

**NOTICE TO POTENTIAL INTERESTED PARTIES
FOR SALE, TRANSFER OR OTHER ARRANGEMENT FOR THE SANTA
MARGARITA RIVER PROPERTY**

**Fallbrook Public Utility District
990 East Mission Road
P.O. Box 2290
Fallbrook, CA 92088
<http://www.fpud.com>**

INTRODUCTION

Fallbrook Public Utility District (District) operates as a public agency under the Public Utility District Act of the State of California. FPUD was incorporated as a political subdivision of the State of California in 1922. The District was originally formed to provide water to the community of Fallbrook. Since then, the District has expanded its services and treats sewage and provides recycled water. FPUD delivers water to some 35,000 people over a 28,000-acre service area.

The District owns approximately 1,390 acres along the Santa Margarita River (SMR Property). The SMR Property is situated within the middle reach of the Santa Margarita River (SMR) watershed. The northeast corner of the SMR Property is within a quarter mile of the border between San Diego County and Riverside County, the Community of De Luz Heights lies to the west, the San Diego State University Santa Margarita Ecological Reserve lies to the northeast, and the San Diego County Santa Margarita Preserve lies to the southwest.

The approximately 1,390-acre property is composed of 34 parcels (Appendix A). The property is located in Section 36 of Township 8 South, Range 4 West; Sections 4,5,6,7,8,9 and 17 of Township 9 South, Range 3 West; and Sections 1 and 12 of Township 9 South, Range 4 West of the U. S. Geologic Survey (USGS) 7.5 minute Fallbrook and Temecula quadrangle maps.

The SMR Property contains approximately 18 miles of multi-use trails for passive recreation (hiking, biking and horseback riding). The trail system is highly utilized and is an important component for the community of Fallbrook. While the District owns the SMR Property, the trail maintenance is by the Fallbrook Trails Council (FTC), which is part of Live Oak Park Coalition, a 503c non-profit serving the community of Fallbrook.

The SMR Property is currently held in fee by the District and could potentially be developed as identified in the draft appraisal in Appendix B. The desire of the District Board of Directors is to find a partner interested in helping the District preserve the SMR Property and existing uses and also secure value for the District to help offset costs of a water supply project through the sale, placement of protective easements on the SMR Property, or other options identified by proposers.

The District is providing an opportunity for an individual or organization to be recognized as part of preserving one of the few large riparian parcels in San Diego County.

1. Property History

The SMR Property history is summarized below:

- a. The SMR Property was acquired in 1950s through a combination of land purchases and eminent domain for a dam site.
- b. Later in the 1980s, the District entered into Memorandum of Understanding with Fallbrook Land Conservancy (FLC) to allow trail maintenance for passive recreation use. This was later transferred to the Fallbrook Trails Council (FTC).
- c. The District pursued options to preserve the SMR Property and also receive funds for the transfer or preservation to offset costs for a water supply project.
- d. District staff worked with the Base to help identify some federal funding through the Readiness and Environmental Protection Integration (REPI) Program that could be secured to provide 50% of the appraised value in exchange for a conservation easement.
- e. A draft appraisal was prepared to meet federal requirements to ensure funds from the Base could be secured. Appraised value for SMR Property was \$10,500,000 (Appendix B).
- f. The Board elected to enter into the Purchase and Sale Agreement with Western Rivers Conservancy (WRC) in September 2015 to purchase the SMR Property at 95% of the appraised value and to preserve the property and trail system. WRC partnered with The Wildlands Conservancy (TWC) and the Fallbrook Trails Council (FTC) to try and secure funding and provide an approach to maintain access and use of the trails.
- g. In June 2017, the Purchase and Sale Agreement period ended and the funding was not secured. The Board voted not to extend the Purchase and Sale Agreement with WRC and it terminated on June 30, 2017.

2. Property Background Information

Identified below is a summary of the key features of the SMR Property:

- The SMR Property contains approximately 1390 acres, which were assembled by the District from 87 legal lots. Some APNs were later combined for convenience by the County to form 37 separate APNs for the property.
- The SMR Property is designated as Public Agency Lands in the County General Plan.
- The SMR Property is zoned S80 (Open Space Use Regulations), except one 3.6 acre parcel zoned A70 (Limited agricultural Use Regulations).
- It is estimated the SMR Property could reasonably accommodate up to 60 residential lots.

- Access to the SMR Property is provided by several roads including Sandia Creek Drive, which crosses through the property.
- There have been several habitat surveys conducted on the SMR Property that identified potential habitat for nine (9) federal and state listed endangered species.
- There are existing road, power and water lines and associated easements that run through the SMR Property.
- Outside of existing utility and road easements, no additional easements are known to exist on the SMR Property to restrict future development.
- A Phase 1 Environmental Analysis was completed for the SMR Property, and it did not identify any Recognized Environmental Conditions.
- The District has not yet declared the SMR Property as surplus. If the successful proposal involves sale of the SMR Property by the District, the District will first need to undertake the actions required by Government Code section 54220 et seq., as a condition precedent to moving forward with sale of the SMR Property. Compliance with these Government Code provisions may preclude sale of the property to any proposer.

3. District Goals and Objectives/ Requirements for Use of the SMR Property

- a. District Goals and Objectives:
 - i. To find an experienced and qualified partner to help preserve the property through sale, transfer or other arrangement for the benefit of the Fallbrook community and to maintain the existing passive recreational uses of the property; and
 - ii. To enter into a sale, transfer or other arrangement that will secure value for the District to help offset costs of a planned water supply project.
- b. Requirements for Use of the SMR Property:
 - i. Maintain and/or permit year round access for the entire existing 18-mile trail system on the SMR Property; and
 - ii. Enhance the existing appropriate trail related uses, while protecting the SMR Property from inappropriate uses that damage the property, negatively impact surrounding residences or that may adversely impact the watershed.

PROCESS OF SELECTION

Submissions must contain four (4) complete copies of the proposal and must be received on or before 4:00 p.m. on **January 15, 2018**, at the Fallbrook Public Utility District Office at 990 E. Mission Rd. Fallbrook, CA. Proposals delivered in person or by courier can be delivered to address above. Proposals sent by U.S. Post Office **must be** addressed to Fallbrook Public Utility District, P.O. Box 2290, Fallbrook, CA 92088, Attention: **Mary Lou West, Board Secretary**. The District will not be responsible for proposals that are

delinquent, lost, incorrectly marked, sent to an address other than that given herein, or sent by mail or courier service and not signed for or acknowledged by the District. Any questions and requests for clarification must be submitted in writing via email to Ms. West at maryloub@fpud.com, prior to 4:00 p.m. on **January 2, 2018**. No questions will be accepted via telephone and oral explanations or instructions shall not be considered binding on the District.

Each proposal shall contain the following:

1. Compensation to be provided to the District for sale, transfer or other arrangement.
2. Terms and conditions of the sale, transfer or other arrangement. Proposals should meet District goals for the property which include:
 - Preserve the existing 18-mile trail system in its entirety.
 - Maintain year round access to the property for passive recreational usages.
 - Preserve the property from development.
 - Operate the property consistent with the District existing rules and requirements (Appendix C).
3. A detailed summary including the following:
 - a. Proposer Ownership Information
 - i. Principals
 - ii. Ownership Structure
 - b. Experience
 - i. Description of completed projects
 - c. Financial Capacity
 - i. Information regarding capitalization and financial strength indicating capability to purchase, transfer or complete other arrangements and preserve the property

A proposal may be considered non-responsive if conditional, incomplete, or if it contains alterations of form, additions not called for, or other irregularities that may constitute a material change to the Proposal.

Proposers are put on notice that the District is a public agency subject to the disclosure requirements of the Public Records Act, California Government Code section 6250 et seq. If confidential or proprietary information is contained within a proposal, it must be submitted in a separate clearly labeled exhibit with all pages marked "Exhibit-Confidential/Proprietary." In accordance with the California Public Records Act, the District will not treat pricing or terms and conditions as confidential. It is understood and agreed upon by any proposer in submitting a proposal that the District has the right to withhold all information regarding the selection of a successful proposal until after final selection.

Fallbrook Public Utility District will evaluate the proposals and may interview proposers before selecting one (1) proposal that best meets the District's needs, goals, and objectives for the property; however, nothing precludes the District from negotiating modifications to a proposal. The proposals will be evaluated based on the ability of the proposer to best meet the stated District needs, goals, and objectives and to demonstrate the financial capacity and experience to complete the purchase, transfer or other arrangement. The proposals will be evaluated based upon the information set forth in the proposals and other information known to the District. The District reserves the right to request clarification and/or request additional information from proposers if necessary.

OTHER MATTERS

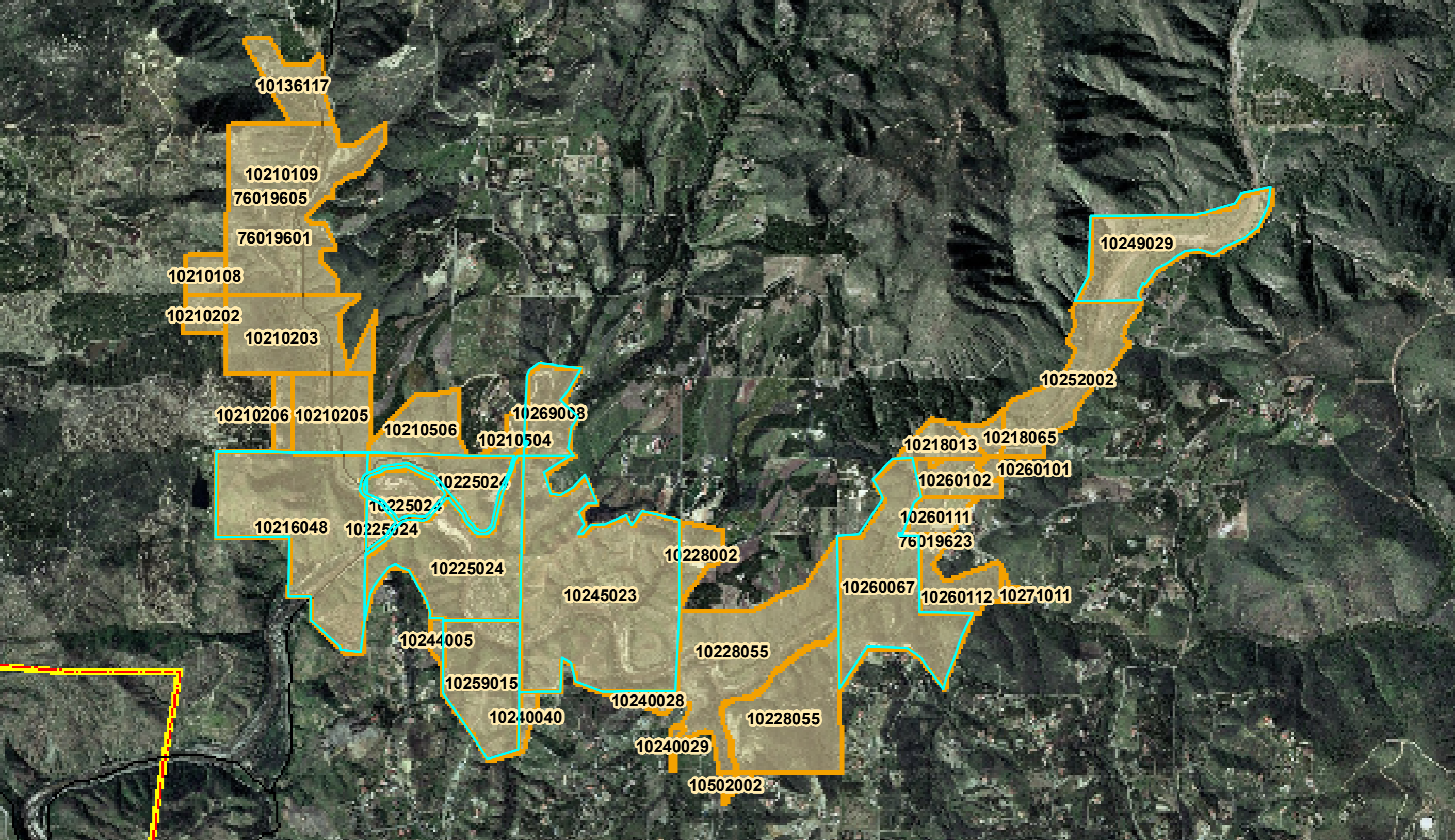
Fallbrook Public Utility District will consider paying a broker's fee to an independent brokerage firm. Fallbrook Public Utility District reserves the right to reject any or all proposals and to cancel this process in part or in its entirety at any time. The District will not compensate any proposer for the cost of preparing any proposal, and all materials submitted with a proposal shall become the property of the District. The District may use any idea in a proposal regardless of whether that proposal is selected.

The right, title and interest in the property to be sold shall not exceed that vested in Fallbrook Public Utility District. Any sale, transfer or other arrangement is subject to all title exceptions and reservations whether or not recorded. The successful proposer may obtain a policy of title insurance at its own expense. Proposers are hereby put on notice that the District has not yet declared the SMR Property as surplus. If the successful proposal involves sale of the SMR Property by the District, the District will first need to undertake the actions required by Government Code section 54220 et seq., as a condition precedent to moving forward with sale of the SMR Property. Compliance with these Government Code provisions may preclude sale of the property to any proposer.

A proposer may desire to survey the property. No warranty is made by Fallbrook Public Utility District relative to the ground locations or property lines, other than monumented highway right-of-way lines.

The sale, transfer or other arrangement related to this property is subject to all matters of public record and any easements, claims or easements or reservations not recorded. Fallbrook Public Utility District does not assume any liability for any possible encumbrances on this property. Fallbrook Public Utility District makes no warranty as to future zoning or availability of utilities. Proposers shall confer with local planning officials to determine the feasibility of any intended uses.

APPENDIX A



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APPENDIX B

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

PROPERTY OWNER: Fallbrook Public Utilities District

PROPERTY LOCATION: Sandia Creek Drive to North Stagecoach Lane
Fallbrook neighborhood, unincorporated San Diego County

APNs: Numerous; the reader’s attention is invited to the Size and Shape section of this report

DESCRIPTION OF THE LARGER PARCEL: The crescent-shaped property contains 1,389.69 acres of mainly raw land that extends along the Santa Margarita River. The property was assembled in the 1950s out of 87 legal lots. The majority of the property contains a diverse range of native vegetation. The topography ranges from level to steeply sloped. A small portion of the property is farmed and improved with two older single-family homes. The majority of the subject property is zoned S80 (Open Space Use Regulations), excluding one parcel which is zoned A70 (Limited Agricultural Use Regulations). Residential use is permitted in both zones. The entire property is designated Public Agency Lands in the *General Plan*. Access is provided by multiple roadways. In addition to the small area that is farmed, the subject is improved with two old homes. According to our general measurements, the subject contains approximately 16 acres of “Urban/Developed” area, 126 acres of “Non-Native Grassland”, and 22 acres of “Row Crops.” Based on our analysis, the subject property can reasonably accommodate a range near 60 residential lots’.

HIGHEST & BEST USE: Future residential development, and related agricultural use, with some small areas devoted to mitigation.

DATE OF VALUE: September 1, 2014

DATE OF REPORT: September 16, 2014

ESTATE APPRAISED: Fee simple estate

VALUE CONCLUSION: \$10,500,000

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ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following assumptions and limiting conditions:

1. Information, estimates, and opinions furnished by others and contained in this report are assumed to be true, correct, and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed by the appraisers.
2. No responsibility is assumed for matters legal in character, nor do we render an opinion as to title, which is assumed to be held in fee simple estate as of the date of valuation unless otherwise stated.
3. It is assumed that the property is readily marketable and free of all liens and encumbrances except any specifically discussed in this report.
4. Photographs, plats, and maps furnished in this report are to assist the reader in visualizing the subject property. No survey of the subject property has been made, and no responsibility has been assumed in this matter.
5. It is assumed that there are no legitimate environmental or ecological reasons that would prevent orderly development of the land to its highest and best use under economically feasible conditions.
6. A soils engineering study was unavailable for this appraisal. It is assumed that there are no hidden or unapparent conditions of the property such as subsoil conditions which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which might be required to discover such factors.
7. Possession of this report, or a copy thereof, does not carry with it the right of publication. Disclosure of the contents of this appraisal report is governed by the by-laws and regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially reference to the Appraisal Institute or the MAI and SRA designations) may be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communications without prior written consent and approval of the appraisers.
8. This report may not be used for any purpose by anyone other than the party to whom it is addressed without the written consent of the appraisers.
9. The submission of this report constitutes completion of the services authorized. It is submitted on the condition that the client will provide the appraisers customary compensation relating to any subsequent required depositions, conferences, additional preparation, or testimony.
10. No warranty is made as to the seismic stability of the subject property.

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ASSUMPTIONS AND LIMITING CONDITIONS

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11. The date of value to which the opinions expressed in this report apply is set forth in the letter of transmittal. The appraisers assume no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.

12. An engineering survey has not been made by the appraisers. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.

13. No opinion is expressed as to the value of subsurface oil, gas, or mineral rights and it is assumed that the property is not subject to surface entry for the exploration or removal of such materials except as is expressly stated.

14. The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short-term supply and demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraisers and could affect the future income or value projections.

15. Testimony or attendance in court or any other hearing is not required by reason of rendering this appraisal unless such arrangements are made a reasonable time in advance.

16. By acceptance and use of this report, the user agrees that any liability for errors, omissions, or judgment of the appraisers is limited to the amount of the fee charged for the appraisal. Anyone acting in reliance upon the opinions, judgments, conclusions, or data contained herein, who has the potential for monetary loss due to the reliance thereon, is advised to secure an independent review and verification of all such conclusions and/or facts. The user agrees to notify the appraisers, prior to any loan or irrevocable investment decision, of any error which could reasonably be determined from a thorough and knowledgeable review.

17. As used in this report, the word "inspection" means a viewing of the property and its improvements for appraisal purposes; it should not be construed to mean a professional building inspection in which the building structures and systems are reviewed, examined, and/or tested. Measurements taken, if any, are for appraisal purposes only and are not to be relied upon for any other use.

18. Preliminary Reports were prepared by Stewart Title and provided by the client. The 28 reports have varying effective dates in January 2014. The reports cover 28 of the 33 APN's described in this appraisal report. Exceptions to coverage, where possible, were discussed in the body of this report. No responsibility is assumed for undisclosed items of record or any unrecorded items that may limit the utility of the subject property.

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ASSUMPTIONS AND LIMITING CONDITIONS

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19. Research and physical inspection of the subject property revealed no apparent contamination by hazardous chemicals or toxic wastes. In addition, no nearby land uses were noted that are commonly associated with such problems. It is assumed that no such contamination of the subject property exists.

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APPRAISERS' CERTIFICATE

We certify that, to the best of our 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 our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute.
8. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* and the *Uniform Appraisal Standards for Federal Land Acquisitions*.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. We have made a personal inspection of the property that is the subject of this report (from trails and the surrounding public rights of way).
11. No one provided significant real property appraisal assistance to the persons signing this report.
12. As of the date of this report, Robert P. Caringella, MAI and Trevor C. Hubbard, MAI, SRA have completed the continuing education program of the Appraisal Institute. Mr. Caringella and Mr. Hubbard have each received certification from the state of California as a Certified General Real Estate Appraiser.
13. We have not performed any appraisal services on the subject property in the three years prior to the date of this report.

Robert P. Caringella, MAI
AG003295

Trevor C. Hubbard, MAI, SRA
AG044336

September 16, 2014
Date

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IDENTIFICATION OF THE PROPERTY

The subject of this appraisal is located along the Santa Margarita River in the Fallbrook neighborhood, San Diego County. The subject comprises 33 Assessor's parcels, 87 potential legal lots, and 1,389.69 acres. Although the majority of the subject is raw, a small portion of the property is farmed and a portion is improved with two, older single-family structures. The two older homes are located at 39315 and 39227 Sandia Creek Drive.

OWNERSHIP AND HISTORY

The subject property is owned by Fallbrook Public Utilities District. Although the property was assembled in the late 1950s to create a reservoir, the plan was abandoned in the 1980s. Assemblage was achieved via open market acquisitions and condemnation proceedings. Based on our research and analysis (including a discussion with Mr. Tom Harrington, Senior Land Surveyor at the County of San Diego), the subject property consists of 87 legal lots (an old map depicting the 87 lots is located in the **Addenda as Exhibit A**). This same map illustrates the locations of historical structures that were demolished following assemblage. As the map illustrates, homes clustered around creeks and the Santa Margarita River. A small area near the southerly portion of the property reportedly was used many decades ago as a repository for concrete and aggregate material.

Although the subject property currently comprises 33 Assessor's Parcel Numbers (APN's), it formerly comprised 58 APN's. The Assessor's Plat maps indicate the consolidation occurred between 2010 and 2012. According to the client, the Assessor consolidated the parcels for convenience purposes.

To our knowledge, the subject is not currently listed for sale. As of the date of value, portions of the subject are leased to three individuals. The two homes have been individually rented to the same two families for many decades (likely dating back to when the properties were acquired by Fallbrook Public Utilities District). Both homes are rented at nominal rates and will expire at the end of 2014. The portion that's farmed (row crops) has been leased since 1996. The monthly rental rate is \$246.47 as of the date of value. The lease expires in February 2015.

There are also various pedestrian and equestrian trails throughout the subject property. According to representatives at the Fallbrook Public Utilities District, this trail system exists via an interim agreement with Fallbrook Land Conservancy. Reportedly, the Fallbrook Public Utilities District has the right to revoke this agreement anytime.

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PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of the fee simple interest in the subject property.

INTENDED USE AND USERS OF THE REPORT

The intended use of this report is to provide the client, Western Rivers Conservancy, technical support and value documentation for potential acquisition of the subject site. Intended users include the United States Navy; the Fallbrook Public Utilities District; federal, state, and local agencies; and other nongovernmental organizations, as may be necessary to arrange acquisition of the subject property. There are no other intended uses or users of this report.

DEFINITION OF VALUE

Market value is defined on page 13 of the *Uniform Appraisal Standards for Federal Land Acquisitions* (UASFLA), *Fifth Edition* (2000), as follows:

“Market value is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.”

DEFINITION OF PROPERTY RIGHTS APPRAISED

A fee simple estate is defined on page 78 of *The Dictionary of Real Estate Appraisal, Fifth Edition* (2010), as follows:

“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.”

We are not aware of any covenants, conditions, and restrictions (CC&R’s) or other such agreements or restrictions affecting the subject property beyond those noted in this report.

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EXPOSURE TIME

According to Standard Rule 1-2(c)(iv) located on page U-17 of the USPAP, “When exposure time is a component of the definition for the value opinion being developed, the appraiser must also develop an opinion of reasonable exposure time linked to that value opinion”. However, Section A-9 (Purpose of the Appraisal) of UASFLA indicates, “contrary to USPAP Standards Rule 1-2(c), this definition of market value does not call for the estimate of value to be linked to a specific exposure time estimate, but merely that the property be exposed on the open market for a reasonable length of time, given the character of the property and its market. Therefore, the appraiser’s estimate of market value shall not be linked to a specific exposure time when conducting appraisals for federal land acquisition purposes under these Standards.” In conformance with UASFLA, exposure time was therefore not estimated due to this jurisdictional exception¹.

SCOPE OF THE APPRAISAL

This analysis is intended to be an "appraisal" as defined in the *Uniform Standards of Professional Appraisal Practice* (USPAP). It is our intent that the appraisal service be performed in such a manner that the results of the analysis, opinion, or conclusion be that of a disinterested third party. All appropriate data deemed pertinent to the solution of the appraisal problem was collected, confirmed, and reported in conformity with USPAP and the supplemental requirements of the Appraisal Institute. The appraisal was also developed in conformity with the *Uniform Appraisal Standards for Federal Land Acquisitions* (UASFLA).

In preparing this appraisal, the following tasks were performed:

- the subject property was inspected by the appraisers;
- representatives of the Fallbrook Public Utilities District, San Diego County, and Stewart Title were interviewed;
- title and deed information from the 1950s was researched;
- the physical, legal, and economic characteristics of the subject property were investigated (including interviews with County land use officials, local real estate professionals, and representatives of the title company);

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For a discussion on the legal basis for this standard, which results in a jurisdictional exception under USPAP, see Section B-2 of UASFLA.

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- the title exceptions noted in the 28 Preliminary Reports that were provided were analyzed (where possible);
- the larger parcel was determined (there is no “larger” parcel since it is a full acquisition);
- the highest and best use of the property was determined;
- research was conducted to locate, inspect, and verify sales of similar properties;
- relevant market data were inspected and confirmed; and
- the sales comparison approach was used to value the fee simple estate in the subject property (appraising water rights was not part of this assignment).

This appraisal is subject to certain assumptions and limiting conditions that are made part of this report.

DETERMINATION OF THE LARGER PARCEL

In order to determine what needs to be appraised (and damages and special benefits), the larger parcel must first be determined. A "larger parcel" is a designated property from which a portion is acquired and is defined on page 17 of UASFLA, *Fifth Edition* (2000), as follows:

“... that tract, or those tracts, of land which possess a unity of ownership and have the same, or an integrated, highest and best use. Elements of consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use.”

To ascertain what constitutes a larger parcel, three basic criteria are applied. These three criteria are (1) unity of ownership, (2) physical contiguity, and (3) unity of use. Therefore, the larger parcel is typically determined to be that property, impacted by an acquisition, which has unity of ownership, physical contiguity, and unity of use (this was considered consistent with the spirit of UASFLA’s definition).

The subject property is owned by Fallbrook Public Utilities District. The subject property is bordered by separate ownerships (mostly private individuals). While Fallbrook Public Utilities District owns other parcels in the immediate area, they are not physically contiguous to the subject property. The subject property has integrated future uses as described in the Highest and Best Use section of this report. It has been appraised as one holding with future development potential.

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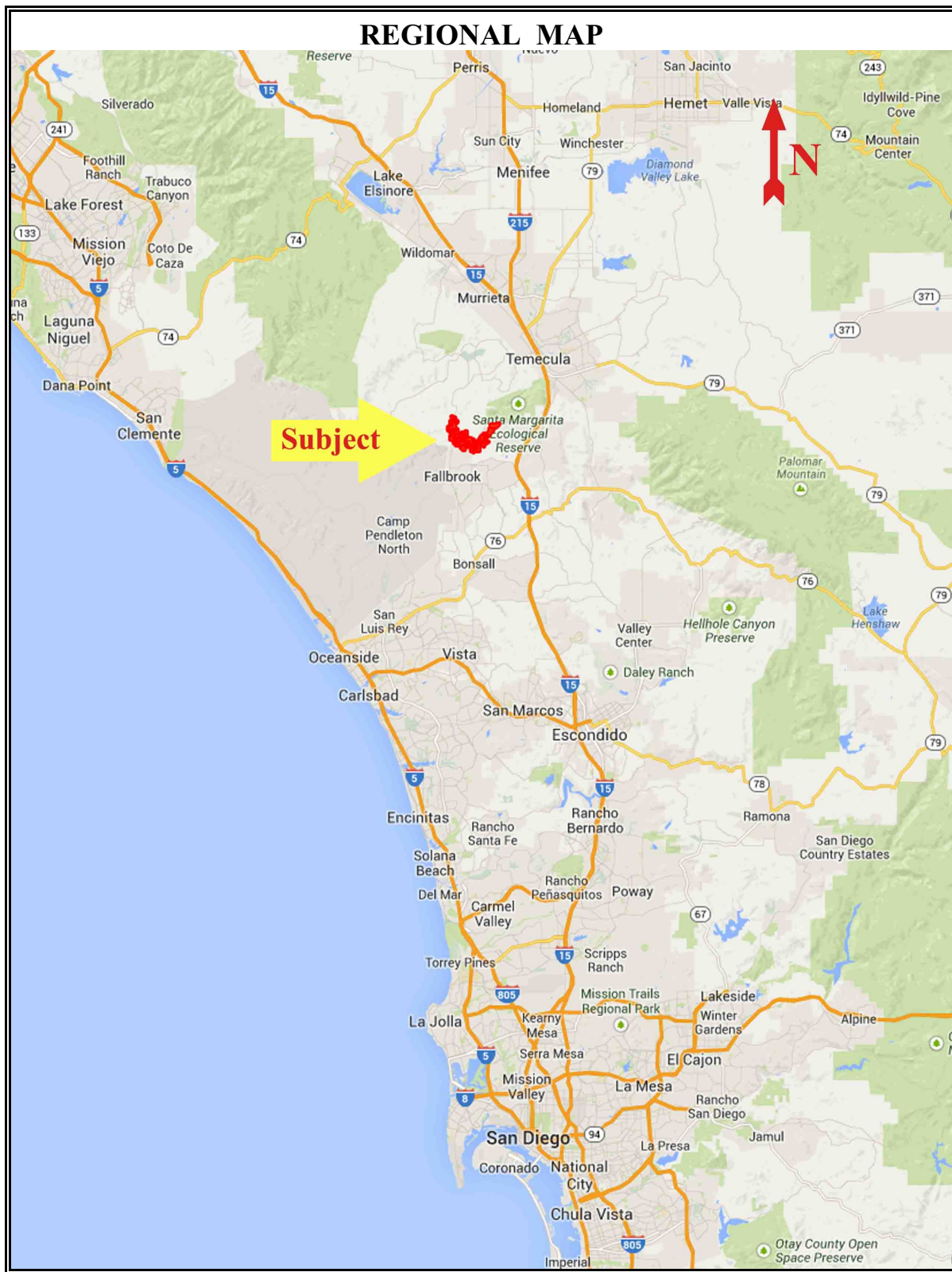
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Based on our analysis, we have concluded the subject property is entire acreage containing the 33 Assessor Parcel Numbers outlined in the following Size and Shape section of this report and visually depicted in the following Area/Neighborhood Map. Since this is a full acquisition, there is no larger parcel. As discussed later in this report, the subject contains 1,389.69 acres. Although the subject property contains some site improvements (including two older homes), they were considered to contribute minimal value.

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REGION DESCRIPTION

The subject property is located in the unincorporated San Diego County community of Fallbrook, which is located in the northern portion of the county. Located in the southwest corner of the United States, San Diego County is bordered on the north by Orange and Riverside Counties, on the east by Imperial County, on the south by Mexico, and on the west by the Pacific Ocean. The terrain varies from ocean beaches to foothills, mountains and deserts. Created in 1850, San Diego was the first county in California. Upon creation, it included the present counties of Riverside, San Bernardino, and Imperial but these were removed by the state legislature in the first few years of statehood.

Population

According to the U.S. Census Bureau, the most recent population estimate for San Diego County was 3,211,252 persons as of January 2013. This represents an increase of about 3.7 percent from the 2010 Census of 3,095,313 persons. In terms of population, San Diego County was the second largest in California as of 2010. Much of the growth in the County since the year 2000 has occurred in the more populated cities. The rural areas of the County tend to have a slower growth in population.

Housing

As of 2013, there were 1,176,718 housing units in San Diego County. The County's homeownership rate was 54.5 percent between 2008-12 compared to 56.0 percent in California. The median value of owner-occupied housing units between 2008-12 was \$419,400 in San Diego County compared to \$383,800 in California. The average household size in San Diego County and California were 2.82 and 2.93 persons, respectively.

Employment and Income

According to the Bureau of Labor Statistics ("BLS"), the County's unemployment rate for April 2014 was 6.0 percent, down from 9.5 percent in January 2012 and 10.5 percent in January 2011. San Diego County's unemployment rate is below California (at 7.4 percent). According to SANDAG and BLS, the most current available average median household income is \$70,926, which is higher than California (at \$53,046).

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Indexes

The S&P Case-Shiller home price index is rising, with San Diego's index having risen 11.04 percent from May 2013 to May 2014 (the most recent month of publication). From May 2012 to May 2013, the Case-Shiller index rose 14.76 percent. Another index, the First Republic Bank's Prestige Home Index, tracks changes in homes valued at more than \$1 million. This index has risen the past three years, including 11.9 percent from March 2013 to March 2014 (the most recent month of publication).

The University of San Diego's Index of Leading Economic Indicators (USD Index) for San Diego County, developed by Professor Alan Gin, Ph.D., is a monthly report on the outlook for the San Diego economy. The USD Index includes six components: building permits, initial claims, stock prices, consumer confidence, help wanted advertising, and national economy. The following table summarizes the past five years (as of January of each year) of the USD Index.

USD Index of Leading Economic Indicators		
Year	Index	Annual % Change
2009	105.2	-16.57%
2010	107.7	2.38%
2011	111.7	3.71%
2012	117.7	5.37%
2013	123.5	4.93%

After peaking in early 2006 (at 144.2), the index declined about 30 percent by early 2009 (at 100.7). Since early 2009, however, the index has slowly increased to 128.1 as of December 2013.

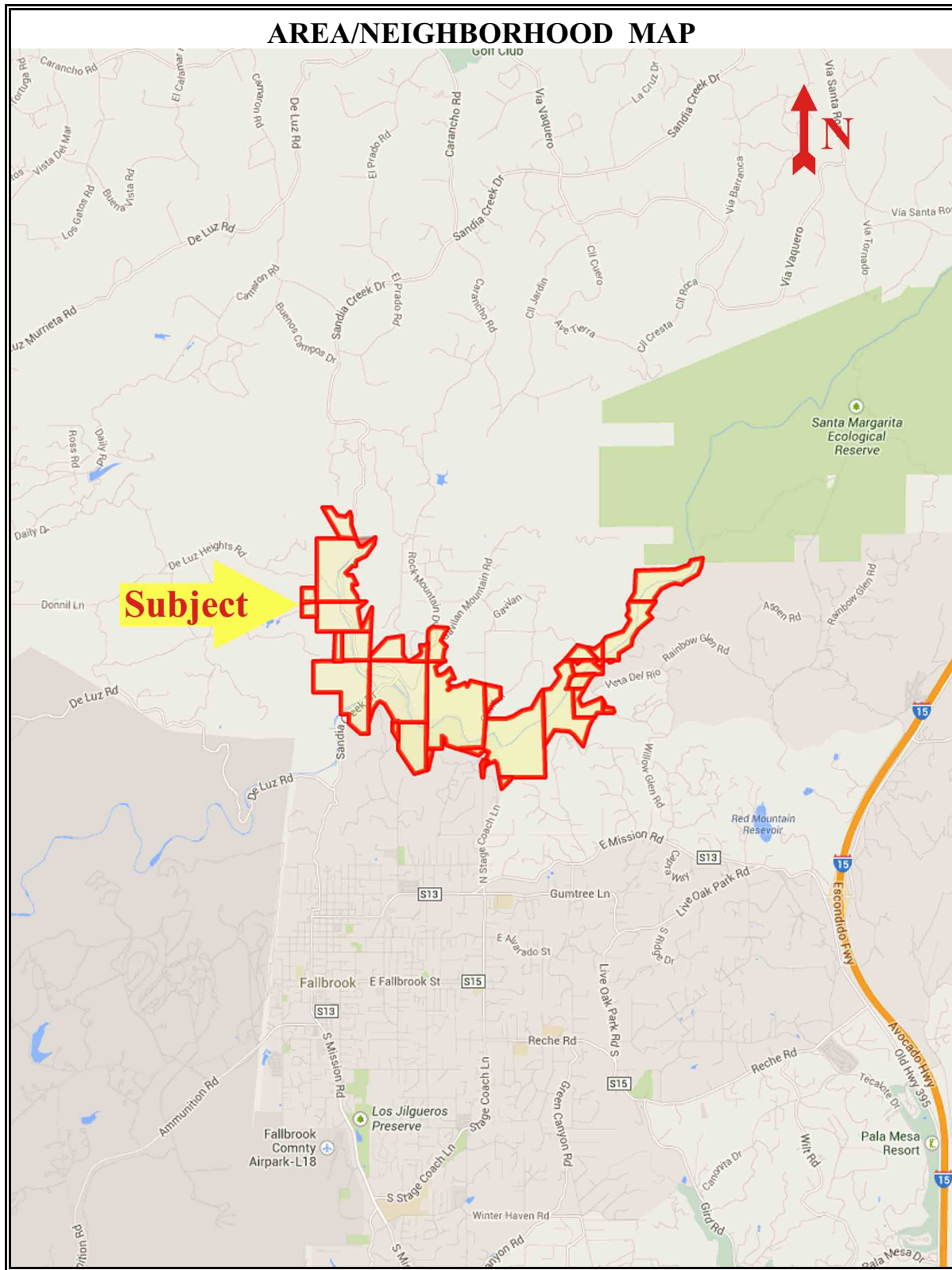
Conclusion

Since the 1970s San Diego County has been a rapidly growing Sunbelt location. The region's economy is diversified, beginning with the strong presence of the military and government contractors, trending into more biotech, technology, and other industries. With the military presence, there was a relatively small downturn in the San Diego economy during national recessions in the 1970s and 1980s. However, when defense and aerospace spending declined in the early 1990s, San Diego faced declining employment and limited growth. While military and defense contracts still play an important role in the economic stability of San Diego County, the region's economic base has diversified since the early 1990s. Leaders in this diversification include the high-tech, biotech, and tourism-based industries.

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The primary attraction of San Diego is its coastal location and climate. This has resulted in steady population gains since the mid-1990s. In summary, the physical characteristics of San Diego will continue to make it attractive to investors. The appeal of San Diego has assisted in the economic recovery.

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AREA/NEIGHBORHOOD DESCRIPTION

Fallbrook is located in the northwest portion of San Diego County, just south of the Riverside County line. Fallbrook is generally bounded on the north by Riverside County, on the south by the Bonsall Community, on the east by Interstate 15, and on the west by Marine Corps' Base Camp Pendleton. Fallbrook is a primarily rural residential and agricultural community. Nursery plants, flowers, and groves (primarily avocado and citrus) account for the area's greatest industry revenue. Commercial development is concentrated along South Mission Road and Main Street.

Interstate 15, a north-south freeway, and State Route 76, an east-west highway, serve Fallbrook. Major streets in the area include South Mission Road, Main Street, Stage Coach Lane, East Mission Road, Alvarado Street, and Fallbrook Street. The subject property is located over two miles north of downtown Fallbrook. The property is downstream from the Santa Margarita Ecological Reserve (adjacent to the northeast) and upstream from Camp Pendleton (just southwest of the subject).

Demographic information was provided by the San Diego Association of Governments ("SANDAG"). The most recent 2013 estimated population of Fallbrook was 44,646 persons, with 16,189 total housing units. This represents a 3.0 percent increase in population from the 2010 U.S. Census count of 43,338 persons. The population is expected to increase 6.5 percent to 47,565 persons by 2020. Between 2010 and 2020, the expected population increase in Fallbrook, at 9.8 percent, is lower than the countywide average, at 14.2 percent. As of 2013, the average household size in Fallbrook was 2.88 persons. The median annual household income was \$70,635 as of 2013, which was very similar to the countywide median household income at \$70,926.

Residential Land Market

Various publications on local residential land trends were reviewed for this assignment. CoStar (a real estate database specializing in commercial and large transactions) was utilized to analyze large land transactions in San Diego County. Notable listings and sales of large properties are summarized below.

- Rancho Lilac is a 903-acre property located in the community of Valley Center, San Diego County. The property sold in October 2011 for \$16,500,000 or \$18,272 per acre. Reportedly, a tentative map for 342 units was nearly complete. The property is in the Keys Creek corridor and a wildlife link in the San Luis Rey watershed. The property was purchased under Transnet EMP to mitigate various projects including SR-76. Overall, this property was considered superior to the subject.

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- Peaceful Valley Ranch is a 181-acre property located in the community of Jamul, San Diego County. The property is in escrow for \$2,250,000 or \$12,431 per acre. The property is marketed as a future residential subdivision for 47 lots, equestrian facilities, and open space; no entitlements currently exist. The majority of the property appears to be level or gently sloped. The property was considered overall superior to the subject.
- Dehesa Mountain Estates is a 112-acre property located in the city of El Cajon. The property is listed for \$590,000 or \$5,268 per acre. The majority of the property is located on a hill and reportedly contains Southern Mixed Chaparral and Coastal Sage Scrub. The site is marketed as sustaining six possible lots. Overall, this property was considered inferior to the subject.

With limited residential land remaining in the County and significant barriers to entry, large land transactions are thinly traded similar to the subject. Due to limited data, a meaningful trend analysis from CoStar was unavailable. Finally, real estate agents and brokers active in the land market have reported conflicting trends. While some have a positive outlook, others do not feel the residential land market has fully recovered.

Another way to extract a meaningful trend is to study smaller residential land transactions using the Multiple Listing Service (“MLS”), a database that primarily tracks residential real estate. A sales history of residential lots greater than one acre within the 92028 zip code (representing neighborhoods of Fallbrook, De Luz, and the western portion of Rainbow) was performed. The past four years were studied as well year-to-date 2014 (August 2014). The following table summarizes the results.

Residential Land Trends						
Year	Transactions	Days on Market	Average Sale Price	Median Sale Price	Size (Ac)	Sale Price/ List Price
2010	27	200	\$208,000	\$165,000	10.7	88%
2011	28	178	159,000	157,500	7.9	90%
2012	37	168	222,000	155,000	10.5	85%
2013	46	230	148,000	137,650	9.8	87%
2014	37	172	233,000	190,000	9.2	88%

The market data indicates the residential lot market has improved in the past few years. Year-to-date, both the average and median sale prices have significantly increased. Additionally, the days on the market have decreased and the sale price to list price has slightly increased (a positive trend). If the momentum continues, 2014 will likely have the highest number of transactions since many years ago. As discussed later in the Highest and Best Use section of this report, the subject can probably accommodate a range near 60 lots (with an average size at about 23 acres). Given the above market data is less than half the size of the subject’s average lot size, the average and median

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 sale prices (at \$233,000 and \$190,000 in 2014, respectively) are low indicators for the subject's lots. Nevertheless, the subject's lots would sell for a bulk discount, which could offset the size adjustment.

Single-Family Market

In order to help in the determination of highest and best use and potential value of the subject, a sales history of single-family home transactions within the 92028 zip code (representing neighborhoods of Fallbrook, De Luz, and the western portion of Rainbow) was performed. The past four years were studied as well year-to-date 2014 (August 2014). The following table summarizes the results.

Residential Land Trends						
Year	Transactions	Days on Market	Average Sale Price	Median Sale Price	Average Size (SF)	Avg Price/SF
2010	506	85	\$382,000	\$340,000	2,248	\$170
2011	515	92	394,000	345,000	2,366	167
2012	623	87	397,000	350,000	2,332	170
2013	737	64	483,000	430,000	2,438	198
2014	391	56	510,000	452,000	2,369	215

The market data indicates the single-family home market has improved in the past few years. Year-to-date, both the average and median sale prices have significantly increased. Additionally, the days on the market have decreased and the average price per square foot has steadily increased. Although it appears the number of transactions for 2014 will be down from the prior year, every other indicator shows signs of improvement.

Conclusion

Fallbrook is a desirable residential and agricultural location. The area experienced a notable decline during the recession. The current drought has hurt farmers that lack wells and rely on municipal water. Additionally, the region has experienced significant fires in the recent past, which devastated certain farms. Nevertheless, Fallbrook benefits from a strong agriculture community and is a desirable residential location for residents who value privacy, nature, and equestrian activities. Both the residential land and single-family home market in the immediate subject area is improving. Overall, the long-term outlook for this community was judged to be good.

Location and Access

The subject property is located in the northern portion of the community of Fallbrook, San Diego County. The subject property is served by multiple public roads, which include: Sandia Creek Drive, Rock Mountain Drive, Gavilan Mountain Road, Willow Glen Road, and North Stage Coach Lane. The majority of the developable areas of the subject property have adequate access (substantial driveway improvements would be required before home construction).

Street Improvements

Due to the subject’s size, it is served by multiple public roads. The western portion of the subject is served by Sandia Creek Drive, a two-lane, asphalt-paved roadway. Rock Mountain Drive (which extends off of Sandia Creek Drive) is also a two-lane, asphalt-paved roadway. Gavilan Mountain Road (which extends off Rock Mountain Drive) is also a two-lane, asphalt-paved roadway. The eastern portion of the subject is served by Willow Glen Road, a two-lane, asphalt-paved roadway. North Stage Coach Lane (which extends off Willow Glen Road) is a two-lane, dirt road.

Size and Shape

The Assessor’s Plat maps indicates the subject comprises 1,389.69 acres of land. The subject property is crescent shaped. The 33 APN’s presented in the following table are arranged from east to west.

Subject Size	
APN	Size (Acres)
102-490-29	65.83
102-520-02	54.61
102-750-05	0.40
102-710-11	3.12
102-180-65	8.50
102-180-13	14.00
102-601-01	2.55
102-601-02	18.49
102-601-03	0.37
102-601-11	12.44
102-601-12	25.66
102-600-67	93.94
102-280-55	177.04
102-280-02	15.79
105-020-02	3.56
102-400-29	2.01
102-400-28	5.29
102-400-40	4.42
102-450-23	194.56
102-690-08	26.37
102-590-15	60.70
102-440-05	3.77
102-250-24	140.83
102-105-04	7.17
102-105-06	29.38
102-160-48	124.14
102-102-05	40.40
102-102-06	7.35
102-102-03	73.46
102-102-02	8.81
102-101-09	128.56
102-101-08	11.75
101-361-17	24.42
Total	33
	1,389.69

It is important to note that APN 105-020-02 contains 3.56 acres according to the Assessor’s Plat map. Since this figure was also confirmed by a representative at the Assessor’s office, we have used this figure in our analysis. The Assessor’s Plat maps did not display the total sizes for APNs

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102-750-05 and 102-601-03. The areas in the above table and used in this analysis were derived by using a planimeter and electronic measurements.

It appears that the southeast portions of APNs 102-601-02 and -11 are farmed. APN 102-601-11 is also referred to by the Assessor as APN 760-196-23 (a number given to possessory interests), which is held by Brian Boren. Additionally, APN 102-101-09 appears to be occupied (an aerial indicates various structures and a lawn). APN 102-101-09 is referred to by the Assessor as APNs 760-196-01 (held by William R. Martin) and 760-196-05 (held by Peggy Hartfiel).

In addition to the small area that is farmed, the subject is improved with two older homes. According to our general measurements using a planimeter on the SANGIS vegetation map, the subject contains approximately 16 acres of “Urban/Developed” area, 126 acres of “Non-Native Grassland”, and 22 acres of “Row Crops.” As such, approximately 164 acres contain low biological value according to our general measurements.

Topography and Drainage

The subject’s topography ranges from level to steeply sloped. A topographic map of the subject property, prepared by SANGIS, is located in the **Addenda as Exhibit B**. There are various waterways throughout the property, the most significant being the Santa Margarita River. Sandia Creek extends in a north/south direction through the western portion of the subject property. Additionally, Rainbow Creek extends in a northwest/southeast direction through the eastern portion of the subject property. Both Sandia and Rainbow Creeks connect to the Santa Margarita River.

Flood Hazard

The majority of the subject property is located in FEMA Map No. 06073C0165G, however, portions of the westerly parcels are located in Map No. 06073C0150G. Both maps were revised on May 16, 2012. According to the maps, the majority of the subject property is located in Other Areas: Zone X, which is defined as “areas determined to be outside the 0.2% annual chance floodplain.” The areas that Sandia Creek and Santa Margarita River extend are within Zone A, which is defined as “no base flood elevations determined.” Zone A is located in the “special flood hazard areas subject to inundation by the 1% annual chance flood.” A flood map of the subject property, prepared by SANGIS, is located in the **Addenda as Exhibit C**.

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Since the base (100-year flood level) elevations have not been determined for the area, it is unclear exactly where future development would occur that wouldn't disrupt the flood levels of the rivers (there is ample room as the flood plain is relatively narrow). According to Ordinance No. 8334 (New Series), encroachments, including fill, new construction, substantial improvements, and other development, unless certification by a registered professional engineer is provided demonstrating that encroachments shall not result in any increase in flood levels during the occurrence of the base flood discharge, are prohibited in the floodway. Development is allowed in the flood plain fringe, however, new construction and substantial improvement of any structure shall have the lowest floor raised to or above the base flood elevation (in some cases, one foot above).

Soils

A soils report was not provided for this appraisal. As such, soils conditions as to suitability for potential development is unknown. The area is characterized by hills and ridges separated by alluvium-filled, irregular valleys. We have assumed that soils conditions are adequate to support single-family residential development as allowed under the county land use restrictions. Development on other lots within the surrounding area indicate that this is a reasonable assumption.

Biological Resources

The majority of the subject property contains a diverse range of native vegetation. Although a site-specific biological study was not available for this appraisal, a vegetation map prepared by SANGIS was relied upon and a copy is located in the **Addenda as Exhibit D**. According to the vegetation map, the subject contains a diverse range of sensitive vegetation (summarized in the following table).

Southern Mixed Chaparral	Chamise Chaparral
Southern Coast Live Oak Riparian Forest	Riparian Forests
Diegan Coastal Sage Scrub	Mule Fat Scrub
Coastal Sage-Chaparral Scrub	Coast Live Oak Woodland
Dense Coast Live Oak Woodland	Chaparral
Scrub Oak Chaparral	Non-Vegetated Channel, Floodway, Lakeshore
Open Coast Live Oak Woodland	Fringe
Southern Sycamore-alder Riparian Woodland	Southern Cottonwood-Willow Riparian Forest.

The subject property is located within the Multiple Species Conservation Program (MSCP) - North County Plan (not yet approved). According to the MSCP Habitat Evaluation Model, the majority of the subject property is designated as having areas with "Very High," "High," or

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“Moderate” biological value. Although the subject property is designated as “Special Districts” by the proposed Pre-Approved Mitigation Area (PAMA) Plan, it would be considered PAMA if it were privately owned according to Ms. Bobby Stephenson (a MSCP representative).

There are some non-native or disturbed areas. According to our general measurements using a planimeter on the SANGIS vegetation map, the subject contains approximately 16 acres of “Urban/Developed” area, 126 acres of “Non-Native Grassland”, and 22 acres of “Row Crops.” As such, approximately 164 acres contain low biological value according to our general measurements. According to Ms. Stephenson, areas of the subject property would be suitable for mitigation.

Cultural Resources

To our knowledge, the subject has not been surveyed for cultural resources. As such, it is unclear if there are any cultural resources on the subject.

Seismic Stability

According to a map within the *General Plan*, there does not appear to be a known fault on or immediately near the subject property. Various sources indicate the nearest faults are miles away in Pendleton/De Luz, Temecula, and Pala/Pauma Valley. According to a Special Studies Zones map, the subject does not appear to be within an Alquist-Priolo Special Studies zone.

Utilities and Public Services

Various public utilities are located on or near the subject property, however, future development would required extension of these services to the proposed improvements. Gas and electricity are provided by San Diego Gas & Electric Company. Although a gas line is not located on the subject, the nearest line is located about 3,600 feet south of the property. The subject property is located within the Fallbrook Public Utility District’s (FPUD) water service area. According to a map provided by FPUD, water lines extend through the northwestern, center, and eastern portions of the subject property. Many of the subject lots could be served by public water. Water can also be obtained via well. The area is not served by sewer; development in the immediate area relies on septic. According to the *Design Manual for Onsite Wastewater Treatment Systems*, leach lines must be 50 feet from a drainage course, and 100 feet from either a flowing stream or pond. The subject is located in the North County Fire Protection District of San Diego County and the Fallbrook Union Elementary School District, and Fallbrook Union High School District.

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Hazardous Waste

GeoTracker, an online public record database maintained by the State Water Resources Control Board, was reviewed for this assignment. There is no known hazardous contamination on the subject property (or immediate surrounding properties) according to GeoTracker. We have assumed that the subject is free and clear of any hazardous contamination. No unusual items were noted upon our inspection of the property.

Adverse Influences

During the inspection of the property, no significant adverse influences were noted.

LAND DESCRIPTION - LEGAL CHARACTERISTICS

Legal Description

A legal description of the subject property is included in the Preliminary Reports obtained for this appraisal, which are located in our workfile. The reports were prepared by Stewart Title and have varying effective dates in January 2014.

Easements and Encumbrances

We have reviewed 28 Preliminary Reports issued by Stewart Title provided by the client. The reports have varying effective dates in January 2014. The reports cover 28 of the 33 APN's described in this appraisal report. Notable title exceptions include roads and utilities that are common for this area and these parcel sizes. The locations of the easements require plotting by an engineer or title professional. Some of the deeds that we reviewed are many decades old and are not legible. One such easement is to a former railroad; there is no active rail in the area (a former rail crossing reportedly flooded many decades ago, and the rail endeavor has been defunct for some 50 years). A representative of the property owner also indicated that many of the older encumbrances may have been extinguished due to the plan in the 1950s to create a reservoir by building a dam and inundating the acreage.

The road and utility easements noted by Stewart Title tend to be in favor of SDG&E, the county of San Diego, or private parties (like an adjacent owner that may have certain rights across

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a parcel). The visible easements were noted during our inspection, and do not appear to materially impact the highest and best use. Other notable exceptions include water rights, and certain access rights. In cases where a parcel has no access rights, this may be overcome by the fact that FPUD owns adjacent land with physical and legal access, and can grant access over its own land to serve an "outlying" parcel. As to water rights, we understand that FPUD has certain water rights, some of which may be transferrable and are not part of this proposed transaction. We have not appraised transferrable water rights. Instead, we have reflected the right to use water for typical on-site uses (single-family home and limited agriculture) that would not overburden these rights. There is ground water in the area given the river location, while there is also public water available to many of the subject lots.

Most of the Preliminary Reports also mention the typical exceptions that include "rights of tenants in possession of said land" and "rights of parties in possession" and "rights of the public in and to any portion of the property herein described lying within roads, streets, and highways." Lastly, the report mentions the lack of open deeds of trust.

We have considered the title exceptions on a parcel by parcel basis, however, the ultimate legal lot division does not follow these APN boundaries. Since the subject property was appraised as a whole, it was not necessary to pinpoint all of the encumbrances lot by lot. It is also interesting to note that there are multiple legal descriptions (Parcel 1, 2, 3, etc.) in most of the Preliminary Reports.

We assume that there are no other easements or encumbrances that would have an adverse impact on the subject property. The preceding analysis reflects our interpretation and understanding of these items. Additional information is available in the source documents referenced in the Preliminary Reports; the client is urged to obtain expert legal opinion as to the effect of certain exceptions, if desired.

Zoning and Land Use

With the exception of one parcel, the majority of the subject property is zoned S80 (Open Space Use Regulations). According to the County's *Zoning Ordinance*, the S80 zone is "intended to provide for appropriate controls for land generally unsuitable for intensive development." Residential and agricultural uses are permitted in the S80 zone. If subdivided, the S80 zone permits a density of one unit per four acres. If unsubdivided, the S80 permits a density of one unit per legal lot. Although there is an additional open space zone called S81 (Ecological Resource Area), which

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is intended “to recognize and preserve coastal wetlands within the California Coastal Zone,” the subject property is not within this zone.

The most southerly parcel, APN 105-020-02, containing 3.56 acres, is zoned A70 (Limited Agricultural Use Regulations). According to the *Zoning Ordinance*, the A70 zone is “intended to create and preserve areas intended primarily for agricultural crop production.” Residential use is permitted in the A70 zone (one unit per two acres). It appears the majority of the subject’s S80 zoning designation is related to their public ownership for the following reasons. First, according to the *Zoning Ordinance*, “Typically, the S80 Use Regulations would be applied in both urban and rural environments to... public lands...” Second, all of the adjacent property is zoned A70, except one parcel near the northwest portion of the subject (APN: 102-101-10 - owned by SDG&E), which is zoned S80. Based on the density permitted by the zoning, the subject could support up to 347 homes (this was considered very speculative, and the minimum lot size may not properly apply here).

The entire subject property is designated Public Agency Lands in the *General Plan*. Residential and agricultural uses are not permitted in Public Agency Lands, which conflicts with the subject’s zoning designation. It appears the subject’s general plan designation is related to their public ownership as the adjacent parcels are designated Semi-Rural and Rural Lands (this was confirmed by a representative of the planning department). The majority of the parcels adjacent to the north of the subject are designated RL-20 (Rural Lands - one dwelling unit per 20 acres), however some are designated RL-40 (Rural Lands - one dwelling unit per 40 acres). The parcels adjacent to the south of the subject are designated SR-2 (Semi-Rural Residential - one dwelling unit per 2, 4, or 8 acres). These surrounding designations are the best examples of what the subject parcels would be designated if not in public ownership. The prior *General Plan* (adopted 1979) designated the property as Public/Semi-Public Lands. We have reviewed historical documents dating back to the 1950s for this assignment. The evidence suggests the subject property was unzoned back in the 1950s.

If the subject properties were privately owned, they would likely undergo a redesignation process according to the county. Customarily, the subject’s land use and density would mimic adjacent properties. Based on the general plan designations of adjacent, privately-owned properties, the subject’s possible maximum density would range from one dwelling unit per 2, 4, or 8 acres (in areas closer to Fallbrook proper) to between 20 or 40 acres in the northern area (representing the majority of the subject). Since the redesignation process is discretionary, the ultimate density could vary. Further subdivision in the County can be uncertain, lengthy, and costly. Given the many legal

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lots of the subject property, it may not be necessary to subdivide the property any further to maximize the value of the property.

The preceding discussion is intended to provide a summary of the land use regulations impacting the subject property. We are not experts in these regulations, which are quite complex. The client or any other interested party is urged to obtain legal review of the land use regulations as they relate to the subject property, if desired.

Private Restrictions

There are no known private restrictions on the subject property.

Agricultural Preserve

A Williamson Act contract does not exist on the subject property according to a Planner at the County.

LAND DESCRIPTION - ECONOMIC CHARACTERISTICS

Assessment Information

Assessment information relating to the subject properties was unavailable due to the fact they are held by public entities and therefore exempt. Nevertheless, any current assessment and taxes would not be relevant in this appraisal, as California law requires that properties be reassessed at their market value upon sale. Inherent in the definition of value is a sale of the subject. Therefore, this appraisal is predicated on the assumption that the subject would be reassessed upon transfer to reflect the value estimate. The typical tax rate in the surrounding area is 1.07265 percent (tax rate area 75053).

DESCRIPTION OF THE IMPROVEMENTS

As mentioned in the following Highest and Best Use section of this report, the two old homes were considered to contribute nominal value. According to public records, the house located at 39315 Sandia Creek Drive contains 1,096 square feet and the house located at 39227 Sandia Creek

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Drive contains only 384 square feet. According to FPU, the house located at 39315 Sandia Creek Drive was in fair condition. The house located at 39227 Sandia Creek Drive is in poor condition and is expected to be demolished. Both houses are old and near the end of their economic lives.

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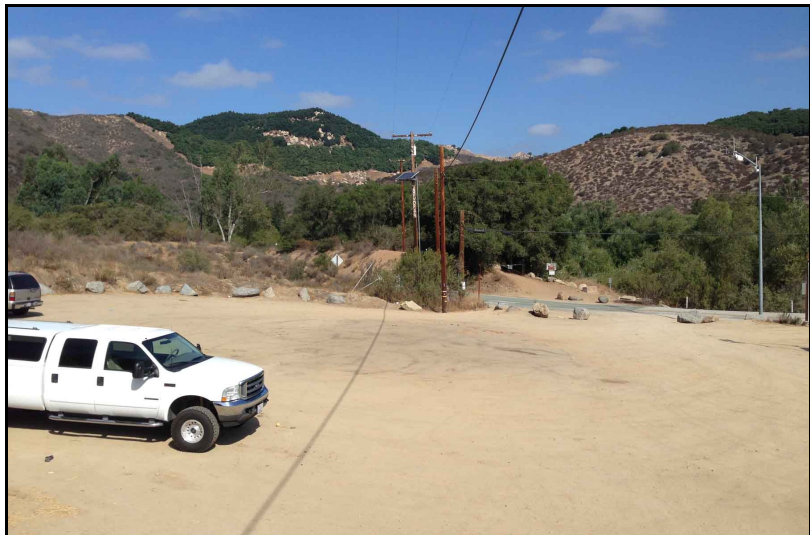
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SUBJECT PHOTOGRAPHS

Viewing southwest from North Stage Coach Lane (photo right). The farmed portion of the subject property is located on the left.



Viewing north toward Sandia Creek from Sandia Creek Trail Head. There are many flat areas (photo foreground) that could support a single-family home.



Viewing south toward the subject property. There are many flat areas (photo foreground) that could support a single-family home. Sandia Creek Drive is located just right of the photo.



There are three generally recognized approaches to value. These include the cost, sales comparison, and income capitalization approaches. The sales comparison approach was used to value the subject property. The sales comparison approach is based on the principle of substitution, and relates the subject to similar properties that have recently sold. Sales of large undeveloped raw land in San Diego County were utilized in the analysis. Our investigation of the market data used in this appraisal involved inspection of the properties and researching the sales through sources believed to be reliable. As mentioned in the following analysis, the subject property can reasonably accommodate a range near 60 single-family lots using the existing legal lots. An aggregate retail value and “bulk” analysis was performed as a final check of reasonableness.

Because the subject is unimproved (the two old homes were considered to contribute nominal value), the cost approach was not used to value the subject property. The income capitalization approach was not considered relevant as the property does not produce income.

Prior to valuing the subject property, its highest and best use must be determined. The purpose of the highest and best use analysis is to establish which use will result in the highest value and to assist in identifying relevant market data.

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HIGHEST AND BEST USE

Highest and best use is an important concept in real estate valuation as it represents the premise upon which value is based. As used in this report, *highest and best use* is defined on page 332 of *The Appraisal of Real Estate, 14th Edition* (2013) as follows:

"The reasonably probable use of property that results in the highest value."

In order to meet the reasonably probable criterion, a use must be (1) physically possible, (2) legally permissible, and (3) financially feasible. These criteria are often considered in that order because qualification under a latter test does not matter if the property fails an earlier test. Uses which meet these three criteria are then tested for economic productivity, and the reasonably probable use with the highest value (i.e. maximally productive) is then determined to be the highest and best use. This definition applies to vacant land or improved property. The highest and best use of vacant land could be immediate development of the property or holding for future development.

The highest and best use of a property is determined by social, economic, governmental, and environmental forces. The relative weight that any of these forces carries in determining the highest and best use of a property depends on the individual property. Social forces are exerted primarily by population characteristics. Specifically, the demographic composition of the population reveals the potential demand for real estate. Examples of social forces that influence real estate are population changes, rate of family formations and dissolutions, and age distributions.

Economic forces determine the supply and demand conditions influencing real estate. The desire and ability of the population to satisfy its demand for real estate, or those uses situated on the real estate, are determined by economic forces. Examples of economic forces influencing the demand for real estate are employment and wage levels, the economic base of the region and community, price levels, and the cost and availability of mortgage credit. Examples of economic forces influencing the supply of real estate are the stock of available improved properties, proposed development, occupancy rates, and price patterns of existing properties.

Governmental influences include a broad range of political and legal actions which influence the provision of public services, restrict the supply of real estate through zoning and planning ordinances, establish local, state, and national fiscal policies, and special legislation (e.g., a building moratorium) which may influence property values and availability.

Environmental conditions which may influence real estate include climatic conditions, topography and soil, transportation systems, and the nature and desirability of the immediate

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neighborhood surrounding a property. Environmental forces can be external to the property being appraised or can include characteristics of the property itself. While the four forces that influence value have been identified separately, they work in concert to affect property values. For a given property these forces will probably exert uneven influence on the value, with certain forces having greater impact on that property than others.

Although the subject property is improved with two homes, they are near the end of their economic lives. As of the date of value, the leases that encumber the two homes expire at the end of 2014. Based on our analysis, the improvements contribute nominal value to the subject property.

Physically Possible

Since the subject property generally follows the Santa Margarita River, it is irregular in shape (generally crescent shaped), with changing topography. The majority of the 1,389.69-acre property is moderately sloped (leading downward toward the river). There are many areas throughout the subject property that could accommodate a pad for a home. Some of the flatter or gently sloped areas include areas along Sandia Creek Drive (currently improved with two older houses) and the northeastern area that is farmed.

Surrounding uses consist of homes on large lots (typically containing between two and 20 or more acres) and agriculture (groves and flower farms). Although the higher elevations offer view potential, these areas commonly have more challenging access and expensive development costs.

Water is available via a well or public connection. Development in the area relies on septic. Although percolation is unknown, surrounding uses indicate this is likely. Surrounding buildings in the area are served by electricity (such as the small subject houses along Sandia Creek Drive) and an extension to the subject is physically possible. Solar power is also an alternative.

The majority of the subject property contains sensitive vegetation (only small areas are disturbed - mainly the 15-acre farmed area). Overall, the subject property is physically constrained by topography, flooding, and sensitive vegetation.

Legally Permissible

With the exception of one parcel, the majority of the subject property is zoned S80 (Open Space Use Regulations), which permits residential and agricultural uses. If subdivided, the S80 permits a density of one dwelling unit per four acres. If unsubdivided, the S80 permits a density of

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one dwelling unit per legal lot. The most southerly parcel, APN 105-020-02, is zoned A70 (Limited Agricultural Use Regulations). Residential use is permitted in the A70 zone (one unit per two acres). It appears the majority of the subject's S80 zoning designation is related to their public ownership. Based on the density permitted by the zoning, the subject could support up to 347 homes (this was considered speculative since it conflicts with the existing general plan and the general plan designations on surrounding, privately owned parcels).

The entire subject property is designated Public Agency Lands in the *General Plan*. Residential and agricultural uses are not permitted in Public Agency Lands, which conflicts with the subject's zoning designation. It is apparent that the subject's General Plan designation is related to its public ownership as the adjacent parcels are designated Semi-Rural and Rural Lands. The majority of the parcels adjacent to the north of the subject are designated RL-20 (Rural Lands - one unit per 20 acres), however some are designated RL-40 (Rural Lands - one unit per 40 acres). The parcels adjacent to the south of the subject are designated SR-2 (Semi-Rural Residential - one dwelling unit per 2, 4, or 8 acres). We have reviewed historical documents dating back to the 1950s for this assignment. The evidence suggests the subject property was unzoned back in the 1950s.

If the subject parcels were privately owned, they would likely undergo a redesignation process in the *General Plan*. Customarily, the subject's land use and density would mimic adjacent properties. Based on the General Plan designations ascribed to the adjacent, privately-owned properties, the subject's possible maximum density would range from one unit per 2, 4, or 8 acres (in areas closer to Fallbrook proper) to between 20 or 40 acres in the northern area (representing the majority of the subject).

An alternative to subdivision is developing one home per legal lot on the subject property. Based on our research and analysis, this *General Plan* change would be more ministerial than discretionary. When the subject property was assembled in the 1950s, 87 legal lots were created (an old map depicting the individual lots is located in the **Addenda as Exhibit A**). The manner and date these lots were created comply with the County's *Determination of Legal Parcel* (Policy G-3) guidelines. Mr. Tom Harrington, Senior Land Surveyor at the County of San Diego, further confirmed that the circumstances that created the subject lots qualify in creating 87 legal lots. However, some "legal" lots may not be "developable" lots. We believe that some of these lots would be merged to create the best mix of developable lots.

Although the subject property likely contains 87 legal lots, it is unlikely every parcel would be developed since some have challenging physical constraints (such as size, topography, flooding,

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septic, and sensitive vegetation). Clustering of homes in the least biologically sensitive areas is also a possibility, however, the County may limit clustering to the point that it becomes a de facto subdivision.

Overall, single-family development (with equestrian use) is legally permissible. Agricultural uses, such as groves, is also legally permissible, however, the subject's sensitive vegetation poses a significant constraint to that use.

Financially Feasible

By definition, any use which results in positive land value represents a financially feasible use. The first step taken to establish financial feasibility was to research sales of sites similar to the subject. We found several sites purchased for future residential development. Additionally, we found adequate examples of single-family lots (some with income-producing groves) near the subject property. Despite the historic drought, groves that rely on public water are still economically viable. We found several examples of property owners expanding or improving groves in the immediate area. Overall, single-family residential and agricultural uses were considered financially feasible.

Maximally Productive

The maximally productive use of a property is that use which results in the highest land value relative to risk. The residential lot and single-family home market in the area has improved in the past few years. Since the redesignation process is discretionary, the subject's ultimate density could vary. The subdivision process in the County can be uncertain, lengthy, and costly. Based on the surrounding density, the subject's notable physical constraints, and likely neighborhood opposition, aggressive subdivision of the subject property was considered to be speculative.

Although the subject property has 87 legal lots, a development of this density was also considered speculative given the subject's physical constraints (some of the lots are less than one acre and/or have close proximity to the creek and sensitive vegetation). Fewer, larger lots are more likely developable to enable access and septic layouts. The most likely scenario would involve a mixture of single-family development in the most logical legal lots (perhaps with limited clustering), assemblage with surrounding lots, and possibly agriculture. Based on our physical inspection of the subject property, analysis of legal lots, and understanding of existing physical constraints, we have determined the subject property would reasonably accommodate a range near 60 lots. This is

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consistent with the 58 Assessor's parcels that formerly existed (before the Assessor consolidated them into 33 parcels for convenience purposes between 2010 and 2012).

The highest and best use was determined to be future residential development, with some associated agriculture and mitigation.

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SALES COMPARISON APPROACH

In applying the sales comparison approach, the subject property was compared to sales of similar large acreage throughout San Diego County (including one located in Riverside County). The primary sources of data were CoStar, Loopnet, the MLS, and interviews with real estate professionals (brokers/agents/investors). In each case the real estate professionals knowledgeable about the property were contacted to confirm the transaction and to obtain information regarding other meaningful transactions of similar properties. The transactions were field checked to determine locational and other physical characteristics.

Of the units of comparison potentially available for analysis, the price per gross acre is commonly used by buyers of raw land like the subject and was used in this analysis. Every transaction was arm's-length, and located within a 25-mile radius of the subject.

A summary of the transactions judged most helpful in valuing the subject property is presented in reverse chronological order in the following table. A discussion of each transaction follows the table. Maps showing the location of the transactions, and data sheets are included in the Addenda as Exhibits E and F, respectively. Additional data, used as a check of reasonableness, are discussed after the primary market data.

Land Data Summary						
No.	Name/Location/APNs	Date	Sale Price	Size (Acres)	Price/Acre	Comments
1	Moon Valley Nursery 1210 Rainbow Hills Rd Fallbrook 102-720-09, -14, -15, -16, & -18; 102-721-01 thru -05	06/14	\$3,150,000	234.29	\$13,445	Unentitled; interim Ag. use (nursery); improvements (Ag. support) contributed value; supports 8-10 homes
2	Olive Hill Rd & Via Puerta del Sol; Bonsall 126-010-24; 126-020-02 & -05; 126-050-25 & -33	05/14	2,500,000	165.23	15,130	Unentitled; interim Ag. use (nursery); supports ±10-41 homes
3	Safari Highlands Ranch N. of S.D. Zoo - Safari Park North County Metro 240-270-33; 241-060-03; 242-010-02, -36, -37, & -38	03/13 06/13	6,890,493	1,050.73	6,558	Unentitled; zoned for ±27 homes Developer wants master plan
4	Sleeping Lady Ridge Between Questhaven Rd & Wild Willow Hollow Rd San Dieguito 222-122-06, -08, -09, & -10; 222-130-06, -13, & -19	12/12	7,400,000	501.72	14,749	Unentitled; Escondido Creek Conservancy currently has an option to purchase for \$8,300,000; supports ±25 homes
5	Spring Meadow Ranch Sunset Avenue City of Wildomar (Riverside) 362-100-048 & -050; 362-130-002, -005, -015, & -017; 362-140-032, -035, -038, & -040	11/12	7,000,000	785.40	8,913	Unentitled; supports up to ±543 homes, but has physical constraints
6	Rockwood Road Northeast of Safari Park North County Metro 240-270-58; 242-010-71 & -72; 242-020-71, -72, & -73; 242-030-37 & -38; 242-070-09, -12, & -14	03/11	5,500,000	772.39	7,121	Unentitled; assemblage; supports up to ±19 homes

Sale No. 1 is located about 2 miles east of the subject property at 1210 Rainbow Hills Road in Fallbrook. The property sold in June 2014 for \$3,150,000 or \$13,445 per acre. The property was purchased by Moon Valley Nursery. The highest and best use is future residential development, with interim use as a nursery. The 234-acre property is adjacent to I-5. At the time of sale, the property was improved with green houses, shade canopy, a loading dock, 1 million gallon reservoir, fertilization tank, two wells, irrigation system, office space, and a storage shed. Although the improvements contributed value, the buyer’s representative was unable to quantify. The property was previously in receivership, however, this condition did not affect the sale price. More than half

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of the property is disturbed by agriculture. The northern portion contains chaparral and a seasonal creek traverses the middle of the property. A large portion of the property is flat to gently sloped, with steeply sloped areas near the northern/undisturbed portion of the property. The property has physical and legal access. The area near I-5 is zoned RR (Rural Residential), which permits one unit per acre; the *General Plan* designation for this same area is Semi-Rural Residential (SR-10), which permits one unit per 10 or 20 acres. The northern and western portions of the property are zoned Agriculture (A70), which permits one unit per 4 acres; the *General Plan* designation for this same area is Rural Lands (RL-40), which permits one unit per 40 acres. It is important to note that when there is a discrepancy between the zoning and general plan designation, the general plan designation governs (this applies to all market data in this analysis). Based on our rough calculations from the existing *General Plan*, the property could support up to eight homes. There are 10 APNs; if there are 10 legal lots, then the property would likely support up to 10 homes.

Sale No. 2 is located about 8 miles southwest of the subject property at the intersection of Olive Hill Road and Via Puerta del Sol, in the Bonsall community, San Diego County. The property sold in May 2014 for \$2,500,000 or \$15,130 per acre. The property was purchased by an international investor. The highest and best use is future residential development, with interim use as a nursery. Although the majority of the 165.23-acre property is undeveloped and unused, the northern portion is mowed grassland and the southern portion is used as a nursery. The improvements consist of basic wood-frame greenhouses and shade canopies. Although we were unable to confirm if the improvements contributed value, it is unlikely given the type and quality. The northern portion is gently sloped, while the southern portion is gently- to moderately-sloped. A seasonal stream traverses the middle of the property, generally along Olive Hill Road. The property has physical and legal access. The property is zoned Rural Residential (RR), which permits one unit per 2 acres. The *General Plan* designation is Semi-Rural Residential (SR-4), which permits one unit per 4, 8, or 16 acres. Based on our rough calculations from the existing *General Plan*, the property could support between 10 and 41 homes.

Sale No. 3 is located about 23 miles southeast of the subject property in the hilly area above San Pasqual Valley (North County Metro Community), San Diego County. The property is directly north of the San Diego Zoo - Safari Park (just west of Sale No. 6). The property was assembled between March and June of 2013. The 1,050.73 acres were purchased for a total of \$6,890,493, or \$6,558 per acre. Although a portion of the property was purchased through a trustee sale, the sale price was reportedly at market. The proper was unentitled at the time of sale despite being part of a Specific Plan. The master plan proposed by the buyer/developer includes 550 homes, a new fire
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station, and a community center. Assuming the plan progresses, the developer must secure access to the western extension of Rockwood Road (near the newer residential neighborhoods to the west) and upgrade the existing roadway system. Additionally, the property must be annexed into the city of Escondido. According to various news articles, local resistance to the proposed development is strong. According to the buyer, the property could currently support 27 homes (this would be the minimum density if the proposed development failed). The hilly property is in raw condition. The southern two-thirds of the property is located in a Pre-Approved Mitigation Area by the Multiple Species Conservation Program. The majority of the property has Coastal Sage Scrub and Chaparral. The property is zoned General Agriculture (A72), which permits one unit per 10 acres. The *General Plan* designation is Rural Lands (RL-40), which permits one unit per 40 acres.

Sale No. 4 is located about 21 miles southeast of the subject in a hilly area between Questhaven Road and Wild Willow Hollow Road, in the San Dieguito community, San Diego County. The property sold in December 2012 for \$7,400,000 or \$14,749 per acre. The property is raw and was purchased by a private investor who subsequently engaged in a contract with Escondido Creek Conservancy. As of the date of this report, the Conservancy has an option to purchase for \$8,300,000 (the expiration date is unknown). A trail, named “Way Up Trail,” traverses the property and connects to Questhaven Road to the west and Wild Willow Hollow Road to the east. Although the property does have physical access, the deed indicates that it has multiple access easements. Before the prior economic downturn, the property reportedly could accommodate many hundreds of homes (no entitlements exist). This high density is speculative as the property could support up to 25 homes based on our rough calculations from the existing *General Plan*. Given the hilly topography, the ultimate density could be much lower. The property contains mostly chaparral. The majority of the property is zoned Rural Residential (RR), which permits one unit per 4 or 8 acres. A small portion of the property (near the northeast) is zoned Open Space (S80), which permits one unit per legal lot. The *General Plan* designation is Rural Lands (RL-20), which permits one unit per 20 acres.

Sale No. 5 is located about 15 miles north of the subject property in the city of Wildomar, Riverside County. The property sold in November 2012 for \$7,000,000 or \$8,913 per acre. The unimproved property was unentitled at the time of sale. The topography ranges from gently sloped (to the northwest) to moderately sloped (to the east and southwest). The buyer has proposed a development comprising 1,192 homes, 9 acres of retail, 5 acres for a community center, and 42 acres for open space. Based on our rough calculations from the existing *General Plan*, the property could support up to 543 homes. The buyer hopes to obtain full entitlements about four years from the close

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of escrow (late 2016). The typical home in the immediate area is listed in the \$200,000 range. The property is accessed from Sunset Avenue (significant improvements to this roadway would be required to accommodate the proposed development). The majority of the property is zoned R-T (Mobilehome Subdivision and Mobilehome Park Zones), which was considered an outdated zoning designation for the property given the surrounding uses (single-family homes) and physical conditions. A small portion of the property (near the west) is zoned R-5 (Open Area Combining Zone). The property has multiple *General Plan* designations, including: Medium Density Residential (permitting one unit per 0.2-0.5 acre), Rural Mountainous (permitting one unit per 10 acres), Low Density Residential (permitting one unit per 0.5 acre), Very Low Density Residential (permitting one unit per acre), and Estate Density Residential (permitting one unit per 2 acres).

Sale No. 6 is located about 25 miles southeast of the subject property in the hilly area above San Pasqual Valley (North County Metro Community), San Diego County. The property is directly northeast of the San Diego Zoo - Safari Park (just east of Sale No. 3). The hilly property is in raw condition. The property was purchased by a large landowner in the area (assemblage). The property was purchased in March 2011 for \$5,500,000 or \$7,121 per acre. The property was unentitled at the time of sale and its highest and best use is long-term, future residential development (possibly a master-planned community). Access is via the eastern extension of Rockford Road (serving only the a small portion of the property to the west), which is a narrow, rural roadway. The property contains a mixture of Chaparral and Coastal Sage Scrub and about half of the property is located in a Pre-Approved Mitigation Area. The property is zoned General Agriculture (A72), which permits agricultural and residential uses. The *General Plan* designation is Rural Lands (RL-40), which permits one unit per 40 acres. This high density is speculative as the property is designated for up to 19 homes based on our rough calculations from the existing *General Plan*.

Valuation Analysis

To assist in the valuation, the transactions were evaluated based on various elements of comparison. All of the market data involved the sale of the fee simple estate in the property. As such, there were no dissimilarities between the subject and the market data, and this item was not included in the following table. Another element of comparison that was considered was market conditions. The market data span from 2011 to present. As previously mentioned in the Area/Neighborhood section, the residential land market has improved in the past few years. Other elements of comparison that were considered in our analysis include location, access, physical characteristics (mostly topography, site condition, and improvements), size, and

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 entitlements/development intensity. All else equal, smaller properties tend to sell on a higher price per acre basis than larger properties.

The market for large properties (exceeding 1,000 acres) is thin. Meaningful paired data analyses were unavailable as the market for this property type tends to be varied and imperfect. Quantitative adjustments for these items could not be meaningfully extracted from the market data, so qualitative analysis was used. This technique reflects the imperfect nature of the real estate market and helps to narrow the range of value indicators by identifying a bracket into which the final value estimate should fall. It is important to note the individual elements of comparison are not weighted equally as the comparisons vary by degree. The reader is urged to review the “overall comparison” at the bottom of the table as this is the best summation of the market data.

Qualitative Analysis						
Sale No.	1	2	3	4	5	6
Date of Sale	06/14	05/14	03&06/13	12/12	11/12	03/11
Size (Ac)	234.29	165.23	1,050.73	501.72	785.40	772.39
Price per Acre	\$13,445	\$15,130	\$6,558	\$14,749	\$8,913	\$7,121
Market Conditions	Similar	Similar	Similar	Inferior	Inferior	Inferior
Location	Superior	Superior	Similar	Superior	Inferior	Similar
Access	Superior	Superior	Inferior	Inferior	Similar	Inferior
Physical Characteristics	Superior	Superior	Inferior	Inferior	Superior	Inferior
Size	Superior	Superior	Similar	Superior	Superior	Superior
Entitlements/ Development Intensity	Similar	Superior	Similar	Similar	Superior	Inferior
Overall Comparison	Superior	Superior	Inferior	Superior	Superior	Inferior
Indicated Value	Below	Below	Above	Below	Below	Above
	\$13,445	\$15,130	\$6,558	\$14,749	\$8,913	\$7,121

The market data range from \$6,558 to \$15,130 per acre. The low-end of the range is represented by Sale No. 3. Sale No. 3, at \$6,558 per acre, sold during similar market conditions. The property’s location, just north of the San Diego Zoo - Safari Park, was considered overall similar to the subject. Only the eastern extension of Rockwood Road (a narrow, asphalt-paved roadway) serves the southern portion of the subject property. If the proposed 550-home development were to receive approvals, a new roadway extension would have to be built through a residential community to the west and connect to the western extension of Rockwood Road. Additionally, other significant roadway and public infrastructure would be required. Overall, access was judged to be inferior. The property has challenging topography and contains sensitive resources (with the southern two-thirds

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being located in a Pre-Approved Mitigation Area). The physical characteristics were considered overall inferior. The size, at 1,050.73 acres, was judged to be similar. The property was unentitled at the time of sale. The “upside” potential of the property (the developer is applying for 550 homes) was considered superior to the subject, however, the downside potential (accommodating a minimum of 27 homes) was judged to be inferior. There is major public opposition to this project. Overall, the entitlements/density potential of the subject were considered similar. Overall, this property was judged to be inferior to the subject.

The high-end of the range is represented by Sale Nos. 1, 2, and 4. Sale No. 1, at \$13,445 per acre, sold during similar market conditions. The property is located in the northeastern portion of Fallbrook along I-15; the location was judged to be superior to the subject. Access is via Rainbow Hills Road (which extends along the eastern edge of the property), Rainbow Glen Road (which extends through the northern portion of the property), and Oak Crest Road (which extends through the northeastern portion of the property). Overall, access was considered superior to the subject since all of the property has physical and legal access. A large portion of the property is flat to gently sloped. Additionally, the property was improved with improvements (agricultural support) that reportedly contributed value. Overall, the physical characteristics of the property were judged to be superior. The zoning and entitlements (having none) were considered overall similar. The size, at 234.29 acres, was judged to be superior. The property also has some freeway noise exposure. Overall, this property was considered superior to the subject.

Sale No. 2, at \$15,130 per acre, sold during similar market conditions. The location, in Bonsall, was considered superior to the subject. Access is via Olive Hill Road (which bifurcates the property and extends along the northwestern edge of the property), Via Puerta del Sol (which extends along the southwestern edge of the property), and Olive Hill Trail (which extends along the eastern edge of the property). Overall, access was judged to be superior to the subject since all of the property has physical and legal access. A large portion of the property is gently- to moderately sloped. Overall, the physical characteristics of the property were considered superior. Although the property was unentitled (similar to the subject), the zoning permitted a higher density (superior); overall the zoning and entitlements were judged to be superior. The size, at 165.23 acres, was considered superior. Overall, this property was judged to be superior to the subject.

Sale No. 4, at \$14,749 per acre, sold during inferior market conditions. The property’s location, in San Dieguito, was considered superior to the subject. Although the property does not front on a public road, it is nearby to multiple roadways and there are multiple access easements

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according to the deed. Overall, access was judged to be inferior. The property has challenging topography and contains sensitive resources. The physical characteristics were considered overall inferior. The size, at 501.72 acres, was judged to be superior. The property was unentitled at the time of sale; the overall entitlements/development density was considered similar to the subject. Overall, this property was judged to be superior to the subject primarily for location.

The subject property was bracketed by Sale Nos. 5 and 6. Sale No. 5, at \$8,913 per acre, sold during inferior market conditions. The location, in the city of Wildomar, Riverside County, was considered inferior. Access was judged to be similar. Since approximately one-fourth of the property is gently sloped (near the northwestern portion) and the property is much closer to the path of development, the overall physical characteristics were considered superior. The size, at 785.40 acres, was judged to be superior. Although the property was unentitled at the time of sale (a similar condition), the property may support a much higher density (superior). Overall, the “entitlements/development intensity” comparison were considered superior. This property was judged to be overall superior, suggesting the subject should fall below this indicator. The price of this comparable is likely skewed low due to high development costs and the lower retail value of homes in the area.

Sale No. 6, at \$7,121 per acre, sold during inferior market conditions. The property’s location, southeast of the San Diego Zoo - Safari Park, was considered overall similar to the subject. Only the eastern extension of Rockwood Road (a narrow, asphalt-paved roadway) serves the western portion of the subject property. Any suburban residential development would require significant roadway, utility, and other infrastructure. The property has challenging topography and contains sensitive resources (containing a mixture of Chaparral and Coastal Sage Scrub). Unlike Sale No. 3, this property is farther away from the path of development and its development horizon is farther out. Overall, the property’s access and physical characteristics were judged to be inferior. The size, at 772.39 acres, was considered superior. The property was unentitled at the time of sale. As it currently exists, the development intensity is lower than the subject. Although the property has long-term potential, possibly as part of a larger, master-planned development, the horizon is far off. Based on our analysis, the entitlements and development intensity were judged to be inferior to the subject. This property was considered overall inferior, suggesting the subject should fall above this indicator.

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The following table lists the prices per acre for the transactions and their overall comparison to the subject. The sales are arrayed in the following table by price per acre from high to low. The subject property is placed within the overall comparison ranking to assist in reconciliation.

Array of Prices		
No.	Price/Acre	Overall Comparison
2	\$15,130	Superior
4	\$14,749	Superior
1	\$13,445	Superior
5	\$8,913	Superior
Subject	-	-
6	\$7,121	Inferior
3	\$6,558	Inferior

The above market data indicate a valuation at \$7,500 per acre or \$10,420,000 (rounded) for the subject's 1,389.69 acres. This value is intended to reflect all of the opportunities and constraints related to this property. As a check of reasonableness, we have also performed a brief analysis of nearby transactions of smaller lots (between 25 and 80 acres). This additional analysis was considered reasonable given it was determined the subject likely will support legal lots in a range near 60 lots. The following table summarizes the smaller lots that were found in the immediate area (Fallbrook and De Luz).

Small Land Data Summary					
No.	Location/APN	Date	Sale Price	Size (Acres)	Comments
A	Via Del Gavilan Fallbrook 102-180-68	06/14	\$297,000	25.53	One legal lot; income-producing grove; Ag. Preserve contract
B	40162 De Luz Road De Luz 101-311-35 & -37	02/14	465,000	79.48	One legal lot; existing older house contributed some value
C	Lynda Lane Fallbrook 101-360-49	08/13	320,000	47.21	One legal lot; excellent canyon/valley views
D	De Luz Road De Luz 102-110-06; 102-732-05 & -06	04/13	190,000	49.95	3 parcels; legal lot(s) unknown; development constraints; gun range

Sale A is located about two lots north of the center of the subject property along Via Del Gavilan, northern Fallbrook. The property sold in June 2014 for \$297,000. There is reportedly one

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legal lot and has good access. The existing grove produces \$60,000 to \$70,000 annually (gross) and is professionally managed. The property previously sold in April 2014 for \$360,000 (two months earlier). The seller only held the property for a few months because he was relocated out of the country for work. According to the selling agent, the property sold for less because the seller was atypically motivated to sell quickly. Had there been no atypical motivation, the property would reportedly have sold for between \$400,000 and \$425,000. It is important to note that the seller invested hundreds of thousands of dollars into upgrading the grove. According to the Assessor's Plat map, the property is subject to an agricultural preserve contract.

Sale B is located about five miles west of the subject property at 40162 De Luz Road, De Luz. The property sold in February 2014 for \$465,000. There is reportedly one legal lot. Access is via a dirt road. The property was improved with an older home and a well. There were lemon groves many years ago. According to the listing agent, the property would have sold for \$400,000 had there been no improvements. The highest and best use is to demolish the existing home (in the future) and build an estate home on an area of the property with a view. The property previously sold in August 2013 for \$297,000. The seller was reportedly atypically motivated and had no professional representation by a real estate agent/broker. According to the listing agent, the prior seller let the buyer "have it."

Sale C is located about two lots northwest of the northwest portion of the subject property, northern Fallbrook. Access is via a dirt driveway that extends over an adjacent neighbor's land. The driveway connects to Lynda Lane, a dirt road. According to the selling agent, the property had legal access to Lynda Lane. The property sold in August 2013 for \$320,000. The property was in raw condition, however, the logical spot for a future home had excellent canyon/valley views. The location and views reportedly influenced the sale price.

Sale D is located about five miles southwest of the subject property, west of De Luz Road, De Luz. The property sold in May 2013 for \$190,000. The property does not have developed physical access to Del Luz Road, and is separated by a creek. Although the selling agent indicated that he was unaware of legal access, the grant deed appears to convey some access rights. If a home were to be considered, access would have to be perfected, and a bridge would need to extend over the existing creek. At least half of the property appears to be naturally vegetated and steeply sloped. The property is located on the border of Camp Pendleton. According to the selling agent, there was no conservation easement affecting this property. The buyer intends to use the property as a personal gun range (development potential is somewhat uncertain).

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The market data range from \$190,000 to \$465,000 on an unadjusted basis. After adjustments, the indicated values of Sale A, B, C, and D were \$415,000, \$400,000, \$320,000 and \$190,000, respectively. The higher end of the range are developable lots, and the lowest is a speculative site. We also interviewed various agents/brokers who are familiar with the subject property and active in the Fallbrook and De Luz neighborhoods. Based on our conversations, a range between \$250,000 and \$300,000 was considered reasonable for a lot similar to the subject's average or typical lot (raw condition, view potential, physical/legal access, and between 20 and 30 acres). It is important to note that some of the subject parcels have less development potential due to physical constraints; the contributory value of these lots would fall near the indicated value of Sale D, at the lower end of the range. Some of the lots are more desirable and may sell for closer to \$400,000.

Based on our investigation and research, we have concluded that the retail value (before considering bulk discount) of the average lot for the subject property would range from \$250,000 to \$300,000. This translates to an aggregate retail value between \$15,000,000 and \$18,000,000 (before considering bulk discount) for the subject's 60 lots. This conclusion is a range since the lot yield and pricing could vary. Since it would take two to three years to absorb these lots, the subject's 60 lots would sell for a bulk discount if it were all sold together. Based on our experience, bulk discounts tend to range between 25 and 35 percent. To demonstrate, the present value of one dollar per period over a span of 36 months discounted at a real rate of 15.0 percent (blend of debt and equity), results in an implied discount of about 20.0 percent. Additional cost of sales would increase the bulk discount. A longer sell-off period would also increase the discount. We also interviewed an experienced real estate agent who is very active in Fallbrook and familiar with the subject property. He felt that the bulk discount would be around 35 percent. Applying a 35 percent bulk discount, the implied bulk value is between \$9,750,000 and \$11,700,000 (rounded). This is a very cursory analysis intended to be check of reasonableness.

Conclusion

In the direct comparison approach, the indicated value was \$10,420,000. This analysis was given most weight. The aggregate retail value indications were \$9,750,000 and \$11,700,000. Since the aggregate retail value analysis was a check of reasonableness, less weight was applied.

Neither of these value indications included the contributory value of the improvements. As previously mentioned, the 384-square-foot house located at 39227 Sandia Creek Drive was in poor

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condition and expected to be demolished. However, the 1,096-square-foot house located at 39315 Sandia Creek Drive was reportedly in fair condition. In determining the contributory value of this home, we analyzed Sale B, which had an older house. According to the listing agent, the older house contributed about \$65,000. We feel this is meaningful indicator for the subject's 1,096-square-foot house. Based on our analysis, the contributory value of the 1,096-square-foot house was determined to be \$65,000; this is a relatively minor contribution to the larger parcel. The impact of the house also allows for more readily available financing for the lot on which it is situated.

Based on our research and analysis, it is our conclusion that the market value of the subject property, as of September 1, 2014, is \$10,500,000. This appraisal is subject to the assumptions and limiting conditions stated at the beginning of this report.

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APPENDIX C

ORDINANCE NO. 336

**AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE
FALLBROOK PUBLIC UTILITY DISTRICT GOVERNING ITS SANTA
MARGARITA RIVER PROPERTY**

BE IT ENACTED BY the Board of Directors of the Fallbrook Public Utility District as follows:

Regulations for Use of the Santa Margarita River Property

The Board of Directors of the District hereby adopts and approves the regulations attached to Ordinance No. 336 as Exhibit "A" and incorporated herein by reference as the regulations pertaining to use of the Santa Margarita River Property. These regulations shall apply to all persons using the District's property and shall apply to all portions of the property.

Effective Date

This Ordinance shall be posted at three public places in the District and to cause the same to be published pursuant to Section 6061 of the Government Code in the Fallbrook Village News, a newspaper of general circulation, printed, published and circulated in said District.

This Ordinance shall take effect 30 days after its passage.

PASSED, APPROVED AND ADOPTED at a regular meeting of the Board of Directors of the Fallbrook Public Utility District held this 23rd day of May, 2016, by the following roll call vote:

AYES:	Directors Anderson, Davies, Gebhart, McDougal, and Wolk
NOES:	None
ABSTAIN:	None
ABSENT:	None



President, Board of Directors

ATTEST:



Secretary, Board of Directors

Exhibit "A" ORDINANCE NO. 336

FALLBROOK PUBLIC UTILITY DISTRICT
Regulations for Use of the Santa Margarita River Property Owned by the District

Section No. Section Name

1. Definitions
2. Breaking, Cutting, or Injuring Plants
3. Care of Wildlife
4. Taking Wood
5. Motor Vehicles and Other Conveyances
6. Bicycles
7. Glass Beverage Containers Prohibited
8. Regulation of Equestrians
9. Pollution of Streams (Generally)
10. Dogs
11. Camp Fires
12. Camping
13. Disposal of Rubbish and Garbage
14. Unreasonable Noises
15. Advertising
16. Hunting and Fishing
17. Possession and Use of Firearms and Weapons
18. No Smoking Allowed
19. Night Closing
20. Fireworks Prohibited
21. Permit for Organized Public Programs or Private Programs
22. Illegal Drugs
23. Care of District Property
24. Off Trail Travel
25. Care of Watershed
26. Exemptions from Regulations
27. Severability

Section 1: Definitions

Alcoholic Beverages. For purposes of this title, the term alcoholic beverages shall include alcohol, spirits, liquor, wine, beer and every liquid or solid containing one-half of one percent or more of alcohol by volume and which is fit for beverage purposes either alone or when diluted, mixed or combined with other substances. No alcohol is allowed within the Santa Margarita River Property.

Property Manager. Property Manager is defined as the FPUD Supervisor tasked with overseeing the Property.

Peace Officer. Peace Officer is defined as any peace officer, as defined in Chapter 4.5

(commencing with Section 830) of Title 3 of Part 2 of the Penal Code.

Trail Rights-of-Way. Trail Rights-of-Way is defined as trail usage priority to yield to traffic in the following order: horses, hikers, and bicyclists.

Section 2: Breaking, Cutting or Injuring Plants

No person shall pluck, take, remove, damage, or destroy any flower, shrubbery, plant, vine, tree, grass, ground cover or other natural or cultivated growth within the Santa Margarita River Property except with prior written permission of the Property Manager.

Section 3: Care of Wildlife

It shall be unlawful for any person to hunt, molest, harm, frighten, kill, trap, chase, tease, shoot or throw projectiles at any animal, reptile or bird within the Santa Margarita River Property.

No person shall operate a remote controlled vehicle or drone in or near the property except law enforcement or governmental authorities in the discharge of their duties.

Section 4: Taking Wood

No person shall cut or remove any wood or fallen trees within the Santa Margarita River Property except with written permission of the Property Manager.

Section 5: Motor Vehicles and Other Conveyances

- a) It shall be unlawful for any person at any time to operate or drive an automobile, truck, trailer, motorcycle, motor scooter, motorbike, or any other type of motor vehicle within the Santa Margarita River Property unless such vehicles are in a designated parking or staging area or on a County of San Diego maintained road without prior written permission from the Property Manager.
- b) No person within the Santa Margarita River Property shall fail to comply with all applicable provisions of the State Motor Vehicle Code and traffic laws in regard to equipment, signs, speed limits and operation of vehicles together with such regulations as are contained in these regulations.
- c) No person shall park any vehicle within the Santa Margarita River Property except for the duration of their visit.
- d) Vehicles parked in violation of State of California Vehicle Code Sections 22651 (r) or 22652, may be subject to removal from the Santa Margarita River Property at the vehicle owner's expense.
- e) These provisions shall not apply to motor vehicles and motorized equipment for District maintenance, patrol vehicles, or emergency vehicles in the process of conducting maintenance, operation or enforcement activities within the Santa Margarita River Property and contractors/consultants, performing work for the District as authorized by the Board of Directors or the District's General Manager.

Section 6: Bicycles

- a) It shall be unlawful for any person to ride a bicycle of any type on other than designated trails. Bicyclists shall be permitted to use designated hiking trails, but must use due care and caution to not interfere with hikers or equestrian users.
- b) Bicycle speed limits shall be as follows:
- c) Fifteen (15) miles/hour maximum in all recreational and park areas
- d) Five (5) miles/hour within one hundred (100) feet of pedestrians and equestrians
- e) Bicyclists must dismount and step to the side of the trail at least fifteen feet away in the presence of horses.
- f) Bicyclists must observe choke points on trails and slow their speed at these choke points. Bicyclist shall verbally notify or signal with a bell when behind or in front of horses, hikers, or other bicyclist.
- g) No motorized bicycles are permitted or allowed.

Section 7: Glass Beverage Containers Prohibited

No person shall possess any glass beverage container within the Santa Margarita River Property of the District except that the sponsor of an organized public event may obtain written permission in advance from the Property Manager to possess glass beverage containers, provided that the containers remain under the sponsor's control and are not distributed to participants of the event.

Section 8: Regulation of Equestrians

Horses ridden within the Santa Margarita River Property shall only be on designated equestrian routes and trails.

Section 9: Pollution of Streams (Generally)

No person shall contaminate or pollute, or cause to be contaminated or polluted, any water of any creek flowing through the Santa Margarita River Property, or to deposit or cause to be deposited any refuse, rubbish or other waste matter of any kind or character, in such waters, or to wash or clean vehicles, clothing, animals or persons in the waters of the property. No body contact or swimming is allowed. No wading or walking in the stream is allowed except at designated trail crossings.

Section 10: Dogs

Dogs will be required to remain on leash at all times in all areas of the Santa Margarita River Property. It shall be the duty of all persons having control of a dog to immediately remove any feces to a proper receptacle.

Section 11: Camp Fires

It shall be unlawful to make any fire, of any kind, or utilize a barbeque, a propane grill,

enclosed fire units, or hibachi-style cooking devices at any time within the Santa Margarita River Property.

Section 12: Camping and Picnicking

No person or group of persons shall camp overnight or remain or stay overnight within the Santa Margarita River Property. The property shall be used for non-motorized trail use only. No group events, group picnicking or other group activities are allowed without a permit.

Section 13: Disposal of Rubbish and Garbage

No person shall throw, dump, or otherwise place or cause to be placed, or leave, either directly or indirectly, any rubbish, garbage, sewage or waste matter, or any trash or refuse of any kind or character, other than in receptacles established and maintained for such purposes. No person shall bring or cause to be brought, any rubbish, garbage, sewage, waste matter, trash or refuse of any kind for the purpose of disposing of same within the property either in the receptacles described herein, or at any other place.

Section 14: Unreasonable Noises

- a) No person shall operate any loudspeaker or any other sound amplification device within the Santa Margarita River Property.
- b) No person, either by voice, mechanical device, tumultuous or other offensive conduct or otherwise, shall create, or permit or cause to be created, any loud or unusual noises at any time which create a nuisance. Noises determined to be too loud or offensive shall be promptly reduced or discontinued as directed by any peace officer or authorized District employee.

Section 15: Advertising

No person shall display or post any plates, markers, signs, commercial or message within the Santa Margarita River Property without prior written approval of the Property Manager.

Section 16: Hunting and Fishing

No person shall take any wild game, animals, birds or eggs within the Santa Margarita River Property except with the prior written permission of the Property Manager.

No fishing allowed and shall be subject to the regulations of the California Fish and Game, et al.

Section 17: Possession and Use of Firearms and Weapons

No person shall take, carry or transport any firearm, pellet gun, pump gun, zip gun, air rifle, bow and arrow, BB gun or weapon of any kind within the Santa Margarita River

Property.

Section 18: No Smoking Allowed

No person shall light matches, smoke cigars, pipes, cigarettes or any other smoking device or instrument or carry, upon, or across, the Santa Margarita River Property, any lighted cigars, pipes, cigarettes or other lighted inflammable material at any time.

Section 19: Night Closing

All trails shall be closed to the public from dusk to dawn based on posted hours. The hours will be coordinated with operating hours of the County of San Diego. Santa Margarita River Property hours may also be revised as deemed necessary by the District's General Manager.

Use of the Santa Margarita River Property outside of posted hours is considered trespassing per California Penal Code 602.

Section 20: Fireworks Prohibited

No fireworks of any kind shall be lit within or discharged within the Santa Margarita River Property.

Section 21: Permit for Organized Public or Private Programs

No person shall conduct any organized public program, public assemblage or public address within the Santa Margarita River Property without first obtaining the written permission of the Property Manager. The General Manager has the authority to approve or reject Special Use or Special Event requests at his or her discretion.

Written permission is required for any uses besides non-motorized trail use on the property as described in this ordinance.

Section 22: Illegal Drugs

No person shall use or possess any illegal or illicit drug in any area within the Santa Margarita River Property.

Section 23: Care of District Property

It shall be unlawful for any person to mark, deface, disfigure, injure, destroy, tamper with, displace, or remove any equipment, buildings, tables, benches, railings, fencing, paving, utilities, or parts or appurtenances thereof, signs, notices, place cards, District property, including but not limited to, monuments, stakes posts or any other boundary markers, or other structures, equipment, facilities or materials within the Santa Margarita River Property.

Section 24: Off Trail Travel

It shall be unlawful for any person or group of persons to travel off any marked or designated trail by any means, including by foot, horse or bicycle, except to enter a developed area of the Santa Margarita River Property. Persons may briefly step off the marked trail to give right-of-way to passing horses, hikers, or bicyclists.

Section 25: Care of Watershed

It shall be unlawful for any person to conduct any activity within the Santa Margarita River Property which may degrade the watershed and/or the resulting quality of water within that watershed.

Section 26: Exemptions from Regulations

The provisions of these regulations shall not apply to or restrict any officer, employee, volunteer or agent of the District, or any other peace officer when such person is acting to enforce any of these regulations.

Section 27: Severability

The District's regulations for the Santa Margarita River Property and their various parts, sections, and clauses thereof are declared by the Board of Directors to be severable. If any part, sentence, paragraph, section, subsection, clause, phrase, part or portion thereof is judged unconstitutional or invalid by a competent jurisdiction, the remainder of these regulations shall not be affected thereby. The Board of Directors hereby declares that it would have passed these regulations and each part thereof, regardless of the fact that one or more of such parts would be declared unconstitutional or invalid.