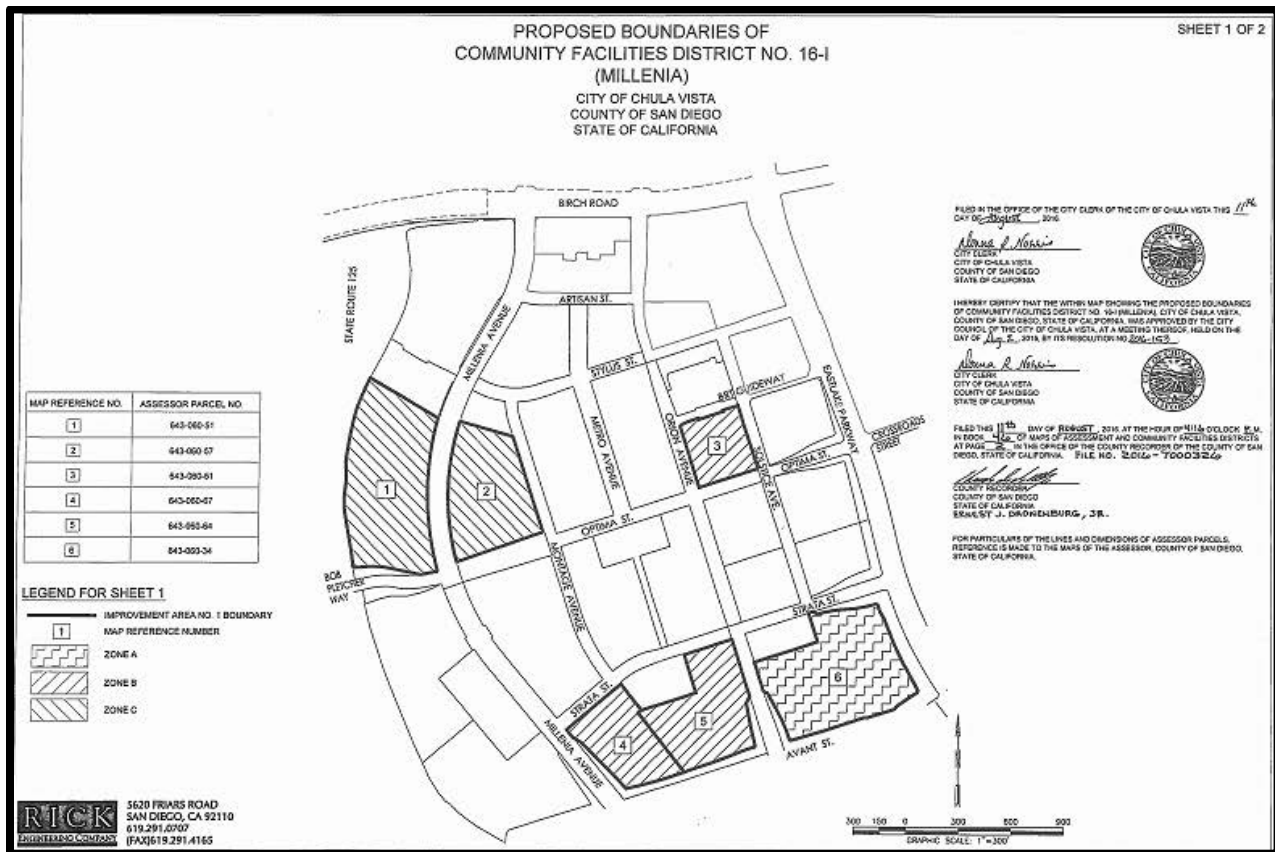


SUPPLEMENT TO APPRAISAL REPORT

COMMUNITY FACILITIES DISTRICT NO. 16-I IMPROVEMENT AREA NO. 1 (portion of) MILLENIA IN OTAY RANCH

City of Chula Vista, California
(Appraisers' File No. 2018-1167S)



Prepared For
City of Chula Vista
 276 Fourth Avenue
 Chula Vista, California 91910

Prepared By
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 115 East Second Street, Suite 100
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KITTY SIINO & ASSOCIATES, INC.
REAL ESTATE APPRAISERS & CONSULTANTS

April 30, 2018

David Bilby, Director of Finance/Treasurer
City of Chula Vista
276 Fourth Avenue
Chula Vista, California 91910

Reference: Supplement to Appraisal Report
Community Facilities District No. 16-I Improvement Area 1
(Portion of) Millenia, Otay Ranch
Northwest Corner of Hunte and Eastlake Parkways
Chula Vista, California

Dear Mr. Bilby:

At the request and authorization of the City of Chula Vista, we have completed a Supplement to the Appraisal Report ("Supplement") for City of Chula Vista Community Facilities District No. 16-I Improvement Area 1 ("CFD No. 16-I IA 1"). This Supplement is to be used in conjunction with the Original Appraisal Report for the above referenced property dated April 11, 2018 with a date of value of February 1, 2018 which encompasses a portion of the mixed-use community known as Millenia in Otay Ranch ("Original Appraisal"). In lieu of updating the entire appraisal, the purpose of this Supplement is to bring forward the date of value to April 1, 2018 and conclude if the property has a value not less than the value concluded in the Original Appraisal. It should be noted that this report may not be understood properly on its own, but rather should be used only in conjunction with the Original Appraisal.

The purpose of this Supplement is to ascertain and discuss changes in the subject property along with any changes that have occurred in the real estate market between February 1, 2018 (date of value of Original Appraisal) and April 1, 2018.

INTENDED USE OF APPRAISAL - It is the appraiser's understanding that the client, the City of Chula Vista, will utilize this Supplement in disclosure documents related to the sale of the Special Tax Bonds of CFD No. 16-I IA 1. This Supplement may be included in the Official Statement or similar document to be distributed in connection with the marketing and offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

SUBJECT PROPERTY - The subject property consists of 393 proposed single-family homes and two commercial parcels within the community known as Millenia in the area known as Otay Ranch in the City of Chula Vista. The subject property consists of four residential neighborhoods in varying degrees of development and two commercial parcels. Please refer to the Addenda of this Supplement to view a table showing the ownership and condition by parcel or unit as of February 1, 2018 (date of value in Original Appraisal) and as of April 1, 2018 (date of value of this Supplement).

OWNER OF RECORD AS OF APRIL 1, 2018 –

Lot 1 and Lot 11 of Map 16081 are owned by SLF IV Millenia LLC, a Delaware limited liability company.

Lot 7 of Map 16081 is owned by LMC-Millenia Investment Company, L.P., a limited partnership.

Lot 17 of Map 16081 is owned by CalAtlantic Group Inc., a Delaware Corporation (CalAtlantic has merged with Lennar since this purchase).

Lot 14 of Map 16081 is owned by KB Home California LLC.

Shea Homes LP as to Units 1-40, 51-60, 71-100, 107-144 and 176 on Lot 1 of Map 16150; Individuals as to Units 41-50, 61-70, 101-106, 145-175 on Lot 1 of Map 16150.

PROPERTY RIGHTS APPRAISED - The property rights being appraised are of a fee simple estate interest, subject to easements of record and subject to the lien of the CFD No. 16-I IA 1 special tax. The definition of fee simple estate is included in the Original Appraisal.

DEFINITIONS -

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

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

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

¹ The Appraisal of Real Estate, 13th Edition

For all other definitions please refer to Original Appraisal.

DATE OF VALUE – April 1, 2018

DATE OF SUPPLEMENT – April 30, 2018

SCOPE OF WORK – The following items were completed in the scope of work for this assignment.

- Identify additional builder home sales and closings within the subject property and ascertain if the sales prices have increased, stayed the same or decreased.
- Identify additional construction on the subject property and report additional expenditures resulting in less remaining costs to complete.
- Review and report on the subject real estate market conditions and identify any changes since the Original Appraisal.
- Determine if the value is not less than the value conclusion in Original Appraisal.

DISCUSSION – On April 12, 2018 an inspection of the subject property and surrounding lands was made by the appraiser. In addition, sales offices were contacted and reviews of current information was conducted. This information included additional sales and/or closings within the active projects within the subject property. We observed the following changes in the subject property between February 1, 2018 (date of value within Original Appraisal) and April 1, 2017 (date of value of Supplement).

1. An additional four homes have closed escrow to individual homebuyers within Shea Homes' Element and Z neighborhoods. As of the Original Appraisal there were 53 homes closed to individual homebuyers and as of April 1, 2018 there were 57 homes closed to individual homebuyers.
2. An additional 23 homes were constructed to over 95 percent complete within Shea Homes' Element and Z neighborhoods and an additional 30 homes began construction. Within Element and Z, as of the Original Appraisal, there were 27 homes under construction (under 95 percent complete) and 83 remaining finished lots. As of April 1, 2018, there were 30 homes under construction (under 95 percent complete) and 53 remaining finished lots.
3. An additional 14 homes were sold (closed and under contract) within Shea Homes' Element and Z neighborhoods. As of the Original Appraisal there were 84 homes sold and as of April 1, 2018 there were 98 homes sold. Note that sold homes include closed homes and homes over 95 percent complete and builder-owned, homes under construction and finished lots that are in escrow.
4. An additional nine homes were sold within the neighborhood of Skylar by KB Home. As of the Original Appraisal there were three homes sold and in escrow and, as of April 1, 2018, there were 12 homes sold and in escrow. Also, an additional 10 homes began construction within Skylar.

5. Within CalAtlantic's project they began construction on five model homes. In addition, the 14 first production homes are due to begin construction the first week in April 2018.
6. According to LMC-Millenia Investment Company L.P. they are negotiating with two large users for space in their proposed commercial building. While there are no signed leases at this date, this suggests activity that office space is in demand in the subject area.
7. Within each neighborhood additional hard costs and fees were expended. The master developer spent an additional \$291,000 on its backbone development costs. As of the Original Report, there were \$953,750 in remaining backbone costs associated with Improvement Area 1 while as of April 1, 2018 there were \$662,750 in remaining costs. Shea Homes spent an additional \$1,281,749 in land development costs and development fees. As of the Original Report Shea Homes had \$6,838,437 in remaining costs while as of April 1, 2018 Shea Homes had \$5,556,688 in remaining costs. KB Home spent an additional \$610,576 in land development costs and development fees. As of the Original Report there were \$5,678,127 in remaining costs for KB Home, while as of April 1, 2018, there were \$5,067,551 in remaining costs. Cal Atlantic Homes spent an additional \$704,662 in land development costs and development fees. As of the Original Report CalAtlantic had \$6,138,230 in remaining costs and as of April 1, 2018 had \$5,433,568 in remaining costs. It is the appraiser's understanding that LMC-Millenia Investment Company, L.P. spent additional dollars on the planning for Lot 7 of Map 16081; however, we have not received the accounting for these dollars. In total, as reported above, an additional \$2,887,987 has been spent on land development and development fees on the subject property between February 1, 2018 and April 1, 2018. While we were not able to review these expenditures in detail, the amounts appear reasonable per our visual inspection of changes that have occurred on the sites.
8. Within the actively selling projects, Element, Z and Skylar, prices have either stayed the same or had increased. Within Element base asking prices were \$498,000 - \$587,000 as of February 1, 2018 while current base asking prices are \$512,420 - \$592,000 suggesting an increase in the 0.8 to 2.8 percent range over the nine-week period. Within Z and Skylar, base asking prices have remained the same since February 1, 2018. The fact that each plan within each active project has either had a price increase or had prices stay the same suggests that prices are not declining within the subject area.
9. Our physical inspection of the entire Millenia Project (includes the subject property and additional lands) showed several signs of progress with the following changes noted between February 1, 2018 and April 1, 2018. Lot 2 of Map 16081 (not a part of the subject) is the retail site that now has vertical construction underway. Lot 20 of Map 16081 (not a part of the subject) is the Ayres Hotel site and the third floor of the hotel is now being framed. Lot 18 of Map 16081 (not a part of the subject) is proposed for a new residential project by Trammel Crow and construction has begun on the site. Additional new homes within Trio, Metro and Evo (not a part of the subject property)

have begun construction. Further construction has occurred at Alexan by Trammel Crow (not a part of the subject property). While these projects are not included in the subject property, they are all located within Millenia and show progress and major activity in the subject's neighborhood.

SUBJECT REAL ESTATE MARKET - The overall regional real estate market has seen minimal changes over the past nine weeks. Most projects in Otay Ranch are enjoying slight price increases approximately every three months. We have reviewed CoreLogic's monthly update on Southern California which includes the number of sales and median prices within each County. The reporting of this information lags about six weeks; thus, for the Original Appraisal, we were able to obtain information through December 2017 while the most current information is through February 2018. In overall Southern California sales were up 0.6 percent on a year over year basis from February 2017 to February 2018 and up 2.3 percent over the same time period in San Diego County. According to CoreLogic, February 2018 sales were the highest February sales in five years. Sales prices in overall Southern California were up 10.2 percent in February 2018 on a year over year basis while within San Diego County sales prices were up 8.7 percent on a year over year basis. In reviewing sales prices in December 2017 to sales prices in February 2018 prices were down 1.4 percent in overall Southern California and down 0.9 percent in San Diego County. It is believed the slight downturn is due to the uncertainty of the tax changes which occurred in December. Some buyers appear to be waiting to see how the tax changes will affect the market before buying or listing their homes. It should be noted that within the subject property, this has not happened and prices have been increasing.

As we are only in the fourth month of 2018, it is still too early to tell the actual effects of the Federal tax cuts passed in 2017 on new homes. Builders are anxious that some of the proposed tax cuts may slow new home sales due to the possible decreases in deductible mortgage interest and sales and property tax right-offs. The mortgage interest deduction tax change affects mortgages over \$750,000 which does not appear to affect the subject homes directly due to their pricing.

Finally, we have reviewed the Improved Residential Sales Market Data which was used in the Original Appraisal (please refer to Addenda of Original Appraisal). Our review included 34 home plans within the eleven projects surveyed and considered comparable. One project within Otay Ranch that included three plans (or nine percent) was unavailable in our updated survey. Out of the remaining ten projects in Otay Ranch, 16 plans (or 47 percent) had price increases, 12 plans (or 35 percent) had the prices stay the same and three plans (or nine percent) had slight price decreases. The increases ranged from \$2,000 to \$14,420 while the decreases were in the \$2,000 range. This review of the subject real estate market suggests that the market is still in an upward cycle as projects are selling homes and the majority of prices are either staying the same or increasing.

CONCLUSION – This Supplement is intended to be used in conjunction with the Original Appraisal Report prepared with a February 1, 2018 date of value. This Supplement is to ascertain whether the value that was concluded as of February 1, 2018 is still valid. While

we have not concluded at a new value, it is evident that further land development has occurred and almost \$3,000,000 in additional dollars have been spent to develop the subject property. Also, additional homes have closed, additional homes have been constructed and more homes are in escrow, all suggesting the subject's value has not decreased. In addition, it has been determined that the subject real estate market has not experienced any significant negative changes since February 1, 2018. Based upon our investigation, we have determined that the current market value is not less than the concluded value as of February 1, 2018.

This Supplement is to be used in conjunction with the Original Appraisal and subject to the attached Assumptions and Limiting Conditions and the Appraiser's Certification.

Respectfully submitted,

KITTY SIINO & ASSOCIATES, INC.



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

ASSUMPTIONS AND LIMITING CONDITIONS

1. This report might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. It is assumed that the subject property is subject to the special tax lien of CFD No. 16-I.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of either property, subsoil or structures that would render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference

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

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

- 18. It is assumed that the sales information provided by Shea Homes, KB Homes and CalAtlantic Homes is true and accurate. We have reviewed and analyzed the sales along with checking samples on various public record documents, when available, and the information appears to be correct.
- 19. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the CFD No. 16-I IA 1 Special Tax Bonds.

HYPOTHETICAL CONDITION

- 1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the City of Chula Vista CFD No. 16-I IA 1 Special Tax Bond proceeds, are completed and in place.

EXTRAORDINARY ASSUMPTIONS

- 1. It is assumed that the remaining costs to develop the various neighborhoods and the planned non-residential property within the subject property are true and correct. We have received summarized remaining costs provided by Meridian, the master developer and the builders and/or their consultants. We have reviewed these costs and they appear reasonable, however, we are not experts in the cost estimating field and are relying on these costs in the valuation. If actual remaining costs differ, it may change the value conclusions.
- 2. It is assumed that the master developer commences construction on Orion Park and Strata Park prior to the builders reaching their applicable occupancy thresholds. This is anticipated per the master builder.

APPRAISER'S CERTIFICATION

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

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino has made a personal inspection of the property that is the subject of this report.
8. Kitty Siino has performed appraisal services on the subject property in the past three years as described within this Supplement. An Original Appraisal of the property was completed with a February 1, 2018 date of value was completed.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.



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

ADDENDA

Subject Property as of February 1, 2018 (from Original Report)

Description	No. Lots	Ownership	Condition/Status
Element by Shea Homes (portion of Lot 1 of Map 16150)			
Units 145-169, 171, 173-174	28	Individuals	Completed Houses / Closed
Units 119-122	4	Shea	Model Homes
Units 170, 172, 175 & 176	4	Shea	Homes over 95% Complete (4 In escrow)
Units 131-144	14	Shea	Homes U/C (12 In escrow)
Units 107-118 and 123-130	20	Shea	Finished Lots (5 in escrow)
Subtotal Element	70		
Z by Shea Homes (portion of Lot 1 of Map 16150)			
Units 41-42, 44-50, 61-70 and 101-106	25	Individuals	Complete Houses / Closed
Units 95-96	2	Shea	Model Homes
Unit 43 and 93-94	3	Shea	Homes over 95% complete (0 in escrow). Lot 93/94 in model complex and not released
Unit 75-87	13	Shea	Homes U/C (10 in escrow)
Unit 1-40, 51-60, 71-74, 88-92 and 97-100	63	Shea	Finished Lots (0 in escrow)
Subtotal Z	106		
Skylar by KB Home (generally Lot 14 of Map 16081)			
Units Unit 5 and 6	2	KB Home	Model Homes
Units 8-10 and 62-64	6	KB Home	Homes U/C (1 in escrow)
Units 1-4, 7, 11-61, 65-79	71	KB Home	Partially F/L (2 in escrow)
Subtotal KB Home	79		
CalAtlantic (generally Lot 17 of Map 16081)			
Units 1-78	78	CalAtlantic	Land under development
SLF IV – Millenia LLC			
Lot 11 of Map 16081	60	SLF IV-Millenia LLC	Superpad
Commercial Parcels			
Lot 7 of Map 16081	N/A	LMC-Millenia Inv. Co. LP	7.06 Acre Superpad
Lot 1 of Map 16081	N/A	SLF IV-Millenia LLC	10.93 Acre Superpad
Total Lots	393		

Subject Property as of April 1, 2018

Description	No. Lots	Ownership	Condition/Status
Element by Shea Homes (portion of Lot 1 of Map 16150)			
Units 145-175	31	Individuals	Completed Houses / Closed
Units 119-122	4	Shea	Model Homes
Units 131-144 and 176	15	Shea	Homes over 95% Complete (13 In escrow)
Units 107-118 and 123-130	20	Shea	Homes U/C (8 In escrow)
Not applicable	0	Shea	Finished Lots
Subtotal Element	70		
Z by Shea Homes (portion of Lot 1 of Map 16150)			
Units 41-50, 61-70 and 101-106	26	Individuals	Complete Houses / Closed
Units 95-96	2	Shea	Model Homes
Unit 75-87 and 93-94	15	Shea	Homes over 95% complete (13 in escrow). Lot 93/94 in model complex and not released
Unit 23-26 and 35-40	10	Shea	Homes U/C (7 in escrow)
Unit 1-22, 27-34, 51-60, 71-74, 88-92 and 97-100	53	Shea	Finished Lots (0 in escrow)
Subtotal Z	106		
Skylar by KB Home (generally Lot 14 of Map 16081)			
Units Unit 5 and 6	2	KB Home	Model Homes
Units 7-12 and 61-70	16	KB Home	Homes U/C (11 in escrow)
Units 1-4, 13-60, 71-79	61	KB Home	Partially F/L (1 in escrow)
Subtotal KB Home	79		
CalAtlantic (generally Lot 17 of Map 16081)			
Units 1-78	78	CalAtlantic	Land under development
SLF IV – Millenia LLC			
Lot 11 of Map 16081	60	SLF IV- Millenia LLC	Superpad
Commercial Parcels			
Lot 7 of Map 16081	<u>N/A</u>	LMC- Millenia Inv. Co. LP	7.06 Acre Superpad
Lot 1 of Map 16081	<u>N/A</u>	SLF IV- Millenia LLC	10.93 Acre Superpad
Total Lots	393		