

JWW

APPRAISAL REPORT



APPRAISAL OF:

Pacific View School Site
390 W. F Street
Encinitas, CA

PREPARED FOR:

City of Encinitas
c/o Richard Phillips, Deputy City Manager
505 S. Vulcan Ave
Encinitas, CA 92024

PREPARED BY:

James W. Waldorf, MAI
Real Estate Appraiser and Consultant
5431 Avenida Encinas, Suite H
Carlsbad, California 92008

DATE OF VALUE:

June 19, 2013

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ADDENDA

Qualifications of James W. Waldorf, MAI

JWW

James W. Waldorf, Inc.

Real Estate Appraisal and Consulting
5431 Avenida Encinas, Suite H
Carlsbad, California 92008
(760) 438-7750

June 24, 2013

City of Encinitas
c/o Richard Phillips, Deputy City Manager
505 S. Vulcan Ave
Encinitas, CA 92024

Re: Pacific View School Site
390 W. F Street
Encinitas, CA 92024

Dear Mr. Phillips:

Pursuant to your request, I have prepared an appraisal analysis on the above mentioned school site for the purpose of formulating and expressing an opinion with regard to the market value. The property rights appraised are fee simple interest.

The subject property is to be appraised under one premise, the estimated as is market value, as of June 19, 2013.

The report is not estimating the market value of the historical school building near the southwest corner of the subject property.

The Encinitas school district did not provide any reports for the appraisal analysis of the subject property. Also not available was a site plan and /or building plans or a property inspection report.

This report assumes the dirt driveway along the west side of the subject property is not a part of the subject property.

This report is subject to review of a ALTA survey; a preliminary title report with a legal description and easements of record; a soil report; a phase one assessment; a cost estimate to rehab the buildings; and a demolition cost estimate.

Based upon a current analysis of the subject property and various market data items relating to this appraisal, it is my opinion that the as is market value, subject to the limiting conditions and assumptions included herein, as of June 19, 2013 was:

THREE MILLION TWO HUNDRED EIGHTY-SEVEN THOUSAND DOLLARS

\$3,287,000

Pacific View School Site
June 24, 2013
Page 2

This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use. The appraiser is not responsible for unauthorized use of this report.

This letter of transmittal is part of the attached report containing pertinent data gathered relating to the investigation and analysis.

Respectfully submitted,



James W. Waldorf, MAI
CA Certificate No. AG005398

LIMITING CONDITIONS

This report is made expressly subject to the conditions and stipulations following:

1. No responsibility is assumed for matters which are legal in nature, nor is any opinion on the title rendered herewith. This appraisal assumes good title, responsible ownership, and competent management. Any liens or encumbrances which may now exist have been disregarded, and the property has been appraised as though free from indebtedness.
2. The factual data utilized in this analysis has been obtained from sources deemed to be reliable; however, no responsibility is assumed for its accuracy.
3. This appraisal is of surface rights only, and no analysis has been made of the value of subsurface rights, if any.
4. No survey of the boundaries of the property has been made. All legal descriptions, areas and dimensions furnished the appraiser(s) are assumed to be correct.
5. The distribution of the total valuation between land and improvements, (if any) applies only under the program of utilization stated in this report. The reported market value is for the total property as appraised and no attempt has been made to evaluate any fractional interest, should one exist.
6. The submission of this report does not obligate the appraiser(s) to give testimony, or to attend any court or governmental or other agency hearing, without prior arrangements having been made for such additional employments.
7. Disclosure of the contents of this appraisal report is governed by the Bylaws and Regulations of the Appraisal Institute.
8. Neither all nor any part of the contents of this report [especially any conclusions as to value, the identity of the appraiser(s) or the firm with which (s)he is connected, or any reference to the Appraisal Institute or its designees] shall be disseminated to the public through advertising media, or public means of communication without the prior written consent and approval of the author(s).

Possession of this report or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser(s), and in any event only with the proper written authorization and only in its entirety.

9. This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion

contained in this report is specific to the needs of the client and for the intended use. The appraiser is not responsible for unauthorized use of this report.

EXTRAORDINARY CONDITIONS

10. A preliminary title report was not provided for review. This report assumes there are no adverse easements which would affect the marketability or the value of the subject property and is subject to review of a preliminary title report.
11. A soils report was not provided for review. A brief physical inspection of the site did not reveal any outward signs of settlement. This report assumes there are no adverse soils conditions which would impact the subject property.
12. A phase one assessment was not provided for review. Unless otherwise stated in this report, the existence of toxic or hazardous materials, which may or may not be present on the property, were not observed by the appraiser and the appraiser has no knowledge of the existence of either of these items in or on the property. The appraiser, however, is not qualified to detect such substances so the value estimate is predicated on the assumption that these items are not present. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
13. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to these issues, the appraiser did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.
14. This report is not estimating the market value of the historical school building near the southwest corner of the subject property.
15. The Encinitas school district did not provide any reports for the appraisal analysis of the subject property. Also not available was a site plan and/or building plans or a property inspection report.
16. This report assumes the dirt driveway along the west side of the property line is not a part of the subject property.
17. This report is subject to review of a ALTA survey, a preliminary title report with a legal description and easements of record; a soil report; a phase one assessment; a cost estimate to rehab the buildings; and a demolition cost estimate.

SUMMARY OF SALIENT FACTS

Property Owner: Encinitas Union School District

Project Location: 390 West F Street
Encinitas, CA 92024

Property Type: School Site

Property Rights Appraised: Fee Simple Interest

Effective Dates of Value: June 19, 2013

Site Description

Land Area: 2.82 Gross Acres
2.79 Net Acres (net of historical school building site)

Zoning: Public/Semi-public

Description of Improvements: A former elementary school in poor condition with significant signs of deferred maintenance.

Indicators of Value:

Sales Comparison Approach **\$3,287,000**

Estimated Market Value **\$3,287,000**

SUBJECT PROPERTY - PHOTOGRAPH



Pacific View School Site
390 West F Street, Encinitas, CA

A southwesterly view of the former elementary school.

PROPERTY IDENTIFICATION

Type of Property

School Site

Legal Description

This report is subject to a legal description. The property was appraised based on the San Diego county assessor's description.

Address

390 West F Street, Encinitas, California

Location

The subject property is located in the downtown District of the city of Encinitas, San Diego County. More specifically, the subject property is located on the eastside of Third Street, between E Street And F Street, 2 blocks east of Coast Highway 101. The Encinitas City Hall is ½ of a mile east of the property. The site lies ± 26 miles north of the San Diego Civic Center.

APPRAISAL INTRODUCTION

Purpose

The purpose of this appraisal report is to estimate the as is market value of the former elementary school.

Definition of Market Value

The definition of market value is hereby defined and qualified:

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

- a. buyer and seller are typically motivated;
- b. a reasonable time is allowed for exposure in the market;
- c. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

- d. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C. - Appraisals 34.42, Definitions [f].

Property Rights

The property rights appraised are those of fee simple interest.

Statement of Ownership/Property History

The building is owned by Encinitas Union School District. The district has owned the property for several years.

Effective Date of Value

The effective date of value is June 19, 2012.

Appraisal Scope

According to the Uniform Standards of Professional Appraisal Practice, it is the appraiser's responsibility to develop and report a scope of work that results in credible results that are appropriate for the appraisal problem and intended user(s). Therefore, the appraiser must identify and consider:

- the client and intended users;
- the intended use of the report;
- the type and definition of value;
- the effective date of value;
- assignment conditions;
- typical client expectations; and
- typical appraisal work by peers for similar assignments.

This appraisal is prepared for The City of Encinitas. The intended use is to establish market value of the subject property for possible asset acquisition. This appraisal is intended for the use of City of Encinitas and their representatives.

Scope of Work

Report Type: This is a summary appraisal report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use. The appraiser is not responsible for unauthorized use of this report.

Property Identification: The subject site has been identified using the address of the property, legal description, and a county assessor's description and map.

Inspection: A complete inspection of the site was made, and photographs were taken on June 20, 2013.

Market Area and Analysis of Market Conditions: A complete analysis of market conditions was made.

Highest and Best Use Analysis: The appraisal problem did not warrant an extensive highest and best use analysis. Given the nature of the subject property, the conclusions of highest and best use are based on logic and observed evidence.

Type and Extent of the Data Researched: The appraiser has searched the subject market area as well as other relevant market areas for comparable property sales. Data and verification has been obtained from the following sources:

- CoStar Comps
- Loop Net
- Sandicor MLS
- Public Records
- Local Brokers

Type and Extent of Analysis Applied: The sales comparison approach was developed for the subject property analysis using the most recent and relevant comparable property sales.

Typical Client Expectations: The extent of research and reporting conducted in the course of this assignment is consistent with client expectations.

Typical Appraisal Work by
Peers:

The level of research, verification and reporting conducted during the course of this assignment is similar to work produced by other appraiser's specializing in commercial appraisals.

Disclosure of Competency

The appraiser signing this report has appraised several properties which are similar to the subject's property type. A copy of the statement of qualifications of the appraiser is included in the Addenda section of this report.

Regional Map



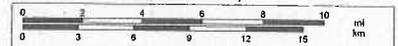
Data use subject to license.

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www.delorme.com



Scale 1 : 400,000



1" = 6.31 mi

Data Zoom 9-0

LOCATION ANALYSIS

The subject property is located in the city of Encinitas in San Diego County, and in the State of California.

REGIONAL DATA

Originally created in 1850, San Diego was the first county in California. Upon creation, it included the present counties of Riverside, San Bernardino, and Imperial but these were removed by the state legislature in the first few years of statehood. San Diego presently encompasses 4,314 square miles, of which about 2,134 square miles, or 49 percent, is privately owned.

Population

San Diego County ranks second in population among California's 58 counties, behind Los Angeles County and ahead of Orange County. The California Department of Finance estimated the population of San Diego County at 3,150,179 persons as of January 1, 2013. This represents an increase of 0.7% over January 1, 2012.

Employment

As San Diego has grown in size the economic base of the region has grown in diversity. From the days of a "Navy town" it is rapidly becoming a "high-tech" center. While military bases and defense industries still contribute heavily to the support of the area, other industries have developed and they now lend more stability to the local economy.

As of December 2012, the wage and salaried jobs totaled 1,279,600, an increase of 20,300 jobs over the preceding 12 months, December 2011. As of December 2012, the wage and salaried jobs totaled 1,279,600, down by 3.8% from December 2007, when jobs totaled 1,329,800. (Numbers include farm and non-farm jobs.)

Unemployment

The annual average unemployment rate is often an indicator of a strong or weak economy. During the current recession, San Diego's unemployment rate is higher than the national average, an indication of how hard the economy has been impacted. During 2012, the unemployment rate for San Diego County declined to 8.1%. As of December 2012, the unemployment rate for California declined to 9.7%.

	12/04	12/05	12/06	12/07	12/08	12/09	12/10	6/11	12/11	12/12
San Diego	4.7%	4.3%	4.0%	5.0%	7.5%	10.3%	10.1%	10.4%	9.0%	8.1%
California	6.2%	5.4%	4.9%	5.9%	9.1%	12.1%	12.3%	12.1%	10.9%	9.7%
United States	5.4%	4.9%	4.5%	5.0%	7.2%	10.0%	9.1%	9.3%	8.3%	7.6%

The San Diego County unemployment rate is slightly better than the state's rate of 9.7%.

Retail Sales

Another indicator of economic conditions is the taxable retail sales. Historically, sales decline as the economy weakens and rise as it improves. Taxable retail sales enjoyed an upward trend through the late 1980s, reaching a record level in 1990. During 1991 retail sales fell by 3.3%. Between 1992 and year end 2006, retail sales steadily increased. Between 2007 and 2009, retail sales were declining. In 2009, retail sales declined by 11.8% to \$27,958,515. In 2010, retail sales rebounded to \$29,475,488, an increase of 5.4% over 2009. In the first three quarters of 2011, retail sales totaled \$23,333,958. The State Board of Equalization reports retail sales approximately 1+ years in arrears.

Building Permit Activity

After peaking in 2004 with a total valuation of \$5,163,494,000, new construction activity declined to \$2,197,827,683 in 2012. Residential permits have declined from 17,306 units in 2004 to 5,007 units through October 2012. After peaking in 2005 with total commercial/industrial value of \$3,554,889,000, valuation through October 2012 declined to \$877,616,940.

Housing Price Trends

Beginning in 2007, new home prices began to decline. Prices increased slightly in 2009, then declined through 2011. In 2012 new home and condominium prices increased. Below is a 5-year price trend for San Diego County.

	12/08 Median Price	12/09 Average Price	% Inc./Dec. Annual	12/10 Average Price	% Inc./Dec. Annual	12/11 Average Price	% Inc./Dec. Annual	12/12 Average Price	% Inc./Dec. Annual
New Home Prices									
Homes	\$685,368	\$711,675	3.84%	\$626,132	-12.0%	\$579,036	-7.5%	\$684,789	18.3%
Condos	\$446,280	\$426,882	-4.35%	\$560,509	31.3%	\$378,917	-32.4%	\$426,569	12.6%
Resale Prices									
Homes	\$332,500	\$354,253	6.54%	\$391,699	10.6%	\$370,202	-5.5%	\$388,962	5.1%
Condos	\$195,000	\$226,048	15.92%	\$234,077	3.5%	\$220,116	-6.0%	\$243,422	10.6%

Source: Market Pointe (new homes) and Board of Realtors (resales)

The median single-family home price for resales indicated a 5.1% increase over the previous year end. Condominium resale prices increased by 10.6% in 2012.

Multifamily Apartment Trends

In 2009, the countywide apartment vacancy rate exceeded 5%, at 5.29%, for the first time in 20 years. In September 2010, the vacancy rate declined to 4.13%. In September 2011, the vacancy rate was 4.49%. Rental rates increased by 3.4% over the preceding 12-month period. As of September 2012, the average vacancy rate was 4.5%, and the average rental rate was \$1,375/month. In the 12-month period, the apartment market had leveled off.

Below is a summary of the rental rate and vacancy trends since March 2005.

Date	Total No. of Units Surveyed	Average Vacancy Rate	Avg. Rent	Avg. Size Sq. Ft.	Avg. Rent PSF
3/05	115,086	3.26%	\$1,170	855	\$1.37
9/06	111,306	1.84%	\$1,241	856	\$1.45
9/07	113,761	2.58%	\$1,291	858	\$1.50
3/08	114,681	4.16%	\$1,311	859	\$1.53
3/09	116,023	5.29%	\$1,323	861	\$1.54
3/10	117,275	4.75%	\$1,315	866	\$1.52
9/10	117,463	4.13%	\$1,318	868	\$1.52
9/11	117,869	4.49%	\$1,364	869	\$1.57
9/12	124,976	4.5%	\$1,375	810	\$1.58

Source: Market Pointe 3/05 - 9/12

Commercial Inventory

Demand for office, industrial and retail space, is slowly improving. The county inventory, vacancy, and absorption as of December 2012 is summarized below.

	Total Inventory	% Vacant							Absorption
	4Q12	4Q06	4Q07	4Q08	4Q09	4Q10	4Q11	4Q12	2012
Office	73,543,157 SF	10.1%	11.5%	19.9%	21.1%	19.4%	18.6%	16.8%	1,191,549 SF
Industrial	168,985,293 SF	6.3%	7.5%	9.1%	12.7%	11.9%	11.2%	9.5%	2,709,822 SF
Retail	59,358,677 SF	1.8%	3.1%	3.3%	5.9%	6.7%	6.5%	5.9%	442,545 SF

Source: Cassidy, Turley - BRE Commercial, 4Q12

The vacancy rate for office, industrial and retail space declined in 2012. The office and industrial vacancy rate is still above normal.

Conclusion

In 2001, the economy slowed down considerably. Economists now say March 2001 was the beginning of a recession. The economic slowdown was compounded by the terrorists' attack on the World Trade Center on September 11th. By the fourth quarter of 2002, economic indicators were showing signs of improving. Between 2003 and 2005, economic indicators continued to show signs of improvement, albeit at a slower rate. Some economic indicators e.g., unemployment, indicate the San Diego economy to be better than most other areas of the country. However, beginning in mid-2006 and continuing through 2012, the local economy has been experiencing an economic recession, e.g., high unemployment; lower retail sales; and a downward trend of property values until 2011.

CITY DESCRIPTION - ENCINITAS

The city of Encinitas is a coastal community, ± 25 miles north of downtown San Diego. The city is primarily a bedroom community, with a growing commercial area along El Camino Real in eastern Encinitas and a minimal amount of industrial. Most residents commute along I-5 to other employment centers. Encinitas has a moderate climate because of its coastal location. Its residents also enjoy the recreational benefits of the Pacific Ocean. Encinitas has a reputation for good public schools.

Encinitas incorporated in October 1986. The primary reason for incorporation was the uncontrolled growth allowed by the San Diego County Board of Supervisors between 1969 and 1986. City residents were concerned about a reduction in the quality of life as a result of the rapid growth being caused by new developments. The incorporated city includes the formerly unincorporated areas of Cardiff-By-The-Sea, Old and New Encinitas, Leucadia and Olivenhain.

Population

The city has experienced some population growth since incorporation; however, less than the county as a whole.

ENCINITAS POPULATION 1987-2013			
Year	Population	Increase (Decrease)	Percentage Change/Year
1987	51,341	N/A	N/A
1990	55,386	4,045	2.60%
1996	57,116	1,730	0.52%
2000	57,955	839	0.37%
2001	59,200	1,245	2.15%
2002	60,000	800	1.35%
2003	61,400	1,400	2.33%
2004	62,401	1,001	1.63%
2005	62,530	129	0.21
2006	62,836	306	0.49%
2007	63,259	423	0.67%
2008	63,864	605	0.09%
2009	64,145	281	0.08%
2010	65,171	1,026	1.20%
2011	59,827	(5,344)	-8.2%
2012	60,057	230	.40%
2013	60,482	425	.70%

Source: Calif. Dept. of Finance

In the eight years prior to city incorporation, residential growth was steadily increasing. As soon as the city incorporated (October of 1986), a two-year building moratorium went into effect. Possibly, the building moratorium halted some new development in 1989-90. However, it was the recessionary economic conditions that curtailed new development throughout San Diego County between 1990 and 1994. In 1995, when economic conditions began to improve there were signs of new development. Between 1990 and 2000, the average population increase was 0.0046 per year or 257 residents per year. In 2011, the state Department of Finance made a correction to the

population growth. In the past 13 years, the population growth was 0.36% per year or 194 residents per year.

Building Permits

In 1988, the city council placed a slow growth initiative on the November ballot . This initiative would have placed a limit of 250 to 400 new residential units each year. Voters turned the initiative down; however, the city council went ahead with a slightly different version of a slow growth policy. The no growth council has subsequently been replaced with a more moderate growth council, which is more receptive to reasonable growth for the community. Following is a summary of building permit activity before and immediately after incorporation.

<u>Years</u>	<u>Permits</u>	<u>Average Per Year</u>
July 1978 to June 1983	2,080	416
July 1983 to June 1986	5,600	1,867
July 1986 to June 1987	228	228

Following is a summary of the building permit activity in Encinitas, beginning in 1987.

Year	Residential			Residential	Non-Res.	Encinitas	County
	SFR	Multi-Family	Total Units	Value (000)	Coml./Ind Value (000)	Value (000)	Value (000)
1987	250	28	278	\$44,975	\$5,435	\$62,317	\$4,204,990
1988	572	44	616	\$103,690	\$8,006	\$122,793	\$4,293,617
1989	171	30	201	\$39,304	\$4,527	\$55,061	\$3,836,927
1990	80	14	94	\$19,482	\$5,157	\$41,639	\$3,220,664
1991	96	2	98	\$20,171	\$5,244	\$39,682	\$2,186,129
1992	39	2	41	\$10,939	\$1,526	\$32,258	\$1,647,374
1993	50	4	54	\$10,769	\$2,631	\$25,248	\$1,707,342
1994	39	15	54	\$10,354	\$6,972	\$31,584	\$1,707,342
1995	102	10	112	\$23,657	\$9,863	\$51,021	\$1,973,998
1996	60	8	68	\$14,081	\$20,336	\$52,232	\$2,203,980
1997	249	70	319	\$62,082	\$9,353	\$86,411	\$3,051,247
1998	286	110	396	\$80,105	\$6,404	\$106,088	\$3,895,965
1999	291	48	339	\$85,590	\$1,381	\$106,683	\$4,335,317
2000	259	10	269	\$67,526	\$24,000	\$102,257	\$4,400,909
2001	228	128	356	\$83,472	\$23,477	\$106,950	\$4,339,426
2002	414	26	440	\$129,277	\$18,160	\$147,436	\$4,285,579
2003	189	51	240	\$68,593	\$15,398	\$83,991	\$4,853,205
2004	184	28	212	\$60,931	\$12,564	\$73,495	\$5,163,494
2005	120	8	128	\$46,816	\$14,089	\$60,905	\$4,934,464
2006	119	8	127	\$40,057	\$13,234	\$53,291	\$4,092,138

Year	Residential			Residential	Non-Res.	Encinitas	County
	SFR	Multi-Family	Total Units	Value (000)	Coml./Ind Value (000)	Value (000)	Value (000)
2007	107	20	127	\$48,233	\$33,214	\$81,447	\$3,269,203
2008	79	8	87	\$29,774	\$26,060	\$55,834	\$2,401,046
2009	42	2	44	\$17,640	\$8,625	\$26,265	\$1,462,710
2010	35	0	35	\$18,204	\$30,735	\$48,939	\$1,633,000
2011	89	0	89	\$35,741	\$22,243	\$57,984	\$2,377,018
10/2012	67	21	88	\$36,505	\$8,286	\$44,791	\$2,197,827

Note: Values in millions (000's). Totals do not add because the value of miscellaneous permits has been omitted, yet included in the total.

New residential development has been declining since 2002. In 2010, only 35 residential permits were issued. This is the fewest number of new permits issued in a year. In 2011, 89 residential permits were issued. Most of the new residential units were situated in the Pacific Station project, a mixed-used commercial/residential development in downtown Encinitas. In 2009, new commercial development was the lowest in the decade. New commercial development rebounded slightly in 2010/2011. The lack of new development can be attributed both to the recessionary economic conditions and the lack of vacant land for new development.

Residential Development

In the late 1990's, following the recovery from the recession of the early 1990's and improved economic conditions, developers began to process new subdivision maps. With improved economic conditions, other developers started to reactivate previously approved maps that were placed on hold during the recession. For several years, the majority of new development had been in-fill development, consisting of 10 to 35 homes. In 1995, the 852-acre Encinitas Ranch property was annexed into the city of Encinitas. Encinitas Ranch is located west of El Camino Real both north and south of Leucadia Boulevard. This project's specific plan was approved for 1,158 residences and areas of commercial development. Beginning in 1996 and continuing into 2006, the majority of new development in the city occurred within this planned community. The initial development began in 1996 when the Caritas Company sold 179 lots in the Encinitas Ranch development to a merchant home builder. In 1997, Cornerstone Communities acquired the balance of the residential land in Encinitas Ranch. Cornerstone Communities has subsequently sold the residential land parcels to several merchant home builders. Approximately 850 residential units were constructed in Encinitas Ranch between 1998 and 2006. Outside of Encinitas Ranch, new residential development is primarily smaller infill projects.

After peaking in 2002, new residential development has been declining. This can be attributed to fewer land parcels available for development and the recessionary economic conditions beginning in 2006.

Commercial Development

Community and neighborhood shopping in the city is concentrated along El Camino Real. There is in excess of 1.5 million square feet of commercial space contained within the community, including a community shopping center, five neighborhood centers, and several other smaller shopping centers.

The eastern Encinitas area along El Camino Real has become one of the prime commercial districts in northern San Diego County. This area did not begin to develop until late 1969, when AVCO Community Developers began the on and off-site development for the ± 800-acre Village Park Planned Community. Within a few years, other developers including Ponderosa Homes, Shappell Industries, and Standard Pacific were also building homes. In 1975, the first neighborhood shopping center, anchored by an Alpha Beta market, was built by Santa Anita Development Corporation. Another six years passed before two more neighborhood shopping centers were built. In Weigand Plaza I a new 55,000 square foot Alpha Beta market (now a closed Albertson's market) was constructed. In Encinitas Village, Ralph's market and Longs Drugs became the anchor tenants.

In late 1982, Weigand II was built, anchored by an AMC Theater. The theater building has recently been razed and has been replaced with a Staples. In 1985, Camino Village, anchored by National Lumber (now a Vons market) and De La Plaza Encinitas, originally anchored by Gemco Stores (then Target, now an L.A. Fitness and a consignment store), was built. During this 10-year time period other smaller retail centers were built. These five major shopping centers have 826,641 square feet of commercial space, not including any of the smaller retail centers built during this period.

Between 1991 and 1994, there was no new commercial retail development. This can be attributed to the recessionary economy. Vacancy rates increased during the recession and new development did not appear to be warranted. In other areas of San Diego County, some "big box" stores were being constructed including Price Club (now Costco), Wal-Mart and Home Depot.

In 1994-95, commercial development in Encinitas consisted of two build-to-suit stores, Home Depot and Circuit City/Michaels. During this period, the Caritas Company was negotiating with the city of Encinitas to annex their Encinitas Ranch property. This project received specific plan approval for 1,158 residences and 841,000+ square feet of commercial development to be anchored by a Target (relocation), and an Albertson's (now Stater Bros.) market. At the same time, construction began on the Encinitas Ranch public golf course and a sports park. Both are now completed. Construction of the commercial portion of the project, called Encinitas Town Center - Phase One was completed in 1998. The center fronts on El Camino Real south of Leucadia Boulevard. The developer has completed the smaller, Phase Two shopping center located on the north side of Leucadia Boulevard, west of El Camino Real. In 2002, a Home Expo Design Center and several retail stores/restaurants opened for business; in 2004, a gas station and REI store were completed; in 2005, a freestanding restaurant building, Islands, was constructed. In 2008, the Home Expo store was closed. Negotiations are in process with Wal-Mart.

In early 2000, construction of the Leucadia Boulevard/Olivenhain Road extension through Encinitas Ranch connecting El Camino Real to Interstate 5 was completed. This enhanced access and further reinforced Encinitas Town Center as the primary commercial area for Encinitas.

Since the financial meltdown of October 2008, various retailers have closed their stores. Now new tenants are moving into these stores, including Kohl's and Big Lots.

New office development in Encinitas has been at a minimum for several years. In 2006 and the first half of 2007, no new office buildings were built. In this same period, three new medical office buildings were constructed along or near El Camino Real. In 2010, a new 30,000 sq. ft. office development was under construction. By mid-year, construction was halted as the private lender ran out of money.

Located \pm 10 miles northwest of the subject, Plaza Camino Real in northern Carlsbad provides for the regional shopping needs of residents of Encinitas. The center has two major department stores and there is over one million square feet of commercial space in the immediate area. Even though this is the prime commercial district for the northwest county, many residents commute \pm 15 miles south to the newer regional center, University Towne Centre in University City, or \pm 12 miles east to Westfield Shoppingtown North County in Escondido.

Growth Management

Between 1997 and 2005, new commercial and residential development throughout North San Diego County increased significantly over the preceding 7-year period. Each year traffic on the freeways and primary streets to and from the freeways becomes more congested.

In Encinitas, residents are becoming more vocal in their opposition to new development, primarily due to traffic congestion. The same can be said of residents in neighboring Carlsbad. New development in neighboring San Marcos, Vista and Carlsbad spills over into Encinitas. Many residents of Encinitas have the misconception that new development in their community is the primary reason for the traffic increase. In reality, the traffic spill over from these neighboring communities is the primary reason for the increase in traffic.

Several years ago, the approval process for new development was primarily the function of the appropriate city or county jurisdiction. Now several other agencies review proposed developments including various state and federal agencies. The time to process a new development can take up to 2 years. New development is reviewed very closely before being approved.

Detached Home Price Trends (New & Existing)

The city of Encinitas is one of the more affluent areas for housing in San Diego County. The median detached resale home price in Encinitas, as of December 2012, was \$755,000. In San Diego County, the median price was \$388,962. The average detached new home price in Encinitas in the fourth quarter of 2012 was \$1,154,500 versus the county average of \$684,759.

The following two charts summarize recent resale and new home price increases in Encinitas.

Median Price – Resales								
12/08	12/09	% Change	12/10	% Change	12/11	% Change	12/12	% Change
\$730,000	\$668,250	(8.5%)	\$700,500	4.8%	\$705,000	0.6%	\$755,000	7.1%

Source: Board of Realtors

New Home Prices								
4Q08	4Q09	% Change	3Q10	% Change	4Q11	% Change	4Q12	% Change
\$1,575,000	\$1,038,720	(34%)	\$1,027,400	1.1%	\$1,094,000	6.5%	\$1,154,500	5.5%

Source: MarketPoint 4Q08 - 4Q12

Resale home prices bottomed out in 2009 and have subsequently experienced a slight increase. New home prices appear to have bottomed out in 2009/2010 and experienced a slight increase in 2011.

Attached Home Price Trends (New & Existing)

The city of Encinitas is one of the more affluent areas for housing in San Diego County. The median attached resale home price in Encinitas as of December 2012, was \$333,750. In San Diego County, the median price was \$243,422. The average attached new home price was N/A in Encinitas. The county average new attached home price in the fourth quarter of 2012 was \$426,569.

The following two charts summarize recent resale and new home price increases in Encinitas.

Median Price – Resales								
12/08	12/09	% Change	12/10	% Change	12/11	% Change	12/12	% Change
\$427,500	\$345,750	(19.1%)	\$397,500	15%	\$350,000	(11.9%)	\$333,750	(4.6%)

Source: Board of Realtors

New Home Prices								
4Q08	4Q09	% Change	3Q10	% Change	4Q11	% Change	4Q12	% Change
N/A	N/A	N/A	\$363,490	N/A	\$399,990	10%	N/A	N/A

Source: MarketPoint 4Q08-4Q12

New homes typically sell for more than homes being resold. Resale attached home prices were declining between 2005 through 2009. Resale attached home prices increased by 15% in 2010. In 2011, attached home prices declined by 11.9%. This trend continued into the first quarter of 2012.

Between the third quarter of 2003 and the same period of 2009, there were no new condominium sales. In the past 12 months, new condominium prices have increased.

Commercial Property Trends

Encinitas is a secondary office location in comparison to the neighboring city of Carlsbad. However, rental rates in Encinitas tend to be higher than in Carlsbad. The office and retail store vacancy rates in Encinitas are summarized as follows:

Type	2012 Inventory	% Vacant							2012 Absorption
		4Q06	4Q07	4Q08	4Q09	4Q10	4Q11	4Q12	
Office	811,789 SF	9.0%	11.1%	11.8%	19.8%	14.6%	12.0%	8.1%	25,389 SF
Retail	2,208,620 SF	1.3%	1.6%	3.5%	5.7%	9.2%	5.5%	6.4%	(17,217 SF)

Office vacancy rates improved in 2012. Retail vacancy rates increased in 2012.

Household Income

The median annual household income in 2010 in Encinitas was \$92,513. The average for San Diego County was \$68,388.

Utilities

Water service is provided by the San Dieguito or Olivenhain Municipal Water districts, or Santa Fe Irrigation. Sanitation is provided by Cardiff / Encinitas Sanitation, the Leucadia County Water District or Solana Beach Sanitation. Trash is collected by EDCO. San Diego Gas and Electric provide electrical and gas service. Police protection is contracted with the County Sheriff. Fire protection is through the city of Encinitas.

Educational

Schools in the area are administered by the Encinitas Union Elementary School District or the San Dieguito Union High School District. The schools are well thought of and attract new residents to the community.

In September 1996, La Costa Canyon High School opened its doors. This is considered to be a "state of the art facility" and an amenity to the residents of the Encinitas and south Carlsbad. The former San Dieguito High School was renamed The Academy. Enrollment to this high school is now limited to 1,200 students and there is a waiting list of students.

Hospitals

Residents of Encinitas are served by the 158-bed Scripps Encinitas Hospital in Encinitas.

Employment

Encinitas is considered to be a desirable bedroom community. Employment opportunities range from a 10 to 15-minute commute to nearby Palomar Airport Business Park; 30 minutes to Sorrento Valley, 45 minutes to San Diego; to a 60-minute commute to Orange County. The Palomar Airport industrial area, in nearby Carlsbad, is growing by successfully attracting new office and R&D/ manufacturing companies to the area.

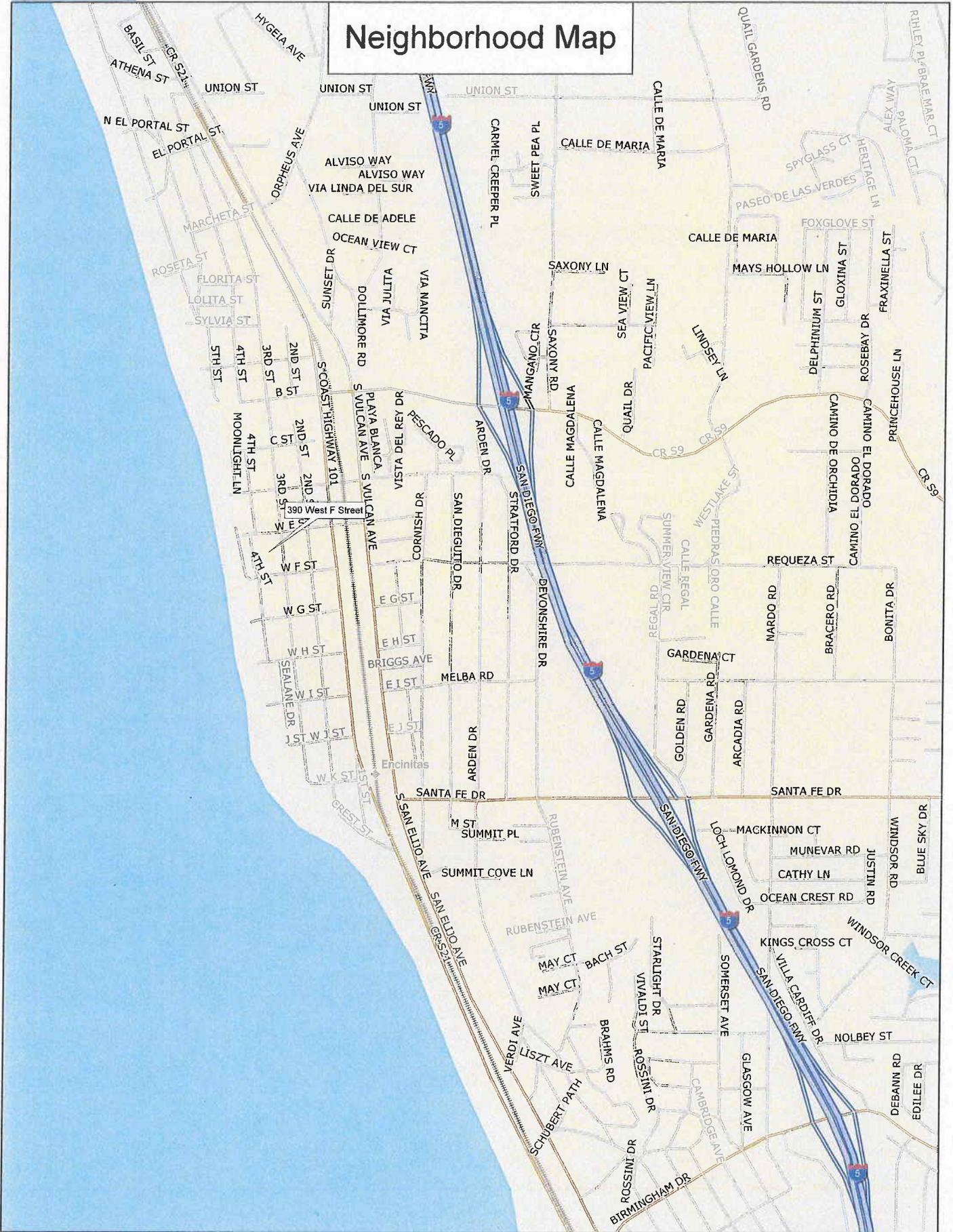
Transportation

Interstate 5, the coastal freeway, traverses Encinitas north to south near its western boundary, the Pacific Ocean. El Camino Real, a major thoroughfare, also traverses Encinitas in a north/south direction in the eastern area of the city. Major east/west roadways which intersect with I-5 are Leucadia Boulevard and Encinitas Boulevard. Access to I-5 is good from the city; however, traffic on I-5 can be barely moving during rush hours.

Conclusion

New development continues, albeit at a slower pace than 2 to 8 years ago due to lack of available land for development and the downturn in market conditions. New housing is expensive. This is a reflection of the desirability of the coastal location. Demand for commercial development, both retail and office, remains fair to average. The scarcity of land has contributed to the decline in commercial development.

Neighborhood Map



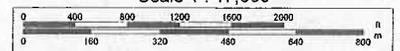
Data use subject to license.

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Scale 1 : 17,600



1" = 1,466.7 ft

Data Zoom 13-5

NEIGHBORHOOD DESCRIPTION

The subject property is located in the downtown district of the city of Encinitas. Coast Highway 101 is the primary north/south commercial thoroughfare in the beach community. The area transitions from commercial to residential two to three blocks west and east of Highway 101.

The subject property is bounded by the following commercial properties:

- North - Across E Street, a church and apartment building
- East - Across Third Street, office building and older single family homes
- South - Across F Street, single family homes
- West - Single family homes

Development along Third and Fourth Street is primarily single family homes, apartments and condominiums. One block east, Second Street is comprised on commercial office, and retail buildings, apartments and a few single family homes.

West of the subject site are single family homes and the Pacific Ocean.

The subject property has a good location in a beach or coastal community.

SITE DESCRIPTION

Land Shape, Area and FAR

The subject property is a rectangular-shaped site containing 2.82 acre. The site has been improved with a 13,707 sq. ft. elementary school building. The floor area ratio is 11.15%.

A ALTA survey and/or preliminary title report was not available for review. There is uncertainty as to whether or not the dirt driveway along the west side of the subject property encroaches on the subject property. The report assumes the dirt driveway does not encroach on the subject site.

Also, there is a historical school building near the southwest corner of the subject site. The building is not a part of the property being appraised. The land area for the property is estimated to be approximately 1,300sq. ft..

The usable land area is estimated as follows:

Land area	2.8 Acres
Xxx Historical School Bldg. Site	<u>(.03)</u>
Usable Land Area	2.79 Acres

Topography and Drainage

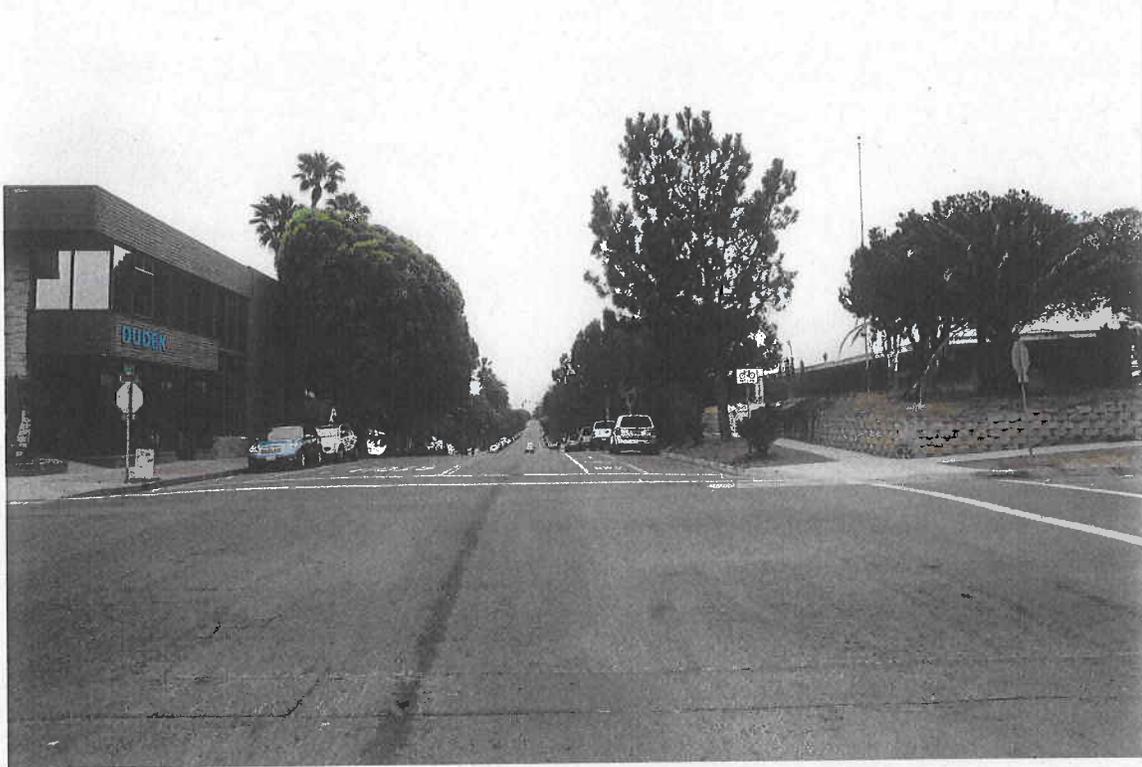
The subject site is a level building pad, ± 15 feet above street grade, Third Street the site is 5 to 15 feet above E Street. The site is at street grade to 15 feet above street grade along F Street. The surface drainage appears to adequately drain the site.

Soil Conditions

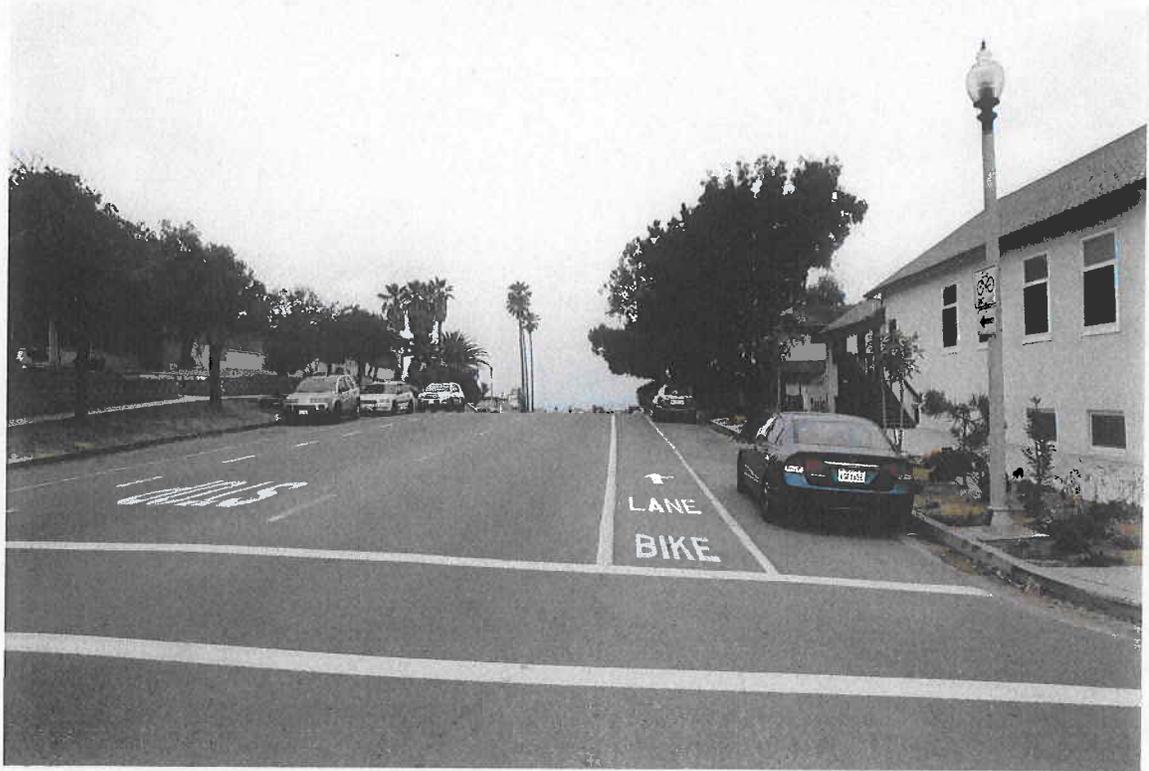
A soils report was not provided for review. This report assumes there are no adverse soils conditions which would impact the subject property.

Toxic or Hazardous Waste

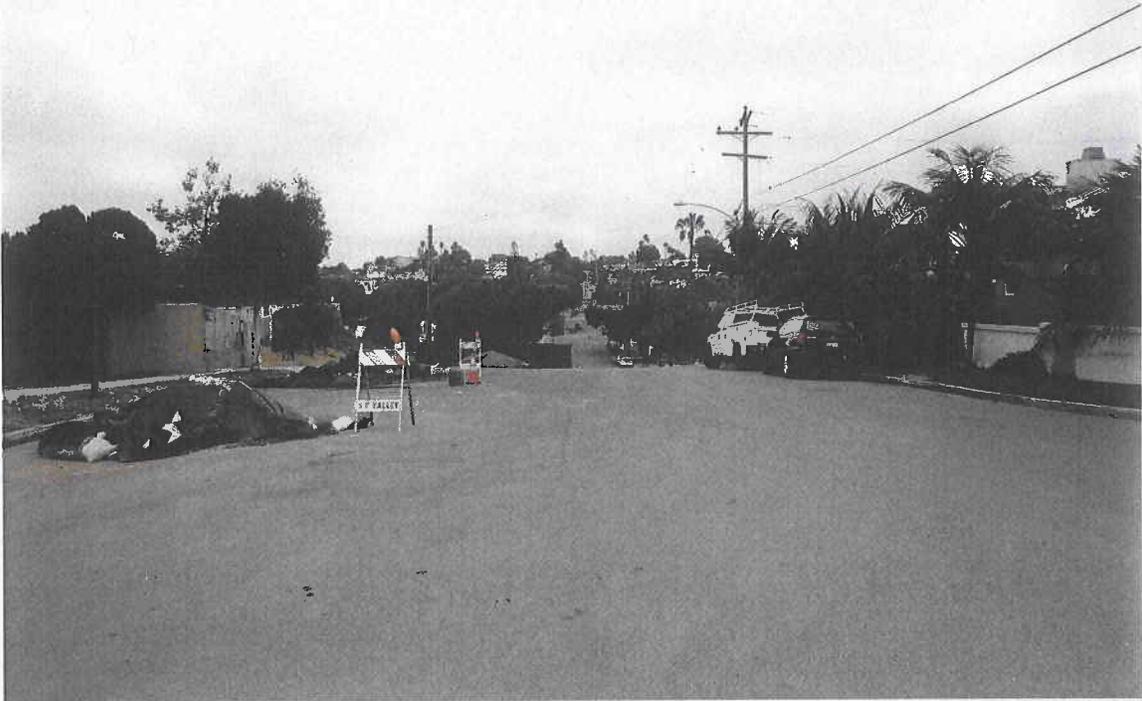
A phase one assessment was not provided for review. Unless otherwise stated in this report, the existence of toxic or hazardous materials, which may or may not be present on the property, were not observed by the appraiser and the appraiser has no knowledge of the existence of either of these items in or on the property. The appraiser, however, is not qualified to detect such substances so the value estimate is predicated on the assumption that these items are not present. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired. The value estimate presented in this appraisal assumes that the site is not negatively impacted by any hazardous materials.



A southern view along Third Street past the subject property.



A westerly view along F Street.



A easterly view along E Street.



A westerly view along F Street.

Seismic

The Alquist-Priolo Special Studies Zone Act was signed into law on December 22, 1972 and went into effect on March 7, 1973. Under the Act, the State Geologist (Chief of the Division of Mines and Geology) is required to delineate "special studies zones" (SSZs) along known active faults in California. Cities and counties affected by the zones must regulate certain development projects within the zones. They are required to withhold development permits for sites within the zones until geologic investigations demonstrate that the sites are not threatened by surface displacement from future faulting. Certain faults considered to be active at depth, because of known seismic activity, are so poorly defined at the surface that zoning is impractical. The subject site is not located in an Alquist-Priolo zone.

Existing Improvements

The subject site has been improved with a ± 1950's-built, elementary school. Site improvements include asphalt pavement for a driveway and on-site parking, plus perimeter landscaping. The building and site improvements are in poor condition.

Off-Site (Streets)

The site fronts on Third Street, E Street and F Street the streets are two lanes wide and dedicated to a width of 80 feet. The streets have been asphalt paved and improved with concrete curbs, gutters and sidewalks.

Utilities

All the utilities have been installed underground and are connected to the property. Their servicing agencies are:

Gas & Electric	-	San Diego Gas & Electric
Sewer	-	Encinitas Sanitation District
Water	-	San Dieguito Water District
Telephone	-	AT&T

Existing water and sewer lines are located in the streets.

Easements

A preliminary title report was not provided for review. This report assumes there are no adverse easements which would affect the marketability or the value of the subject property and is subject to review of a map plotting any easements.

Access and Exposure

The subject site fronts on three streets, but only has access to F Street. The site is two blocks west of Coast Highway 101, and ½ of a block east of the Pacific Ocean. The property has fair to average access and exposure, for a commercial property.

Zoning

The subject site is zoned public/semi-public. The zoning allows for primarily various public uses including educational, parks and recreation, sewage treatment plant, theaters, etc.. Private uses include medical rental office, a medical complex, hospital convalescent, hospital mental are allowable uses with a conditional use permit. Minimum zoning requirements are as follows:

Min. Lot Size	10,000 SF	Building Height	30 feet or 2 stories
Min. Lot Width	80 feet	F.A.R.	0.50 to 1.0
Max. Lot Coverage	50%	Landscape	15% of the site

A medical complex may have a floor area ratio of up to 100%. The subject lies within the following overlay zones: coastal zone and special studies.

The subject property was constructed prior to the incorporation of the city of Encinitas. The building was constructed to county of San Diego standards at the time.

ASSESSED VALUATION AND REAL PROPERTY TAXES

Assessor's Parcel Number: 258-151-22
 Tax Rate Area: 19006

Assessed Values 2012-2013:

Land	\$0
Improvements	\$0
Total	\$0
Homeowner's Exemption	(\$0)
Net Taxable Value	\$0

2012-13 Tax Rate: 0% of assessed value

Estimated Real Estate Taxes: \$0
 Special Assessments: \$0
 Total Estimated Taxes 2012-13: \$0

School properties are not assessed by the county assessor. Property can only be reassessed for new construction, transfer of ownership, or if the factored base year value is more than the current market value, according to California's Proposition 13 tax limitation initiative. The subject property will be reassessed if there is a change of ownership and/or new construction.

DESCRIPTION OF IMPROVEMENTS

The description of the improvements is based on a brief inspection of the buildings on June 20, 2013. A ALTA survey, site plan and architectural plans were not available for review.

Type of Development

A 1-story, 2 building elementary school built in the 1950's. (estimate)

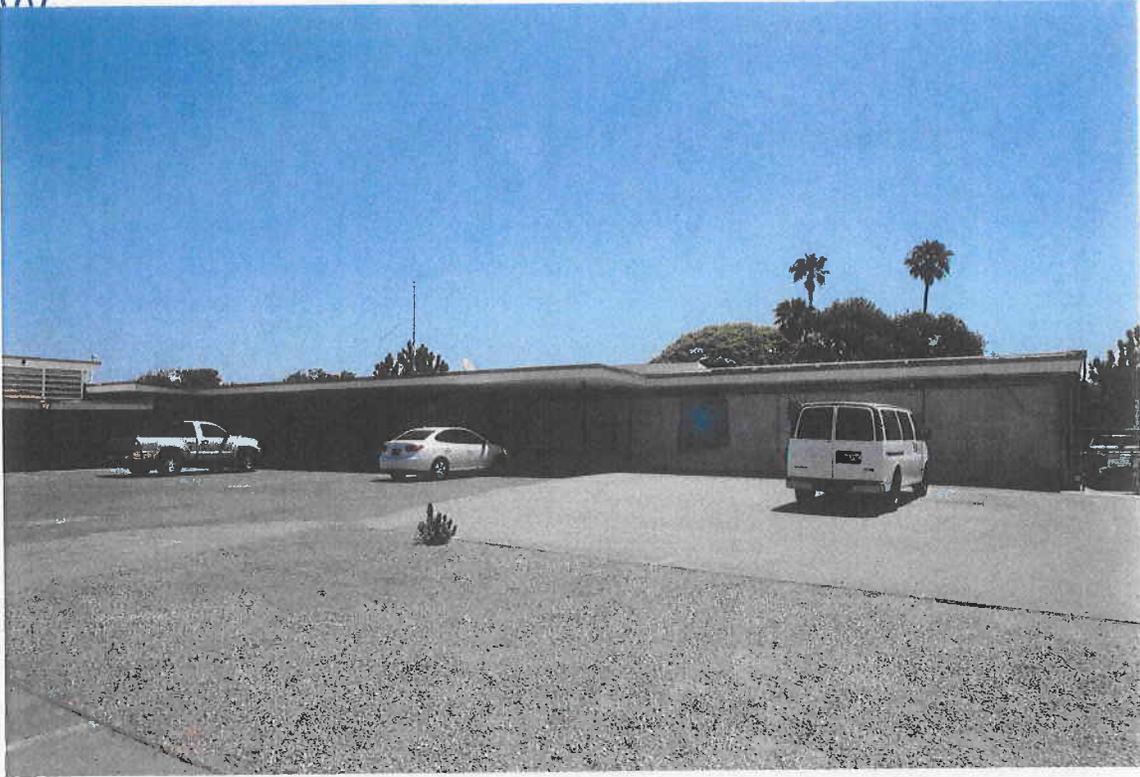
The school consists of two frame and stucco buildings, a modular classroom building, a modular storage building and a storage building with a carport. The buildings are in poor condition. The elementary school was closed approximately 10 years ago. The building areas are estimated as follows:

Administration Building with Library	2,927 sq. ft.
Classroom Building	6,149 sq. ft.
Modular Classroom Building	2,400 sq. ft.
Modular Storage Building	800 sq. ft.
Storage Building and Carports	<u>1,431 sq. ft.</u>
Total Building Area	<u>13,707 sq. ft.</u>

The administration building has offices, restrooms and a library room. The classroom building consists of 7 classrooms. The west end of the building has two restrooms. A spokesperson for the school district indicated the buildings have termites. Also, there have been bees in the attic space.

Construction Detail

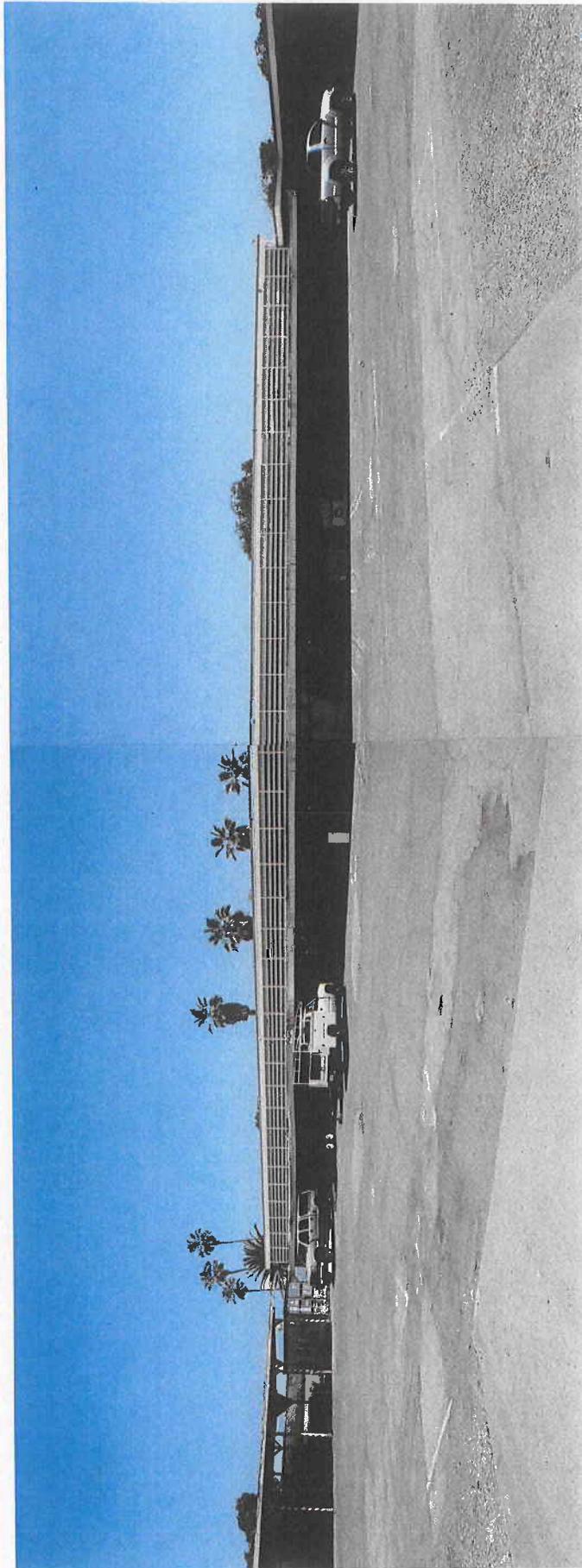
The two school buildings are class "D", frame and stucco buildings with a concrete slab and built-up composition roof. The interior finish consists of carpet or vinyl tile floors; drywall or plaster painted walls; metal frame windows; and acoustic tile and drywall/plaster ceilings. The condition of the improvements is poor. The buildings have signs of deferred maintenance inside and out. A school district person indicated the modular classroom has mold.



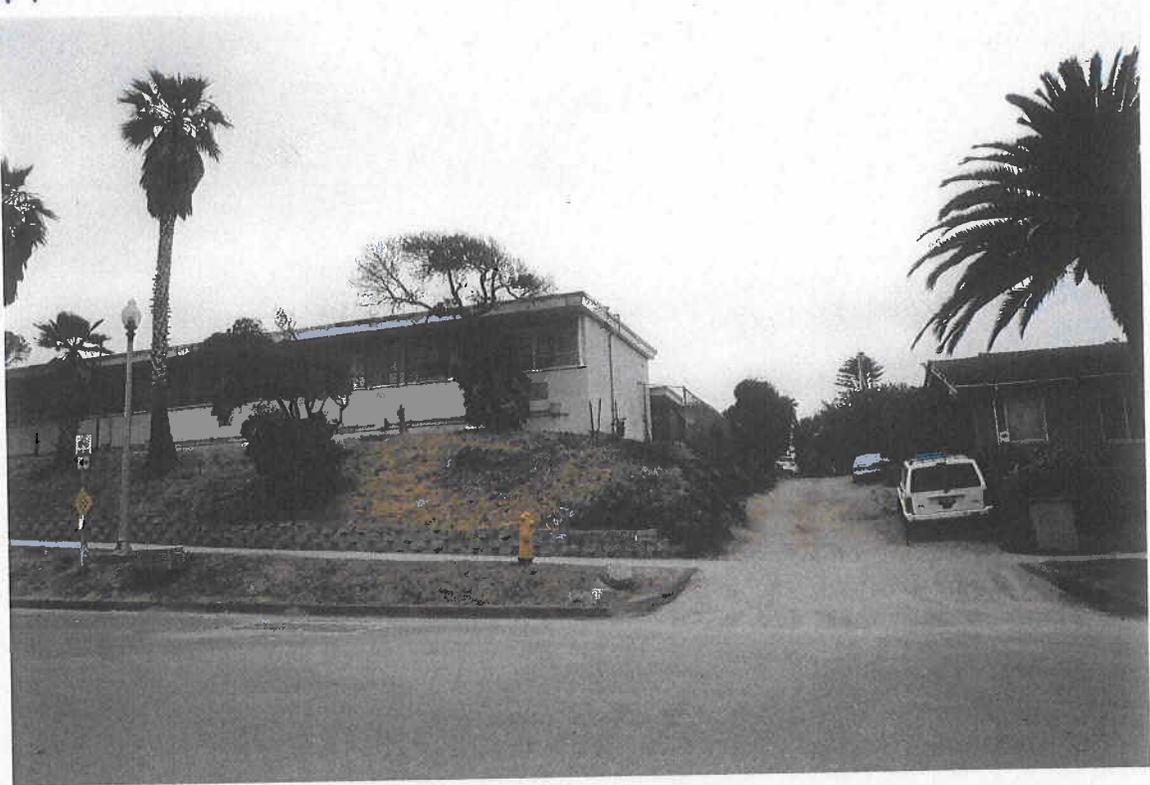
A easterly view of the administration building and library.



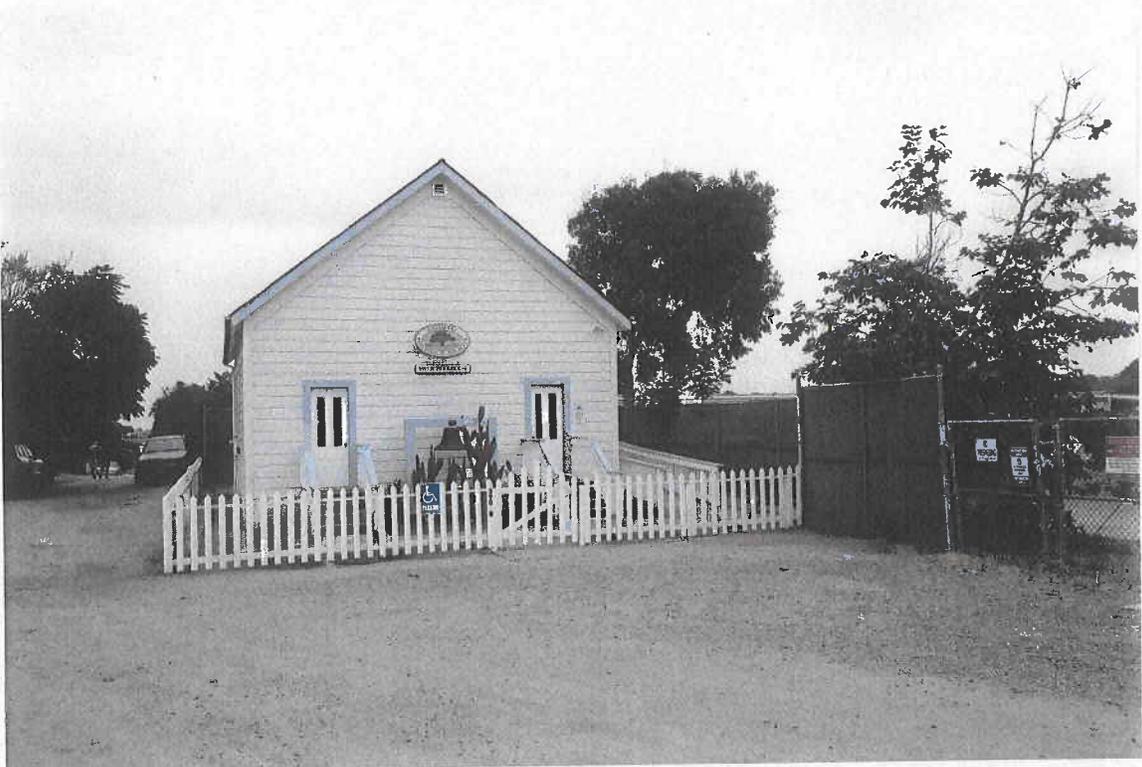
The southeast corner of the building.



A northerly view of the classroom building.



The west end of the classroom building.



The historical school building.

Age, Condition and Remaining Economic Life

The building was built in the 1950's. The layout is typical for a small elementary school. The total economic life is estimated to be 55 years. The effective age is 55 years and the remaining economic life is 0 years.

Americans with Disabilities Act

The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to these issues, the appraiser did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.

Comments

The elementary school buildings are in poor condition, with significant signs of deferred maintenance.

HIGHEST AND BEST USE

The Appraisal Institute defines the highest and best use as:

"The reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value."¹

There are several basic factors which must be considered in order to make a proper determination of highest and best use.

- The use must be legal or have legal adaptability regarding zoning and other restrictions.
- The property must be physically adaptable to the use contemplated.
- There must also exist a demand for the use contemplated and the use must be profitable.

Each of the aforementioned criteria are applied in succession as tests in estimating the highest and best use.

Permissible Uses

The subject property is zoned D-P/SP, Public/Semi-Public. The zone designation allows for educational institution, auditorium, fire station, library, medical/dental office, parks and recreation areas, post office, public utilities - office, recreational facilities, theaters and places of public assembly, sewage treatment plant, utility lines and additional uses with a conditional use permit. The building height is 30 feet or 2 stories. The floor area ratio is 0.50 to 1.0, depending on the use.

Physically Possible

The next constraint of the possible use of the property is dictated by the physical aspects of the site. The size, shape, and location of the parcel are important determinants of value. The subject property is a 2.82-acre land parcel. The subject parcel's topography is a level building pad, ± 1 to 15 feet above street grade. The property has fair access to the Coast Highway. It does not show any characteristics that would unduly inhibit development. Potential physical uses of the site are only constrained by the size and shape of the property. Potential physical uses of the property could include several market-driven public use and medical/dental uses.

Feasible Uses

Feasible uses are those which are physically possible, legally permissible and provide a return to the landowner. The zoning and legal restrictions limit development of the property public uses and medical/dental offices. Therefore, feasible uses of the property include: holding the property as a vacant investment parcel, or development of a medical/dental office building. Generally, more intensive uses provide greater return to the property owner. That is, the use with the greatest floor area ratio (office) would provide a greater return to the property, if feasible.

Maximally Productive

The subject property can be improved with a 2-story medical/dental office building. Typically floor area ratio is 35%. The potential building area is estimated as follows:

$$\frac{\text{Land Area}}{2.82 \text{ acres}} \times \frac{\text{FAR}}{35\%} = \frac{\text{Building Area}}{43,000 \text{ SF (Rd)}}$$

After interviewing commercial real estate brokers familiar with rental rates of medical office buildings, the market rental rate is estimated to be \$2.35 per sq. ft., NNN. The estimated value of the medical office building is estimated as follows:

Medical/Dental Bldg.	<u>Bldg. Area</u> 43,000 sq. ft.	x	<u>Rental Rate</u> \$2.35 PSF	=	\$101,050
					<u> x 12</u>
	Estimated Gross Income – Annually				\$1,212,600
	Less 5% Vacancy Allowance				<u>(\$60,630)</u>
	Effective Gross Income				\$1,151,970
	Less Expenses -2% EGI				<u>(\$23,039)</u>
	Net Operating Income				\$1,128,931
	Capitalization Rate		÷	<u> 7%</u>	
	Indicated Market Value				\$16,127,586
	 Rounded To:				 <u>\$16,128,000</u>

The appraiser interviewed a developer familiar with new development of medical office buildings. The hard and soft costs are estimated as follows:

Shell Building - Gross	43,000 SF x \$100 PSF	=	\$4,300,000
Tenant Improvements	36,373 SF x \$60 PSF	=	\$2,200,400
Site Improvements	122,839 SF x \$7.50	=	\$921,294
Subtotal			\$7,421,694
Architect & Engineering	\$7.00	\$301,000	
Civil Engineering	\$4.00	\$172,000	
Consultants	\$4.00	\$172,000	
Construction Interest		\$892,032	
Permanent Loan Fee		\$113,274	
Leasing Commissions		\$365,015	
G&A	7%	\$519,519	
Insurance/Bonds	\$0.70	\$30,100	
Permits & Fees	\$8.00	\$344,000	
Contractor's Fee	5%	\$371,084	
Contingency	5%	\$371,084	
Subtotal			\$3,651,108
Direct & Indirect Costs			\$11,072,802
Developer's Profit	15%	=	\$1,660,920
TOTAL			\$12,733,722

The residential land value is estimated as follows:

Indicated value – medical/dental building	\$16,128,000
Less direct and indirect construction costs	<u>(\$12,733,722)</u>
Residential land value	\$3,394,275

Rounded to:	<u>\$3,394,000</u>
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The land value equates to:	\$27.63 PSF
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Highest And Best Use "As If Vacant"

Considering the location, the supply and demand, as well as other factors, the highest and best use "as if vacant" is or a proposed medical/dental office building.

Highest And Best Use "As Improved"

The subject property is improved with a 1-story elementary school building built in the 1950's. The buildings are in poor condition, with deferred maintenance.

The existing improvements are in such poor condition, that the improvements do not contribute to the overall property value.

VALUATION METHODOLOGY

This appraisal includes one of the three traditional approaches to market value.

The cost approach is not included because of the age and poor condition of the existing improvements. It is difficult to accurately estimate the different forms of depreciation.

The income approach is not included again because of the age and condition of improvements.

The sales comparison approach evaluates comparable land sales to establish a market value for the subject property. The evaluation includes adjusting the sales prices of the comparables in order to more accurately indicate an estimated value for the subject property. The unit of measure most appropriate for this analysis is the price per square foot.

SALES COMPARISON APPROACH

The sales comparison approach is defined by the Appraisal Institute as:

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

Land Valuation

The subject property is located in the downtown Encinitas business district. The property consists of a 2.83-acre finished site improved with an elementary school. Due to the deteriorating condition of improvements, the improvements do not contribute to the property value.

The search for comparable land sales began in the city of Encinitas, before spreading out to other North County communities. Also, the search focused on land sales involved medical office buildings. Below is a summary of the comparable land sales.

Sale No.	Buyer Location (Assessor's Parcel No.)	Date Sold	Purchase Price	Land Area	Unit Price	Comments
1.	Makena Medical Buildings, LLC 1755 Citracado Parkway Escondido APN 232-592-11	12/23/2008	\$5,500,000	3.19 Ac	\$39.50 PSF	Finished lot
2.	Scripps Health S/S Salk Ave, 1/2 block west of El Camino Real, Carlsbad APN 212-021-04	10/31/2011	\$12,793,560	9.29 Ac	\$30.00 PSF	Finished lot

COMPARABLE LAND SALES



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Scale 1 : 250,000



1" = 3.95 mi

Data Zoom 9-6

3.	Kaiser Foundation Health Plan, Inc. N/S Rocky Point Dr. at Trestle Street Oceanside APN 161-151-37 through 39	5/25/2012	\$8,591,500	8.29 Ac	\$23.79 PSF	Finished lot
4.	Tri-City Medical Hospital NEC Thunder Dr. & Waring Rd. Oceanside APN 166-500-33, 34, & 35	12/20/2012	\$900,000	1.22 Ac	\$17.27 PSF	Near finished lot

Land Sale No. 1 is located 12 miles east of the subject site in ERTC. In December 2008, the 3.19-acre finished site sold for \$39.58 PSF. The site is located ½ of a block south of the new Palomar Hospital. This is a 4+ year old sale provided for informational purposes. Since the site was acquired, there has been a decline in land values.

In comparison to the subject site, this is a slightly superior located property.

Land Sale No. 2 is located 7 miles north of the subject property on Saik Avenue, ½ of a mile west of El Camino Real. In October 2011, Scripps Health purchased the 9.92 acre site for \$30.00 PSF. The site was in a finished lot condition.

In comparison to the subject property, this is a slightly inferior located site.

Land Sale No. 3 is located 12 miles north of the subject site on Rocky Point Drive in Oceanside. On May 25, 2012, Kaiser Foundation purchased 3 finished lots, totaling 8.29 acres, for \$8,591,500 or \$23.79 PSF. The buyer plans to build a medical office building.

In comparison to the subject site, this is an inferior located site.

Land Sale No. 4 is located 11 miles north of the subject site on Thunder Drive in Oceanside. The three lots, totaling 1.20 acres, sold in December 2012 for \$900,000 or \$17.27 PSF. The lots are in a raw land condition. The three lots are in close proximity to the Tri-City Hospital complex.

In comparison to the subject site, this is a slightly superior located site. A upward adjustment is warranted for site condition.

Adjustments to the Comparable Land Sales

Property Rights Conveyed

All of the comparables were fee simple ownership interest and therefore did not require any adjustment.

Site Condition

Land Sale Nos. 1-3 are in a finished lot condition. **Land Sale No. 4** is a raw land site,

warranting an upward adjustment of \$2.50 PSF of land area.

Plottage Value

The buyer of **Land Sale No. 2** owned an adjoining land parcel. The site was more valuable to the buyer than another potential buyer. A 10% downward adjustment is warranted for plottage value.

Financing

All of the comparables were on an all cash to the seller basis and therefore did not require any financing adjustment.

Conditions of Sale

Comparable Land Sale Nos. 1 - 4 were arm's length transactions without any unusual conditions and therefore, did not require an adjustment.

Market Conditions

Comparable Land Sale No. 1 warrants a downward adjustment for declining market conditions between 2009 and 2011. The downward adjustment is estimated to be 25%. Commercial land brokers indicated land values have leveled off in 2012 - 2013. An adjustment for market conditions is not necessary for **Land Sale Nos. 2-4**.

Zoning

All of the comparables have similar zoning. A 5% downward adjustment is warranted. **Land Sale Nos. 1 - 4** do not warrant an adjustment.

Location

Land Sale Nos. 1 and 4 have slightly superior locations as the subject property. A 5% downward adjustment is warranted. **Land Sale Nos. 2 and 3** have inferior locations. A 5% upward adjustment is warranted for their inferior locations.

Land Size

The subject site is 2.82 net acres. **Land Sale Nos. 1 and 4** are comparable size sites. **Sale Nos. 2 and 3** are larger sites ranging from 8.29 to 9.29 acres. A 10% upward adjustment is warranted for size.

Access and Exposure

The subject site is located in the Encinitas downtown business district. Like the subject property, the comparable land sales are located on secondary streets. An adjustment for access and exposure is not warranted.

Following is the land sale adjustment grid.

Comparable Land Sales Adjustment Grid				
Item	Sale #1	Sale #2	Sale #3	Sale #4
Price Per Sq. Ft.	\$39.58	\$30.00	\$23.79	\$17.27
Site Condition	\$0.00	\$0.00	\$0.00	\$2.50
Adjusted Price	\$39.58	\$30.00	\$23.79	\$19.77
Plottage Value	\$0.00	(\$3.00)	\$0.00	\$0.00
Adjusted Price	\$39.58	\$30.00	\$23.79	\$19.77
Condition of Sale	\$0.00	(\$0.00)	\$0.00	\$0.00
Adjusted Price	\$39.58	\$27.00	\$23.79	\$17.27
Market Conditions	(25%)	\$0.00	0.0%	0.0%
Adjusted Price	\$29.68	\$27.00	\$23.79	\$19.77
Location	(5%)	5.0%	5.0%	(5.0%)
Zoning	0%	0%	0%	0%
Land Size	0%	10%	10%	0%
Access & Exposure	0%	0%	0%	0%
Indicated Price PSF	\$28.20	\$31.05	\$27.36	\$18.78

Reconciliation - Finished Lot Value

The adjusted range of land value is \$18.78 to \$34.50 PSF. Most weight is placed with the **Comparable Land Sales Nos. 2 and 3**. The estimated finished lot value is \$27.50 PSF.

<u>Land Area</u>		<u>Unit Price</u>		<u>Estimated Value</u>
2.79 Acres	x	\$27.50 PSF	=	\$3,342,141

Rounded to: \$3,342,000

Estimated As Is Land Value

The existing improvements must be removed to estimate the "As Is" land value. Until a demolition cost estimate is available for review, the estimated demolition cost is \$4.00 PSF, calculated as follows:

<u>Building Area</u>		<u>Unit Price</u>		<u>Total Costs</u>
13,707 sq. ft.	x	4.00 PSF	=	\$54,828

Rounded to: \$55,000

The Estimated "As Is" Land Value is as follows:

Finished Lot Value	\$3,342,000
Demolition Costs	(\$55,000)
Estimated As Is Value	<u>\$3,287,000</u>

Exposure Time

Exposure may be defined as follows: The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.

Real estate brokers active with commercial properties similar to the subject indicated that most properties have short marketing times. However, properties with unrealistic asking prices can be on the market forever. Most commercial properties with realistic prices were marketed for one to four months before selling, as indicated by the comparable sales in the following chart.

MARKET EXPOSURE TIMES		
COMPARABLE	DATE SOLD	MARKET EXPOSURE TIME
1	12/23/2008	N/A
2	10/31/2011	N/A
3	5/25/2012	3 Months
4	12/20/2012	7 Months

The estimated exposure time was 0 days to 7 months.

CONCLUDING COMMENTS

In analyzing the Pacific View elementary school site, the sales comparison approach yielding the following value indicator:

Sales Comparison Approach	\$3,287,000
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The sales comparison approach was based upon an analysis of four comparable land sales from the north San Diego county. The market value was calculated on a price per square foot indicator.

Based upon a current analysis of the subject property and various market data items relating to this appraisal, it is my opinion that the as is market value of the subject property, subject to the limiting conditions and assumptions included herein, as of June 20, 2013, was:

THREE MILLION TWO HUNDRED EIGHTY-SEVEN THOUSAND DOLLARS
\$3,287,000

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
8. I have made a personal inspection of the property that is the subject of this report.
9. No other person provided significant real property appraisal assistance to the person signing this certification.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. As of the date of this report, I, James W. Waldorf, have not completed the continuing education program at the Appraisal Institute.



James W. Waldorf, MAI
CA Certificate No. AG005398

ENDNOTES

- ¹ The Appraisal Institute, The Dictionary of Real Estate Appraisal, Third Edition, 1993, p. 171.
- ² The Appraisal Institute, The Dictionary of Real Estate Appraisal, Third Edition, 1993, p. 178.
- ³ The Appraisal Institute, The Dictionary of Real Estate Appraisal, Third Edition, 1993, p. 318.

JWW

ADDENDA

QUALIFICATIONS of
JAMES W. WALDORF, MAI
REAL ESTATE APPRAISER AND CONSULTANT
 5431 Avenida Encinas, Suite H, Carlsbad, California 92008
 (760) 438-7750

STATE LICENSING "Certified General Real Estate Appraiser" No. AG 005398

PROFESSIONAL Member Appraisal Institute (MAI), San Diego Chapter
 (Certificate No. 6845)

EDUCATION Los Angeles Harbor College and San Diego Mesa College

CONTINUING EDUCATION

1987-2011	Attended and/or passed the following courses/seminars of American Institute
Sept. 1987	Subdivision Analysis Seminar
Sept. 1988	Discounted Cash Flow Analysis Seminar
July 1994	Limited Appraisals - General Seminar
June 1999	Standards of Professional Practice
June 2005	Litigation Appraising
June 2005	Case Studies in Limited Partnerships
July 2007	Rates & Ratios
July 2009	Advanced Sales Comparison and Cost Approaches
June 2011	Business Practices & Ethics
June 2011	National USPAP Course - Update
August 2011	Condemnation Appraising - Principles and Practices
September 2011	Appraising Convenience Stores
November 2011	Appraisal Curriculum Overview
November 2012	Federal & California Statutory & Regulatory Law

PROFESSIONAL EXPERIENCE

Aug. 1981 to Present Independent Real Estate Appraiser and Consultant

Appraisal of both proposed and existing developments. Types of properties include raw acreage; subdivision land parcels, both raw and finished parcels; single-family homes and condominium developments; apartments; shopping centers; industrial buildings; office buildings; and vacant land parcels for previously mentioned property types. Clients include developers, lenders, investors, property owners, and attorneys. Also have provided consultation services to clients on previously mentioned property types.

Jan. 1970 to Aug. 1981 UNION BANK, San Diego, California, Real Estate Appraisal Department
 Assistant Vice President

During tenure, both appraised and supervised appraisal activity in San Diego County, either through staff appraiser or independent fee appraisers. Also assisted the Real Estate Loan Department in determining the feasibility of developments for future real estate loans.

As an appraiser employed primarily by an interim lender, appraised various types of proposed developments, including single-family and condominium developments, apartments, shopping centers, office buildings, industrial parks, motels, finished sites, and raw land for future development. Experience also includes appraisal of similar existing properties.

Oct. 1968 to CROCKER CITIZENS NATIONAL BANK, Los Angeles, California
 Dec. 1969 Real Estate Appraisal Department, Staff Appraiser

SELECTED LIST OF CLIENTS

Lenders

1st International Bank
 American Bank of the North
 Banco Popular-North America
 Bank of the West
 Citicorp Real Estate
 California National Bank
 Chinatrust Bank
 City National Bank
 Comerica Bank

Commercial Bank of California
 Evertrust Bank
 First Bank
 Hearthstone Advisors, Inc.
 Shanghai Commercial Bank
 Torrey Pines Bank
 United Commercial Bank
 U.S. Bank
 Wells Fargo Bank

Institutions

American Equity Life Insurance
 Great Northern Insured Annuity (GNA)
 Lincoln National
 Guardian Life Insurance
 Kansas City Life Insurance Co.

Chrysler Corporation
 Kimco Realty
 Genoptix
 North County Times
 ViaSat

Municipalities

City of Encinitas
 City of San Marcos
 Rancho Santa Fe Fire Dept.

Carlsbad Unified School District
 San Dieguito Unified School District
 San Marcos Unified School District
 San Ysidro Unified School District

Developers

Blackmore Company
 Brehm Communities
 Carlitas Companies
 Cornerstone Communities
 Diamond Management
 D.R. Horton
 Fieldstone Company

Newland Communities
 Newport National Corp.
 Pacifica Enterprises
 Russell Grosse Development Co.
 Sudberry Properties
 Taylor Morrison
 William Lyon Company