Projected Annual Change in Office Sq.Ft. Demand (DxE)	70,767	=
G. Less Changing Office Demand Due to Work-From-Home (F x -20%)	-14,153	-
H. Projected Annual Office Demand Growth Sq.Ft. (F-G)	56,613	=
I. 10-Year Change	10	×
I. Projected 10-Year Total Change in Office Demand (Hx10)	566,135	=
<b>III. Existing Office Capture of Future Demand</b>		
J. Existing Available Office Space (CoStar 4Q 2020)	1,032,948	-
K. Projected Increase in Available Space Thru 2021 Due to COVID (CoStar)	38,098	
L. Total Available Office Space at End of 2021 (CoStar)	1,071,046	=
M. Remaining Demand for Space if All Demand Goes to Existing First (I-L)	-504,911	=
<b>IV. Potential Future New Supply of Office Space (Sq.Ft.)*</b>		
N. Current under construction	7,650	
O. Sierra (Newland) - North of Escondido on I-15	1,867,853	+
P. Campus Park (Passerelle) NE of SR76 & I-15	157,000	
Q. Campus Park West (Pappas) NE of SR76 & I-15	120,000	
R. University District (North City) - San Marcos - SR78/Twin Oaks	952,000	
S. San Marcos Creek SPA (Creekside District) - W. San Marcos Blvd	589,000	
T. Other Planned & Proposed Centers (CoStar)	104,332	
U. Total Potential Future Office Sq.Ft. (total N thru T)	3,797,835	=
<b>V. Total Estimated 10-Year Supply vs. Demand Conditions</b>		
I. Projected 10-Year Total Change in Office Demand (I)	566,135	
L. Existing Available Office Space Thru 2021 (L)	1,071,046	-
U. Total Potential Future Office Sq.Ft. (U)	3,797,835	-
<b>V. Total Over-Supply (-) or Under-Supply (+) of Office Sq.Ft. (I-(L+S))</b>	<b>-4,302,746</b>	=

\*An additional 779K sf of office is approved for The Triangle Specific Plan +/-16 miles north at I-15/I-215 in Murrieta (Riverside County) that is not included in the Future Supply above.

# Office – Inland North Supply vs. Demand

- Our analysis indicates that the IN market could have almost 4.8M square sf of office space available over the next 10 years compared to projected growth in demand of just about 566K sf. The office market could be substantially over-supplied over the next 10 years.



# Office – Alternative Local Supply vs. Demand

- As an alternative to assessing demand for the entire IN market, we prepared a demand analysis based on just the area immediately encompassing current and future neighborhoods surrounding the intersection of SR76 and I-15.
- The IN market has 169,510 households and an estimated 37,602 office workers, for a ratio of 0.26 office workers per household (F). The office worker to household ratio was applied to the local market (E x F=G), multiplied by the average sf of office space per worker (H), resulting in estimated demand at build-out of about 125K sf (I).
- Other than the Rainbow Water District office, there is no existing office space at I-15 and SR76. The closest space is at River Village, about 4.7 miles to the west (185K sf).
- There is 277K sf of office space approved at Campus Park and Campus Park West. Campus Park West has another 504K sf of commercial/mixed-use that could include some office. Campus Park has another 61K designated commercial in a Town Center site, some of which could be office users. The possibility of office uses in the 504K at Campus Park West and 61K at Campus Park is *not* accounted for in the demand analysis.
- Excluding River Village, the local market will be over-supplied by about 152K sf if Campus Park and Campus Park west are built. Including River Village, the market could be as much as 337K sf over-built.
- Local supply and demand conditions do not support office space at Passerelle.**

Demand Component	Demand Estimate		
	All Office		
	Categories		
<b>I. Local Household Count at Build-Out</b>			
A. Households at Build-Out - Campus Park, West & Meadowood	1,947		
B. Existing Lake Rancho Viejo	720	+	
C. Existing Via Altmira	91		
D. Existing Rancho Monserate	191		
E. Total Households (A+B+C+D)	2,949	=	
<b>II. Projected Office Demand from Local Households*</b>			
F. Inland North Office Workers per HH	0.26		×
G. Total Local Office Workers at Build-Out (ExF)	767	=	
H. Average Office Space Per Worker	163	-	
I. Total Localized Demand for Office Space (GxH)	125,271	=	
<b>III. Current &amp; Future Supply of Local Office Space (+/-5 miles)</b>			
J. River Village (4.7 miles west of I-15/SR76) - current	185,000		
K. Campus Park (Passerelle) NE of SR76 & I-15**	157,000	+	
L. Campus Park West (Pappas) NE of SR76 & I-15***	120,000		
M. Total Local Future Supply (J+K+L)	462,000	=	
<b>IV. Estimated Supply &amp; Demand Conditions at Build-Out</b>			
N1. Total Over-Supply (-) or Under-Supply (+) of Office (I-M)	-336,729		=
N2. Conditions Excluding River Village	-151,729		=

\* This is demand for all office space and likely over-estimates locally generated demand as many office workers work in Class A (5-Star) properties. Class A is not necessarily the type of office space anticipated to be built in the local market area, therefore overestimating demand.

\*\*Campus Park includes an additional 61,200 sf designated for commercial uses in the Town Center site. Some of this space could be used for local-serving office. None of this space is included in the Future Supply shown above.

\*\*\*Campus Park West includes an additional 503,500 sf designated for "commercial/mixed-use core that could contain office space. None of this space is included in the Future Supply shown above.

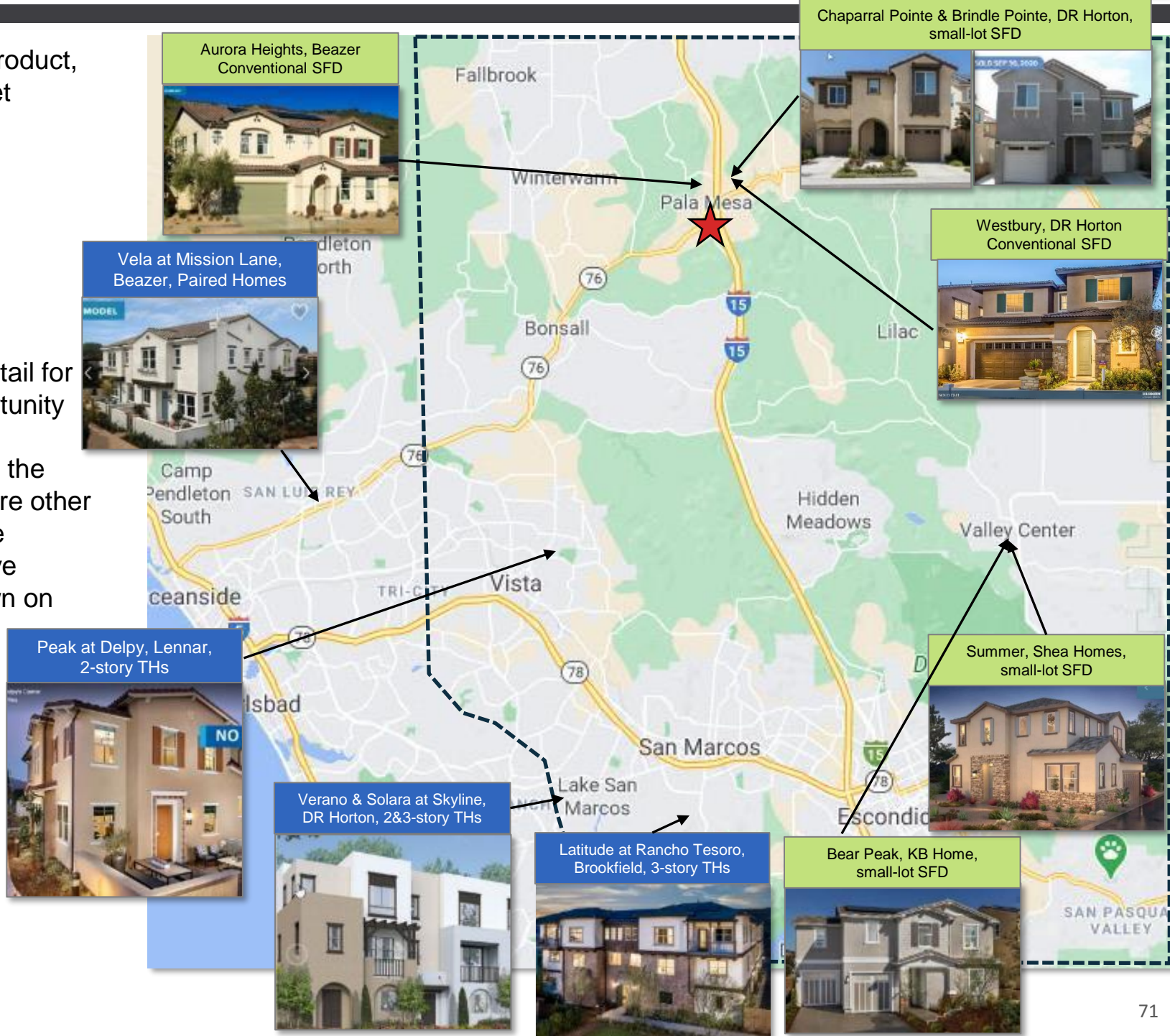
# FOR-SALE RESIDENTIAL MARKET ANALYSIS

# For-Sale Residential – Inland North Market

For for-sale residential product, the IN competitive market includes:

- Fallbrook
- Bonsall
- Valley Center
- Escondido
- San Marcos
- Vista

The comps profiled in detail for our analysis of the opportunity for for-sale residential at Passerelle are shown on the map to the right. There are other active for-sale new home projects in the competitive market that are not shown on the map.



Attached Home Projects
Detached Home Projects

# Summary of For-Sale Market Trends

## General Outlook for the For-Sale Residential Market

- New home builders are **optimistic** that long-term **demographic trends are favorable** for for-sale housing.
- The new home market in San Diego has been **under-supplied for 10+ years**, creating a substantial shortage of new housing and providing underlying support for values.
- **A low interest rate environment is very favorable for for-sale housing**; however low rates could lead to asset inflation and undermine housing affordability.
- The future **supply of housing will be inadequate** to meet the projected demand.

## For-Sale Residential Stats & Trends (Sources: Hanley, Ryness, Meyers, MarketPointe, Zonda)

- There are **currently just 75 actively selling new home projects** in all of San Diego County. The average over the last 30+ years is 183, and in the 20 years from 1988 to 2008, the average was 236 active projects per year. The supply of new housing projects is down 59% compared to the long-term average and 84% compared to the '88-'08 average. The market peak was 363 projects in 2006 (current supply is down 79% from the peak).
- With less new home product available to sell, annual new home sales have plummeted over the last 10 years. The San Diego County market recorded about **3.8K new home sales in 2020**, up 13% from 2019, but down 42% compared to the average from '88 to '19 (6.6K), and **down 57% from the '88-'08 average (8.8K)**.
- **Attached** for-sale projects in the county have a **median price of \$596K** and average 3 home sales per project per month. There are 39 active attached projects in the county. The median price in the IN is \$582K.
- **Detached** for-sale projects in the county have a **median price of \$879K** and average almost 4 home sales per project per month. There are 36 active detached projects in the county. The median price in the IN is \$690K. Under current market conditions, home prices at Passerelle would fall below the median price in the IN.
- There are **13 detached projects in the IN (36% of the county), and 10 attached (26% of the county)**. With lower land prices than closer-in locations, the IN market has historically contained a higher proportion of detached projects than in the rest of the county as higher land prices elsewhere often force builders to build attached product to be able to provide attainably-priced homes in those areas.
- **The demand for new SFD for-sale product is strong and SFD is a good opportunity for Passerelle.**



## San Diego home sales surge, trends expected to last

Anyone looking to sell has the advantage and experts say it'll stay like that for a while. CBS News, 10/1/2020

Market Competition in 92028  
Calculated over the last 3 months

**72** Very Competitive  
Redfin Compete Score™



- Many homes get multiple offers, some with waived contingencies.
- The average homes sell for around list price and go pending in around **13 days**.
- Hot homes can sell for about **3%** above list price and go pending in around **6 days**.

Redfin, 1/26/2021 (Subject Zip)

## San Diego Housing Market Forecast for 2021 Looks Favorable, Despite COVID

By Brandon Cornett | September 7, 2020 | © HBI, [all rights reserved](#)

Recent data and forecasts for the San Diego, California real estate market suggest that it's weathering the coronavirus pandemic just fine.

## Forecast: San Diego home prices to rise 8.3% in '21. Most in nation

San Diego Union-Tribune, 1/5/2021

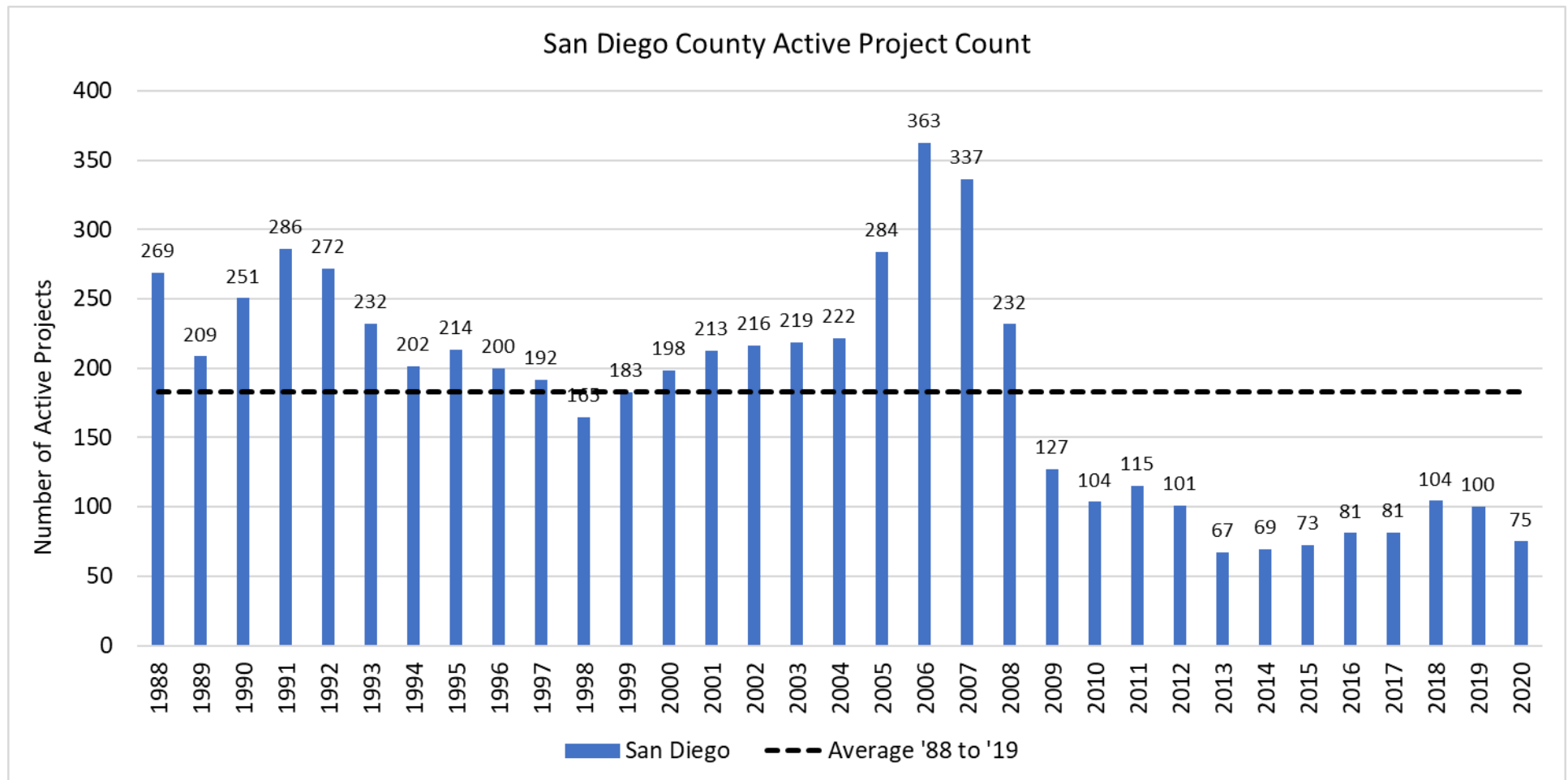
## Looking to Buy A House During the Pandemic? Wait In Line

NBC News, 8/30/2020

Historically low-interest rates and low inventory are making it competitive for those looking to move

# Annual Active New Home Projects

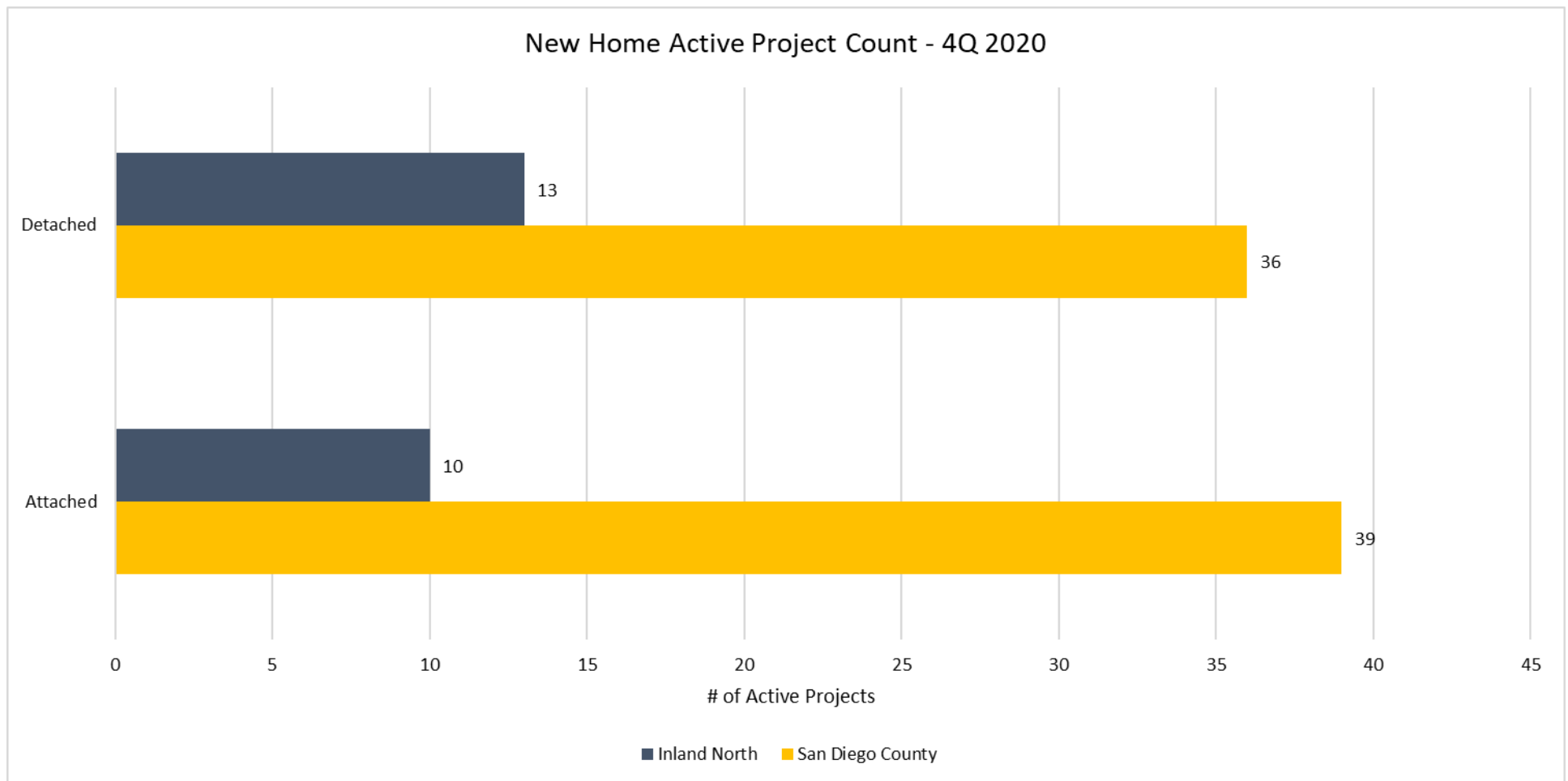
- There are only 75 actively selling new home projects in the county today.
- Since 2009, there have been fewer than 130 active projects every year, dipping as low as 67 in 2013.
- While the average from 1988 to 2019 was 183 active projects per year, the average was 236 per year through 2008 before the supply dropped so substantially over the last 10+ years.
- The San Diego market could support double the number of projects that are on the market today.



Sources: Hanley, Meyers, MarketPointe, Zonda

# Active New Home Projects – 4Q 2020

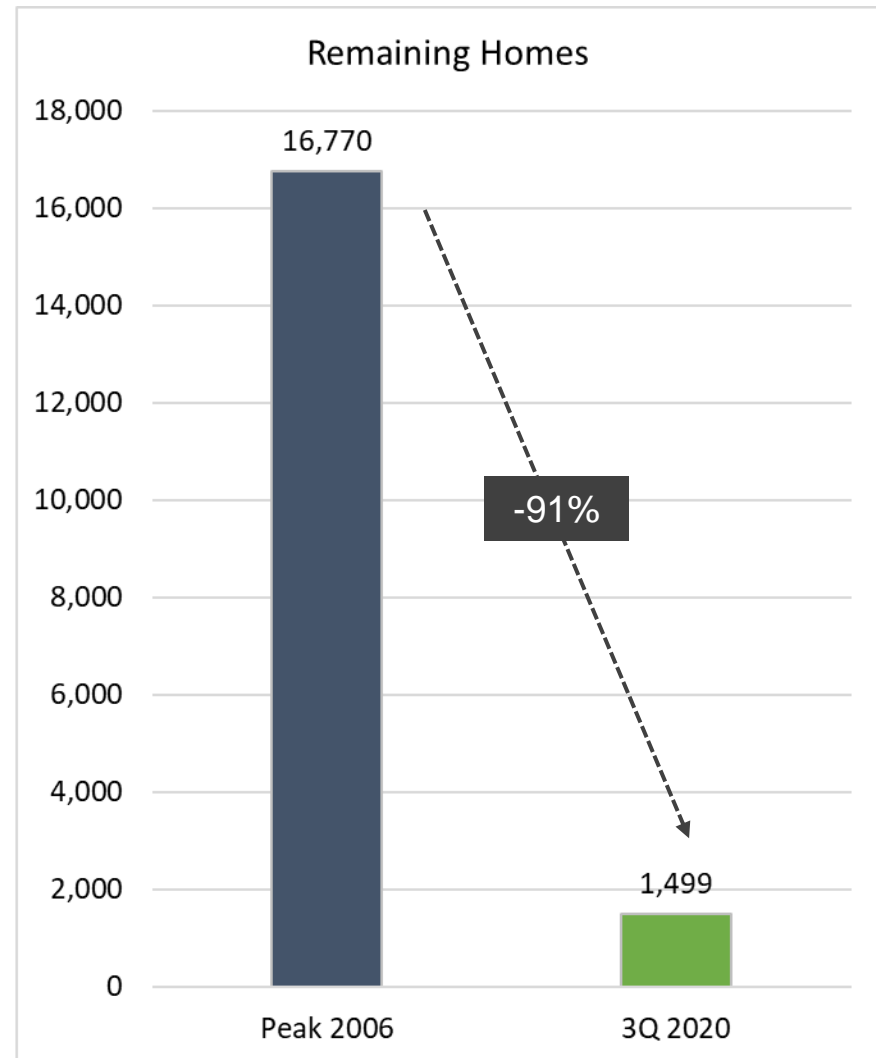
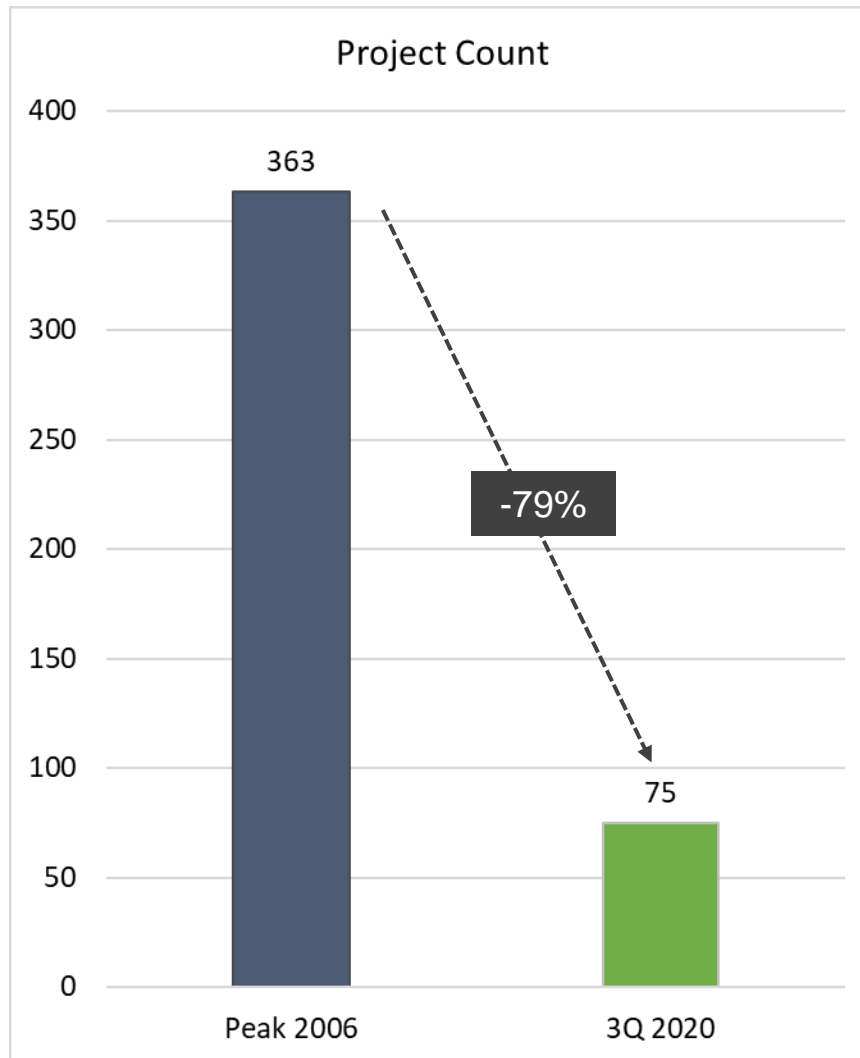
- The IN market contains 26% of the actively selling attached projects in the county.
- The IN market contains 36% of the actively selling detached projects in the county.



Sources: Hanley, Meyers, MarketPointe, Zonda

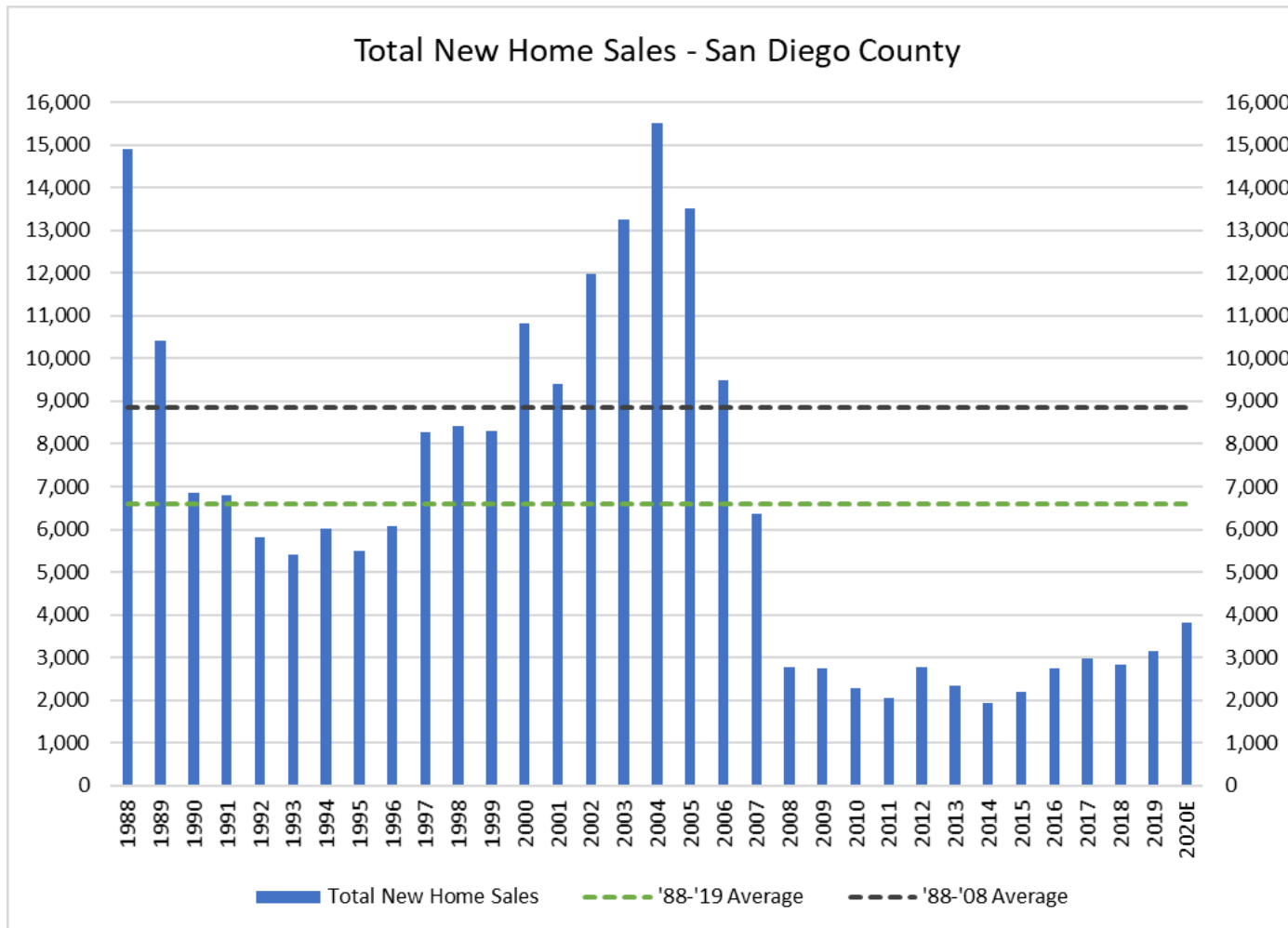
# Projects & Units Remaining – Peak vs Today

- There is significantly less new home product on the market today than in the last market cycle peak back in 2006.
- The number of active new home projects has declined 79% and the number of homes left to sell in active projects has dropped 91%.
- A lack of inventory is providing underlying support for home values. Even if COVID-19 continues to negatively impact the economy, there is far less new home product that builders have left to sell today than back in 2006, which will limit downside trending on prices.
- Supply and demand conditions warrant more new home construction, supporting demand for for-sale housing at Passerelle.



# Annual New Home Sales

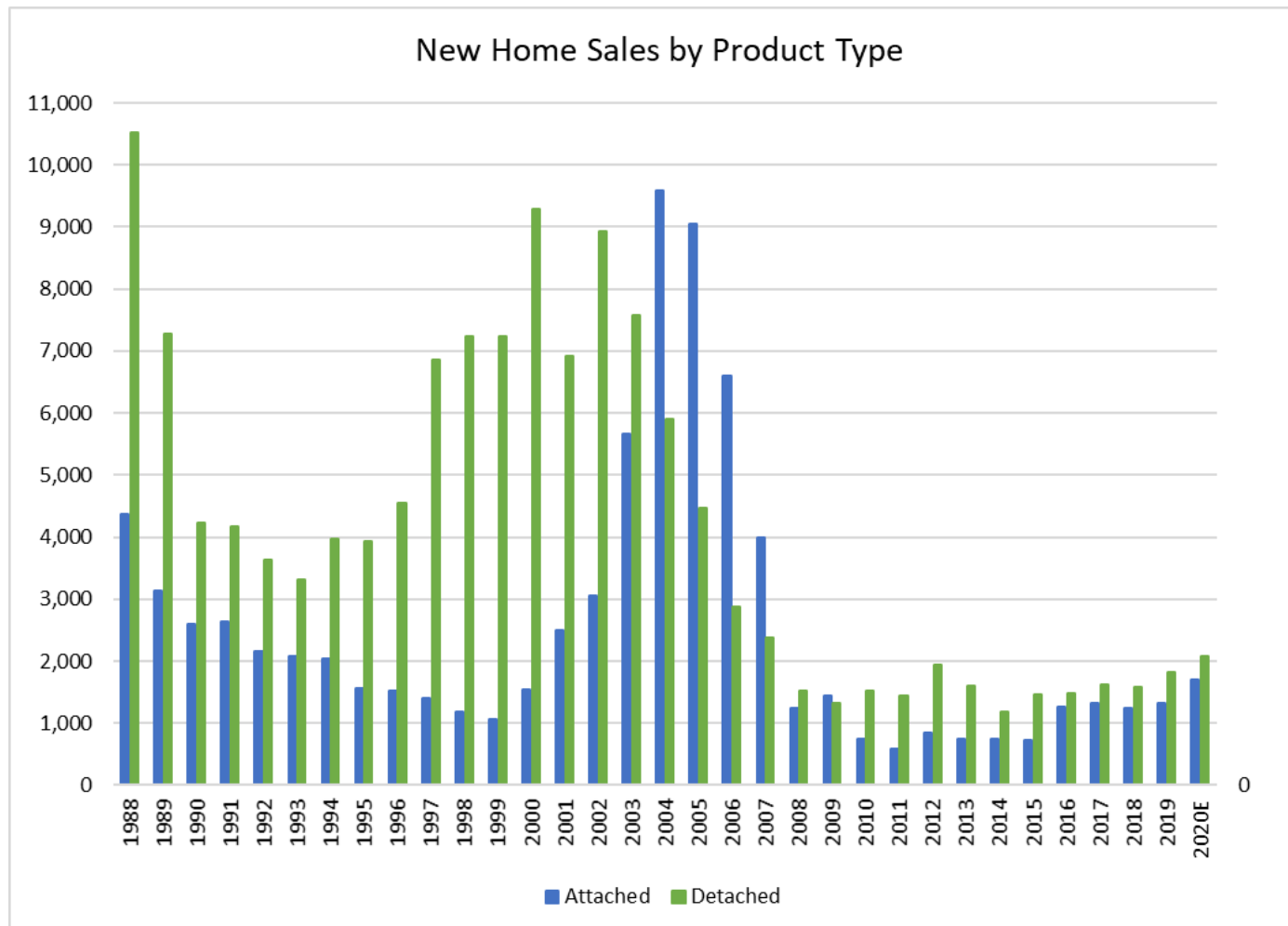
- Annual new home sales in San Diego County have been far below the long-term average for 13 straight years.
- The market reached 3.8K sales in 2020, well below the '88-'19 average of 6.6K, and substantially below the '88-'08 average of 8.8K.
- Given the lack of developable land in the county, and difficulty in getting new projects approved, there will never be enough new home supply brought to market in future years to reach past levels of sales.
- The San Diego new home market will remain chronically under-supplied for the foreseeable future.
- Sites that can gain approvals for new for-sale developments typically will have multiple builders bidding for the property.



Year	Attached	Detached	Total
1988	4,380	10,517	14,897
1989	3,141	7,284	10,425
1990	2,608	4,234	6,842
1991	2,636	4,167	6,803
1992	2,170	3,635	5,805
1993	2,073	3,324	5,397
1994	2,042	3,971	6,013
1995	1,557	3,925	5,482
1996	1,524	4,540	6,064
1997	1,408	6,867	8,275
1998	1,185	7,228	8,413
1999	1,072	7,235	8,307
2000	1,540	9,284	10,824
2001	2,505	6,912	9,417
2002	3,057	8,920	11,977
2003	5,671	7,571	13,242
2004	9,594	5,911	15,505
2005	9,056	4,461	13,517
2006	6,600	2,877	9,477
2007	3,987	2,384	6,371
2008	1,247	1,528	2,775
2009	1,438	1,317	2,755
2010	755	1,522	2,277
2011	593	1,448	2,041
2012	845	1,940	2,785
2013	743	1,597	2,340
2014	754	1,185	1,939
2015	732	1,467	2,199
2016	1,254	1,486	2,740
2017	1,334	1,630	2,964
2018	1,238	1,576	2,815
2019	1,320	1,824	3,144
2020E	1,710	2,090	3,800
'88-'08 Avg	3,288	5,561	8,849
'88-'19 Avg	2,478	4,117	6,595

# Annual New Home Sales by Product

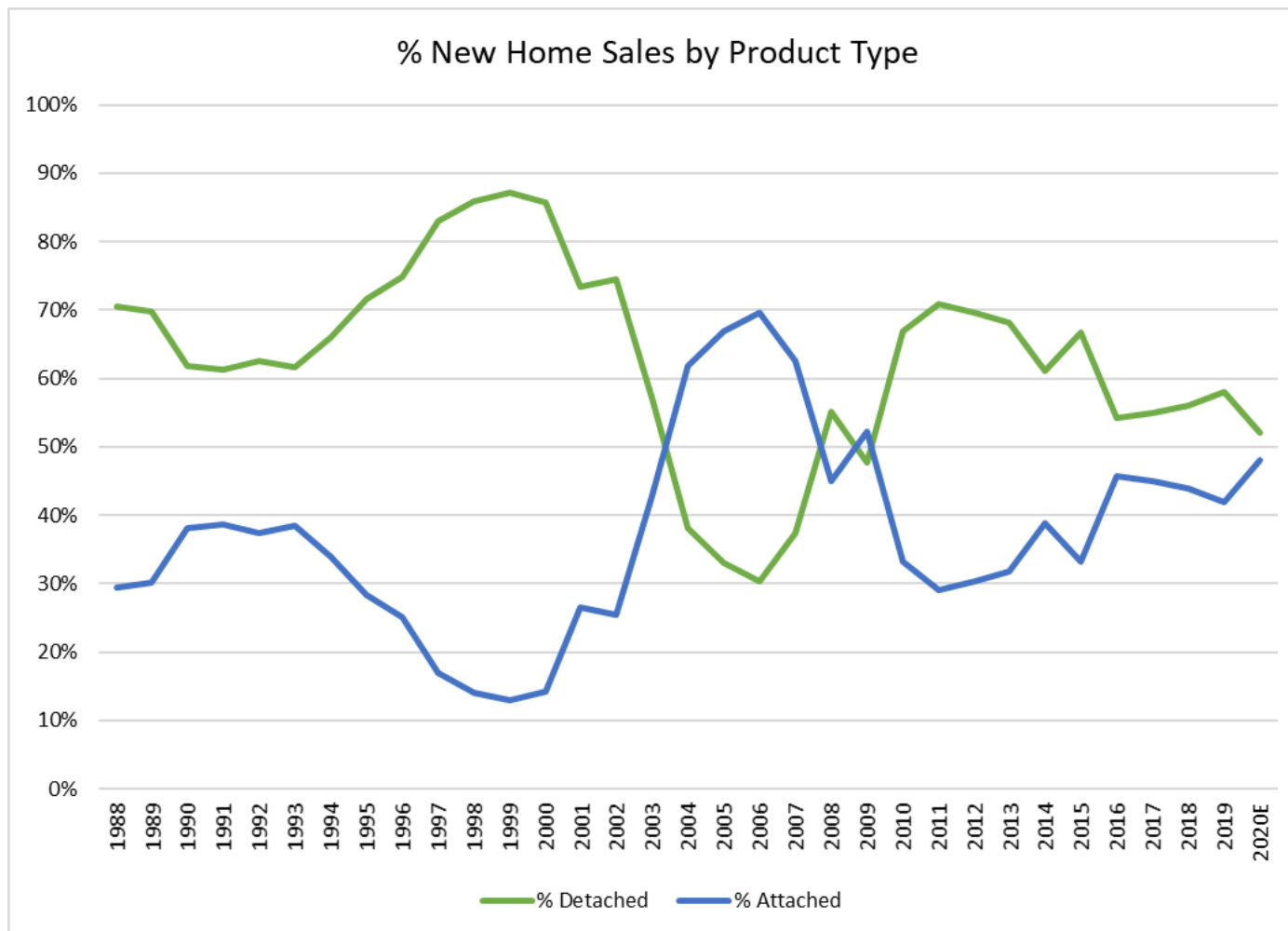
- SFD housing has historically represented the majority of new home sales in the County.
- Attached sales surpassed detached sales for several years in the mid-2000s only because of a “condo conversion boom” when existing rental properties were renovated and converted to for-sale units. This craze died in the late 2000s downturn and has not come back.
- From 1988 to 2008, there were an average of 3.3K attached home sales per year and 5.6K detached sales per year. However, including the period since 2008 drops the averages to just 2.5K attached and 4.1K detached sales per year.
- The market certainly appears capable of supporting much more new home product on the market today than is being offered, supporting the market potential to offer new small-lot SFD homes at Passerelle.



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# Annual New Home Sales % by Product

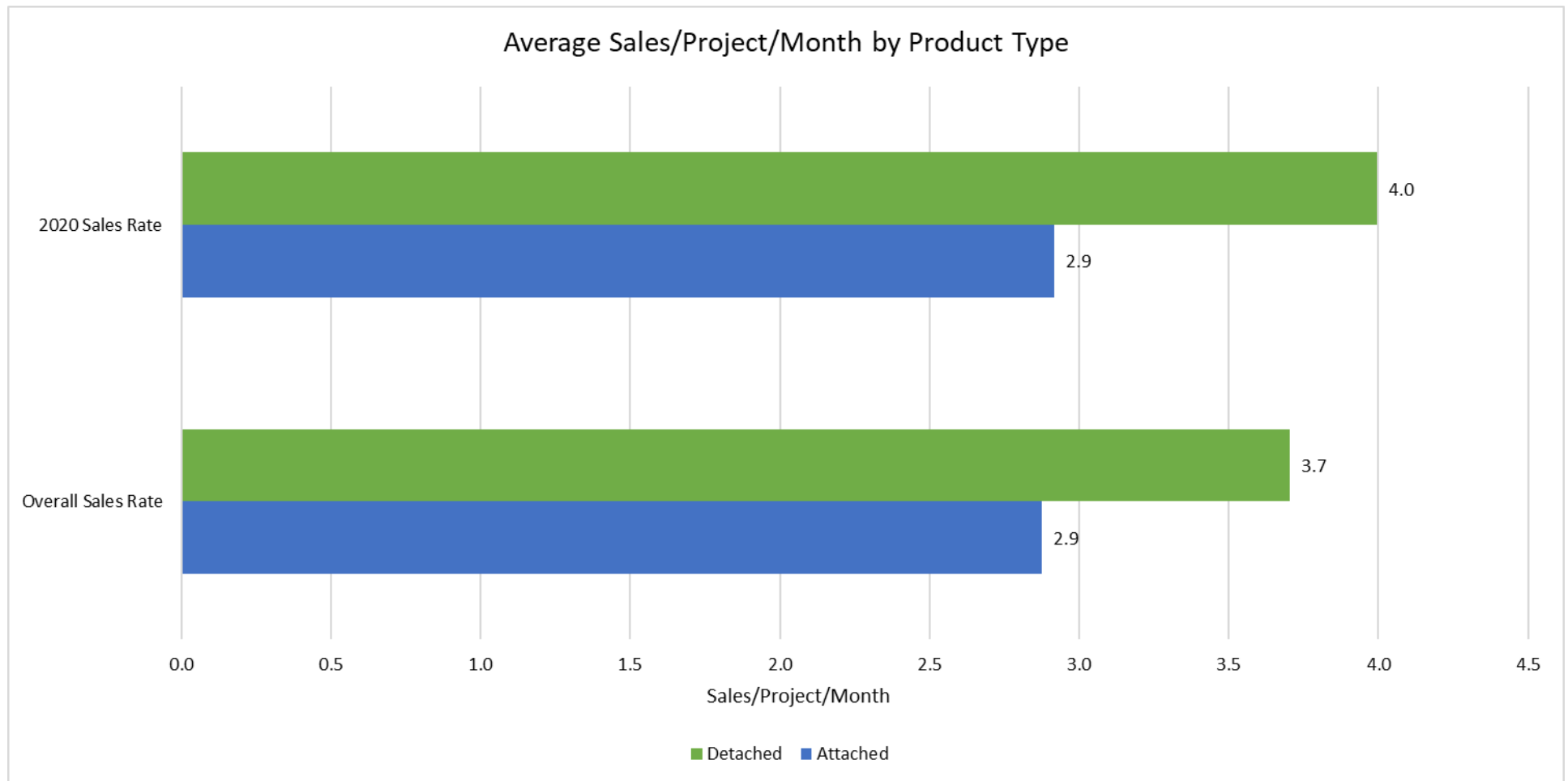
- New SFD sales have exceeded attached sales in 28 out of the last 33 years.
- Since 2016, attached sales have represented over 40% of all sales compared to mostly under 30% in the 1980s and 1990s.
- The only time attached sales surpassed SFD sales was during the condo conversion boom on the early-to-mid 2000s. Tax considerations and market conditions are far less favorable today than in the mid-2000s for conversions, and therefore substantial conversions are not expected in the future.
- While many municipalities are pushing for higher-density MF product, the market still prefers SFD, such as planned at Passerelle.



Year	Detached	Attached
1988	71%	29%
1989	70%	30%
1990	62%	38%
1991	61%	39%
1992	63%	37%
1993	62%	38%
1994	66%	34%
1995	72%	28%
1996	75%	25%
1997	83%	17%
1998	86%	14%
1999	87%	13%
2000	86%	14%
2001	73%	27%
2002	74%	26%
2003	57%	43%
2004	38%	62%
2005	33%	67%
2006	30%	70%
2007	37%	63%
2008	55%	45%
2009	48%	52%
2010	67%	33%
2011	71%	29%
2012	70%	30%
2013	68%	32%
2014	61%	39%
2015	67%	33%
2016	54%	46%
2017	55%	45%
2018	56%	44%
2019	58%	42%
2020E	52%	48%
'88-'08 Avg	37%	63%
'88-'19 Avg	38%	62%

# Sales/Project/Month by Product Type

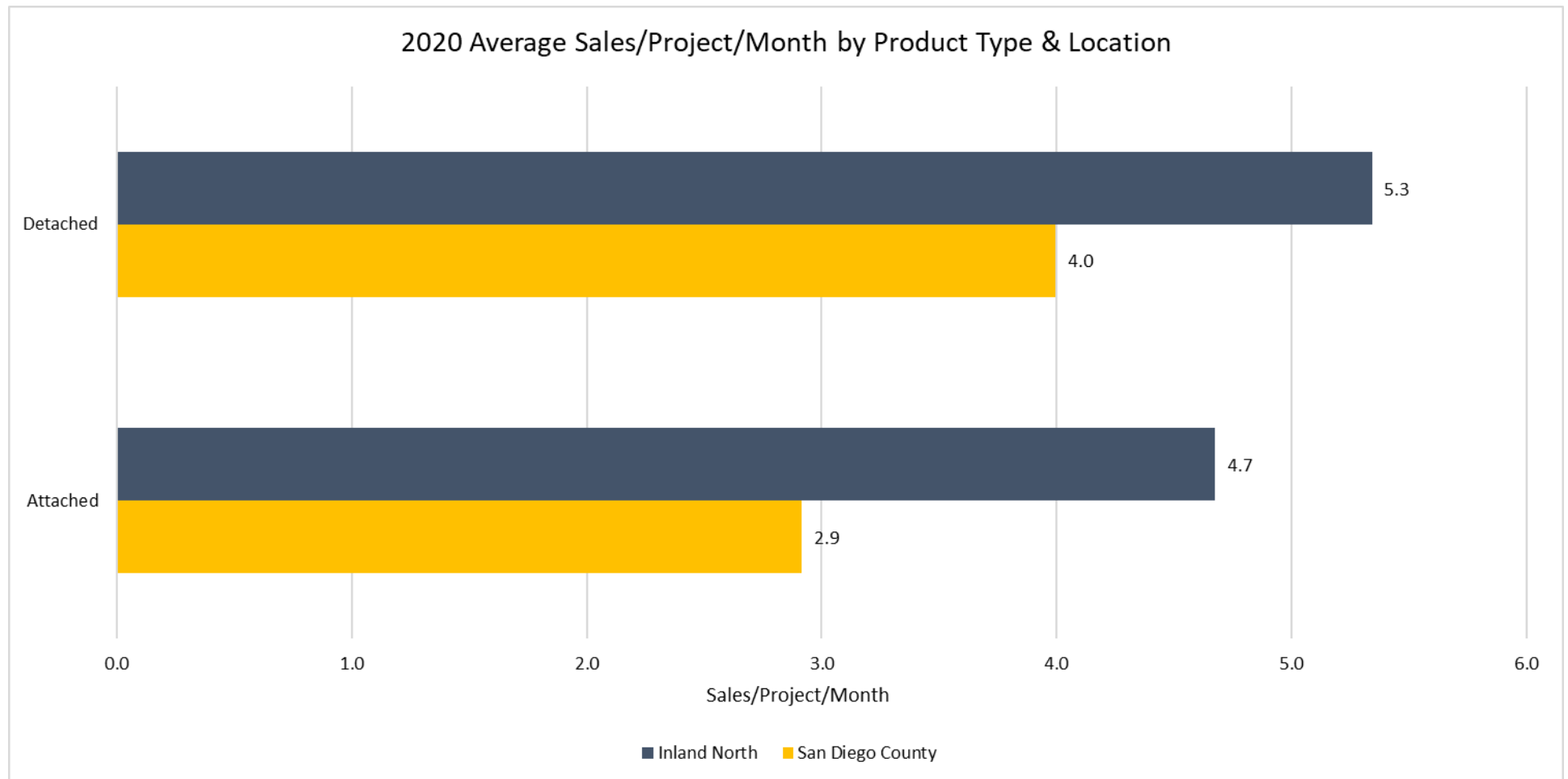
- Despite higher prices, new SFD projects in San Diego County sell at a faster pace than attached projects.
- In 2020, detached product averaged 4.0 sales per project per month compared to 2.9 for attached product.
- Builders typically target a sales pace of at least 3 sales per project per month. Today's faster sales rates have given homebuilders pricing power, and prices have been rising as a result.





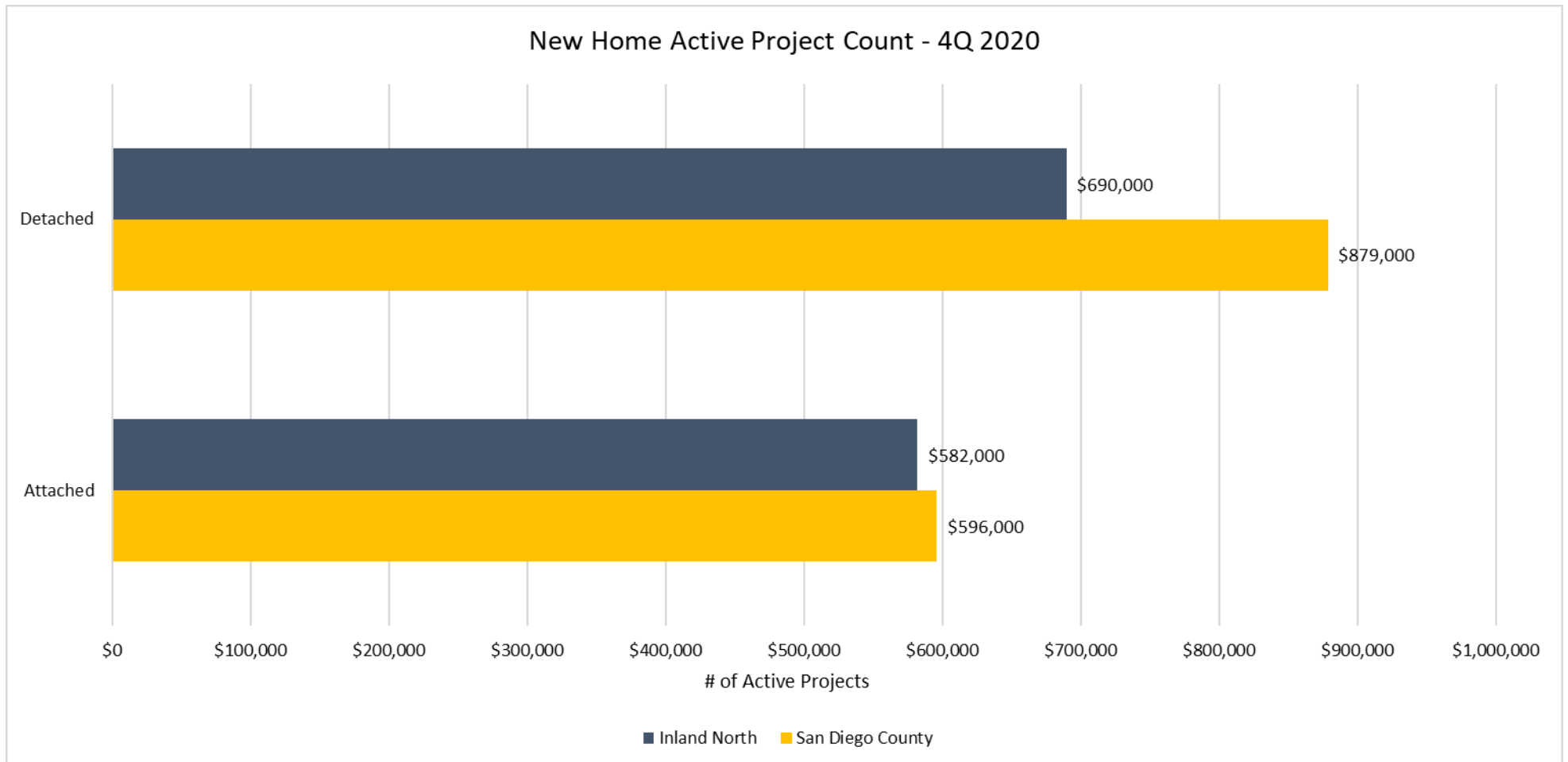
# Sales/Project/Month by by Area

- New SFD homes in the IN market typically have lower prices than for comparable size homes in areas of higher demand, generating more demand in the IN area and resulting in faster sales rates.
- In 2020, IN detached projects averaged 5.3 homes per project per month vs. 4.0 in the county as a whole.



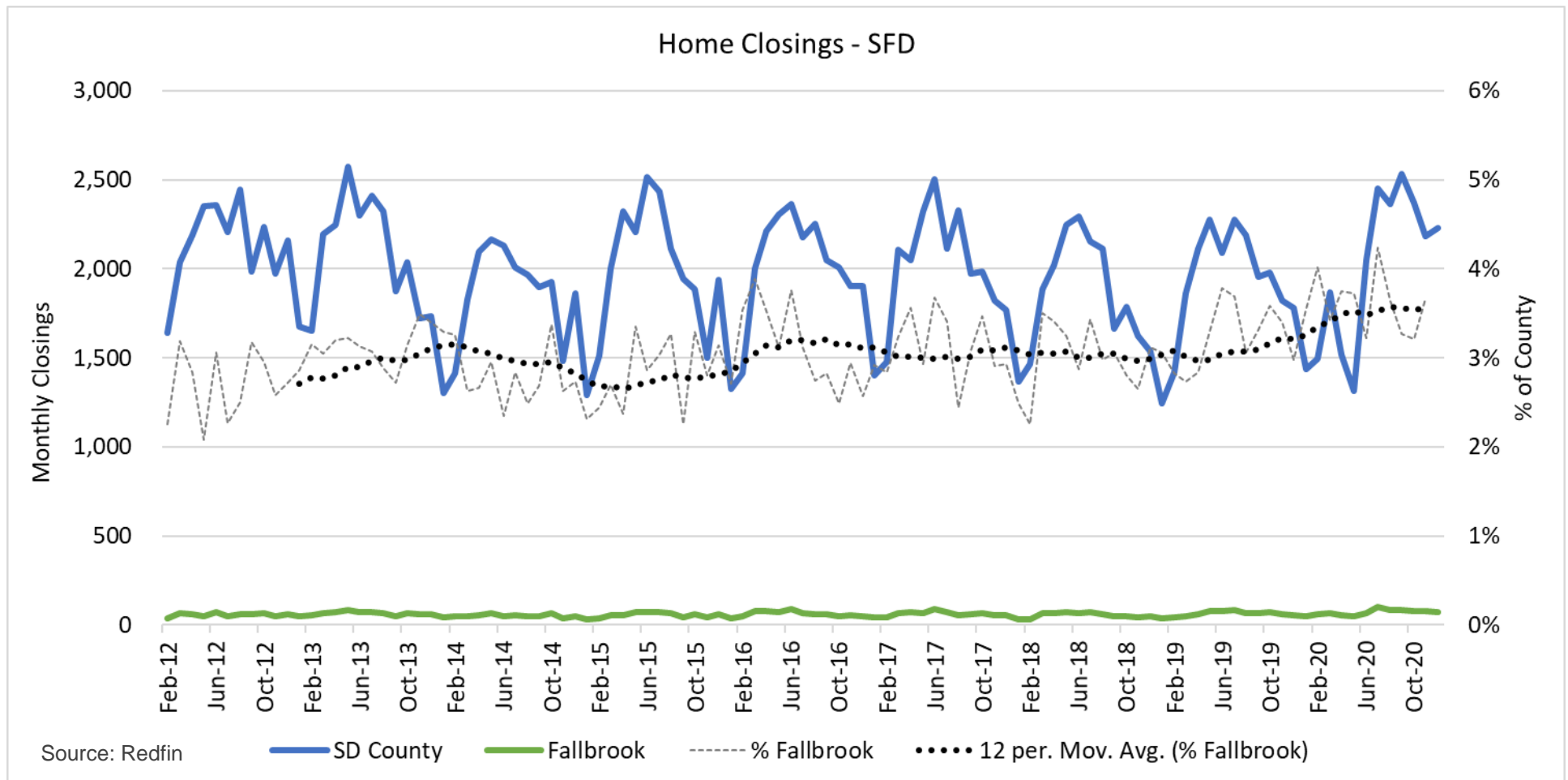
# Median New Home Price by Area

- While housing is expensive throughout San Diego County, home prices in the IN market are generally lower in price than homes in other locations closer to the coast.
- The median asking price of new detached homes in the IN (\$690K) is 22% lower than in the county as a whole (\$879K).
- The median asking price of new attached homes in the IN (\$582K) is only 4% lower than in the county (\$596K), excluding high-rises in downtown San Diego, projects on the Coast in communities such as La Jolla and Pacific Beach.
- Proposed with smaller lot sizes than for conventional detached homes in the IN market, prices at Passerelle should be below the IN average price.



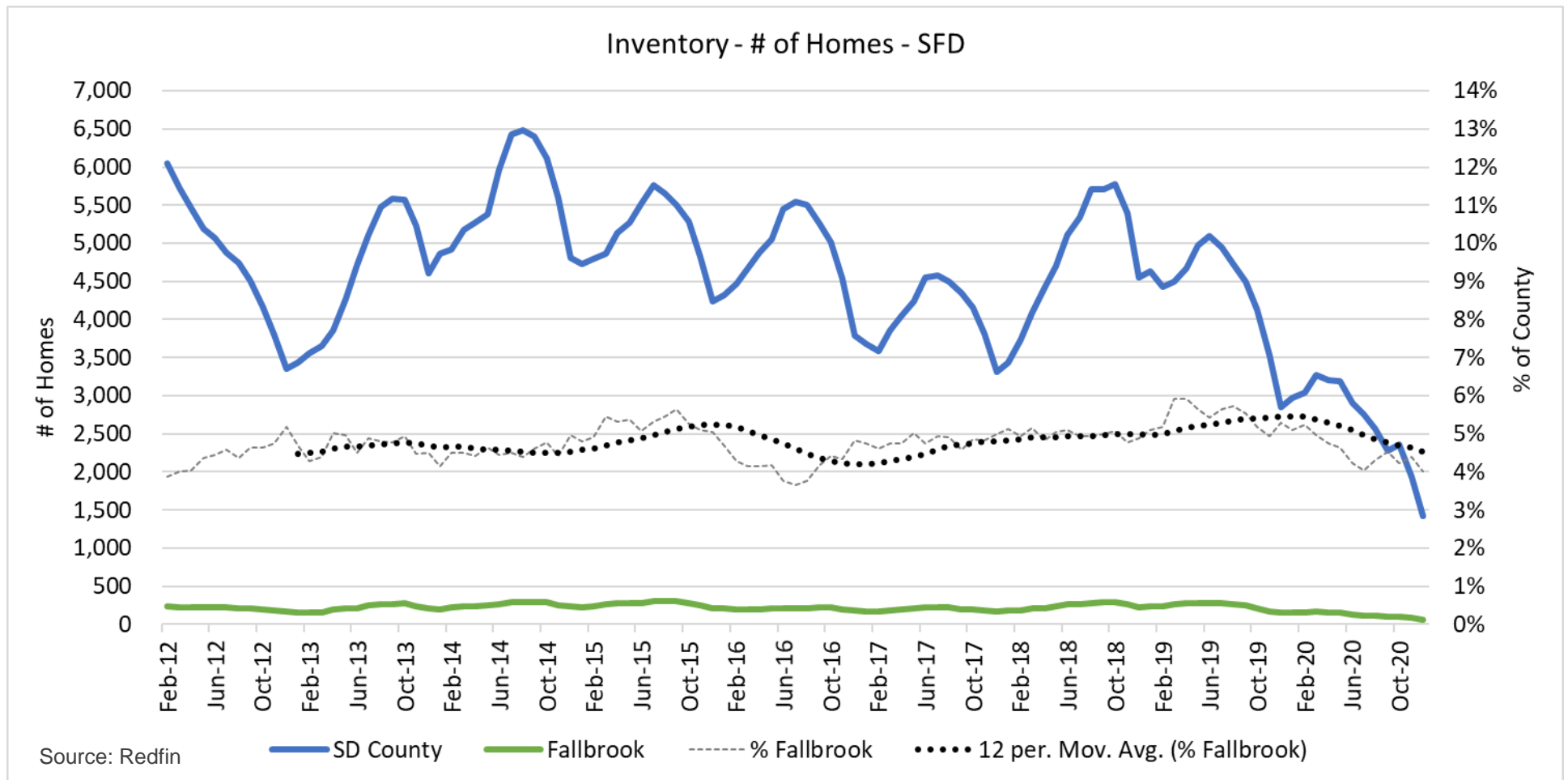
# Detached - Closings

- Reflecting the increasing desirability of the greater Fallbrook area, Fallbrook’s share of the county-wide SFD market has increased over the last 8 years from about 2.8% in 2012 to about 3.5% in 2020.
- Closings in the county as a whole exhibit a consistent seasonal pattern – rapidly increasing activity from about February through May, elevated activity through about August, then a steep decline through year end.
- COVID-19 protocols caused many sellers to pull their homes off the market and caused a large decline in new listings. The drop in supply, coupled with slower sales in March and April, resulted in a decline in closings in July and August.



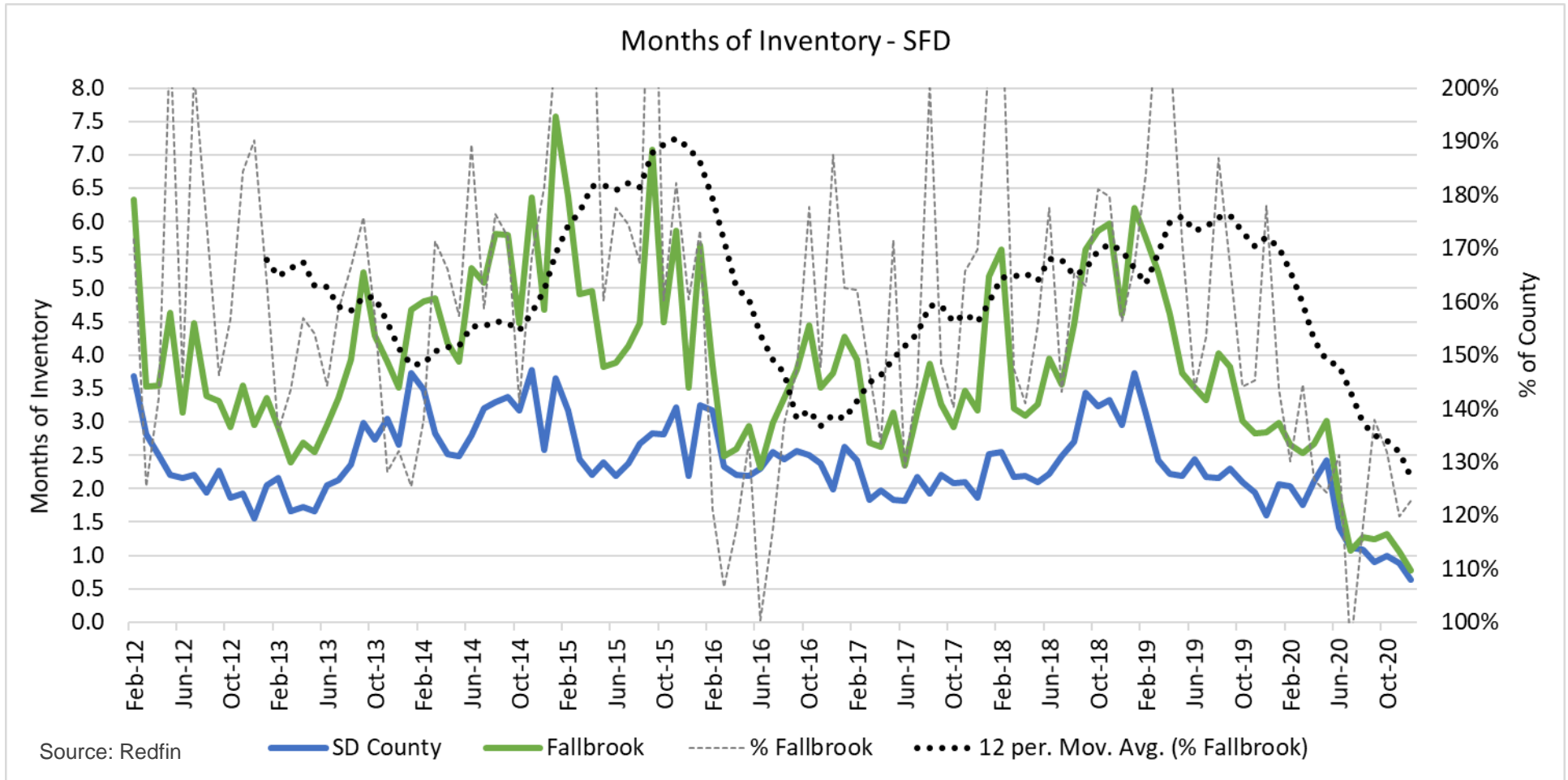
# Detached – Inventory - # of Homes

- Inventory levels are down 46% from 4Q 2019 to 4Q 2020 in the county as a whole and 55% in Fallbrook.
- As of December 2020, there were currently just 1,421 listings in the county, down from 2,847 a year ago.
- As of December 2020, there were currently just 57 listings in Fallbrook, down from 151 a year ago.
- The inventory of homes in Fallbrook has remained fairly consistent since 2012 at around 4.5% to 5.5% of the county.



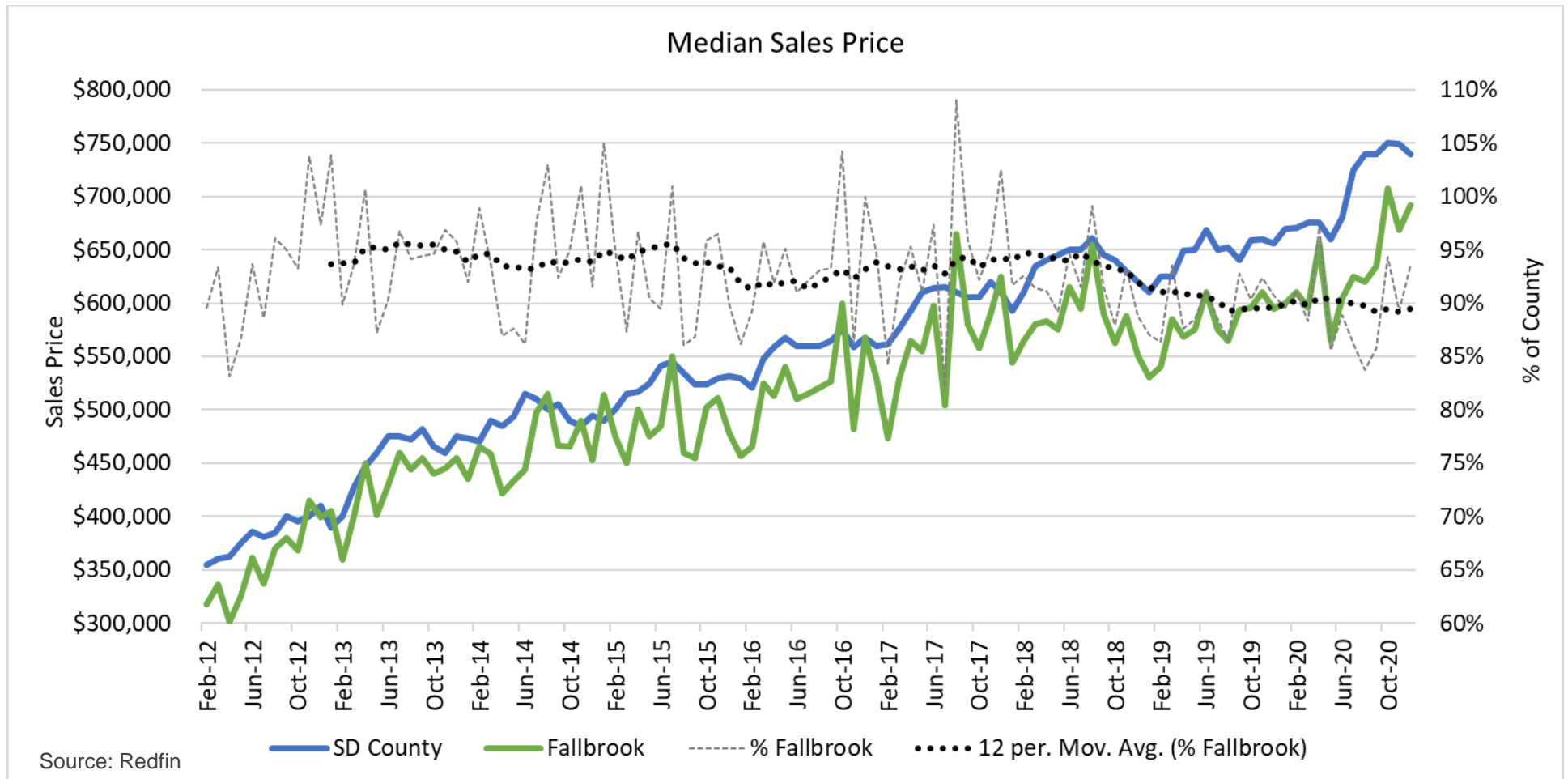
# Detached – Inventory – Months of Supply

- 4 to 5 months of supply is typically considered to be equilibrium in the existing home market.
- As of December 2020, Fallbrook and the County both had less than a 1-month supply of homes.
- With the supply of housing so low, the market could support more new home product coming to market, such as proposed at Passerelle.



# Detached – Median Sale Price

- As of December of 2020, the median SFD price in the County was \$740K and Fallbrook was \$692K.
- The median SFD price in Fallbrook over the last 2 years has been about 90% of the county median.



# Comps – Attached 3-Story TH – DR Horton (active)

- Verano at Skyline, Vista, +/-14 miles SW of Subject, south of SR78
- 109 THs, sales began Oct 2018, averaging 3-4 sales per month
- 3-story side-by-side row THs with “end cap” units, +/-25 du/acre
- HOA \$335/mo., total tax rate 1.3%
- 1,183 to 1,856 sf homes, 2-4B, 2.5-3.5b, 2-story, 2-car garages
- Base prices \$505K to \$605K, total prices \$515K to \$615K
- Comp for Passerelle – No, reflecting lower demand, 3-story THs sell for at least a 10% to 15% discount compared to similar size SFD homes.



**VERANO | RESIDENCE 1515**

There are 2 product lines at Skyline: Verano & Solara



**VERANO | RESIDENCE 1726**



# Comps – Attached 3-Story TH – Brookfield (active)

- Latitude at Rancho Tesoro, +/-15 miles SW of Subject, south of SR78
- 120 THs, sales began Oct 2019, averaging 6-7 sales per month
- 3-story side-by-side row THs with interior courts, +/-20 du/acre
- HOA \$250/mo., total tax rate 1.7%
- 1,243 to 1,933 sf homes, 2-3B, 2.5b, 3-story, 2-car garages
- Base prices \$530K to \$610K, total prices \$550K to \$630K
- Comp for Passerelle – No, reflecting lower demand, 3-story THs sell for at least a 10% to 15% discount compared to similar size SFD homes



## RESIDENCE TWO

THREE STORY ATTACHED | APPROX. 1,332 - 1,388 SQ. FT.  
 3 BEDROOMS | 2.5 BATHS | COVERED PORCH AT ENTRY  
 COVERED OUTDOOR DECK | 2 CAR GARAGE

LATITUDE  
RANCHO TESORO



PRELIMINARY

These drawings are intended to illustrate the general concept of the proposed development and are not intended to be used for construction purposes. The drawings are preliminary and subject to change without notice. The drawings are not to scale. The drawings are not to be used for construction purposes. The drawings are not to be used for construction purposes. The drawings are not to be used for construction purposes.

Brookfield Residential

## RESIDENCE THREE

THREE STORY ATTACHED | APPROX. 1,933 SQ. FT.  
 3 BEDROOMS | 2.5 BATHS | DEN | COVERED PORCH AT ENTRY  
 COVERED OUTDOOR DECK | 2 CAR GARAGE

LATITUDE  
RANCHO TESORO



PRELIMINARY

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Brookfield Residential



# Comps – Attached 2-Story TH – DR Horton (active)

- Solara at Skyline, Vista, +/-14 miles SW of Subject, south of SR78
- 80 THs, sales began Oct 2018, averaging 2-3 sales per month
- 2-story side-by-side row THs, +/-17 du/acre
- HOA \$335/mo., total tax rate 1.3%
- 1,426 to 1,576 sf homes, 3-4B, 2.5b, 2-story, 2-car garages
- Base prices \$560K to \$585K, total prices \$570K to \$595K
- Comp for Passerelle – No, 2-story THs are typically more popular than 3-story THs, but still are typically priced +/-10% below comparable size SFD.



There are 2 product lines at Skyline: Verano & Solara



# Comps – Attached 2-Story TH – Lennar (active)

- Peak at Delpy's Corner, Vista, +/-8 miles SE of Subject
- 124 THs, sales began July 2019, averaging 4-6 sales per month
- 2-story side-by-side row townhomes, +/-15 du/acre
- Young singles & couples, some empty nesters & retirees
- HOA \$335/mo., total tax rate 1.1%
- 1,473 to 1,742 sf homes, 3-4B, 2.5b, 2-story, 2-car garages
- Base prices \$503K to \$570K, total prices \$524K to \$591K
- Comp for Passerelle – No, although this is a great attached product for the suburbs, with private patios, 3+ bedrooms, 2-stories, and home sizes in “sweet spot”, attached product still slows at a slower pace than SFD



# Comps – Attached Duplex – Beazer (sold-out)

- Vela at Mission Lane, Oceanside, +/-11 miles SW of Subject
- 63 duplex or “paired homes”, Sep 2018 to Dec 2020 (s/o), 2.5 sales/mo
- 2-story attached homes, +/-12 du/acre
- Young singles & couples, small families, some empty nesters
- HOA \$177/mo., total tax rate 1.1%
- 1,545 to 1,826 sf homes, 3-4B, 2.5-3.0b, 2-story, 2-car garages
- Base prices \$543K to \$573K, total prices \$550K to \$585K
- Comp for Passerelle – No, while attached product increases density vs. SFD and Vela has private patios, 3+ bedrooms, 2-stories, and home sizes in “sweet spot”; this project sold very slowly, reflecting less demand for a duplex configuration than SFD even at lower price points

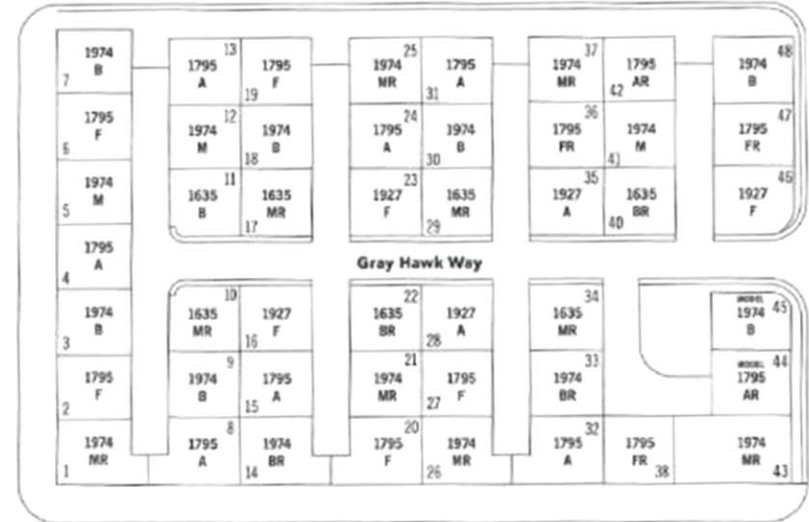


# Comps – Small-lot SFD – KB Home (sold-out)

- Bear Peak, Park Circle master plan, +/-10 miles SE in Valley Center
- 47 homes, Sep 2019 to Sep 2020 (sold-out), 4.0 sales/month
- Small-lot SFD, alley-loaded, 2,500 sf lots (50' x 50'), +/-12 du/acre
- Highest density, lowest priced homes planned in Park Circle
- HOA \$175/mo., total tax rate 1.8%
- 1,635 to 1,974 sf homes, 3-4B, 2.5-3.0b, 2-story, 2-car garages
- Base prices \$505K to \$580K, total prices \$520K to \$620K
- Comp for Passerelle – YES, maximizes density in a SFD home product type, private backyards, some full driveways, not zero lot line

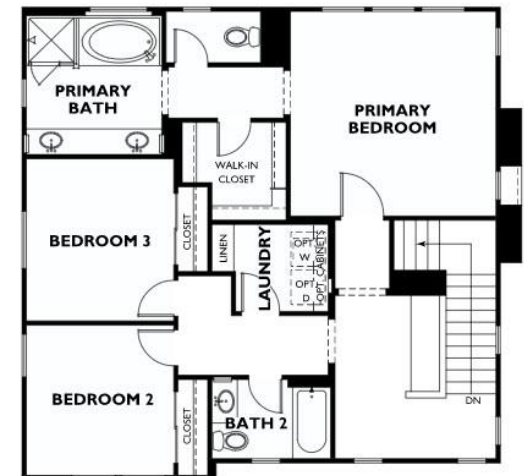


## Bear Peak



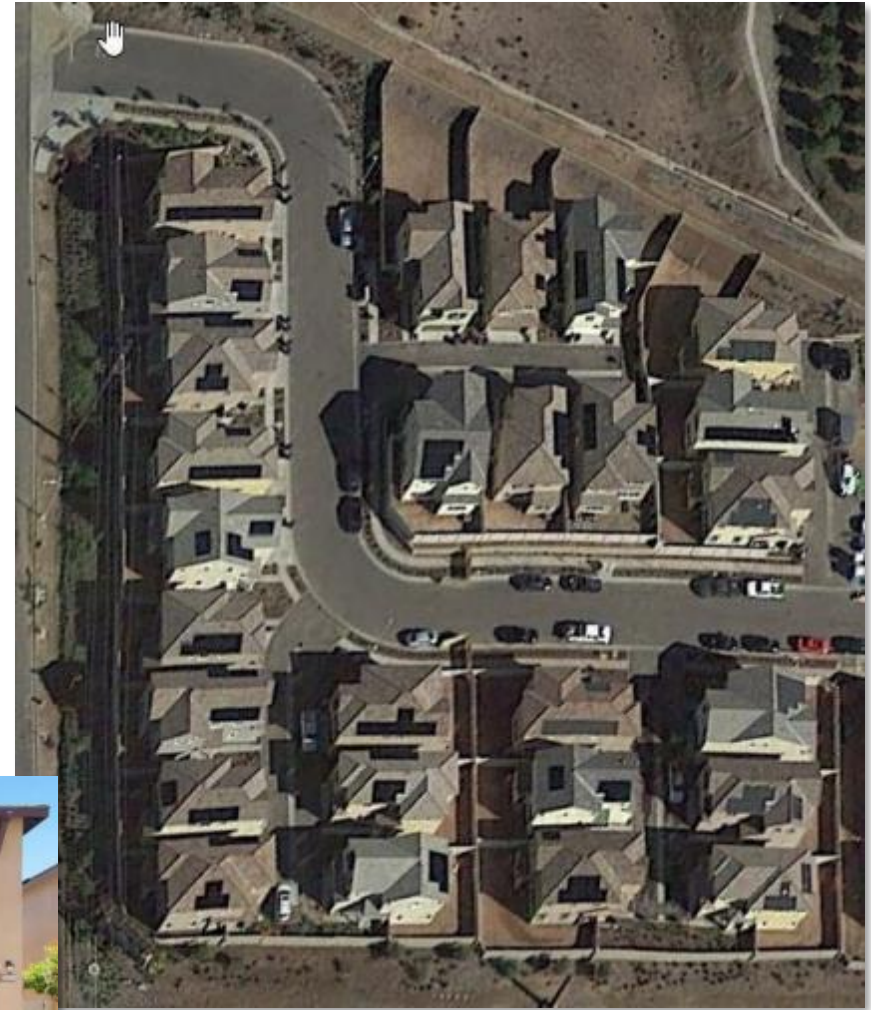
# Comps – Small-lot SFD – Shea Homes (active)

- Summer, Park Circle master plan, +/-10 miles SE in Valley Center
- 88 homes, sales began 12/12/2020, 10+ sales/month
- Small-lot SFD, stub-alley, 2,925 sf lots (45' x 65'), +/-10 du/acre
- 2<sup>nd</sup> highest density, 2<sup>nd</sup> lowest priced homes planned in Park Circle
- HOA \$175/mo., total tax rate 1.8%
- 1,733-2,055 sf homes, 3-4B, 2.5-3.0b, 2-story, 2-car garages
- Base prices \$504K to \$551K, total prices \$520K to \$580K
- Comp for Passerelle – YES, maximizes density in a SFD home product type, private backyards, no driveways, not zero lot line



# Comps – Small-lot SFD – DR Horton (sold-out)


- Chaparral Pointe, Horse Creek Ridge, 0.5 miles S of Subject
- 106 homes, sold-out 2019, averaged 6 sales per month
- Small-lot SFD, stub-alley plotting, 2,600 sf lots (40' x 65'), +/-12 du/acre
- Highest density, lowest priced homes in Horse Creek
- DR Horton “Express” product with basic designs and features
- HOA \$263/mo., total tax rate 1.7%
- 1,568 to 2,037 sf homes, 3-4B, 2.5-3.5b, 2-story, 2-car garages (sold for \$435K to \$465K when last selling new in early 2019)
- Most recent resales for 2,037 sf plan - \$510K to \$520K (these sales were over 6 months ago, nothing has been offered since) – prices likely could be +/-5% higher today
- Comp for Passerelle – YES, in the same Campus Park SPA as Passerelle, maximizes density in SFD product, private backyards, not zero lot line




# Comps – Small-lot SFD – DR Horton (sold-out)

- Brindle Pointe, Horse Creek Ridge, 0.25 miles S of Subject
- 124 homes, sold-out early 2020, averaged 5 sales per month
- Small-lot SFD (detached condo), 2,700 sf lots (45' x 60'), +/-10 du/acre
- 2<sup>nd</sup> highest density, 2<sup>nd</sup> lowest priced homes in Horse Creek
- DR Horton “Express” product with basic designs and features
- HOA \$263/mo., total tax rate 1.7%
- 1,579 to 2,156 sf homes, 3-4B, 2.5-3.5b, 2-story, 2-car garages (sold for \$450K to \$490K when last selling new in mid-2019)
- Recent resale closing: 1,911 sf \$535K, 2,156 sf \$555K,
- Comp for Passerelle – YES, in the same Campus Park SPA as Passerelle, maximizes density in SFD product, private backyards, not zero lot line


SOLD JUL 1, 2020




**\$470,000** Last Sold Price 

3 Beds 2.5 Baths 1,579 Sq. Ft.  
346 Dun Blazer Way, Fallbrook, CA 9...

SOLD SEP 30, 2020



**\$510,000** Last Sold Price 


3 Beds 2.5 Baths 1,579 Sq. Ft.  
283 Spotted Saddle, Fallbrook, CA 92...


SOLD JUN 23, 2020




**\$516,990** Last Sold Price 

3 Beds 2.5 Baths 1,799 Sq. Ft.  
35450 Asturian Way, Fallbrook, CA 9...  
DR Horton, America's Builder

SOLD BY REDFIN JUN 9, 2020 



**\$523,000** Last Sold Price 

4 Beds 2.5 Baths 2,156 Sq. Ft.  
234 Windsor Grey Way, Fallbrook, CA...



# Comps – Standard SFD – DR Horton (sold out)

- Westbury, Horse Creek Ridge, adjacent to Subject to E
- 163 homes, opened Sep 2017, sold-out Jan 2020, avg 4 sales/mo
- Conventionally plotted SFD, 4,500 sf lots (45' x 100'), 6-7 du/acre
- Private backyards, full driveways
- Mid-range product, 1<sup>st</sup>-time & 1<sup>st</sup>-move-up family buyers
- HOA \$188/mo., total tax rate 1.7%
- 2,285-2,656 sf homes, 3-4B, 2.0-3.0b, 2-story, 2-car garages
- Last base prices \$607K to \$669K, total prices \$620K to \$690K
- Comp for Passerelle – No, yards are too big and density is too low





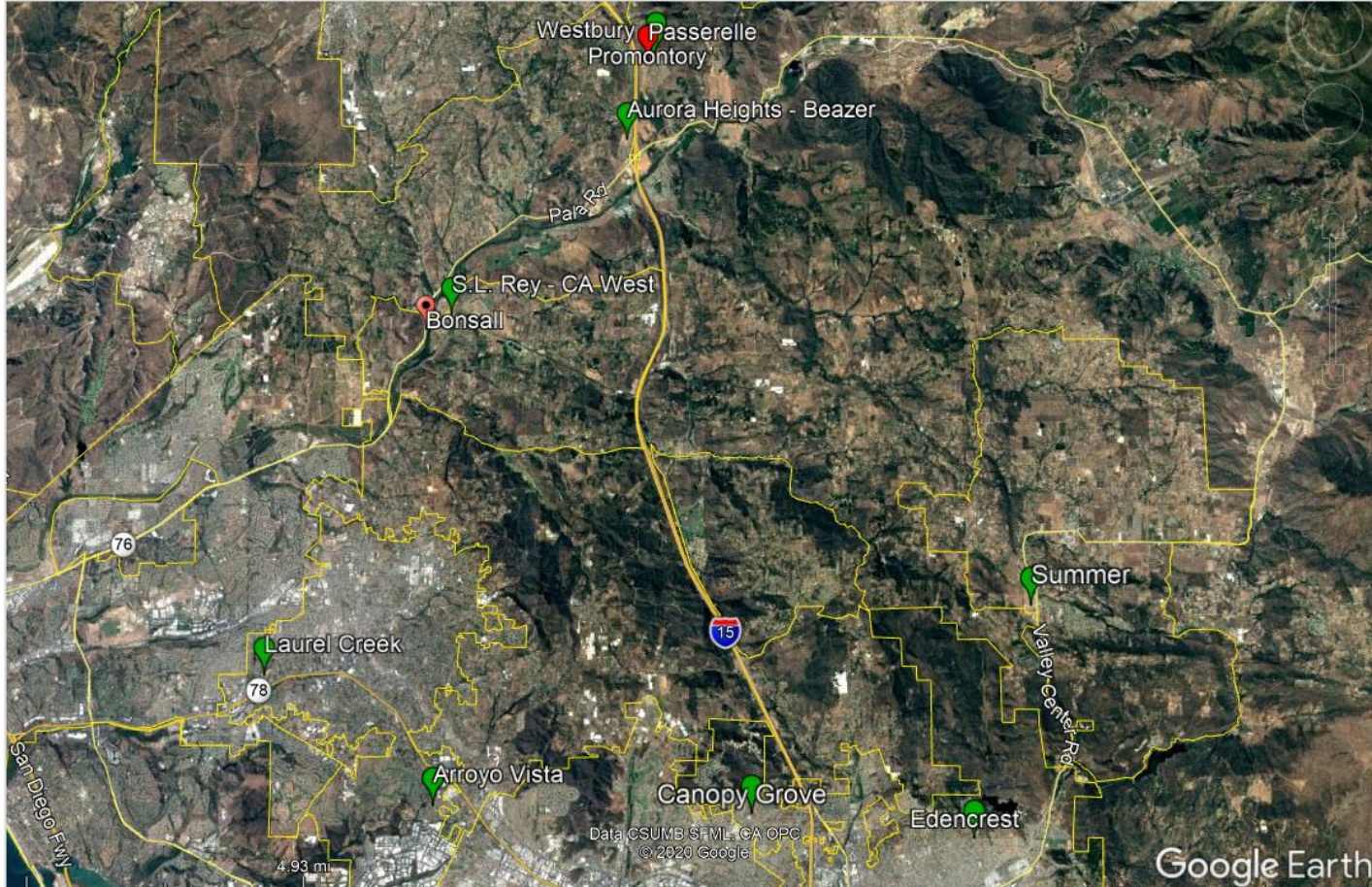
# Comps – Standard SFD – Beazer (active)

- Aurora Heights, Fallbrook, +/-1.3 miles SW of Subject on Old Hwy 395
- 124 homes, sales began Dec 2018, average 5 sales per month
- Conventionally plotted SFD, 6,000 sf lots (60' x 100'), +/-5 du/acre
- Mid-range product, families, empty nesters & retirees (1-story homes)
- HOA \$280/mo. (large private rec area), total tax rate 1.1%
- 2,386 to 3,199 sf homes, 3-4B, 2.5-3.0b, 1&2-story, 2-car garages
- Base prices \$650K to \$720K, total prices \$660K to \$760K
- This project took +/-20 years to obtain entitlements and would have been planned differently if property owners were pursuing approvals today
- Comp for Passerelle – No, yards are too big and density is too low



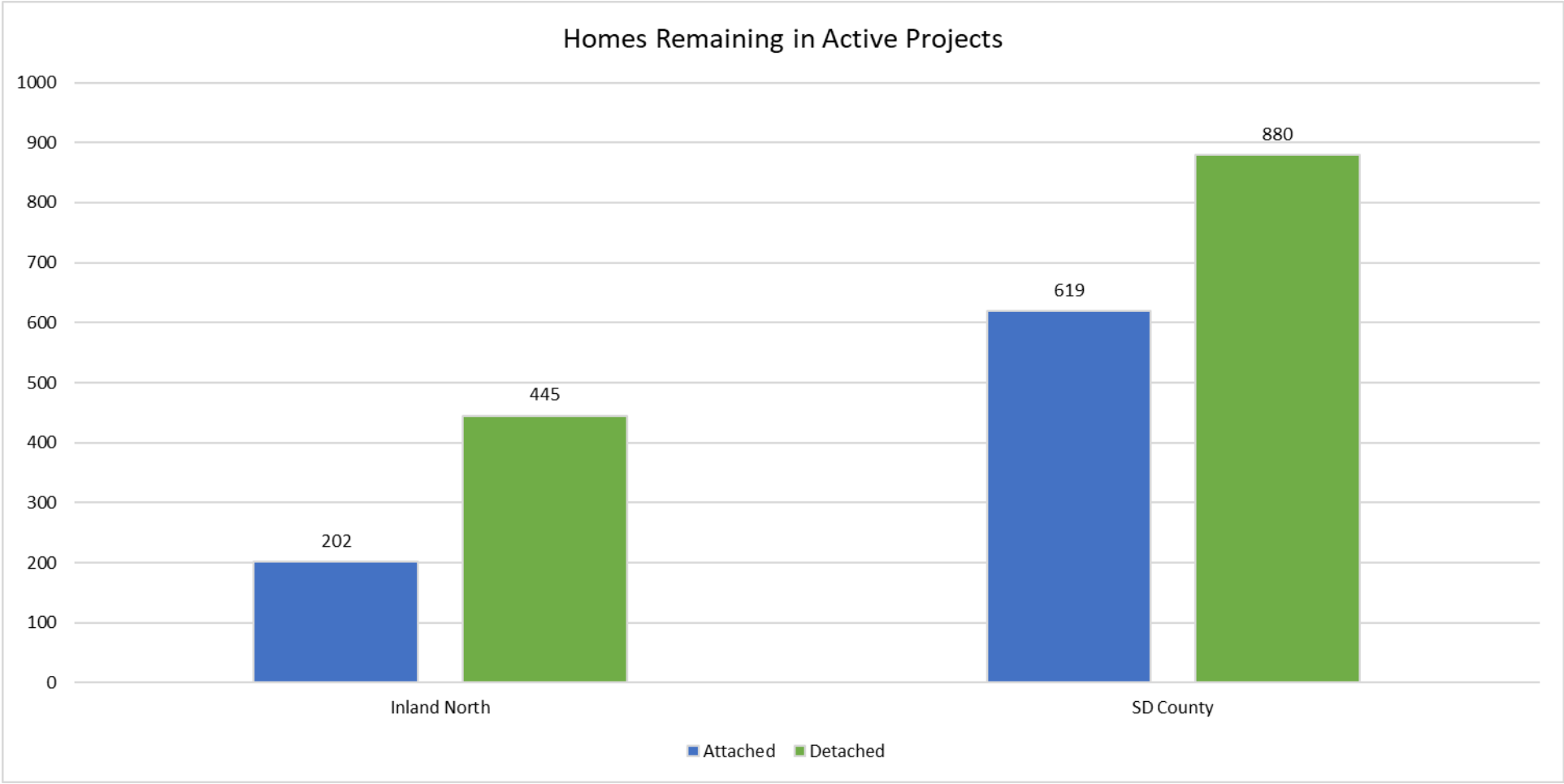
# Active SFD New Home Projects – Inland North

Project	Builder	Location	Zip	Master Plan	Product	Home Size (Sq.Ft.)		Lot Size (Sq.Ft.)	Monthly Sales	Date Opened	Total Homes			Current Base Prices	
						Low	High				Planned	Sold	Remain	Low	High
S.L. Rey	CA West	Bonsall	92003	None	Detached	2,029	3,239	6,000	2.7	3/3/2018	93	93	0	\$641,900	\$754,900
Haven	Lennar	Escondido	92026	Canopy Grove	Detached	1,525	2,592	4,000	5.0	8/22/2020	93	20	73	\$683,900	\$723,900
Reflection	Lennar	Escondido	92026	Canopy Grove	Detached	1,412	1,681	2,450	1.2	8/22/2020	108	5	103	\$588,900	\$614,900
Retreat (SFD)	Lennar	Escondido	92026	Canopy Grove	Detached	1,535	1,535	3,375	1.0	8/22/2020	23	4	19	\$620,900	\$620,900
Sanctuary	Lennar	Escondido	92026	Canopy Grove	Detached	1,994	3,209	5,000	5.5	8/22/2020	98	22	76	\$736,900	\$803,900
Arbors at Edencrest	Trumark Homes	Escondido	92027	None	Detached	2,496	3,399	10,000	2.8	6/27/2020	57	17	40	\$789,360	\$833,000
Groves at Edencrest	Trumark Homes	Escondido	92027	None	Detached	3,100	4,043	10,000	3.7	7/4/2020	38	22	16	\$798,000	\$842,000
Aurora Heights	Beazer Homes	Fallbrook	92028	None	Detached	2,386	3,199	6,000	4.9	12/29/2018	124	121	3	\$650,990	\$719,990
Westbury	D.R. Horton	Fallbrook	92028	Horse Creek	Detached	2,285	2,656	5,175	4.1	9/30/2017	163	161	2	\$606,990	\$668,990
Promontory	Richmond American	Fallbrook	92028	Horse Creek	Detached	3,205	3,840	5,000	3.6	3/10/2018	124	123	1	\$610,990	\$999,990
Summer	Shea Homes	Valley Center	92082	Park Circle	Detached	1,733	2,046	2,925	12.5	12/5/2020	88	15	73	\$501,000	\$544,000
Laurel Creek	D.R. Horton	Vista	92083	None	Detached	1,777	2,314	2,479	3.1	9/7/2019	68	50	18	\$628,000	\$666,000
Arroyo Vista	Meritage Homes	Vista	92081	None	Detached	1,822	2,317	3,150	8.7	8/29/2020	56	35	21	\$690,852	\$768,000
Total or Average						2,437		5,043	4.5		1,133	688	445	\$697,000	



# Future Supply – Active Communities\*

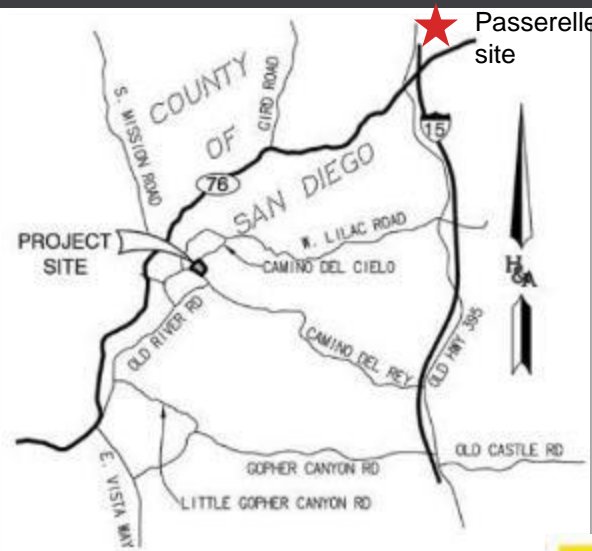
- There are only 1,499 homes remaining in actively selling communities in the county as a whole; **less than a 6-month supply** of homes at the 2020 sales pace (3,800 new home sales in 2020). Six months ago there were 2,124 homes remaining.
- In the county, 41% of the supply is attached homes and 59% is detached. In the IN, 31% is attached and 69% detached.
- The IN market has only 647 homes left in active communities, representing 43% of all homes in the county.
- With no new large-scale communities on the horizon in the IN market besides Meadowood (844 homes), the supply of homes is expected to decline. This will create opportunities for sites such as Passerelle to bring much needed new product to market.



\*Includes potential future units in actively selling projects with all approvals only.

# Future Supply – Bonsall

- San Luis Rey Downs, +/- 4 miles SW of Subject off SR76
- 13.3 acres zoned VR-15, allowing 15 units per acre, not entitled
- 199 homes allowable under zoning, but a plotting plan for small-lot SFD yielded 128 units (69 6-pack product, 59 2,990 sf lots 46'x65')
- Buyer reportedly was selected in early October, 2020. Buyer plans a mix of small-lot cluster SFD and 2-story TH's, and expected to yield 140-150 units



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Concept plan only. Final plan will be different.

	6 PACK PRODUCT
	46' X 65' LOTS
	PRIVATE ROAD
	PUBLIC ROAD
	LANDSCAPING
	BASIN



# Future Supply – Bonsall

- Camino Del Cielo, +/-4 miles SW of Subject off SR76
- 76 detached condos on 8.4 acres (add'l 47.5 acres of open space)
- Conventionally plotted with full-length driveways
- 2,650 sq.ft. lots (34' x 78'), +/-10 du/acre
- Approved Vesting Tentative map, raw land
- Purchased by DR Horton, closed 9/2/2020



**CAMINO DEL CIELO**

**Land Advisors<sup>®</sup>**  
ORGANIZATION

David Landes  
Land Advisors Organization  
CalBRE #01106774  
(858) 568-7428 x11  
[dlandes@landadvisors.com](mailto:dlandes@landadvisors.com)

# Future Supply – Escondido

- Nutmeg, +/-12 mi S of Subject on I-15 at Centre City Pkwy, Escondido
- 134 attached townhomes, 6.87 gross acres (3 parcels), 19.5 units/acre
- 2 TH products: 1,104-1,646 sf (84 units) and 1,210-1,950 sf (50 units)
- Multiple approvals (see information box in lower right)
- Available, seller asking +/- \$8.0M (\$60K/unit, \$27/sq.ft.)

## 134 townhomes | tentative map approved

nutmeg street | escondido, ca 92026

- Approx. 6.87 Acres
- City of Escondido
- 1,408 SF Average Unit Size
- GPA & Rezone Approved

**SUBMIT ALL OFFERS**  
**OFFER DUE DATE TO FOLLOW**



- entitlements:**
- Full Site:**
- General Plan Amendment to U3
  - Re-Zone to PD-R-18
  - Certification of EIR (allows up to 134)
  - Specific Alignment Plan (Nutmeg and Centre City)
- North:**
- Tentative Subdivision Map
  - Master Development Plan
  - Precise Development Plan
  - Grading Exemption

**NUTMEG HOMES**

**PRELIMINARY SITE PLAN**

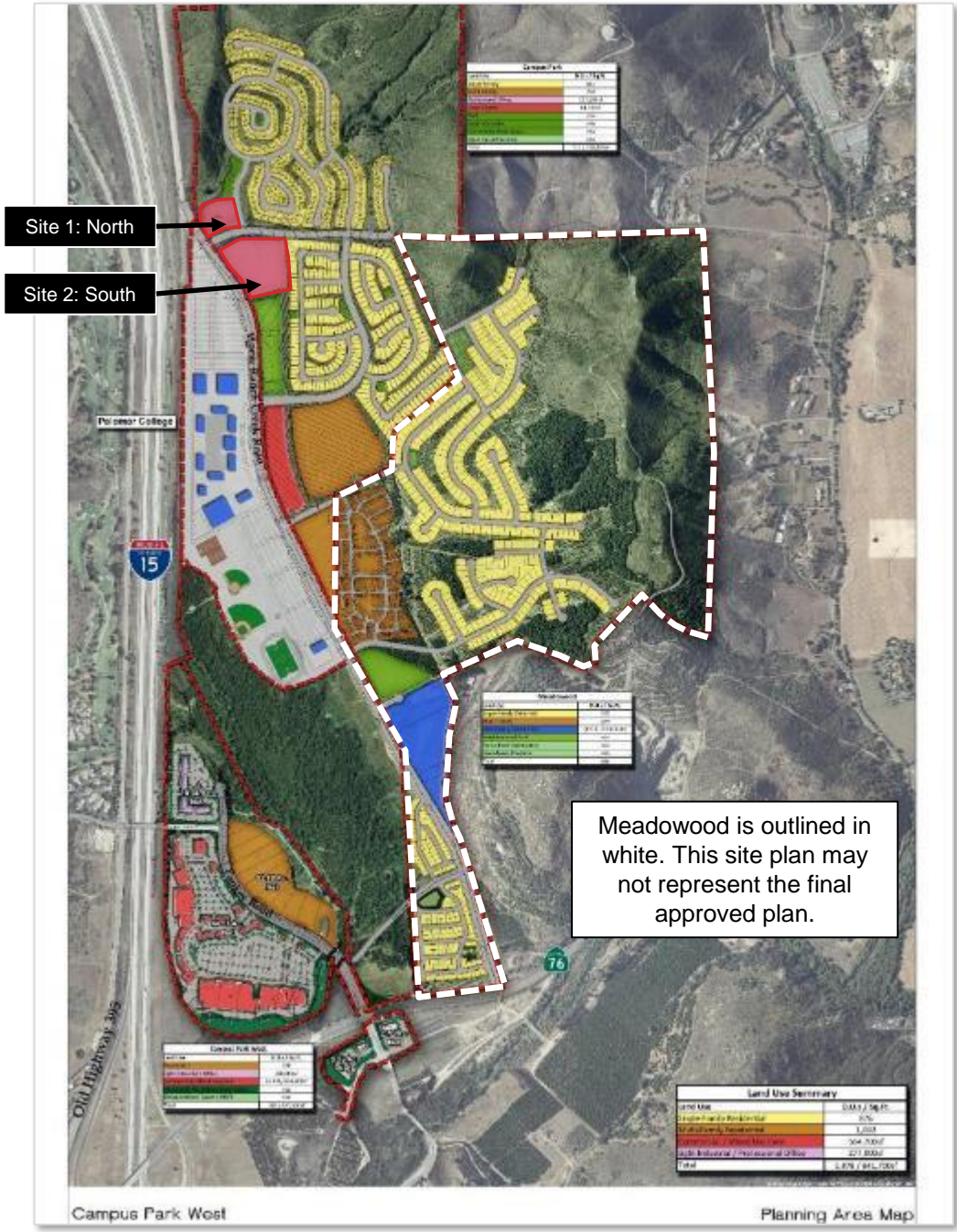
SEPT 14, 2019

SCALE: 0 50 100 150



5356 S. Mission Road, Ste 404  
Boswell, CA 92003  
760.724.1198 summarh.com

# Future Supply – Meadowood (Fallbrook)



- Meadowood is a master planned community directly adjacent to Campus Park, E of I-15 and N of SR76.
- Developer/Homebuilder: Pardee Homes (TRI Pointe)
- Status: fully entitled, site improvements are underway
- Start date for home sales: 2Q/3Q 2021
- Total homes: 844 (could be 886 if the school is not built)
- No commercial uses or rental residential
- 6 for-sale product lines (2 attached & 4 detached):
  - 2-Story TH (Att) – 192
  - Duplex/paired (Att) – 178
  - Small-lot SFD – 101
  - Small-lot SFD – 106
  - Conventional SFD – 141
  - Conventional SFD – 126
- Attached 370 units (44%)
- Detached 474 units (56%)
- Meadowood most likely will be completely sold out by the time any homes are brought to market at Passerelle.

# Future Supply – Sierra (North of Escondido)



This plan is conceptual and is shown for illustrative purposes only. Refer to the Newland Sierra Specific Plan for more information.



**NEWLAND SIERRA**  
ILLUSTRATIVE SITE PLAN  
11/18/11

Sierra, Newland Communities, north of Escondido, west of I-15, +/-9 miles south of Passerelle. Has an approved Specific Plan for **99 SFD homes** on minimum 4 acre lots. Newland has tried unsuccessfully for 10+ years to increase the unit count to +/- 2,135 homes (site plan to left).

The community also includes approved plans for up to 2.0M sf of commercial/professional office on 58.2 acres. However, a yield analysis prepared by Newland indicates a maximum of 122K sf of commercial and 1.68M sf of professional office. If built, the commercial and professional office space would be direct competition to Passerelle.



# Future Supply - University District Specific Plan (San Marcos)

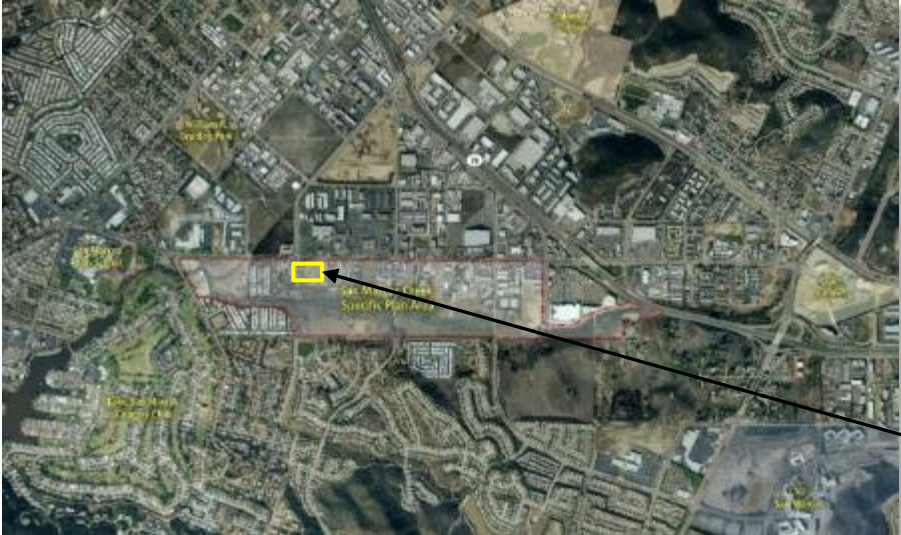
The University District Specific Plan, known as North City, is a mixed-use development located adjacent to Cal State University San Marcos (CSUSM). The Quad apartments were built in 2013 (300 units). Block C apartments were built in 2016 (198 units). Block K has been approved for 68 MF units, not yet built. The apartments include ground-floor retail (approx. 50% vacant). Some office space has been built. A total of 2,600 residential units are in the Specific Plan. No for-sale homes have been built or proposed to date. If any for-sale projects are ever built, they most likely would be high-density programs.



Land Use Description	Adopted Specific Plan	Proposed Specific Plan Amendment	Difference
Mixed-Use Residential	2,600 units	2,600 units	---
Student Housing	800 units	800 units	---
Hotel	450 rooms	450 rooms	---
General Office	638,000 s.f.	652,000 s.f.	+ 14,000 s.f. 2.2% increase
Medical Office	300,000 s.f.	300,000 s.f.	---
Mixed-Use Retail/Commercial	1,000,000 s.f.	700,000 s.f.	(300,000 s.f.) 30% reduction
Civic/Community	30,000 s.f.	30,000 s.f.	---
Parks/Urban Open Space	25.33 acres	25.60 acres	+ 0.30 acre 1.1% increase
Urban Trails/Paths	1.38 miles	1.38 miles	---
Habitat Preservation	15.10 acres	15.10 acres	---
Public Streets	26.74 acres	25.00 acres	(1.74 acres) 6.5% reduction

# Future Supply - San Marcos Creek Specific Plan (San Marcos)

The San Marcos Creek Specific Plan is a proposed mixed-use development located in the heart of San Marcos. The planning area covers 214 acres, and includes 81 acres of mixed-use (office, retail, residential), 21 acres of parks and 74 acres of open space (remainder is right-of-way). Portions of the site have pre-existing land uses (mostly commercial). Planning has been in the works for 15+ years. A proposal has been submitted for 446 apartments and 44K sf of commercial on a 4.5 acre parcel within the SPA. No plans for any for-sale projects at this time. If for-sale projects are built, they most likely will be high-density programs.



Land Use	Development Area (square feet)
Retail	1,265,000
Office	589,000
Residential	2,760,000 (2,300 dwelling units)
<b>Total</b>	<b>4,614,000</b>

“Main Square” project: 1167 W. San Marcos Blvd, Blue Band Enterprises has proposed a mixed-use development with 44K sf of commercial and 446 apartments (including 22 live/work units) on 4.5 acres.

# Single Family Demand

## San Diego County Demand

- SANDAG projects that there will be demand for 27K SFD housing units over the next 10 years, or 2.7K per year.
- In comparison, in the 10 years from 2010 through 2019, a total of just under 28K SFD permits were issued in the county as a whole, or about 2.8K per year.
- The actual demand for SFD homes is much higher than what SANDAG is projecting and what has been permitted. Given a dwindling supply of land, fewer SFD homes are being built (more sites are going to MF).
- Regional demand conditions support SFD housing at Passerelle.**

## San Diego County - Projected Housing Growth

Housing Type	2020	2030	10-Year Change		Annual Change #
			#	%	
Single Family	697,416	724,236	26,820	3.8%	2,682
Multi-Family	443,213	519,612	76,399	17.2%	7,640
Mobile Home	37,462	35,975	-1,487	-4.0%	-149
<b>Total</b>	<b>1,178,091</b>	<b>1,279,823</b>	<b>101,732</b>	<b>8.6%</b>	<b>10,173</b>

San Diego County HHs (2019): 53% owner, 47% renter.  
County 10-year demand assuming similar ratios:  
 Owner: 53,900 (could be SFD or Multi-Family)  
 Renter: 47,800 (most likely Multi-Family)

## North County East MSA 5 Demand

- SANDAG projects that there will be demand for 6.4K SFD housing units over the next 10 years, or 641 per year.
- In comparison, in the 10 years from 2010 through 2019, a total of about 9.7K SFD units were permitted in the North County East MSA, or 966 per year.
- MSA demand conditions support SFD housing at the Passerelle.**

## North County East MSA - Projected Housing Growth

Housing Type	2020	2030	10-Year Change		Annual Change #
			#	%	
Single Family	99,720	106,130	6,410	6.4%	641
Multi-Family	45,507	52,872	7,365	16.2%	737
Mobile Home	10,708	10,569	-139	-1.3%	-14
<b>Total</b>	<b>155,935</b>	<b>169,571</b>	<b>13,636</b>	<b>8.7%</b>	<b>1,364</b>

San Diego County HHs (2019): 53% owner, 47% renter.  
MSA 5 10-year demand assuming similar ratios:  
 Owner: 7,200 (could be SFD or Multi-Family)  
 Renter: 6,400 (most likely Multi-Family)

# APPENDIX

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# Limiting Conditions

The findings, conclusions and recommendations presented in this report were based on our analysis of the information available to us at the time that this study was conducted. The information utilized under this assignment came from a variety of sources including our own primary research, secondary data sources, and from the client, to name a few. We assume that the information utilized is correct; however, we are unable to guarantee the accuracy or timeliness of any of the information. In addition, we assume that the client would have informed us of any issues that could affect the market viability of the property being evaluated.

Our findings, conclusions and recommendations are based on historical, current and expected future performance on the national, state and/or local economies and real estate markets. Economic and housing market conditions can change, sometimes rapidly, and real estate markets can be cyclical. Therefore, it is critical to continuously monitor economic and housing market conditions, and to reassess key project assumptions and parameters in light of changing market conditions.

The future is difficult to predict, particularly given that economic conditions, housing trends, and consumer preferences are always changing. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences can be material. We do not express any form of assurance on the achievability of any anticipated or projected project outcome, or the reasonableness of underlying assumptions.

Generally, we assume “normal” real estate market conditions, and not a condition of either prolonged “boom” or “bust” market conditions. We do assume that economic, employment and demographic growth will occur more or less in accordance with current expectations. We are not taking into account major shifts in: consumer confidence levels, the ability of developers to secure necessary project entitlements, the cost of development or construction, changes in tax laws either in favor or disfavor of real estate, the availability or cost of mortgage financing, or possible changes to any other factor that could impact the market viability of a project such as societal shifts, pandemics, or other Acts of God such as earthquakes, fires and the like.

This analysis should be updated at least every three to six months to account for possible changes that could materially impact the market viability of the development. We have no responsibility to update our findings, conclusions or recommendations for events and circumstances occurring after the date of our report. This analysis represents just one resource that the client should consider when assessing this development opportunity.

Our pricing recommendations and absorption targets assume certain parameters regarding project execution. In order to achieve the prices and sales rates reflected in this report, it is assumed that the Subject will: 1) offer floor plan sizes and types as proposed, 2) be executed with a “market appropriate” level of quality (community entrance, monumentation, landscaping, amenities, spec levels, and unit finishes in-line or above market expectations), 3) have advertising and marketing efforts generating qualified shopper traffic commensurate with market comps achieving comparable sales rates, 4) have an on-site sales office open seven days per week, 5) have fully decorated model homes for at least two floor plans, 6) have experienced sales agents familiar with the local market, and 7) come to market in a timely manner (within the next 24 months).

# Clarity Real Estate Advisor – Qualifications

Providing our clients a competitive decision-making advantage with innovative, nuanced, and thoroughly researched insights and guidance.

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Pete is Southern California's leading housing market advisor. Pete incorporates his decades of market experience and insights into every assignment; benefiting clients with his keen analytical eye, early-cycle trend-spotting capabilities, and also the wisdom that comes with having been through multiple market cycles. Pete originally founded Reeb Development Consulting in 1996 to provide clients with insightful, timely, and innovative real estate market advisory services, rebranding as Clarity Real Estate Advisors in late 2020. Pete has been a part of three of the biggest names in the real estate market advisory sector. He started his career at Robert Charles Lesser & Co (RCLCo); later was a Partner at The Meyers Group while also serving as President; and then was a Principal at John Burns Real Estate Consulting. Pete advises public and private homebuilders, landowners and developers, entitlement groups, investors, private equity firms, and the public sector. Pete has a B.A. in Economics and Public Policy from Pomona College, which is consistently rated as one of the top ten private colleges in the country.



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Adam is one of Southern California's most sought-after and respected housing market consultants. With over 15 years of experience as a real estate advisor and financial analyst, Adam has established a solid reputation for his ability to understand and analyze the market viability of complex and pioneering real estate developments. Most recently, as Vice President at Reeb Development Consulting. Prior to joining Reeb, Adam evaluated hundreds of Southern California real estate developments as a Vice President of Consulting at John Burns Real Estate Consulting. Adam started his career as a Senior Research & Financial Analyst for Steadfast Companies, a full-service real estate investment and development firm. Client's respect Adam's thorough and analytical approach to evaluating real estate opportunities. Adam has a B.S. in Finance from Santa Clara University.

