

APPRAISAL REPORT

CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (Nichols Ranch)

City of Lake Elsinore, Riverside County,
California (Appraisers' File No. 2024-1298)



Prepared For

City of Lake Elsinore
130 S. Main Street
Lake Elsinore, CA 92530

Prepared By

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KITTY SIINO & ASSOCIATES, INC.
REAL ESTATE APPRAISERS & CONSULTANTS

August 2, 2024

Mr. Jason Simpson, City Manager
City of Lake Elsinore
130 S. Main Street
Lake Elsinore, CA 92530

Reference: Appraisal Report – City of Lake Elsinore
Community Facilities District No. 2019-2 (Nichols Ranch)
Nichols Ranch by Meritage Homes
South side of Nichols Road; East of I-15, City of Lake Elsinore

Dear Mr. Simpson:

At the request and authorization of the City of Lake Elsinore, we have completed an Appraisal Report for Community Facilities District No. 2019-2 (Nichols Ranch) of the City of Lake Elsinore ("Lake Elsinore CFD No. 2019-2"). Lake Elsinore CFD No. 2019-2 consists of a new home community being marketed as Nichols Ranch with two neighborhoods both being developed by Meritage Homes ("Meritage"). The two neighborhoods are known as Highland at Nichols Ranch and Hilltop at Nichols Ranch. Highland consists of a total of 91 proposed homes while Hilltop consists of 77 proposed homes. Highland has four house plans ranging in size from 2,320 to 2,948 square feet while Hilltop has three house plans ranging in size from 2,020 to 2,427 square feet. Within the total 168 proposed homes, 83 are completed and have closed to individual homeowners to date, with an additional 16 homes in escrow which are due to close upon completion. The builder-owned property ranges from completed model homes to homes under construction to generally finished lots.

The valuation method used in this report is the Sales Comparison Approach along with a Discounted Cash Flow Analysis and a Mass Appraisal Technique as defined within this report. The fee simple estate of the subject property has been valued subject to the lien of the Lake Elsinore CFD No. 2019-2 Special Tax Bonds. This report is written with the hypothetical condition that the subject property is enhanced by the improvements and/or fee credits to be funded by the Lake Elsinore CFD No. 2019-2 Special Tax Bonds.

As a result of our investigation, the concluded Minimum Market Value (as defined within this report) for the subject property is:

Nichols Ranch by Meritage

Meritage Homes Ownership (23 homes & 62 lots)	\$ 24,041,432
Individual Owned (83 homes)	<u>\$ 48,736,425</u>

Aggregate Value of Lake Elsinore CFD No. 2019-2 **\$ 72,777,857**

The values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of July 1, 2024.

Mr. Jason Simpson
City of Lake Elsinore
August 2, 2024
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Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. This Appraisal Report is intended to comply with both the Uniform Standards of Professional Appraisal Practice ("USPAP" January 2022) and with the Appraisal Standards of the California Debt and Investment Advisory Commission ("CDIAC"). The appraiser is not responsible for unauthorized use of this report.

This letter of transmittal is part of the attached report, which sets forth the data and analyses upon which our opinion of value is, in part, predicated.

Respectfully submitted,

KITTY SIINO & ASSOCIATES, INC.

A handwritten signature in dark ink, appearing to read "K. Siino". The signature is fluid and cursive, with the first letter of the last name being a large, stylized "S".

Kitty S. Siino, MAI
California State Certified General
Real Estate Appraiser (AG004793)

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ADDENDA

Lake Elsinore CFD No. 2019-2 Boundary Map
Tract Map Nos. 37305 and 37305-1
Discounted Cash Flow Analyses
Finished Lot Land Sales Map and Summary Chart
Improved Residential Sales Map and Summary Chart
Appraiser's Qualifications

ASSUMPTIONS AND LIMITING CONDITIONS

1. This report might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. It is assumed that the subject property is subject to the special tax lien of Lake Elsinore CFD No. 2019-2.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of either property, subsoil or structures that would render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference

purposes only. No guarantee regarding accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.

12. It is assumed that the utilization of the land and improvements (if any) are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992 and have been updated several times since then. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed there are no environmental concerns that would slow or thwart development of the subject properties and that the soils are adequate to support the highest and best use conclusions.

18. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the Lake Elsinore CFD No. 2019-2 Special Tax Bonds.

HYPOTHETICAL CONDITION

1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the Lake Elsinore CFD No. 2019-2 Special Tax Bond proceeds, are completed and in place.

EXTRAORDINARY ASSUMPTION

1. It is assumed that the cost and sales information provided by the homebuilder are true and accurate. We have reviewed the sales and checked some against public record, however we have not reviewed actual sales documents on each sale. We have reviewed and analyzed the remaining land development costs and they appear reasonable; however, we do not have expertise in cost estimating. If the sales or the costs differ, it will affect the value of the property.



PURPOSE OF THE APPRAISAL

The purpose of this appraisal report is to estimate the value of the fee simple interest of the subject property, subject to the special tax lien of the Lake Elsinore CFD No. 2019-2 Special Tax Bonds.

THE SUBJECT PROPERTY

The subject property is encompassed by Lake Elsinore CFD No. 2019-2 and is proposed for 168 single-family residences within the northern most portion of the City of Lake Elsinore located at the southeast quadrant of Interstate-15 and Nichols Road. The subject property is known as the community of Nichols Ranch, being developed by Meritage Homes. The entire community is planned for 168 homes being built-out into two neighborhoods as detailed below.

Description	No. Lots	Ownership	Condition/Status
Hilltop by Meritage – Lots 1-26, 54-55, 120-134 of Tract 37305 and Lots 1-34 of Tract 37305-1			
Lots 1-14, , 16-17, 22-23, 120-134 of Tract 37305 and Lots 24-34 of Tract 37305-1	44	Individuals	Completed Houses / Closed
Lots 54 and 55 of Tract 37305	2	Meritage	Model Homes
Lots 15, 18-21 and 24-26 of Tract 37305	8	Meritage	Homes over 95% complete (8 in escrow)
Lots 1-9 and 17-23 of Tract 37305-1	16	Meritage	Homes U/C (3 in escrow)
Lots 10-16 of Tract 37305-1	7	Meritage	Finished Lots
Subtotal Hilltop	77		
Highland by Meritage – Lots 27-53 and 56-119 of Tract 37305			
Lots 35-37, 60-91, 105, 109-111 of Tract 37305	39	Individuals	Completed Houses / Closed
Lots 58-59 of Tract 37305	2	Meritage	Model Homes
Lots 101-104, 106-108; 112-115 of Tract 37305	11	Meritage	Homes over 95% complete (5 In escrow)
Lots 32-34, 92-94, 97-100 and 116-119 of Tract 37305	14	Meritage	Homes U/C (0 in escrow)
Lots 27-31, 38-53, 56-57 and 95-96 of Tract 37305	25	Meritage	Finished Lots (0 in escrow)
Subtotal Highland	91		
Total Lots	168		

INTENDED USE OF THE REPORT

It is the appraiser's understanding that the client, the City of Lake Elsinore, will utilize this report in disclosure documents related to the sale of the Special Tax Bonds of Lake Elsinore CFD No. 2019-2. This report may be included in the Official Statement or similar

document to be distributed in connection with the marketing and offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

DEFINITIONS

Market Value

The term "Market Value" as used in this report is defined as:

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

- 1. buyer and seller are typically motivated;*
- 2. both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;*
- 3. a reasonable time is allowed for exposure in the open market;*
- 4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*¹

Inherent in the Market Value definition is exposure time or the time the subject property would have been exposed on the open market prior to the appraisal in order to sell at the concluded values. In the case at hand and considering current market conditions, the exposure time for each single home or the builder's ownership in a bulk sale is less than one year.

Aggregate Retail Proceeds

As used in the Discounted Cash Flow Analysis, Aggregate Retail Proceeds is defined:

"The sum of the appraised values of the individual units over 95 percent and builder-owned, at date of value. The sum includes an allowance for lot premiums, when applicable. This is not the market value of the project in bulk."

¹ The Appraisal of Real Estate, 13th Edition

Bulk Value

Bulk Value is defined as:

The value of a group of lots, parcels, or homes to a single purchaser, on a specified date, under the terms and conditions of the definition of market value.

Discounted Cash Flow (DCF) Analysis

A Discounted Cash Flow Analysis is:

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analysis specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate.

Finished Lot

The term "Finished Lot" is defined as:

"A parcel which has legal entitlements created by a recorded subdivision map, whose physical characteristics are a fine graded level pad per lot with infrastructure contiguous to each individual lot, asphalt paved roads and the necessary utilities. This term assumes the payment of all applicable development fees with the exception of building permit and plan check fees."

Hypothetical Condition

The Term "Hypothetical Condition" is defined by USPAP as:

"That which is contrary to what exists but is supposed for the purpose of the analysis"

The Hypothetical Condition within this report is that subject property is enhanced by the improvements and/or fee credits to be funded by bonds issued by Lake Elsinore CFD No. 2019-2.

Extraordinary Assumption

The term "extraordinary assumption" is defined by USPAP as:

"An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusion"

The Extraordinary Assumption used in this report is that the cost and sales information provided by each of the homebuilders are true and accurate. We have reviewed the sales and checked some against public record, however, we have not reviewed actual sales documents on each sale. We have reviewed the remaining land development costs and they appear reasonable, however, we are not experts in the field of cost estimating. If the sales or costs differ, it will affect the value of the property.

PROPERTY RIGHTS APPRAISED

The property rights being appraised are of a fee simple estate interest, subject to easements of record and subject to the Lake Elsinore CFD No. 2019-2 special tax lien.

The definition of “fee simple estate” is defined as:

“absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”²

EFFECTIVE DATE OF VALUE

The subject properties are valued as of July 1, 2024.

DATE OF REPORT

The date of this report is August 2, 2024.

SCOPE OF APPRAISAL

As previously stated, the purpose of this appraisal is to report the appraiser’s best estimate of the market value for the subject property, Lake Elsinore CFD No. 2019-2, which encompasses the community known as the residential portion of the Nichols Ranch, a planned community in Lake Elsinore. The residential portion of the Nichols Ranch Specific Plan and is proposed for 168 single family detached homes being built out into two neighborhoods by Meritage Homes. This valuation is for the residential

² The Appraisal of Real Estate, 13th Edition

property in its current condition assuming the improvements to be funded by the bonds of Lake Elsinore CFD No. 2019-2 are in place or have accrued to the property. Both neighborhoods are currently selling homes. Out of the total 168 proposed homes, 83 homes have closed to individuals at this time and an additional 16 are in escrow and due to close upon completion. This appraisal will be presented in the following format:

- County of Riverside Description
- City of Lake Elsinore Description
- Nichols Ranch / Immediate Surroundings Description
- Brief Description of CFD No. 2019-2
- Subject Property Descriptions
- Riverside County Residential Market Analysis
- Highest and Best Use Analysis
- Valuation Procedure, Analyses and Conclusions
- Appraisal Report Summary

In valuing the subject property, the value estimates will be based upon the highest and best use conclusion using the Sales Comparison Approach. The Sales Comparison Approach to value is defined as:

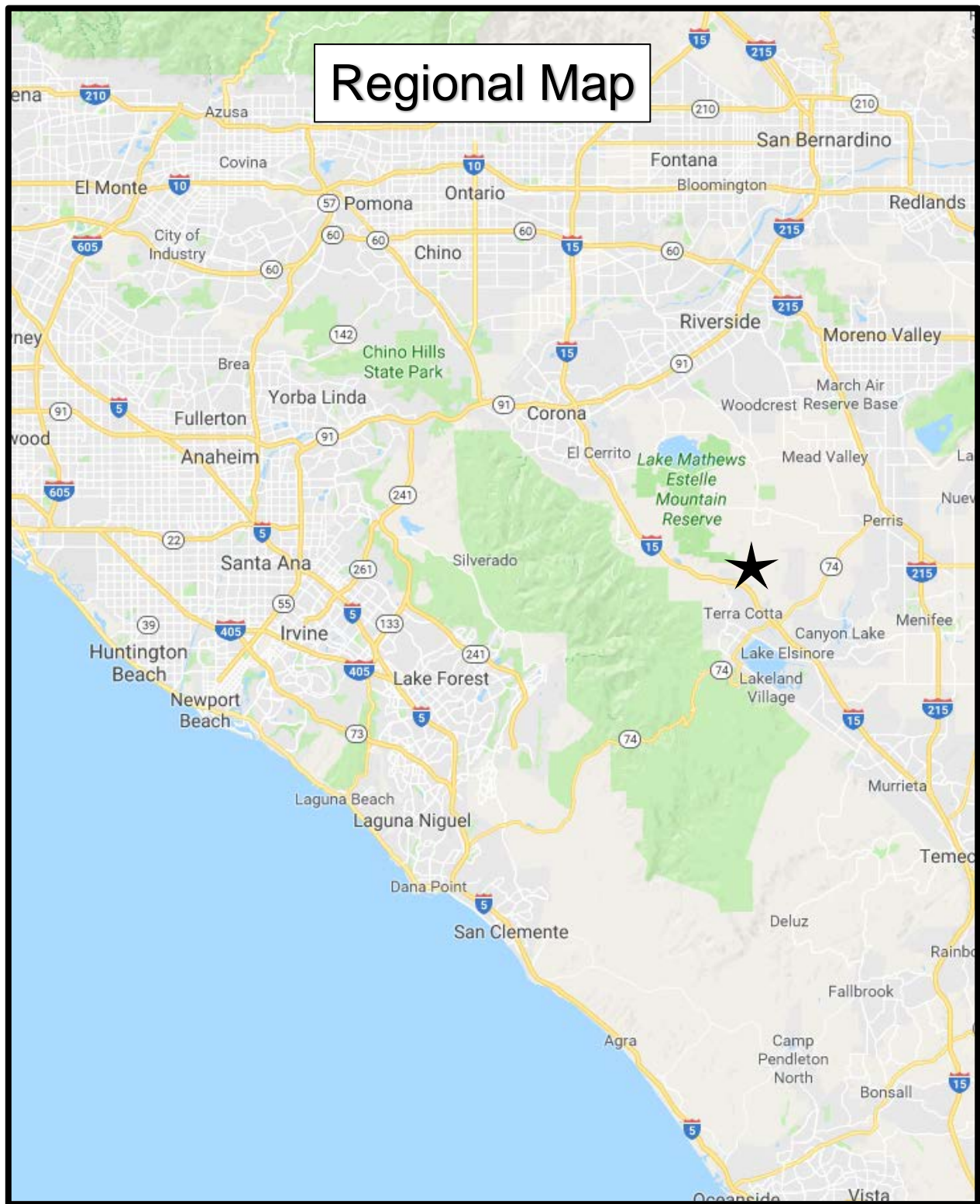
“...a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sales prices of the comparables based on the elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparables is available.”³

In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject that have recently been sold, are listed for sale or are under contract. Neither a cost or income approach was utilized as they were not considered necessary to arrive at credible results.

The due diligence of this appraisal report included the following:

³ Dictionary of Real Estate Appraisal, Fourth Edition, 2002

1. Compiled demographic information and related that data to the subject properties to perform a feasibility/demand analysis.
2. Gathered and analyzed information on the subject marketplace, reviewed several real estate brokerage publications on historical and projected growth in the subject market and researched the micro and macro-economic outlook within Riverside County and the Lake Elsinore area.
3. Toured and inspected the subject property between May 15 and July 1, 2024.
4. Had the site flown by an aerial photographer on June 22, 2024.
5. Interviewed representatives from the builder in order to obtain project information.
6. Reviewed the Nichols Ranch Specific Plan No. 2018-01 adopted June 11, 2019.
7. Reviewed land development cost information from the builders in order to ascertain the remaining costs to complete the development of the lands to true finished lots.
8. Reviewed mapping on the subject property.
9. Reviewed title reports on the subject property.
10. Reviewed FEMA correspondence on the subject property.
11. Reviewed sales brochures on each of the subject neighborhoods.
12. Reviewed actual sales information from the builder on all closed homes and current escrows.
13. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable neighborhood.
14. Searched the area for relevant comparable residential land sales and interviewed representatives regarding the transactions when available.
15. Reviewed Multiple Listing Service ("MLS") information on re-sales and current listings of existing homes within Lake Elsinore CFD No. 2019-2.
16. Inspected the subject property for any for-sale or property listing signs that may not be listed on the MLS yet.



COUNTY OF RIVERSIDE AREA DESCRIPTION

Location

The subject property is located in the northwestern portion of Riverside County (the "County") within the City of Lake Elsinore along Interstate 15 ("I-15"). More specifically, Nichols Ranch is located along the south side of Nichols Road, just east of I-15.

The County encompasses approximately 7,300 square miles, and includes large expanses of undeveloped deserts, valleys, canyons and mountains. The County is a major beneficiary of outward urban pressure from Orange and Los Angeles Counties as well as growth from San Diego County to the south. Although located at the periphery of most urban activity in Southern California, Riverside County, particularly the western area, has been a major growth area and is perceived by most observers as an area expected to continue to grow. Riverside and San Bernardino Counties are considered distinct from Los Angeles and Orange Counties and belong to the same Metropolitan Statistical Area ("MSA"). This area, consisting of San Bernardino and Riverside Counties, is commonly referred to as the Inland Empire.

Transportation

The subject property is situated about one-tenth mile west of I-15 and approximately 16 miles south of State Route 91 (SR-91) and 14 miles north of the southern end of Interstate 215 (I-215). I-15 travels in a northerly/southerly direction and provides access to Barstow and Nevada to the north and San Diego to the south. SR-91 travels in a northeasterly/westerly direction, providing access to Orange and Los Angeles Counties to the west and connecting with the 60 Freeway and I-215 to the north in Riverside County. I-215 branches off from I-15 and provides a north/south alternate connection between I-15 in the Murrieta area and I-15 to the north in the Fontana area in San Bernardino County. State Route 60 provides access to the west (Los Angeles) and to the east where it merges with Interstate 10 ("I-10") providing access to Arizona

The County is served by Amtrak and Metrolink as well as several rail freight lines. The Ontario International Airport provides regional air service and is located approximately

27 miles north of the subject property. Corona Airport is located about 20 miles northwest of the subject property. A general aviation airport that is home to 350-400 aircraft, the Corona Airport is a recreational airport with no commercial flights, however extremely active with approximately 50,000 annual operations. In addition, the County has extensive trucking corridors along the previously referred to interstates, highways and state freeways.

Population

The County has experienced population growth for several decades and is anticipated to continue to do so in the foreseeable future. Per the California Department of Finance, the January 1, 2024, County population was 2.442 million, representing a one-year increase of 0.6 percent. This compares to an average annual growth rate over the past thirteen years of about 0.8 percent, and an average annual growth rate of approximately 2.5 percent for the previous eighteen-year period. It should be noted however, California's overall population increased for the first time in 2024 by 0.2 percent following three years of decreasing population statewide. Current State projections for Riverside County suggest the population is anticipated to reach approximately 2.525 million by 2030, indicating an average annual increase of approximately 0.6 percent over the next six years. The current growth of 0.6 percent is lower than the previous twelve-year annual average of about 0.8 percent likely due to the COVID pandemic disruption, and significantly lower than the previous 18-year average (2.5 percent) likely due to the Great Recession. Future growth is predicted assuming a more stable market than was seen prior to the Great Recession.

Economy

The U.S. economy in the past few years has experienced challenging times due to reactions from the COVID disruption. These economic challenges include significant inflation, increasing interest rates, banks' instability and reaching an agreement on the debt ceiling. During COVID, the Federal, State, County and City Governments ("Governments") originally shut down non-essential businesses and areas where social gatherings occur in order to slow the spread of the virus. This created a strain on small

and large businesses alike. Restaurants and hotels were hit hard, and travel reduced drastically as citizens were urged to stay home. Layoffs occurred with reports of 40 million people filing for unemployment in the first few months of the pandemic. The Governments attempted to curtail the job losses and hardships with the approval of over \$5.6 trillion in COVID relief to our nation. In addition, the Federal Reserve Board ("Board") reduced interest rates and started quantitative easing by buying bonds. This legislation helped shore up the U.S. economy; however, due to the significant amount of new money introduced into the economy, inflation began occurring at a rate not seen for 40 years. As of April 2024, the national inflation rate was at 3.4 percent; up from a low of 2.97 in July 2023, and down from the peak in June 2022 of 9.1 percent. 2021 had an annual inflation rate of 4.7 percent as inflation began after COVID. This compares to a 1.24 annual percentage rate for 2020 and an average of a 1.74 annual percentage rate for the previous ten years. Whether it is a result of the world turmoil, supply chain issues due to COVID or from the additional money entering the economy, inflation has been hitting Americans hard.

In an effort to curb inflation, the Federal Reserve Board ("Board") began raising interest rates. Between March 2022 and August 2023, there were eleven interest rate increases rising the Federal Funds Rate ("FFR") from 0.25 – 0.50 percent to 5.25 – 5.50 percent. The Board has not increased rates since August 2023 due to the decrease in inflation coupled with other signs in the economy. While the eleven increases helped slow inflation, the quick, significant increases strained bank balance sheets. Three major banks failed in early 2023 with the government taking unprecedented action to help shore them up. At the most recent Board meeting (June 2024) they continued to pause the increases for the sixth meeting in a row and suggested that rate cuts will begin later in the year rather than earlier. In addition to causing bank instability, the FFR increases over the past couple years increased a typical 30-year fixed mortgage rate from 2.98 percent as of November 10, 2021, to the high of 7.79 percent as of October 2023; however, the rate has dropped to 6.86 percent as of June 27, 2024 (per Federal Reserve Economic Data-St. Louis). This steep increase over the past two+ years has significantly affected the real estate market.

The COVID disruption to the economy also caused extreme volatility in the stock market with the Dow Jones Industrial Average ("DJIA") dropping from 29,398 in February 2020 to 19,174 in March 2020, a drop of 37 percent. The Government interventions resulted in a bounce back in the DJIA to 27,111 by June 2020 with the stock market then climbing up to a peak of 36,799 in January 2022. In February 2022, Russia began invading Ukraine which caused volatility in world economics followed by U.S. inflation, interest rate increases and instability in the U.S. due to the debt ceiling being reached. In addition, in Israel declared war on Hamas on October 7, 2023, which added to the strain. All of these factors caused a drop in the DJIA of over ten percent from January 2022 to the low on October 27, 2023 (32,418); however, the Federal Reserve Board's pausing of the interest rate increases coupled with strong economic news, brought the stock market to a new all-time high of 40,003 (May 17, 2024) with the current average at 39,034 (as of June 27, 2024). It appears the recent Board's decision not to increase rates further and their suggestion that a decrease may occur within this calendar year has been well received by investors. Current concerns on the U.S. economy include the upcoming presidential election and the nation's debt limit which can only be increased through government approvals. The current partisanship in our government caused a stand-off in increasing the debit limit which has been in danger of being reached numerous times with several temporary deals being reached, however, no permanent agreements at this time.

The significant increase in mortgage rates over the past two years is just one part of the puzzle affecting the impact of new housing on the broader economy. Additional risks include homebuilders trying to find balanced inventory levels, supply chain issues, both wage and price increases, and persistent inflation. Over the past 25 years, the Inland Empire economy has had significant cycles with home prices almost doubling from 1995 to 2005, then falling by over 50 percent during the Great Recession, taking prices back to 2002 levels. Home values appeared to hit bottom in 2009 then remained essentially flat for two to three years with the majority of the Inland Empire housing market seeing an improvement beginning in mid-2012. Contrary to homebuilder's original thoughts of a

slowdown due to the pandemic, new home buyers stepped up in the spring of 2020 and new home sales were significantly higher during the second half of 2020 versus the previous year and continued extremely strong throughout 2021. This exceptional activity in new home sales was the one bright spot in the COVID disruption and is thought to be due to several factors, including: a tight supply of resale homes; historically low interest rates; millennials finally buying homes; and the work from home factor which began during the pandemic and allowed residents to live in more suburban areas without long commutes. As rates began increasing in early 2022, there was a significant slowdown in sales within the Inland Empire. The high mortgage rates have significantly slowed existing homeowners from moving. The limited availability of existing homes on the market has resulted in new homes capturing a much larger share of the total home sales.

While most jobs have come back, job losses were significant during the COVID recession as the Nation's unemployment rate went from 3.5 percent in February 2020 to 14.4 percent in April 2020, with the May 2024 National unemployment rate at 3.4 percent (Employment Development Department, not seasonally adjusted). The unemployment rate for the MSA was estimated at 4.3 percent (as of May 2024 per the Employment Development Department). This reflects a decrease from the peak during the Great Recession of 15.1 percent in 2010 and a decrease from the peak during COVID of 14.9 percent. As of May 2024, Riverside County's unemployment rate was 4.4 and San Bernardino County had a 4.3 percent unemployment rate. The current unemployment rate for the MSA of 4.3 percent is the same as the California rate at 4.3 percent and higher than the May 2024 National rate of 3.4 percent. Below is a table comparing Riverside County's unemployment rate to the unemployment rates of the surrounding counties as of May 2024.

Jurisdiction	As of	Unemployment Rate*
Los Angeles County	May-2024	4.7%
Riverside County	May-2024	4.4%
San Bernardino County	May-2024	4.3%
Orange County	May-2024	3.1%
San Diego County	May-2024	3.3%

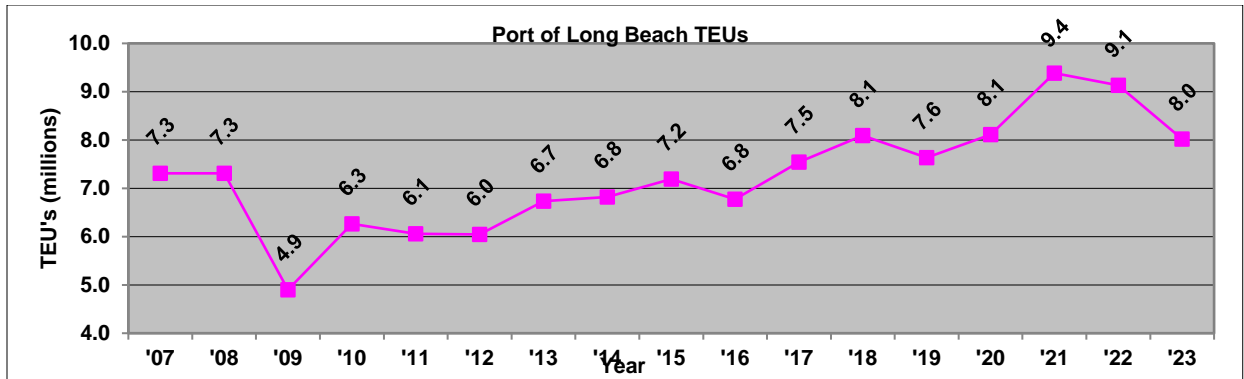
Source: State of California E.D.D.; *Not Seasonally Adjusted

The latest UCLA Anderson Forecast (“Forecast”) was issued March 13, 2024, and stated the possibility of a recession has faded due to expansionary fiscal policy, new national industrial policy, and the fact that consumers are still spending despite the perception of economic uncertainty. GDP growth in the fourth quarter of 2023 came in at a higher-than-expected 3.2 percent annual rate of growth that was mostly due to strong consumer spending but also to inventory replacement after the holidays. The Forecast is now for the first quarter 2024 growth to be 2.2 percent. They believe the impact of higher interest rates will restrain growth in 2024. Inflation is still higher than the target 2.0 percent primarily because of residential rents, automobile repair and new health insurance premiums. The upside of the Forecast is productivity growth thanks to new technology that drives higher wages and higher GDP. The Forecast mentions that risks to their current forecast include a possible shutdown of government, geopolitical events and the possibility of a different national economic policy in 2025 due to the election.

The UCLA Forecast for California is typically more positive than the overall Nation due to job growth in California; however, this Forecast suggests a slower-growing California economy with the growth not much faster than the U.S. They believe that the unemployment rate for the first quarter of 2024 will average 4.7 percent (currently 5.3 percent) with the 2024 yearly average of 4.6 percent, then 3.8 percent in 2025 and 3.9 percent in 2026. The housing market in California is still misbehaving as higher interest rates should send prices lower; however, the median price of an existing single-family home sold in the state has climbed significantly since December 2022 by 9.3 percent in San Diego; 9.0 percent in Los Angeles and 3.9 percent in San Francisco (as of March per the Forecast). With existing home sales numbers at depression levels, builders are responding with new developments with the Forecast stating that 32 percent of all developers interviewed in Northern California and 55 percent in Southern California are planning to begin one or more new multi-family projects in 2024. The Forecast is estimating 123,000 net new units to be permitted in California in 2024 and grow to 159,500 by the end of 2026.

One bright spot in the current economy is sales of new homes. While existing homeowners are reluctant to put their houses on the market due to their under-four percent mortgages, new home sales continue. Even with rates in the seven percent range, new homes are still selling. This is partially due to the extremely limited availability of existing homes on the market, coupled with homebuilders offering to buy-down interest rates to help new home buyers. While new homes historically captured 10 – 13 percent of total home sales; over the past year new homes are capturing, at times, over 30 percent of total home sales. This rush to new home purchases has put pressure on pricing, even while interest rates have soared. During the Great Recession median housing prices (existing) in Riverside County dropped from a high of \$431,713 in June 2006 to a low of \$171,480 in April 2009. Median prices surpassed the pre-recession high in April 2020 (\$435,000), hit a peak in May 2022 of \$650,000 and decreased until last month with both the April and May 2024 median home price in Riverside County again at the peak of \$650,000 (all statistics per the California Association of Realtors). It should be noted that the median home price in Riverside County is up 5.7 percent year over year. This will be discussed further in the Riverside County Housing Market section later within this report.

As a final indicator of overall economic activity for the region, we have reviewed the rise and fall of TEUs (Twenty-foot Equivalent Units – i.e., containers) being processed in the local ports. This is especially important for the Inland communities, as it represents much of the growth in development of West Coast distribution centers and warehouses in the Inland Empire linked to supply-chain nodes in the Pacific Rim. The chart below shows TEU activity at the Port of Long Beach. Generally, there had been increases since 2009 with the exception of a slight dip in 2016 and again in 2019 which ended with a 5.6 percent downturn. The 2022 calendar year saw a decrease of 2.6 percent from the previous year; however, 2023 saw the largest percentage decrease of 12.2 percent year over year (8,018,668 versus 9,133,657 total TEUs). It should be noted that consumer demand cooled in mid-2022 leaving fewer TEUs needed. For the calendar year 2024, thus far TEUs are up over 16 percent.



Government

A Board of Supervisors oversees the County as the governing body of the County, certain County special districts, and the County Housing Authority. The Board enacts ordinances and resolutions, adopts the annual budget, approves contracts and appropriates funds, determines land use zoning for unincorporated areas, and appoints certain County officers and members of various boards and commissions. The Board of Supervisors is elected from five different districts within the County.

Education

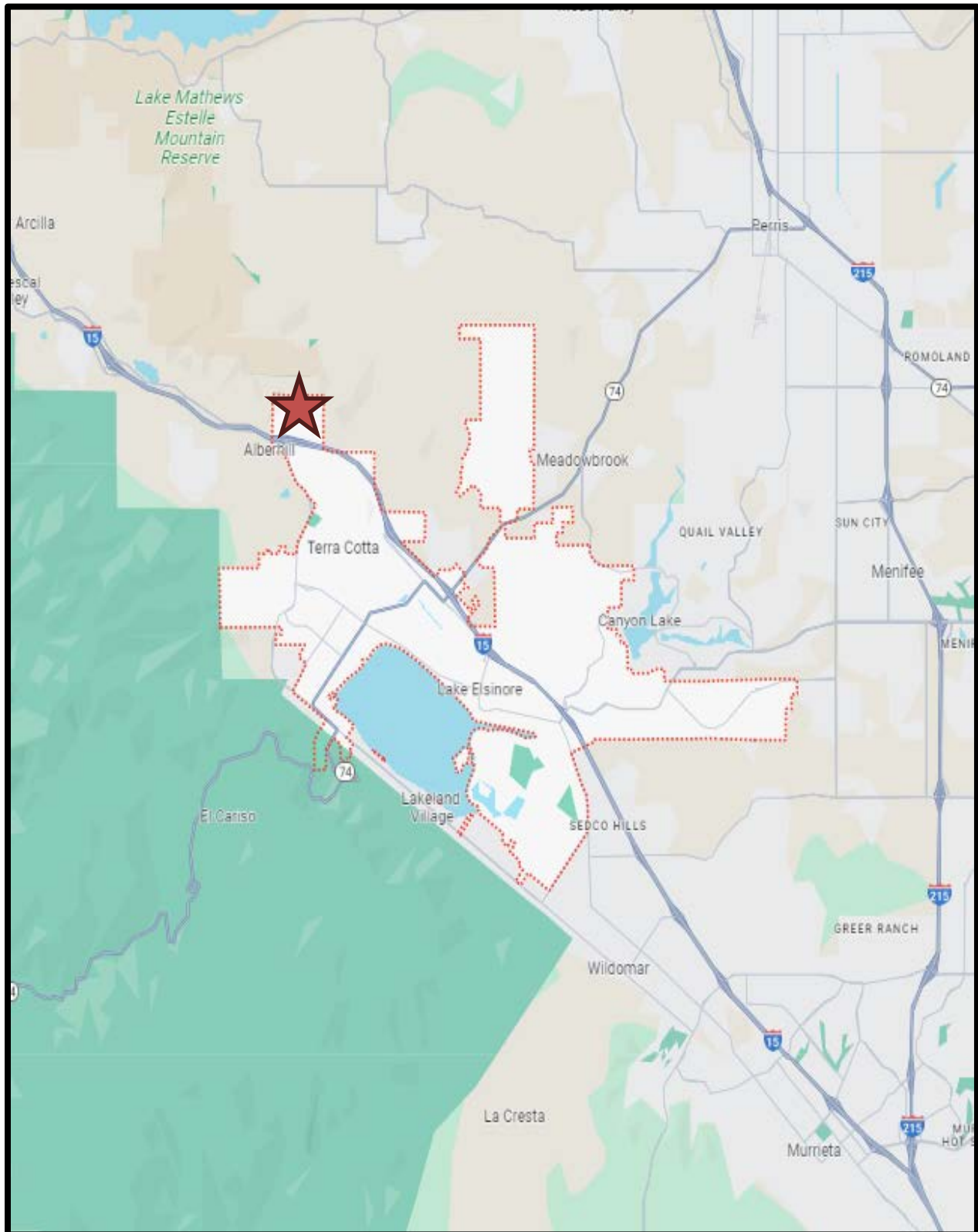
The subject area is served by the Lake Elsinore Unified School District. Community Colleges are available near the subject at Norco College (18 miles northwest), Riverside City College (18 miles north), The Meniffee campus of San Jacinto College (10 miles east) and Santiago Canyon College (21 miles west). Higher education is available, within an hour's drive, at the University of California campuses at Riverside and Irvine, or California State University campuses in San Bernardino, San Marcos, Fullerton and Pomona. In addition, the area offers many excellent private colleges.

Conclusion

Population in the County has increased over the past 20 years with predictions for continued population growth. The Nation's economy has been slowing after the Board increased the FFR over five percent to fight historical inflation which began during COVID. One bright spot during COVID was housing; the region's relative affordability and low interest rates, coupled with the rising prices in the coastal market and the demand for housing, set up a new housing boom. This was followed by a significant drop

in sales due to existing homeowners being unwilling to give up their low-rate mortgages, which turned out to be a boon for new homes. Current concerns for the Inland Empire economy include stubborn inflation, the high prices of homes, higher interest rates, supply chain issues, the upcoming election, possible government shutdowns along with the Russian/Ukraine and Israel/Palestine conflicts, which are all creating volatility in both local and global financial markets. In conclusion, the County is expected to continue to grow in population due to its Southern California location, the availability of land, and the relatively lower land and housing prices in comparison to adjacent Orange, Los Angeles, Riverside and San Diego Counties.

LAKE ELSINORE AREA MAP



CITY OF LAKE ELSINORE DESCRIPTION

The subject property is located in the northernmost portion of the City of Lake Elsinore ("City"), east of I-15 along the south side of Nichols Road. Lake Elsinore is approximately half-way between the cities of Los Angeles and San Diego, about 25 miles east of the Pacific Ocean. Downtown Riverside, which houses the County seat, is approximately 20 miles north of the City. The City is situated along I-15 at the intersection of State Route 74 and encompasses an estimated 41 square miles. It is surrounded by unincorporated County lands to the north and east, the City of Wildomar to the south, and the Ortega Mountains and the Cleveland National Forest to the west.

History

The Luiseno Native Americans are the earliest known inhabitants of the Elsinore Valley, prior to when settlers came in the early 1800s due to the region's natural springs which were said to have healing qualities. In the 1850s, the area housed a stagecoach stop for the Butterfield Overland Mail route between the Temecula station (20 miles south) and the Temescal Station (10 miles north). The rich and fertile farmlands and natural resources of clay, coal, sand and gravel within the Elsinore Valley kept people in the area. At incorporation in 1888 the City was originally in San Diego County; however, became part of Riverside County upon its creation in 1893. The City was named Elsinore after a city in Denmark which is featured in the Shakespeare play, Hamlet. In the 1920s and 1930s, the area became a Hollywood getaway with many stars building homes in the hills surrounding the Lake.

Lake Elsinore (the "Lake") was originally known as Laguna Grande and is the largest natural lake in Southern California. The Lake is situated at the lowest point within the 750-mile San Jacinto River watershed with headwaters from the western slopes of San Jacinto Peak and Lake Hemet. Lake Elsinore levels are at 1,244 feet above sea level with a volume of 30,000-acre feet that use to change substantially prior to federal grants to prevent the flooding and ebbing of the lake. The largest flooding came in the 1930s when the Lake rose from 8,000-acre feet to 92,000-acre feet. In 1951 the Lake dried up

and remained dry for about 10 years. In 1981 and 1983 the El Nino rains again flooded the area and in 1984 the City was successful in obtaining Federal grants for the major project to regulate the Lake and end the cycle of flooding and drying. Now at 1,255 feet, the Lake spills into the outflow channel known as the Temescal Wash, flowing northwest along I-15 to Temescal Creek which dumps into the Santa Ana River near the city of Corona and flows to Orange County and out into the Pacific Ocean.

Population

The City had enjoyed rapid population growth in the mid-2000's, which altered the appearance of the City from a small lakeside town of 3,800 people in 1976, to a bedroom community of upper middle-class professionals. From 2000 to 2008 the City was the 12th fastest growing city in the State going from 28,928 residents in 2000 to 51,821 residents in 2010, suggesting an average annual increase of 6.0 percent. Between 2010 and 2015 the city increased to 59,142 residents (average annual increase of 2.67 percent), with a most recent January 2024 population estimate of 71,452 per the Department of Finance, which represents an annual increase of 0.1 percent since January 2023. This compares to the overall Riverside County growth of 0.06 percent during the past year. The significant growth between 2000 and 2010 includes the residential boom prior to the Great Recession. The population forecast for 2030 per the City of Lake Elsinore website shows approximately 88,500 which suggests an average annual growth of approximately three percent over the next seven years. The stagnant growth in the City over the past year was partially due to limited availability of new homes for sale as the two master plans sold out with only two new home communities selling in early 2022. In the past 18 months the number of new active residential projects within the City has grown from two new home communities to 11, suggesting increasing population growth. Lake Elsinore typically has positive population growth due to the convenient access along the I-15 corridor providing access to the employment centers in Riverside, Orange, Los Angeles, and San Diego Counties.

The subject is currently one of 11 actively selling communities in the City of Lake Elsinore. Alberhill Ranch, a master planned community, is currently selling Fairfield,

Linden and Ridgeline by Pulte Homes along with Crestly by Centex (also owned by Pulte). Richmond American is selling their Running Deer Estates which is nearing build-out. Meritage Homes is selling two communities known as Highland and Hilltop at their Nichols Ranch master plan (subject property). KB Home is selling their Carrera and Villa Real communities at Terracina along with their Crimson Hills neighborhood and TriPointe Homes is selling their Echo Highlands project. For many years previously, Lake Elsinore featured several actively selling new master planned communities including Canyon Hills which sold out in early 2020, and more recently, Summerly, which is located on the south side of the Lake and sold out in 2021. Summerly, including The Links golf course consists of a total of 700 acres, was proposed for over 1,600 residential units and is now fully built out. Canyon Hills includes approximately 4,300 residential units and is also fully built out.

Economy

The City of Lake Elsinore has enjoyed industrial and commercial development along the I-15 Corridor including the Lake Elsinore Outlet Center at Nichols Road which was opened in the 1990s as one of the first Outlet Malls in Southern California. The City has been promoting its economic platform by becoming more business friendly. The 2023 estimated average household income over \$100,000 for the City, as compared to \$104,490 for the County, \$103,856 for the State and \$67,521 for the United States. Per the City of Lake Elsinore's 2021 Comprehensive Annual Financial Report (fiscal year ending June 30, 2021), the top employers were as reported below. (Please note, while the City has released the 2023 Comprehensive Annual Financial Report, it does not include the top employers).

<u>Summary of Major Employers</u>	
<u>Employer</u>	<u>No. of Employees</u>
Lake Elsinore Unified School District	2,524
M & M Framing	450
Stater Bros (3 locations)	328
Costco	312
Walmart	295
Lake Elsinore Hotel & Casino	230
Riverside County (Dept. of Social Services)	179
EVMWD	167
Home Depot	143
City of Lake Elsinore	118

Per the City's Economic Development's General Plan Update 2023 Growth Report, there were 1,130 single family lots under construction and an additional 933 single family lots and 745 multi-family units going through the approval process at the time.

Entertainment

While Lake Elsinore served as a get-away for the movie industry in the 1920s, the area also began emerging as an entertainment/sports area when it hosted Olympic teams for training along with high-speed boat racing on the Lake. In 1964 the Skylark Airport (located southeast of the subject) emerged as a world class skydiving drop zone due to the thermals from the surrounding mountains. This is still one of the most prominent drop zones in Southern California. The Lake Elsinore Motorsports Park for off-road racing is located directly east of the Airport. In 1991 the Lake Elsinore Outlet Center opened boasting 100 outlets (currently 40 stores) and in 1994 Diamond Stadium was constructed which is the home of the Lake Elsinore Storm, an affiliate of minor league baseball. Diamond Stadium is located adjacent to the master planned community of Summerly, southwest about six miles from the subject. The major commercial centers are along I-15 at Central Avenue (Highway 74) with Walmart, Costco, Home Depot and Lowes as anchor tenants.

Transportation

Interstate 15 is the major arterial with access to the City, with State Route 91 approximately 20 miles north and I-215 about 10 miles south. I-15 provides access to State borders to the north in Nevada and to the south where it merges with I-5 before going into Mexico. State Route 91 (20 miles north on I-15) provides freeway access into Orange and Los Angeles Counties to the west and to San Bernardino County to the east. I-215 provides northerly access connecting to State Route 60, which provides access to the west into Los Angeles and to the east where it merges with I-10 and provides access to the Arizona state border. The nearest freeway access points to the subject property is the I-15 Nichols Road on/off ramp, about 0.1 mile west of the subject. State Route 74 to the west is a winding road through the Ortega Mountains (also known as Ortega Highway

west of Lake Elsinore) that provides a more direct access into South Orange County, which is located approximately 19 miles southwest.

Schools

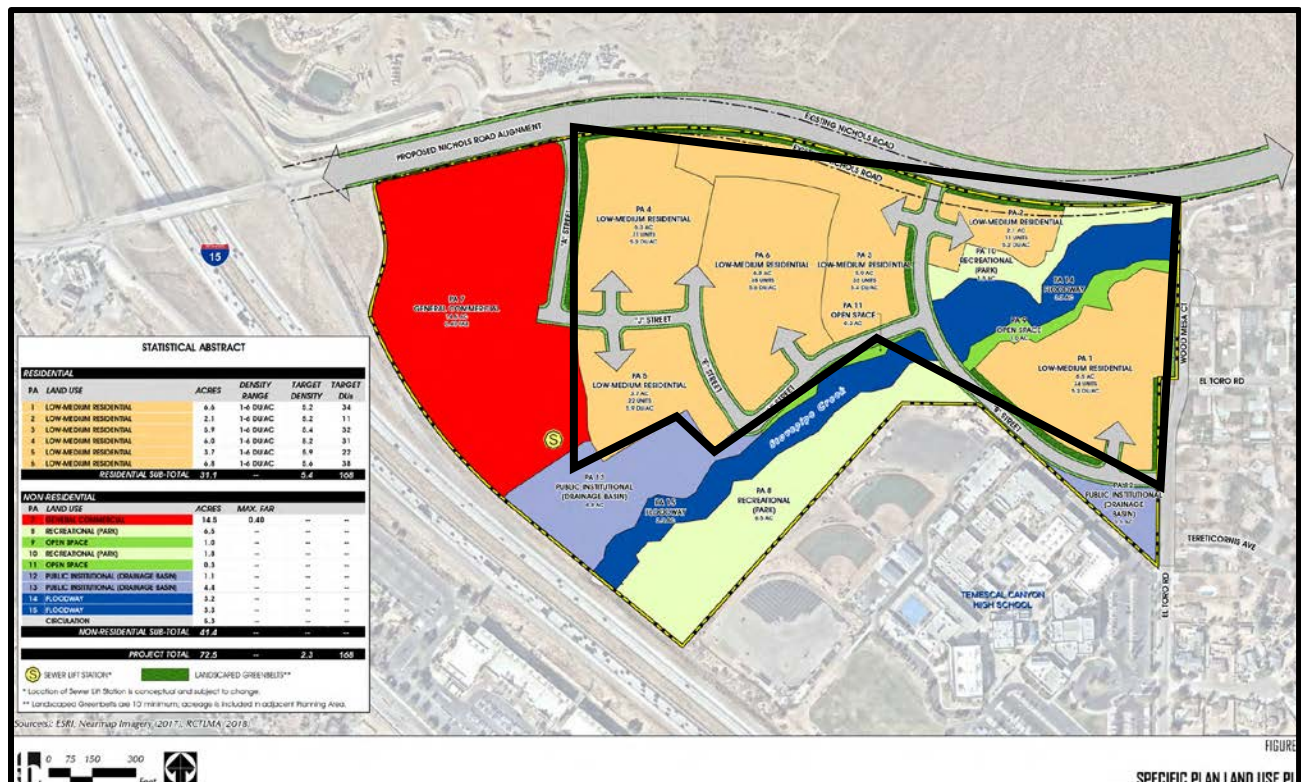
The subject property is served by the Lake Elsinore Unified School District (LEUSE) which has 13 elementary schools, two K-8th grade schools, four middle schools along with three high schools and one continuing education high school. In addition LEUSD has a child development pre-school and two alternative schools. The subject will be served by Alberhill Elementary School (1.6 miles west), Elsinore Middle School (about 2.7 miles southeast) and Temescal Canyon High School (adjacent to the south)

Conclusion

In summary, the City of Lake Elsinore experienced above average growth over the past 20 years, however, experienced a slowdown in 2022 which is thought to be due to the limited availability of new homes. Future growth of the City should continue with over 1,100 single family lots under construction and over 900 in planning stages along with 745 multi-family units going through the approval process. Lake Elsinore's housing market is currently healthy and the subject is being well received in the marketplace at this time. Unknowns include the effect of a slowing U.S. and global economy. The City's abundant recreation, expanding employment opportunities, location, reasonable land and home prices and the availability of land for development combine to make the City a prime area for future growth.

NICHOLS RANCH SPECIFIC PLAN / SURROUNDING AREA

The Nichols Ranch Specific Plan ("Specific Plan") includes approximately 72.5 gross acres proposed for 168 residential units and a 14.5-acre commercial center. This appraisal includes the residential areas only and does not include the commercial center. The entire Nichols Ranch Specific Plan is shown below with the subject property's approximate boundaries outlined in black.



The entire Nichols Ranch Specific Plan is generally bounded to the north by Nichols Road, to the east by existing residential use, to the south by Temescal Valley High School and to the west by I-15. More specifically, the subject area is bounded by existing residential use to the east, parks, open space and a drainage channel to the south, the commercial portion of Nichols Ranch (unimproved) to the east and Nichols Road to the north. I-15 runs in a northwest-southeast direction about one-eighth mile west of the subject. Access is considered good via I-15 to Nichols Road. Neighborhood shopping is available within one mile at Central Avenue with three major neighborhood shopping centers with anchors of Walmart, Costco and Lowes and a Home Depot.

The Specific Plan was adopted by the City Council on June 11, 2019 and is also known as City of Lake Elsinore SP No. 2018-01.

The Nichols Ranch Specific Plan is a master planned community which preserves Stovepipe Creek in its natural state, while establishing residential, commercial and recreational uses. The Plan approved 168 single family homes (subject property), a 14.5-acre future commercial center, 8.3 acres of parks and 7.8 acres of open space. The Specific Plan preserves the natural drainage course and riparian habitat within Stovepipe Creek which bisects a portion of the subject and forms the southern border of the western portion of the subject. There is a 6.5-acre linear park proposed for a par-course fitness station which overlooks Stovepipe Creek. While the residential is divided into six planning areas by the Specific Plan, all planning areas are zoned Low-Medium Residential and total 31.3 acres for 168 dwelling units. Meritage Homes purchased and is developing the six residential planning areas into two neighborhoods, with Planning Areas 1, 2 and 3 generally encompassing the Hilltop neighborhood and Planning Areas 4, 5 and 6 generally encompassing the Highland neighborhood. The exception to this is two lots which house the Hilltop models which are located in Planning Area 4. The overall density for the residential portion of the Specific Plan (the subject property) is 5.4 dwelling units per acre. The additional acreage within the Specific Plan includes 41.2 acres of non-residential land uses which include the 14.5-acre commercial center, the 6.8 acre linear park, 1.6 acres of open space, 5.5 acres of drainage basin, 5.6 acres of floodway and 5.3 acres of circulation (internal streets).

Immediately south of the Nichols Ranch Specific Plan is the Temescal Valley High School beyond which are existing residences and commercial development along Central Avenue, the next exit on I-15 to the south. To the east there are existing residences and some rural housing. North of Nichols Road is a mining operation and asphalt yard. Per the Specific Plan the mining area is covered by the Alberhill Ranch Specific Plan which is now designated as Commercial – Specific Plan (C-SP). Immediately to the west is the commercial portion of the Nichols Ranch (not included in this appraisal) which is generally in a superpad condition (mass graded with adjoining

street of Bedrock Road improved) beyond which is I-15. West of I-15, south of Nichols Road is the Lake Elsinore Outlets, a large outlet shopping center. The outlet center includes national brands such as Gap Factory, Levi's Outlets, Oneill, Lids, Guess Factory, Van's The Children's Place, Carter's and Bath and Body Works along with several local smaller in-line stores and restaurants. West on Nichols Road from I-15 is the community of Alberhill Ranch with four new home communities currently being developed by Pulte Homes along with KB Homes two communities in Terracina.

LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2

On October 22, 2019, the City Council of the City of Lake Elsinore adopted a Resolution of Intention to form Community Facilities District No. 2019-2 (Nichols Ranch). At the time of formation, Lake Elsinore CFD 2019-2 comprised five parcels totaling 58.19 gross acres and was encompassed by Tentative Tract Map 37305 proposed for 168 residential units. According to the CFD Report ("Report"), the types of Facilities that are proposed to be financed by the proceeds from CFD No. 2019-2 consist of the construction, purchase, modification, expansion, rehabilitation and/or improvement of (i) drainage, library, park, roadway, traffic, administration and community center facilities, marina and animal shelter facilities, other public facilities of the City, including the foregoing public facilities which are included in the City's fee programs with respect to such facilities and authorized to be financed under the Mello-Roos Community Facilities Act of 1982, as amended (the City Facilities") and (ii) water and sewer facilities including the acquisition of capacity in the sewer system and/or water system of the Elsinore Valley Municipal Water District ("EVMWD") which are included in the EVMWD's water and sewer capacity and connection fee programs (the "Water District Facilities" and together with the City Facilities, the "Facilities"), and all appurtenances and appurtenant work in connection with the foregoing Facilities, including the cost of engineering, planning, designing, materials testing, coordination, construction staking, construction management and supervision for such Facilities. In addition, the Incidental Expenses associated with the Lake Elsinore CFD 2019-2 bonds are to be included.

The cost of Facilities, at time of the CFD Report were estimated to be \$5,300,000 based on fiscal year 2019-20 dollars. The costs, as shown in the Report are as follows:

City of Lake Elsinore	<u>Total</u>	<u>Bond Allocation</u>
Traffic Impact Fee	\$229,992	\$229,992
Library	\$25,200	\$25,200
City Hall & Public Works Facilities	\$135,912	\$135,912
Community Center	\$91,560	\$91,560
Marina Facilities	\$130,872	\$130,872
Animal Shelter	\$58,464	\$58,464

Fire Facility	\$126,168	\$126,168
Drainage Fee	\$467,852	\$467,852
Total City Fees	\$1,266,020	\$1,266,020
EVMWD		
Water Capacity Fees	\$2,242,128	\$2,242,128
Temescal Valley Project CFD Credit	(\$456,120)	(\$456,120)
Water Capacity Fee	\$91,720	\$91,720
Water Capacity Fee Credit	(\$1,000,000)	(\$1,000,000)
Sewer Capacity Fee	\$1,330,056	\$1,330,056
Sewer Lift Station	\$2,162,500	\$797,825
Water Main Line – Nichols Road	\$1,000,000	\$0
Total EVMWD	\$5,370,284	\$3,005,609
Total Eligible Fees/Improvements	\$6,636,304	\$4,271,629
Incidental Financing Costs		\$1,028,371
Total Funded by Bond Proceeds		\$5,300,000
Total Funded by Developer		\$2,364,675

According to the Rate and Method of Apportionment, the assigned Special Tax for Developed Residential Property is shown in the table below. It should be noted that all amounts are in 2019-2020 dollars.

<u>Land Use</u>	<u>Bldg Sq. Footage</u>	<u>Special Tax</u>
Single Family Residential	Less than 1,700 SF	\$1,693
Single Family Residential	1,700 SF to 1,899 SF	\$1,712
Single Family Residential	1,900 SF to 2,099 SF	\$1,866
Single Family Residential	2,100 SF to 2,299 SF	\$1,895
Single Family Residential	2,300 SF to 2,500 SF	\$1,953
Single Family Residential	Greater than 2,500 SF	\$2,049
Multli-Family Property	N/A	\$15,378/Ac

Per the latest sources and uses (dated July 16, 2024), the project fund deposit is anticipated to be \$6,799,861 with \$683,558 in Debt Service Reserve Fund, \$94,431 in capitalized interest and \$361,762 in costs of issuance and underwriters discount (all amounts subject to change). The boundary map showing Lake Elsinore CFD No. 2019-2 is shown in the Addenda.

SUBJECT PROPERTY DESCRIPTION

The subject property consists of the residential area of Nichols Ranch which includes two neighborhoods, Hilltop and Highland by Meritage Homes. The two neighborhoods are shown in the site plans below with the description beginning on the following page.

Hilltop Site Plan



Highland Site Plan

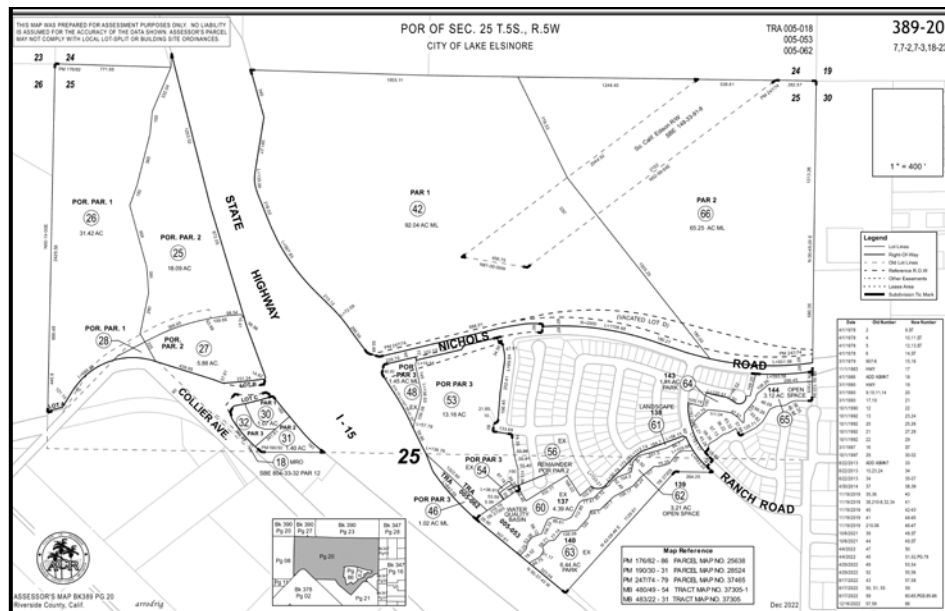


Location: Southeast corner of Bedrock Road and Nichols Road, City of Lake Elsinore.

Legal Property Description: Hilltop is known as Lots 1-26, 54-55 and 120-134 of Tract 37305 and Lots 1-34 of Tract 37305-1 in the City of Lake Elsinore.
Highland is known as Lots 27-53 and 56-119 of Tract 37305, City of Lake Elsinore.

Property Owner: Meritage Homes as to Lots 15, 18-21, 24-34, 38-59, 92-104, 106-108, 112-119 of Tract 37305 and Lots 1-23 of Tract 37305-1. Individual Homeowners as to Lots 1-14, 16-17, 22-23, 35-37, 60-91, 105, 109-111 and 120-134 of Tract 37305 and Lots 24-34 of Tract 37305-1.

Assessors Parcel Nos.: The Assessor's Parcel Map which is currently available on public record does not show the individual parcels within the tract map as shown below. We were unable to obtain the new Assessor's Parcel Map.



Three-Year Sales History: Per representatives from Meritage Homes, they purchased the property in January 2021 for \$8,110,000. In addition, 83 homes have closed to individual homeowners.

Size and Shape: The subject property is irregular in shape. Per the recorded Tract Maps, Tract Map 37305-1 includes Tract Map 37305 (no dash) and gives the acreage as 58.19 gross acres. Tract 37305-1 identifies Remainder Parcel 1 (6.94 acres) and Remainder Parcel 2 (40.27 acres) which make up Tract No. 37305 (no dash).

Zoning:	The subject property is covered by City of Lake Elsinore Specific Plan 2018-01 which is also known as the Nichols Ranch Specific Plan. Per the Specific Plan the subject is shown as low to medium density residential which allows for 1-6 dwelling units per acre with a target density of 5.4 dwelling units per acre. Per the City's Zoning and General Plan Map, the site is shown as SP for Specific Plan.
Entitlements:	The subject property is entitled by virtue of the previously summarized Specific Plan 2018-1. In addition, Tract Map 37305-1 was recorded on the property on October 27, 2021, dividing the site into 34 residential lots with two remainder parcels. Tract Map 37305 recorded on the property on April 22, 2022, dividing the two remainder parcels from Tract Map 37305-1 into 134 single family detached residential lots. The lots have a minimum lot size of 4,600 square feet however the majority of the lots are in the 5,000 – 6,000 square foot range.
Homeowner's Association:	Per Meritage Homes representatives, the HOA Fees within Nichols Ranch are estimated at \$114 per month.
Topography:	The subject property was slightly hilly undeveloped land which had Stovepipe Creek crossing the site from the central portion on the east boundary, in a southwest direction to the southwestern portion of the site. There is a large detention basin at the southwest corner of the subject residential property to allow for runoff. The site has been mass graded into 168 single-family detached lots. The lots are each generally level with drainage into an engineered street storm drain system.
Soils Condition:	<p>We have reviewed a Final Geotechnical Report of Rough Grading for Lots 3-28, 48, 121-124 of Tract 37305 prepared by Petra Geosciences and dated April 18, 2023. The report presented a summary of the observation and testing services provided by Petra. The report has limitations that supervision or direction of the grading contractor was not included. Their observation and testing did not reveal any deviations from the recommendations provided in the referenced geotechnical reports. Based on their findings, the conclusions and recommendations presented within the above noted report along with the referenced reports were prepared in conformance with generally accepted professional engineering practices.</p> <p>It is an assumption of this appraisal that the soils are adequate to support the highest and best use conclusion and that all recommendations made within any reports were or will be adhered to during construction. It should be noted that this report only covered a portion of the lots within the subject property.</p>

Seismic

Information:

Per the County of Riverside, the Elsinore Fault is located across I-15 from the subject property. The appraiser is not an earthquake expert and refers the reader to both California and Riverside County for more detailed information.

Environmental

Concerns:

We have not received an environmental report to review; however, we have received the conditions of approval for TPM 37305 which covers Nichols Ranch. Per the conditions, the 6.49-acre park needs to be completed prior to the 125th Certificate of Occupancy being obtained. Per Meritage representatives, the park was recently completed and began the 90-day maintenance prior to City acceptance and the timing should not stop any Certificate of Occupancy's being obtained.

It is an assumption of this appraisal that the subject property is free and clear of any environmental issues which would slow or thwart development of the site, that all recommendations contained in any such reports were adhered to and that the City park is accepted prior to the 125 Certificate of Occupancy being needed. This is suggested by appropriate approvals provided by the County throughout planning and construction along with interviews with the builder.

Flood Information:

Per FEMA Map 06065C2028G dated 8/28/2008 the subject within an area of minimal flooding and is not located within a Federal Emergency Management Agency (FEMA) designated flood zone. This is due to LOMR 22-09-1014P which was effective August 18, 2023, and covers the Stovepipe Canyon Creek. Stovepipe Canyon Creek is along the south side of a portion of the subject site.

Fire Hazard:

From the CalFire Fire Hazard Severity Zone Map, the subject property is within a Local Responsibility Area and their recommendation appears to be for a designation of a Very High Fire Severity Zone which requires certain construction materials. It is an assumption of this appraisal that the requirements have been included in the construction of the homes. This is suggested by the City approval of the house plans within Nichols Ranch.

Easements and Encumbrances:

We have reviewed a Preliminary Title Report prepared by FNTG Builder Services Order Number 00143967-996-SD1-RT4 which covers Tract Map 37305 (no dash) dated August 1, 2022. The exceptions are as follows.

Item Nos. A through F refers to property taxes and special assessments including CFD 98-1 (EVMWD), CFD 2015-1 (Lake Elsinore Fire Safety Services), CFD 2015-2 (Lake Elsinore Maintenance Services) and CFD No. 2019-2 (subject CFD). Item

No. 1 refers to water rights on the property. Item Nos. 2, 5, 6, 9, 10, 12 and 14 refer to easements for public utilities, roads, drainage and access, and for the easements shown on Tract Map 37305. Item Nos. 3 and 13 refers to access rights. Item No. 4 pertains to a waiver of any claims for damages to said land by reason of the location, construction, landscaping or maintenance of I-15. Item 7 refers to an agreement to establish covenants and equitable servitudes between adjoining landowners. Item Nos. 8 and 11 were intentionally omitted. Item No. 15 pertains to the CC & Rs recorded on the property. Item No. 16 pertains to a Notice of Alternative Non-Adversarial and Dispute Resolution Procedures for Nichols Ranch recorded on the property.

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than the aforementioned CFDs and the easements noted within the preliminary reports noted above which are assumed not to hinder development of the site. This is suggested by the approval by the City for development of the 168 lots.

Utilities: All normal utilities will serve the subject property by the following companies:

Electrical:	Southern California Edison Company
Natural Gas:	The Gas Company
Sewer/Water:	Elsinore Valley Municipal Water District
Schools:	Lake Elsinore Unified School District

Streets/Access: Access to the subject project is via I-15 to Nichols Road, east 0.2 miles to Bedrock Road which forms the eastern border of the subject property and provides the main entrance to the model complex. Additional access is via Nichols Road to Ranch Road and south to River Rock Court (access to Tract No. 37501-1).

I-15 is a major north/south freeway providing access to international borders both north and south.

Nichols Road has on/off ramps at I-15. To the east is the subject site beyond which Nichols Road becomes El Toro Road which provides access to more remote areas outside of the City limits. To the west Nichols Road provides access to the community of Alberhill Ranch and connects with Lake Street, a main entrance into the City of Lake Elsinore

Bedrock Road is an access road to the south off Nichols Road providing access to the subject community and to the future commercial site within Nichols Ranch (not part of this appraisal).

Bedrock Road currently terminates at Horse Creek Road, the main entry into the residential portion of Nichols Ranch.

Internal Streets within the project include Horse Creek Road, Hanging Rock Road, Brush Creek Way, Bigfork Road, Horseshoe Bend Road, Quarry Way, River Bend Road, Ranch Road, Flathead Road and River Rock Court.

Current Condition: The subject property has been developed into 168 single-family detached lots, 106 of which have houses that are over 95 percent complete. There are an additional 30 houses under construction (under 95 percent complete) and 32 remaining finished lots.

Costs to Complete: Per Meritage representatives there are \$1,395,145 in remaining land development costs which include staking, grading, sewer, water, utilities, concrete, paving, retaining/perimeter walls and concrete, paving and landscaping for the amenities and common areas. In addition, there are \$819,251 in remaining land development fees to be paid by the builder which include School Fees, TUMF Fees and MSHCP Fees. The CFD is anticipated to fund the City Fees and Water/Sewer Fees. Within this report it is a hypothetical condition that Lake Elsinore CFD 2019-2 is in place, thus, only the remaining fees to be paid by the builder are included in our analysis. The remaining land development costs and fees are a cost to the builder and do not affect the individually owned homes. Out of the 168 proposed lots, 83 have closed to individuals leaving 85 lots owned by Meritage. Dividing the total remaining costs of \$2,214,396 (\$1,395,145 plus \$819,251) by the 85 lots suggests an average per lot remaining cost of \$26,051.72.

**Improvement
Description:**

Nichols Ranch includes two neighborhoods known as Hilltop and Highland, both by Meritage Homes. All of the home exteriors include dual-glazed vinyl windows, rear yard fencing, full front yard landscaping, 2-car garages with interior access, roll-up garage doors with automatic opener and concrete walks and driveway. Interiors include LED lighting, air conditioning, smoke detectors, interior laundry rooms and paneled interior doors. Kitchens include wood cabinets, large kitchen islands, stainless steel Whirlpool appliances and solid stone countertops. Energy efficiency includes spray foam insulation and water efficient faucets. Automation includes advanced thermostats, door sensors, motion detectors, smart door locks, smart home hubs and video doorbells. All homes appear to be in excellent condition with no visible depreciation.

It should be noted that the first homes within both Hilltop and Highland were built under 2019 building codes which had the square footages within Hilltop as 2,020, 2,177 and 2,427 square feet. When

the 2022 building codes went into effect, it changed the square footage of the homes within Hilltop to 2,020, 2,165 and 2,417 square feet either the same or slightly smaller. Within Highland the 2019 building code square footages were 2,320, 2,541, 2771 and 2,948 square feet while the 2022 building codes changed the square footages to 2,308, 2,532, 2,744 and 2,932, all slightly smaller. The marketing brochures list for both neighborhoods, "approximate" square footages, which are slightly different. Per Meritage Homes representatives, the above listed square footages are correct, and the marketing brochures are wrong. This has been corrected on the Nichols Ranch website for the two communities. For purposes of this report, we are using the square footages per the 2022 building codes which are slightly more conservative than the 2019 building codes.

We have reviewed sales information from the builder which included the homes closing from August 31, 2023 through July 1, 2024. Actual sales prices less concessions ranged from \$584,695 to \$667,050. Per the Multiple Listing Service, there have been no re-sales and per our inspection there were no homes listed for re-sale and our inspection did not reveal any homes up for sale. Base asking prices currently range from \$596,000 to \$675,000 while at opening in June 2023 base pricing was \$563,000 to \$649,000 suggesting an increase of 4-5 percent over the past year. On top of base pricing there are lot premiums (due to size) and options/upgrades purchased. The houses which are over 95 percent completed are detailed below.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Own	Bldr. Own
Hilltop:					
1	4 / 3	2 / 2	2,020	11	2
2	4 / 3	2 / 2	2,165	16	3*
3	5 / 3	2 / 2	2,417	<u>17</u>	<u>5*</u>
Hilltop Total				<u>44</u>	<u>10</u>
Highland:					
1	4 / 3	2 / 2	2,308	11	5*
2	4 / 3	2 / 2	2,532	<u>9</u>	<u>0</u>
3	4+ / 3	2 / 2	2,744	11	5*
4	5+ / 3	2 / 2	2,932	<u>8</u>	<u>3</u>
Highland Total				<u>39</u>	<u>13</u>
Total				<u>83</u>	<u>23</u>

In addition to the above detailed houses there are 30 houses under construction and 32 finished lots.

RIVERSIDE COUNTY HOUSING MARKET

In analyzing the County's housing market, population growth and economic conditions need to first be considered.

Population

The County population grew 0.6 percent between January 2023 and January 2024 (per the California Department of Finance). This compares to an average annual growth rate over the past ten years of about 0.8 percent, and an average annual growth rate of approximately 2.5 percent for the previous eighteen-year period. Predictions are for the County to grow at an average annual rate of 0.6 percent over the next six years. This equates to an increase of approximately 15,000 residents per year, suggesting the need for about 5,500 homes per year within the County. Due to the impact of COVID, new home sales in most cities in the County in 2020 through 2022 were higher than the coastal communities due to affordability, the work from home factor, and the fact that millennials are finally entering the housing market.

Economic Conditions

Over the past twenty-five years the Inland Empire has seen various cycles in the housing market. The Great Recession impacted the Inland Empire significantly and resulted in a longer recovery period than that of other Southern California regions. The rise and then fall of housing prices in the Inland Empire between 2004 and 2009 were considerably steeper than almost anywhere in the State. Unfortunately, this meant that the people who bought near the peak of the market likely faced significant negative equity. After essentially remaining flat for a few years, housing prices began to increase in late 2012 through January 2020. Once the COVID pandemic hit in March 2020, the economy entered what is now known as the COVID disruption. The housing market slowed down significantly early on, but by May 2020, new homes were going under contract and selling at well above average absorption rates from May 2020 through Spring of 2022 in the region. Beginning in mid-2022, the new home market saw a slowdown in absorption rates due to the increasing interest rates, the high prices of homes, and the high rate of inflation which was shaking consumer confidence.

Economic growth in the Inland Empire was strong generally between 2015 (after the Great Recession), and until the economic shutdown due to COVID. The second half of 2020 and all of 2021 saw economic growth, however the first two quarters of 2022 saw GDP shrinking. The most recent unemployment rate for the County is 4.4 percent (per the May 2024 EDD report). The end of 2022 saw lower unemployment rates than the County's pre-COVID unemployment rate in February 2020 of 4.0 percent, however 2023 saw unemployment rising from 3.6 to a high of 5.5 percent. Thus far in 2024, unemployment has decreased about one percent. While unemployment rates are still near historical lows, the inflation factor has significantly affected the economy.

The housing market played a large role in the past two recessions. In the Great Recession, due to increased interest rates and rising home prices between June 2004 and mid-2006, the market reaction was to create non-conventional financing alternatives, such as sub-prime and non-conventional mortgages, to artificially maintain the boom housing market of 2004 and 2005. By 2007, the housing market saw a shake-up because of the problems in the sub-prime and non-conventional mortgage markets, which played a role in the 2008 upheaval of Wall Street and contributed significantly to the U.S. economic downturn of the Great Recession. Due to stricter income verification on new loans and the lack of available credit, coupled with job losses and declining home prices, sales of new homes slowed for the next few years and essentially remained flat until mid-2012 when home prices began a steady climb.

During the COVID disruption, new home sales were one of the brightest spots in both the local and national economies. While new home sales slowed in March and April 2020 due to the onset of the COVID pandemic, both sales and prices increased significantly due to strong demand from May 2020 throughout COVID until spring 2022 when interest rate increases began affecting the home-buying market. The rising interest rates alone did not seem to slow sales in Spring 2022. However, a combination of increasing home prices and falling consumer confidence, added to the significant interest rate increases, slowed new home sales significantly beginning in mid-2022. Due to the significantly higher mortgage interest rates, existing homeowners are not moving which has stifled

the existing home market, making the new home market the only option for some. In January 2022 mortgage rates were 3.22 percent (for a typical 30-year fixed conventional mortgage) while as of July 3, 2024, the rate for the same loan is 6.95 percent. On a \$600,000 mortgage, the monthly payment for this loan has increased from \$2,594 to \$3,949 or over 52 percent.

Per the Zonda National Economic and Housing Market Update in March 2024, the rate of growth of new home sales is off from COVID highs but up from 2022 sales numbers, suggesting a healthy market. Per their survey of over 300 new-home builders nationally, the builders are stating sales are continuing but report they had to adjust pricing and incentives to “find the market.” In the January 2023 survey, 50 percent of builders surveyed were lowering their prices and the remaining 50 percent stated their pricing was flat. In March 2024, the survey resulted in 50 percent of the builders stating their pricing was increasing a little, 46 percent of builders stating their pricing was flat and 4 percent dropping prices. This is a very different dynamic than in January 2023 which was partly due to builder’s readjusting concessions (interest rate buy-downs), and partly due to the market accepting the mortgage rate increases. In today’s market, over 60 percent of new-home builders in the U.S. are offering either full-term or temporary interest rate buy-downs (John Burns Research and Consulting) which is helping to sustain new home sales. Per Zonda, in March 2024, 80 percent of new home builders in the Inland Empire are offering incentives.

The larger public homebuilders began offering significant interest rate buy-downs in early 2023 in order to keep absorption rates steady, which reportedly cost between \$30,000 and \$100,000 in incentives. The builders are attempting to find the “sweet spot” in incentives. In their September 2023 survey of 300 builders nationwide, Zonda asked builders to check all that they were offering and found 70 percent of builders surveyed were offering rate buydowns, 60 percent were offering funds towards closing costs, 33 percent were offering flex dollars, 22 percent were offering lower home prices and 20 percent were offering funds toward options and upgrades. The question is, how long can builders continue to offer these significant incentives. As rates go higher, the extent

that builders can buy-down the mortgage rates goes down. In the April 2024 Zonda survey, 61 percent of builders surveyed stated demand was higher than or on-track with expectations, however 39 percent stated demand was slower than anticipated.

Home loan mortgage rates have been and are still playing a huge part in the housing market. The Board held mortgage rates at all-time lows after the Great Recession and again after the COVID Recession in an attempt to assist the housing market's recovery. Low rates helped home sales during this time. However, first-time buyers are now having a hard time entering the housing market due to rising prices and rising interest rates. Mortgage applications had been spiking in late 2020 and 2021 due to the low rates and the fear rates were going to start ticking up, which began happening in March 2022. The Board has increased the rate eleven times between March 2022 and August 2023, which increased the FFR from 0-0.25 percent to 5.25-5.50 percent. At the latest Board meeting in June 2024, they paused the FFR increases for the sixth time and suggested decreases in 2024 will begin later in the year. The financial markets had been anticipating a possible March decrease which caused volatility in the financial markets. The FFR increases are supposed to help slow the high inflation rate in the Nation, which appears to be occurring as the latest reports are showing inflation in June 2024 at 3.1 percent, significantly down from a high of 9.1 percent in June 2022 however higher than some recent readings.

While new home builders slowed production as sales slowed in 2022, the spring of 2023 brought optimism to builders once again which has continued into the first half of 2024. New home sales were up as buyers adjusted to higher mortgage rates and the existing home inventory hit all-time lows. Existing homeowners that are locked into an under-four percent mortgage are not moving up due to the current seven percent rates. This is creating a supply issue for existing homes. New home sales are benefiting from this supply issue as in some cases, the only option for homebuyers are new homes. Per Zonda, historically, new homes captured 10 to 13 percent of all home sales; however, due to the limited supply of existing homes currently on the market, new homes are capturing closer to 25 percent of all home sales in the Inland Empire.

Residential Land Development

While there had been little land development going on in most of the Inland Empire during the Great Recession years 2008-2011, the second half of 2012 saw a resurgence in the more coveted areas of the Inland Empire. The increase in housing prices since 2012 combined with the limited availability of supply made land development feasible once again for homebuilders. It is thought that the increase in regulations, which has significantly increased the timeline for processing entitlements, has limited the master developers' further entitlement of developable land in California. While prior to the recession it was not unusual to see numerous large master-planned communities selling lots to various builders, there are few currently available in the subject area with Bedford and Terramor (subject property) two of the only master plans selling to various builders in the area. The majority of land sales over the past few years include single tracts of land with maps ready to record or a public builder purchasing a larger piece of land but develops the land for its own use such as Meritage Homes at Nichols Ranch and Pulte Homes at Alberhill Ranch.

Land sales in the Inland Empire slowly grew from 2012 up to a peak in 2017, with 2018 and 2019 showing lower land transactions. Once home sales exploded in May 2020, land sales followed with a significant number of residential land sales to builders in the Inland Empire during the second half of 2020 and throughout 2021. In late 2021 and early 2022, prior to the FFR increases, builders were paying significantly more for residential land that was ready to develop as demand was up and supply was shrinking. The beginning of 2022 continued with residential land sales going under contract until May, when new home sales began to fall sharply. According to Zonda's survey of builders regarding residential land purchases, as of January 2023 only 2 percent of builders surveyed were "full steam ahead," and almost 40 percent were pausing transactions or bidding lower on land transactions. As of March 2024, these percentages had changed drastically with 49 percent stating they are going "full steam ahead" and 46 percent moving "cautiously forward." The increase in optimism from new home builders outlook is partially due to the extreme slowdown of existing home inventory which is fueling new home sales. Per Zonda in the first quarter 2024 there were about 11,478

vacant developed lots in the Inland Empire, which is down 23 percent from the previous year.

New Home Sales and Pricing

We have researched new single-family homes within the subject's market in order to reflect residential trends. It should be noted these sales numbers and prices pertain to new home sales while later in this section we discuss existing home sales. In reviewing new home sales in the Inland Empire market area, per the June 30, 2024, Ryness Report, the year-to-date average sales rate (4.2 sales per month) is three percent higher than the same time period of the previous year (4.07 sales per month). Surprisingly, even with the increases in pricing and mortgage rates, sales of new homes are occurring at a very good pace; however, this is partially due to the extremely limited supply of existing homes which is creating more demand for new homes. New home sales rates started to level off in late Spring 2022, likely due to the increase in mortgage interest rates; however, with the limited existing homes on the market, new homes are enjoying a boost. One negative is that as interest rates rise, purchasing power becomes lower and therefore fewer people purchase new homes and amenities. Along with home sales comes a demand for appliances, furniture, building materials and services such as insurance, mortgage services, inspections, interior designers, and landscapers, all contributing to the area economy.

When comparing the June 30, 2024, Inland Empire Ryness Report to one year prior, there are 13 fewer projects (250 in June 2023 and 237 in June 2024) and sales are about three percent higher year-to-date than the previous year at 4.2 sales per month. Looking back, in 2023 the average sales rate pre project in the Inland Empire was 3.6 sales per month with 2022 at 3.2 sales per month, 2021 at 4.5 homes per month, 2020 at 4.3 homes per month while in 2019, prior to COVID, the average sales rate was 3.3 homes per month per project. Per Zonda's May 2024 Market Report on the Inland Empire, the 12-month annualized average new home sales rate is outpacing both that of California and of the U.S.

New single-family home pricing (combines both attached and detached) in the Inland Empire has also seen changes. The median new home price in the Inland Empire

changed from the peak value of \$437,200 in the third quarter of 2006 to \$268,155 in early 2009 (during the Great Recession, a decrease of 39 percent) while the current Inland Empire median new home price is \$598,490 which is down from a record high of \$650,000 in May 2022 per the California Association of Realtors' latest market report. The current median price reflects an increase of over 100 percent from the bottom of the cycle and an increase of almost 37 percent over its peak during the Great Recession, however a decrease from the 2022 peak of almost eight percent. In reality, this decrease is actually larger as builders are buying down interest rates which costs the builder, at times, up to \$100,000, however, the amount is not reflected in the recorded sales price. New home sales prices fluctuate based on the land value and competition more than on the cost of building the home. While finishes and sizes of homes can change, the basic costs on a per square foot basis typically do not fluctuate as much as land values; however, there have been inflationary increases in construction costs adding to this increase. Construction materials have increased an estimated 40 percent since 2019.

Within our search for the most comparable actively selling new home communities, we searched the subject's Ryness submarket of South Riverside which houses Lake Elsinore, Wildomar, Menifee, the French Valley and Winchester. This submarket has 49 new home communities which have an average sales rate year to date of 4.5 homes per month. This is higher than the Inland Empire average of 4.2 sales per month which reflects favorably on the subject submarket. Out of the 49 total new home communities in the South Riverside submarket, Lake Elsinore houses 11 of them. Pulte and Centex have four neighborhoods in Alberhill Ranch, KB Home has two neighborhoods in Terracina, Meritage has two neighborhoods at Nichols Ranch (subject property), KB Home has Crimson Hills, Richmond American has Running Deer Estates (nearing sell out) and Tri Pointe Homes has Echo Highlands. Due to the plentiful number of new home communities within Lake Elsinore, we did not have to extend our search outside of the City. We have utilized 10 of the Lake Elsinore new home communities (including the subject's two product lines) with base pricing ranging from \$513,500 to \$733,990, with the majority of base pricing in the \$600,000 to \$700,000 range. The subject's most recent base pricing is from \$596,000 to \$675,000, which falls within the comparables price range, with the majority of the floorplans falling in the low to mid-point of the range.

Existing Homes Sales and Pricing

While the previous section looked at new home sales and pricing, this section refers to existing homes in the Inland Empire. According to the California Association of Realtors' most recent sales data, within overall Southern California, the median price paid for an existing single-family home in May 2024 (\$880,000) reflects an increase of ten percent from the previous year (\$800,000 in May 2023) and the same as the previous month. Existing home sales in Southern California overall were down one percent year-over-year as of May 2024, however up 8.9 percent from the previous month. The overall Southern California numbers compare to Riverside County with \$650,000 as the median price paid for an existing home in the County in May 2024, the same as the previous month and up 3.3 percent from one year ago. Sales of existing homes in the County were up 4.4 percent month-over-month and down 7.7 percent year-over-year due to limited inventory, higher mortgage rates, and high home prices. Sales slowed significantly for existing homes in 2022 and 2023 reflecting homeowners not ready to sell due to the changing market. Thus far in 2024 existing home sales have risen, however, they are still below historical averages. Historically, the new home market captures 10-13 percent of the overall home sales; however, in the past year, new home sales are capturing around 25 percent of total home sales. Below is a table showing the sales and prices for the Southern California area by County per the California Association of Realtors.

Southern California Existing Home Sales						
County	May 2024	Apr. 2024	May 2023	Price MTM % Change	Price YTY % Change	Sales YTY % Change
Los Angeles	\$811,610	\$825,970	\$744,770	(1.7%)	9.0%	(2.6%)
Orange	\$1,422,500	\$1,440,000	\$1,256,500	(1.2%)	13.2%	12.2%
Riverside	\$650,000	\$650,000	\$629,000	0.0%	3.3%	(7.7%)
San Bernardino	\$488,900	\$516,080	\$455,000	(5.3%)	7.5%	(2.2%)
San Diego	\$1,025,000	\$1,047,500	\$935,000	(2.1%)	9.6%	0.7%
Ventura	\$925,000	\$940,000	\$925,500	(1.6%)	(0.1%)	(2.1%)
Southern Calif.	\$880,000	\$880,000	\$800,000	0.0%	10.0%	(1.0%)

Source: California Association of Realtors

It is interesting to note that all Southern California Counties have had prices either stay the same or decrease since last month. Based on May 2024 median existing homes prices, in comparison to the majority of the surrounding counties, Riverside County has

a definite price advantage. The “Riverside County Advantage” (price difference between Riverside and surrounding counties) is \$161,610 as compared to Los Angeles County, \$275,000 as compared to Ventura County, \$375,000 as compared to San Diego County and \$772,500 as compared to Orange County. That is, in May 2024, the median priced home in Riverside County was \$772,500 less (or over 50 percent less) than the median priced home in Orange County (\$1,422,500). However, San Bernardino County has a \$161,100 price advantage over Riverside County. Typically, as the price advantage widens, homebuyers are more open to commuting to further out areas. With the work-from-home concept, the suburban areas have seen more growth which put pressure on home prices in the Inland Empire. It’s worth noting that the majority of Southern California counties showed median price decreases from the previous month suggesting that pricing may have peaked.

In a separate attempt to capture the neighborhood specific price changes, the resale activity of existing homes in the subject area (per Redfin.com's Housing Market Trends) has been reviewed. The number of sales and sale prices of existing homes within market areas in the immediate area of the subject are shown in the table below.

ZIP Code/Community Name	Border To Subject	Sales of Homes May 2024	Sales % Change from May 2023	May 2024 Price Median	Price % Change from May 2023	May 2024 PSF Median
92532 (East Lake Elsinore)	Subject	93	22.4%	\$625,000	7.8%	\$266
92530 (Lake Elsinore)	West	144	4.3%	\$575,000	7.5%	\$296
92883 (Temescal Valley)	North	201	34.0%	\$751,049	8.5%	\$339
92587 (Canyon Lake)	East	70	2.9%	\$650,000	1.1%	\$396
92584 (Menifee)	Southeast	189	(14.1%)	\$622,000	5.4%	\$287
92595 (Wildomar)	South	89	27.1%	\$655,000	7.4%	\$300
92570 (Perris-Unincorporated)	Northeast	84	47.4%	\$595,642	5.4%	\$333

Source: Redfin.com Housing Market Trends May 2024

The median home price of a detached resale home in the subject’s immediate market area is \$625,000, which is mid-range of all of the sales in the subject market area. The above price fluctuations from year to year relate to the California Association of Realtors overall Riverside County detached home resale price increase of 3.3 percent year-over-year and 7.7 percent sales decrease from May 2023 to May 2024.

Nichols Ranch - Sales, Pricing and Competition

Nichols Ranch includes Hilltop and Highland by Meritage Homes. Both began selling their homes in July 2023 with 99 houses sold to date suggesting a sales rate of 8.25 homes per month including both neighborhoods. Detailing each neighborhood, Hilltop has sold 55 homes suggesting an average sales rate of 4.6 homes per month while Highland has sold 3.7 homes per month. Original base pricing in Hilltop was \$563,000 to \$592,000 while current base pricing is \$596,000 to \$624,000 reflecting increases of \$32,000 per plan or in the 5.5 percent range over the past year. Actual closed home pricing ranged from \$561,695 to \$643,295. Actual closed prices include options, upgrades and premiums along with all concessions given by the builder. Highland's original base pricing was \$604,000 to \$649,000 while current base pricing is \$630,000 to \$675,000 reflecting increases of \$26,000 per plan which equates to about 4.0 percent over the past year. Actual closed home prices ranged from \$568,824 to \$667,050. Both neighborhoods are closing with incentives, which are common in today's marketplace. Incentives in the two neighborhoods range from \$18,000 to \$86,000 which is typical for the Inland Empire.

Hilltop, the lower priced and smaller homes, is experiencing sales rates above the local average at 4.6 home sales per month while Highland is experiencing slightly lower absorption rates of 3.7 homes per month compared to the Inland Empire's overall average sales rate (4.2 sales per month). According to the Ryness Report dated June 30, 2024, there are currently 49 new home projects in the South Riverside submarket which includes Lake Elsinore. The 49 projects include 11 communities in Lake Elsinore (including the subject two). The average absorption rate within the 49 South Riverside communities' year to date per the June 30, 2024 Ryness Report is 4.5 sales per month. The subject sales rates in the 3.7 to 4.6 sales per month range is near the overall average in the area.

Summary

Riverside County has seen a substantial increase in pricing since 2012 with most areas, including the subject, showing astronomical increases from Mid-2020 through early

2022. While existing home sales were originally down when COVID began in spring/early summer 2020, new home sales subsequently shot up due to the existing home market supply being constrained and interest rates hitting all-time lows. The latest statistics suggest a possible slowdown in sales as interest rates have risen substantially; however, buyers appear to be resilient to the increases. While there are 49 new home projects in the South Riverside submarket, they are experiencing slightly higher overall sales rates than the overall Inland Empire. The subject market area saw an increase in pricing consistent with most of Southern California throughout 2020 and 2021 and appeared to be continuing in the beginning of 2022. The second half of 2022 and 2023 saw sales slow and prices lowering; followed by price increases as builders offered additional incentives. Builders' optimism appears to have returned with the majority of builders generally believing prices will increase slightly in 2024 or remain flat. Despite uncertainty hitting the market due to interest rates and inflation, most observers agree that the Inland Empire housing market is healthy and population growth is still estimated to occur in the area. It is believed that as the population continues to increase, housing growth will also continue, despite a possible economic slowdown.

HIGHEST AND BEST USE ANALYSIS

The highest and best use is a basic concept in real estate valuation due to the fact that it represents the underlying premise (i.e., land use) upon which the estimate of value is based. In this report, the highest and best use is defined as:

"the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value"⁴

Proper application of this analysis requires the subject properties to first be considered "As If Vacant" in order to identify the "ideal" improvements in terms of use, size and timing of development. The existing improvements (if any) are then compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a more productive or ideal use.

"As If Vacant"

In the following analysis, we have considered the sites probable uses, or those uses which are physically possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible uses, or those uses which generate a positive return on investment; and the maximally productive uses, or those probable permissible uses which combine to give the owner of the land the highest net return on value in the foreseeable future.

Physically Possible Uses

The subject property consists of approximately 58.19 acres per the recorded tract maps (including internal streets, setback areas, open space and two park sites), which are irregularly shaped contiguous parcels located along the south side of Nichols Road generally between Wood Mesa Court and Bedrock Road, east of I-15 in the northernmost portion of City of Lake Elsinore. Stovepipe Creek bisects the site from Wood Mesa Court to Bedrock Road. Stovepipe Creek has been approved to be a drainage through the subject along with water quality basins at the southeast corner and the southwest corner

⁴ The Appraisal of Real Estate, 11th Edition

of the subject site. We have reviewed a geotechnical report which states the site is geographically sound to be developed into residential land use. In addition, mass grading has occurred on the site along with grading the site into 168 single-family detached lots.

It is an assumption of this appraisal that the soils are adequate to support the highest and best use conclusion and that there are no environmental or condition issues which would slow or thwart development of the site. This is evidenced by City approvals along with City inspectors on site during construction and certificates of occupancy being obtained on homes within the site. An engineered drainage system has been designed into a street drainage system to alleviate any potential flooding problems and to control project water runoff. The site has good access from I-15 via Nichols Road.

Based on the physical analysis, the size, access and topography make the subject property physically suited for numerous types of development; however, the grading and development that has occurred on the site suggests single-family residential use.

Legality of Use

The subject property is located within the City of Lake Elsinore, the controlling entity to regulate land use. Per the City the subject property is covered by Specific Plan 2018-01 (Nichols Ranch) with the subject property identified as low to medium residential (allows for 1-6 dwelling units per acre) per the Specific Plan. Per both the City's zoning map and the City's general plan map, the subject is shown as SP (Specific Plan). In addition, Tract Map Nos. 37305 and 37305-1 have been recorded on the subject property subdividing the subject site into 168 single family residential lots, internal streets, setback areas, two parks, two water quality basins and open space areas. The approved mapping is consistent with the approved Specific Plan that has been approved on the property. Based on the legality of use analysis, the type of development for which the subject property can be utilized is narrowed to residential use. This is consistent with the findings of the physically possible uses.

Feasibility of Development

The third and fourth considerations in the highest and best use analysis are economic in nature, i.e., the use that can be expected to be most profitable. As discussed under the

Riverside County Housing Market section earlier within this report, the City of Lake Elsinore market and surrounding communities are showing good absorption and increases in pricing over the past few years.

Nichols Ranch opened for sale in June 2023 with 99 homes sold to date, suggesting the need for new homes in the area. There are currently 11 new home communities in the City of Lake Elsinore, all selling at good to excellent sales rates. Two of the new home communities are nearing sell-out. The sales of 99 homes within the past year between the two subject neighborhoods suggest that there is a need for new homes in the City of Lake Elsinore.

Based on the above analysis, the highest and best use for the subject property appears to be for single-family residential development.

Maximum Productivity

Based on the market activity of residential lands in the immediate area, we have concluded there is a need/demand for residential lands. Based on the absorption of new homes in the area, coupled with population growth projected in the subject marketplace, it is our opinion that the subject property is feasible for residential development.

Highest and Best Use Conclusion – “As Vacant”

The final determinant of highest and best use, as vacant, is the interaction of the previously discussed factors (i.e., physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is our opinion that the highest and best use for the subject property “As Vacant” is for residential development.

Highest and Best Use – “As Improved”

The subject property consists of Hilltop and Highland at Nichols Ranch. The two communities opened in June 2023 and have sold 99 homes since that time suggesting an average sales rate between the two communities of 8.25 houses per month. Individually, Hilltop, the smaller and less expensive homes, have sold 4.6 homes per month while Highland, the larger homes have sold 3.7 homes per month. The average

year to date monthly sales per project in the Inland Empire is 4.2 houses per month while within the subject submarket of South Riverside the year-to-date average is 4.5 houses per month. The range within the South Riverside submarket area is from 1.0 to 11.2 year-to-date average sales per month for the active projects. The two subject communities with average sales ranging from 3.6 to 4.6 houses per month fall within the subject market area's range.

All of the homes appear to be in excellent condition with no physical depreciation of structures visually apparent. The sales rate within the subject neighborhoods and the new home sales in the surrounding communities suggests there is demand for new homes in the current market with current financing rates at the correct price points. All of the homes are of good design and appear to be of good quality workmanship. Based on the overall sales rates within both Hilltop and Highland at Nichols Ranch, it is our conclusion that the highest and best use for the subject property is for the continued use, as improved.

VALUATION ANALYSES AND CONCLUSIONS

The Sales Comparison Approach will be the primary approach used to value the subject property. This approach compares similar properties that have recently sold or are in escrow to the subject property. In determining the value for the property, a unit of comparison needs to be addressed. For detached single-family lots, the lots are typically sold on a finished lot basis with the condition of the land taken into consideration. That is, the sales price is determined by a finished lot value, then the remaining costs to develop the property to a true finished lot condition are taken into consideration. Therefore, in determining a current market value for the lands, the current condition of the lots will be considered. In the case of the existing home valuations, a single new-home sale is the unit of comparison. Our search will include all new home projects within the Lake Elsinore area in order to find comparable new homes for sale. In determining the value for each house, a base value will be concluded for each plan which will be considered a minimum market value as most buyers typically purchase some premiums, upgrades or options which increase the price of the home. In addition, concessions given by builders will also be considered.

In the case of the completed (over 95 percent complete) builder-owned models and production units, the homes will be valued using the Sales Comparison Approach to value to conclude on a retail value for each plan, followed by a Discounted Cash Flow ("DCF") Analysis due to the single ownership of multiple homes by the builder. The DCF will consider the retail market value of the completed homes (utilizing the Sales Comparison Approach), remaining development costs (if any), the marketing and carrying costs associated with selling off the homes, a profit due to the developer of the homes, and a discount rate reflecting both the risk associated with selling off the homes along with the time value of money during the estimated absorption period. In the case of the individually owned homes, a concluded base value will be used for each plan and a mass appraisal technique will be used. In determining the concluded base value, new home sales in the area will be reviewed and compared with sales of the subject completed homes using standard methodology and statistical testing. All of the value

conclusions will assume that the improvements funded by the Lake Elsinore CFD No. 2019-2, Special Tax Bonds are completed and in place and that the property is subject to the Special Tax Lien.

The valuation will be presented as follows: First, a discussion of the comparable residential market data will be given. Each of the transactions will be detailed along with a comparison discussion of their relationship to the subject property based on a per lot price. Following the land value conclusions, a value analysis for each house plan within Hilltop and Highland will be completed along with a discounted cash flow analysis for the builder-owned completed homes. A summary of the final value conclusions will be reported at the end of this valuation section.

Market Data Discussion –Residential Lots

Within Nichols Ranch, out of 168 total proposed homes, there are currently 83 closed to individual homeowners, four models and 19 production homes over 95 percent complete owned by the builder, 30 houses under construction and 32 generally finished lots. We will value a home under construction (under 95 percent complete) as a finished lot rather than give value to a partially complete improvement, therefore, we will value 62 lots in this section. While the lots have a minimum lot size of 4,600 square feet, there are only a few with sizes under 5,000 square feet.

We have searched the area for land sales that are similar to the subject lands. Due to the limited availability of recent sales in Lake Elsinore, we have expanded our search to include land sales within the surrounding communities of Temescal Valley, Wildomar and Menifee. Our search resulted in the seven transactions summarized below and, in the Addenda, to be most comparable to the subject property. The sales are reported both on a purchase price basis (when available) and on a finished lot basis (when available). Although some sales refer to “finished lots”, they are typically physically finished lots with some fees remaining to be paid in order to be considered true finished lots. Below are the details of each of the comparable land sales along with a discussion of each transaction in relationship to the subject lands.

Land Sale No. 1 refers to a current escrow located in Menifee about 12 miles east of the subject at the northeast corner of Southshore Drive and Holand Road near the community known as Menifee Lakes. KB Home is in escrow to purchase the site from Ambient Pacific with escrow anticipated to close in the next few weeks. The site is mapped for 233 single family detached lots with a minimum lot size of 6,000 square feet. The property is in escrow at a confidential price however brokers familiar with the transaction state the finished lot amount is estimated at \$253,000 per lot. The site is in an unimproved condition with mapping in place. The lots are being purchased in two takedowns. In comparison to the subject property, this location is considered to be similar (Menifee median home price is currently \$622,000 while East Lake Elinore's median home price is \$625,000). This transaction is not a closed sale, which makes it slightly superior to today's current market value as there is no guarantee the transaction will close. However, dollars have gone non-refundable in this transaction suggesting it will close. In addition, this transaction is slightly inferior in condition (mapped, unfinished lands). Although costs are considered in the finished lot price, the risk of developing the property is not. Finally, the lot size within this transaction of 6,000 square foot minimum lots when compared to the subject's 4,600 square foot minimum lots (majority closer to 5,000 square foot minimum lots) is considered to be slightly superior.

Land Sale No. 2 refers to the most recent closing we found in the subject market area. KB Home purchased 53 lots in June 2024, also from Ambient. The property is located in Menifee at the northwest corner of Leon Road and Craig Avenue about 13.5 miles southeast of the subject. The transaction includes 53 lots with a minimum lot size of 5,500 square feet which were purchased for \$4,246,364 or \$80,120 per lot based on an estimated finished lot price of \$227,500. The lots were in an unimproved condition with final mapping in place. This site is known as Phase 2 of Canterwood. D.R. Horton purchased Phase 1 in Canterwood in April 2022 based on a finished lot value of \$175,000, however there were significant offsites needed prior to development. While the cost estimate of the offsites were taken into consideration, there is additional risk associated with the first phase in a larger development which D.R. Horton accepted when

buying the first phase of the development at a lower finished lot cost. Additionally, there has been appreciation in the subject marketplace between April 2022 and June 2024. In comparison to the subject property, this location is considered to be similar to the subject property and the lot size is slightly superior.

Land Sale No. 3 pertains to the Lennar purchase of 491 lots, also located in Menifee which are along the east side of I-215 at Rouse Road and Encanto Drive. The lots are known as the first phase of Lagado, a master planned community generally east of I-215 and north of McCall Road. The lots have varying minimum sized lots from 5,000 to 7,000 square feet. The site was in a rough graded condition at time of sale in March 2024. They were purchased for \$22,500,000 or \$45,825 per lot based on an estimated finished lot cost of \$240,000. When compared to the subject property this transaction is considered to be slightly inferior in location as Legado is a bit further out for commuters into Los Angeles and Orange Counties. In addition, the number of lots within this transaction is considered to be inferior. That is, most builders purchase a single tract in a transaction with lots typically ranging from around 50 to 200, so this transaction for 491 lots would be considered a bulk value due to the time it will take for Lennar to develop and sell the 491 proposed homes.

Land Sale No. 4 is also located in Menifee, along the southeast side of Domenigoni Parkway, north of Lindenberger Road, very near to Land Sale No. 1. The site was unimproved with a recorded final map subdividing the site into 197 lots with a minimum lot size of 6,000 square feet. Pulte purchased the site in January 2024 for \$8,500,000 or \$43,147 per lot based on an estimated finished lot cost of \$240,000. The site is adjacent to Pulte's successful Banner Park community. When compared to the subject site this property is considered to be similar in location and slightly superior in minimum lot size.

Land Sale No. 5 is the most recent land sale in the Temescal Valley, about five miles northwest of the subject site. KB Home purchased the site in December 2023 for \$27,539,637 or about \$135,663 per lot based on a finished lot cost estimated at \$295,000. The property is located at Horsethief Canyon and Bosley Lane. The site was unimproved at time of sale with an approved map for 203 lots with a minimum lot size of

6,000 square feet. In comparison to the subject property this sale is considered to be inferior in condition, however superior in minimum lot size.

Land Sale No. 6 relates to the purchase of a site in Lake Elsinore, about three miles southwest of the subject site. D.R. Horton purchased the site, located along the southwest side of Lakeshore Drive, southeast of Machada, in December 2023 for \$8,000,000 or \$57,143 per unit. The site had a tentative tract map for 140 duplexes and was purchased in an unimproved condition. This transaction is considered inferior in lot size as it is for a duplex (attached) product. We were not able to obtain finished lot estimates for this purchase. We have included it as it is a recent trading of land in the City of Lake Elsinore as it shows the demand in the market area.

Land Sale No. 7 pertains to the D.R. Horton purchase of a parcel located on the southwest side of the I-15 in Wildomar at Palomar Street and Starbuck Circle about nine miles south of the subject property. The site is zoned R-1 for single family residential with a minimum lot size of 7,200 square feet. D.R. Horton purchased the site in June 2023 for \$7,000,000 or \$55,555 per lot based on an estimated finished lot price of \$265,000. The development costs are higher due to the offsite improvements which are needed and the fact that the site is unimproved. There is an approved final map for the 126 lots on the site. In comparison to the subject property this location is considered to be similar (Wildomar versus Lake Elsinore). These lots are superior in lot size to the subject due to the minimum lot size of 7,200 versus the subject's generally 5,000 minimum lot size. In addition, this sale is considered to be inferior due to the unimproved nature of the site versus the subject's graded and finished or nearly finished condition. While costs are taken into account in our analysis, the risk associated with the development is not.

Land Sale No. 8 pertains to the only other residential land sale in the City of Lake Elsinore in the past two years that our search uncovered. In May 2022 Pulte purchased a portion of Alberhill Ranch located at Alberhill Ranch Road and Nicholas Road about three miles west of the subject site. This site was hilly with view potential. Pulte

purchased the 344 lots for \$37,056,914 or for \$107,723 per lot based on a reported finished lot of \$220,000. The lots have a minimum lot size of 6,000 square feet and were sold in an unimproved condition however with final map in place. Pulte is now selling their Crestly (being sold under the Centex brand), Fairfield, Linden and Ridgeline neighborhoods, all at Alberhill Ranch. In comparison to the subject property this transaction is considered to be slightly superior in lot sizes and view potential, however inferior in condition of land at time of sale and in number of lots. Pulte purchased 344 lots which is considered to be inferior due to it being a bulk value as most builders purchase in the range of 50 – 200 lots in a single transaction. While the development costs are considered in our analysis, there is risk associated with the grading and development of a parcel when it is in an unimproved condition. In addition, this transaction occurred in mid-2022 as the Federal Reserve Board began increasing rates. Now that the rate increases have subsided, builders are more optimistic, making this transaction slightly inferior in date of sale when compared to today's current market.

In addition to the above sales, we are aware of two current escrows for two planning areas within the next phase of Bedford, about four miles northwest of the subject in the southernmost portion of the City of Corona adjacent to the Temescal Valley. Bedford is a successful master planned community with significant amenities which are considered superior to the subject property. Due to the current escrow status, we have been asked to keep the information confidential in our files. The two sites are in escrow to two different public builders on the basis of \$467,000 for 4,000 square foot minimum lots and \$423,000 for 3,760 square foot minimum lots. These transactions are not yet closed; however, they are due to close in a few weeks according to the seller. The Planning Areas are being sold in a mass graded condition with all entitlements and mapping in place. They are within the third phase of Bedford as Phase One is sold out and Phase Two is nearing sell-out. In comparison to the subject property these transactions are considered to be superior in location (closer into Orange County Los Angeles and Riverside for commuters), and superior as they are not yet closed sales.

The chart below summarizes the various differences in the market data as compared to the subject property.

Data No.	Location	Date of Sale	Lot Size	Finished Lot Price	Comparison to Subject
1	Menifee	Cur. Esc	6,000	\$253,000	Superior – Lot Size & Not Closed Sale Inferior - Condition
2	Menifee	June 2024	5,500	\$227,500	Slightly Superior – Lot Size Inferior – Condition
3	Menifee	March 2024	5,000 – 7,000	\$240,000	Inferior – Location, Condition, and Number of Lots
4	Menifee	Jan. 2024	6,000	\$240,000	Superior - Lot Size Inferior - Condition
5	Temescal Valley	Dec. 2023	6,000	\$295,000	Superior – Lot Size & Location Inferior – Condition
6	Lake Elsinore	Dec. 2023	Duplex	N/A	Significantly Inferior – Lot Size
7	Wildomar	June 2023	7,200	\$265,000	Superior – Lot Size Inferior – Condition
8	Lake Elsinore	May 2022	6,000	\$220,000	Superior – Lot Size Inferior – Condition and Date of Sale

The market data has an overall finished lot range from \$220,000 to \$295,000. This wide range is largely due to various lot sizes and locations. Larger lots command a higher price depending on other factors being equal while smaller lots generally indicate lower finished lot prices. We have included the older sale from 2022 as it was the last Lake Elsinore transaction we were able to obtain the finished lot price on. It should be noted that appreciation on homes has gone up significantly since 2022. The highest transaction is located in the Temescal, close to the subject property, however considered to be a slightly superior area and with larger minimum sized lots. The lowest transaction relates to the sale in 2022, prior to a significant amount of appreciation in the subject marketplace. We have considered adjustments primarily due to location, condition of lands and lot size.

Based on the market data, as well as the current escrow activity, we have concluded at a finished lot value for the subject property of \$250,000. As discussed above under the Property Description Section there are \$26,051.72 in remaining land development costs and fees per lot. The concluded value for the lots is as follows:

62 Lots x \$250,000	\$15,500,000
Less Rem. Costs (\$26,051.72 x 62)	(1,615,207)
As Is value for the 62 Lots	<u>\$ 13,884,793</u>

Retail House Valuation

Due to the single ownership of multiple houses by Meritage Homes, a Discounted Cash Flow ("DCF") analysis is needed in order to arrive at a bulk value for the homes. First, a retail value for each plan will be concluded, followed by a DCF for the builder which will take into consideration the absorption time to sell off the builder owned houses, the costs associated with selling off the homes and any remaining development costs to be paid by the builder within each neighborhood. The resulting revenue will be discounted using an appropriate rate to determine the builder-owned bulk value.

Hilltop and Highland currently have 23 completed homes owned by Meritage, including four models and 19 production homes, 13 of which are in escrow and due to close upon completion. In this analysis we will value each plan within Hilltop and Highland and then use a discounted cash flow analysis to conclude at a bulk value for the builder-owned homes.

Below is a summary of the floor plans within Hilltop and Highlands. A listing of the improved residential comparable properties is located in the Addenda of this report.

detailed below.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Own	Bldr. Own
Hilltop:					
1	4 / 3	2 / 2	2,020	11	2
2	4 / 3	2 / 2	2,165	16	3*
3	5 / 3	2 / 2	2,417	17	5*
Hilltop Total				44	10
Highland:					
1	4 / 3	2 / 2	2,308	11	5*
2	4 / 3	2 / 2	2,532	9	0
3	4+ / 3	2 / 2	2,744	11	5*
4	5+ / 3	2 / 2	2,932	8	3
Highland Total				39	13
Total				83	23

In addition to the above detailed houses there are 30 houses under construction and 32 finished lots.

The most appropriate new home comparable data for Hilltop Plan 1 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	1	4 / 3	2 / 2	2,020	--
1	2	4 / 3	2 / 2	2,165	\$280.37
2	1	4 / 3	2 / 2	2,308	\$272.96
7	4	3 / 2.5	2 / 2	1,976	\$304.14
7	5	3 / 2.5	2 / 2	2,139	\$291.25
8	4	3 / 2.5	2 / 2	2,218	\$278.17
10	4	4 / 3	2 / 2	2,216	\$263.99

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$263.99 to \$304.14 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Hilltop Plan 1 is currently \$295.05 per square foot. There have been 11 closings of Plan 1 with sale prices ranging from \$278.07 to \$291.92 per square foot. There are currently three escrows of Hilltop Plan 1 with a sales price range of \$289.45 to \$292.92 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 1 generally have ranged from \$35,000 to \$50,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Hilltop Plan 1 has a base current market value of \$280.00 per square foot. This calculates as follows:

$$2,020 \text{ sf} \times \$280.00 = \$565,600$$

The most appropriate new home comparable data for Hilltop Plan 2 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	2	4 / 3	2 / 2	2,165	--
1	1	4 / 3	2 / 2	2,020	\$295.05
1	3	5 / 3	2 / 2	2,417	\$258.17
2	1	4 / 3	2 / 2	2,308	\$272.96
2	2	4 / 3	2 / 2	2,532	\$255.92
7	5	3 / 2.5	2 / 2	2,139	\$291.25
8	4	3 / 2.5	2 / 2	2,218	\$278.17
10	4	4 / 3	2 / 2	2,216	\$263.99

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$255.92 to \$295.05 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Hilltop Plan 2 is currently \$280.37 per square foot. There have been 16 closings of Plan 2 with sale prices ranging from \$268.82 to \$287.26 per square foot. There are currently two escrows of Hilltop Plan 2 with a sales price range of \$272.19 to \$288.36 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 2 have generally ranged from \$30,000 to \$50,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Hilltop Plan 2 has a base current market value of \$265.00 per square foot. This calculates as follows:

$$2,165 \text{ sf} \times \$265.00 = \$573,725$$

The most appropriate new home comparable data for Hilltop Plan 3 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	3	5 / 3	2 / 2	2,417	--
1	2	4 / 3	2 / 2	2,165	\$280.37
2	1	4 / 3	2 / 2	2,308	\$272.96
2	2	4 / 3	2 / 2	2,532	\$255.92
3	2	5 / 2.5	2 / 2	2,404	\$266.63
4	2	4 / 2.5	2 / 2	2,654	\$245.29
7	6	4 / 3	2 / 2	2,389	\$269.56
8	5	4 / 3	2 / 2	2,453	\$258.86
10	5	5 / 3	2 / 3	2,532	\$247.04

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total

square footage, room count, garage space and other amenities. The comparable new home base prices range from \$245.29 to \$280.37 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Hilltop Plan 3 is currently \$258.17 per square foot. There have been 17 closings of Plan 3 with sale prices ranging from \$243.90 to \$266.15 per square foot. There are currently six escrows of Hilltop Plan 3 with a sales price range of \$257.55 to \$267.40 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 3 have generally ranged from \$20,000 to \$60,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Hilltop Plan 3 has a base current market value of \$245.00 per square foot. This calculates as follows:

$$2,417 \text{ sf} \times \$245.00 = \$592,165$$

The most appropriate new home comparable data for Highland Plan 1 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	1	4 / 3	2 / 2	2,308	--
1	2	4 / 3	2 / 2	2,165	\$280.37
1	3	5 / 3	2 / 2	2,417	\$258.17
2	2	4 / 3	2 / 2	2,532	\$255.92
3	2	5 / 2.5	2 / 2	2,404	\$266.63
4	2	4 / 2.5	2 / 2	2,654	\$245.29
7	6	4 / 3	2 / 2	2,389	\$269.56
8	5	4 / 3	2 / 2	2,453	\$258.86
10	5	5 / 3	2 / 3	2,532	\$247.04

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$245.29 to \$280.37 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower

price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 1 is currently \$272.96 per square foot. There have been 11 closings of Plan 1 with sale prices ranging from \$246.46 to \$278.95 per square foot. There are currently two escrows of Highland Plan 1 with a sales price range of \$271.10 to \$281.06 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 1 have generally ranged from \$30,000 to \$60,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 1 has a base current market value of \$250.00 per square foot. This calculates as follows:

$$2,308 \text{ sf} \times \$250.00 = \$577,000$$

The most appropriate new home comparable data for Highland Plan 2 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	2	4 / 3	2 / 2	2,532	--
1	3	5 / 3	2 / 2	2,417	\$258.17
2	1	4 / 3	2 / 2	2,308	\$272.96
2	3	4 / 3	2 / 2	2,744	\$241.62
3	2	5 / 2.5	2 / 2	2,404	\$266.63
4	2	4 / 2.5	2 / 2	2,654	\$245.29
8	6	4 / 2.5	2 / 2	2,517	\$254.66
10	5	5 / 3	2 / 3	2,532	\$247.04

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$241.62 to \$272.96 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 2 is currently \$255.92 per square foot. There have been nine closings of Plan 2 with sale prices ranging from \$229.86 to \$257.99 per square foot. There are no current escrows of Highland Plan 2. It should be noted that most

homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 2 have generally ranged from \$30,000 to \$65,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 2 has a base current market value of \$235.00 per square foot. This calculates as follows:

$$2,532 \text{ sf} \times \$235.00 = \$595,020$$

The most appropriate new home comparable data for Highland Plan 3 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	3	4 / 3	2 / 2	2,744	--
1	3	5 / 3	2 / 2	2,417	\$258.17
2	2	4 / 3	2 / 2	2,532	\$255.92
2	4	5 / 3	2 / 2	2,932	\$230.22
3	3	5 / 3	2 / 2	2,824	\$238.31
4	2	4 / 2.5	2 / 2	2,654	\$245.29
4	3	5 / 3	2 / 2	2,824	\$238.31
5	1	4 / 2.5	2 / 3	2,792	\$245.70
9	6	5 / 3	2 / 2	2,882	\$229.00

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$229.00 to \$258.17 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 3 is currently \$241.62 per square foot. There have been 11 closings of Plan 3 with sale prices ranging from \$213.92 to \$240.39 per square foot. There are two current escrows of Highland Plan 3 with a sales price range from \$239.61 to \$249.65 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for

Plan 3 have generally ranged from \$35,000 to \$85,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 3 has a base current market value of \$220.00 per square foot. This calculates as follows:

$$2,744 \text{ sf} \times \$220.00 = \$603,680$$

The most appropriate new home comparable data for Highland Plan 4 are shown below.

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj.	4	5 / 3	2 / 2	2,932	--
2	3	4 / 3	2 / 2	2,744	\$241.62
3	3	5 / 3	2 / 2	2,824	\$238.31
4	3	5 / 3	2 / 2	2,824	\$238.31
5	1	4 / 2.5	2 / 3	2,792	\$245.70
5	2	4 / 2.5	2 / 3	2,988	\$234.94
9	6	5 / 3	2 / 2	2,882	\$229.00

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$229.00 to \$245.70 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 4 is currently \$230.22 per square foot. There have been eight closings of Plan 4 with sale prices ranging from \$213.17 to \$227.51 per square foot. There is one current escrow of Highland Plan 4 with a sales price of \$235.92 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 4 have generally ranged from \$30,000 to \$85,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 4 has a base current market value of \$210.00 per square foot. This calculates as follows:

$$2,932 \text{ sf} \times \$210.00 = \$615,720$$

Builder Owned Retail Value

Within both Hilltop and Highland there are 19 production homes over 95 percent complete and four completed models for a total of 23 houses being valued in this section. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar-for-dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject area and the current real estate market, a consideration of a \$50,000 premium has been included with each of the model homes. The retail base value conclusions for the builder-owned homes are calculated below.

Hilltop at Nichols Ranch:

Plan 1 (2 x \$565,600)	\$ 1,131,200
Plan 2 (3 x \$573,725)	1,721,175
Plan 3 (5 x \$592,165)	2,960,825

Highland at Nichols Ranch:

Plan 1 (5 x \$577,000)	2,885,000
Plan 2 (0 x \$595,020)	0
Plan 3 (5 x \$603,680)	3,018,400
Plan 4 (3 x \$615,720)	1,847,160
Model Upgrades (4 x \$50,000)	<u>200,000</u>
Total Nichols Ranch	<u>\$13,763,760</u>

Absorption Period

In order to arrive at an absorption period for the builder owned homes within Nichols Ranch, the absorption rates for the subject communities along with comparable projects have been reviewed. The average monthly sales rate in Nichols Ranch (including both neighborhoods) is 8.25 homes per month. The comparable sales have average sales rates ranging from 2.4 to 8.9 sales per month. Thirteen of the nineteen production homes over 95 percent complete are in escrow. We have concluded that the 23, builder-owned homes will be absorbed over a four-month time period at the concluded prices.

Remaining Costs

As discussed under the property description section above there are \$26,051.72 in remaining land development costs and fees per lot. This equates to \$599,190 in remaining land development costs associated with the 23 homes over 95 percent

complete owned by the builder. For purposes of our analysis, it is assumed these costs will be expended evenly over the four-month absorption time period.

Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Eight percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of ten percent in expenses for the subject neighborhood's analyses.

Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject properties. Developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During recessionary times, this range is typically lowered considerably to six to eight percent with some builders drastically lowering their profit margins in order to maintain their work force. As the market improved, so did the profits. A ten percent profit is considered appropriate in the analysis for this community.

Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with merchant builders in the Riverside County market area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject property
4. Discussed the project with equity investors and master plan community developers

The sales rate of homes within Nichols Ranch which has been average to good has also been taken into consideration in the discount rate. Based on the above factors, a twelve percent discount rate is considered appropriate for the subject neighborhood.

Discounted Cash Flow Summary

The discounted revenue (see DCF Analyses in Addenda) for the builder owned homes resulted in the value of \$10,156,639.

Nichols Ranch – Builder Ownership Final Valuation

Meritage Homes owns 62 lots, 30 which are under construction, along with 23 homes that are over 95 percent complete, including four model homes. Thirteen of the production homes over 95 percent complete are in escrow. The final value conclusion for the Builder owned property is shown below.

62 lots	\$13,884,793
23 Builder-Owned Houses	<u>\$10,156,639</u>
Total Builder Ownership Valuation	<u>\$24,041,432</u>

Nichols Ranch - Individual Owners Value Conclusion

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes which is considered a minimum market value. This is due to homebuyers typically purchasing some upgrades and options or paying premiums for the lot and in some cases views. Within Nichols Ranch there are 83 individually owned homes. The concluded values are shown below:

<u>Hilltop at Nichols Ranch:</u>	
Plan 1 (11 x \$565,600)	\$ 6,221,600
Plan 2 (16 x \$573,725)	9,179,600
Plan 3 (17 x \$592,165)	10,066,805
<u>Highland at Nichols Ranch:</u>	
Plan 1 (11 x \$577,000)	6,347,000
Plan 2 (9 x \$595,020)	5,355,180
Plan 3 (11 x \$603,680)	6,640,480
Plan 4 (8 x \$615,720)	<u>4,925,760</u>
Total Nichols Ranch Individually Owned	<u>\$48,736,425</u>

In an additional analysis, we have reviewed the actual builder sales prices for the homes within Nichols Ranch. Closings occurred between August 2023 and July 1, 2024. The builder reported closing prices for the 83 individually owned homes totals \$50,756,278.

The actual sales prices include any upgrades, premiums or options purchased by the homeowner along with all concessions given by the builder while our concluded value is for the base value of the homes, less the concessions. The actual sales prices are about four percent higher than the concluded base prices. This difference is due to the options, upgrades and premiums which were purchased which typically increase the actual home prices over the base value. It is our opinion this further substantiates the concluded minimum market values for the Nichols Ranch individually owned homes.

APPRAISAL REPORT SUMMARY

The appraisal assignment was to value the subject property within Lake Elsinore CFD No. 2019-2 which includes 168 proposed homes within the master planned community of Nichols Ranch, located in Lake Elsinore. Nichols Ranch is being developed by Meritage Homes into two neighborhoods known as Hilltop at Nichols Ranch and Highland at Nichols Ranch. The lands have all been developed to generally finished lots and range from completed, individually owned houses to houses under construction to generally finished lots. The homes are currently being marketed with 83 of the proposed 168 houses sold to individuals and another 16 in escrow which are due to close upon completion.

The subject property was valued utilizing the Sales Comparison Approach to value along with a mass appraisal technique. In the case of multiple builder-owned properties, a Discounted Cash Flow was also utilized in the valuation process. The valuation took into consideration the improvements/benefits to be funded by Special Tax Lake Elsinore CFD No. 2019-2 Bond Proceeds along with the Lake Elsinore CFD No. 2019-2 special tax lien. The concluded aggregate value for the subject property, subject to their respective special tax lien, is:

Nichols Ranch by Meritage

Meritage Homes Ownership (23 homes & 62 lots)	\$ 24,041,432
Individual Owned (83 homes)	<u>\$ 48,736,425</u>

Aggregate Value of Lake Elsinore CFD No. 2019-2 **\$ 72,777,857**

The above values are stated as of said date of value and subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification.

APPRAISER'S CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino has made a personal inspection of the property that is the subject of this report.
8. Kitty Siino has not performed any appraisal services on the subject property in the past three years.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.



Kitty S. Siino, MAI
State Certified General
Real Estate Appraiser (AG004793)

ADDENDA

LAKE ELSINORE CFD NO. 2019-2
BOUNDARY MAP

PROPOSED BOUNDARY MAP
COMMUNITY FACILITIES DISTRICT NO. 2019-2
(NICHOLS RANCH)
CITY OF LAKE ELSINORE,
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH), CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE AT A REGULAR MEETING THEREOF, HELD ON 23rd DAY OF October, 2019, BY RESOLUTION NO. 2019-013.


 CITY CLERK
 CITY OF LAKE ELSINORE

FILED IN THE OFFICE OF THE CITY CLERK, CITY OF LAKE ELSINORE,
 THIS 28th DAY OF October, 2019.


 CITY CLERK
 CITY OF LAKE ELSINORE



THIS BOUNDARY MAP CORRECTLY SHOWS THE BOUNDARIES OF THE COMMUNITY FACILITIES DISTRICT. FOR DETAILS CONCERNING THE LINES AND DIMENSIONS OF LOTS OR PARCELS REFER TO THE COUNTY ASSESSOR'S MAPS FOR FISCAL YEAR 2019-20.



0 250 500 1,400 Feet

RECORDED THIS 31st DAY OF October, 2019
 AT THE HOUR OF 2:45 O'CLOCK P.M. IN BOOK 89
 PAGE 48 OF MAPS OF ASSESSMENT AND COMMUNITY
 FACILITIES DISTRICTS IN THE OFFICE OF THE COUNTY
 RECORDER, IN THE COUNTY OF RIVERSIDE, STATE OF
 CALIFORNIA.

FEE: \$9⁰⁰ NO: 2019-04473168
 PETER ALDANA, ASSESSOR, COUNTY CLERK, RECORDER

BY: 
 DEPUTY

REFERENCES IS HEREBY MADE TO PARCEL 4 OF THE CITY OF LAKE ELSINORE PARCEL MAP 37465 RECORDED IN THE OFFICIAL RECORDS OF THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, ON THE 3RD DAY OF OCTOBER, 2013, IN BOOK 347 OF MAPS, AT PAGES 74-75, AS DOCUMENT NO. 2013-0396737 FOR A DESCRIPTION OF THE LINES AND DIMENSIONS OF THE PORTIONS OF THE PARCELS LISTED THAT ARE A PART OF COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH) BOUNDARY.

LEGEND

— CFS BOUNDARY
 — PARCEL LINE
 388-000-000 ASSESSOR/PARCEL NUMBER



TRACT MAP NOS. 37305 and 37305-1

SHEET INDEX:

- NO. DESCRIPTION
1 TITLE SHEET
2 BOUNDARY/INDEX MAP
3 BASIS OF BEARINGS
4-9 SURVEYOR'S NOTES
10 FOUND MONUMENT NOTES
EASEMENT NOTES
VICINITY MAP
DETAILS
4-9 MAPPING SHEETS
10 DETAILS

IN THE CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SHEET 2 OF 10 SHEETS

TRACT NO. 37305

BEING A SUBDIVISION OF REMAINDER PARCEL 1, LOT "C", AND A PORTION OF REMAINDER PARCEL 2 AS SHOWN ON TRACT MAP NO. 37305-1, RECORDED IN MAP BOOK 480, PAGES 49-54, OFFICIAL RECORDS OF RIVERSIDE COUNTY, STATE OF CALIFORNIA, LOCATED IN FRACTIONAL SECTION 25, TOWNSHIP 5 SOUTH, RANGE 5 WEST, S.B.M.

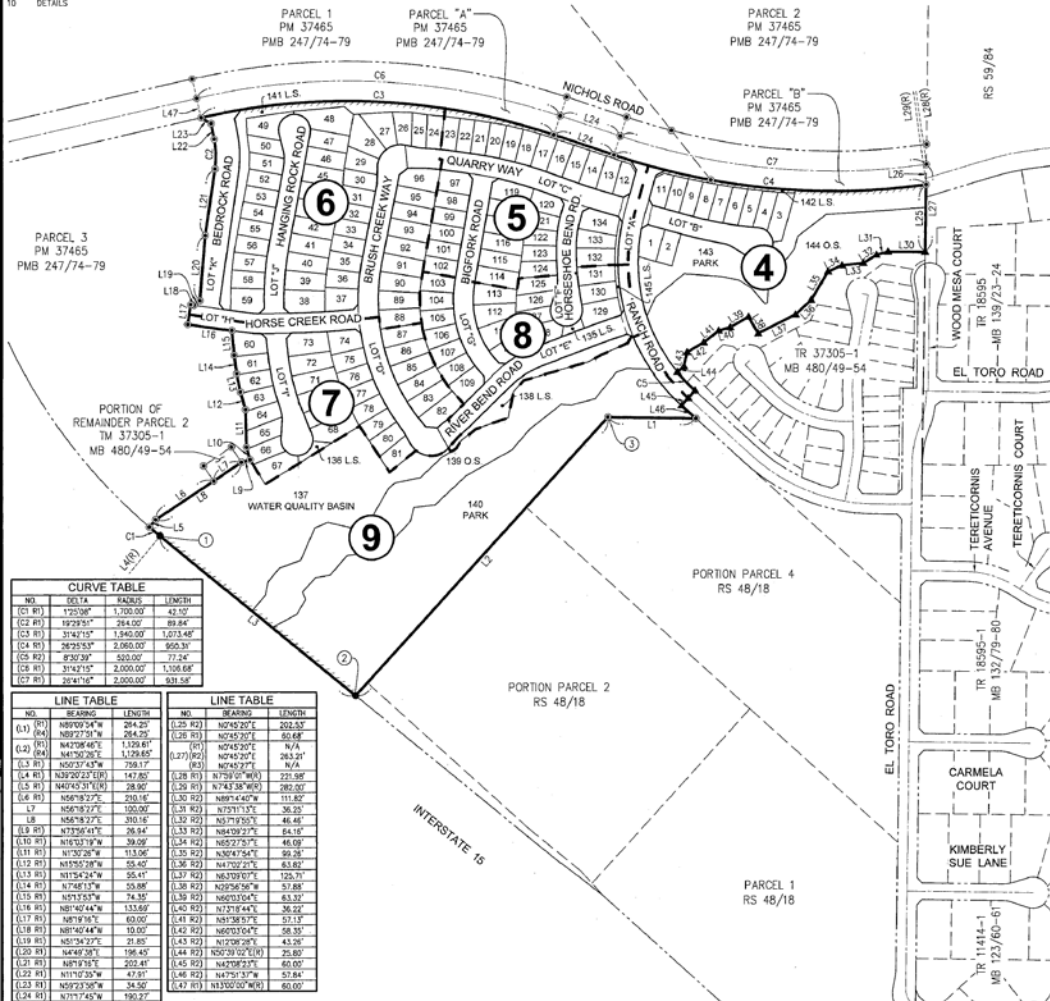
K & A ENGINEERING, INC.

DECEMBER, 2019

LOT SUMMARY:

NUMBERED LOTS: 145
LETTERED LOTS: 11
GROSS AREA: 48.22 AC
NET AREA: 38.68 AC

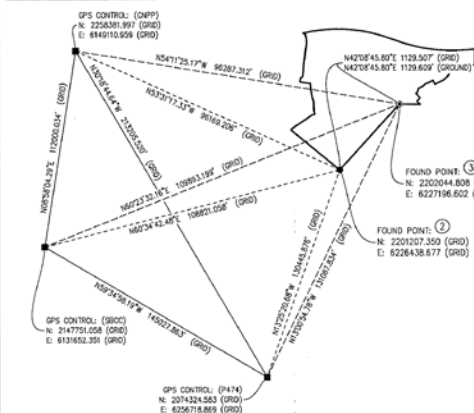
BOUNDARY / INDEX MAP



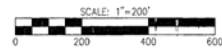
NO.	DATA	RADIUS	LENGTH
(C1) (R)	125.00'	1,700.00'	42.10'
(C2) (R)	125.00'	264.00'	89.84'
(C3) (R)	314.71'	1,845.00'	1,073.48'
(C4) (R)	38.25'±	2,060.00'	960.31'
(C5) (R)	8.30'±	505.00'	77.24'
(C6) (R)	114.91'	2,000.00'	1,508.66'
(C7) (R)	20.41'±	2,000.00'	939.58'

NO.	BEARING	LENGTH
(L1) (R)	N89°09'54"W	264.20'
(L2) (R)	N82°27'30"E	264.20'
(L3) (R)	N47°08'46"E	1,129.61'
(L4) (R)	N47°20'26"E	1,128.65'
(L5) (R)	N50°27'45"W	758.17'
(L6) (R)	N39°20'23"E	147.80'
(L7) (R)	N40°45'31"W	28.90'
(L8) (R)	N56°18'27"E	70.10'
(L9) (R)	N56°18'27"E	100.00'
(L10) (R)	N56°18'27"E	310.16'
(L11) (R)	N73°34'01"E	28.84'
(L12) (R)	N16°03'19"W	29.09'
(L13) (R)	N1°30'28"W	113.06'
(L14) (R)	N15°52'38"W	25.40'
(L15) (R)	N81°40'44"W	113.69'
(L16) (R)	N81°40'44"W	10.00'
(L17) (R)	N81°40'44"W	10.00'
(L18) (R)	N81°40'44"W	10.00'
(L19) (R)	N81°40'44"W	10.00'
(L20) (R)	N81°40'44"W	10.00'
(L21) (R)	N81°40'44"W	10.00'
(L22) (R)	N81°40'44"W	10.00'
(L23) (R)	N81°40'44"W	10.00'
(L24) (R)	N81°40'44"W	10.00'

NO.	BEARING	LENGTH
(L25) (R)	N74°20'26"E	202.53'
(L26) (R)	N74°20'26"E	80.68'
(L27) (R)	N74°20'26"E	243.21'
(L28) (R)	N74°20'26"E	243.21'
(L29) (R)	N74°20'26"E	243.21'
(L30) (R)	N74°20'26"E	243.21'
(L31) (R)	N74°20'26"E	243.21'
(L32) (R)	N74°20'26"E	243.21'
(L33) (R)	N74°20'26"E	243.21'
(L34) (R)	N74°20'26"E	243.21'
(L35) (R)	N74°20'26"E	243.21'
(L36) (R)	N74°20'26"E	243.21'
(L37) (R)	N74°20'26"E	243.21'
(L38) (R)	N74°20'26"E	243.21'
(L39) (R)	N74°20'26"E	243.21'
(L40) (R)	N74°20'26"E	243.21'
(L41) (R)	N74°20'26"E	243.21'
(L42) (R)	N74°20'26"E	243.21'
(L43) (R)	N74°20'26"E	243.21'
(L44) (R)	N74°20'26"E	243.21'
(L45) (R)	N74°20'26"E	243.21'
(L46) (R)	N74°20'26"E	243.21'
(L47) (R)	N74°20'26"E	243.21'
(L48) (R)	N74°20'26"E	243.21'
(L49) (R)	N74°20'26"E	243.21'
(L50) (R)	N74°20'26"E	243.21'



CONVERGENCE ANGLE POINT
AT BASE POINT: (99)
= -0°36'46.1700"



BASIS OF BEARINGS:

THE BASIS OF BEARING FOR THIS SURVEY IS DERIVED FROM AN ONLINE POSITIONING USER SERVICE (OPUS) SOLUTION USING THE CALIFORNIA STATE PLANE COORDINATE SYSTEM, CGCS83, ZONE 8, BASED LOCALLY ON CONTINUOUSLY OPERATING REFERENCE STATIONS (CORS) "TOMB", "T414", AND "SBOC", NAD 83(2011) EPOCH 2010.00 AS SHOWN HEREON. ALL BEARINGS SHOWN ON THIS MAP ARE GRID. QUOTED BEARINGS AND DISTANCES FROM REFERENCE MAPS OR DEEDS AS SHOWN PER THAT RECORD REFERENCE. ALL DISTANCES SHOWN ARE GROUND DISTANCES UNLESS SPECIFIED OTHERWISE. GRID DISTANCES MAY BE OBTAINED BY MULTIPLYING THE GROUND DISTANCE BY A COMBINATION FACTOR OF 0.99999997. CALCULATIONS ARE MADE AT CONTROL POINT "99" WITH COORDINATES OF N:2200064.438 (GRID) E:6222480.222 (GRID) USING AN ELEVATION OF 1482.062 (NGVD29).

NOTE:

SEE SHEET 2 FOR BOUNDARY/INDEX MAP AND BASIS OF BEARINGS.
SEE SHEET 3 FOR SURVEYOR'S NOTES, FOUND MONUMENT NOTES, AND EASEMENT NOTES.

IN THE CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

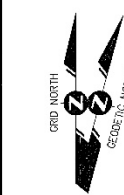
SHEET 4 OF 6 SHEETS

TRACT NO. 37305-1

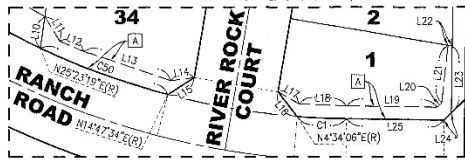
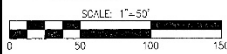
BEING A SUBDIVISION OF PARCEL 4 AS SHOWN ON PARCEL MAP NO. 37465, RECORDED IN PARCEL MAP BOOK 247, PAGES 74-78, OFFICIAL RECORDS OF RIVERSIDE COUNTY, STATE OF CALIFORNIA. LOCATED IN FRACTIONAL SECTION 25, TOWNSHIP 5 SOUTH, RANGE 5 WEST, S.31M.

K & A ENGINEERING, INC.

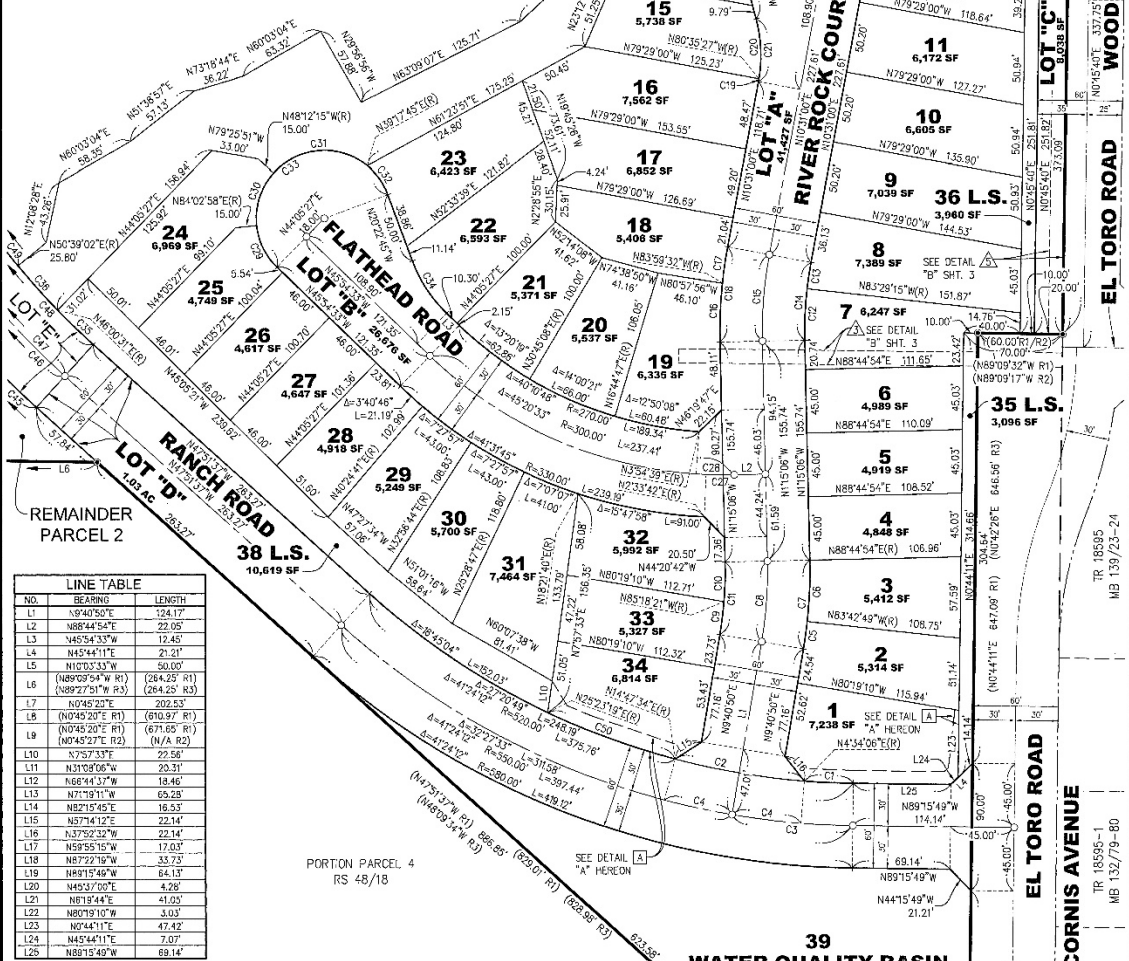
OCTOBER, 2019



CONVERGENCE ANGLE POINT
AT BASE POINT: (93)
= -00°36'46.1700"



REMAINDER PARCEL 1



NO.	BEARING	LENGTH
L1	N89°40'50"E	124.17'
L2	N88°44'54"E	22.05'
L3	N45°54'33"W	12.45'
L4	N45°44'11"E	21.21'
L5	N10°33'33"W	60.00'
L6	(N89°09'54"W R1) (284.25' R1)	
L7	(N89°27'51"W R3) (284.25' R3)	
L8	N0°45'23"E	202.53'
L9	(N0°45'20"E R1) (610.97' R1)	
L10	(N0°45'20"E R2) (610.97' R2)	
L11	N75°57'33"E	22.58'
L12	N31°08'06"W	20.31'
L13	N68°44'37"W	18.46'
L14	N71°59'11"W	65.28'
L15	N82°15'45"E	18.53'
L16	N57°14'12"E	22.14'
L17	N37°52'32"W	22.14'
L18	N59°55'15"W	17.03'
L19	N87°22'15"W	33.73'
L20	N49°15'46"W	64.13'
L21	N45°37'00"E	4.26'
L22	N81°54'4"E	41.03'
L23	N80°19'10"W	3.03'
L24	N0°44'11"E	47.42'
L25	N45°44'11"E	7.07'
L26	N88°15'48"W	69.14'

NO.	DELTA	RADIUS	LENGTH
C1	3°49'54"	520.00'	34.77'
C2	10°13'29"	520.00'	92.80'
C3	8°56'39"	550.00'	85.86'
C4	9°06'44"	550.00'	46.07'
C5	3°23'39"	330.00'	19.55'
C6	7°32'17"	330.00'	43.42'
C7	10°35'56"	330.00'	62.97'
C8	10°35'56"	300.00'	57.24'
C9	4°29'11"	270.00'	23.50'
C10	5°56'45"	270.00'	28.02'
C11	10°35'56"	270.00'	51.52'
C12	7°45'51"	270.00'	36.59'
C13	4°00'10"	270.00'	18.67'
C14	11°46'06"	270.00'	55.46'
C15	11°46'06"	300.00'	61.82'
C16	7°10'34"	330.00'	41.81'
C17	4°30'32"	330.00'	25.97'
C18	11°46'06"	330.00'	87.78'
C19	1°06'27"	100.00'	1.93'
C20	24°29'21"	100.00'	42.63'

NO.	DELTA	RADIUS	LENGTH
C21	25°31'48"	100.00'	44.56'
C22	11°06'19"	48.00'	92.24'
C23	48°37'41"	48.00'	40.74'
C24	41°32'24"	48.00'	35.06'
C25	4°55'24"	48.00'	4.12'
C26	205°31'48"	48.00'	172.18'
C27	3°48'48"	300.00'	19.97'
C28	5°03'45"	300.00'	27.03'
C29	39°57'34"	48.00'	33.48'
C30	47°44'47"	48.00'	46.00'
C31	87°30'00"	48.00'	73.30'
C32	30°39'30"	48.00'	25.40'
C33	25°31'48"	100.00'	44.56'
C34	35°30'08"	520.00'	35.11'
C35	4°38'30"	520.00'	42.33'
C36	4°08'11"	90.00'	6.50'
C37	6°41'02"	80.00'	10.60'
C38	10°49'13"	80.00'	17.00'
C39	10°49'13"	100.00'	18.89'

NO.	DELTA	RADIUS	LENGTH
C40	38°07'39"	57.00'	36.93'
C41	46°23'41"	57.00'	46.15'
C42	89°31'20"	57.00'	85.08'
C43	8°16'37"	47.00'	87.42'
C44	7°45'52"	550.00'	22.88'
C45	3°19'07"	550.00'	281.44'
C46	6°33'53"	550.00'	610.18'
C47	5°03'14"	520.00'	535.86'
C48	50°32'38"	520.00'	458.72'
C49	10°35'45"	520.00'	96.16'

EL TORO ROAD
TERETICORNIS AVENUE

WOOD MESA COURT
EL TORO ROAD

TR 18595-1
MB 132/79-80

TR 18595-1
MB 132/79-80

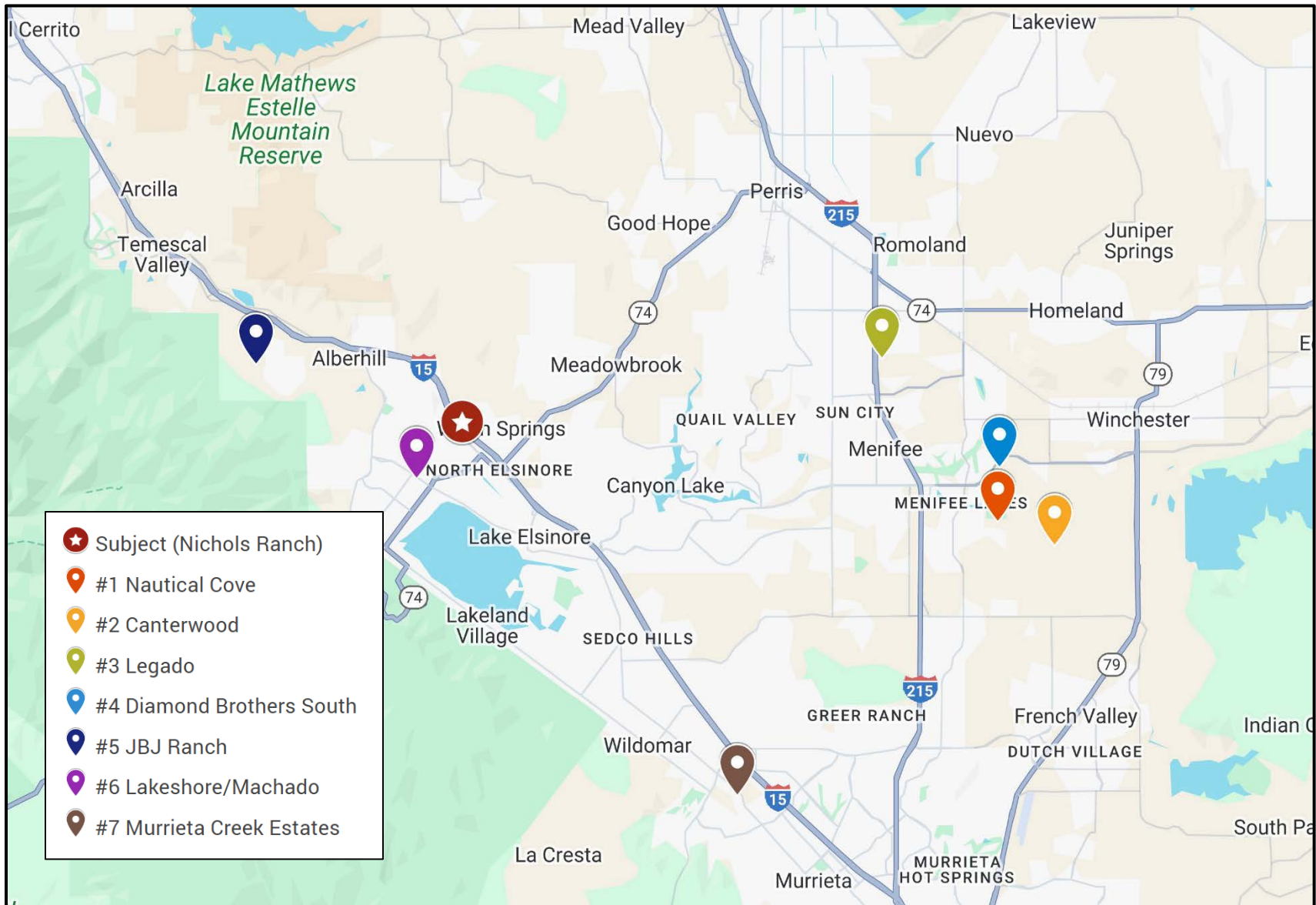
DISCOUNTED CASH FLOW ANALYSES

Nichols Ranch Builder-Owned Houses Discounted Cash Flow Analysis

MONTH	Months	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>MONTH 4</u>	<u>TOTAL</u>
	4					
INCOME:						
Retail Sales	13,763,760	\$3,440,940	\$3,440,940	\$3,440,940	\$3,440,940	\$13,763,760
TOTAL INCOME		<u>\$3,440,940</u>	<u>\$3,440,940</u>	<u>\$3,440,940</u>	<u>\$3,440,940</u>	<u>\$13,763,760</u>
EXPENSES:						
Remaining Costs		(\$149,797)	(\$149,798)	(\$149,797)	(\$149,798)	(\$599,190)
Marketing & Carrying Expenses	10%	(\$344,094)	(\$344,094)	(\$344,094)	(\$344,094)	(\$1,376,376)
Profit	10%	<u>(\$344,094)</u>	<u>(\$344,094)</u>	<u>(\$344,094)</u>	<u>(\$344,094)</u>	<u>(\$1,376,376)</u>
TOTAL EXPENSES		(\$837,985)	(\$837,986)	(\$837,985)	(\$837,986)	(\$3,351,942)
NET CASH FLOW		\$2,602,955	\$2,602,954	\$2,602,955	\$2,602,954	\$10,411,818
Discount Factor	12%	<u>0.9901</u>	<u>0.9803</u>	<u>0.9706</u>	<u>0.9610</u>	
DISCOUNTED CASH FLOW		\$2,577,183	\$2,551,666	\$2,526,402	\$2,501,388	\$10,156,639
CUMULATIVE DISCOUNTED CASH FLOW		<u>\$2,577,183</u>	<u>\$5,128,849</u>	<u>\$7,655,251</u>	<u>\$10,156,639</u>	<u>\$10,156,639</u>

FINISHED LOT LAND SALES MAP
& SUMMARY CHART

FINISHED LOT LAND SALES MAP

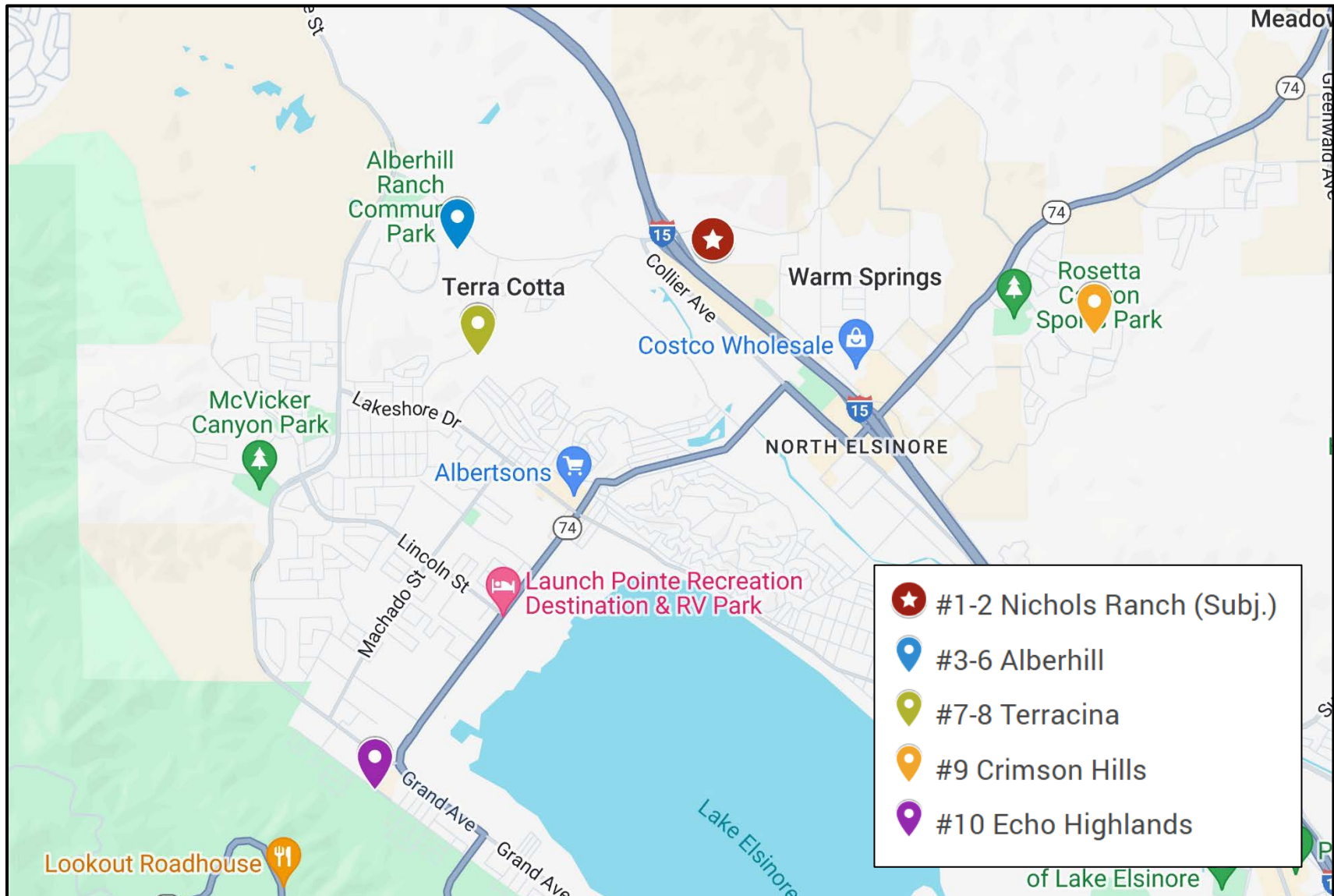


FINISHED LOT LAND SALES SUMMARY CHART

Data No.	Location / APN / Buyer / Seller	Sales Date	# Lots	Lot Size	Sales Price / Price per Lot	Est. Finished Lot Price	Comments
1	Nautical Cove, NWC Briggs Road and Holland Road, Menifee / 364-200-009 / KB Home / Ambient (Escrow)	Escrow	233	6,000	Confidential	\$253,000	Closing with an approved Final Map in an unimproved condition. Three phase take down- Phase 1 scheduled to close late July 2024.
2	Canterwood Phase 2, NWC of Leon Road and Craig Ave., Menifee / 466-310-026 / KB Home / Ambient	June 2024	53	5,500	\$4,246,364 / \$80,120	\$227,500	Closing with an approved Final Map in an unimproved condition. Phase 2 closed 6/20/24 (Phase 3 additional 93 lots scheduled to close 2/20/25).
3	Legado Phase 1 / SEC Rouse Road and Encanto Dr/I-215, Menifee / 333-020-020 / Lennar / IHP	March 2024	491	5,000-7,000	\$22,500,000 / \$45,825	\$240,000	Closed with an approved final map in a rough graded condition.
4	Diamond Brothers South / SE side of Domenigoni Pkwy, N of Lindenberger Rd, Menifee / 340-603-040 / Pulte / Diamond Brothers Five	January 2024	197	6,000	\$8,500,000 / \$43,147	\$240,000	Closed with a recorded final map in an unimproved condition.
5	JBj Ranch Phase 1, SW Horsethief Canyon and Bosley Lane, Temescal Valley / 393-310-005 / KB Home / Mission Pacific	December 2023	203	6,000	\$27,539,637 / \$135,663	\$295,000	Closed with an approved Final Map in an unimproved condition.
6	SW side of Lakeshore; SE of Machado, Lake Elsinore / 379-230-001 / D.R. Horton / Coastal Commercial Property	December 2023	140	Duplex	\$8,000,000 / \$57,143	N/A	Purchased with a tentative tract map and in an unimproved condition.
7	Murrieta Creek Estates, Palomar Street and Starbuck Circle, Murrieta / 380-210-004 / D.R. Horton / JPR Homes	June 2023	126	7,200	\$7,000,000 / \$55,555	\$265,000	Closed with an approved Final Map in an unimproved condition.

IMPROVED RESIDENTIAL SALES MAP
& SUMMARY CHART

IMPROVED RESIDENTIAL SALES MAP



IMPROVED RESIDENTIAL SALES SUMMARY CHART

Data No.	Project Name Location/Developer	Plan	Room Count	Floors/ Parking	Size (SF)	Lot Size or Density / Absorption	Base Sales Price	Price/SF
1	Hilltop at Nichols Ranch, SEC Nichols Road and I-15, Lake Elsinore / Meritage Homes	1	4 / 3	2 / 2	2,020	5,000 sf lots 4.6 sales/mo	\$596,000	\$295.05
		2	4 / 3	2 / 2	2,165		\$607,000	\$280.37
		3	5 / 3	2 / 2	2,417		\$624,000	\$258.17
2	Highland at Nichols Ranch, SEC Nichols Road and I-15, Lake Elsinore / Meritage Homes	1	4 / 3	2 / 2	2,308	5,000 sf lots 3.6 sales/mo	\$630,000	\$272.96
		2	4 / 3	2 / 2	2,532		\$648,000	\$255.92
		3	4 / 3	2 / 2	2,744		\$663,000	\$241.62
		4	5 / 3	2 / 2	2,932		\$675,000	\$230.22
3	Crestly at Alberhill Ranch, SEC Nichols Road and Alberhill Ranch Road, Lake Elsinore / Centex Homes	1	4 / 2	1 / 2	1,959	5,000 sf lots 3.6 sales/mo	\$605,990	\$309.34
		2	5 / 2.5	2 / 2	2,404		\$640,990	\$266.63
		3	5 / 3	2 / 2	2,824		\$672,990	\$238.31
4	Fairfield at Alberhill Ranch, SEC Nichols Road and Alberhill Ranch Road, Lake Elsinore / Pulte Homes	1	3 / 2	1 / 2	2,191	5,000 sf lots 2.4 sales/mo	\$603,990	\$275.67
		2	4 / 2.5	2 / 2	2,654		\$650,990	\$245.29
		3	5 / 3	2 / 2	2,824		\$665,990	\$235.83
5	Linden at Alberhill Ranch, South of Alberhill Ranch Road at Merrifield Street, Lake Elsinore / Pulte Homes	1	4 / 2.5	2 / 3	2,792	5,000 sf lots 4.6 sales/mo	\$685,990	\$245.70
		2	4 / 2.5	2 / 3	2,988		\$701,990	\$234.94
		3	5 / 4	2 / 3	3,337		\$733,990	\$219.96
6	Ridgeline at Alberhill Ranch, South of Alberhill Ranch Road at Hudson Lane, Lake Elsinore / Pulte Homes	1	3 / 2	1 / 2	2,070	6,000 sf lots 5.6 sales/mo	\$634,990	\$306.76
		2	3 / 2	1 / 2	2,304		\$673,990	\$292.53
		3	5 / 3	1 / 2	2,641		\$700,990	\$265.43
7	Carrera at Terracina / NEC Lakeshore Drive and Terra Cotta Road, Lake Elsinore / KB Home	1	3 / 2	1 / 2	1,435	4,500 sf lots 4.9 sales/mo	\$562,990	\$392.33
		2	3 / 2	1 / 2	1,663		\$577,990	\$347.56
		3	3 / 2	1 / 2	1,840		\$590,990	\$321.19
		4	3 / 2.5	2 / 2	1,976		\$600,990	\$304.14
		5	3 / 2.5	2 / 2	2,139		\$622,990	\$291.25
		6	4 / 3	2 / 2	2,389		\$643,990	\$269.56
8	Villa Real at Terracina / NEC Lakeshore Drive and Terra Cotta Road, Lake Elsinore / KB Home	1	3 / 2	1 / 2	1,539	5,000 sf lots 4.5 sales/mo	\$565,990	\$367.76
		2	3 / 2	1 / 2	1,742		\$582,990	\$334.67
		3	4 / 2	1 / 2	2,027		\$606,990	\$299.45
		4	3 / 2.5	2 / 2	2,218		\$616,990	\$278.17
		5	4 / 3	2 / 2	2,453		\$634,990	\$258.86
		6	4 / 2.5	2 / 2	2,517		\$640,990	\$254.66

9	Crimson Hills / Rosetta Canyon Drive and Elsinore Hills Road, Lake Elsinore / KB Home	1	3 / 2	1 / 2	1,551	7,200 sf lots 4.9 sales/mo	\$554,990	\$357.83
		2	3 / 2	1 / 2	1,751		\$571,990	\$326.66
		3	3 / 2	1 / 2	2,035		\$590,990	\$290.41
		4	4 / 2	1 / 2	2,206		\$615,990	\$279.23
		5	4 / 2.5	2 / 2	2,528		\$642,990	\$254.35
		6	5 / 3	2 / 2	2,882		\$659,990	\$229.00
10	Echo Highlands / SEC Laguna Avenue and Riverside Drive, Lake Elsinore / Tri Pointe Homes	1	2 / 2	1 / 2	1,569	7,000 sf lots 8.9 sales/mo	\$513,500	\$327.28
		2	3 / 2	1 / 2	1,758		\$538,500	\$306.31
		3	3 / 2	1 / 2	1,941		\$549,500	\$283.10
		4	4 / 3	2 / 2	2,216		\$585,000	\$263.99
		5	5 / 3	2 / 3	2,532		\$625,500	\$247.04

APPRAISER'S QUALIFICATIONS

QUALIFICATIONS OF KITTY S. SIINO, MAI

Education

Bachelor of Arts in Business Administration, Financial Investments, California State University, Long Beach, California (1980)

Post-Graduate Study, Real Estate Development, University of California, Irvine, California

Appraisal Institute Classes: Uniform Standards of Professional Appraisal Practice, A & B; Appraisal Principles; Appraisal Procedures; Basic Income Capitalization; Advanced Income Capitalization; Narrative Report Writing; Advanced Applications, Case Studies. Successfully completed all classes in addition to successfully completing the writing of a Demonstration Report and taking the Comprehensive Exam. Became a Member of the Appraisal Institute in December 1996. Have completed over 100 hours of continuing education through the Appraisal Institute every five years.

Employment

1988 - Present:

Self-Employed Real Estate Appraiser. Duties include the appraisal of various types of properties such as commercial, retail, industrial and vacant land. More complex assignments include easements, right-of-ways and special assessment districts. From 1996 to present, specialized in special assessment districts and community facilities districts appraisals for public entities, including Jurupa Community Services District, Corona Norco Unified School District, City of Corona, City of Chula Vista, City of San Marcos and City of Moreno Valley.

1986-1988:

Project Manager of Development for Ferguson Partners, Irvine, California. Duties included land acquisitions; review of fee appraisals and valuations; analysis of proposed development; planning and design; and management of development, construction and lease-up. The types of properties developed were commercial and industrial. Duties ranged from raw, vacant site development through property management of recently developed projects.

1981 - 1986

Manager of Finance, Construction for Community Development Division, The Irvine Company, Irvine, California. Duties included originating and managing a newly formed division of finance to bridge between the accounting functions and project management functions. Worked with analysis and budgets for Community Development Division. Coordinated with cities in forming new Assessment Districts and Community Facilities Districts to finance major infrastructure improvements. Types of properties were apartments and single-family residential lots on a for sale basis to apartment and homebuilders.

1980 - 1981

Investment Counselor, Newport Equity Funds, Newport Beach, California. Duties included obtaining private financing for residential properties, working with appraisals of properties and analyzing the investments.

Licenses

Real Estate Sales Person, State of California, 1980
Certified General Appraiser, State of California (#AG004793)

Organizations

MAI #11145 - The Appraisal Institute

Public Financing

CASTOFF Meetings, 2006, 2007, 2008, 2009, 2010, 2011, 2013, 2014, 2015, 2016, 2017 and 2018

Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011