



Exhibit D. Financial Feasibility Analysis



COUNTY OF
SAN DIEGO

Planning and Development Services 5510 Overland Avenue
San Diego, CA 92123 sandiegocounty.gov



MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Buena Creek Focus Area – Financial Feasibility Analysis

SAN DIEGO

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I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) Focus Areas within the unincorporated area of the County. The Focus Areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. To address the economic viability of residential development in the Buena Creek Focus Area (Focus Area), KMA evaluated the feasibility of a range of residential development prototypes on five (5) candidate sites.

KMA's financial feasibility analysis involved the following key steps:

1. Formulated development prototypes for five (5) candidate sites. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan.
2. Collected and evaluated financial pro forma inputs and assumptions based on a review of multi-family apartment rents and other financial factors, as well as KMA experience with projects of comparable development type.

3. Prepared financial pro forma models (residual land value analyses) to measure the economic feasibility of each development prototype.
4. Evaluated land sales activity in the surrounding area to compare against the residual land value outcomes.

As a part of the DFA work effort, KMA also prepared an independent market assessment for residential development within the Focus Area. Select market factors identified in the market assessment were used as inputs in the financial feasibility analyses.

II. KEY FINDINGS

A. *Potential Development Sites*

KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The site selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and are detailed in Section III of this report. This criteria generally included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

Candidate sites were also prioritized based on the availability of water, sewer, and road infrastructure; properties that have been designated as Regional Housing Needs Assessment (RHNA) sites in the County's Housing Element; and properties that are publicly owned or owned by a single entity.

B. *Development Prototypes*

KMA prepared financial pro forma models to evaluate the feasibility of residential development prototypes on each of the five (5) selected candidate sites. Financial pro forma models are a standard tool utilized by developers and investors to analyze the feasibility of new residential development. Table II-1 presents a summary of the development prototypes analyzed for this study.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Table II-1: Summary of Development Prototypes		
Development Prototype	Illustrative Example	General Project Description
A Large Lot Single-Family Detached Homes		<ul style="list-style-type: none"> • 4.13-acre site • 2 units/ gross acre (Village Residential 2) • For-sale housing • 8 units • 1 to 2 stories • Attached garages • 3,688 SF average unit size
B Small Lot Single-Family Detached Homes		<ul style="list-style-type: none"> • 8.97-acre site • 7.3 units/gross acre (Village Residential 7.3) • For-sale housing • 65 units • 2 stories • Attached garages • 2,020 SF average unit size
C Attached Townhomes		<ul style="list-style-type: none"> • 1.29-acre site • 15 units/gross acre (Village Residential 15) • For-sale housing • 19 units • 2 stories • Attached garages • 1,645 SF average unit size
D Attached Townhomes (In-fill Site)		<ul style="list-style-type: none"> • 0.64-acre site • 15 units/gross acre (Village Residential 15) • For-sale housing • 9 units • 3 stories • Attached garages • 1,400 SF average unit size
E Stacked Flat w/Surface and Tuck-Under Parking		<ul style="list-style-type: none"> • 7.36-acre site • 30 units/gross acre (Village Residential 30) • Rental housing • 220 units • 3 stories • Surface and tuck-under parking • 850 SF average unit size

The housing typologies assumed in the development prototypes were selected based on a variety of factors, including: (1) the maximum density allowed under the General Plan; (2) assimilation of the new development within the character of the community; and (3) the types of residential development that demonstrated the strongest market demand in the KMA market assessment. For example, stacked flat for-sale housing, with or without ground floor commercial space, was not analyzed due to the lack of demonstrated demand for this product type in the surrounding area. In addition, this product type is challenging due to construction defect litigation which has contributed to developer and investor reluctance in such projects as compared to rental housing developments. Stacked flat typologies tend to be more susceptible to construction defect litigation because these projects are more complex to construct. State law protects homebuyers from bearing the cost of fixing construction defects in new construction homes for 10 years, whereas rental housing is subject to construction defect liability for four (4) years. According to the July 2024 Turner Center for Housing Innovation UC Berkeley report on construction defect liability in California, developers have indicated that construction defect liability law is a key factor in their decision to pursue rental instead of for-sale multi-family development.

C. Financial Pro Forma Methodology

KMA prepared financial pro forma analyses for each of the development prototypes to determine the supportable residual land value. The pro forma analyses include estimates for development costs, value upon completion, and targeted developer return. The outcome of the financial pro forma analyses illustrate the feasibility, in terms of residual land value, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. Residual land values are then measured against recent comparable land sales to draw conclusions about financial feasibility. The residual land value outcomes in the KMA feasibility analysis represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements.

The assumptions utilized in the financial feasibility analyses reflect 2024 dollars and are representative of today's current market conditions, i.e., present day development costs, sales values/market rents, operating expenses, and developer return targets. Any significant increases or decreases in these key market and industry factors will impact the financial pro forma outcomes and conclusions regarding project feasibility by prototype.

Both rents and for-sale prices utilized within each financial pro forma were based on the existing market conditions within the Focus Area or surrounding area. Typically, households choosing to rent apartments are more likely to seek locations closer to transit and employment than households that are buying their home. Therefore, KMA estimated multi-family market-rate rent inputs for the pro formas by analyzing current market rents in the surrounding area, as well as a premium to account for new construction.

For-sale housing typically draws from a wider trade area than rental housing. As such, for-sale prices were based on comparable sales within the surrounding area.

D. Survey of Comparable Land Sales

KMA surveyed land sales within the surrounding trade area, defined as a 3-mile radius from the center of the Focus Area (Trade Ring). While there have been no land sales in the Focus Area boundary since 2021, KMA found that land sold in the Trade Ring sold at a median price of \$28 per SF and an average of \$27 per SF. Sales generating the highest land values (above \$30 per SF) are primarily located in the cities of San Marcos and Vista. These sales reflect entitled sites for the purpose of developing multi-family housing. By comparison, land sales for the development of single-family homes ranged between \$10 and \$20 per SF. Table II-2 presents the findings of this survey, which suggests that new development occurring in the Focus Area needs to support minimum land values in these ranges in order to be financially feasible.

Table II-2: Survey of Residential Land Sales, January 2021 to May 2024, Buena Creek Trade Ring ⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
15	\$5/SF Land	\$63/SF Land	\$28/SF Land	\$27/SF Land
(1) Source: CoStar Group, Inc. (2) Reflects a 3-mile radius from the mid-point of the Buena Creek Focus Area (1923 Buena Creek Road, Vista).				

E. Residual Land Value Outcomes

Development prototypes that are financially feasible generate positive land values, which indicates that a developer or investor could acquire the site, construct the development, sell or lease the completed development, and receive at least an industry standard target return on their investment. A negative residual land value indicates that the development would not be feasible unless free land was contributed and/or some form of cash contribution was provided to the project.

Table II-3 on the following page presents a summary of the residual land value outcomes for each site/prototype.

Table II-3: Residual Land Values by Development Prototype					
Product Type	A Large Lot Single-Family Detached Homes	B Small Lot Single-Family Detached Homes	C Attached Townhomes	D Attached Townhomes (In-fill Site)	E Stacked Flat w/Surface and Tuck-Under Parking
Tenure	For-Sale	For-Sale	For-Sale	For-Sale	Rental
Site Size (Gross)	4.13 Acres	8.97 Acres	1.29 Acres	0.64 Acres	7.36 Acres
Residual Land Value (2024 \$)	\$1,265,000 \$158,000/Unit \$7/SF Site ⁽¹⁾	\$7,508,000 \$116,000/Unit \$19/SF Site ⁽¹⁾	\$1,947,000 \$102,000/Unit \$35/SF Site ⁽¹⁾	\$755,000 \$84,000/Unit \$27/SF Site ⁽¹⁾	(\$13,978,000) (\$64,000)/Unit (\$44)/SF Site ⁽¹⁾
Financial Feasibility Outcome	Moderate Positive	Strong Positive	Strong Positive	Strong Positive	Negative
(1) Reflects residual land value per SF of gross site area.					

As shown above, KMA finds that all for-sale development prototypes generate positive land values and demonstrate moderate to strong financial feasibility under current market conditions. In order to determine which projects are financially feasible, the land value outcomes are measured against the land values found in the Trade Ring.

Small-lot single-family (Prototype B) and townhome (Prototypes C and D) development demonstrate greater feasibility than large lot single-family development (Prototype A). As compared to the survey of land sales for the development of single-family homes, which ranged between \$10 and \$20 per SF land, Prototype B yields a strong positive residual land value. Prototype A generates a positive residual land value; however, the per-SF land value reflects a value lower than the Trade Ring comparable sales, indicating that this product type is only moderately positive.

The land survey also found that multi-family housing in the Trade Ring exhibited land values of \$30 and greater. Therefore, the townhome development prototypes (Prototypes C and D) also yield strong positive residual land values. The only rental development prototype, Prototype E, is not feasible under current market conditions. KMA finds that current market rate rents are not sufficient to offset the higher construction costs associated with the higher-density construction type and inclusion of tuck-under parking. This finding indicates that higher-density (30 units per acre) and/or mixed-use development are not likely to be feasible in the near- to mid-term (0 to 10 years). However, as market rents rise over time and the Focus Area attracts new development, it is reasonable to anticipate that higher-density development with structured parking will become more feasible over the long term (10+ years).

Examples of factors that could increase feasibility of residential development include: lower development costs; increases in market rents/sales values; implementation or assistance with infrastructure requirements; improvements to public transit; upzoning and/or Program Environmental Impact Reports (PEIRs); and incentives/efficiencies with the entitlement process.

III. IDENTIFICATION OF CANDIDATE SITES

In collaboration with MIG, KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties ⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

To the extent possible, candidate sites were also prioritized based on the following conditions:

- Infrastructure availability – sites with ready access to water, sewer, and road infrastructure
- Housing Element sites – sites identified in the Housing Element to meet the County's RHNA goals
- Ownership – sites that are publicly owned or owned by a single entity

It should be noted that the candidate site assessments contained within this report have been conducted at a high level. KMA did not conduct detailed inspections or assessments for the individual sites, but rather relied on readily available third-party material. Numerous factors, such as planning, regulatory, environmental, topographical, geological, hydrological, utility capacity, off-site improvement requirements, and other key issues, are not addressed at this level of analysis. The following summaries profile each of the candidate sites.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Candidate Site 1 Development Prototype A Large Lot Single-Family Detached Homes	
Assessor's Parcel Number(s)	184-040-04, 184-040-18, 184-040-19, 184-040-20, 184-040-21, and 184-040-22
Number of Owners	One (1) owner
Gross Acres	4.13 acres
General Plan Land Use Designation	Village Residential 2.0 (VR-2)
Maximum Residential Density	2.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Does not require General Plan Amendment • Proposed product type is consistent with adjacent single-family land uses • Does not require land assembly • Does not require demolition • Construction costs are relatively low compared to higher density development • High demand for for-sale housing • Located approximately ½ mile from an elementary school • Proximity to State Route 78 and approximately ½ mile from Buena Creek Sprinter Station
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Density is low, yielding a low housing unit count relative to site area

Candidate Site 2 Development Prototype B Small Lot Single-Family Detached Homes	
Assessor's Parcel Number(s)	183-06-084
Number of Owners	One (1) owner
Gross Acres	8.97 acres
General Plan Land Use Designation	Village Residential 7.3 (VR-7.3)
Maximum Residential Density	7.3 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Religious facility with surface parking • Baseball fields

Candidate Site 2 Development Prototype B Small Lot Single-Family Detached Homes	
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Does not require General Plan Amendment • Proposed product type is consistent with adjacent single-family land uses • Does not require land assembly • Construction costs are relatively low compared to higher density development • High demand for for-sale housing • Located adjacent to an elementary school • Proximity to State Route 78 and approximately 1 mile from Buena Creek Sprinter Station
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Density is low, yielding a low housing unit count relative to site area • Requires demolition of existing improvements

Candidate Site 3 Development Prototype C Attached Townhomes	
Assessor's Parcel Number(s)	217-081-24
Number of Owners	One (1) owner
Gross Acres	1.29 acres
General Plan Land Use Designation	Village Residential 15 (VR-15)
Maximum Residential Density	15.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Does not require General Plan Amendment • Proposed product type complements adjacent single-family land uses • Does not require land assembly • Does not require demolition

Candidate Site 3 Development Prototype C Attached Townhomes	
Factors Supporting Residential Development on Candidate Site (cont'd.)	<ul style="list-style-type: none"> Construction costs are relatively low compared to higher density development High demand for for-sale housing Proximity to State Route 78 and approximately ½ mile from Buena Creek Sprinter Station
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> May require undetermined level of investment in new on- and off-site infrastructure

Candidate Site 4 Development Prototype D Attached Townhomes (In-fill Site)	
Assessor's Parcel Number(s)	184-111-24 and 184-111-25
Number of Owners	Two (2) owners
Gross Acres	0.64 acres
General Plan Land Use Designation	Village Residential 15 (VR-15) and General Commercial
Maximum Residential Density	15.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> Vacant land Commercial structure
Infrastructure Accessibility	<ul style="list-style-type: none"> Site has access to water and sewer lines Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Does not require General Plan Amendment Proposed product type complements adjacent single-family land uses Construction costs are relatively low compared to higher density development High demand for for-sale housing Located approximately ½ mile from an elementary school Property fronts South Santa Fe Avenue (main corridor), with proximity to State Route 78 and approximately 3 minute walk to Buena Creek Sprinter Station
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires change in land use designation for one (1) parcel Requires land assembly Requires demolition of existing improvement

Candidate Site 5 Development Prototype E Stacked Flat Apartments w/Surface and Tuck-Under Parking	
Assessor's Parcel Number(s)	184-162-02, 184-162-03, 184-162-04, and 184-162-05
Number of Owners	Three (3) owners
Gross Acres	7.36 acres
General Plan Land Use Designation	Village Residential 30 (VR-30)
Maximum Residential Density	30.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land • One (1) single-family home
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> • Site is a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Does not require General Plan Amendment • Proposed product type complements neighboring rental apartments • Allowable density maximizes housing unit count, producing a high number of units in a single development • Property fronts South Santa Fe Avenue and Buena Creek Road (main corridors) • Proximity to State Route 78 and adjacent to Buena Creek Sprinter Station
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Requires land assembly • Requires demolition of existing improvement • Product type results in higher construction costs than single-family/townhome developments • Current multi-family market rents in the Trade Ring do not support the cost of new construction

IV. FINANCIAL PRO FORMA MODELS

The KMA financial pro forma models test the financial feasibility of the five (5) development prototypes. The models reflect hypothetical sites and are not specific to any property within the Focus Area. For each of the financial pro formas models, KMA estimated:

- Development costs, consisting of direct construction costs, indirects, and financing costs
- Projected gross sales revenue, including developer profit/cost of sale (Prototypes A, B, C, and D)
- Projected income and operating expenses (Prototype E)
- Estimates of residual land value

The pro forma models yield an estimate of the residual land value for each respective development prototype. The residual land value outcomes represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements. The full residual land value models are attached to this report as Appendices A (for-sale development prototypes) and B (rental development prototypes).

A. Project Descriptions

Within each Appendix, KMA presents a physical description of the respective development prototype, including site area, density, residential unit mix, number of stories, parking type, and other physical attributes.

B. Estimated Development Costs

KMA also estimated development costs for each development prototype. These estimates are based on our recent experience with comparable developments in Southern California and industry data sources. These estimates include the following components:

- Direct construction costs, such as on-site improvements, parking, shell construction, amenities/furniture, fixtures, and equipment (FF&E), and contingency. KMA has not included a budget for off-site improvement costs such as sidewalks/curb and gutter, right-of-way improvements, utilities, or stormwater mitigation as specific estimates cannot be formulated at this time. The KMA estimates of direct construction costs also do not assume prevailing wages or costs associated with demolition, relocation, or environmental remediation, if applicable.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing and lease-up/sales, and contingency. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan. For sites that are not currently zoned for residential development, KMA assumed that the County implemented any potential changes to zoning or design guidelines to allow these developments to be constructed. Therefore, indirect costs do not account for delays resulting from a General Plan Amendment or other lengthy entitlement processes.
- Financing costs, such as loan fees and interest during construction/lease-up.

C. Gross Sales Proceeds and Residual Land Value – For-Sale Prototypes

KMA prepared estimates of for-sale pricing/gross sales proceeds, target developer profit/cost of sale, and residual land value estimates.

D. Net Operating Income – Rental Prototypes

KMA calculated net operating income (NOI) for each rental residential development prototype. NOI is estimated by taking into account market rate rents that vary by bedroom type/size, other income, and an estimate of operating expenses, including property taxes/special assessments and replacement reserves.

E. Residual Land Values – Rental Prototypes

The detailed calculation of residual land value for the rental prototype (Prototype E) includes an estimate of capitalization rate, cost of sale, and target developer profit.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. The analysis, opinions, recommendations, and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.
4. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
8. KMA is not acting as a Municipal Advisor to the County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
9. The County shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

APPENDIX A

For-Sale Development Prototypes Buena Creek Focus Area

Development Feasibility Analysis County of San Diego

TABLE A-1

PROJECT DESCRIPTIONS
BUENA CREEK FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	A			B			C			D		
	Single-Family Detached Large Lot Village Residential 2 (VR-2)			Single-Family Detached Small-Lot Village Residential 7.3 (VR7.3)			Attached Townhomes Village Residential 15 (VR-15)			Attached Townhomes Village Residential 15 (VR-15) (In-fill Site)		
I. Tenure	For-Sale			For-Sale			For-Sale			For-Sale		
II. Site Area												
Gross Acres	4.13	Acres	80%	8.97	Acres	70%	1.29	Acres	85%	0.64	Acres	85%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%	0.00	Acres	0%	0.00	Acres	0%
(Less) Circulation/Amenities	<u>0.83</u>	Acres	20%	<u>2.69</u>	Acres	30%	<u>0.19</u>	Acres	15%	<u>0.10</u>	Acres	15%
Net Acres	3.30	Acres	100%	6.28	Acres	100%	1.10	Acres	100%	0.54	Acres	100%
III. Gross Building Area (GBA)												
Net Residential	29,500	SF	100%	131,300	SF	99%	31,250	SF	100%	12,600	SF	100%
Community/Recreation	0	SF	0%	1,500	SF	1%	0	SF	0%	0	SF	0%
Circulation/Lobby	<u>0</u>	SF	<u>0%</u>	<u>0</u>	SF	<u>0%</u>	<u>0</u>	SF	<u>0%</u>	<u>0</u>	SF	<u>0%</u>
Total GBA	29,500	SF	100%	132,800	SF	100%	31,250	SF	100%	12,600	SF	100%
IV. Unit Mix	<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>		
Two Bedroom	0	0%	--- SF	0	0%	--- SF	8	40%	1,500 SF	4	40%	1,250 SF
Three Bedroom	5	60%	3,500 SF	39	60%	1,900 SF	11	60%	1,750 SF	5	60%	1,500 SF
Four Bedroom	<u>3</u>	<u>40%</u>	<u>4,000 SF</u>	<u>26</u>	<u>40%</u>	<u>2,200 SF</u>	<u>0</u>	<u>0%</u>	--- SF	<u>0</u>	<u>0%</u>	--- SF
Total Units/Average	8	100%	3,688 SF	65	100%	2,020 SF	19	100%	1,645 SF	9	100%	1,400 SF
V. Number of Units	8 Units			65 Units			19 Units			9 Units		
VI. Density (Units/Acre)	2.0 Units/Gross Acre 2.4 Units/Net Acre			7.3 Units/Gross Acre 10.4 Units/Net Acre			15.0 Units/Gross Acre 17.3 Units/Net Acre			15.0 Units/Gross Acre 16.5 Units/Net Acre		
VII. Approximate Lot Size (Net)	18,000 SF/Lot			4,000 SF/Lot			N/A			N/A		
VIII. Floor Area Ratio (FAR)	0.20			0.49			0.65			0.53		
IX. Construction Type	Type V - Wood-Frame			Type V - Wood-Frame			Type V - Wood-Frame			Type V - Wood-Frame		
X. Stories	1-2 Stories			2 Stories			2 Stories			3 Stories		
XI. Maximum Building Height	Up to 25 Feet			25 Feet			25 Feet			35 Feet		
XII. Parking												
Type	Attached Garages			Attached Garages			Attached Garages			Attached Garages		
Parking Spaces	15 Spaces			124 Spaces			29 Spaces			14 Spaces		
Parking Ratio	1.88 Spaces/Unit			1.90 Spaces/Unit			1.50 Spaces/Unit			1.50 Spaces/Unit		

TABLE A-2

ESTIMATED DEVELOPMENT COSTS AND RESIDUAL LAND VALUE
BUENA CREEK FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	A			B			C			D		
	Single-Family Detached Large Lot Village Residential 2 (VR-2)			Single-Family Detached Small Lot Village Residential 4.3 (VR-4.3)			Attached Townhomes Village Residential 15 (VR-15)			Attached Townhomes Village Residential 15 (VR-15)		
I. Development Costs	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments
A. Direct Costs ⁽¹⁾												
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 /SF Site - Gross	\$0	\$0	\$0 /SF Site - Gross	\$0	\$0	\$0 /SF Site - Gross	\$0	\$0	\$0 /SF Site - Gross
On-Site Improvements/Landscaping	\$1,799,000	\$224,900	\$10 /SF Site - Gross	\$5,861,000	\$90,200	\$15 /SF Site - Gross	\$1,124,000	\$59,200	\$20 /SF Site - Gross	\$697,000	\$77,400	\$25 /SF Site - Gross
Parking	\$0	\$0	Included below	\$0	\$0	Included below	\$0	\$0	Included below	\$0	\$0	Included below
Shell Construction	\$4,130,000	\$516,300	\$140 /SF GBA	\$23,904,000	\$367,800	\$180 /SF GBA	\$6,250,000	\$328,900	\$200 /SF GBA	\$2,520,000	\$280,000	\$200 /SF GBA
Amenities/FF&E	\$0	\$0	Allowance	\$553,000	\$8,500	Allowance	\$0	\$0	Allowance	\$0	\$0	Allowance
Contingency	<u>\$296,000</u>	<u>\$37,000</u>	5.0% of Directs	<u>\$1,516,000</u>	<u>\$23,300</u>	5.0% of Directs	<u>\$369,000</u>	<u>\$19,400</u>	5.0% of Directs	<u>\$161,000</u>	<u>\$17,900</u>	5.0% of Directs
Total Direct Costs	\$6,225,000	\$778,100	\$211 /SF GBA	\$31,834,000	\$489,800	\$240 /SF GBA	\$7,743,000	\$407,500	\$248 /SF GBA	\$3,378,000	\$375,300	\$268 /SF GBA
B. Indirect Costs												
Architecture & Engineering	\$374,000	\$46,800	6.0% of Directs	\$1,910,000	\$29,400	6.0% of Directs	\$465,000	\$24,500	6.0% of Directs	\$203,000	\$22,600	6.0% of Directs
Permits & Fees ⁽²⁾	\$590,000	\$73,800	\$20 /SF GBA	\$2,656,000	\$40,900	\$20 /SF GBA	\$781,000	\$41,100	\$25 /SF GBA	\$315,000	\$35,000	\$25 /SF GBA
Legal & Accounting	\$93,000	\$11,600	1.5% of Directs	\$478,000	\$7,400	1.5% of Directs	\$116,000	\$6,100	1.5% of Directs	\$51,000	\$5,700	1.5% of Directs
Taxes & Insurance	\$347,000	\$43,400	3.0% of Value	\$1,798,000	\$27,700	3.0% of Value	\$454,000	\$23,900	3.0% of Value	\$194,000	\$21,600	3.0% of Value
Developer Fee	\$249,000	\$31,100	4.0% of Directs	\$1,273,000	\$19,600	4.0% of Directs	\$310,000	\$16,300	4.0% of Directs	\$135,000	\$15,000	4.0% of Directs
Marketing/Sales	\$347,000	\$5,000	3.0% of Value	\$1,798,000	\$5,000	3.0% of Value	\$454,000	\$23,900	3.0% of Value	\$194,000	\$21,600	3.0% of Value
Contingency	<u>\$100,000</u>	<u>\$12,500</u>	5.0% of Indirects	<u>\$496,000</u>	<u>\$7,600</u>	5.0% of Indirects	<u>\$129,000</u>	<u>\$6,800</u>	5.0% of Indirects	<u>\$55,000</u>	<u>\$6,100</u>	5.0% of Indirects
Total Indirect Costs	\$2,100,000	\$262,500	33.7% of Directs	\$10,409,000	\$160,100	32.7% of Directs	\$2,709,000	\$142,600	35.0% of Directs	\$1,147,000	\$127,400	34.0% of Directs
C. Financing Costs	\$467,000	\$58,400	7.5% of Directs	\$2,388,000	\$36,700	7.5% of Directs	\$774,000	\$40,700	10.0% of Directs	\$338,000	\$37,600	10.0% of Directs
D. Total Development Costs ⁽³⁾	\$8,792,000	\$1,099,000	\$298 /SF GBA	\$44,631,000	\$686,600	\$336 /SF GBA	\$11,226,000	\$590,800	\$359 /SF GBA	\$4,863,000	\$540,300	\$386 /SF GBA
II. Residual Land Value												
A. Gross Sales Proceeds	<u># Units</u>	<u>Price/Unit</u>	<u>\$/SF</u>	<u>Total</u>	<u># Units</u>	<u>Price/Unit</u>	<u>\$/SF</u>	<u>Total</u>	<u># Units</u>	<u>Price/Unit</u>	<u>\$/SF</u>	<u>Total</u>
Two Bedroom	0	---	---	---	0	---	---	---	8	\$750,000	\$500	\$6,000,000
Three Bedroom	5	\$1,400,000	\$400	\$7,000,000	39	\$884,000	\$465	\$34,476,000	11	\$831,000	\$475	\$9,141,000
Four Bedroom	3	<u>\$1,520,000</u>	<u>\$380</u>	<u>\$4,560,000</u>	26	<u>\$979,000</u>	<u>\$445</u>	<u>\$25,454,000</u>	0	---	---	---
Total/Average	8	\$1,445,000	\$392	\$11,560,000	65	\$922,000	\$456	\$59,930,000	19	\$796,900	\$485	\$15,141,000
(Less) Cost of Sale	3.0% of Value			(\$347,000)	3.0% of Value			(\$1,798,000)	3.0% of Value			(\$454,000)
(Less) Developer Profit	10.0% of Value			<u>(\$1,156,000)</u>	10.0% of Value			<u>(\$5,993,000)</u>	10.0% of Value			<u>(\$1,514,000)</u>
B. Net Sales Proceeds				\$10,057,000				\$52,139,000				\$13,173,000
C. (Less) Development Costs ⁽³⁾				<u>(\$8,792,000)</u>				<u>(\$44,631,000)</u>				<u>(\$11,226,000)</u>
D. Residual Land Value				\$1,265,000				\$7,508,000				\$1,947,000
Per Unit				\$158,000				\$116,000				\$102,000
Per Gross SF Land				\$7				\$19				\$35
Per Net SF Land				\$9				\$27				\$41

(1) Does not include the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

APPENDIX B

Rental Development Prototypes Buena Creek Focus Area

Development Feasibility Analysis County of San Diego

TABLE B-1

PROJECT DESCRIPTIONS
BUENA CREEK FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	E		
	Stacked Flat w/Surface and Tuck-Under Parking Village Residential 30 (VR-30)		
I. Tenure	Rental		
II. Site Area			
Gross Acres	7.36 Acres		90%
(Less) Open Space/Environmental Easements	0.00 Acres		0%
(Less) Circulation/Amenities	<u>(0.74)</u> Acres		<u>10%</u>
Net Acres	6.62 Acres		100%
III. Gross Building Area (GBA)			
Net Residential	187,000 SF		89%
Community/Recreation	2,000 SF		1%
Circulation/Lobby	<u>21,000</u> SF		<u>10%</u>
Total GBA	210,000 SF		100%
IV. Unit Mix	<u>Number of Units</u>	<u>Unit Size</u>	
One Bedroom	88 40%	700 SF	
Two Bedroom	99 45%	900 SF	
Three Bedroom	<u>33</u> <u>15%</u>	<u>1,100</u> SF	
Total Units/Average	220 100%	850 SF	
V. Number of Units	220 Units		
VI. Density (Units/Acre)	30.0 Units/Gross Acre 33.2 Units/Net Acre		
VII. Floor Area Ratio (FAR)	0.73		
VIII. Construction Type	Type V - Wood-Frame		
IX. Stories	3 Stories		
X. Maximum Building Height	35 Feet		
XI. Parking			
Type	Surface/Tuck-Under		
Parking Spaces	286 Spaces		
Parking Ratio	1.30 Spaces/Unit		

TABLE B-2

**ESTIMATED DEVELOPMENT COSTS
BUENA CREEK FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO**

E			
Stacked Flat w/Surface and Tuck-Under Parking Village Residential 30 (VR-30)			
	<u>Total</u>	<u>Per Unit</u>	<u>Comments</u>
I. Direct Costs⁽¹⁾			
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 /SF Site - Gross
On-Site Improvements/Landscaping ⁽²⁾	\$9,618,000	\$43,700	\$30 /SF Site - Gross
Parking	\$0	\$0	Included above
Shell Construction	\$63,000,000	\$286,400	\$300 /SF GBA
Amenities/FF&E	\$1,100,000	\$5,000	Allowance
Contingency	<u>\$3,686,000</u>	<u>\$16,800</u>	5.0% of Directs
Total Direct Costs	\$77,404,000	\$351,800	\$369 /SF GBA
II. Indirect Costs			
Architecture & Engineering	\$5,805,000	\$26,400	7.5% of Directs
Permits & Fees ⁽²⁾	\$5,250,000	\$23,900	\$25 /SF GBA
Legal & Accounting	\$1,161,000	\$5,300	1.5% of Directs
Taxes & Insurance	\$1,161,000	\$5,300	1.5% of Directs
Developer Fee	\$3,096,000	\$14,100	4.0% of Directs
Marketing/Lease-Up	\$550,000	\$2,500	Allowance
Contingency	<u>\$851,000</u>	<u>\$3,900</u>	5.0% of Indirects
Total Indirect Costs	\$17,874,000	\$81,200	23.1% of Directs
III. Financing Costs	\$7,740,000	\$35,200	10.0% of Directs
IV. Development Costs⁽³⁾	\$103,018,000	\$468,300	\$491 /SF GBA

(1) Excludes the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

TABLE B-3

NET OPERATING INCOME
 BUENA CREEK FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

E						
Stacked Flat w/Surface and Tuck-Under Parking Village Residential 30 (VR-30)						
Monthly						
	<u>Unit Size</u>	<u># Units</u>	<u>\$/SF</u>	<u>Rent</u>	<u>Total Annual</u>	
I. Gross Scheduled Income (GSI)						
One Bedroom @	700 SF	88	\$3.50	\$2,450	\$2,587,000	
Two Bedroom @	900 SF	99	\$3.00	\$2,700	\$3,208,000	
Three Bedroom @	<u>1,100</u> SF	<u>33</u>	<u>\$2.75</u>	<u>\$3,030</u>	<u>\$1,200,000</u>	
Total/Average	850 SF	220	\$3.12	\$2,650	\$6,995,000	
Add: Other Income			\$50 /Unit/Month		<u>\$132,000</u>	
Total Gross Scheduled Income (GSI)					\$7,127,000	
(Less) Vacancy		5.0% of GSI			<u>(\$356,000)</u>	
Effective Gross Income (EGI)					\$6,771,000	
II. Operating Expense						
(Less) Operating Expenses			\$5,000 /Unit/Year		(\$1,100,000)	
(Less) Property Taxes ⁽¹⁾			\$5,241 /Unit/Year		(\$1,152,000)	
(Less) Replacement Reserves			<u>\$300 /Unit/Year</u>		<u>(\$66,000)</u>	
Total Expenses			\$10,541 /Unit/Year		(\$2,318,000)	
			34.2% of EGI			
III. Net Operating Income (NOI)					\$4,453,000	

(1) Based on capitalized income approach; assumes a 1.1% tax rate and 4.25% cap rate as shown in Table B-4.

TABLE B-4

RESIDUAL LAND VALUE
 BUENA CREEK FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

E

**Stacked Flat
 w/Surface and Tuck-Under Parking
 Village Residential 30 (VR-30)**

I. Capitalized Value of NOI

Stabilized Net Operating Income		\$4,453,000
Capitalization Rate @		4.25%
Capitalized Value Upon Completion		\$104,776,000
(Less) Cost of Sale	3.0% of Value	(\$3,143,000)
(Less) Developer Profit	12.0% of Value	<u>(\$12,573,000)</u>

II. Net Sales Proceeds	\$89,060,000
-------------------------------	---------------------

(Less) Development Costs ⁽¹⁾	<u>(\$103,018,000)</u>
---	------------------------

III. Residual Land Value	(\$13,958,000)
Per Unit	(\$63,000)
Per Gross SF Land	(\$44)
Per Net SF Land	(\$48)

(1) Excludes acquisition costs.



MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Laura Stetson, AICP, Principal
Moore Iacofano Goltsman, Inc. (MIG)

BERKELEY

DEBBIE M. KERN
DAVID DOEZEMA

From: KEYSER MARSTON ASSOCIATES, INC.

LOS ANGELES

KATHLEEN H. HEAD
KEVIN E. ENGSTROM
JULIE L. ROMEY
TIM BRETZ

Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Valle de Oro/Casa de Oro Focus Area – Financial Feasibility Analysis

SAN DIEGO

PAUL C. MARRA
LINNIE A. GAVINO

EMERITUS

A. JERRY KEYSER
TIMOTHY C. KELLY

I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) Focus Areas within the unincorporated area of the County. The Focus Areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. To address the economic viability of residential development in the Valle de Oro/Casa de Oro Focus Area (Focus Area), KMA evaluated the feasibility of a range of residential development prototypes on five (5) candidate sites.

KMA's financial feasibility analysis involved the following key steps:

1. Formulated development prototypes for five (5) candidate sites. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan.
2. Collected and evaluated financial pro forma inputs and assumptions based on a review of multi-family apartment rents and other financial factors, as well as KMA experience with projects of comparable development type.

3. Prepared financial pro forma models (residual land value analyses) to measure the economic feasibility of each development prototype.
4. Evaluated land sales activity in the surrounding area to compare against the residual land value outcomes.

As a part of the DFA work effort, KMA also prepared an independent market assessment for residential development within the Focus Area. Select market factors identified in the market assessment were used as inputs in the financial feasibility analyses.

II. KEY FINDINGS

A. Potential Development Sites

KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The site selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and are detailed in Section III of this report. This criteria generally included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

Candidate sites were also prioritized based on the availability of water, sewer, and road infrastructure; properties that have been designated as Regional Housing Needs Assessment (RHNA) sites in the County's Housing Element; and properties that are publicly owned or owned by a single entity.

B. Development Prototypes

KMA prepared financial pro forma models to evaluate the feasibility of residential development prototypes on each of the five (5) selected candidate sites. Financial pro forma models are a standard tool utilized by developers and investors to analyze the feasibility of new residential development. Table II-1 presents a summary of the development prototypes analyzed for this study.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.






Table II-1: Summary of Development Prototypes		
Development Prototype	Illustrative Example	General Project Description
A Attached Townhomes		<ul style="list-style-type: none"> • 3.72-acre site • 20 units/gross acre • For-sale housing • 74 units • 2-3 stories • Attached garages • 1,399 SF average unit size
B Attached Townhomes w/Ground Floor Commercial		<ul style="list-style-type: none"> • 0.55-acre site • 24 units/gross acre (Village Core Mixed-Use) • For-sale housing • 13 units • 1,000 SF commercial SF • 3 stories • Surface and attached garages • 1,250 SF average unit size
C Garden Apartments		<ul style="list-style-type: none"> • 1.47-acre site • 20 units/gross acre (Village Residential 20) • Rental housing • 29 units • 2-3 stories • Surface, carports, and attached garages • 930 SF average unit size
D Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking		<ul style="list-style-type: none"> • 1.47-acre site • 35 units/gross acre (Village Core Mixed-Use)⁽¹⁾ • Rental housing • 51 units • 1,000 SF commercial space • 3-4 stories • Surface and tuck-under parking • 820 SF average unit size

Table II-1: Summary of Development Prototypes		
Development Prototype	Illustrative Example	General Project Description
E Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)		<ul style="list-style-type: none"> • 0.82-acre site • 40 units/gross acre (Village Core Mixed-Use)⁽¹⁾ • Rental housing • 32 units • 1,000 SF commercial space • 3-4 stories • Surface and tuck-under parking • 769 SF average unit size
<p>(1) Per the Campo Road Corridor Revitalization Specific Plan (Plan) dated January 2023, Main Street District development standards are as follows: maximum FAR of 2.0; maximum of 4 stories; and maximum building height of 62 feet. Therefore, KMA increased the density to maximize the housing unit count within the maximum 4 stories as permitted in the Plan.</p>		

The housing typologies assumed in the development prototypes were selected based on a variety of factors, including: (1) the maximum density allowed under the General Plan; (2) assimilation of the new development within the character of the community; and (3) the types of residential development that demonstrated the strongest market demand in the KMA market assessment. For example, stacked flat for-sale housing, with or without ground floor commercial space, was not analyzed due to the lack of demonstrated demand for this product type in the surrounding area. In addition, this product type is challenging due to construction defect litigation which has contributed to developer and investor reluctance in such projects as compared to rental housing developments. Stacked flat typologies tend to be more susceptible to construction defect litigation because these projects are more complex to construct. State law protects homebuyers from bearing the cost of fixing construction defects in new construction homes for 10 years, whereas rental housing is subject to construction defect liability for four (4) years. According to the July 2024 Turner Center for Housing Innovation UC Berkeley report on construction defect liability in California, developers have indicated that construction defect liability law is a key factor in their decision to pursue rental instead of for-sale multi-family development.

C. Financial Pro Forma Methodology

KMA prepared financial pro forma analyses for each of the development prototypes to determine the supportable residual land value. The pro forma analyses include estimates for development costs, value upon completion, and targeted developer return. The outcome of the financial pro forma analyses illustrate the feasibility, in terms of residual land value, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. Residual land values are then measured against recent comparable land sales to draw conclusions about

financial feasibility. The residual land value outcomes in the KMA feasibility analysis represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements.

The assumptions utilized in the financial feasibility analyses reflect 2024 dollars and are representative of today's current market conditions, i.e., present day development costs, sales values/market rents, operating expenses, and developer return targets. Any significant increases or decreases in these key market and industry factors will impact the financial pro forma outcomes and conclusions regarding project feasibility by prototype.

Both rents and for-sale prices utilized within each financial pro forma were based on the existing market conditions within the Focus Area or surrounding area. Typically, households choosing to rent apartments are more likely to seek locations closer to transit and employment than households that are buying their home. Therefore, KMA estimated multi-family market-rate rent inputs for the pro formas by analyzing current market rents in the surrounding area, as well as a premium to account for new construction. For-sale housing typically draws from a wider area than rental housing. As such, for-sale prices were based on comparable sales within the surrounding area.

D. Survey of Comparable Land Sales

KMA surveyed land sales within the surrounding trade area, defined as a 3-mile radius from the center of the Focus Area (Trade Ring). While there have been no land sales in the Focus Area boundary since 2021, KMA found that land sold in the Trade Ring sold at a median price of \$46 per SF and an average of \$47 per SF. Sales generating the highest land values (above \$50 per SF) are primarily located in the cities of La Mesa and San Diego. These sales reflect entitled sites for the purpose of developing multi-family and Accessory Dwelling Unit (ADU) housing. By comparison, sales for townhomes and single-family homes ranged from \$6 to \$46 per SF land. The difference in land value for multi-family versus single-family/ADU housing is an indicator of more demand and higher development potential for higher density multi-family product types. Table II-2 presents the findings of this survey, which suggests that new development occurring in the Focus Area needs to support minimum land values in these ranges in order to be financially feasible.

Table II-2: Survey of Residential Land Sales, January 2021 to May 2024, Trade Ring ⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
9	\$5/SF Land	\$114/SF Land	\$46/SF Land	\$47/SF Land
(1) Source: CoStar Group, Inc.				
(2) Reflects sales within a 3-mile radius from the mid-point of the Valle de Oro/Casa de Oro Focus Area (9111 Campo Road).				

E. Residual Land Value Outcomes

Development prototypes that are financially feasible generate positive land values, which indicates that a developer or investor could acquire the site, construct the development, sell or lease the completed development, and receive at least an industry standard target return on their investment. A negative residual land value indicates that the development would not be feasible unless free land was contributed and/or some form of cash contribution was provided to the project. Table II-3 presents a summary of the residual land value outcomes for each site/prototype.

Table II-3: Residual Land Values by Development Prototype					
Product Type	A	B	C	D	E
	Attached Townhomes	Attached Townhomes w/Ground Floor Commercial	Garden Apartments	Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking	Stacked Flat w/Ground-Floor Commercial and Surface/ Tuck-Under Parking (Non-Contiguous Site)
Tenure	For-Sale	For-Sale	Rental	Rental	Rental
Site Size (Gross)	3.72 Acres	0.55 Acres	1.47 Acres	1.47 Acres	0.82 Acres
Residual Land Value (2024 \$)	\$4,936,000	\$989,000	\$1,278,000	(\$2,188,000)	(\$1,900,000)
	\$67,000/Unit	\$76,000/Unit	\$44,000/Unit	(\$43,000)/Unit	(\$59,000)/Unit
	\$30/SF Site ⁽¹⁾	\$41/SF Site ⁽¹⁾	\$20/SF Site ⁽¹⁾	(\$34)/SF Site ⁽¹⁾	(\$53)/SF Site ⁽¹⁾
Financial Feasibility Outcome	Strong Positive	Strong Positive	Strong Positive	Negative	Negative
(1) Reflects residual land value per SF of gross site area.					

As shown in Table II-3, KMA finds that all for-sale development prototypes generate positive land values and demonstrate strong financial feasibility under current market conditions. In order to determine which projects are financially feasible, the land value outcomes are measured against the land values found in the Trade Ring.

Prototypes A (townhomes) and B (townhomes with ground floor commercial) demonstrate strong positive land values when compared to land sales in the Trade Ring. Similarly, Prototype C (garden apartments) generates a strong positive residual land value.

Prototypes D and E (stacked flat with tuck-under parking) are not feasible under current market conditions. KMA finds that current market rate rents are not sufficient to offset the higher construction

costs associated with higher density housing and tuck-under parking. This finding indicates multi-family (35 to 40 units per acre) and/or mixed-use development are not likely to be feasible in the near- to mid-term (0 to 10 years). However, as market rate rents rise over time and the Focus Area attracts new development, it is reasonable to anticipate that multi-family rental housing with structured parking will become more feasible over the long term (10+ years).

Examples of factors that could increase feasibility of residential development include: lower development costs; increases in market rents/sales values; implementation or assistance with infrastructure requirements; improvements to public transit; upzoning and/or Program Environmental Impact Reports (PEIRs); and incentives/efficiencies with the entitlement process.

III. IDENTIFICATION OF CANDIDATE SITES

In collaboration with MIG, KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

To the extent possible, candidate sites were also prioritized based on the following conditions:

- Infrastructure availability – sites with ready access to water, sewer, and road infrastructure
- Housing Element sites – sites identified in the Housing Element to meet the County's RHNA goals
- Ownership – sites that are publicly owned or owned by a single entity

It should be noted that the candidate site assessments contained within this report have been conducted at a high level. KMA did not conduct detailed inspections or assessments for the individual sites but rather relied on readily available third-party material. Numerous factors, such as planning, regulatory, environmental, topographical, geological, hydrological, utility capacity, off-site improvement requirements, and other key issues, are not addressed at this level of analysis. The following summaries profile each of the candidate sites.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Candidate Site 1 Development Prototype A Attached Townhomes	
Assessor's Parcel Number(s)	501-261-04 and 501-261-06
Number of Owners	One (1) owner
Gross Acres	3.72 acres
General Plan Land Use Designation	Public
Maximum Residential Density	Assumes density of 24.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Publicly owned • Proposed product type complements adjacent single-family uses • Does not require land assembly • Does not require demolition • Construction costs are relatively low compared to higher density development • High demand for for-sale housing • Located adjacent to an elementary school • Easily accessible from State Route 94
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Requires General Plan Amendment • Requires negotiation to purchase property from public entity

Candidate Site 2 Development Prototype B Attached Townhomes with Ground Floor Commercial	
Assessor's Parcel Number(s)	501-255-01
Number of Owners	One (1) owner
Gross Acres	0.55 acres
General Plan Land Use Designation	Village Core Mixed-Use
Maximum Residential Density	30.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Convenience store
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site

Candidate Site 2 Development Prototype B Attached Townhomes with Ground Floor Commercial	
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Proposed product type complements adjacent single-family uses Does not require General Plan Amendment Does not require land assembly Construction costs are relatively low compared to higher density development High demand for for-sale housing Located in close proximity to an elementary school Property fronts Campo Road (main corridor), with easy access to State Route 94
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Existing use may be costly to acquire (national credit retailer) Requires demolition of existing improvement Site is triangular shaped which may pose design challenges

Candidate Site 3 Development Prototype C Garden Apartments	
Assessor's Parcel Number(s)	501-011-05, 504-011-24, and 504-011-25
Number of Owners	Two (2) owners
Gross Acres	1.47 acres
General Plan Land Use Designation	Village Residential 20 (VR-20)
Maximum Residential Density	20.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> Auto body and paint Storage lot One (1) single-family residence
Infrastructure Accessibility	<ul style="list-style-type: none"> Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> Site is a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Proposed product type is consistent with adjacent rental apartments Does not require General Plan Amendment Easily accessible from State Route 94

Candidate Site 3 Development Prototype C Garden Apartments	
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires land assembly Requires demolition of existing improvements May require assessment of environmental remediation needs due to existing auto body use Existing industrial and auto-oriented uses surrounding the site Current multi-family market rents in the Trade Ring do not support the cost of new construction

Candidate Site 4 Development Prototype D Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking	
Assessor's Parcel Number(s)	500-191-17 and 500-191-18
Number of Owners	One (1) owner
Gross Acres	1.47 acres
General Plan Land Use Designation	Village Core Mixed-Use
Maximum Residential Density	35.0 units per gross acre ⁽¹⁾
Existing Improvements	<ul style="list-style-type: none"> Commercial/office strip center
Infrastructure Accessibility	<ul style="list-style-type: none"> Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Does not require General Plan Amendment⁽¹⁾ Does not require land assembly Located in close proximity to a middle school Property fronts Campo Road (main corridor), with easy access to State Route 94
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires demolition of existing improvements Existing multi-tenant uses may be costly to terminate existing leases and/or relocate Current multi-family market rents in the Trade Ring do not support the cost of new construction
(1) Per the Campo Road Corridor Revitalization Specific Plan (Plan) dated January 2023, Main Street District development standards are as follows: maximum FAR of 2.0; maximum of 4 stories; and maximum building height of 62 feet. Therefore, KMA increased the density to maximize the housing unit count within the maximum 4 stories as permitted in the Plan.	

Candidate Site 5 Development Prototype E Stacked Flat w/Ground-Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)	
Assessor's Parcel Number(s)	501-243-05, 501-243-06, 501-243-11, and 501-243-12
Number of Owners	Three (3) owners
Gross Acres	0.82 acres
General Plan Land Use Designation	Village Core Mixed-Use
Maximum Residential Density	40.0 units per gross acre ⁽¹⁾
Existing Improvements	<ul style="list-style-type: none"> • Auto-oriented commercial uses • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Partially publicly owned • Does not require General Plan Amendment⁽¹⁾ • Located in close proximity to an elementary and middle school • Property partially fronts Campo Road (main corridor), with easy access to State Route 94
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Requires negotiation to purchase parcel from public entity and determine whether existing water district apparatus can be relocated/repositioned • Requires land assembly • Requires demolition of existing improvements • Site is non-contiguous (separated by alley) which may pose design challenges • Current multi-family market rents in the Trade Ring do not support the cost of new construction
(1) Per the Campo Road Corridor Revitalization Specific Plan (Plan) dated January 2023, Main Street District development standards are as follows: maximum FAR of 2.0; maximum of 4 stories; and maximum building height of 62 feet. Therefore, KMA increased the density to maximize the housing unit count within the maximum 4 stories as permitted in the Plan.	

IV. FINANCIAL PRO FORMA MODELS

The KMA financial pro forma models test the financial feasibility of the five (5) development prototypes. The models reflect hypothetical sites and are not specific to any property within the Focus Area. For each of the financial pro formas models, KMA estimated:

- Development costs, consisting of direct construction costs, indirects, and financing costs
- Projected gross sales revenue, including developer profit/cost of sale (Prototypes A and B)
- Projected income and operating expenses (Prototypes C, D, and E)
- Estimates of residual land value

The pro forma models yield an estimate of the residual land value for each respective development prototype. The residual land value outcomes represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements. The full residual land value models are attached to this report as Appendices A (for-sale development prototypes) and B (rental development prototypes).

A. Project Descriptions

Within each Appendix, KMA presents a physical description of the respective development prototype, including site area, density, residential unit mix, number of stories, commercial SF (if applicable), parking type, and other physical attributes.

B. Estimated Development Costs

KMA also estimated development costs for each development prototype. These estimates are based on our recent experience with comparable developments in Southern California and industry data sources. These estimates include the following components:

- Direct construction costs, such as on-site improvements, parking, shell construction, amenities/furniture, fixtures, and equipment (FF&E), and contingency. KMA has not included a budget for off-site improvement costs such as sidewalks/curb and gutter, right-of-way improvements, utilities, or stormwater mitigation as specific estimates cannot be formulated at this time. The KMA estimates of direct construction costs also do not assume prevailing wages or costs associated with demolition, relocation, or environmental remediation, if applicable.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing and lease-up/sales, and contingency. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan. For sites that are not currently zoned for residential development, KMA assumed that the County

implemented any potential changes to zoning or design guidelines to allow these developments to be constructed. Therefore, indirect costs do not account for delays resulting from a General Plan Amendment or other lengthy entitlement processes.

- Financing costs, such as loan fees and interest during construction/lease-up.

C. Gross Sales Proceeds and Residual Land Value – For-Sale Prototypes

KMA prepared estimates of for-sale pricing/gross sales proceeds, target developer profit/cost of sale, and residual land value estimates.

For Prototype C (townhomes with ground floor commercial), KMA calculated NOI for the commercial component. The commercial NOI takes into account an achievable monthly rent, a vacancy factor, and an estimate of unreimbursed operating expenses. The commercial component also includes an estimate of capitalization rate, cost of sale, and target developer profit.

D. Net Operating Income – Rental Prototypes

KMA calculated net operating income (NOI) for each rental residential development prototype. NOI is estimated by taking into account market rate rents that vary by bedroom type/size, other income, and an estimate of operating expenses, including property taxes/special assessments and replacement reserves. For Prototypes D and E, KMA calculated NOI for the commercial component. The commercial NOI takes into account an achievable monthly rent, a vacancy factor, and an estimate of unreimbursed operating expenses.

E. Residual Land Values – Rental Prototypes

The detailed calculation of residual land value for the rental prototypes includes an estimate of capitalization rate, cost of sale, and target developer profit.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. The analysis, opinions, recommendations, and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.
4. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
8. KMA is not acting as a Municipal Advisor to the County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
9. The County shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

APPENDIX A

For-Sale Development Prototypes Valle de Oro/Casa de Oro Focus Area

Development Feasibility Analysis County of San Diego

TABLE A-1

PROJECT DESCRIPTIONS
VALLE DE ORO/CASA DE ORO FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	A			B		
	Attached Townhomes			Attached Townhomes w/Ground Floor Commercial Village Core Mixed-Use		
I. Tenure	For-Sale			For-Sale		
II. Site Area						
Gross Acres	3.72	Acres	85%	0.55	Acres	85%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%
(Less) Circulation/Amenities	<u>0.56</u>	Acres	<u>15%</u>	<u>0.08</u>	Acres	<u>15%</u>
Net Acres	3.16	Acres	100%	0.47	Acres	100%
III. Gross Building Area (GBA)						
<u>Residential</u>						
Net Residential	103,500	SF	99%	16,250	SF	100%
Community/Recreation	1,000	SF	1%	0	SF	0%
Circulation/Lobby	<u>0</u>	SF	<u>0%</u>	<u>0</u>	SF	<u>0%</u>
Total GBA - Residential	104,500	SF	100%	16,250	SF	100%
Add: Commercial	<u>0</u>	SF		<u>1,000</u>	SF	
Total GBA	104,500	SF		17,250	SF	
IV. Unit Mix	<u>Number of Units</u>		<u>Unit Size</u>	<u>Number of Units</u>		<u>Unit Size</u>
Two Bedroom	30	40%	1,250 SF	5	40%	1,100 SF
Three Bedroom	<u>44</u>	<u>60%</u>	<u>1,500</u> SF	<u>8</u>	<u>60%</u>	<u>1,350</u> SF
Total Units/Average	74	100%	1,399 SF	13	100%	1,250 SF
V. Number of Units	74 Units			13 Units		
VI. Density (Units/Acre)	20.0 Units/Gross Acre 23.4 Units/Net Acre			24.0 Units/Gross Acre 27.8 Units/Net Acre		
VII. Floor Area Ratio (FAR)	0.76			0.85 ⁽¹⁾		
VIII. Construction Type	Type V - Wood-Frame			Type V - Wood-Frame		
IX. Stories	2-3 Stories			3 Stories ⁽¹⁾		
X. Maximum Building Height	25-35 Feet			35 Feet ⁽¹⁾		
XI. Parking	Attached Garages			Surface/Attached Garages		
<u>Type</u>	Attached Garages			Surface/Attached Garages		
<u>Residential</u>						
Parking Spaces	111	Spaces		19.5	Spaces	
Parking Ratio	1.50	Spaces/Unit		1.50	Spaces/Unit	
<u>Commercial</u>						
Parking Spaces	0	Spaces		4	Spaces	
Parking Ratio	0.00	Spaces/1,000 SF		4.00	Spaces/1,000 SF	

(1) Per Campo Road Corridor Revitalization Specific Plan (dated January 2023), Gateway District development standards are as follows: maximum FAR of 1.0; maximum of 3 stories; and maximum building height of 48 feet.

TABLE A-2

ESTIMATED DEVELOPMENT COSTS AND RESIDUAL LAND VALUE
VALLE DE ORO/CASA DE ORO FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

C				D				
	Attached Townhomes			Attached Townhomes w/Ground Floor Commercial Village Core Mixed-Use				
I. Development Costs	Total	Per Unit	Comments	Total	Per Unit	Comments		
A. Direct Costs ⁽¹⁾								
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 /SF Site - Gross	\$0	\$0	\$0 /SF Site - Gross		
On-Site Improvements/Landscaping	\$3,241,000	\$43,800	\$20 /SF Site - Gross	\$599,000	\$46,100	\$25 /SF Site - Gross		
Parking	\$0	\$0	Included below	\$0	\$0	Included below		
Shell Construction - Residential	\$20,900,000	\$282,400	\$200 /SF GBA - Res.	\$3,250,000	\$250,000	\$200 /SF GBA - Res.		
Shell Construction - Commercial	\$0	\$0	\$0 /SF GBA - Comm.	\$150,000	\$11,500	\$150 /SF GBA - Comm.		
Tenant Improvements	\$0	\$0	\$0 /SF GBA - Comm.	\$40,000	\$3,100	\$40 /SF GBA - Comm.		
Amenities/FF&E	\$370,000	\$5,000	Allowance	\$0	\$0	Allowance		
Contingency	<u>\$1,226,000</u>	<u>\$16,600</u>	5.0% of Directs	<u>\$202,000</u>	<u>\$15,500</u>	5.0% of Directs		
Total Direct Costs	\$25,737,000	\$347,800	\$246 /SF GBA	\$4,241,000	\$326,200	\$261 /SF GBA		
B. Indirect Costs								
Architecture & Engineering	\$1,544,000	\$20,900	6.0% of Directs	\$318,000	\$24,500	7.5% of Directs		
Permits & Fees ⁽²⁾	\$2,613,000	\$35,300	\$25 /SF GBA	\$406,000	\$31,200	\$25 /SF GBA		
Legal & Accounting	\$386,000	\$5,200	1.5% of Directs	\$64,000	\$4,900	1.5% of Directs		
Taxes & Insurance	\$1,454,000	\$19,600	3.0% of Value	\$233,000	\$17,900	3.0% of Value		
Developer Fee	\$1,029,000	\$13,900	4.0% of Directs	\$170,000	\$13,100	4.0% of Directs		
Marketing/Sales	\$1,454,000	\$19,600	3.0% of Value	\$233,000	\$17,900	3.0% of Value		
Contingency	<u>\$424,000</u>	<u>\$5,700</u>	5.0% of Indirects	<u>\$71,000</u>	<u>\$5,500</u>	5.0% of Indirects		
Total Indirect Costs	\$8,904,000	\$120,300	34.6% of Directs	\$1,495,000	\$115,000	35.3% of Directs		
C. Financing Costs	<u>\$2,574,000</u>	<u>\$34,800</u>	10.0% of Directs	<u>\$424,000</u>	<u>\$32,600</u>	10.0% of Directs		
D. Total Development Costs ⁽³⁾	\$37,215,000	\$502,900	\$356 /SF GBA	\$6,160,000	\$473,800	\$379 /SF GBA		
II. Commercial Space								
A. Commercial Net Operating Income								
Rentable SF			0 SF			1,000 SF		
Total Annual Revenue @	\$0.00 /SF/month		\$0	\$2.00 /SF/month		\$24,000		
(Less) Vacancy @	0.0% of Annual Revenue		\$0	5.0% of Annual Revenue		(\$1,000)		
(Less) Unreimbursed Operating Expenses @	0.0% of Annual Revenue		<u>\$0</u>	5.0% of Annual Revenue		<u>(\$1,000)</u>		
Total Net Operating Income			\$0			\$22,000		
B. Capitalized Value Upon Completion @	0.0%		\$0	5.5%		\$400,000		
III. Residual Land Value								
A. Gross Sales Proceeds	# Units	Price/Unit	\$/SF	Total	# Units	Price/Unit	\$/SF	Total
Two Bedroom	30	\$625,000	\$500	\$18,750,000	5	\$550,000	\$500	\$2,860,000
Three Bedroom	44	\$675,000	\$450	\$29,700,000	8	\$628,000	\$465	\$4,898,000
Four Bedroom	<u>0</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>0</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total/Average	74	\$654,700	\$468	\$48,450,000	13	\$596,800	\$477	\$7,758,000
(Less) Cost of Sale	3.0% of Value			(\$1,454,000)	3.0% of Value			(\$233,000)
(Less) Developer Profit	10.0% of Value			<u>(\$4,845,000)</u>	10.0% of Value			<u>(\$776,000)</u>
B. Net Sales Proceeds				\$42,151,000				\$6,749,000
C. Add: Capitalized Value of Commercial NOI				\$0				\$400,000
D. (Less) Development Costs ⁽³⁾				<u>(\$37,215,000)</u>				<u>(\$6,160,000)</u>
E. Residual Land Value				\$4,936,000				\$989,000
Per Unit				\$67,000				\$76,000
Per Gross SF Land				\$30				\$41
Per Net SF Land				\$36				\$49

(1) Excludes the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

Prepared by: Keyser Marston Associates, Inc.

Filename: SD County_DFA-Valle de Oro-Casa de Oro_Development Prototypes_v2\8/6/2024;ema

APPENDIX B

Rental Development Prototypes Valle de Oro/Casa de Oro Focus Area

Development Feasibility Analysis County of San Diego

TABLE B-1

PROJECT DESCRIPTIONS
 VALLE DE ORO/CASA DE ORO FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C			D			E		
	Garden Apartments Village Residential 20 (VR-20)			Stacked Flat w/Ground Floor Commercial and Surface/Tuck- Under Parking Village Core Mixed-Use			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site) Village Core Mixed-Use		
I. Tenure	Rental			Rental			Rental		
II. Site Area									
Gross Acres	1.47	Acres	95%	1.47	Acres	95%	0.82	Acres	95%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%	0.00	Acres	0%
(Less) Circulation/Amenities	(0.07)	Acres	5%	(0.07)	Acres	5%	(0.07)	Acres	5%
Net Acres	1.40	Acres	100%	1.40	Acres	100%	0.75	Acres	100%
III. Gross Building Area (GBA)									
<u>Residential</u>									
Net Residential	26,970	SF	100%	41,820	SF	88%	24,600	SF	90%
Community/Recreation	0	SF	0%	750	SF	2%	0	SF	0%
Circulation/Lobby	0	SF	0%	4,730	SF	10%	2,730	SF	10%
Total GBA - Residential	26,970	SF	100%	47,300	SF	100%	27,330	SF	100%
Add: Commercial Space	0	SF		1,000	SF		1,000	SF	
Total GBA	26,970	SF		48,300	SF		28,330	SF	
IV. Unit Mix	<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>		
One Bedroom	9	30%	750 SF	23	45%	700 SF	13	40%	650 SF
Two Bedroom	15	50%	950 SF	26	50%	900 SF	19	60%	850 SF
Three Bedroom	6	20%	1,150 SF	3	5%	1,100 SF	0	0%	--- SF
Total Units/Average	29	100%	930 SF	51	100%	820 SF	32	100%	769 SF
V. Number of Units	29 Units			51 Units			32 Units		
VI. Density (Units/Acre)	20.0 Units/Gross Acre 20.8 Units/Net Acre			35.0 Units/Gross Acre 36.5 Units/Net Acre			40.0 Units/Gross Acre 42.9 Units/Net Acre		
VII. Floor Area Ratio (FAR)	0.44			0.79 ⁽¹⁾			0.87 ⁽¹⁾		
VIII. Construction Type	Type V - Wood-Frame			Type V - Wood-Frame			Type V - Wood-Frame		
IX. Stories	2-3 Stories			3-4 Stories ⁽¹⁾			4 Stories ⁽¹⁾		
X. Maximum Building Height	25-35 Feet			35-45 Feet ⁽¹⁾			45 Feet ⁽¹⁾		
XI. Parking									
Type	Surface/Carports/Attached Garages			Surface/Tuck-Under			Surface/Tuck-Under		
<u>Residential</u>									
Parking Spaces	39 Spaces			65 Spaces			42 Spaces		
Parking Ratio	1.35 Spaces/Unit			1.28 Spaces/Unit			1.30 Spaces/Unit		
<u>Commercial</u>									
Parking Spaces	0 Spaces			4 Spaces			4 Spaces		
Parking Ratio	0.00 Spaces/1,000 SF			4.00 Spaces/1,000 SF			4.00 Spaces/1,000 SF		

(1) Per Campo Road Corridor Revitalization Specific Plan (dated January 2023), Main Street District development standards are as follows: maximum FAR of 2.0; maximum of 4 stories; and maximum building height of 62 feet.

TABLE B-2

**ESTIMATED DEVELOPMENT COSTS
VALLE DE ORO/CASA DE ORO FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO**

	C			D			E		
	Garden Apartments Village Residential 20 (VR-20)			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking Village Core Mixed-Use			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site) Village Core Mixed-Use		
	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments
I. Direct Costs ⁽¹⁾									
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 Per SF Site - Gross	\$0	\$0	\$0 Per SF Site - Gross	\$0	\$0	\$0 Per SF Site - Gross
On-Site Improvements/Landscaping	\$1,281,000	\$44,200	\$20 Per SF Site - Gross	\$1,281,000	\$25,100	\$20 Per SF Site - Gross	\$893,000	\$27,900	\$25 Per SF Site - Gross
Parking	\$0	\$0	Included above	\$0	\$0	Included below	\$0	\$0	Included below
Shell Construction - Residential	\$6,743,000	\$232,500	\$250 Per SF GBA - Res.	\$14,900,000	\$292,200	\$315 Per SF GBA - Res.	\$8,882,000	\$277,600	\$325 Per SF GBA - Res.
Shell Construction - Commercial	\$0	\$0	\$0 Per SF GBA - Comm.	\$150,000	\$2,900	\$150 Per SF GBA - Comm.	\$150,000	\$4,700	\$150 Per SF GBA - Comm.
Tenant Improvements	\$0	\$0	\$0 Per SF GBA - Comm.	\$40,000	\$800	\$40 Per SF GBA - Comm.	\$40,000	\$1,300	\$40 Per SF GBA - Comm.
Amenities/FF&E	\$0	\$0	Allowance	\$128,000	\$2,500	Allowance	\$0	\$0	Allowance
Contingency	<u>\$401,000</u>	<u>\$13,800</u>	5.0% of Directs	<u>\$825,000</u>	<u>\$16,200</u>	5.0% of Directs	<u>\$498,000</u>	<u>\$15,600</u>	5.0% of Directs
Total Direct Costs	\$8,425,000	\$290,500	\$312 Per SF GBA	\$17,324,000	\$339,700	\$359 Per SF GBA	\$10,463,000	\$327,000	\$369 Per SF GBA
II. Indirect Costs									
Architecture & Engineering	\$506,000	\$17,400	6.0% of Directs	\$1,386,000	\$27,200	8.0% of Directs	\$889,000	\$27,800	8.5% of Directs
Permits & Fees ⁽²⁾	\$674,000	\$23,200	\$25 Per SF GBA	\$1,208,000	\$23,700	\$25 Per SF GBA	\$708,000	\$22,100	\$25 Per SF GBA
Legal & Accounting	\$126,000	\$4,300	1.5% of Directs	\$260,000	\$5,100	1.5% of Directs	\$157,000	\$4,900	1.5% of Directs
Taxes & Insurance	\$126,000	\$4,300	1.5% of Directs	\$260,000	\$5,100	1.5% of Directs	\$157,000	\$4,900	1.5% of Directs
Developer Fee	\$337,000	\$11,600	4.0% of Directs	\$693,000	\$13,600	4.0% of Directs	\$419,000	\$13,100	4.0% of Directs
Marketing/Lease-Up	\$73,000	\$2,500	Allowance	\$128,000	\$2,500	Allowance	\$80,000	\$2,500	Allowance
Contingency	<u>\$92,000</u>	<u>\$3,200</u>	5.0% of Indirects	<u>\$197,000</u>	<u>\$3,900</u>	5.0% of Indirects	<u>\$121,000</u>	<u>\$3,800</u>	5.0% of Indirects
Total Indirect Costs	\$1,934,000	\$66,700	23.0% of Directs	\$4,132,000	\$81,000	23.9% of Directs	\$2,531,000	\$79,100	24.2% of Directs
III. Financing Costs	<u>\$843,000</u>	<u>\$29,100</u>	10.0% of Directs	<u>\$1,732,000</u>	<u>\$34,000</u>	10.0% of Directs	<u>\$1,046,000</u>	<u>\$32,700</u>	10.0% of Directs
IV. Development Costs ⁽³⁾	\$11,202,000	\$386,300	\$415 Per SF GBA	\$23,188,000	\$454,700	\$480 Per SF GBA	\$14,040,000	\$438,800	\$496 Per SF GBA

(1) Excludes the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

TABLE B-3

NET OPERATING INCOME
VALLE DE ORO/CASA DE ORO FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	C						D					E				
	Garden Apartments Village Residential 20 (VR-20)						Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking Village Core Mixed-Use					Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site) Village Core Mixed-Use				
	Monthly						Monthly					Monthly				
I. Residential Net Operating Income	Unit Size	# Units	\$/SF	Rent	Total Annual		Unit Size	# Units	\$/SF	Rent	Total Annual	Unit Size	# Units	\$/SF	Rent	Total Annual
A. Gross Scheduled Income (GSI)																
One Bedroom @	750 SF	9	\$3.25	\$2,440	\$255,000		700 SF	23	\$3.40	\$2,380	\$655,000	650 SF	13	\$3.35	\$2,180	\$340,000
Two Bedroom @	950 SF	15	\$3.00	\$2,850	\$496,000		900 SF	26	\$3.15	\$2,840	\$869,000	850 SF	19	\$3.10	\$2,640	\$602,000
Three Bedroom @	1,150 SF	6	\$2.75	\$3,160	\$220,000		1,100 SF	3	\$2.90	\$3,190	\$98,000	--- SF	0	\$0.00	\$0	\$0
Total/Average	930 SF	29	\$3.00	\$2,790	\$971,000		820 SF	51	\$3.23	\$2,650	\$1,622,000	769 SF	32	\$3.19	\$2,453	\$942,000
Add: Other Income			\$25 /Unit/Month		\$9,000				\$50 /Unit/Month		\$31,000			\$50 /Unit/Month		\$19,000
Total Gross Scheduled Income (GSI)					\$980,000						\$1,653,000					\$961,000
(Less) Vacancy		5.0% of GSI			(\$49,000)			5.0% of GSI			(\$83,000)		5.0% of GSI			(\$48,000)
Effective Gross Income (EGI)					\$931,000						\$1,570,000					\$913,000
B. Operating Expense																
(Less) Operating Expenses			\$4,750 /Unit/Year		(\$138,000)				\$5,000 /Unit/Year		(\$255,000)				\$5,000 /Unit/Year	(\$160,000)
(Less) Property Taxes ⁽¹⁾			\$5,586 /Unit/Year		(\$162,000)				\$5,235 /Unit/Year		(\$267,000)				\$4,781 /Unit/Year	(\$153,000)
(Less) Replacement Reserves			\$250 /Unit/Year		(\$7,000)				\$300 /Unit/Year		(\$15,000)				\$300 /Unit/Year	(\$10,000)
Total Expenses			\$10,586 /Unit/Year		(\$307,000)				\$10,529 /Unit/Year		(\$537,000)				\$10,094 /Unit/Year	(\$323,000)
			33.0% of EGI						34.2% of EGI						35.4% of EGI	
C. Total NOI - Residential					\$624,000						\$1,033,000					\$590,000
D. Capitalized Value Upon Completion @		4.25% Cap Rate			\$14,682,000			4.25% Cap Rate			\$24,306,000		4.25% Cap Rate			\$13,882,000
II. Commercial Net Operating Income	Rentable SF	Monthly Rent		Total Annual			Rentable SF	Monthly Rent		Total Annual		Rentable SF	Monthly Rent		Total Annual	
A. Gross Scheduled Income (GSI)	0 SF	\$0.00 /SF/Month NNN		\$0			1,000 SF	\$2.00 /SF/Month NNN		\$24,000		1,000 SF	\$2.00 /SF/Month NNN		\$24,000	
(Less) Vacancy		0.0% of GSI		\$0				5.0% of GSI		(\$1,000)			5.0% of GSI		(\$1,000)	
Effective Gross Income (EGI)				\$0						\$23,000					\$23,000	
B. Uninreimbursed Operating Expenses																
(Less) Retail/Restaurant Operating Expenses		0.0% of GSI		\$0				5.0% of GSI		(\$1,000)			5.0% of GSI		(\$1,000)	
C. Total NOI - Commercial				\$0						\$22,000					\$22,000	
D. Capitalized Value Upon Completion @		0.0% Cap Rate		---				5.5% Cap Rate		\$400,000			5.5% Cap Rate		\$400,000	

(1) Based on capitalized income approach; assumes a 1.1% tax rate and 4.5% cap rate as shown in Table B-4.

Prepared by: Keyser Marston Associates, Inc.

Filename: SD County_DFA-Valle de Oro-Casa de Oro_Development Prototypes_v2;8/6/2024;ema

TABLE B-4

**RESIDUAL LAND VALUE
VALLE DE ORO/CASA DE ORO FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO**

	C		D		E	
	Garden Apartments Village Residential 20 (VR-20)		Stacked Flat w/Ground Floor Commercial and Surface/Tuck- Under Parking Village Core Mixed-Use		Stacked Flat w/Ground Floor Commercial and Surface/Tuck- Under Parking (Non-Contiguous Site) Village Core Mixed-Use	
I. Capitalized Value of NOI						
Residential		\$14,682,000		\$24,306,000		\$13,882,000
Commercial		<u>\$0</u>		<u>\$400,000</u>		<u>\$400,000</u>
Total Capitalized Value Upon Completion		\$14,682,000		\$24,706,000		\$14,282,000
(Less) Cost of Sale	3.0% of Value	(\$440,000)	3.0% of Value	(\$741,000)	3.0% of Value	(\$428,000)
(Less) Developer Profit	12.0% of Value	<u>(\$1,762,000)</u>	12.0% of Value	<u>(\$2,965,000)</u>	12.0% of Value	<u>(\$1,714,000)</u>
II. Net Sales Proceeds		\$12,480,000		\$21,000,000		\$12,140,000
(Less) Development Costs ⁽¹⁾		<u>(\$11,202,000)</u>		<u>(\$23,188,000)</u>		<u>(\$14,040,000)</u>
III. Residual Land Value		\$1,278,000		(\$2,188,000)		(\$1,900,000)
Per Unit		\$44,000		(\$43,000)		(\$59,000)
Per Gross SF Land		\$20		(\$34)		(\$53)
Per Net SF Land		\$21		(\$36)		(\$58)

(1) Excludes acquisition costs.

Prepared by: Keyser Marston Associates, Inc.

Filename: SD County_DFA-Valle de Oro-Casa de Oro_Development Prototypes_v2;8/6/2024; ema



MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Laura Stetson, AICP, Principal
Moore Iacofano Goltsman, Inc. (MIG)

BERKELEY

DEBBIE M. KERN
DAVID DOEZEMA

From: KEYSER MARSTON ASSOCIATES, INC.

LOS ANGELES

KATHLEEN H. HEAD
KEVIN E. ENGSTROM
JULIE L. ROMNEY
TIM BRETZ

Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Lakeside Focus Area – Financial Feasibility Analysis

SAN DIEGO

PAUL C. MARRA
LINNIE A. GAVINO

EMERITUS

A. JERRY KEYSER
TIMOTHY C. KELLY

I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) Focus Areas within the unincorporated area of the County. The Focus Areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. To address the economic viability of residential development in the Lakeside Focus Area (Focus Area), KMA evaluated the feasibility of a range of residential development prototypes on five (5) candidate sites.

KMA's financial feasibility analysis involved the following key steps:

1. Formulated development prototypes for five (5) candidate sites. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan.
2. Collected and evaluated financial pro forma inputs and assumptions based on a review of multi-family apartment rents and other financial factors, as well as KMA experience with projects of comparable development type.

3. Prepared financial pro forma models (residual land value analyses) to measure the economic feasibility of each development prototype.
4. Evaluated land sales activity in the surrounding area to compare against the residual land value outcomes.

As a part of the DFA work effort, KMA also prepared an independent market assessment for residential development within the Focus Area. Select market factors identified in the market assessment were used as inputs in the financial feasibility analyses.

II. KEY FINDINGS

A. Potential Development Sites

KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The site selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and are detailed in Section III of this report. This criteria generally included some or all of the following characteristics:






- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

Candidate sites were also prioritized based on the availability of water, sewer, and road infrastructure; properties that have been designated as Regional Housing Needs Assessment (RHNA) sites in the County's Housing Element; and properties that are publicly owned or owned by a single entity.

B. Development Prototypes

KMA prepared financial pro forma models to evaluate the feasibility of residential development prototypes on each of the five (5) selected candidate sites. Financial pro forma models are a standard tool utilized by developers and investors to analyze the feasibility of new residential development. Table II-1 presents a summary of the development prototypes analyzed for this study.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Table II-1: Summary of Development Prototypes		
Development Prototype	Illustrative Example	General Project Description
A Medium Lot Single-Family Detached Homes		<ul style="list-style-type: none"> • 2.37-acre site • 4.3 units/gross acre (Village Residential 4.3) • For-sale housing • 10 units • 1-2 stories • Attached garages • 2,620 SF average unit size
B Attached Townhomes		<ul style="list-style-type: none"> • 4.20-acre site • 20 units/gross acre (Village Residential 20) • For-sale housing • 84 units • 3 stories • Attached garages • 1,399 SF average unit size
C Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking		<ul style="list-style-type: none"> • 0.93-acre site • 30 units/gross acre • Rental housing • 27 units • 500 SF commercial space • 3 stories • Surface and tuck-under parking • 845 SF average unit size
D Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)		<ul style="list-style-type: none"> • 1.14-acre site • 30 units/gross acre • Rental housing • 34 units • 1,000 SF commercial space • 3 stories • Surface and tuck-under parking • 790 SF average unit size
E Stacked Flat w/Surface and Tuck-Under Parking		<ul style="list-style-type: none"> • 7.09-acre site • 40 units/gross acre⁽¹⁾ • Rental housing • 283 units • 4 stories • Surface and tuck-under parking • 866 SF average unit size
(1) Per the RiverWay Specific Plan (Plan) dated December 2015, the maximum density is 40 units per acre.		

The housing typologies assumed in the development prototypes were selected based on a variety of factors, including: (1) the maximum density allowed under the General Plan; (2) assimilation of the new development within the character of the community; and (3) the types of residential development that demonstrated the strongest market demand in the KMA market assessment. For example, stacked flat for-sale housing, with or without ground floor commercial space, was not analyzed due to the lack of demonstrated demand for this product type in the surrounding area. In addition, this product type is challenging due to construction defect litigation which has contributed to developer and investor reluctance in such projects as compared to rental housing developments. Stacked flat typologies tend to be more susceptible to construction defect litigation because these projects are more complex to construct. State law protects homebuyers from bearing the cost of fixing construction defects in new construction homes for 10 years, whereas rental housing is subject to construction defect liability for four (4) years. According to the July 2024 Turner Center for Housing Innovation UC Berkeley report on construction defect liability in California, developers have indicated that construction defect liability law is a key factor in their decision to pursue rental instead of for-sale multi-family development.

C. Financial Pro Forma Methodology

KMA prepared financial pro forma analyses for each of the development prototypes to determine the supportable residual land value. The pro forma analyses include estimates for development costs, value upon completion, and targeted developer return. The outcome of the financial pro forma analyses illustrate the feasibility, in terms of residual land value, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. Residual land values are then measured against recent comparable land sales to draw conclusions about financial feasibility. The residual land value outcomes in the KMA feasibility analysis represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements.

The assumptions utilized in the financial feasibility analyses reflect 2024 dollars and are representative of today's current market conditions, i.e., present day development costs, sales values/market rents, operating expenses, and developer return targets. Any significant increases or decreases in these key market and industry factors will impact the financial pro forma outcomes and conclusions regarding project feasibility by prototype.

Both rents and for-sale prices utilized within each financial pro forma were based on the existing market conditions within the Focus Area or surrounding area. Typically, households choosing to rent apartments are more likely to seek locations closer to transit and employment than households that are buying their home. Therefore, KMA estimated multi-family market-rate rent inputs for the pro formas by analyzing current market rents in the surrounding area, as well as a premium to account for new construction.

For-sale housing typically draws from a wider area than rental housing. As such, for-sale prices were based on comparable sales within the surrounding area.

D. Survey of Comparable Land Sales

KMA surveyed land sales within the surrounding trade area, defined as a 3-mile radius from the center of the Focus Area (Trade Ring). Since January 2021, there have only been three (3) land sales transactions, which often indicates there is either (1) a lack of vacant land available or (2) there is minimal interest from the development community. While there have been no land sales in the Focus Area boundary since 2021, KMA found that land sold in the Trade Ring sold at a median price of \$28 per SF and an average of \$26 per SF. Sales generating the highest land values (\$28 and \$42 per SF land) are primarily located in the City of El Cajon. These sales were purchased for the purpose of developing small-scale multi-family apartments ranging between 14 and 21 units per acre, without the need for structured parking. This is likely an indicator that the market is not ready for higher density multi-family housing in the Focus Area.

Table II-2 presents the findings of this survey, which suggests that new development occurring in the Focus Area needs to support minimum land values in these ranges in order to be financially feasible.

Table II-2: Survey of Residential Land Sales, January 2021 to May 2024, Trade Ring ⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
3	\$8/SF Land	\$42/SF Land	\$28/SF Land	\$26/SF Land
(1) Source: CoStar Group, Inc. (2) Reflects sales within a 3-mile radius from the mid-point of the Lakeside Focus Area (12079 Thistle Braes Terrace).				

E. Residual Land Value Outcomes

Development prototypes that are financially feasible generate positive land values, which indicates that a developer or investor could acquire the site, construct the development, sell or lease the completed development, and receive at least an industry standard target return on their investment. A negative residual land value indicates that the development would not be feasible unless free land was contributed and/or some form of cash contribution was provided to the project.

Table II-3 on the following page presents a summary of the residual land value outcomes for each site/prototype.

Table II-3: Residual Land Values by Development Prototype					
Product Type	A Medium Lot Single-Family Detached Homes	B Attached Townhomes	C Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking	D Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking (Non-Contiguous Site)	E Stacked Flat w/ Surface and Tuck-Under Parking
Tenure	For-Sale	For-Sale	Rental	Rental	Rental
Site Size (Gross)	2.37 Acres	4.20 Acres	0.93 Acres	1.14 Acres	7.09 Acres
Residual Land Value (2024 \$)	\$1,153,000 \$115,000/Unit \$11/SF Site ⁽¹⁾	\$7,199,000 \$86,000/Unit \$39/SF Site ⁽¹⁾	(\$2,363,000) (\$88,000)/Unit (\$58)/SF Site ⁽¹⁾	(\$2,748,000) (\$81,000)/Unit (\$55)/SF Site ⁽¹⁾	(\$4,512,000) (\$16,000)/Unit (\$15)/SF Site ⁽¹⁾
Financial Feasibility Outcome	Strong Positive	Strong Positive	Negative	Negative	Negative
(1) Reflects residual land value per SF of gross site area.					

As shown above, KMA finds that all for-sale development prototypes generate positive land values and demonstrate strong financial feasibility under current market conditions. In order to determine which projects are financially feasible, the land value outcomes are measured against the land values found in the Trade Ring. Prototypes A (medium lot single-family detached homes) and B (townhomes) demonstrate strong positive land values when compared to land sales in the Trade Ring.

Prototypes C, D, and E (stacked flat with tuck-under parking) are not feasible under current market conditions. KMA finds that current market rate rents are not sufficient to offset the higher construction costs associated with higher density housing and tuck-under parking. This finding indicates multi-family (30 to 40 units per acre) and/or mixed-use development are not likely to be feasible in the near- to mid-term (0 to 10 years). However, as market rate rents rise over time and the Focus Area attracts new development, it is reasonable to anticipate that multi-family rental housing with structured parking will become more feasible over the long term (10+ years).

Examples of factors that could increase feasibility of residential development include: lower development costs; increases in market rents/sales values; implementation or assistance with infrastructure requirements; improvements to public transit; upzoning and/or Program Environmental Impact Reports (PEIRs); and incentives/efficiencies with the entitlement process.

III. IDENTIFICATION OF CANDIDATE SITES

In collaboration with MIG, KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties ⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

To the extent possible, candidate sites were also prioritized based on the following conditions:

- Infrastructure availability – sites with ready access to water, sewer, and road infrastructure
- Housing Element sites – sites identified in the Housing Element to meet the County's RHNA goals
- Ownership – sites that are publicly owned or owned by a single entity

It should be noted that the candidate site assessments contained within this report have been conducted at a high level. KMA did not conduct detailed inspections or assessments for the individual sites but rather relied on readily available third-party material. Numerous factors, such as planning, regulatory, environmental, topographical, geological, hydrological, utility capacity, off-site improvement requirements, and other key issues, are not addressed at this level of analysis.

The following summaries profile each of the candidate sites.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Candidate Site 1 Development Prototype A Medium Lot Single-Family Detached Homes	
Assessor's Parcel Number(s)	394-370-10
Number of Owners	One (1) owner
Gross Acres	2.37 acres
General Plan Land Use Designation	Village Residential 4.3 (VR-4.3)
Maximum Residential Density	4.3 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Proposed product type is consistent with adjacent single-family uses • Does not require land assembly • Does not require demolition • Construction costs are relatively low compared to higher density development • High demand for for-sale housing • Located in close proximity to an elementary school • Located in close proximity to State Route 67
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Site is sloped which may pose design challenge • May require undetermined level of investment in new on- and off-site infrastructure

Candidate Site 2 Development Prototype B Attached Townhomes	
Assessor's Parcel Number(s)	382-191-56
Number of Owners	One (1) owner
Gross Acres	4.20 acres
General Plan Land Use Designation	Village Residential 20 (VR-20)
Maximum Residential Density	20 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is a RHNA designated site

Candidate Site 2 Development Prototype B Attached Townhomes	
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Proposed product type complements adjacent single-family uses Does not require land assembly Does not require demolition Located in close proximity to an elementary school Located in close proximity to State Route 67 Construction costs are relatively low compared to higher density development High demand for for-sale housing
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> May require undetermined level of investment in new on- and off-site infrastructure

Candidate Site 3 Development Prototype C Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking	
Assessor's Parcel Number(s)	388-552-17, 388-552-18, and 388-552-19
Number of Owners	Two (2) owners
Gross Acres	0.93 acres
General Plan Land Use Designation	General Commercial
Maximum Residential Density	Assumes density of 30 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> Commercial structures
Infrastructure Accessibility	<ul style="list-style-type: none"> No
RHNA Designation	<ul style="list-style-type: none"> Site is a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Proposed product type is consistent with neighboring rental apartments Located in close proximity to an elementary school Property fronts Winter Gardens Boulevard (main corridor)
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires General Plan Amendment Requires land assembly Requires demolition of existing improvements May require undetermined level of investment in new on- and off-site infrastructure

Candidate Site 3 Development Prototype C Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking	
Constraints Affecting Residential Development on Candidate Site (cont'd.)	<ul style="list-style-type: none"> Product type results in higher construction costs than single-family/townhome developments Current multi-family market rents in the Trade Ring do not support the cost of new construction

Candidate Site 4 Development Prototype D Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)	
Assessor's Parcel Number(s)	388-250-15 and 388-250-27
Number of Owners	Two (2) owners
Gross Acres	1.14 acres
General Plan Land Use Designation	General Commercial
Maximum Residential Density	Assumes density of 30 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> One (1) single-family home Gas station
Infrastructure Accessibility	<ul style="list-style-type: none"> Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> APN 388-250-15 is a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Located in close proximity to an elementary school Property fronts Winter Gardens Boulevard (main corridor)
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires General Plan Amendment Requires land assembly Requires demolition of existing improvements New development may require assessment of environmental remediation needs due to existing gas station use Product type results in higher construction costs than single-family/townhome developments Current multi-family market rents in the Trade Rrea do not support the cost of new construction

Candidate Site 5 Development Prototype E Stacked Flat w/Surface and Tuck-Under Parking	
Assessor's Parcel Number(s)	382-260-16
Number of Owners	One (1) owner
Gross Acres	7.09 acres
General Plan Land Use Designation	Public
Maximum Residential Density	40 units per gross acre ⁽¹⁾
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • No
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Publicly owned • Proposed product type is consistent with neighboring rental apartments • Does not require General Plan Amendment ⁽¹⁾ • Does not require land assembly • Does not require demolition • Located in close proximity to middle and high schools • Easily accessible from State Route 67
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Requires negotiation to purchase site from public entity • May require undetermined level of investment in new on- and off-site infrastructure • Product type results in higher construction costs than single-family/townhome developments • Current multi-family market rents in the Trade Ring do not support the cost of new construction
(1) Per the RiverWay Specific Plan (Plan) dated December 2015, the maximum density is 40 units per acre.	

IV. FINANCIAL PRO FORMA MODELS

The KMA financial pro forma models test the financial feasibility of the five (5) development prototypes. The models reflect hypothetical sites and are not specific to any property within the Focus Area. For each of the financial pro formas models, KMA estimated:

- Development costs, consisting of direct construction costs, indirects, and financing costs
- Projected gross sales revenue, including developer profit/cost of sale (Prototypes A and B)
- Projected income and operating expenses (Prototypes C, D, and E)
- Estimates of residual land value

The pro forma models yield an estimate of the residual land value for each respective development prototype. The residual land value outcomes represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements. The full residual land value models are attached to this report as Appendices A (for-sale development prototypes) and B (rental development prototypes).

A. Project Descriptions

Within each Appendix, KMA presents a physical description of the respective development prototype, including site area, density, residential unit mix, number of stories, commercial SF (if applicable), parking type, and other physical attributes.

B. Estimated Development Costs

KMA also estimated development costs for each development prototype. These estimates are based on our recent experience with comparable developments in Southern California and industry data sources. These estimates include the following components:

- Direct construction costs, such as on-site improvements, parking, shell construction, amenities/furniture, fixtures, and equipment (FF&E), and contingency. KMA has not included a budget for off-site improvement costs such as sidewalks/curb and gutter, right-of-way improvements, utilities, or stormwater mitigation as specific estimates cannot be formulated at this time. The KMA estimates of direct construction costs also do not assume prevailing wages or costs associated with demolition, relocation, or environmental remediation, if applicable.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing and lease-up/sales, and contingency. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan. For sites that are not currently zoned for residential development, KMA assumed that the County implemented any potential changes to zoning or design guidelines to allow these developments to be constructed. Therefore, indirect costs do not account for delays resulting from a General Plan Amendment or other lengthy entitlement processes.
- Financing costs, such as loan fees and interest during construction/lease-up.

C. Gross Sales Proceeds and Residual Land Value – For-Sale Prototypes

KMA prepared estimates of for-sale pricing/gross sales proceeds, target developer profit/cost of sale, and residual land value estimates.

D. Net Operating Income – Rental Prototypes

KMA calculated net operating income (NOI) for each rental residential development prototype. NOI is estimated by taking into account market rate rents that vary by bedroom type/size, other income, and an estimate of operating expenses, including property taxes/special assessments and replacement reserves. For Prototypes C and D, KMA calculated NOI for the commercial component. The commercial NOI takes into account an achievable monthly rent, a vacancy factor, and an estimate of unreimbursed operating expenses.

E. Residual Land Values – Rental Prototypes

The detailed calculation of residual land value for the rental prototypes includes an estimate of capitalization rate, cost of sale, and target developer profit.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. The analysis, opinions, recommendations, and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.
4. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
8. KMA is not acting as a Municipal Advisor to the County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
9. The County shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

APPENDIX A

For-Sale Development Prototypes Lakeside Focus Area

Development Feasibility Analysis County of San Diego

TABLE A-1

PROJECT DESCRIPTIONS
 LAKESIDE FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	A			B		
	Single-Family Detached Medium Lot Village Residential 4.3 (VR-4.3)			Attached Townhomes Village Residential 20 (VR-20)		
I. Tenure	For-Sale			For-Sale		
II. Site Area						
Gross Acres	2.37	Acres	75%	4.20	Acres	85%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%
(Less) Circulation/Amenities	<u>(0.59)</u>	Acres	<u>25%</u>	<u>(0.63)</u>	Acres	<u>15%</u>
Net Acres	1.78	Acres	100%	3.57	Acres	100%
III. Gross Building Area (GBA)						
Net Residential	26,200	SF	100%	117,500	SF	99%
Community/Recreation	0	SF	0%	1,000	SF	1%
Circulation/Lobby	<u>0</u>	SF	<u>0%</u>	<u>0</u>	SF	<u>0%</u>
Total GBA	26,200	SF	100%	118,500	SF	100%
IV. Unit Mix	<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>		
Two Bedroom	0	0%	--- SF	34	40%	1,250 SF
Three Bedroom	6	60%	2,500 SF	50	60%	1,500 SF
Four Bedroom	<u>4</u>	<u>40%</u>	<u>2,800</u> SF	<u>0</u>	<u>0%</u>	<u>---</u> SF
Total Units/Average	10	100%	2,620 SF	84	100%	1,399 SF
V. Number of Units	10 Units			84 Units		
VI. Density (Units/Acre)	4.3 Units/Gross Acre 5.6 Units/Net Acre			20.0 Units/Gross Acre 23.5 Units/Net Acre		
VII. Approximate Lot Size (Net)	8,000 SF/Lot			N/A		
VIII. Floor Area Ratio (FAR)	0.34			0.76		
IX. Construction Type	Type V - Wood-Frame			Type V - Wood-Frame		
X. Stories	1-2 Stories			3 Stories		
XI. Maximum Building Height	25 Feet			35 Feet		
XII. Parking						
Type	Attached Garages			Attached Garages		
Parking Spaces	22 Spaces			168 Spaces		
Parking Ratio	2.20 Spaces/Unit			2.00 Spaces/Unit		

TABLE A-2

ESTIMATED DEVELOPMENT COSTS AND RESIDUAL LAND VALUE
 LAKESIDE FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	A				B			
	Single-Family Detached Medium Lot Village Residential 4.3 (VR-4.3)				Attached Townhomes Village Residential 20 (VR-20)			
I. Development Costs	Total	Per Unit	Comments		Total	Per Unit	Comments	
A. Direct Costs ⁽¹⁾								
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0	/SF Site - Gross	\$0	\$0	\$0	/SF Site - Gross
On-Site Improvements/Landscaping	\$2,581,000	\$258,100	\$25	/SF Site - Gross	\$3,659,000	\$43,600	\$20	/SF Site - Gross
Parking	\$0	\$0		Included below	\$0	\$0		Included below
Shell Construction	\$4,192,000	\$419,200	\$160	/SF GBA	\$23,700,000	\$282,100	\$200	/SF GBA
Amenities/FF&E	\$0	\$0		Allowance	\$420,000	\$5,000		Allowance
Contingency	<u>\$339,000</u>	<u>\$33,900</u>	5.0%	of Directs	<u>\$1,389,000</u>	<u>\$16,500</u>	5.0%	of Directs
Total Direct Costs	\$7,112,000	\$711,200	\$271	/SF GBA	\$29,168,000	\$347,200	\$246	/SF GBA
B. Indirect Costs								
Architecture & Engineering	\$427,000	\$42,700	6.0%	of Directs	\$1,750,000	\$20,800	6.0%	of Directs
Permits & Fees ⁽²⁾	\$655,000	\$65,500	\$25	/SF GBA	\$2,963,000	\$35,300	\$25	/SF GBA
Legal & Accounting	\$107,000	\$10,700	1.5%	of Directs	\$438,000	\$5,200	1.5%	of Directs
Taxes & Insurance	\$385,000	\$38,500	3.0%	of Value	\$1,707,000	\$20,300	3.0%	of Value
Developer Fee	\$284,000	\$28,400	4.0%	of Directs	\$1,167,000	\$13,900	4.0%	of Directs
Marketing/Sales	\$385,000	\$5,000	3.0%	of Value	\$1,707,000	\$3,500	3.0%	of Value
Contingency	<u>\$112,000</u>	<u>\$11,200</u>	5.0%	of Indirects	<u>\$487,000</u>	<u>\$5,800</u>	5.0%	of Indirects
Total Indirect Costs	\$2,355,000	\$235,500	33.1%	of Directs	\$10,219,000	\$121,700	35.0%	of Directs
C. Financing Costs	<u>\$533,000</u>	<u>\$53,300</u>	7.5%	of Directs	<u>\$2,917,000</u>	<u>\$34,700</u>	10.0%	of Directs
D. Total Development Costs ⁽³⁾	\$10,000,000	\$1,000,000	\$382	/SF GBA	\$42,304,000	\$503,600	\$357	/SF GBA
II. Residual Land Value								
A. Gross Sales Proceeds	# Units	Price/Unit	\$/SF	Total	# Units	Price/Unit	\$/SF	Total
Two Bedroom	0	\$0	\$0	\$0	34	\$625,000	\$500	\$21,250,000
Three Bedroom	6	\$1,250,000	\$500	\$7,500,000	50	\$713,000	\$475	\$35,650,000
Four Bedroom	<u>4</u>	<u>\$1,330,000</u>	<u>\$475</u>	<u>\$5,320,000</u>	<u>0</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total/Average	10	\$1,282,000	\$489	\$12,820,000	84	\$677,400	\$484	\$56,900,000
(Less) Cost of Sale	3.0% of Value			(\$385,000)	3.0% of Value			(\$1,707,000)
(Less) Developer Profit	10.0% of Value			<u>(\$1,282,000)</u>	10.0% of Value			<u>(\$5,690,000)</u>
B. Net Sales Proceeds				\$11,153,000				\$49,503,000
C. (Less) Development Costs ⁽³⁾				<u>(\$10,000,000)</u>				<u>(\$42,304,000)</u>
D. Residual Land Value				\$1,153,000				\$7,199,000
Per Unit				\$115,000				\$86,000
Per Gross SF Land				\$11				\$39
Per Net SF Land				\$15				\$46

(1) Does not include the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

APPENDIX B

Rental Development Prototypes Lakeside Focus Area

Development Feasibility Analysis County of San Diego

TABLE B-1

PROJECT DESCRIPTIONS
 LAKESIDE FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C			D			E		
	Stacked Flat w/Ground Floor Commercial and Surface/Tuck- Under Parking			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)			Stacked Flats w/Surface and Tuck-Under Parking		
I. Tenure	Rental			Rental			Rental		
II. Site Area									
Gross Acres	0.93	Acres	95%	1.14	Acres	95%	7.09	Acres	80%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%	(0.71)	Acres	10%
(Less) Circulation/Amenities	<u>(0.05)</u>	Acres	<u>5%</u>	<u>(0.05)</u>	Acres	<u>5%</u>	<u>(0.71)</u>	Acres	<u>10%</u>
Net Acres	0.88	Acres	100%	1.09	Acres	100%	5.67	Acres	100%
III. Gross Building Area (GBA)									
<u>Residential</u>									
Net Residential	22,815	SF	90%	26,850	SF	88%	245,149	SF	99%
Community/Recreation	0	SF	0%	500	SF	2%	2,000	SF	1%
Circulation/Lobby	<u>2,530</u>	SF	<u>10%</u>	<u>3,040</u>	SF	<u>10%</u>	<u>0</u>	SF	<u>0%</u>
Total GBA - Residential	25,345	SF	100%	30,390	SF	100%	247,149	SF	100%
Add: Commercial Space	<u>500</u>	SF		<u>1,000</u>	SF		<u>0</u>	SF	
Total GBA	25,845	SF		31,390	SF		247,149	SF	
IV. Unit Mix	<u>Number of Units</u>		<u>Unit Size</u>	<u>Number of Units</u>		<u>Unit Size</u>	<u>Number of Units</u>		<u>Unit Size</u>
One Bedroom	11	40%	700 SF	14	40%	650 SF	99	35%	750 SF
Two Bedroom	14	50%	900 SF	17	50%	850 SF	127	45%	875 SF
Three Bedroom	<u>3</u>	<u>10%</u>	<u>1,150</u> SF	<u>3</u>	<u>10%</u>	<u>1,100</u> SF	<u>57</u>	<u>20%</u>	<u>1,050</u> SF
Total Units/Average	27	100%	845 SF	34	100%	790 SF	283	100%	866 SF
V. Number of Units	27 Units			34 Units			283 Units		
VI. Density (Units/Acre)	30.0 Units/Gross Acre 30.6 Units/Net Acre			30.0 Units/Gross Acre 31.1 Units/Net Acre			40.0 Units/Gross Acre 49.9 Units/Net Acre		
VII. Floor Area Ratio (FAR)	0.67			0.66			1.00		
VIII. Construction Type	Type V - Wood-Frame			Type V - Wood-Frame			Type V - Wood-Frame		
IX. Stories	3 Stories			3 Stories			4 Stories		
X. Maximum Building Height	35 Feet			35 Feet			45 Feet		
XI. Parking									
Type	Surface/Tuck-Under			Surface/Tuck-Under			Surface/Tuck-Under		
Parking Spaces	43 Spaces			54 Spaces			467 Spaces		
Parking Ratio	1.60 Spaces/Unit			1.59 Spaces/Unit			1.65 Spaces/Unit		

TABLE B-2

ESTIMATED DEVELOPMENT COSTS
 LAKESIDE FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C			D			E		
	Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)			Stacked Flats w/Surface and Tuck-Under Parking		
	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments
I. Direct Costs ⁽¹⁾									
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 Per SF Site - Gross	\$0	\$0	\$0 Per SF Site - Gross	\$0	\$0	\$0 Per SF Site - Gross
On-Site Improvements/Landscaping	\$1,215,000	\$45,000	\$30 Per SF Site - Gross	\$1,241,000	\$36,500	\$25 Per SF Site - Gross	\$9,265,000	\$32,700	\$30 Per SF Site - Gross
Parking	\$0	\$0	Included below	\$0	\$0	Included below	\$0	\$0	Included above
Shell Construction - Residential	\$8,110,000	\$300,400	\$320 Per SF GBA - Res.	\$9,877,000	\$290,500	\$325 Per SF GBA - Res.	\$74,145,000	\$262,000	\$300 Per SF GBA - Res.
Shell Construction - Commercial	\$75,000	\$2,800	\$150 Per SF GBA - Comm.	\$150,000	\$4,400	\$150 Per SF GBA - Comm.	\$0	\$0	\$0 Per SF GBA - Comm.
Tenant Improvements	\$20,000	\$700	\$40 Per SF GBA - Comm.	\$40,000	\$1,200	\$40 Per SF GBA - Comm.	\$0	\$0	\$0 Per SF GBA - Comm.
Amenities/FF&E	\$0	\$0	Allowance	\$119,000	\$3,500	Allowance	\$1,415,000	\$5,000	Allowance
Contingency	<u>\$471,000</u>	<u>\$17,400</u>	5.0% of Directs	<u>\$571,000</u>	<u>\$16,800</u>	5.0% of Directs	<u>\$4,241,000</u>	<u>\$15,000</u>	5.0% of Directs
Total Direct Costs	\$9,891,000	\$366,300	\$383 Per SF GBA	\$11,998,000	\$352,900	\$382 Per SF GBA	\$89,066,000	\$314,700	\$360 Per SF GBA
II. Indirect Costs									
Architecture & Engineering	\$791,000	\$29,300	8.0% of Directs	\$960,000	\$28,200	8.0% of Directs	\$7,125,000	\$25,200	8.0% of Directs
Permits & Fees ⁽²⁾	\$646,000	\$23,900	\$25 Per SF GBA	\$785,000	\$23,100	\$25 Per SF GBA	\$6,179,000	\$21,800	\$25 Per SF GBA
Legal & Accounting	\$148,000	\$5,500	1.5% of Directs	\$180,000	\$5,300	1.5% of Directs	\$1,336,000	\$4,700	1.5% of Directs
Taxes & Insurance	\$148,000	\$5,500	1.5% of Directs	\$180,000	\$5,300	1.5% of Directs	\$1,336,000	\$4,700	1.5% of Directs
Developer Fee	\$396,000	\$14,700	4.0% of Directs	\$480,000	\$14,100	4.0% of Directs	\$3,563,000	\$12,600	4.0% of Directs
Marketing/Lease-Up	\$68,000	\$2,500	Allowance	\$85,000	\$2,500	Allowance	\$708,000	\$2,500	Allowance
Contingency	<u>\$110,000</u>	<u>\$4,100</u>	5.0% of Indirects	<u>\$134,000</u>	<u>\$3,900</u>	5.0% of Indirects	<u>\$1,012,000</u>	<u>\$3,600</u>	5.0% of Indirects
Total Indirect Costs	\$2,307,000	\$85,400	23.3% of Directs	\$2,804,000	\$82,500	23.4% of Directs	\$21,259,000	\$75,100	23.9% of Directs
III. Financing Costs	<u>\$989,000</u>	<u>\$36,600</u>	10.0% of Directs	<u>\$1,200,000</u>	<u>\$35,300</u>	10.0% of Directs	<u>\$8,907,000</u>	<u>\$31,500</u>	10.0% of Directs
IV. Development Costs ⁽³⁾	\$13,187,000	\$488,400	\$510 Per SF GBA	\$16,002,000	\$470,600	\$510 Per SF GBA	\$119,232,000	\$421,300	\$482 Per SF GBA

(1) Excludes the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

TABLE B-3

NET OPERATING INCOME
LAKESIDE FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	C						D						E					
	Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking						Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)						Stacked Flats w/Surface and Tuck-Under Parking					
	Monthly						Monthly						Monthly					
I. Residential Net Operating Income	Unit Size	# Units	\$/SF	Rent	Total Annual		Unit Size	# Units	\$/SF	Rent	Total Annual		Unit Size	# Units	\$/SF	Rent	Total Annual	
A. Gross Scheduled Income (GSI)																		
One Bedroom @	700 SF	11	\$3.30	\$2,310	\$299,000		650 SF	14	\$3.40	\$2,210	\$371,000		750 SF	99	\$3.25	\$2,440	\$2,900,000	
Two Bedroom @	900 SF	14	\$3.00	\$2,700	\$437,000		850 SF	17	\$3.10	\$2,640	\$539,000		875 SF	127	\$3.00	\$2,630	\$4,019,000	
Three Bedroom @	1,150 SF	3	\$2.75	\$3,160	\$102,000		1,100 SF	3	\$2.85	\$3,140	\$113,000		1,050 SF	57	\$2.85	\$2,990	\$2,031,000	
Total/Average	845 SF	27	\$3.06	\$2,586	\$838,000		790 SF	34	\$3.18	\$2,507	\$1,023,000		866 SF	283	\$3.04	\$2,635	\$8,950,000	
Add: Other Income			\$50 /Unit/Month		\$16,000				\$50 /Unit/Month		\$20,000				\$50 /Unit/Month		\$170,000	
Total Gross Scheduled Income (GSI)					\$854,000						\$1,043,000						\$9,120,000	
(Less) Vacancy			5.0% of GSI		(\$43,000)				5.0% of GSI		(\$52,000)				5.0% of GSI		(\$456,000)	
Effective Gross Income (EGI)					\$811,000						\$991,000						\$8,664,000	
B. Operating Expense																		
(Less) Operating Expenses			\$5,000 /Unit/Year		(\$135,000)				\$5,000 /Unit/Year		(\$170,000)				\$4,800 /Unit/Year		(\$1,358,000)	
(Less) Property Taxes ⁽¹⁾			\$5,074 /Unit/Year		(\$137,000)				\$4,912 /Unit/Year		(\$167,000)				\$5,247 /Unit/Year		(\$1,485,000)	
(Less) Replacement Reserves			\$300 /Unit/Year		(\$8,000)				\$300 /Unit/Year		(\$10,000)				\$300 /Unit/Year		(\$85,000)	
Total Expenses			\$10,370 /Unit/Year		(\$280,000)				\$10,206 /Unit/Year		(\$347,000)				\$10,346 /Unit/Year		(\$2,928,000)	
			34.5% of EGI						35.0% of EGI						33.8% of EGI			
C. Total NOI - Residential					\$531,000						\$644,000						\$5,736,000	
D. Capitalized Value Upon Completion @			4.25% Cap Rate		\$12,494,000				4.25% Cap Rate		\$15,153,000				4.25% Cap Rate		\$134,965,000	
II. Commercial Net Operating Income	Rentable SF	Monthly Rent		Total Annual			Rentable SF	Monthly Rent		Total Annual			Rentable SF	Monthly Rent		Total Annual		
A. Gross Scheduled Income (GSI)	500 SF	\$2.25 /SF/Month NNN		\$14,000			1,000 SF	\$2.00 /SF/Month NNN		\$24,000			0 SF	\$0.00 /SF/Month NNN		\$0		
(Less) Vacancy		5.0% of GSI		(\$1,000)				5.0% of GSI		(\$1,000)				0.0% of GSI		\$0		
Effective Gross Income (EGI)				\$13,000						\$23,000						\$0		
B. Uninreimbursed Operating Expenses																		
(Less) Retail/Restaurant Operating Expenses		5.0% of GSI		(\$1,000)				5.0% of GSI		(\$1,000)				0.0% of GSI		\$0		
C. Total NOI - Commercial				\$12,000						\$22,000						\$0		
D. Capitalized Value Upon Completion @			5.0% Cap Rate		\$240,000				5.0% Cap Rate		\$440,000				0.0% Cap Rate		---	

(1) Based on capitalized income approach; assumes a 1.1% tax rate and 4.25% cap rate as shown in Table B-4.

Prepared by: Keyser Marston Associates, Inc.

Filename: SD County_DFA-Lakeside_Development Prototypes_v2;8/6/2024;ema

TABLE B-4

RESIDUAL LAND VALUE
 LAKESIDE FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C		D		E	
	Stacked Flat w/Ground Floor Commercial and Surface/Tuck- Under Parking		Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking (Non-Contiguous Site)		Stacked Flats w/Surface and Tuck-Under Parking	
I. Capitalized Value of NOI						
Residential		\$12,494,000		\$15,153,000		\$134,965,000
Commercial		<u>\$240,000</u>		<u>\$440,000</u>		<u>\$0</u>
Total Capitalized Value Upon Completion		\$12,734,000		\$15,593,000		\$134,965,000
(Less) Cost of Sale	3.0% of Value	(\$382,000)	3.0% of Value	(\$468,000)	3.0% of Value	(\$4,049,000)
(Less) Developer Profit	12.0% of Value	<u>(\$1,528,000)</u>	12.0% of Value	<u>(\$1,871,000)</u>	12.0% of Value	<u>(\$16,196,000)</u>
II. Net Sales Proceeds		\$10,824,000		\$13,254,000		\$114,720,000
(Less) Development Costs ⁽¹⁾		<u>(\$13,187,000)</u>		<u>(\$16,002,000)</u>		<u>(\$119,232,000)</u>
III. Residual Land Value		(\$2,363,000)		(\$2,748,000)		(\$4,512,000)
Per Unit		(\$88,000)		(\$81,000)		(\$16,000)
Per Gross SF Land		(\$58)		(\$55)		(\$15)
Per Net SF Land		(\$61)		(\$58)		(\$18)

(1) Excludes acquisition costs.



MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Laura Stetson, AICP, Principal
Moore Iacofano Goltsman, Inc. (MIG)

BERKELEY

DEBBIE M. KERN
DAVID DOEZEMA

From: KEYSER MARSTON ASSOCIATES, INC.

LOS ANGELES

KATHLEEN H. HEAD
KEVIN E. ENGSTROM
JULIE L. ROMNEY
TIM BRETZ

Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Spring Valley Focus Area – Financial Feasibility Analysis

SAN DIEGO

PAUL C. MARRA
LINNIE A. GAVINO

EMERITUS

A. JERRY KEYSER
TIMOTHY C. KELLY

I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) Focus Areas within the unincorporated area of the County. The Focus Areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. To address the economic viability of residential development in the Spring Valley Focus Area (Focus Area), KMA evaluated the feasibility of a range of residential development prototypes on five (5) candidate sites.

KMA's financial feasibility analysis involved the following key steps:

1. Formulated development prototypes for five (5) candidate sites. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan.
2. Collected and evaluated financial pro forma inputs and assumptions based on a review of multi-family apartment rents and other financial factors, as well as KMA experience with projects of comparable development type.

3. Prepared financial pro forma models (residual land value analyses) to measure the economic feasibility of each development prototype.
4. Evaluated land sales activity in the surrounding area to compare against the residual land value outcomes.

As a part of the DFA work effort, KMA also prepared an independent market assessment for residential development within the Focus Area. Select market factors identified in the market assessment were used as inputs in the financial feasibility analyses.

II. KEY FINDINGS

A. Potential Development Sites

KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The site selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and are detailed in Section III of this report. This criteria generally included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

Candidate sites were also prioritized based on the availability of water, sewer, and road infrastructure; properties that have been designated as Regional Housing Needs Assessment (RHNA) sites in the County's Housing Element; and properties that are publicly owned or owned by a single entity.

B. Development Prototypes

KMA prepared financial pro forma models to evaluate the feasibility of residential development prototypes on each of the five (5) selected candidate sites. Financial pro forma models are a standard tool utilized by developers and investors to analyze the feasibility of new residential development. Table II-1 presents a summary of the development prototypes analyzed for this study.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Table II-1: Summary of Development Prototypes		
Development Prototype	Illustrative Example	General Project Description
A Attached Townhomes		<ul style="list-style-type: none"> • 7.44-acre site • 15 units/gross acre • For-sale housing • 111 units • 3 stories • Attached garages • 1,621 SF average unit size
B Attached Townhomes (In-fill Site)		<ul style="list-style-type: none"> • 1.10-acre site • 24 units/gross acre • For-sale housing • 26 units • 3 stories • Attached garages • 1,323 SF average unit size
C Garden Apartments (Non-Contiguous Site)		<ul style="list-style-type: none"> • 0.71-acre site • 24 units/gross acre • Rental housing • 17 units • 2-3 stories • Surface/carports/attached garages • 930 SF average unit size
D Stacked Flat w/Surface and Tuck-Under Parking		<ul style="list-style-type: none"> • 0.50-acre site • 30 units/gross acre • Rental housing • 15 units • 3 stories • Surface and tuck-under parking • 795 SF average unit size
E Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking		<ul style="list-style-type: none"> • 1.23-acre site • 30 units/gross acre • Rental housing • 36 units • 1,000 SF commercial space • 3 stories • Surface and tuck-under parking • 800 SF average unit size

The housing typologies assumed in the development prototypes were selected based on a variety of factors, including: (1) the maximum density allowed under the General Plan; (2) assimilation of the new development within the character of the community; and (3) the types of residential development that demonstrated the strongest market demand in the KMA market assessment. For example, stacked flat for-sale housing, with or without ground floor commercial space, was not analyzed due to the lack of demonstrated demand for this product type in the surrounding area. In addition, this product type is challenging due to construction defect litigation which has contributed to developer and investor reluctance in such projects as compared to rental housing developments. Stacked flat typologies tend to be more susceptible to construction defect litigation because these projects are more complex to construct. State law protects homebuyers from bearing the cost of fixing construction defects in new construction homes for 10 years, whereas rental housing is subject to construction defect liability for four (4) years. According to the July 2024 Turner Center for Housing Innovation UC Berkeley report on construction defect liability in California, developers have indicated that construction defect liability law is a key factor in their decision to pursue rental instead of for-sale multi-family development.

C. Financial Pro Forma Methodology

KMA prepared financial pro forma analyses for each of the development prototypes to determine the supportable residual land value. The pro forma analyses include estimates for development costs, value upon completion, and targeted developer return. The outcome of the financial pro forma analyses illustrate the feasibility, in terms of residual land value, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. Residual land values are then measured against recent comparable land sales to draw conclusions about financial feasibility. The residual land value outcomes in the KMA feasibility analysis represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements.

The assumptions utilized in the financial feasibility analyses reflect 2024 dollars and are representative of today's current market conditions, i.e., present day development costs, sales values/market rents, operating expenses, and developer return targets. Any significant increases or decreases in these key market and industry factors will impact the financial pro forma outcomes and conclusions regarding project feasibility by prototype.

Both rents and for-sale prices utilized within each financial pro forma were based on the existing market conditions within the Focus Area or surrounding area. Typically, households choosing to rent apartments are more likely to seek locations closer to transit and employment than households that are buying their home. Therefore, KMA estimated multi-family market-rate rent inputs for the pro formas by analyzing current market rents in the surrounding area, as well as a premium to account for new construction.

For-sale housing typically draws from a wider area than rental housing. As such, for-sale prices were based on comparable sales within the surrounding area.

D. Survey of Comparable Land Sales

KMA surveyed land sales within the surrounding trade area, defined as a 3-mile radius from the center of the Focus Area (Trade Ring). Since January 2021, there have only been six (6) land sales transactions, which often indicates there is either (1) a lack of vacant land available or (2) there is minimal interest from the development community. Land values in the Trade Ring reflect a median of \$6 per SF and an average of \$12 per SF. The KMA survey found that the lowest sale (\$1 per SF) occurred within the Focus Area. The sale generating the highest land value (at \$46 per SF) was located in Lemon Grove and proposed for the development of townhomes. In recent years, the City of Lemon Grove has experienced an influx of interest from the development community for construction of affordable and market-rate housing. These developments are primarily concentrated near the Lemon Grove Depot trolley station. Therefore, values at \$46 per SF represent the upper echelon of land values in the Trade Ring.

Table II-2 presents the findings of this survey, which suggests that new development occurring in the Focus Area needs to support minimum land values in these ranges in order to be financially feasible.

Table II-2: Survey of Residential Land Sales, January 2021 to May 2024, Trade Ring ⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
6	\$1/SF Land	\$46/SF Land	\$6/SF Land	\$12/SF Land
(1) Source: CoStar Group, Inc.				
(2) Reflects sales within a 3-mile radius from the mid-point of the Spring Valley Focus Area (8735 Jamacha Boulevard).				

E. Residual Land Value Outcomes

Development prototypes that are financially feasible generate positive land values which indicates that a developer or investor could acquire the site, construct the development, sell or lease the completed development, and receive at least an industry standard target return on their investment. A negative residual land value indicates that the development would not be feasible unless free land was contributed and/or some form of cash contribution was provided to the project.

Table II-3 on the following page presents a summary of the residual land value outcomes for each site/prototype.

Table II-3: Residual Land Values by Development Prototype					
Product Type	A Attached Townhomes	B Attached Townhomes (In-fill Site)	C Garden Apartments (Non-Contiguous Site)	D Stacked Flat w/Surface and Tuck-Under Parking	E Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking
Tenure	For-Sale	For-Sale	Rental	Rental	Rental
Site Size (Gross)	7.44 Acres	1.10 Acres	0.71 Acres	0.50 Acres	1.23 Acres
Residual Land Value (2024 \$)	\$4,722,000 \$43,000/Unit \$15/SF Site ⁽¹⁾	\$2,172,000 \$84,000/Unit \$45/SF Site ⁽¹⁾	(\$934,000) (\$55,000)/Unit (\$30)/SF Site ⁽¹⁾	(\$1,854,000) (\$124,000)/Unit (\$85)/SF Site ⁽¹⁾	(\$4,498,000) (\$125,000)/Unit (\$84)/SF Site ⁽¹⁾
Financial Feasibility Outcome	Moderate Positive	Strong Positive	Negative	Negative	Negative
(1) Reflects residual land value per SF of gross site area.					

As shown above, KMA finds that all for-sale development prototypes generate positive land values and demonstrate strong financial feasibility under current market conditions. In order to determine which projects are financially feasible, the land value outcomes are measured against the land values found in the Trade Ring.

Prototype B (townhomes at 24 units per acre) demonstrates greater feasibility than Prototype A (townhomes at 15 units per acre). While Prototype A generates a positive residual land value, the land value results in approximately half of the value of Prototype B, indicating that this product type is only moderately positive.

The rental development prototypes (Prototypes C, D, and E) are not feasible under current market conditions. KMA finds that current market rate rents are not sufficient to offset the higher construction costs associated with multi-family rental housing and/or inclusion of tuck-under parking. This finding indicates multi-family (24 to 30 units per acre) and/or mixed-use development are not likely to be feasible in the near- to mid-term (0 to 10 years). However, as market rate rents rise over time and the Focus Area attracts new development, it is reasonable to anticipate that multi-family rental housing with/or without structured parking will become more feasible over the long term (10+ years).

Examples of factors that could increase feasibility of residential development include: lower development costs; increases in market rents/sales values; implementation or assistance with

infrastructure requirements; improvements to public transit; upzoning and/or Program Environmental Impact Reports (PEIRs); and incentives/efficiencies with the entitlement process.

III. IDENTIFICATION OF CANDIDATE SITES

In collaboration with MIG, KMA identified five (5) representative sites that could be potential candidates for development of new housing within the Focus Area. The selection criteria were outlined in the May 28, 2024 MIG memorandum to the County and included some or all of the following characteristics:

- Parcel sizes ranging from 1/2 acre to 3+ acres
- Vacant or underutilized properties⁽¹⁾
- Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range
- In-fill properties, particularly ones with the potential for land assemblage

To the extent possible, candidate sites were also prioritized based on the following conditions:

- Infrastructure availability – sites with ready access to water, sewer, and road infrastructure
- Housing Element sites – sites identified in the Housing Element to meet the County's RHNA goals
- Ownership – sites that are publicly owned or owned by a single entity

It should be noted that the candidate site assessments contained within this report have been conducted at a high level. KMA did not conduct detailed inspections or assessments for the individual sites but rather relied on readily available third-party material. Numerous factors, such as planning, regulatory, environmental, topographical, geological, hydrological, utility capacity, off-site improvement requirements, and other key issues, are not addressed at this level of analysis. The following summaries profile each of the candidate sites.

(1) Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

Candidate Site 1 Development Prototype A Attached Townhomes	
Assessor's Parcel Number(s)	584-160-44
Number of Owners	One (1) owner
Gross Acres	7.44 acres
General Plan Land Use Designation	Office Professional
Maximum Residential Density	Assumes density of 15.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Proposed product type complements adjacent single-family uses • Does not require land assembly • Does not require demolition • Construction costs are relatively low compared to higher density development • High demand for for-sale housing • Easily accessible from State Routes 54 and 125
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Requires General Plan Amendment

Candidate Site 2 Development Prototype B Attached Townhomes (In-Fill Site)	
Assessor's Parcel Number(s)	579-300-32 and 579-300-33
Number of Owners	One (1) owner
Gross Acres	1.10 acres
General Plan Land Use Designation	Office Professional
Maximum Residential Density	Assumes density of 15.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines • Requires in-tract roadways, sidewalks, and utilities
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site

Candidate Site 2 Development Prototype B Attached Townhomes (In-Fill Site)	
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Proposed product type complements adjacent single-family uses Does not require land assembly Does not require demolition Construction costs are relatively low compared to higher density development High demand for for-sale housing Located adjacent to elementary school
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires General Plan Amendment

Candidate Site 3 Development Prototype C Garden Apartments (Non-Contiguous Site)	
Assessor's Parcel Number(s)	584-400-10, 584-400-11, 584-400-50, and 584-400-53
Number of Owners	Two (2) owners
Gross Acres	0.71 acres
General Plan Land Use Designation	General Commercial
Maximum Residential Density	Assumes density of 24.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> Former restaurant Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> Property fronts Jamacha Boulevard (main corridor) Construction costs are relatively low compared to higher density development Located approximately ½ mile from an elementary school Proximity to State Route 125
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> Requires General Plan Amendment Requires land assembly Requires demolition of existing improvement Site is non-contiguous (separated by alley) which may pose design challenges Current multi-family market rents in the Trade Ring do not support the cost of new construction

Candidate Site 4 Development Prototype D Stacked Flat w/Surface and Tuck-Under Parking	
Assessor's Parcel Number(s)	584-330-50
Number of Owners	One (1) owner
Gross Acres	0.50 acres
General Plan Land Use Designation	General Commercial
Maximum Residential Density	Assumes density of 30.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none"> • Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none"> • Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none"> • Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Proposed product type is consistent with adjacent rental apartments • Does not require land assembly • Does not require demolition • Located approximately ½ mile from an elementary school • Property fronts Grand Avenue (main corridor) • Proximity to State Route 125
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none"> • Requires General Plan Amendment • Current multi-family market rents in the Trade Ring do not support the cost of new construction

Candidate Site 5 Development Prototype E Stacked Flat w/Ground Floor Commercial and Surface/ Tuck-Under Parking	
Assessor's Parcel Number(s)	584-450-35, 584-450-36, 584-450-47, and 584-450-60
Number of Owners	Two (2) owners
Gross Acres	1.23 acres
General Plan Land Use Designation	General Commercial
Maximum Residential Density	Assumes density of 30.0 units per gross acre
Existing Improvements	<ul style="list-style-type: none">• Commercial strip center• Vacant land
Infrastructure Accessibility	<ul style="list-style-type: none">• Site has access to water and sewer lines
RHNA Designation	<ul style="list-style-type: none">• Site is not a RHNA designated site
Factors Supporting Residential Development on Candidate Site	<ul style="list-style-type: none">• Proposed product type is consistent with adjacent rental apartments• Located in close proximity to two (2) elementary schools• Property fronts Grand Avenue (main corridor)• Proximity to State Route 125
Constraints Affecting Residential Development on Candidate Site	<ul style="list-style-type: none">• Requires General Plan Amendment• Requires land assembly• Requires demolition of existing improvements• Multi-tenant uses may be costly to terminate existing leases and/or relocate• Current multi-family market rents in the Trade Ring do not support the cost of new construction

IV. FINANCIAL PRO FORMA MODELS

The KMA financial pro forma models test the financial feasibility of the five (5) development prototypes. The models reflect hypothetical sites and are not specific to any property within the Focus Area. For each of the financial pro formas models, KMA estimated:

- Development costs, consisting of direct construction costs, indirects, and financing costs
- Projected gross sales revenue, including developer profit/cost of sale (Prototypes A and B)
- Projected income and operating expenses (Prototypes C, D, and E)
- Estimates of residual land value

The pro forma models yield an estimate of the residual land value for each respective development prototype. The residual land value outcomes represent the amount that a developer can afford to pay for the combination of land acquisition and off-site infrastructure improvements. The full residual land

value models are attached to this report as Appendices A (for-sale development prototypes) and B (rental development prototypes).

A. Project Descriptions

Within each Appendix, KMA presents a physical description of the respective development prototype, including site area, density, residential unit mix, number of stories, commercial SF (if applicable), parking type, and other physical attributes.

B. Estimated Development Costs

KMA also estimated development costs for each development prototype. These estimates are based on our recent experience with comparable developments in Southern California and industry data sources. These estimates include the following components:

- Direct construction costs, such as on-site improvements, parking, shell construction, amenities/furniture, fixtures, and equipment (FF&E), and contingency. KMA has not included a budget for off-site improvement costs such as sidewalks/curb and gutter, right-of-way improvements, utilities, or stormwater mitigation as specific estimates cannot be formulated at this time. The KMA estimates of direct construction costs also do not assume prevailing wages or costs associated with demolition, relocation, or environmental remediation, if applicable.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing and lease-up/sales, and contingency. The development prototypes are generally consistent with existing zoning conditions and/or the County's General Plan. For sites that are not currently zoned for residential development, KMA assumed that the County implemented any potential changes to zoning or design guidelines to allow these developments to be constructed. Therefore, indirect costs do not account for delays resulting from a General Plan Amendment or other lengthy entitlement processes.
- Financing costs, such as loan fees and interest during construction/lease-up.

C. Gross Sales Proceeds and Residual Land Value – For-Sale Prototypes

KMA prepared estimates of for-sale pricing/gross sales proceeds, target developer profit/cost of sale, and residual land value estimates.

D. Net Operating Income – Rental Prototypes

KMA calculated net operating income (NOI) for each rental residential development prototype. NOI is estimated by taking into account market rate rents that vary by bedroom type/size, other income, and an estimate of operating expenses, including property taxes/special assessments and replacement reserves. For Prototype E, KMA calculated NOI for the commercial component. The commercial NOI takes into account an achievable monthly rent, a vacancy factor, and an estimate of unreimbursed operating expenses.

E. Residual Land Values – Rental Prototypes

The detailed calculation of residual land value for the rental prototypes includes an estimate of capitalization rate, cost of sale, and target developer profit.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. The analysis, opinions, recommendations, and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.
4. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
8. KMA is not acting as a Municipal Advisor to the County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
9. The County shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

APPENDIX A

For-Sale Development Prototypes Spring Valley Focus Area

Development Feasibility Analysis County of San Diego

TABLE A-1

PROJECT DESCRIPTIONS
 SPRING VALLEY FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	A			B		
	Attached Townhomes			Attached Townhomes (In-fill Site)		
I. Tenure	For-Sale			For-Sale		
II. Site Area						
Gross Acres	7.44	Acres	85%	1.10	Acres	85%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%
(Less) Circulation/Amenities	<u>(1.12)</u>	Acres	<u>15%</u>	<u>(0.17)</u>	Acres	<u>15%</u>
Net Acres	6.32	Acres	100%	0.94	Acres	100%
III. Gross Building Area (GBA)						
Net Residential	179,900	SF	99%	34,400	SF	100%
Community/Recreation	1,500	SF	1%	0	SF	0%
Circulation/Lobby	<u>0</u>	SF	<u>0%</u>	<u>0</u>	SF	<u>0%</u>
Total GBA	181,400	SF	100%	34,400	SF	100%
IV. Unit Mix	<u>Number of Units</u> <u>Unit Size</u>			<u>Number of Units</u> <u>Unit Size</u>		
Two Bedroom	0	0%	--- SF	10	40%	1,200 SF
Three Bedroom	44	40%	1,500 SF	16	60%	1,400 SF
Four Bedroom	<u>67</u>	<u>60%</u>	<u>1,700</u> SF	<u>0</u>	<u>0%</u>	<u>---</u> SF
Total Units/Average	111	100%	1,621 SF	26	100%	1,323 SF
V. Number of Units	111 Units			26 Units		
VI. Density (Units/Acre)	15.0 Units/Gross Acre 17.6 Units/Net Acre			24.0 Units/Gross Acre 27.8 Units/Net Acre		
VII. Floor Area Ratio (FAR)	0.66			0.84		
VIII. Construction Type	Type V - Wood-Frame			Type V - Wood-Frame		
IX. Stories	3 Stories			3 Stories		
X. Maximum Building Height	35 Feet			35 Feet		
XI. Parking						
Type	Attached Garages			Attached Garages		
Parking Spaces	256 Spaces			52 Spaces		
Parking Ratio	2.30 Spaces/Unit			2.00 Spaces/Unit		

TABLE A-2

ESTIMATED DEVELOPMENT COSTS AND RESIDUAL LAND VALUE
SPRING VALLEY FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	A			B				
	Attached Townhomes			Attached Townhomes (In-fill Site)				
I. Development Costs	Total	Per Unit	Comments	Total	Per Unit	Comments		
A. Direct Costs ⁽¹⁾								
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 /SF Site - Gross	\$0	\$0	\$0 /SF Site - Gross		
On-Site Improvements/Landscaping ⁽²⁾	\$6,482,000	\$58,400	\$20 /SF Site - Gross	\$1,198,000	\$46,100	\$25 /SF Site - Gross		
Parking	\$0	\$0	Included below	\$0	\$0	Included below		
Shell Construction	\$36,280,000	\$326,800	\$200 /SF GBA	\$6,880,000	\$264,600	\$200 /SF GBA		
Amenities/FF&E	\$389,000	\$3,500	Allowance	\$0	\$0	Allowance		
Contingency	<u>\$2,158,000</u>	<u>\$19,400</u>	5.0% of Directs	<u>\$404,000</u>	<u>\$15,500</u>	5.0% of Directs		
Total Direct Costs	\$45,309,000	\$408,200	\$250 /SF GBA	\$8,482,000	\$326,200	\$247 /SF GBA		
B. Indirect Costs								
Architecture & Engineering	\$2,719,000	\$24,500	6.0% of Directs	\$509,000	\$19,600	6.0% of Directs		
Permits & Fees ⁽²⁾	\$4,535,000	\$40,900	\$25 /SF GBA	\$860,000	\$33,100	\$25 /SF GBA		
Legal & Accounting	\$680,000	\$6,100	1.5% of Directs	\$127,000	\$4,900	1.5% of Directs		
Taxes & Insurance	\$2,409,000	\$21,700	3.0% of Value	\$499,000	\$19,200	3.0% of Value		
Developer Fee	\$1,812,000	\$16,300	4.0% of Directs	\$339,000	\$13,000	4.0% of Directs		
Marketing/Sales	\$2,409,000	\$21,700	3.0% of Value	\$499,000	\$19,200	3.0% of Value		
Contingency	<u>\$728,000</u>	<u>\$6,600</u>	5.0% of Indirects	<u>\$142,000</u>	<u>\$5,500</u>	5.0% of Indirects		
Total Indirect Costs	\$15,292,000	\$137,800	33.8% of Directs	\$2,975,000	\$114,400	35.1% of Directs		
C. Financing Costs	<u>\$4,531,000</u>	<u>\$40,800</u>	10.0% of Directs	<u>\$848,000</u>	<u>\$32,600</u>	10.0% of Directs		
D. Total Development Costs ⁽³⁾	\$65,132,000	\$586,800	\$359 /SF GBA	\$12,305,000	\$473,300	\$358 /SF GBA		
II. Residual Land Value								
A. Gross Sales Proceeds	# Units	Price/Unit	\$/SF	Total	# Units	Price/Unit	\$/SF	Total
Two Bedroom	0	\$0	\$0	\$0	10	\$600,000	\$500	\$6,000,000
Three Bedroom	44	\$698,000	\$465	\$30,712,000	16	\$665,000	\$475	\$10,640,000
Four Bedroom	<u>67</u>	<u>\$740,000</u>	<u>\$435</u>	<u>\$49,580,000</u>	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total/Average	111	\$723,400	\$446	\$80,292,000	26	\$640,000	\$484	\$16,640,000
(Less) Cost of Sale	3.0% of Value			(\$2,409,000)	3.0% of Value			(\$499,000)
(Less) Developer Profit	10.0% of Value			<u>(\$8,029,000)</u>	10.0% of Value			<u>(\$1,664,000)</u>
B. Net Sales Proceeds				\$69,854,000				\$14,477,000
C. (Less) Development Costs ⁽³⁾				<u>(\$65,132,000)</u>				<u>(\$12,305,000)</u>
D. Residual Land Value				\$4,722,000				\$2,172,000
Per Unit				\$43,000				\$84,000
Per Gross SF Land				\$15				\$45
Per Net SF Land				\$17				\$53

(1) Excludes the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

APPENDIX B

Rental Development Prototypes Spring Valley Focus Area

Development Feasibility Analysis County of San Diego

TABLE B-1

PROJECT DESCRIPTIONS
 SPRING VALLEY FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C			D			E		
	Garden Apartments (Non-Contiguous Site)			Stacked Flat w/Surface and Tuck-Under Parking			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking		
I. Tenure	Rental			Rental			Rental		
II. Site Area									
Gross Acres	0.71	Acres	95%	0.50	Acres	95%	1.23	Acres	95%
(Less) Open Space/Environmental Easements	0.00	Acres	0%	0.00	Acres	0%	0.00	Acres	0%
(Less) Circulation/Amenities	<u>(0.04)</u>	Acres	<u>5%</u>	<u>(0.03)</u>	Acres	<u>5%</u>	<u>(0.06)</u>	Acres	<u>5%</u>
Net Acres	0.67	Acres	100%	0.48	Acres	100%	1.17	Acres	100%
III. Gross Building Area (GBA)									
<u>Residential</u>									
Net Residential	15,810	SF	98%	11,925	SF	90%	28,800	SF	88%
Community/Recreation	250	SF	2%	0	SF	0%	500	SF	2%
Circulation/Lobby	<u>0</u>	SF	<u>0%</u>	<u>1,330</u>	SF	<u>10%</u>	<u>3,260</u>	SF	<u>10%</u>
Total GBA - Residential	16,060	SF	100%	13,255	SF	100%	32,560	SF	100%
Add: Commercial Space	<u>0</u>	SF		<u>0</u>	SF		<u>1,000</u>	SF	
Total GBA	16,060	SF		13,255	SF		33,560	SF	
IV. Unit Mix	Number of Units Unit Size			Number of Units Unit Size			Number of Units Unit Size		
One Bedroom	6	35%	750 SF	6	40%	650 SF	14	40%	650 SF
Two Bedroom	8	45%	950 SF	8	50%	850 SF	18	50%	850 SF
Three Bedroom	<u>3</u>	<u>20%</u>	<u>1,200</u> SF	<u>2</u>	<u>10%</u>	<u>1,100</u> SF	<u>4</u>	<u>10%</u>	<u>1,100</u> SF
Total Units/Average	17	100%	930 SF	15	100%	795 SF	36	100%	800 SF
V. Number of Units	17 Units			15 Units			36 Units		
VI. Density (Units/Acre)	24.0 Units/Gross Acre 25.2 Units/Net Acre			30.0 Units/Gross Acre 31.6 Units/Net Acre			30.0 Units/Gross Acre 30.8 Units/Net Acre		
VII. Floor Area Ratio (FAR)	0.55			0.64			0.66		
VIII. Construction Type	Type V			Type V			Type V		
IX. Stories	2-3 Stories			3 Stories			3 Stories		
X. Maximum Building Height	25-35 Feet			35 Feet			35 Feet		
XI. Parking									
Type	Surface/Carports/Attached Garages			Surface/Tuck-Under			Surface/Tuck-Under		
<u>Residential</u>									
Parking Spaces	28 Spaces			24 Spaces			58 Spaces		
Parking Ratio	1.65 Spaces/Unit			1.60 Spaces/Unit			1.61 Spaces/Unit		
<u>Commercial</u>									
Parking Spaces	0 Spaces			0 Spaces			4 Spaces		
Parking Ratio	0.00 Spaces/1,000 SF			0.00 Spaces/1,000 SF			4.00 Spaces/1,000 SF		

TABLE B-2

ESTIMATED DEVELOPMENT COSTS
 SPRING VALLEY FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C			D			E		
	Garden Apartments (Non-Contiguous Site)			Stacked Flat w/Surface and Tuck-Under Parking			Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking		
	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments
I. Direct Costs ⁽¹⁾									
Off-Site Improvements ⁽²⁾	\$0	\$0	\$0 Per SF Site - Gross	\$0	\$0	\$0 Per SF Site - Gross	\$0	\$0	\$0 Per SF Site - Gross
On-Site Improvements/Landscaping	\$619,000	\$36,400	\$20 Per SF Site - Gross	\$653,000	\$43,500	\$30 Per SF Site - Gross	\$1,072,000	\$29,800	\$20 Per SF Site - Gross
Parking	\$0	\$0	Included above	\$0	\$0	Included above	\$0	\$0	\$0 Included above
Shell Construction - Residential	\$4,015,000	\$236,200	\$250 Per SF GBA - Res.	\$3,977,000	\$265,100	\$300 Per SF GBA - Res.	\$10,256,000	\$284,900	\$315 Per SF GBA - Res.
Shell Construction - Commercial	\$0	\$0	\$0 Per SF GBA - Comm.	\$0	\$0	\$0 Per SF GBA - Comm.	\$150,000	\$4,200	\$150 Per SF GBA - Comm.
Tenant Improvements	\$0	\$0	\$0 Per SF GBA - Comm.	\$0	\$0	\$0 Per SF GBA - Comm.	\$40,000	\$1,100	\$40 Per SF GBA - Comm.
Amenities/FF&E	\$60,000	\$3,500	Allowance	\$0	\$0	Allowance	\$126,000	\$3,500	Allowance
Contingency	<u>\$235,000</u>	<u>\$13,800</u>	5.0% of Directs	<u>\$232,000</u>	<u>\$15,500</u>	5.0% of Directs	<u>\$582,000</u>	<u>\$16,200</u>	5.0% of Directs
Total Direct Costs	\$4,929,000	\$289,900	\$307 Per SF GBA	\$4,862,000	\$324,100	\$367 Per SF GBA	\$12,226,000	\$339,600	\$375 Per SF GBA
II. Indirect Costs									
Architecture & Engineering	\$296,000	\$17,400	6.0% of Directs	\$389,000	\$25,900	8.0% of Directs	\$978,000	\$27,200	8.0% of Directs
Permits & Fees ⁽²⁾	\$402,000	\$23,600	\$25 Per SF GBA	\$331,000	\$22,100	\$25 Per SF GBA	\$814,000	\$22,600	\$25 Per SF GBA
Legal & Accounting	\$74,000	\$4,400	1.5% of Directs	\$73,000	\$4,900	1.5% of Directs	\$183,000	\$5,100	1.5% of Directs
Taxes & Insurance	\$74,000	\$4,400	1.5% of Directs	\$73,000	\$4,900	1.5% of Directs	\$183,000	\$5,100	1.5% of Directs
Developer Fee	\$197,000	\$11,600	4.0% of Directs	\$194,000	\$12,900	4.0% of Directs	\$489,000	\$13,600	4.0% of Directs
Marketing/Lease-Up	\$43,000	\$2,500	Allowance	\$38,000	\$2,500	Allowance	\$90,000	\$2,500	Allowance
Contingency	<u>\$54,000</u>	<u>\$3,200</u>	5.0% of Indirects	<u>\$55,000</u>	<u>\$3,700</u>	5.0% of Indirects	<u>\$137,000</u>	<u>\$3,800</u>	5.0% of Indirects
Total Indirect Costs	\$1,140,000	\$67,100	23.1% of Directs	\$1,153,000	\$76,900	23.7% of Directs	\$2,874,000	\$79,800	23.5% of Directs
III. Financing Costs	<u>\$493,000</u>	<u>\$29,000</u>	10.0% of Directs	<u>\$486,000</u>	<u>\$32,400</u>	10.0% of Directs	<u>\$1,223,000</u>	<u>\$34,000</u>	10.0% of Directs
IV. Development Costs ⁽³⁾	\$6,562,000	\$386,000	\$409 Per SF GBA	\$6,501,000	\$433,400	\$490 Per SF GBA	\$16,323,000	\$453,400	\$501 Per SF GBA

(1) Excludes the payment of prevailing wages.

(2) Estimate; not verified by KMA or County.

(3) Excludes acquisition costs.

TABLE B-3

NET OPERATING INCOME
SPRING VALLEY FOCUS AREA
DEVELOPMENT FEASIBILITY ANALYSIS
COUNTY OF SAN DIEGO

	C					D					E				
	Garden Apartments (Non-Contiguous Site)					Stacked Flat w/Surface and Tuck-Under Parking					Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking				
	Monthly					Monthly					Monthly				
I. Residential Net Operating Income	Unit Size	# Units	\$/SF	Rent	Total Annual	Unit Size	# Units	\$/SF	Rent	Total Annual	Unit Size	# Units	\$/SF	Rent	Total Annual
A. Gross Scheduled Income (GSI)															
One Bedroom @	750 SF	6	\$2.75	\$2,060	\$147,000	650 SF	6	\$3.10	\$2,020	\$145,000	650 SF	14	\$3.15	\$2,050	\$344,000
Two Bedroom @	950 SF	8	\$2.50	\$2,380	\$218,000	850 SF	8	\$2.70	\$2,300	\$207,000	850 SF	18	\$2.75	\$2,340	\$505,000
Three Bedroom @	1,200 SF	3	\$2.25	\$2,700	\$110,000	1,100 SF	2	\$2.40	\$2,640	\$48,000	1,100 SF	4	\$2.45	\$2,700	\$130,000
Total/Average	930 SF	17	\$2.50	\$2,328	\$475,000	795 SF	15	\$2.80	\$2,222	\$400,000	800 SF	36	\$2.83	\$2,266	\$979,000
Add: Other Income			\$25 /Unit/Month		\$5,000			\$50 /Unit/Month		\$9,000			\$50 /Unit/Month		\$22,000
Total GSI					\$480,000					\$409,000					\$1,001,000
(Less) Vacancy		5.0% of GSI			(\$24,000)		5.0% of GSI			(\$20,000)		5.0% of GSI			(\$50,000)
Effective Gross Income (EGI)					\$456,000					\$389,000					\$951,000
B. Operating Expense															
(Less) Operating Expenses			\$4,750 /Unit/Year		(\$81,000)			\$5,200 /Unit/Year		(\$78,000)			\$5,000 /Unit/Year		(\$180,000)
(Less) Property Taxes ⁽¹⁾			\$4,294 /Unit/Year		(\$73,000)			\$4,000 /Unit/Year		(\$60,000)			\$4,139 /Unit/Year		(\$149,000)
(Less) Replacement Reserves			\$250 /Unit/Year		(\$4,000)			\$300 /Unit/Year		(\$5,000)			\$300 /Unit/Year		(\$11,000)
Total Expenses			\$9,294 /Unit/Year		(\$158,000)			\$9,533 /Unit/Year		(\$143,000)			\$9,444 /Unit/Year		(\$340,000)
			34.6% of EGI					36.8% of EGI					35.8% of EGI		
C. Total NOI - Residential					\$298,000					\$246,000					\$611,000
D. Capitalized Value Upon Completion @		4.5% Cap Rate			\$6,622,000		4.5% Cap Rate			\$5,467,000		4.5% Cap Rate			\$13,578,000
II. Commercial Net Operating Income	Rentable SF	Monthly Rent		Total Annual		Rentable SF	Monthly Rent		Total Annual		Rentable SF	Monthly Rent		Total Annual	
A. Gross Scheduled Income (GSI)	0 SF	\$0.00 /SF/Month NNN		\$0		0 SF	\$0.00 /SF/Month NNN		\$0		1,000 SF	\$1.85 /SF/Month NNN		\$22,000	
(Less) Vacancy		0.0% of GSI		\$0			0.0% of GSI		\$0			5.0% of GSI		(\$1,000)	
Effective Gross Income (EGI)				\$0					\$0					\$21,000	
B. Unreimbursed Operating Expenses															
(Less) Retail/Restaurant Operating Expenses		0.0% of GSI		\$0			0.0% of GSI		\$0			5.0% of GSI		(\$1,000)	
C. Total NOI - Commercial				\$0					\$0					\$20,000	
D. Capitalized Value Upon Completion @		0.0% Cap Rate			---		0.0% Cap Rate			---		6.0% Cap Rate			\$333,000

(1) Based on capitalized income approach; assumes a 1.1% tax rate and 4.5% cap rate as shown in Table B-4.

Prepared by: Keyser Marston Associates, Inc.

Filename: SD County_DFA-Spring Valley_Development Prototypes_v3;8/6/2024;ema

TABLE B-4

RESIDUAL LAND VALUE
 SPRING VALLEY FOCUS AREA
 DEVELOPMENT FEASIBILITY ANALYSIS
 COUNTY OF SAN DIEGO

	C		D		E	
	Garden Apartments (Non-Contiguous Site)		Stacked Flat w/Surface and Tuck- Under Parking		Stacked Flat w/Ground Floor Commercial and Surface/Tuck-Under Parking	
I. Capitalized Value of NOI						
Residential		\$6,622,000		\$5,467,000		\$13,578,000
Commercial		<u>\$0</u>		<u>\$0</u>		<u>\$333,000</u>
Total Capitalized Value Upon Completion		\$6,622,000		\$5,467,000		\$13,911,000
(Less) Cost of Sale	3.0% of Value	(\$199,000)	3.0% of Value	(\$164,000)	3.0% of Value	(\$417,000)
(Less) Developer Profit	12.0% of Value	<u>(\$795,000)</u>	12.0% of Value	<u>(\$656,000)</u>	12.0% of Value	<u>(\$1,669,000)</u>
II. Net Sales Proceeds		\$5,628,000		\$4,647,000		\$11,825,000
(Less) Development Costs ⁽¹⁾		<u>(\$6,562,000)</u>		<u>(\$6,501,000)</u>		<u>(\$16,323,000)</u>
III. Residual Land Value		(\$934,000)		(\$1,854,000)		(\$4,498,000)
Per Unit		(\$55,000)		(\$124,000)		(\$125,000)
Per Gross SF Land		(\$30)		(\$85)		(\$84)
Per Net SF Land		(\$32)		(\$90)		(\$88)

(1) Excludes acquisition costs.

Prepared by: Keyser Marston Associates, Inc.

Filename: SD County_DFA-Spring Valley_Development Prototypes_v3;8/6/2024; ema