FEASIBILITY STUDY FOR DEVELOPMENT OF AN 81-UNIT SINGLE-FAMILY RESIDENTIAL SUBDIVISION

Russell Craig Robinson
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PROJECT

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FEASIBILITY STUDY FOR DEVELOPMENT OF AN 81-UNIT SINGLE-FAMILY RESIDENTIAL SUBDIVISION

A Project

by

Russell Craig Robinson

Approved by:

__________________________________, Committee Chair
Nuriddin Ikromov, Ph. D.

__________________________________, Second Reader
Robert W. Wassmer, Ph. D.

____
Date

Student: Russell Craig Robinson

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Robert W. Wassmer, Ph. D. Date

Department of Public Policy and Administration

Abstract

of

FEASIBILITY STUDY FOR DEVELOPMENT OF AN 81-UNIT SINGLE-FAMILY RESIDENTIAL SUBDIVISION

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This Project was prepared to analyze the feasibility of investment in an 81-unit single-family residential subdivision site located in the City of Lemoore, California. The site is substantially improved with infrastructure in place and appears to be ready for near-term construction at a cost savings unavailable through the purchase and development of a raw land parcel. The site was subdivided and partially completed by an undercapitalized developer who was unable to complete the subdivision due to the recent economic downturn. A site analysis, market study, marketability analysis, and investment analysis was conducted to determine if immediate construction of the site is profitable. Despite current economic conditions, the results of this Project indicate that the development of the site is an exceptionally lucrative investment opportunity and investors should consider immediate development.

______________________, Committee Chair
Nuriddin Ikromov, Ph. D.

____
Date

ACKNOWLEDGMENTS

Special thanks to Dr. Ikromov for his guidance and valuable input that helped me produce this Project. I would also like to thank Dr.Wassmerfor his exceptional commitment to his students, the Urban Land Development Program, and the Public Policy and Administration Department.

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INTRODUCTION

During the first half of the first decade of the 21st Century, the housing market experienced record market activity and home values, on average, more than doubled throughout most of California's Central Valley. In response to increasing home values, builders feverishly developed raw land into new home subdivisions as demand escalated. The combination of low mortgageinterest rates, low unemployment, stable per capita income growth, and home price speculation fueled this demand. However, the abrupt home-price appreciation lead to a bust beginning in late summer of 2005, and as of summer 2006, the Central Valley housing market faced the issues of ballooning inventories, falling prices, and sharply reduced sales volumes.

Over the last half of the decade, new home production throughout California's Central Valley, as well as throughout most of the United States, nearly stalled as the housing market softened and prices continued to decline. Through the 2006 and 2007 years, construction and real estate related employment began to taper off and the unemployment rate started to rise as most other industries followed this trend. As employment worsened, home prices steadily fell, leaving many homeowners without any equity in their homes and limited ability to refinance their existing mortgages. In many instances, homeowners were unable to keep current on their mortgages, which spawned a foreclosure epidemic fomented by the issuance of the subprime mortgage. By September 2008, the "Subprime Mortgage Crisis" hit Wall Street and led to failures of massive financial institutions, the freezing of credit markets, and by March 2009, the Dow Jones Industrial Average had fallen 54 percent since its peak in October 2007.

Since this time, homes prices have continued to fall year over year. In May 2011, the Case Schiller housing index, whichmeasures the residential housing market and tracks changes in the value of the residential real estate market in 20 metropolitan regions across the United States, reported that average home prices are back to the levels where they were in the summer of 2003. The index consists of two composites; the 10-City Composite and the 20-City Composite whichaggregate data from certain major cities across the Nation. Measured from their peaks in June/July 2006 through May 2011, the peak-to-current declines for the 10-City Composite and 20-City Composite are -32.1 percent and -32.3 percent, respectively. Moreover, August 2011 data indicatesthat new and resale homes throughout the Central Valley are achieving sale prices generally ranging from 25 percent to over 50 percent below peak prices achieved in 2006 (MLS). In fact, many areas throughout the Central Valley area achieving prices previously seen in the 2000 and 2001 years.

In the wake of declining property values, multitudes of land development projects have halted in various stages of development. Many of these projects were abandoned by their respective developers and are now bank owned and marketed for sale at prices far lower than the amount of capital already invested in the sites. Abandoned projects that are substantially improved with subdivision infrastructure and have public approvals offer a significant cost advantage over unimproved land planned for future development. In comparison, unimproved land generally requires extensive capital investment in infrastructure, engineering, permits, fees, and financing expenses. In addition, achieving public approvals can be a lengthy and costly process that may render a proposed subdivision project infeasible, especially considering current economic conditions.

The remainder of this Project investigates the feasibility of developing an 81-unitsubdivision site in the City of Lemoore, California. The site consists of approximately 10 acres of land. A developer, who was the previous owner of the site, invested significant capital in site infrastructure, including sewer and water lines, rough grading, and various other capital-intensive improvements. Additionally, the City of Lemoore approved the project, which means political or regulatory constraints cannot be a factor inhibitingnear-term construction.However, financial constraints immobilized the project in 2008 as the original developer exhausted all of its equity resources and was unable to obtain additional bank financingneeded to complete the remaining site-work. Subsequently, the developer's lender foreclosed upon the site, meaning it took title to the land shortly after the project was immobilized.

As of July 2011,the lender is marketing the project for sale for $300,000.Given the benefit of previously installed improvements and local government approvals obtained, I am interested in evaluating the site's feasibility for near-term construction. In the following sections, I offer an analysis of the subject site and analyze its locational and physical characteristics. Additionally, I provide a market study analyzing the demographics and economics of the broader market area as well as the immediate area surrounding the site. Then, I investigate the competitive market area and the marketabilityof the project and its proposed floor plans. Next, I provide an investment analysis that explores the financial feasibility of development using a discounted cash flow analysis and financial metrics, including net present value (NPV) and internal rate of return (IRR). Lastly, I offer my conclusion and investment recommendation.

Chapter 2

SITE ANALYSIS

The property is located in the northeast quadrant of East D Street and Smith Avenue on the east side of the City of Lemoore. More specifically, it is bordered by Jones Street (easterly border), East D Street (southerly border), Smith Avenue and Magnolia Gardens Mobile Home Park (westerly boundary), and the San Joaquin Valley Railroad (Northerly Boarder). Surrounding land uses include the aforementioned mobile home park- an older (built in 1972) mobile home park that still operates as a senior mobile home park, the San Joaquin Railroad - a freight rail line that serves local area businesses, a variety of single-family residences, many of which are impacted by various degrees of deferred maintenance, Church of Nazarene, Central Valley Health Center, FRA Branch 261 Club (social gathering facility or active duty, reserve and retired personnel of the U.S. Navy, Marine Corps, and Coast Guard), Best Western Inn & Suites, Vineyard Inn, Days Inn, Kings Christian School (Pre-school, elementary school, middle school, and high school), Donald C. Jamison High School, Heritage Park (passive park with a picnic pavilion), and Lemoore Gold Course (a par-72, 18-hole public golf course which originally opened as a nine-hole course in 1928 and ultimately expanded to 18 holes in 1991).

The following four pages offer satellite images of the site. Specifically, Figure 1shows the City of Lemoore in relation to the Mid-Central Valley. Figure 2 illustrates the subject site in relation to surrounding districts. Figure 3 shows the subject site in relation to the City of Lemoore and Figure 4 illustrates the immediate area surrounding the subject.

Figure 1 The City of Lemoore in Relation to the Mid-Central Valley

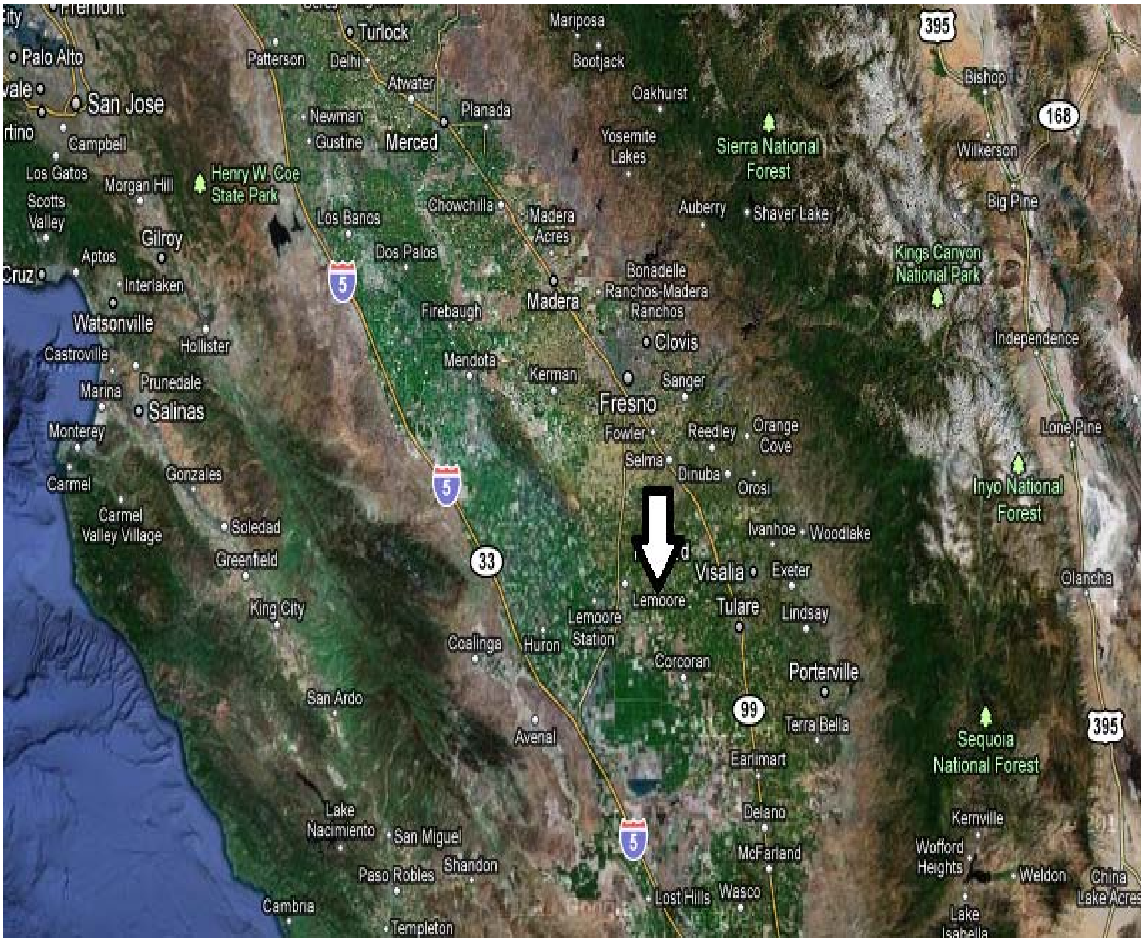


Figure 2 Subject Site in Relation to Surrounding Districts

Figure 3 Subject Site in Relation to the City of Lemoore

Figure 4 Immediate Area Surrounding the Subject Site

Access

Smith Avenue, a north/south minor collector road, and East D Street, an east/west extending thoroughfare, offer primary access to the site. East D Street offers direct access to Highway 198 approximately 1 mile west of the site and connects to Lemoore Avenue/18th Street, which also accesses Highway 198 approximately 1.2 miles southwest. Theinterior of the subdivision has will have multiple two-lane neighborhood streets that provide access to the individual subdivision lots. Overall, the site offers convenient access for future residents.

Size and Shape

The site consists of 81 single-family residential lots ranging in size from 4,362 to 9,914 square feet with an average size of approximately 5,566 square feet. The typical lot width is 50’ to 56’ and depth is approximately 92’ to 112.’ Furthermore, the lots are commensurate with competing subdivision projects and can host a range of housing products.

Topography and Drainage

The underlying topography of the site and the neighborhood is generally level. Drainage is to be sheet flow off the lots into the neighborhood streets and then into subsurface storm drains.

Utilities

Some utilities are in place; however, additional site work is required in order to complete the utility installation prior to constructing homes.

Street Design

Street grading is partially complete; however, asphalt, rolled concrete curbs, gutters, concrete sidewalks and storm drains have yet to be installed. Per review of the tract map, street widths are approximately 54’ in width, which is typical of residential subdivision development.

Subdivision Design

Overall, the subdivision offers a functional design with adequate access to each of the lots. The site perimeter is improved with a 10’ concrete brick wall, which serves as security for future residents and shields against outside noise.

Lot Utility

The lots have good utility for their use as residential home sites. The width and depth of the lots will allow for the development of two or three car garages, as well as single and two-story home development.

Site Condition

The lots have been recorded and assessed and are comprised of the following assessor’s parcel numbers: 023-610-001 thru 023-610-026; 023-610-029 thru 023-610-063; 023-610-065 thru 023-610-084. The site is partially complete with infrastructure and grading; however, additional site improvements are required in order to construct homes. A summary of the remaining improvements is presented in Table 1.

Table 1 Remaining Site Improvements

Remaining Site Improvements	
1	Storm drain installation
2	Park landscaping and concrete work
3	Outlot grading
4	Street improvements
5	Remaining sewer improvements
6	Remaining water line improvements
7	Concrete for sidewalks
8	Dry utilities
9	Lift station, pump, and sump pump
10	Storm drain extension to City lift station
11	Clean storm drain system
12	Pads import and recertification
13	Air test repair porential sewer locations
14	Mail boxes
15	Outlots A, B

Current Zoning/Conformity

Current zoning is R-1-7 with a Planned Unit Development (PUD) overlay. The zoning designation allows for up to seven dwelling units to be constructed on one acre of land. Moreover, the PUD overlay is a special set of development standards that apply to a particular geographic area and gives local governments and developers the flexibility to create zoning standards appropriate to the project. I have assumed that the subject is in conformance with the City of Lemoore's zoning code since the City has approved a recorded a final subdivision map..

Easements, Covenants, Conditions, and Restrictions

The easements affecting the individual lots are for utility or drainage purposes only. All easements are standard for a tract development and should not affect the subject.

Soils, Geology, and Wetlands Issues

A geotechnical report dated September 22, 2004 prepared by Krazan& Associates, Inc. concluded that the subject site and soil conditions are conducive of the proposed development. An environmental site assessment report was not available for review. I assume that adverse geotechnical or environmental conditions do not negatively affect the site. Furthermore, I assume that hazardous materials do not exist in the soil and subsoil regions of the site.

Environmental Hazard Issues

The subject is within Flood Zone X, according to the Federal Emergency Management Agency (FEMA) flood insurance rate maps, Community Panel No. 060089-0167C effective June 16, 2009. This zone is determined to be in areas outside the 0.2% annual chance of flood plain. Furthermore, the site is not in an identified earthquake hazard area based on the Alquist-Priolo special studies.

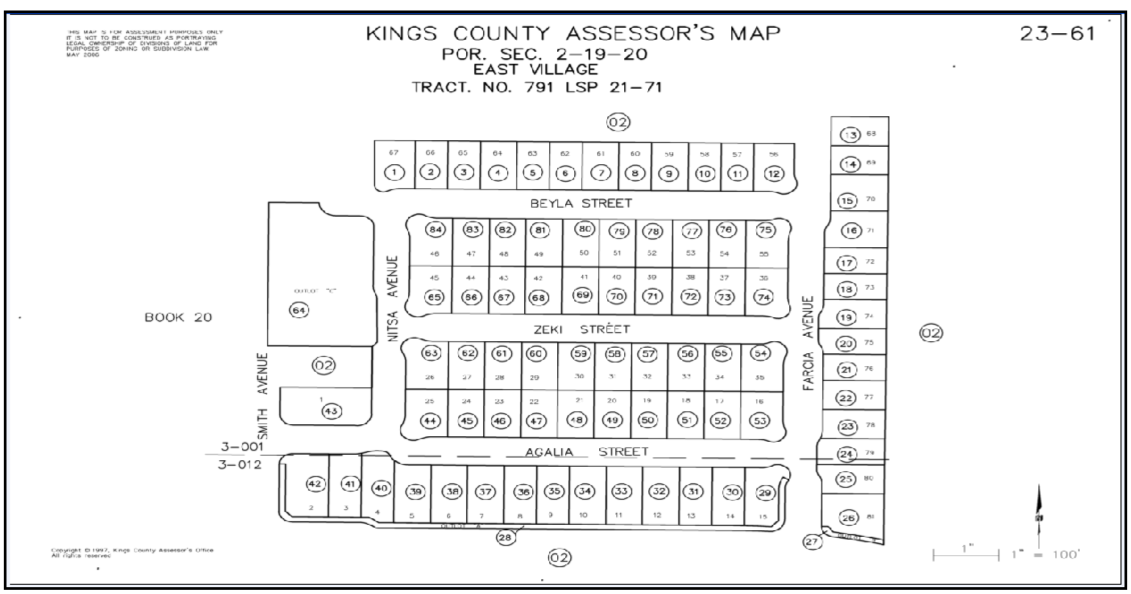
Property Taxes

All of the lots are recorded and assessed. Table 2 below is a summary for the 2010/11 property tax of a representative lot within the subdivision (Assessor 2011). Figure 5 is a copy of the Assessor's parcel map.

Table 2 Assessor's Information

Assessor's Information	
Item/APN	023-610-003
Assessment Land Value	$12,887
Assessed Improvement Value	$0
Assessed Other Value	$0
Total Assessed Value	$12,887
Property Tax	$134.83
Tax Rate	1.046215%
Tax Rate Area	003-001

Figure 5 Assessor's Parcel Map



Tax Increases/Decreases

Under current California law, real estate taxes in the event of a sale of the property or completion of new construction are based on an appraisal by the Assessor at the current value utilizing the current tax rate. Taxes are limited to two percent maximum per annum increase if the property is not sold or no new improvements are constructed. The property is encumbered by a 1.046215% tax rate (2011). No bonds or other assessments are levied against the property.

Conclusion of Site Analysis

The site is best suited for single-family residential development based on the legally permissible uses according to the zoning code. Furthermore, it is physically conducive of residential development and existing plans as prepared by the previous developer and as approved by the City of Lemoore offers a functional design that is commensurate of residential subdivision development. No adverse issues associated with the site were observed.

Chapter 3

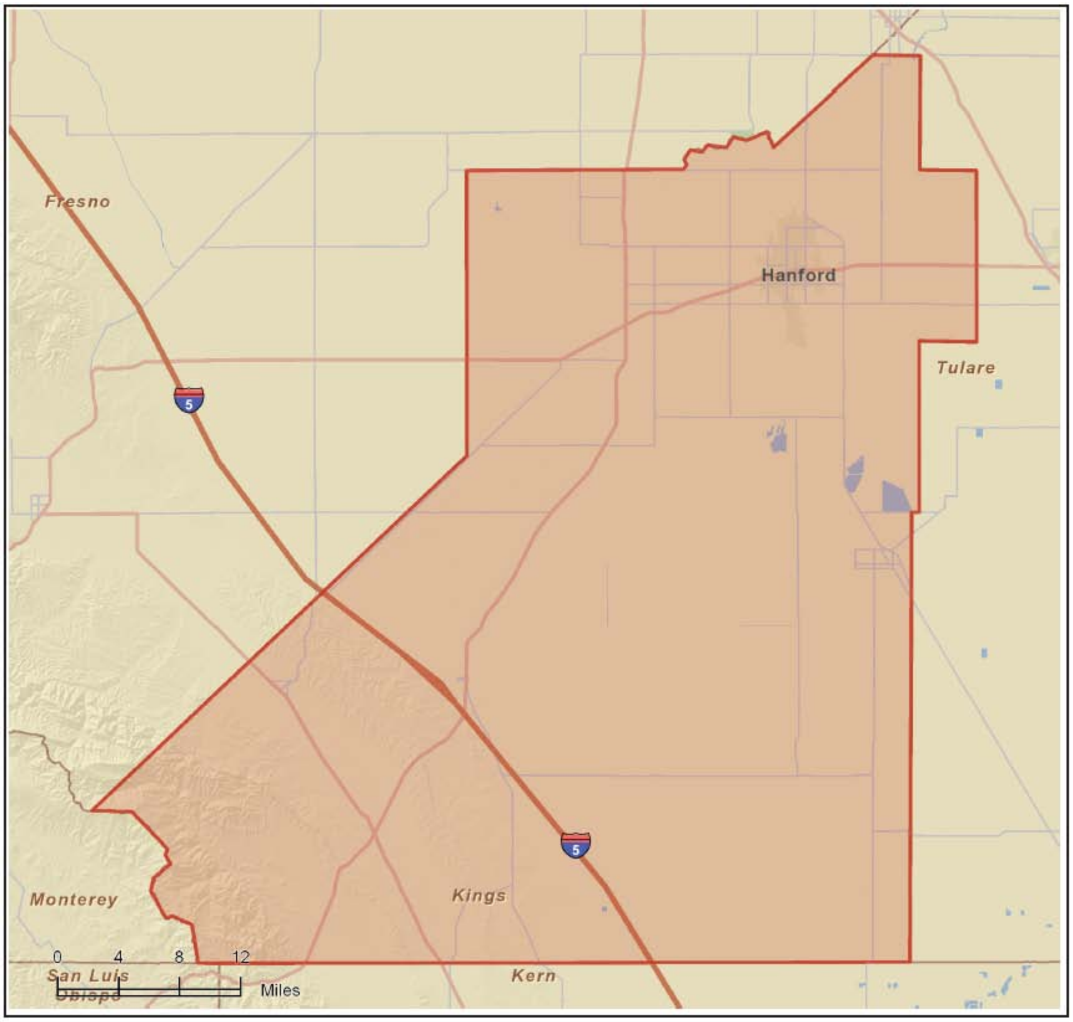
MARKET STUDY

As mentioned in the Chapter 2, the site is located in the eastern side of the City of Lemoore, which is within Kings County.The U.S.Census Bureau defines Kings County as encompassing the entire Hanford–Corcoran Metropolitan Statistical Area. The subject site is influenced by the both the broader market area as well as the immediate neighborhood. In this chapter, I define the broader market area as Kings County and offer a description and analysis of its economic and demographic characteristics. I also describe the immediate area surrounding the site and discuss the economics and demographics of the neighborhood.

Kings County Market Area Description

The County is primarily a rural area consisting of smaller sized cities and towns that are economically dependent on each other to varying extents. It is a rich agricultural district and hosts the Naval Air Station Lemoore, which is the U.S. Navy's newest and largest jet air station and serves as a significant employer. The county seat is the City of Hanford which is by far the largest city in the County with approximately 59,967 residents (Census Bureau 2010). The County’s population is 152,982 (2010).As illustrated in Figure 6 below, the County is bordered by Fresno County to the north, Kern County to the south, Tulare County to the east, and Monterey County to the west.

Figure 6 Map Delineating Kings County



Total Employment

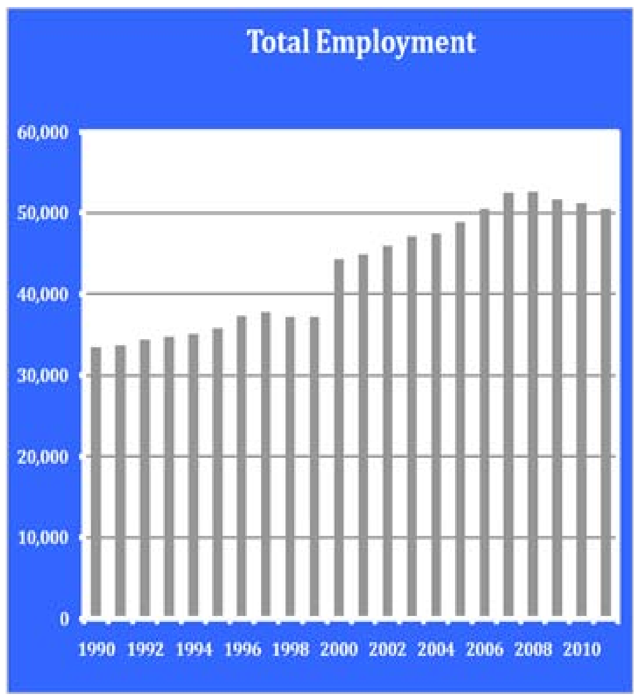
Kings County's total employment base as of June 2011 is 50,500 jobs, which is a decrease of 700 from 2010 (California Employment Development Department). Moreover, the County's employment base has consistently contracted since 2008. Table 3 and Figure7 illustrate the historical employment trend for the county.

Table 3 Historical Total Employment

Year	Total Employment
1990	33,400
1991	33,700
1992	34,400
1993	34,700
1994	35,100
1995	35,800
1996	37,300
1997	37,800
1998	37,200
1999	37,200
2000	44,300
2001	44,900
2002	45,900
2003	47,100
2004	47,500
2005	48,800
2006	50,500
2007	52,500
2008	52,600
2009	51,700
2010	51,200
2011	50,500

Note: Based on Annual Averages Through June 2011
Source: California Employment Development Department

Figure 7 Total Employment Graph



Employment Growth

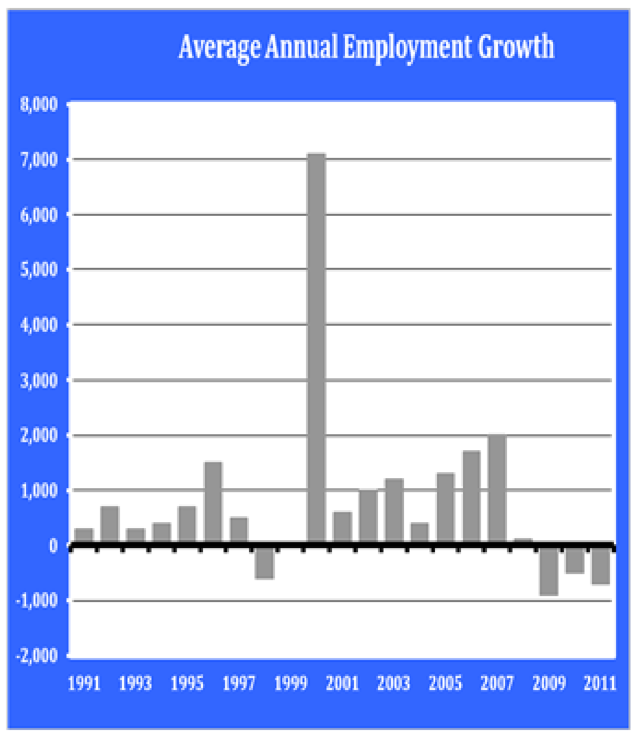
The County has lost a total of 2,100 jobs since 2009, or approximately 4.1 percent of its 2009 employment base. The bulk of the job losses were experienced in 2009; however, a total of 500 jobs were lots in 2010, and 700 were lost in the first six months of 2011. Kings County gained a significant number of jobs in the year 2000, which stemmed from expansion of the Naval Air Base in Lemoore. Table 4 and Figure 8 show historical employment growth dating back to 1991.

Table 4 Historical Employment Growth

Year	Employment Growth
1990	-
1991	300
1992	700
1993	300
1994	400
1995	700
1996	1,500
1997	500
1998	-600
1999	0
2000	7,100
2001	600
2002	1,000
2003	1,200
2004	400
2005	1,300
2006	1,700
2007	2,000
2008	100
2009	-900
2010	-500
2011	-700

Note: Based on Annual Averages Through June 2011
Source: California Employment Development Department

Figure 8 Historical Employment Growth



Unemployment Rate

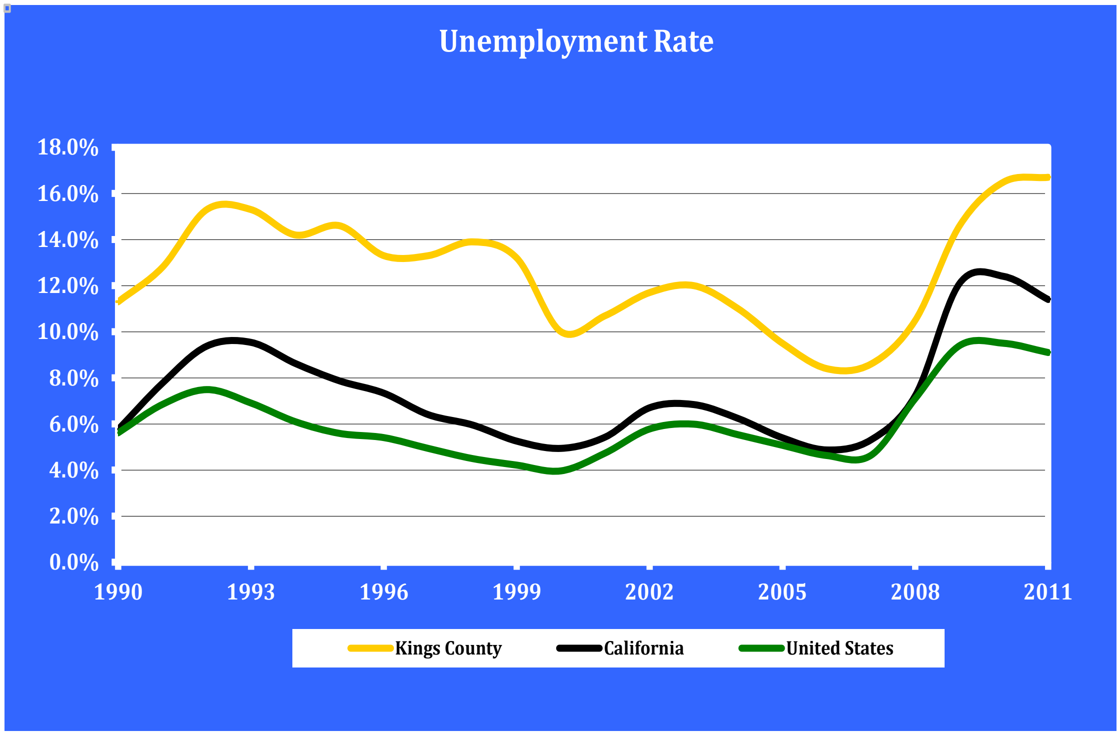
As of June 2011, the unemployment rate in Kings County was 16.7 percent. This is significantly higher than California's unemployment rate of 11.4 percent, as well as the nation's unemployment rate of 9.1 percent. Moreover, the County's unemployment rate has been on the rise since 2006. However, as of the current year, it has experienced negligible change, which may indicate some stabilization. Kings County's unemployment rate generally follows the same trend as the State and National unemployment rates; however, the County's is on average 5 percent higher than the State's and approximately 7 percent higher than the National unemployment rate. Table 5 and Figure 9 below show historical unemployment rates for Kings County, the State of California, and the United States.

Table 5 Historical Unemployment Rates

Unemployment Rate			
Year	Kings County	California	United States
1990	11.3%	5.8%	5.6%
1991	12.8%	7.8%	6.9%
1992	15.3%	9.4%	7.5%
1993	15.3%	9.5%	6.9%
1994	14.2%	8.6%	6.1%
1995	14.6%	7.9%	5.6%
1996	13.3%	7.3%	5.4%
1997	13.3%	6.4%	4.9%
1998	13.9%	6.0%	4.5%
1999	13.2%	5.3%	4.2%
2000	10.0%	4.9%	4.0%
2001	10.7%	5.4%	4.7%
2002	11.7%	6.7%	5.8%
2003	12.0%	6.8%	6.0%
2004	11.0%	6.2%	5.5%
2005	9.5%	5.4%	5.1%
2006	8.4%	4.9%	4.6%
2007	8.6%	5.3%	4.6%
2008	10.5%	7.2%	7.1%
2009	14.6%	12.1%	9.4%
2010	16.5%	12.4%	9.5%
2011	16.7%	11.4%	9.1%

Note: Based on Annual Averages Through June 2011
Source: California Employment Development Department & U.S. Bureau of Labor Statistics

Figure 9 Historical Unemployment Rates



Employment by Industry

Table 6 below indicates a large percentage of the County's workforce, 35.2 percent, is employed by the government sector. Other industries prominent in Kings County include gaming (18.4 percent), trade, transportation & utilities (11.9 percent), and educational & business services (10.3 percent). Although the County's employment base lacks the diversity of a major metropolitan region, it is situated within a 30 – 40 minute drive of City of Fresno which offers more diverse economic base and has an overall more stable economy.

Table 6 Employment by Industry

Employment by Industry		
Industry	**Number Employed 2011**	**% of Total**
Total All Industries *	**42,900**	**100.0%**
Total Farm	**7,900**	**18.4%**
Mining, Logging, and Construction	**900**	**2.1%**
Manufacturing	**3,600**	**8.4%**
Trade, Transportation & Utilities	**5,100**	**11.9%**
Information	**200**	**0.5%**
Financial Activities	**900**	**2.1%**
Professional Business Services	**1,500**	**3.5%**
Educational & Business Services	**4,400**	**10.3%**
Leisure & Hospitality	**2,800**	**6.5%**
Other Services	**500**	**1.2%**
Government	**15,100**	**35.2%**

* Industry Employment is by place of work; excludes self-employed individuals.
Note: Based on June 2011 preliminary data. Data not seasonally adjusted.
Source: California Employment Development Department

Industry Employment Growth

Overall, the County's employment base has contracted by 2.1 percent over the course of the last year with Professional Business Services experiencing the sharpest decline at -16.7 percent from 2010 levels. In addition, manufacturing and farming experienced significant decline since last year, while mining, logging & construction experienced a healthy gain of 12.5percent. All other industries exhibited negligible change. Table 7 and Figure 10 show industry employment from between the year 2010 and 2011.

Table 7 Industry Employment Growth

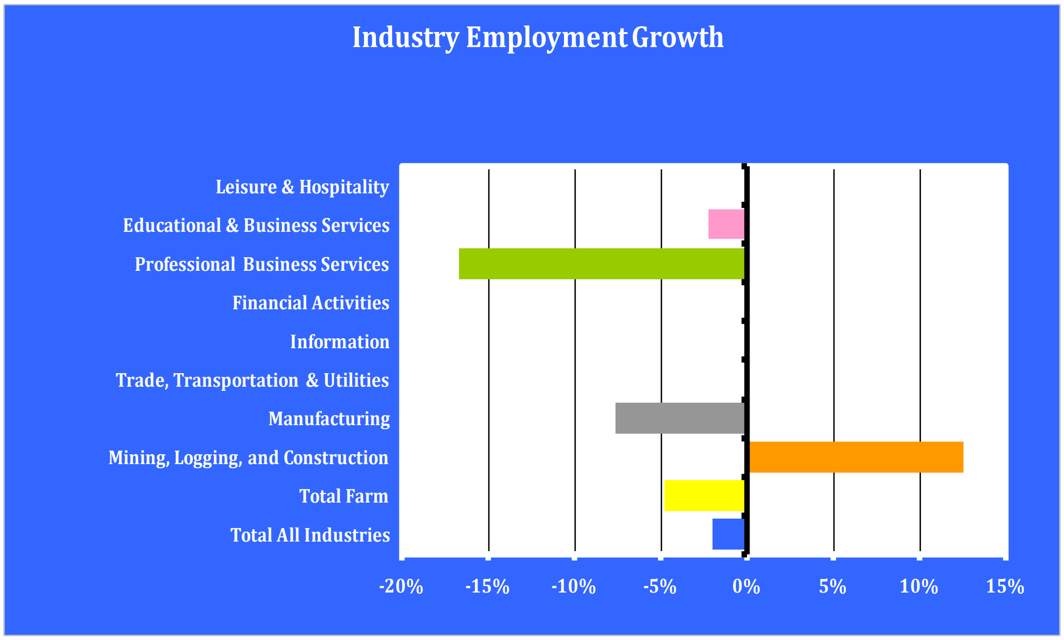
Industry Employment Growth			
Industry	Number Employed June 2010	Number Employed June 2011	% Change
Total All Industries *	43,800	42,900	-2.1%
Total Farm	8,300	7,900	-4.8%
Mining, Logging, and Construction	800	900	12.5%
Manufacturing	3,900	3,600	-7.7%
Trade, Transportation & Utilities	5,100	5,100	0.0%
Information	200	200	0.0%
Financial Activities	900	900	0.0%
Professional Business Services	1,800	1,500	-16.7%
Educational & Business Services	4,500	4,400	-2.2%
Leisure & Hospitality	2,800	2,800	0.0%
Other Services	500	500	0.0%
Government	15,000	15,100	0.7%

* Industry Employment is by place of work; excludes self-employed individuals.

Note: Based on June 2011 preliminary data. Data not seasonally adjusted.

Source: California Employment Development Department

Figure 10 Industry Employment Growth



Major Employers

The majority of these employers are shown to be located in Hanford, Lemoore, and Corcoran. Table 8 summarizes the County's major employers.

Table 8 Major Employers

Major Employers		
Employer Name	**Location**	**Industry**
Badasci & Wood Transport	Lemoore	Trucking
California State Prison	Corcoran	Institutions
Hospital	Hanford	Hospitals
Central Valley Meat Co Inc.	Hanford	Meat Packers
Con Agra Foods Inc.	Hanford	Food Brokers
Dem Monte Foods Co.	Hanford	Canned Specialties
Exopack	Hanford	Plastics-Foil & Coated Paper Bags
Hanford Community Medical Center	Hanford	Hospitals
Hotel at Tachi Palace	Lemoore	Casinos
JG Boswell Co.	Corcoran	Cotton Goods-Manufacturers
JG Boswell Co.	Corcoran	Exporters
Keenan Farms	Kettleman City	Salted & Roasted Nuts & Seeds
Kings County Government Center	Hanford	Government Offices - County
KMART	Lemoore	Department Stores
Lemoore High School	Lemoore	Schools
Leprino Foods Co.	Lemoore	Cheese Processors
Nichols Farms	Hanford	Farms
Sentinel	Hanford	Newspapers
US Naval Air Station	Lemoore	Federal Government - National Security
US Naval Hospital	Lemoore	Hospitals
Walmart Supercenter	Hanford	Department Stores
Warmerdam Packing	Hanford	Fruites & Vegetables - Growers & Shippers
West Hills College-Lemoore	Lemoore	Schools - Universities & Colleges Academic

Source: California Employment Development Department

Population

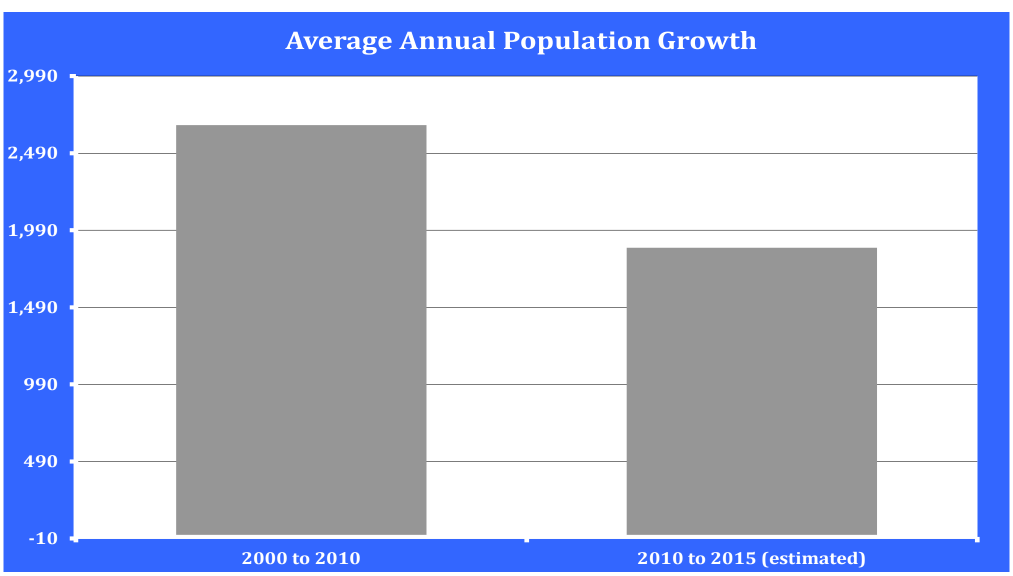
The County's population grew by 20.63 percent between 2000 and 2010. Average annual growth was 2,671 during this time, which equates to an annual growth rate of 2.06%. The average annual growth between 2010 and 2015 is estimated at 1,876 annually, or 1.20 percent. The expected growth through 2015 is significantly less than the growth rate experienced in the previous decade. The County is estimated to host approximately 9,000 undocumented immigrants, which is 5.8 percent of its entire population (Hill 2011).

Table 9 Population Growth

	Population	Total Population Growth	Average Annual Growth Rate	Average Annual Growth
2015 (estimated)	165,555	9,380	1.20%	1,876
2010	156,175	26,714	2.06%	2,671
2000	129,461	129,461		

Source: stdb.com

Figure 11 Population Growth



Population by Age

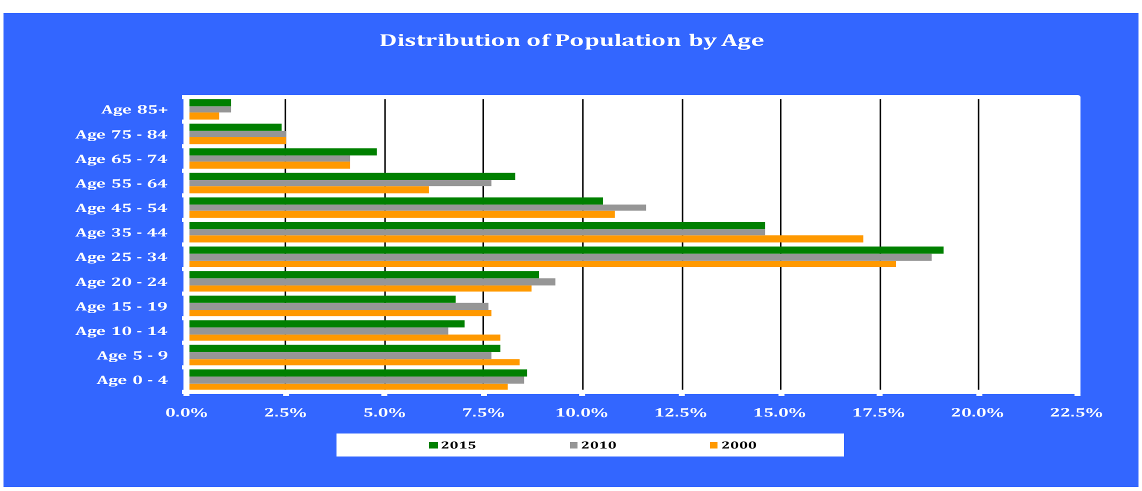
A concentrated share of the region's population (18.8 percent) is between 25 and 34 years old as of the 2010 year. The majority of the region's population is between the ages of 25 and 54. This trend is expected to continue as suggested by the 2015 estimates presented in Table 10 and Figure 12 below.

Table 10 Distribution of Population by Age

	Distribution of Population by Age					
	2000 Census		2010 Estimate		2015 Projection	
	People	% of Total	People	% of Total	People	% of Total
Age 0 - 4	10,486	8.1%	13,275	8.50%	14,238	8.60%
Age 5 - 9	10,875	8.4%	12,025	7.70%	13,079	7.90%
Age 10 - 14	10,227	7.9%	10,308	6.60%	11,589	7.00%
Age 15 - 19	9,968	7.7%	11,869	7.60%	11,258	6.80%
Age 20 - 24	11,263	8.7%	14,524	9.30%	14,734	8.90%
Age 25 - 34	23,174	17.9%	29,361	18.80%	31,621	19.10%
Age 35 - 44	22,138	17.1%	22,802	14.60%	24,171	14.60%
Age 45 - 54	13,982	10.8%	18,116	11.60%	17,383	10.50%
Age 55 - 64	7,897	6.1%	12,025	7.70%	13,741	8.30%
Age 65 - 74	5,308	4.1%	6,403	4.10%	7,947	4.80%
Age 75 - 84	3,237	2.5%	3,904	2.50%	3,973	2.40%
Age 85+	1,036	0.8%	1,718	1.10%	1,821	1.10%
Total	129,461	100%	156,175	100.10%	165,555	96.50%
Median Age	30.2		30.1		30.7	

Source: www.stdb.com

Figure 12 Distribution of Population by Age



Households

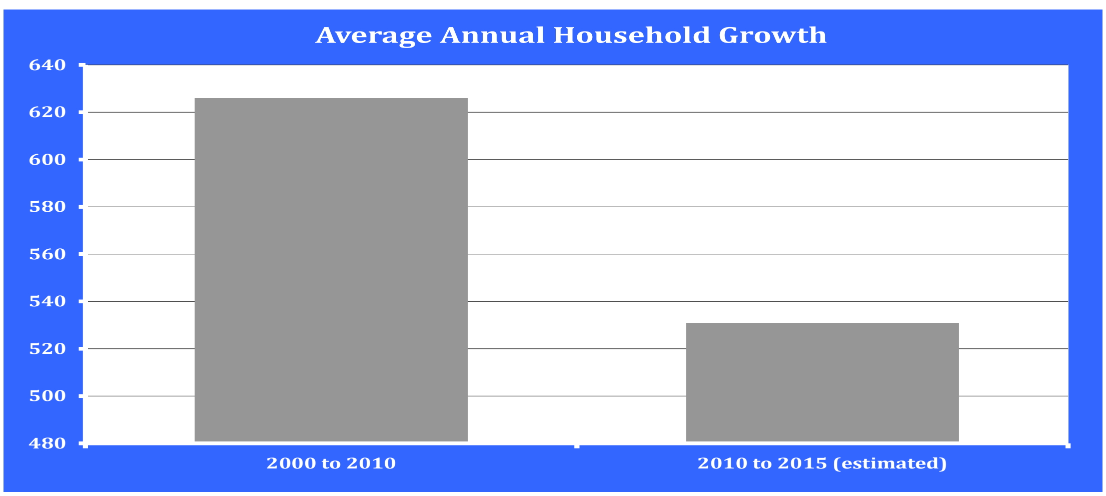
As of 2010, the number of households in the region totaled 40,677, which equates to an average annual increase of 626 households since the year 2000. Projections indicate that the total number of households will reach 43,332 in 2015, which equates to an average annual increase of 531 households countywide. Table 11 and Figure 13 illustrate the average household growth and estimates going forward in to the 2015 year in Kings County.

Table 11 Kings County Household Growth

Year	Households	Total Household Growth	Average Annual Growth Rate	Average Annual Growth
2015 (estimated)	43,332	2,655	1.31%	531
2010	40,677	6,259	1.82%	626
2000	34,418			

Source: Stdb.com

Figure 13 Kings County Household Growth



Household Income

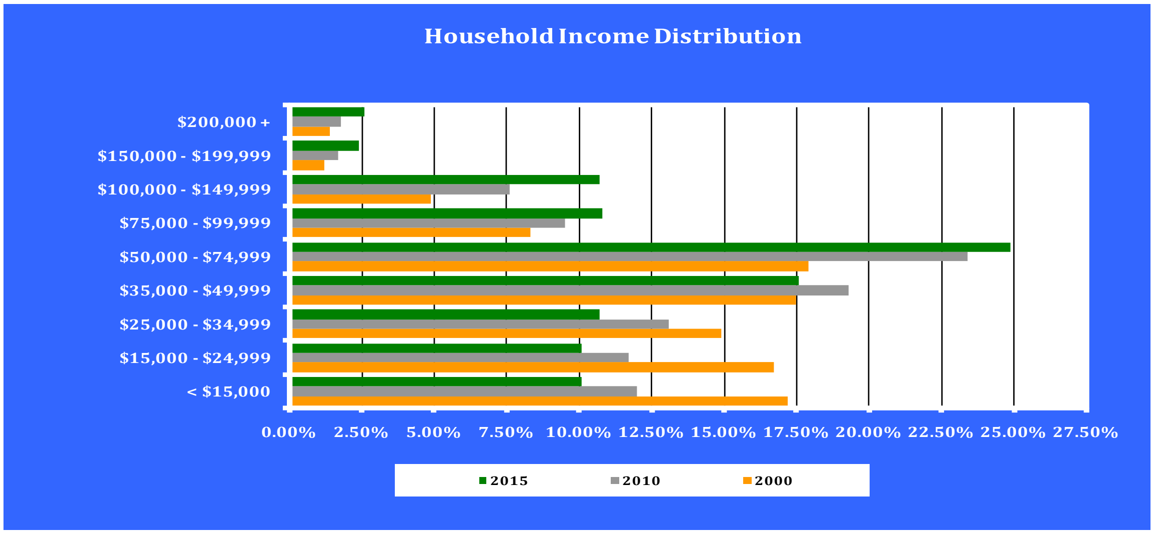
The County's 2010 median household income is $44,484 and is projected to increase by 14.7 percent to $51,018 by 2015. Approximately 37 percent of households earn less than $35,000; however, this figure is estimated to decline to 30 percent by 2015. Moreover, the large portion of households (42.5 percent) are estimated to earn between $35,000 and $75,000 by 2015, while 26.5 percent of households are projected to earn $75,000 or more. Table 12 and Figure 14 show Kings County's Household Income Distribution.

Table 12 Household Income Distribution

	Household Income Distribution					
	2000 Census		2010 Estimate		2015 Projection	
	Households	% of Total	Households	% of Total	Households	% of Total
< $15,000	5,922	17.2%	4,880	12.0%	4,375	10.1%
$15,000 - $24,999	5,750	16.7%	4,758	11.7%	4,375	10.1%
$25,000 - $34,999	5,130	14.9%	5,327	13.1%	4,635	10.7%
$35,000 - $49,999	6,025	17.5%	7,848	19.3%	7,624	17.6%
$50,000 - $74,999	6,163	17.9%	9,515	23.4%	10,786	24.9%
$75,000 - $99,999	2,858	8.3%	3,863	9.5%	4,678	10.8%
$100,000 - $149,999	1,687	4.9%	3,090	7.6%	4,635	10.7%
$150,000 - $199,999	413	1.2%	691	1.7%	1,040	2.4%
$200,000 +	482	1.4%	732	1.8%	1,126	2.6%
Total	34,429	100%	40,663	100%	43,318	100%
Average Household Income	$48,709		$56,757		$64,571	
Median Household Income	$35,736		$44,484		$51,018	

Source: stdb.com

Figure 14 Kings County Household Income Distribution



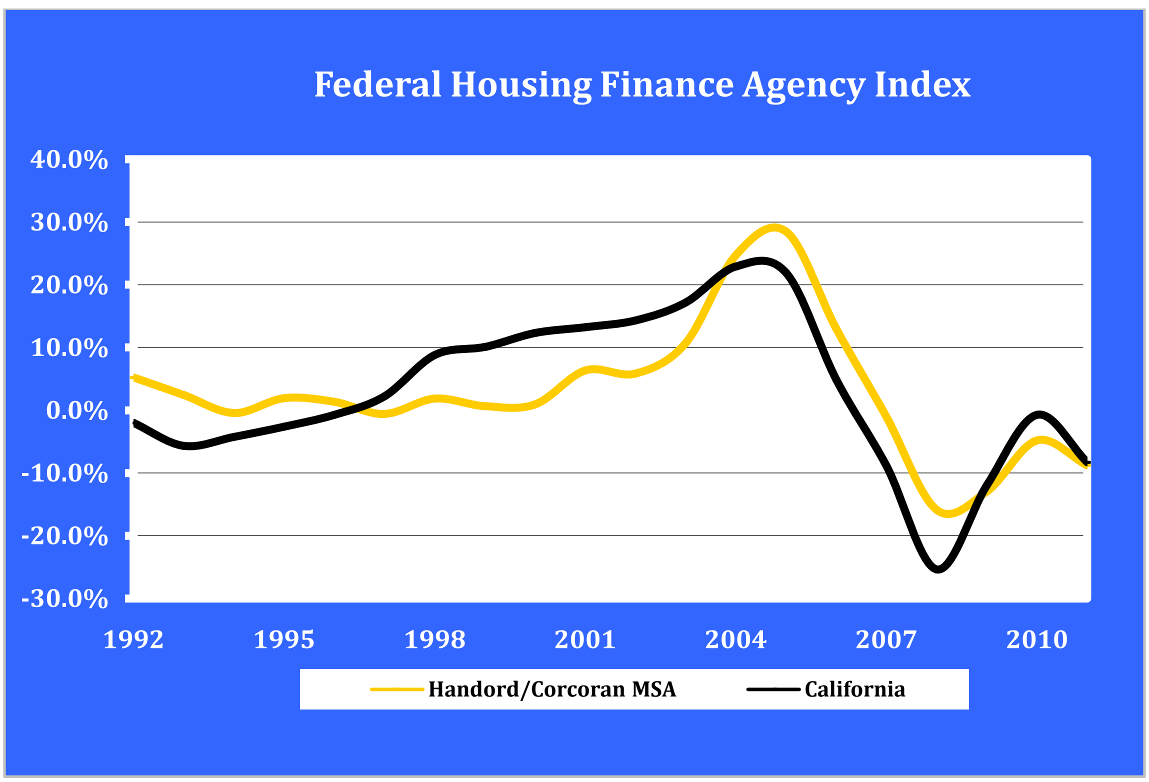
Historical Changes in Home Values

Data retrieved from the Federal Housing Finance Agency (FHFA)is presented in Table 13 below. The data indicates that prices in the Hanford/Corcoran MSA have continued to fall as of the 2nd Quarter of 2011. The data suggests that values have fallen by nearly 50 percent from peak levels achieved in 2006. Figure 15 shows housing prices in the Hanford/Corcoran MSA relative to prices of the State of California. In general, the Hanford/Corcoran MSA changing housing prices follow that of the State's. The Hanford/Corcoran MSA was used in lieu of Kings County since County level data is not provided by the FHFA. Moreover, the Hanford/Corcoran MSA is a very good indicator of Kings County based on my primary research and interview with market participants.

Table 13 Federal Housing Finance Agency Index

Federal Housing Finance Agency Index		
Year	Handord/Corcoran MSA	California
1992	5.2%	-2.0%
1993	2.4%	-5.7%
1994	-0.4%	-4.3%
1995	1.9%	-2.6%
1996	1.3%	-0.8%
1997	-0.6%	2.2%
1998	1.8%	8.8%
1999	0.7%	10.1%
2000	0.9%	12.3%
2001	6.3%	13.2%
2002	5.8%	14.3%
2003	10.7%	17.2%
2004	24.7%	22.9%
2005	28.5%	21.9%
2006	13.0%	4.9%
2007	-1.1%	-8.9%
2008	-15.9%	-25.4%
2009	-12.9%	-11.9%
2010	-4.8%	-0.8%
2011	-8.8%	-8.3%

Figure 15 Federal Housing Finance Agency Index



Conclusion of Kings County Market Area Description

In this section, I have described and illustrated the broader market area influences on the subject site.Housing prices throughout the County have reportedly dropped 8.8 percent during the first half of 2011. Moreover, data reveals that employment has continued to worsen as the County has experienced negative job growth over the course of the last year. The County does not offer well-diversified employment base, which may be culprit for volatility in employment compared to the State of California. Conversely, the County's unemployment rate exhibited negligible change over the course of the last year, which may indicate that employment may begin to stabilize in the near future. In comparison, the unemployment rate increased from 8.7 percent in 2007 to 16.5 percent 2010. The median household income is expected to grow nearly 5 percent annually throughout 2015.Moderate population growth is anticipated within the county over the next four years. Just over a third of the population is between the ages of 25 and 44. Approximately 40 percent of households within the County earn between $35,000 and $75,000. It is interesting to note that household growth rates are not increasing as fast as population growth, which suggests that household size may be increasing.

Neighborhood and Primary Market Area Description

The area of influence, commonly called a neighborhood, can be defined as a group of complimentary land uses. I will analyze the market area where the subject property competes and where market participants live and work, which are characteristics that have a direct correlation to the value of the site and proposed homes. This market analysis is the identification and study of the market for a particular economic good or service, as well as the study of real estate market conditions for a specific type of property. In the remainder of this section, I describe the neighborhood boundaries and the subject market area and I analyze the demographics, social influences, economic influences, and discuss environmental influences.

Neighborhood Boundaries and area Description

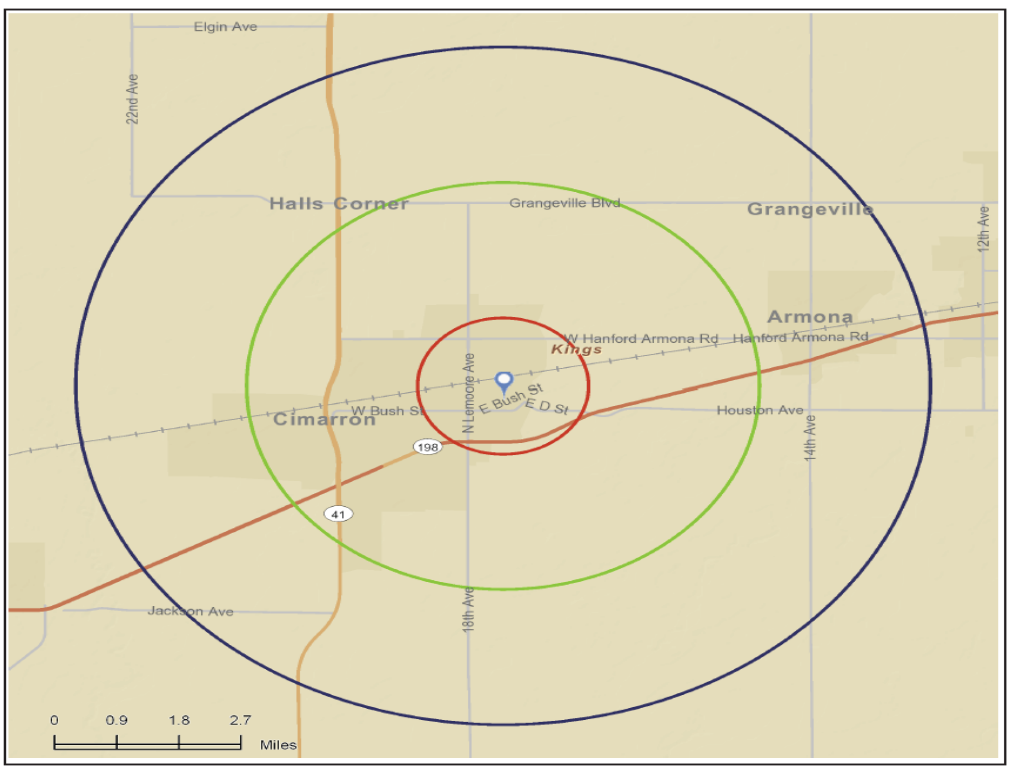
The neighborhood's immediate boundaries can be described as the City of Lemoore, which is generally delineated by Highway 41 to the west, Highway 198 to the south, 16th Avenue to the east, and West Lacy Boulevard to the north. State Highway 99 is approximately 22 miles east, while Interstate 5 is about 25 miles west. Both of the aforementioned freeways are accessed via Highway 198, as well as Highway 41, which intersect at the southwest corner of the City. The City of Fresno, located approximately 30 miles north, is the closest major metropolitan area to the subject's neighborhood which offers economic benefits to the City of Lemoore. Other nearby districts include the Cities of Hanford (7 miles east), Corcoran (20 miles south), Visalia (20 miles east), and Tulare (30 miles southeast), as well as various other unincorporated areas. Primary east/west thoroughfares providing access to the area include Bush Street and Hanford-Armona Road. North 19th Avenue and North Lemoore Avenue provide primary north/south access to the City. Commercial development servicing the neighborhood is focused along portions of Hanford-

Armona Road and Lemoore Avenue and appear to adequately service the needs of existing residents.

Demographic Analysis

The following demographic analysis is based on information obtained from STDB.com Site Reports, a subscription service offered by the Appraisal Institute. The demographics for the neighborhood were analyzed using a “ring” search. The information was gathered in one, three, and five-mile radii from the subject’s address. Figure 16 below depicts the survey area:

Figure 16: One, Three, and Five-Mile Radii Survey Area



While neighborhood influences differ from one to another, they can generally be classified into the following three categories: social, economic, and environmental. I discuss the impacts of each of these potential influences on the subject neighborhood below.

Social Influences

These can best be determined by understanding the relevant demographic characteristics that are present in a particular market, which would include such things as:

- Population density, age, household size,
- Skill levels and employment categories

Population

The population growth from 2000 to 2010 within a one-mile radius of the subject site was 14.1 percent, which equates to an average annual growth rate of nearly 1.4 percent. Looking ahead, the population is expected to grow 7.4 percent, or 2.9 percent annually, from 2010 to 2015. This is less than the three- and five-mile radii annual growth rates of 2.9 percent and 2.7 percent, respectively, in the same period and is illustrated in Table 14 below.

Table 14 Population Growth (1-, 3-, and 5-Mile Radii)

Historical and Projected Population Growth			
Population	1-Mile Radius	3-Mile Radius	5-Mile Radius
2015 Projection	13,044	30,590	38,414
2010 Estimate	12,145	28,001	35,278
2000 Census	10,640	21,648	27,672
Growth 2010-2015	7.4%	9.2%	8.9%
Growth 2000-2010	14.1%	29.3%	27.5%

Workforce and Employment

The largest percentage (47.1 percent) of the workforce in the immediate area of the subject is involved in the Service Industry. When expanding the search to 3-miles, that percentage is 45.4 percent followed by Public Administration at 25.2 percent. This information is presented in Table 15.

Table 15 Estimate of Employment (1-, 3-, and 5-Mile Radii)

2010 Estimate of Employment						
Business Description	1-Mile Radius		3-Mile Radius		5-Mile Radius	
	Total Employees	Percent of Total	Total Employees	Percent of Total	Total Employees	Percent of Total
Agriculture/Mining	276	5.4%	873	7.3%	1,272	8.7%
Construction	241	4.7%	514	4.3%	658	4.5%
Manufacturing	236	4.6%	574	4.8%	790	5.4%
Wholesale Trade	113	2.2%	227	1.9%	278	1.9%
Retail Trade	527	10.3%	1,232	10.3%	1,536	10.5%
Transportation/Utilities	184	3.6%	514	4.3%	629	4.3%
Information	61	1.2%	132	1.1%	146	1.0%
Finance/Insurance/Real Estate	225	4.4%	562	4.7%	644	4.4%
Services	2,412	47.1%	5,432	45.4%	6,596	45.1%
Public Administration	850	16.6%	1,879	15.7%	2,077	14.2%
Total	**5,120**	**100%**	**11,965**	**100%**	**14,626**	**100%**

Economic Influences

Economic considerations relate to the financial capacity of a market area's occupants and their ability to rent or own property and to maintain it in an attractive and desirable condition. Economic characteristics include, but are not limited to:

- Mean and median, and household income distribution
- Extent of owner occupancy and property values and trends
- Amount of development and new construction

Household Income Distribution Income

Within a one-mile radius of the subject site, the average household income in 2010 is estimated at $54,423. Moreover, this figure is projected to increase 14.3 percent by 2015. Table 16 demonstrates the distribution of incomes within a one-mile radius of the site.

Table 16 Household Income Distribution (1-Mile Radius)

Household Income Distribution within a 1-Mile Radius						
Income Cohort	2000		2010		2015	
	Number	Percentage	Number	Percentage	Number	Percentage
< $15,000	563	16.3%	430	10.9%	375	8.9%
$15,000 - $24,999	504	14.6%	343	8.7%	303	7.2%
$25,000 - $34,999	560	16.2%	548	13.9%	459	10.9%
$35,000 - $49,999	739	21.4%	883	22.4%	847	20.1%
$50,000 - $74,999	546	15.8%	962	24.4%	1,137	27.0%
$75,000 - $99,999	339	9.8%	367	9.3%	455	10.8%
$100,000 - $149,999	155	4.5%	315	8.0%	489	11.6%
$150,000 - $199,999	21	0.6%	55	1.4%	76	1.8%
$200,000 +	28	0.8%	39	1.0%	67	1.6%
Total	**3,455**	**100%**	**3,943**	**100%**	**4,212**	**100%**
Avg. Household Income	**$44,188**		**$54,423**		**$62,187**	
Est. Median Household Income	**$36,961**		**$45,468**		**$51,456**	

When expanding to a 3-mile radius of the subject site, the average household income increases to $62,062 per year. The bulk of households (71.1%) earn between $35,000 and $99,000 within 3-miles as show in Table 17.

Table 17 Household Income Distribution (3-Mile Radius)

Household Income Distribution within a 3-Mile Radius						
Income Cohort	2000		2010		2015	
	Number	Percentage	Number	Percentage	Number	Percentage
< $15,000	1,051	15.0%	923	10.3%	800	8.2%
$15,000 - $24,999	911	13.0%	771	8.6%	673	6.9%
$25,000 - $34,999	981	14.0%	977	10.9%	830	8.5%
$35,000 - $49,999	1,282	18.3%	1,695	18.9%	1,600	16.4%
$50,000 - $74,999	1,282	18.3%	2,098	23.4%	2,391	24.5%
$75,000 - $99,999	847	12.1%	1,121	12.5%	1,376	14.1%
$100,000 - $149,999	497	7.1%	1,022	11.4%	1,571	16.1%
$150,000 - $199,999	77	1.1%	206	2.3%	283	2.9%
$200,000 +	77	1.1%	143	1.6%	234	2.4%
Total	**7,004**	**100%**	**8,966**	**100%**	**9,759**	**100%**
Avg. Household Income	**$50,277**		**$62,062**		**$70,752**	
Est. Median Household Income	**$40,814**		**$51,110**		**$57,771**	

Extent of Owner Occupancy

Within a one-mile radius, 42.3 percent of homes are estimated to be owner-occupied, with 51.4 percent renter-occupied. The percentage of owner-occupied units increases within the three and the five-mile rings as shown in Table 18. The vacancy rateis relatively low compared to that of the County (6.6 percent) as well as the State (7.5) based on information provided by STDB.com.

Table 18 2010 Tenure of Occupied Housing Units

2010 Tenure of Occupied Housing Units						
Tenure	1-Mile Radius	Percent	3-Mile Radius	Percent	5-Mile Radius	Percent
Owner-Occupied	1,781	42.3%	4,972	52.1%	6,287	52.1%
Renter-Occupied	2,164	51.4%	3,999	41.9%	4,819	41.9%
Vacant	265	6.3%	582	6.1%	722	6.0%
Total Units	4,210	100.0%	9,553	100.0%	11,840	100.0%

Property Values and Trends

The estimated median home value within a 1-mile radius was $164,086 in 2010. This figure is projected to increase to $203,583 by 2015. When expanding to the 3- and 5-mile rings, the median owner occupied housing values are reportedly higher as illustrated in the Table 19 below.

Table 19 Median Owner Occupied Housing Values

Historical and Projected Median Owner Occupied Housing Values			
Housing Values	1-Mile Radius	3-Mile Radius	5-Mile Radius
2015 Projection	$203,583	$217,137	$208,569
2010 Estimate	$164,086	$176,117	$168,728
2000 Census	$103,072	$109,454	$105,377
Growth 2010-2015	24.1%	23.3%	23.6%
Growth 2000-2010	59.2%	60.9%	60.1%

Environmental Influences

The environmental characteristics of a neighborhood are influenced by natural features, such as topography, temperatures, proximity to water, or manufactured features. Manufactured features include noise, adequacy of streets, utility service and availability, sewer capacity and other man-characteristics . Environmental influences include the condition of neighborhood roadways and streets, as well as the general condition and appearance of vacant lots and/or existing building improvements.

The subject’s immediate area is predominantly single family residential in nature. Roadways servicing the area are mostly two-lane thoroughfares and are adequately maintained. Utilities are readily available to the area and observations of neighborhood generally indicate routine maintenance; however, some deferred maintenance was observed. Commercial amenities are located in close proximity to the subject site along Lemoore Avenue and Hanford-Armona Road and appear to adequately service the needs of the existing residences.

The subject siteis situated in close proximity to a railroad near its north end. A sound wall has been installed to mitigate noise produced by the railroad and it appears to adequately serve the project. Moreover, the nearest railroad intersection is nearly one mile from the site, which suggests that the railroad whistle will be faintly heard from the property. Based on visual inspections of the neighborhood, negative environmental influences are negligible.

Summary of Market Study Findings

Median housing values and household income levels in the immediate neighborhood are notably higher than values throughout Kings County. Furthermore, the site area benefits by low vacancy relative to that of the County and the State which show vacancy levels at 6.6 percent and 7.5, respectively (STDB 2011). Above average mobility of those associated with the Naval Air Station Lemoore, either active military personnel or civilian workers involved in Base contracts, could explain the lower homeownership rate as qualified households forgo purchasing opportunities. Promotion of the subject project through Base bulletin boards or newsletters could be beneficial, particularly for higher-ranking personnel transferring into the area.

The total population and number of households in the County suggest that household sizes are in the range of three to four persons per households, with an average of approximately 3.7 persons (2011). This finding argues in favor of three- and four- bedroom floor plans at the subject project, ideally offering either two and one-half or three full baths to help differential the subject project from resales and foreclosure sales available throughout the site area. Considering that the subject is in close proximity to a railroad track to the north, the project should be priced relatively lower compared to that of competing projects, while offering value driven floor plans.

The property's immediate neighborhood can primarily be characterized as mixture of recent and dated development and primarily residential in nature. Analysis of the demographics within one mile of the property indicates relatively moderate-income levels and a moderate percentage of owner-occupants. An inspection of the neighborhood revealed adequate maintenance of existing properties and roadways and access to and from the general area is considered average. Both commercial and residential market conditions have been deteriorating in the neighborhood over the course of the last several years; however, after considering the expected growth in the area coupled with the demographics trends in the neighborhood, the overall trend will be to be positive over the long term.

Chapter 4

MARKETABILITY ANALYSIS

Given that the property analyzed is for zoned for residential use, a discussion of the residential market is merited. Data was obtained from The Gregory Group, a subscription research service.

Only two new housing projects were reported within the City of Lemoore, therefore, a brief overview of the current new home prices and other statistics is merited. As of the second quarter of 2011, there were three subdivisions actively selling homes according to The Gregory Group. Table 20 below summarizes the statistics.

Table 20 Kings County 2nd Quarter Housing Statistics

Kings County 2nd Quarter 2011 New Housing Statistics								
Number of New Housing Projects (detached)	Average Lot Size (SF)	Average Square Footage	Avearge Base Sale Price	Average Incentives	Average Net Price	Units Sold	Total Inventory	Average Quarterly Sales Rate
3	4,667	1,983	$257,069	$4,667	$252,402	224	97	0.28

Source: The Gregory Group

The average base sale price reported at the end of the 1st quarter of 2011 was $257,069 though the average net sale price, after incentives, was $252,402. The average quarterly sales rate is reportedly less than one home per week, coming in at 0.28 homes per project, or roughly 1.2 homes sold per month. According to The Gregory Group, there were 11 detached dwelling units sold in Kings County in 2nd quarter 2011; two of which sold in the City of Lemoore. Net of incentives, new home prices ranged from $214,890 to $277,521. The average lot size for homes marketed for sale was 4,667 square feet, with an average house size of 1,983 square feet. As will be discussed in the following section, current surveys of subdivisions in the Kings County market area indicate that entry level and move-up product has been absorbing at equivalent rates. No executive level product, or high-end homes, was observed within the market area.

Resale Market

According to a survey of resale home sales in Kings County, real estate owned (REO) home sales, also referred to as foreclosure sales, outnumber non-REO sales (MLS). Foreclosure sales represent the sale of a home from the bank to a new homeowner or, in some cases, a real estate investor with plans to rent the property. Foreclosure sales are actually a positive benefit for an area as they reflect renewed confidence and a reduction in the area's non-performing assets. Banks will likely expand their involvement in single-family lending activities and under less scrutiny relative to levels currently observed. Table 21 below shows the number of foreclosure sale on an annual basis since July 2008.

Table 21 History of Foreclosure Sales in Kings County

Time Period	Kings County Foreclosures
7/08 - 6/09	217
7/09 - 6/10	220
7/10 - 6/11	464

Source: Multiple Listing Service

Countywide, the number of foreclosure sales increased over the last year as indicated above. The median price of an REO sale in the Kings County was $139,948 over the last twelve months. In contrast, the median REO sale in the City of Lemoore is $158,563, which is approximately 13 percent higher than County resale REO sales. A summary of resale home sales in Lemoore's housing market from July 2010 to July 2011 as illustrated in Table 22 below:

Table 22 Resale Housing Market Activity

Time Period	City of Lemoore Homes Sales	Percentage of Total Sales	Median Price
Non-REO Resales	100	61%	$196,797
REO Resales	64	39%	$158,563
Total Resales	164	100%	-

In general, a housing market transitions from marginal to improving as the volume of foreclosure sales surpasses corresponding foreclosure activity. Optimal opportunities for new home salesoccur when foreclosures decline to comparatively small volumes and foreclosure sales decline in accordance. In contrast to the 164-resale home sales that took place throughout the City of Lemoore over the aforementioned 12-month period, the volume of foreclosure sales was only 64. Foreclosure sales identify a price discount of approximately 20 percent relative to the resale home prices achieve within the subject’s neighborhood. Moreover, foreclosure activity over the last twelve months involved homes under 2,000 square feet which accounted for 81.4 percent of foreclosure sales. These smaller home sales were more commonly associated with older product averaging 25-years of age or older. Considering the prices achieved in the resale market, the relatively smaller volume of REO sales compared to non-REO sales, and the age and size of resale homes sold in the market, market conditions appear conducive of competitively priced new housing product.

Discussion with Market Participants

During the course my study, I interviewed various market participants involved with new home projects in the subject’s market area and did not rely entirely on secondary market research data. The market participants included landowners, brokers, realtors, builders, and real estate investors. These interviews provided valuable information related to absorption, pricing, the market for land, and provided evidence of trends in individual subdivisions. In this section, I summarize my interviews as it relates to lot sales and retail home sales.

Lot Sales

Information provided by market participants in the area revealed that buyers actively seeking to purchase land prefer lots that are either finished or close to being finished as opposed to paper lots, or is undeveloped land that exists only on paper a streets and lots. The reason for this preference is that paper lots require substantial capital improvements as face entitlement risk, or the risk that the various government agencies with jurisdiction will not issue the required approvals for the construction project to proceed. These constraints detract from the financial feasibility of development. Moreover, banks recognize these risks and, especially given current market conditions, and are less likely to provide financing for the development of a paper lot subdivision.

Although developers prefer to purchase finished lots, area brokers and builders explained that the available supply of finished lots is negligible as most have already been built-out. Partially-finished lots are being considered by builders depending on the remaining site work costs. Market participants reported that buyers are interested in purchasing finished lots in Lemoore and similar surrounding towns and cities for $20,000 to $34,000 per finished lot. Based on my interviews, builders will likely consider purchasing partially completed lots or even paper lots as long as the acquisition cost and cost to complete unfinished lots is between $20,000 and $30,000.

My interviews provided support for the pricing of finished lots higher than $30,000. Planners as well as area land brokers revealed that the national homebuilder, Lennar, was in contract to purchase 37 finished lots in the City of Lemoore for $34,000 per lot. Upon my inspection of the subject site, the lots were a portion of a subdivision that was partially built-out with homes. Reportedly, the original builder was financially insolvent and the lots were foreclosed upon. Given that these lots were already part of a subdivision that was nearly built-out, investment in these lots is less risky than investment in the subject site, especially since the subdivision has already demonstrated to be a desirable place to live retail lots have a track record of sales consistency. Consequently, the City denied the builder's proposed building plans and the company decided not go forward with the transaction.

I also discovered two closed land sales that offered an indication of lot values. A member of the City of Lemoore's planning staff informed me of a recent sale consisting of 56 lots, 15 of which were finished and 41 lots were partially finished. Brokers familiar with the transaction were not at liberty to reveal the sale price nor could they discuss the cost to finish the 41 partially-finished lots. However, an informed source explained that the lots achieved a sale price between $16,000 and $20,000 in February of this year. Another sale closing in February 2011 was within the City of Corcoran, approximately 25 miles south of the subject. The transaction consisted of 44 finished lots, 17 of which were improved with partially constructed homes. The sale price was confirmed at $900,000; however, discussions with a broker participant revealed that the property was encumbered with $200,000 in fees and bond payments. Since the transaction involved finished lots as well as partially constructed homes, the value of the finished lots that lacked partially constructed homes could not be extracted. However, a broker participant volunteered an opinion of value at $25,000 per finished lot.

Though the market area does appear to be a fragmented, area brokers as well as public staff were very helpful in helping me identify current market trends in immediate area and guaging builders' appetite for lots. They also assisted in establishing market price points.

New Home Sales

I visited competing subdivisions and conducted interviews with several subdivision representatives in the market in the Cities of Lemoore and Hanford, as well as various towns and districts nearby. My interviews revealed absorption of new home product ranging from less than 1 to over 5 homes per month during the course of the last several months. Of the five subdivisions inspected, the Legacy Classics subdivision in Lemoore is experiencing strong market activity with eight sales within the last month; three of which have already closed and five homes were reportedly in escrow. In contrast, Divante Villas, another residential subdivision in Lemoore, is experiencing minimal market activity with reportedly one home selling on average every one to two months. Per conversations with real estate professionals in the area, the builder of Divante Villas has gone bankrupt and is not actively marketing the project's remaining inventory.

Discussions with the subdivision representative at the Legacy Classics subdivision explained that many of their homebuyers are utilizing United States Department of Agriculture financing (USDA), which facilitates access to home loans at very competitive interest rates for up to 100% of the purchase price with terms ranging from 33 to 38 years. Upon further research, I confirmed that Lemoore has been classified as an eligible rural area for USDA financing. Furthermore, I found that USDA home loan programs are determined by household income, number of people in a household (adjusted for number of residents under 18-years old, disabled, or full-time students), and applicant/co-applicant (under 62 or 62 and older). Specific eligibility requirements are indicated as follows:

- Have an adequate and dependable income;
- Be a U.S. Citizen, qualified alien, or be legally admitted to the United States for permanent residence;

- Have an adjusted annual household income that does not exceed the moderate-income limit established for the area. A family's income includes the total gross income of the applicant, co-applicant and any other adults in the household. Applicants may be eligible to make certain adjustments to gross income - such as annual childcare expenses and $480 for each minor child - in order to qualify.
- Have a credit history that indicates a reasonable willingness to meet obligations as they become due;
- Have repayment ability based on the following ratios: Principle, Interest, Taxes, and Insurance (PITI) divided by gross monthly income must be equal to or less than 29 percent. Total debt divided by gross monthly income must be equal to, or less than, 41 percent.

Based on discussion with market participants, USDA financing significantly influences the new housing market by contributed to higher levels of absorption within Lemoore when compared to the City of Hanford, a competing area located just 7 miles from the subject. Hanford is not eligible for USDA financing. Lastly, subdivision representatives interviewed explained that both move-up and entry-level products are experiencing equivalent homebuyer demand.

Conclusion of Market Participant Discussion

Discussions with market participants indicated that builders do have an interest in purchasing lots at the right price. Both finished and partially-finished lots are generating interest from builders. Brokers volunteered opinions of finished lot values generally ranging from $20,000 to $30,000 per lot; though many landowners have opted to hold their land until market conditions improve. Subdivision sales in the immediate area are conducive of absorption rates of over five homes per month for some subdivisions and both entry level and move-up product are experience similar demand in the market place.

Description of Improvements

The plans for East Village offer one and two story houses with two and three-car garages. Each plan will be available with different front elevation designs. The design is traditional with stucco siding. The base quality will beaverage and the homes will be attractively designed. Table 23 below offers a summary of each floor plan.

Table 23 Floor Plan Summary for East Village

East Village				
Plan Number	Living Area SF (Base)	Bedroom/ Bathroom	Number of Stories	Garage Spaces
1	1,380	3/2	1	2
2	1,435	3/2	1	2
3	1,613	3/2	1	2
4	1,640	4/2	1	2
5	1,788	4/2	1	2
6	1,848	4/3	2	2
7	2,202	4/3	2	3

All plans emphasize kitchens, bathrooms, energy efficiency using additional insulation, efficient dual pane window systems, high efficiency furnaces and air conditioning units. Table 24offers a description of the construction features associated with the retail homes. Figures 16 thru 24 present each of the seven proposed floor plans and area illustrate beginning on pages 44 thru 52:

Figure 17 East Village Floor Plan 1

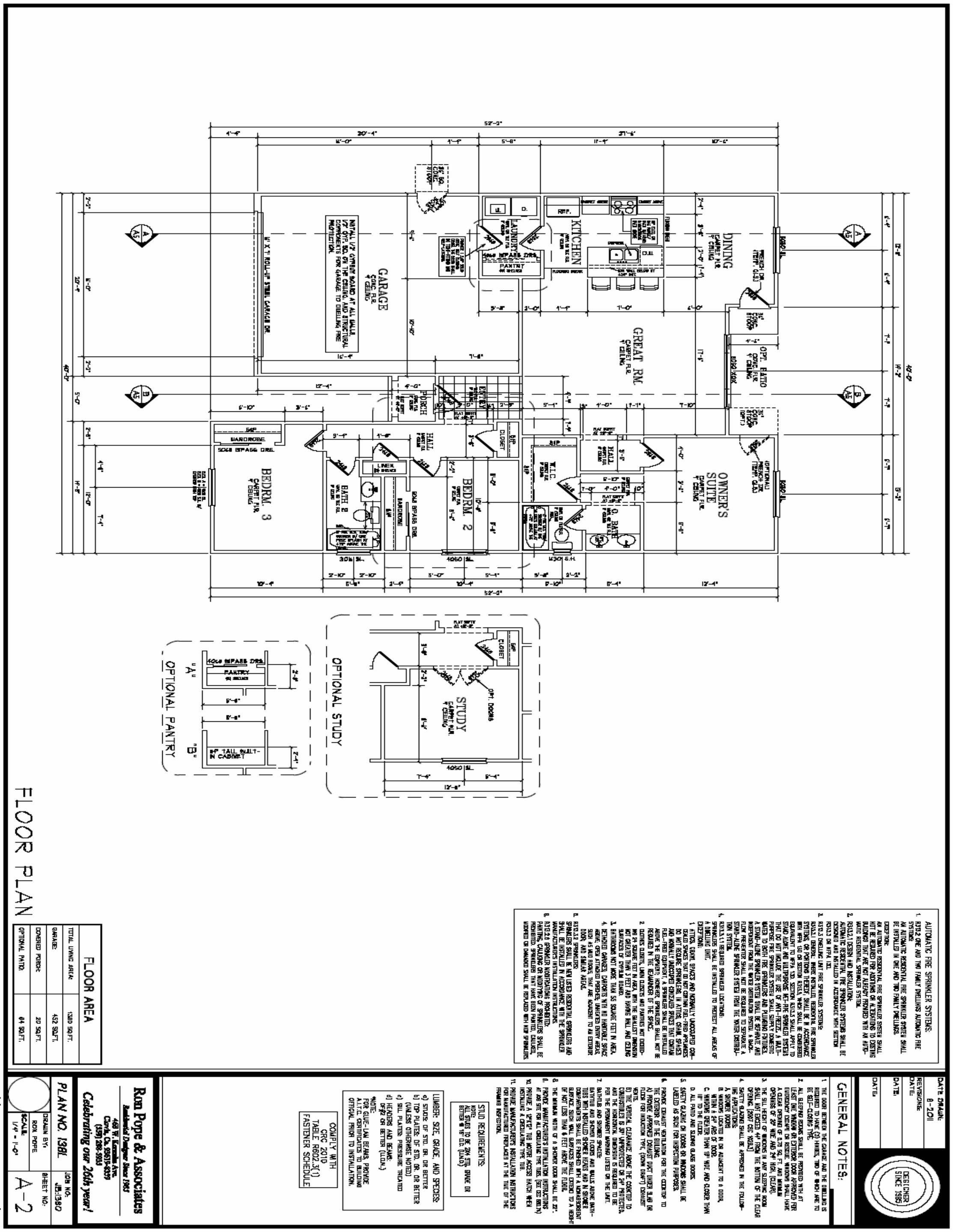


Figure 18 East Village Floor Plan 2

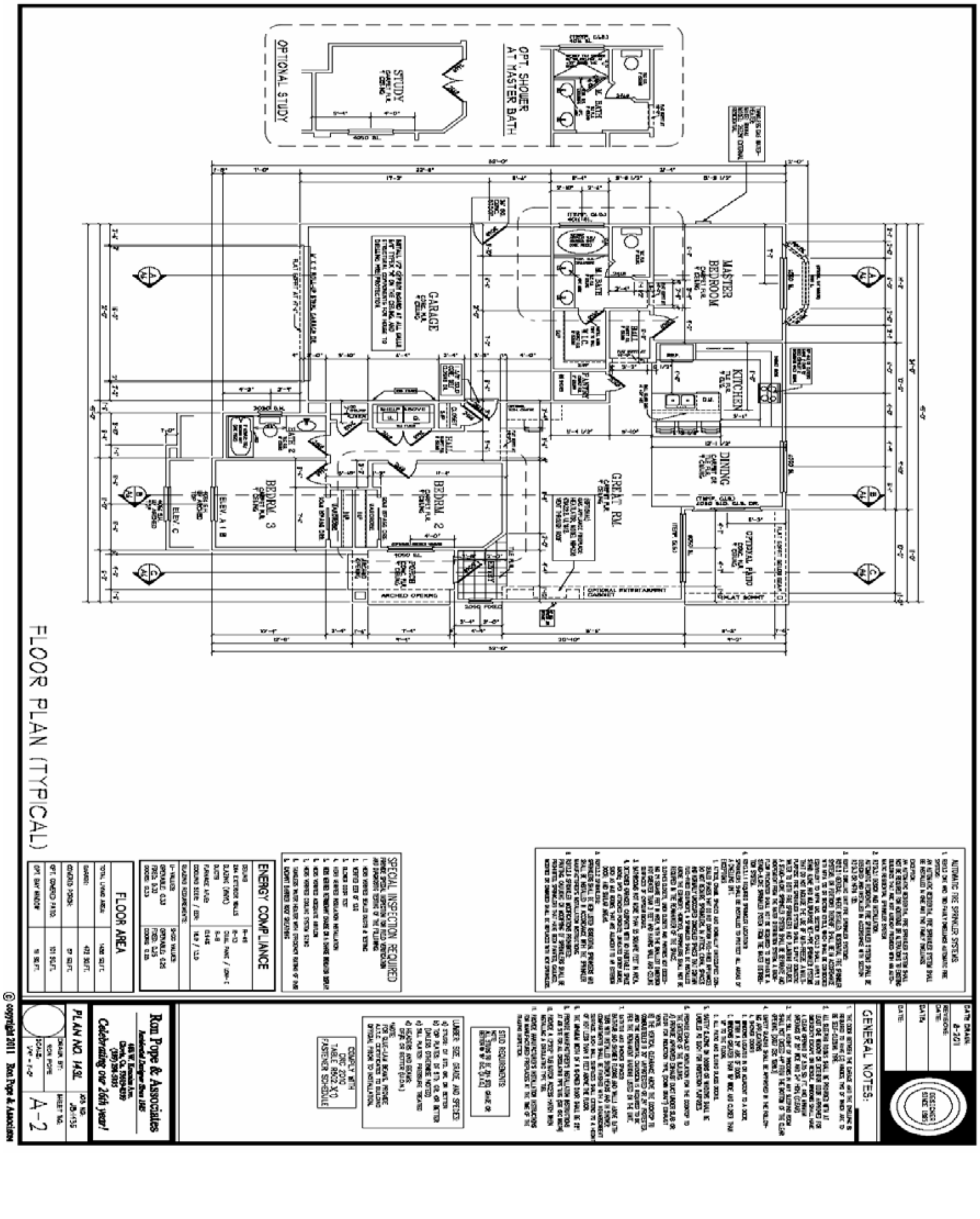


Figure 19 East Village Floor Plan 3

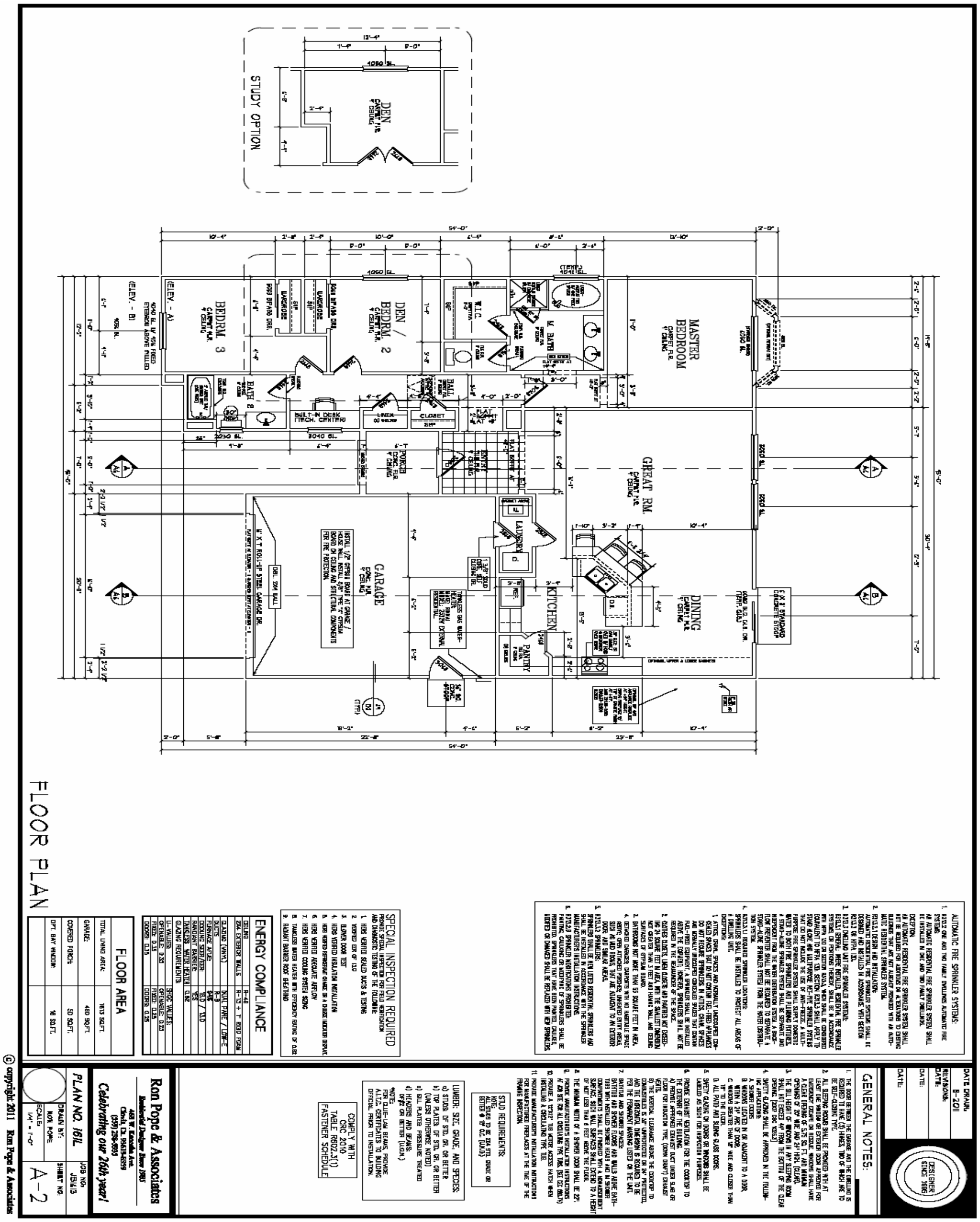


Figure 20 East Village Floor Plan 4

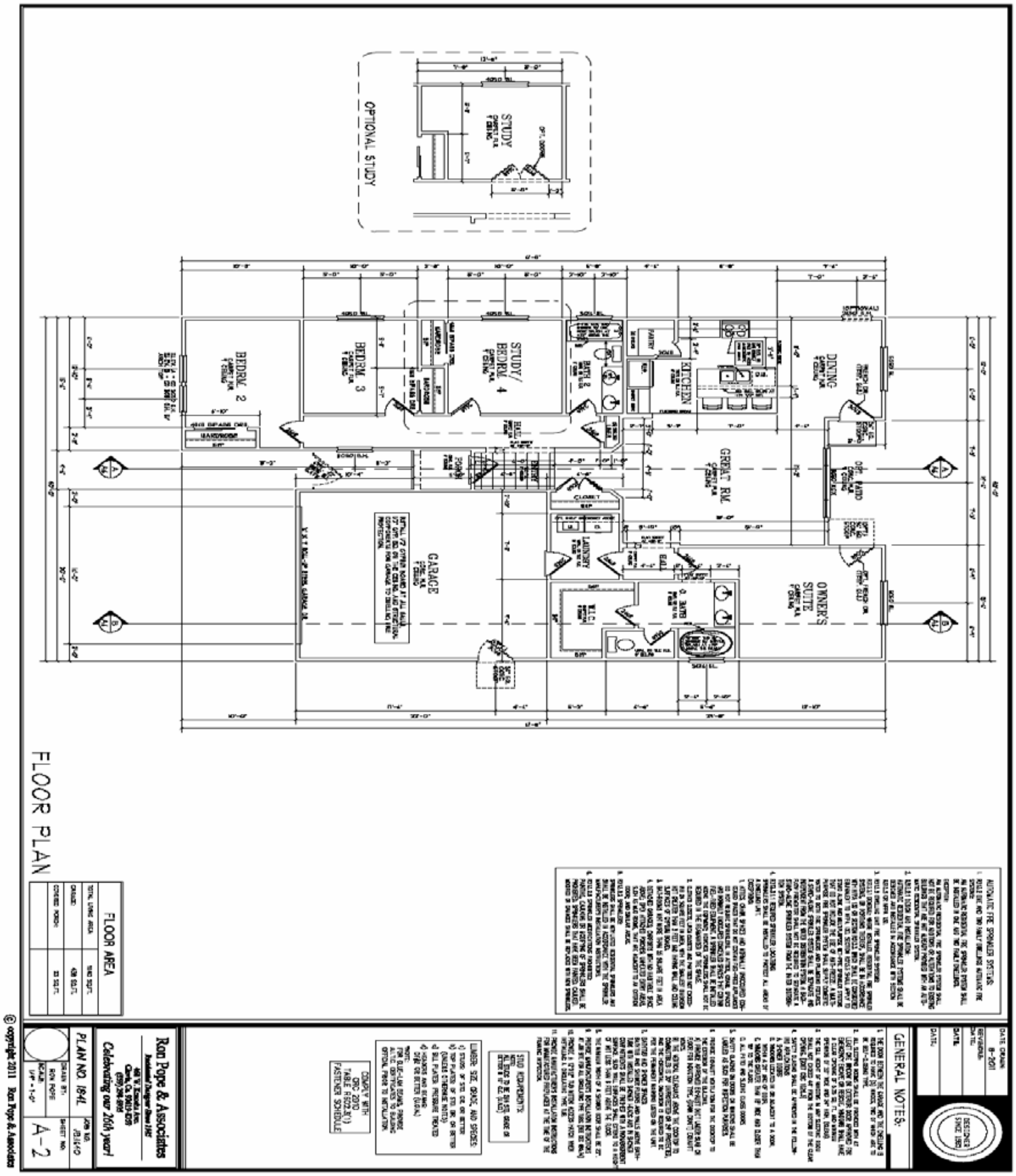


Figure 21 East Village Floor Plan 5

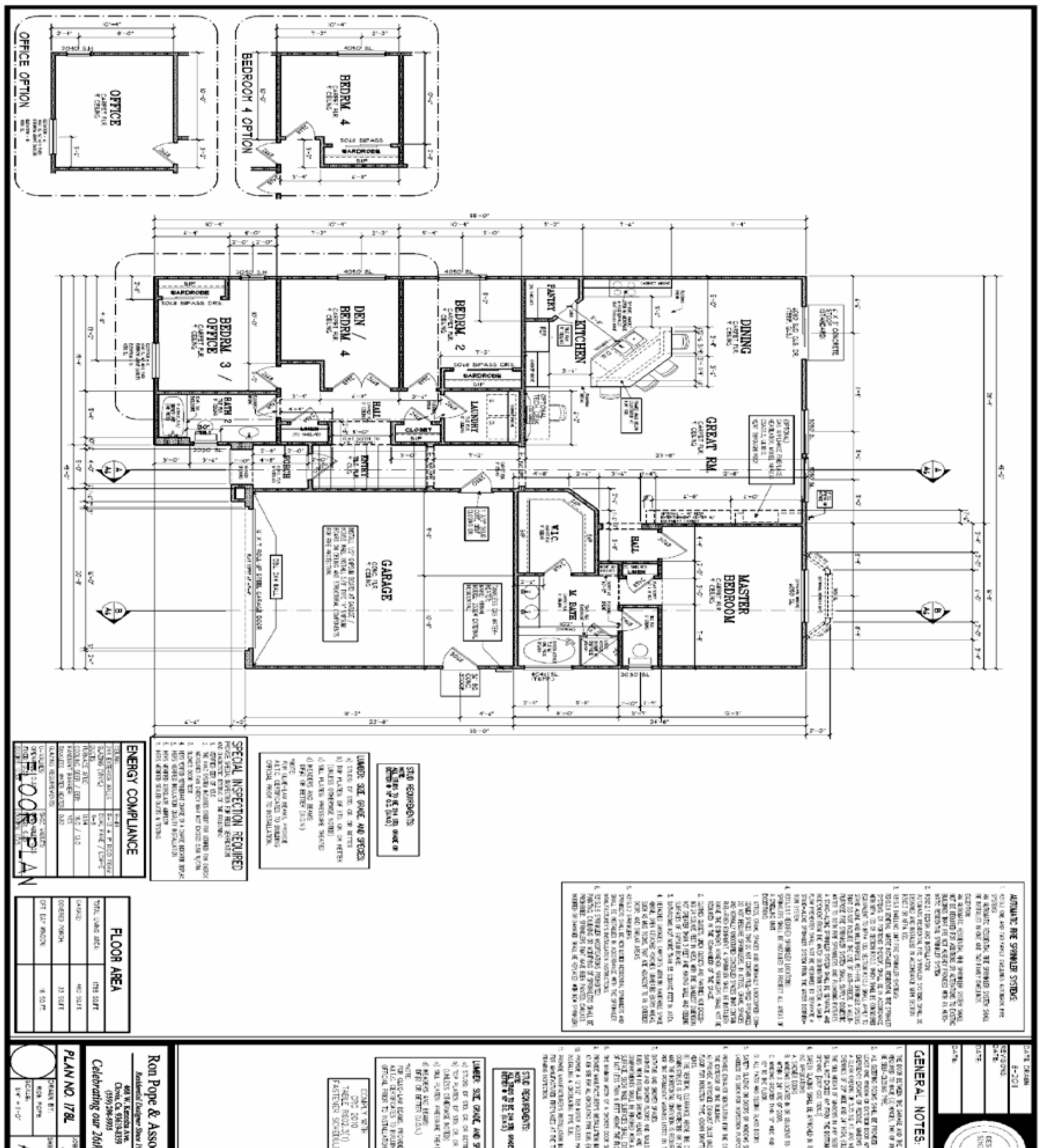


Figure 22 1st Floor of East Village Floor Plan 6

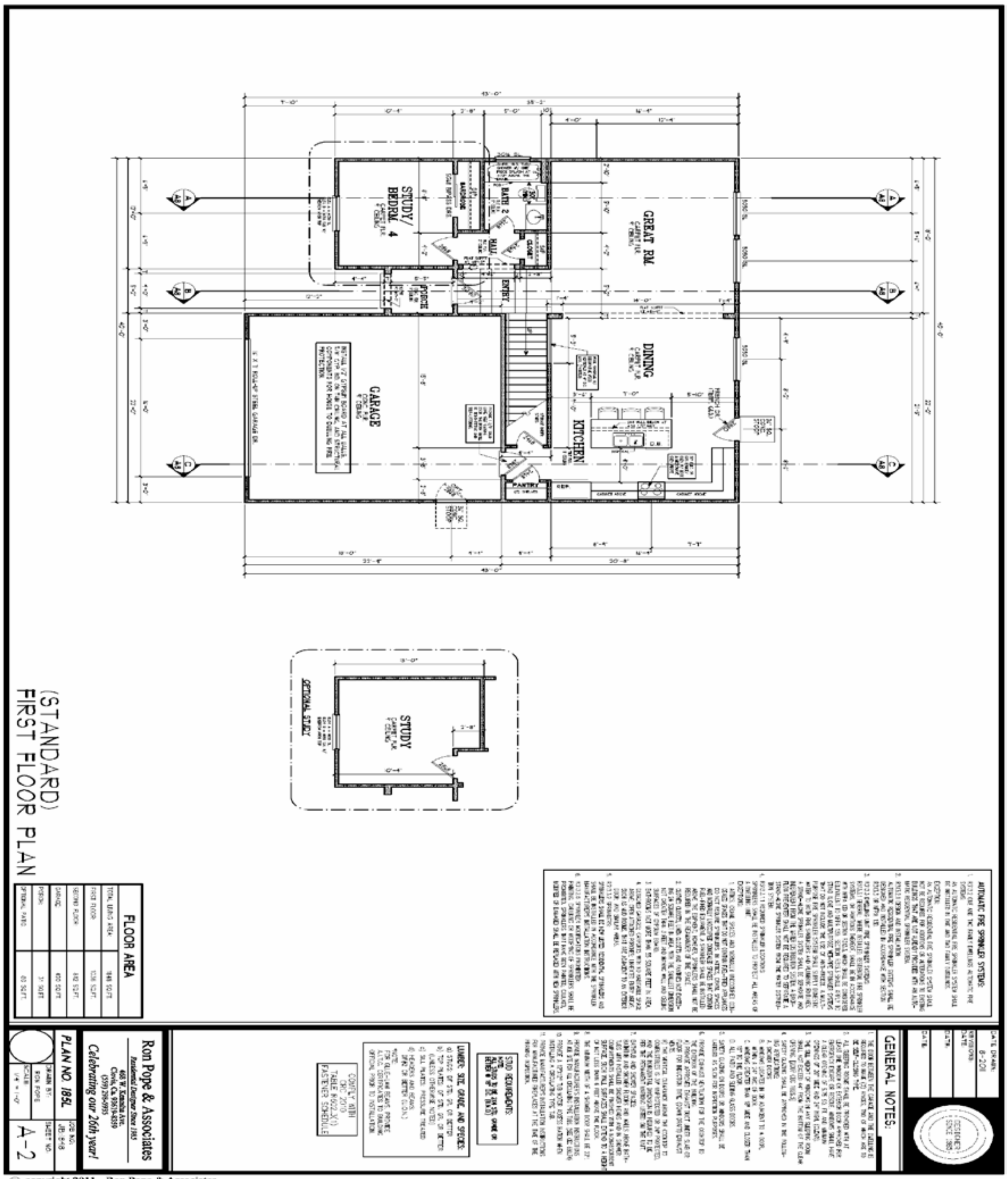


Figure 23 2nd Floor East Village Floor Plan 6

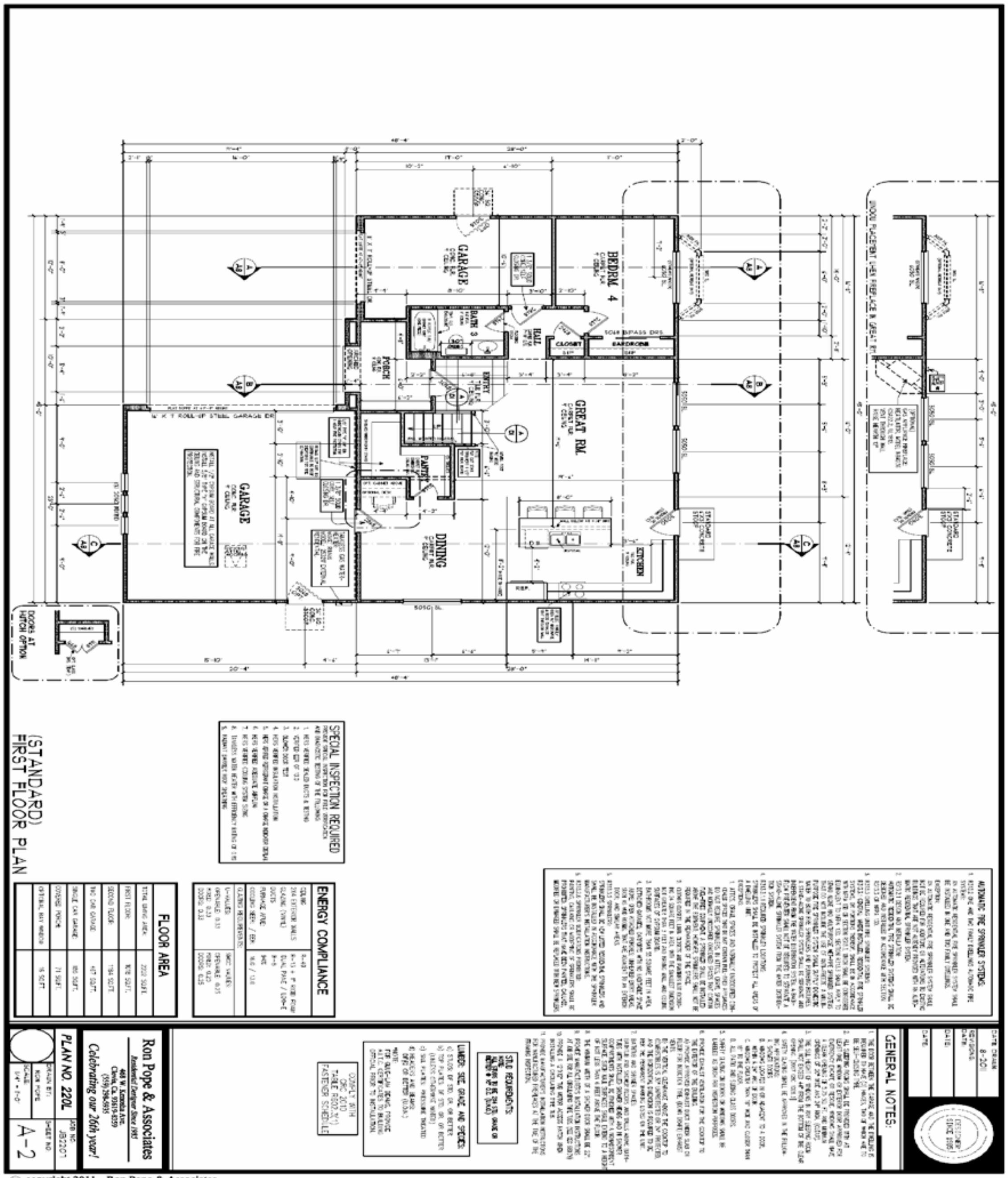


Figure 24 1st Floor East Village Floor Plan 7

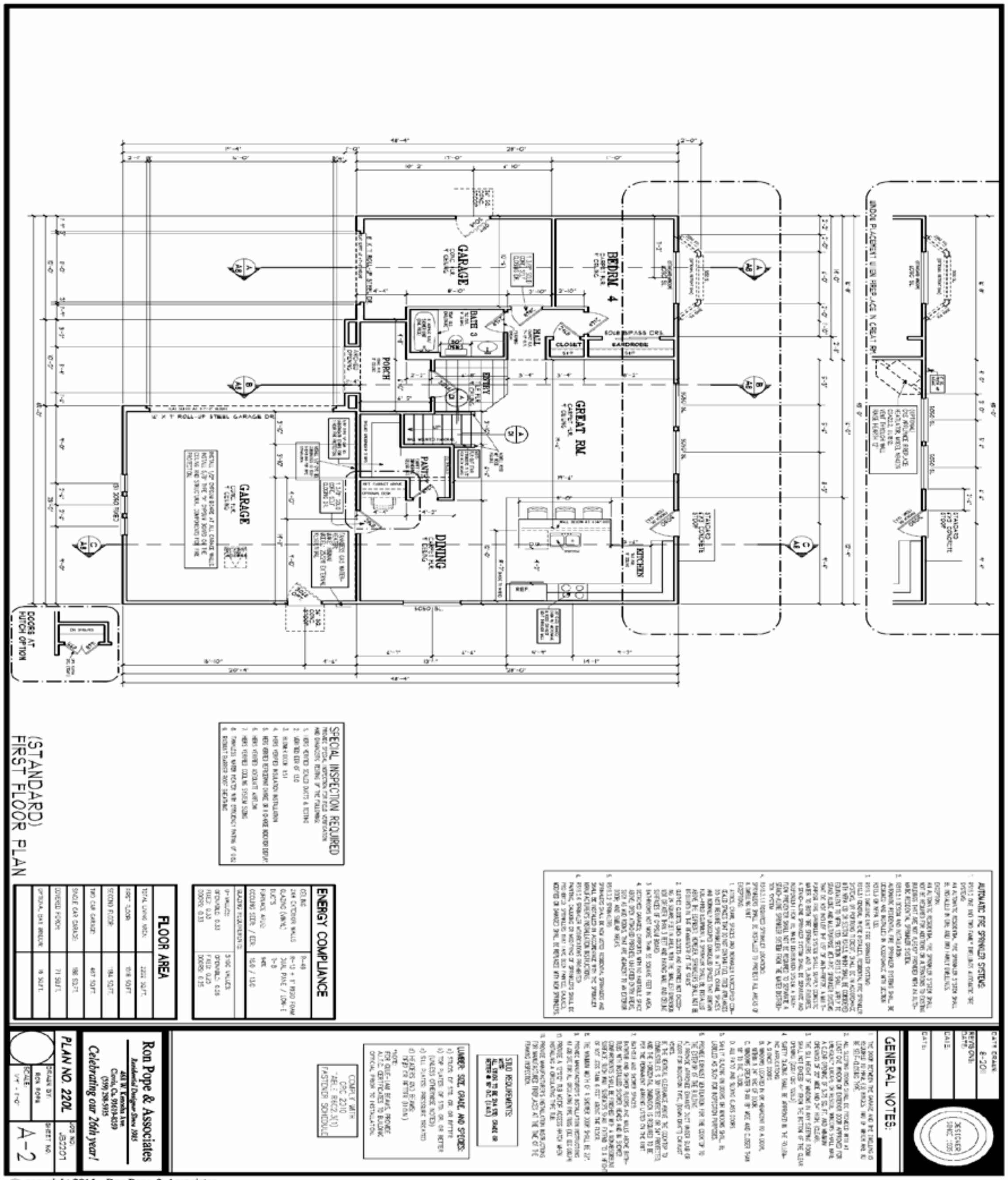


Figure 25 2nd Floor East Village Floor Plan 7

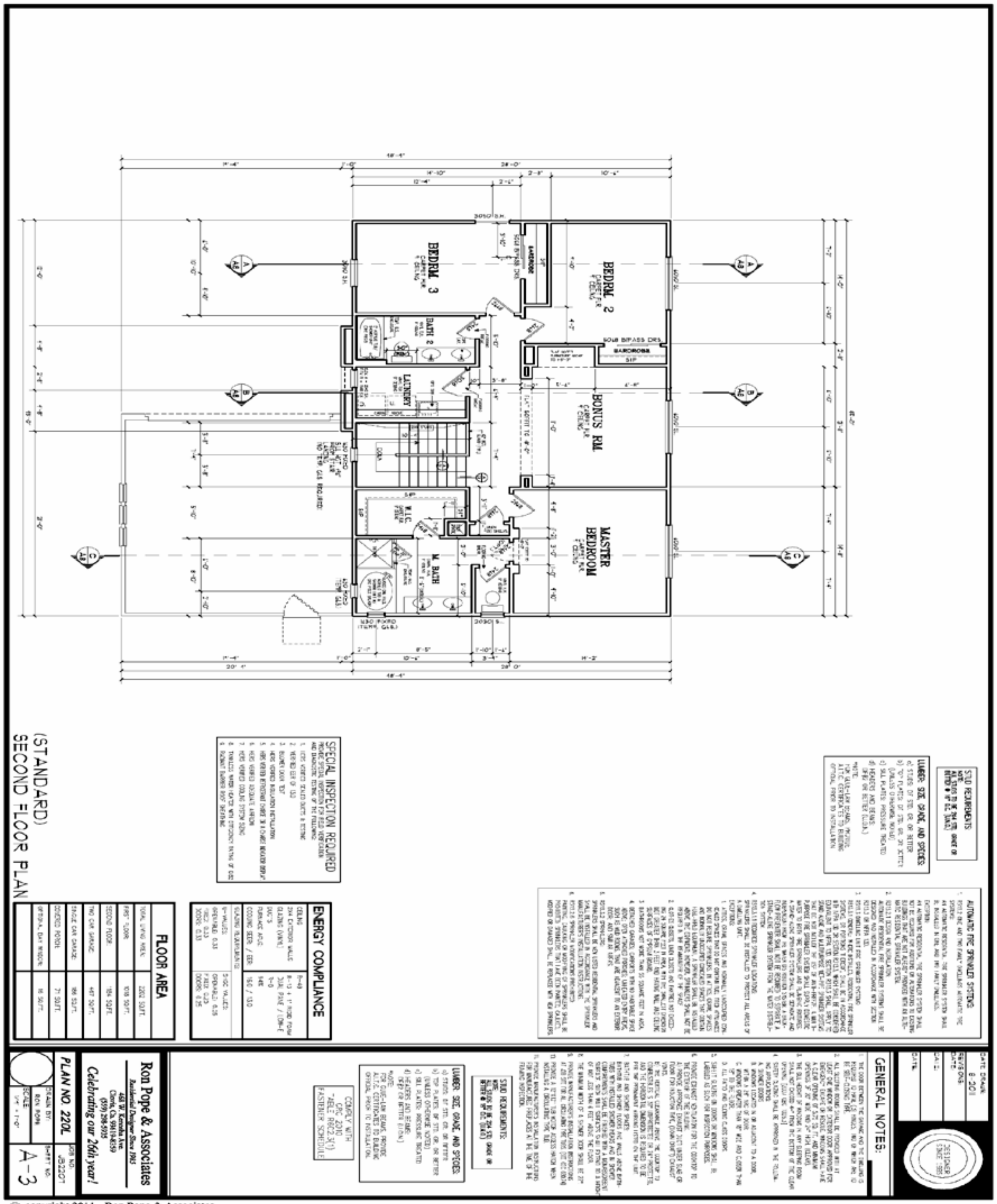


Table 24 Construction Features and Specifications

Style	California Contemporary
Stories	One and two
Quality, Design, and Appeal	Average, commensurate with competing developments.
Floors and Foundations	Concrete slab, footings, and driveways.
Structural Framing	Wood frame exterior and interior walls. The floor plates are 9’ 1”.
Exterior/Interior Walls	Stucco exterior. Interior walls are gypsum wallboard, taped, textured and painted.
Roofs	The roofing structure is factory roof truss system with plywood sheathing and composition shingle covering.
Windows	Windows are energy efficient, dual-pane in vinyl frames
Doors	Exterior doors are to be solid core, raised panel doors. The front door is a 7’ raised panel fiberglass door. Interior doors are assumed hollow core. Hardware is good.
Plumbing	Average plumbing to good fixtures. It is assumed that each unit offers tankless water heater with on-demand hot water.
Electrical	Service to each home will be 200-amps: 110/220 volt. Light fixtures are of average to good quality.
HVAC	Central heat and air system.
Kitchens	Finished wood cabinetry, pantry, double sink with faucet, and granite or tile throughout.Good appliances: microwave/oven combo, gas cook top with hood, oven, kitchen island, dishwasher, and garbage disposal.
Baths	Single or dual sinks with ceramic tile or granite countertops. Combination tub/shower inserts in typical bathroom. Separate shower and oversized tub in the master bathroom.
Laundry Room	Inside the living areas.
Floor Coverings	Finish flooring typically include tile in the kitchen, foyer, bathrooms, and laundry room, and wall-to-wall carpeting elsewhere.
Insulation	Insulation is a combination of foam wrapped around all exterior walls in insulation on the interior walls.
Optional Features	Many options and upgrades will be offered. As a result, many different configurations will be available with all above information dependent upon selected options.

Pricing

A multivariate regression analysis is typically employed to forecast new home sales prices for proposed subdivisions. This approach is meaningful when adequate market data are available, but is less meaningful when little data exists due to reductions in the degrees of freedom. In light of the aforementioned limitations, I have elected to prepare an adjustment analysis of comparable properties, which is described in further detail later in this section. This approach involves the comparing, on a model-by-model basis, the proposed homes with homes that are for sale or have been sold in competing subdivisions in the market area.

I conducted primary market research and gathered data from four independent investigations of single-family sales activity in the Cities of Lemoore and Hanford to determine pricing opportunities and general product recommendations for the subject site. Additionally, I inspected the models of competing subdivisions and have summarized the floor plan characteristics of each subdivision in Table 25 below. Tables 26 thru 29offer more detailed information associated with each subdivision I inspected.

Table 25 Subdivision Survey Results

Subdivision Survey											
No.	Project Name/Builder	Plan No.	Base Sale Price	Price/SF	Incentives	Net Price	Net Price/SF	Living Area (SF)	BR/BA	No. of Stories	Garage Spaces
1	**Meridian**	1	$179,990	$132.64	$7,500	$172,490	$127.11	1,357	3/2	1	2
	Fargo Avenue & North Fitzgerald Lane	2	$199,990	$131.83	$7,500	$192,490	$126.89	1,517	3/2	1	2
	Hanford	3	$212,990	$117.74	$7,500	$205,490	$113.59	1,809	3/2	1	2
	McMillin Homes	4	$227,990	$113.54	$7,500	$220,490	$109.81	2,008	3/2.5	2	3
		5	$249,990	$101.83	$7,500	$242,490	$98.77	2,455	4/2.5	2	3
		6	$197,990	$126.51	$7,500	$190,490	$121.72	1,565	4/2	1	2
		7	$209,990	$118.17	$7,500	$202,490	$113.95	1,777	4/2	1	2
2	**Independence - The Traditions**	1	$251,000	$149.05	$7,530	$243,470	$144.58	1,684	3/2	1	2
	12th & Grangeville Road	2	$271,000	$144.38	$8,130	$262,870	$140.05	1,877	4/2	1	3
	Hanford, CA	3	$276,000	$138.00	$8,280	$267,720	$133.86	2,000	4/2	1	2
	Lennar										
3	**Legacy - The Classics**	1	$225,000	$132.82	$6,000	$219,000	$129.28	1,694	3/2	1	2
	SWQ Bush Street and 19th Street	2	$240,000	$125.98	$6,000	$234,000	$122.83	1,905	4/3	1	2
	Lemoore	3	$250,000	$125.00	$8,000	$242,000	$121.00	2,000	4/2	1	2
	Lennar	4	$273,000	$122.81	$8,000	$265,000	$119.21	2,223	4/3	1	2
4	**Divante Villas**	1	$212,000	$113.07	$0	$212,000	$113.07	1,875	3/2	1	2
	SWQ of Cornelia and Shields	2	$248,000	$116.38	$0	$248,000	$116.38	2,131	3/2	1	3
	Lemoore	3	$285,000	$111.50	$0	$285,000	$111.50	2,556	4/3	1	3
	Silver Oaks Land Co.										

Table 26 Meridian Subdivision Data

Subdivision Data 1

Site Details

Project Name	Meridian
Address	Fargo Avenue & North Fitzgerald Lane
City	Hanford
Merchant Builder	McMillin Homes
Target Product	Entry level/move up
Typical Lot Size (SF)	6,800
Location	Average
Topography	Level
Layout	Average

Project Sale Details		Fee Premium Details		Sale Condition Details	
Date Opened for Sale	Jun-07	Lot Premiums	None	Cash Equivalent	Yes
Number of Sales	44	Incentives	$7,500	Terms	Incentives
Reported Monthly Sale Rate	3-4 monthly	HOA Fee	$0.00	Sale Conditions	At Market
		Assess Dist Fees	$217.00	Property Rights	Fee Simple

Plan Name	Base Sale Price	Price per SF	Incentives	Net Price	Net Price/SF	Living Area (SF)	BDs/ Baths	No of Stories	Garage Spaces
1	$179,990	$132.64	$7,500	$172,490	$127.11	1,357	3/2	1	2
2	$199,990	$131.83	$7,500	$192,490	$126.89	1,517	3/2	1	2
3	$212,990	$117.74	$7,500	$205,490	$113.59	1,809	3/2	1	2
4	$227,990	$113.54	$7,500	$220,490	$109.81	2,008	3/2.5	2	3
5	$249,990	$101.83	$7,500	$242,490	$98.77	2,455	4/2.5	2	3
6	$197,990	$126.51	$7,500	$190,490	$121.72	1,565	4/2	1	2
7	$209,990	$118.17	$7,500	$202,490	$113.95	1,777	4/2	1	2

Comments

Per discussions with a property representative, the homes in this subdivision have been selling at a rate of 3-4 homes per month since the turn of the 2011 year. Incentives reported averaged $7,500. Activity was reported to be slower this year than last year; however, over the past couple months, sales have been fairly consistent.

Table 27 Independence – The Traditions Subdivision Data

Subdivision Data 2

Site Details	
Project Name	Independence - The Traditions
Address	12th & Grangeville Road
City	Hanford, CA
Merchant Builder	Lennar
Target Product	Move-up
Typical Lot Size (SF)	6,500
Location	Average
Topography	Level
Layout	Average

Project Sale Details		Fee Premium Details		Sale Condition Details	
Date Opened for Sale	Apr-10	Lot Premiums	None	Cash Equivalent	Yes
Number of Sales	37	Incentives	3% of Sale Price	Terms	Incentives
Reported Monthly Sale Rate	3/month	HOA Fee	$0.00	Sale Conditions	At Market
		Assess Dist Fees	$256.00	Property Rights	Fee Simple

Plan Name	Base Sale Price	Price per SF	Incentives	Net Price	Net Price/SF	Living Area (SF)	BDs/ Baths	No of Stories	Garage Spaces
1	$251,000	$149.05	$7,530	$243,470	$144.58	1,684	3/2	1	2
2	$271,000	$144.38	$8,130	$262,870	$140.05	1,877	4/2	1	3
3	$276,000	$138.00	$8,280	$267,720	$133.86	2,000	4/2	1	2

Comments

Sale activity has reportedly dropped recently when compared to 4-5 months earlier in the year. A property representative explained that average closed sales volume is 3 homes per month.

Table 28 The Legacy Classics Subdivision Data

Subdivision Data 3

Site Details	
Project Name	Legacy - The Classics
Address	SWQ Bush Street and 19th Street
City	Lemoore
Merchant Builder	Lennar
Target Product	Entry level/move up
Typical Lot Size (SF)	6,000
Location	Average
Topography	Level
Layout	Average

Project Sale Details		Fee Premium Details		Sale Condition Details	
Date Opened for Sale	Jun-11	Lot Premiums	Yes	Cash Equivalent	Yes
Number of Sales	3	Incentives	\$6,000 - \$8,000	Terms	Incentives
Reported Monthly Sale Rate	5/month	HOA Fee	\$0.00	Sale Conditions	At Market
		Assess Dist Fees	\$715.00	Property Rights	Fee Simple

Plan Name	Base Sale Price	Price per SF	Incentives	Net Price	Net Price/SF	Living Area (SF)	BDs/ Baths	No of Stories	Garage Spaces
1	\$225,000	\$132.82	\$6,000	\$219,000	\$129.28	1,694	3/2	1	2
2	\$240,000	\$125.98	\$6,000	\$234,000	\$122.83	1,905	4/3	1	2
3	\$250,000	\$125.00	\$8,000	\$242,000	\$121.00	2,000	4/2	1	2
4	\$273,000	\$122.81	\$8,000	\$265,000	\$119.21	2,223	4/3	1	2

Comments

This subdivision opened in June of this year and has sold eight homes with three closing as of the date of inspection. Incentives include closing costs ranging from \$6,000 - \$8,000. Premium lots achieve an additional \$6,500 above base price.

Table 29 Divante Villas Subdivision Data

Subdivision Data 4

Site Details

Project Name	Divante Villas
Address	SWQ of Cornelia and Shields
City	Lemoore
Merchant Builder	Silver Oaks Land Co.
Target Product	Entry Level/Move up
Typical Lot Size (SF)	8,000
Location	Average
Topography	Level
Layout	Average

Project Sale Details		Fee Premium Details		Sale Condition Details	
Date Opened for Sale	Jun-05	Lot Premiums	N/Av.	Cash Equivalent	Yes
Number of Sales	51	Incentives	None	Terms	Incentives
Reported Monthly Sale Rate	0.50	HOA Fee	$0.00	Sale Conditions	At Market
		Assess Dist Fees	$0.00	Property Rights	Fee Simple

Plan Name	Base Sale Price	Price per SF	Incentives	Net Price	Net Price/SF	Living Area (SF)	BDs/ Baths	No of Stories	Garage Spaces
1	$212,000	$113.07	$0	$212,000	$113.07	1,875	3/2	1	2
2	$248,000	$116.38	$0	$248,000	$116.38	2,131	3/2	1	3
3	$285,000	$111.50	$0	$285,000	$111.50	2,556	4/3	1	3

Comments

Per conversations with a property representative, 5 homes have sold this year and 7 homes sold last year. The subdivision offeres several more floor plans and are being sold via offers from prospective buyers. Base pricing was not available. No incentives were reported. The property representative explained that the subdivision achieves sale prices from $200,000 to $320,000.

The salient characteristics of these four subdivisions are illustrated in the Table 30 below.

Table 30 Salient Subdivision Characteristics

Project	City	Builder	Price Range	Monthly Sales Rate
Legacy - The Classics	Lemoore	Lennar	$219,000 - $265,000	> 5
Divante Villas	Lemoore	Silver Oak	$212,000 - $285,000	0.5
Independence - The Traditions	Hanford	Lennar	$243,470 - $267,720	3
Meridian	Hanford	McMillin	$172,490 - $242,490	3-4

Three of the four projects within the subject's competitive market area are achieving acceptable sales performance. The Legacy Classics subdivision is achieving greater sales performance relative to the Divante Villas, which is also located in Lemoore. Per information provided by a market participant, Divante Villas is nearly sold-out and all that remains are several models and four or five retail homes. Conversations with the subdivision representative at Divante Villas explained that this subdivision suffered as the builder was undercapitalized and its lender subsequently took over operations, which could be the reason for the disparity in absorption when compared to The Legacy Classics subdivision. Upon inspection of Divante Villas, it was apparent that the marketing efforts were vastly inferior compared to other subdivisions surveyed.

The typical lot size of the four projects ranked by sales performance (fastest selling to slowest selling) is as follows:

1. 6,000 square feet
2. 6,500 square feet

3. 6,800 square feet
4. 8,000 square feet

The data indicates that sales performance is inversely related to lot size and is presumably a function of positioning the project to achieve lower base prices. The average lot size associated within the subject is 5,566 square feet, which should bode well for lower base prices.

The Legacy Classics subdivision will be the subject's greatest competition given its close proximity. It is currently selling five homes per month and is experiencing relatively healthy market activity. Considering that the subject offers lots smaller than that of the Legacy Classics, and that the market appears to be particularly sensitive to price, the proposed homes should be of similar quality to the Classics, but be priced slightly lower until the competing subdivision sells out. The Legacy Classics will be sold out by March 2011 given current absorption rates.

In the next section, I arrange the characteristics of each comparable subdivision floor plan against the proposed plans of the subject site and make adjustments for their differences. This will help estimate the value of each proposed floor plan.

Description of Adjustments

The adjustment analysis of comparable properties to the subject is not an exact science. Adjustments can be based on market-derived information (matched pairs) and/or on a "best fit" analysis. The "best fit" technique involves making adjustments that are qualified, but consistent across all sales, and which in the end tend to support each other. The results of the analysis of each comparable sale are not necessarily absolute; therefore, I will consider the strengths and weaknesses of the individual sale analysis in a reconciliation process by giving more or less weight to one or more specific properties.

In the analysis of the individual comparable sales, property characteristics identified that could have an impact on value is considered. The most significant property characteristics are as follows:

Property Rights Transferred	Home Size
Financing	Bedrooms/Bathrooms
Conditions of Sale	Garage Spaces
Market Conditions	Construction Quality
Location	Design/Appeal
Lot Size	Community Amenities

The following is an explanation of the more pertinent adjustments utilized.

Property Rights Transferred

The homes will be transferred with a fee simple interest, also known as fee simple absolute, which is a freehold estate that represents the most complete form of ownership of real estate. A holder of a fee simple estate is free to divide the fee into lesser states and sell, lease, or borrow against them as he or she wishes, subject to the laws of the state in which the property is located. All of the comparable sales have the same property rights; therefore, no adjustments are applied.

Financing

The comparable data vary with regard to incentives offered. All comparable sales were analyzed based on their net selling price. The net selling price is determined by deducting any incentives provided from the base price.

In addition, projects in Lemoore benefit from the availability of USDA financing, which may have an influence on the sale prices of homes. However, the value contribution was unquantifiable given the limited availability of data. Discussions with market participants indicated that USDA financing does have a positive influence on prices achieved and absorption rates of new home product. I have given qualitative consideration to the availability of USDA financing in the overall reconciliation of my pricing recommendations.

Market Conditions

The prices quoted reflect prices as of August 2011. This study analyzes the value of the homes as of the date of inspection, which is August 12, 2011. Changes in market conditions were not apparent at this time and, therefore, adjustmentsare not merited in this regard.

Location

Visibility, accessibility, surrounding uses and economic characteristics of the immediate area as well as demographics and proximity to commercial services are considered. Analysis of the price points being achieved within the subdivisions as well as discussions with market participants revealed that premiums are paid for location in some instances. Based upon information provided by representatives of the subdivisions surveyed, appropriate adjustments were applied for observed differences in location. Specifically, the City of Hanford was reported to be a superior location when compared to the City of Lemoore. Realtors active in both Hanford and Lemoore suggested price differential of approximately 10-20 percent in favor of Hanford. As such, I have applied 15 percent location adjustment.

Lot Size

All else being equal, market participants will typically pay a premium for a larger lot given additional yard area available, albeit at a decreasing rate as the lot size increases. The average lot size of the subject is 5,566 square feet. The comparable data reflects lots sizes ranging from 6,000 square feet to 8,000 square feet. Considering the relatively narrow range of lots sizes, I have assumed a linear relationship exists between the amount a buyer is willing to pay for additional lot square footage and the size of the lots. Adjustments are applied based on $3 per square foot difference in average lot size, which was supported by subdivision representatives actively selling homes in Lemoore and Hanford.

Home Size

The proposed floor plans range in size from 1,380 square feet to 2,202 square feet. The construction cost estimates provided by a perspective buyer of the subject indicated the average cost to build the proposed floor plans is $52 per square foot of living space. For further support, I researched comparable costs of subdivisions throughout the Mid-Central Valley area as illustrated in Table 31 below. The costs indicated a range from approximately $50 per square foot to over $70 per square foot.

Table 31 Direct Cost Comparables of Subdivision Homes throughout the Mid Central Valley

Direct Cost Comparables							
Plan #	SF	Direct Cost	Direct Cost per SF	Plan #	SF	Direct Cost	Direct Cost per SF
Capri Court at Harlan Ranch				Tuscan Bluffs @ Copper River Ranch			
1	1,300	$ 88,089	$67.76	1	1,405	$ 90,571	$64.46
2	1,514	$ 97,268	$64.25	2	1,630	$ 101,601	$62.33
3	1,372	$ 88,866	$64.77	3	1,802	$ 109,596	$60.82
4	1,433	$ 95,231	$66.46	4	1,819	$ 109,707	$60.31
5	1,703	$ 106,474	$62.52	5	2,029	$ 117,317	$57.82
6	1,687	$ 99,340	$58.89	6	2,834	$ 163,167	$57.57
7	1,928	$ 110,550	$57.34	7	3,274	$ 178,750	$54.60
Canterbury at Harlan Ranch				Ivy Gate at Harlan Ranch			
1	1,778	$ 111,180	$62.53	1	1,613	$ 81,452	$50.50
2	2,054	$ 124,716	$60.72	2	1,788	$ 86,395	$48.32
3	2,275	$ 138,637	$60.94	3	2,202	$ 105,144	$47.75
Kingston at Harlan Ranch				Terra Bella			
1	1,270	$ 80,281	$63.21	1	1,578	$ 121,521	$77.01
2	1,441	$ 87,638	$60.82	2	1,852	$ 150,888	$81.47
3x	1,441	$ 91,347	$63.39	3	2,029	$ 160,662	$79.18
4	1,615	$ 95,184	$58.94	Regent Park			
Camden Place				1	1,580	$ 83,900	$53.10
1	1,529	$ 109,134	$71.38	2	1,761	$ 89,195	$50.65
2	1,742	$ 117,746	$67.59	3	2,139	$ 108,154	$50.56
3	2,054	$ 133,359	$64.93	4	1,369	$ 77,682	$56.74
4	2,275	$ 144,269	$63.41	5	2,599	$ 119,392	$45.94
Foxton Chase				Elev8tions			
1	2,065	$ 120,429	$58.32	1	1,203	$ 76,730	$63.78
2	2,273	$ 132,045	$58.09	2	1,252	$ 80,908	$64.62
3	2,570	$ 142,722	$55.53	3	1,413	$ 86,084	$60.92
4	2,732	$ 154,891	$56.70	4	1,578	$ 90,897	$57.60
Viscaya in Dinuba, CA				Bella Vista @ Brighton			
1	1,108	$ 56,137	$50.66	1	1,109	$ 63,915	$57.63
2	1,320	$ 68,712	$52.05	2	1,435	$ 78,261	$54.54
3	1,375	$ 72,998	$53.09	3	1,703	$ 91,992	$54.02
4	1,562	$ 80,896	$51.79	4	1,746	$ 94,347	$54.04
5	1,790	$ 87,399	$48.83	5	1,857	$ 97,737	$52.63
6	1,848	$ 88,393	$47.83	6	2,000	$ 113,603	$56.80
7	2,000	$ 93,533	$46.77	7	2,241	$ 120,675	$53.85
8	2,207	$ 109,910	$49.80	8	2,337	$ 121,021	$51.78
Green Park @ Sunnyside				9	2,760	$ 136,312	$49.39
1	1,404	$ 91,363	$65.07	10	3,537	$ 169,190	$47.83
2	1,630	$ 100,390	$61.59				
3	1,802	$ 107,853	$59.85				
4	2,029	$ 119,004	$58.65				
5	2,413	$ 138,508	$57.40				

I compared the price differentials of floor plans of the comparable sales that were of similar quality to that of the subject and found that additional square footage costs from $50 to $60 per square foot. This method is referred to as paired-sales analysis.

Based on the paired sales analysis as well as the cost comparable data, an adjustment factor of $55 per square foot was applied for observed differences greater than 50 square feet between the subject's floor plans and that reflected in the comparable data.

Bedroom/Bathrooms

Based on price differentials between floor plans offered by the comparable subdivision sales, and per discussions with subdivision representatives, the comparable sales are adjusted $5,000 for a full bathroom. This figure is approximate and may not reflect actual costs. Adjustments are not made for differences in bedroom count as this is accounted for in the square footage adjustments.

Garage Spaces

The project offers two- and three-car garages. Based on price differentials between floor plans, the comparable data are adjusted $5,000 for each additional garage space. Again, this is an approximate figure and may not reflect actual costs or value recognized by the market.

Construction Quality

The proposed homes have an average to good construction quality and are equipped with good finishes and fixtures. Based upon the floor plans and elevations retrieved through the City of Lemoore's planning commission, several of the comparable subdivision sales are of inferior quality and offer relatively inferior construction amenities. Data supporting these adjustments were not available in the immediate area; however, sales from subdivisions within the City of Dinuba, located approximately 35 miles northeast of the subject, indicated similar differences in construction quality. The disparity in base prices achieved generally ranged between $7,500 to over $15,000. Considering this, I have adjusted the comparable subdivision sales by $10,000 for observed differences in construction quality.

Design and Appeal

Similar to construction quality, the choice in design and appeal is typically reflected in the sales price. The subject will offer a similar design and appeal to that of the homes offered at the Legacy Classics subdivision. I compared the Legacy Classics subdivision with Independence –The Traditions subdivision as the floor plans offered by the Independence- The Traditions subdivision were more aesthetically pleasing and overall more functional with regard to design. An appropriate adjustment of $12,000 was applied to Independence – The Traditions. Moreover, this adjustment was further supported by my conversation with an MAI (Member of the Appraisal Institute) designated appraiser familiar with both subdivisions. The MAI designation is the most highly regarded designation in the appraisal industry and is achieved through successfully completing rigorous real estate valuation courses and passing a two-day comprehensive examination with emphasis in real estate valuation matters. In addition, an MAI candidate must complete a compressive demonstration appraisal report that scientifically proves a particular property's market value by using the income, cost, and sales comparison approaches to real estate valuation.

Community Amenities

The subject will offer a park as a community amenity equipped with bar-b-ques and playground equipment. The comparable subdivisions also offer these amenities. No other amenities were observed within the comparable subdivisions; therefore, adjustments are not merited in this regard.

Model-by-Model Comparison

A model-by-model comparison is used to arrive at the market value of the base units of each floor plan. Tables 32 thru 38 that follow present adjustment grids for the seven base units followed by a discussion of the concluded values for each floor plan.

Table 32 Floor Plan 1 Adjustment Analysis

Plan 1							
	Subject	Sale 1		Sale 2		Sale 3	
Project Name	Tract 791	Meridian		Independence - The		Legacy - The Classics	
City	Lemoore	Hanford		Hanford, CA		Lemoore	
Merchant Builder	Wathen Castanos	McMillin Homes		Lennar		Lennar	
Base Sales Price	~	$172,490		$243,470		$219,000	
Price per SF	~	$127.11		$144.58		$129.28	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$172,490		$243,470		$219,000
Adjust. Price/SqFt	~		$127.11		$144.58		$129.28
Living Area (SF)	1,380	1,357	$1,265	1,684	-$16,720	1,694	-$17,270
Bed/Bath	3/2	3/2		3/2		3/2	
No of Stories	1	1		1		1	
Garage Spaces	2	2		2		2	
Construction Quality	Average	Inferior	$10,000	Similar		Similar	
Design/Appeal	Good	Good		Superior	-$12,000	Good	
Year Built	~	2011		2011		2011	
Location	Average	Superior	-$15,000	Superior	-$15,000	Similar	
Site Size (SF)	5,566	6,800	-$3,702	6,500	-$2,802	6,000	-$1,302
Net Adjustments			-$7,437		-$46,522		-$18,572
Comparison Value			$165,053		$196,948		$200,428
Value Per SqFt			$121.63		$116.95		$118.32

Base Value Conclusion – Plan 1

Three houses from the data set were compared to this plan. The data set had prices before adjustment ranging from a low of $172,490 to a high of $243,470. After adjustment, the sales had home price indications ranging from a low of $165,053 to a high of $200,428. Based upon the range observed in the market, the availability of USDA financing within the City of Lemoore, the subject's lot size, and physical differences between the subject and the comparables, a value of $190,000 is estimated for this floor plan.

Table 33 Floor Plan 2 Adjustment Analysis

Plan 2							
	Subject	Sale 1		Sale 2		Sale 3	
Project Name	Tract 791	Meridian		Independence - The		Legacy - The Classics	
City	Lemoore	Hanford		Hanford, CA		Lemoore	
Merchant Builder	Wathen Castanos	McMillin Homes		Lennar		Lennar	
Base Sales Price	~	$192,490		$243,470		$219,000	
Price per SF	~	$126.89		$144.58		$129.28	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$192,490		$243,470		$219,000
Adjust. Price/SqFt	~		$126.89		$144.58		$129.28
Living Area (SF)	1,435	1,517	-$4,510	1,684	-$13,695	1,694	-$14,245
Bed/Bath	3/2	3/2		3/2		3/2	
No of Stories	1	1		1		1	
Garage Spaces	2	2		2		2	
Construction Quality	Average	Inferior	$10,000	Similar		Similar	
Design/Appeal	Good	Good		Superior	-$12,000	Good	
Year Built	~	2011		2011		2011	
Location	Average	Superior	-$15,000	Superior	-$15,000	Similar	
Site Size (SF)	5,566	6,800	-$3,702	6,500	-$2,802	6,000	-$1,302
Net Adjustments			-$13,212		-$43,497		-$15,547
Comparison Value			$179,278		$199,973		$203,453
Value Per SqFt			$118.18		$118.75		$120.10

Base Value Conclusion – Plan 2

Three houses from the data set were compared to this plan. The data set had prices before adjustment ranging from a low of $192,490 to a high of $243,470. After adjustment, the sales had home price indications ranging from a low of $179,278 to a high of $203,453. Based upon the range observed in the market, the availability of USDA financing, and considering the subject's lot size and physical differences between the subject and that reflected in the comparable data, a value of $195,000 is considered appropriate for this floor plan.

Table 34 Floor Plan 3 Adjustment Analysis

Plan 3									
	Subject	Sale 1		Sale 2		Sale 3		Sale 4	
Project Name	Tract 791	Independence - The		Meridian		Legacy - The Classics		Divante Villas	
City	Lemoore	Hanford, CA		Hanford		Lemoore		Lemoore	
Merchant Builder	Wathen Castanos	Lennar		McMillin Homes		Lennar		Silver Oaks Land Co.	
Base Sales Price	~	$243,470		$192,490		$219,000		$212,000	
Price per SF	~	$144.58		$126.89		$129.28		$113.07	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$243,470		$192,490		$219,000		$212,000
Adjust. Price/SqFt	~		$144.58		$126.89		$129.28		$113.07
Living Area (SF)	1,613	1,684	-$3,905	1,517	$5,280	1,694	-$4,455	1,875	-$14,410
Bed/Bath	3/2	3/2		3/2		3/2		3/2	
No of Stories	1	1		1		1		1	
Garage Spaces	2	2		2		2		2	
Construction Quality	Average	Similar		Inferior	$10,000	Similar		Similar	
Design/Appeal	Good	Superior	-$12,000	Good		Good		Good	
Year Built	~	2011		2011		2011		2011	
Location	Average	Superior	-$15,000	Superior	-$15,000	Similar		Average	
Site Size (SF)	5,566	6,500	-$2,802	6,800	-$3,702	6,000	-$1,302	8,000	-$7,302
Net Adjustments			-$33,707		-$3,422		-$5,757		-$21,712
Comparison Value			$209,763		$189,068		$213,243		$190,288
Value Per SqFt			$124.56		$124.63		$125.88		$101.49

Base Value Conclusion – Plan 3

Four houses from the data set were compared to this plan. The data revealed prices before adjustment ranging from a low of $192,490 to a high of $243,470. After adjustment, the sales had home price indications ranging from a low of $189,068 to a high of $213,243. Considering the range observed in the market, and considering the subject’s lot size and physical differences between the subject and the comparables, a value of $205,000 is considered appropriate for this floor plan.

Table 35 Floor Plan 4 Adjustment Analysis

Plan 4							
	Subject	Sale 1		Sale 2		Sale 3	
Project Name	Tract 791	Meridian		Independence - The		Legacy - The Classics	
City	Lemoore	Hanford		Hanford, CA		Lemoore	
Merchant Builder	Wathen Castanos	McMillin Homes		Lennar		Lennar	
Base Sales Price	~	$190,490		$262,870		$219,000	
Price per SF	~	$121.72		$140.05		$129.28	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$190,490		$262,870		$219,000
Adjust. Price/SqFt	~		$121.72		$140.05		$129.28
Living Area (SF)	1,640	1,565	$4,125	1,877	-$13,035	1,694	-$2,970
Bed/Bath	4/2	4/2		4/2		3/2	
No of Stories	1	1		1		1	
Garage Spaces	2	2		3	-$5,000	2	
Construction Quality	Average	Inferior	$10,000	Superior	-$13,000	Similar	
Design/Appeal	Good	Good		Good		Good	
Year Built	2011	2011		2011		2011	
Location	Average	Superior	-$15,000	Superior	-$15,000	Similar	
Site Size (SF)	5,566	6,800	-$3,702	6,500	-$2,802	6,000	-$1,302
Net Adjustments			-$4,577		-$48,837		-$4,272
Comparison Value			$185,913		$214,033		$214,728
Value Per SqFt			$118.79		$114.03		$126.76

Base Value Conclusion – Plan 4

Three houses from the data set were compared to this plan. The data set had prices before adjustment ranging from a low of $190,328 to a high of $262,870. After adjustment, the sales had home price indications ranging from a low of $185,913 to a high of $214,728. Considering the range observed in the market, availability of USDA financing, and considering the subject's lot size and physical differences between the subject and the comparables, a value of $210,000 is considered appropriate for this floor plan.

Table 36 Floor Plan 5 Adjustment Analysis

Plan 5							
	Subject	Sale 1		Sale 2		Sale 3	
Project Name	Tract 791	Legacy - The Classics		Meridian		Independence - The	
City	Lemoore	Lemoore		Hanford		Hanford, CA	
Merchant Builder	Wathen Castanos	Lennar		McMillin Homes		Lennar	
Base Sales Price	~	$219,000		$202,490		$262,870	
Price per SF	~	$129.28		$113.95		$140.05	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$219,000		$202,490		$262,870
Adjust. Price/SqFt	~		$129.28		$113.95		$140.05
Living Area (SF)	1,788	1,694	$5,170	1,777	$605	1,877	-$4,895
Bed/Bath	4/2	3/2		4/2		4/2	
No of Stories	1	1		1		1	
Garage Spaces	2	2		2		3	-$5,000
Construction Quality	Average	Similar		Inferior	$10,000	Similar	
Design/Appeal	Good	Good		Good		Superior	-$13,000
Year Built	2011	2011		2011		2011	
Location	Average	Similar		Superior	-$15,000	Superior	-$15,000
Site Size (SF)	5,566	6,000	-$1,302	6,800	-$3,702	6,500	-$2,802
Net Adjustments			$3,868		-$8,097		-$40,697
Comparison Value			$222,868		$194,393		$222,173
Value Per SqFt			$131.56		$109.39		$118.37

Base Value Conclusion – Plan 5

Three houses from the data set were compared to this plan. The data set had prices before adjustment ranging from a low of $202,290 to a high of $262,870. After adjustment, the sales had home price indications ranging from a low of $194,393 to a high of $222,868. Considering the range observed in the market, and considering the subject's lot size and physical differences between the subject and the comparables, a value of $215,000 is considered appropriate for this floor plan.

Table 37 Floor Plan 6 Adjustment Analysis

Plan 6							
	Subject	Sale 1		Sale 2		Sale 3	
Project Name	Tract 791	Meridian		Independence - The		Legacy - The Classics	
City	Lemoore	Hanford		Hanford, CA		Lemoore	
Merchant Builder	Wathen Castanos	McMillin Homes		Lennar		Lennar	
Base Sales Price	~	$202,490		$267,720		$234,000	
Price per SF	~	$113.95		$133.86		$122.83	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$202,490		$267,720		$234,000
Adjust. Price/SqFt	~		$113.95		$133.86		$122.83
Living Area (SF)	1,848	1,777	$3,905	2,000	-$8,360	1,905	-$3,135
Bed/Bath	4/3	4/2	$5,000	4/2	$5,000	4/3	
No of Stories	2	1		1		1	
Garage Spaces	2	2		2		2	
Construction Quality	Average	Inferior	$10,000	Similar		Similar	
Design/Appeal	Good	Good		Superior	-$13,000	Good	
Year Built	2011	2011		2011		2011	
Location	Average	Superior	-$15,000	Superior	-$15,000	Similar	
Site Size (SF)	5,566	6,800	-$3,702	6,500	-$2,802	6,000	-$1,302
Net Adjustments			$203		-$34,162		-$4,437
Comparison Value			$202,693		$233,558		$229,563
Value Per SqFt			$114.06		$116.78		$120.51

Base Value Conclusion – Plan 6

Three houses from the data set were compared to this plan. The data set had prices before adjustment ranging from a low of $202,490 to a high of $267,720. After adjustment, the sales had home price indications ranging from a low of $202,693 to a high of $233,558. Considering the range observed in the market, the availability of USDA financing, and considering the subject's lot size and physical differences between the subject and the comparables, a value of $225,000 is considered appropriate for this floor plan.

Table 38 Floor Plan 7 Adjustment Analysis

Plan 7							
	Subject	Sale 1		Sale 2		Sale 3	
Project Name	Tract 791	Divante Villas		Independence - The		Legacy - The Classics	
City	Lemoore	Lemoore		Hanford, CA		Lemoore	
Merchant Builder	Wathen Castanos	Silver Oaks Land Co.		Lennar		Lennar	
Base Sales Price	~	$285,000		$267,720		$265,000	
Price per SF	~	$111.50		$133.86		$119.21	
Sale Date	Appraisal	Aug-11		Aug-11		Aug-11	
Terms	Cash Equivalent	Cash Equivalent		Cash Equivalent		Cash Equivalent	
Sale Conditions	At Market	At Market		At Market		At Market	
Property Rights	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Adjusted Price	~		$285,000		$267,720		$265,000
Adjust. Price/SqFt	~		$111.50		$133.86		$119.21
Living Area (SF)	2,202	2,556	-$19,470	2,000	$11,110	2,223	-$1,155
Bed/Bath	4/3	4/3		4/2	$5,000	4/3	
No of Stories	2	1		1		1	
Garage Spaces	3	3		2	$4,000	2	$5,000
Construction Quality	Average	Similar		Similar		Similar	
Design/Appeal	Good	Good		Superior	-$13,000	Good	
Year Built	2011	2011		2011		2011	
Location	Average	Similar		Superior	-$15,000	Similar	
Site Size (SF)	5,566	8,000	-$7,302	6,500	-$2,802	6,000	-$1,302
Net Adjustments			-$26,772		-$10,692		$2,543
Comparison Value			$258,228		$257,028		$267,543
Value Per SqFt			$101.03		$128.51		$120.35

Base Value Conclusion – Plan 7

Three houses from the data set were compared to this plan. The data set had prices before adjustment ranging from a low of $162,593 to a high of $285,000. After adjustment, the sales had home price indications ranging from a low of $205,646 to a high of $267,543. Considering the range observed in the market, the availability of USDA financing, and considering the subject's lot size and physical differences between the subject and the comparables, a value of $255,000 is considered appropriate for this floor plan.

The proposed homes should be priced as set forth in Table 39 below.

Table 39 Base Price Recommendations

East Village					
Plan Number	Living Area SF (Base)	Bedroom/ Bathroom	Number of Stories	Garage Spaces	Base Value Conclusion
1	1,380	3/2	1	2	$190,000
2	1,435	3/2	1	2	$195,000
3	1,613	3/2	1	2	$205,000
4	1,640	4/2	1	2	$210,000
5	1,788	4/2	1	2	$215,000
6	1,848	4/3	2	2	$225,000
7	2,202	4/3	2	3	$255,000

Chapter 5

INVESTMENT ANALYSIS

In this section, I first discuss the base assumptions that will be used in the investment analysis. Specifically, I address absorption, discount rates, cost estimates, and construction financing. Next, I offer a cash flow analysis of the project and measures of the project's anticipated financial performance.

The subdivision is marketed for sale for $300,000, or roughly $3,704 per lot. The analysis assumes the site acquisition cost is financed with owner's equity. The estimated remaining cost to complete the lots is $1,555,260, or $19,200 per lot, and is assumed to be partially financed by a construction loan. The cost to complete the subdivision in addition to the land acquisition price equates to nearly $23,000 per lot, which falls into the range of $20,000 to $30,000 per finished lot value indicated in the market participant discussion section presented earlier in this report.

Several construction bids were submitted from various contractors to estimate the remaining site development cost. The bids were aggregated to determine the total site work cost assumption for the analysis and are summarize in Table 40 below.

Table 40 Remaining Site Work Costs

Description of Work	
Storm Drain, Park	$19,017
Outlots C Park landscaping	$135,607
Outlots A, B, C Grading	$7,000
Outlots C Park Concrete	$8,008
Street Improvements	$342,335
Sewer repair & services	$72,544
Sewer Dewater	$72,000
Storm Drain	$60,643
Water	$23,767
Concrete	$182,234
Dry Utilities	$388,053
Lift station Pump and sump(with dewatering)	$119,500
Storm Drain extention to City lift station	$25,000
Pads import and recertification afer stripping	$25,000
Clean Storm drain system	$5,000
Air test and repair potential sewer locations (T&M)	$3,000
Mail boxes	$10,000
Out lots A, B	$56,553
Total Improvement Cost	**$1,555,260**

Based on information provided from contractors, construction of the site improvements can be completed within two months after starting. After completion, model and retail homes will be constructed. Per conversations an interested homebuilder, four model homes should be constructed at an estimated additional cost of $65,000 on average to build than the average base floor plan. The model homes are more costly to build since they are constructed with superior upgrades to lure and entice homebuyers to purchase retail homes. I have assumed that the model homes will sell for $245,000 on average during the last quarter of the project’s life since they are equipped with significant upgrades.

Direct Costs, Indirect Costs, Permits & Fees

Over the past year, my observations have revealed that construction costs of houses have been steadily decreasing. Direct costs for the construction of houses include the materials and labor. Indirect costs include expenses such as engineering, architecture, general conditions, insurance, model cleaning, overhead, warranty expenses, and management fees. Moreover, regulatory permits and fees include development impact fees as well as building permit costs and other charges and factored into the analysis.

Direct cost estimates for each floor plan were provided a builder that is interested in purchasing the lots. These costs will be employed in the analysis. Indirect costs are estimated to amount to 30 percent of hard costs, which is a conservative estimate. My conversations with homes builders suggested indirect costs generally range from 20% to 30% of hard costs. I also included the cost of permits and fees, whichwere provided by the City of Lemoore Public Works Department. The developer’s costs of constructing each anticipated floor plan is illustrated in Table 41 below.

Table 41 Construction Cost Estimates for 7 Floor Plans

Builder's Cost Summary

East Village

Plan No.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Average**	**x 81 Lots**
Living Area (SF)	1,380	1,435	1,613	1,640	1,788	1,848	2,202	1,701	
Direct Costs									
Direct Construction	$ 72,453	$ 82,643	$ 88,784	81,372.31	$ 94,027	$ 90,606	$115,661	$ 89,364	$ 7,238,461
Subtotal Direct Costs	**$ 72,453**	**$ 82,643**	**$ 88,784**	**$ 81,372**	**$ 94,027**	**$ 90,606**	**$115,661**	**$ 89,364**	**$ 7,238,461**
Indirect Costs									
Building Permits and Other Fees	$ 11,533	$ 11,533	$ 12,782	$ 12,782	$ 12,782	$ 14,768	$ 14,768	$ 12,993	$ 1,052,398
Other Indirect Costs (30% of Direct Costs)	$21,736	$24,793	$26,635	$24,412	$28,208	$27,182	$34,698	$26,809	$2,171,538
Subtotal Indirect Costs	**$ 33,269**	**$ 36,326**	**$ 39,417**	**$ 37,194**	**$ 40,990**	**$ 41,950**	**$ 49,466**	**$ 39,802**	**$ 3,223,936**
Total Costs	$ 105,721	$ 118,968	$ 128,202	$ 118,566	$ 135,017	$ 132,556	$165,127	$129,165	$10,462,397

Discussions with market participants indicated that demand is fairly consistent across entry-level and move-up level product. All of the subdivision sales representative I interviewed indicated that all floor plans within their respective subdivisions were experiencing relatively even market activity. Taking this into consideration, my analysis assumes that the proposed floor plans for the subject site will experience equal interest from buyers and; therefore, I will used the average cost indicated in Table 41 above in the analysis. The cost amounts to $129,165 per home constructed and accounts for all direct and indirect costs. The analysis also assumes a slightly below-average base price of $210,000 per home sale. The average value of the sale prices illustrated in Table 41 equates to $213,571. The total vertical construction cost estimated for entire 81-unit subdivision is estimated at approximately $10.5 million while the total sales revenue is just projected at just over $17 million.

Property Taxes, Concessions & Other Costs

Property taxes are based upon the value of the underlying land. Since the assessor will not reassess the individual housing units until they are sold, the developer will not have the burden of the higher tax rate. As the developer trades the property rights of the individual lot sales with finished houses, revenue will be collected per period and the tax burden will diminish from the perspective of the developer. A tax rate of 1.046215 percent is used by the Kings County Assessor to assess the property and will be used in this analysis. The real estate taxes are pro-rated to the total number of unsold houses/lots per year and will decline as the project matures.

Concessions that the developer offers will not be included as a line item, but are instead incorporated into the average base retail price. The comparable subdivisions did not include sale commissions, closing costs, and marketing expenses as part of the indirect costs, but rather as one combined line item. Sale commissions are estimated at 5 percent of quarterly sales and closing costs are estimated to be $9,000. Moreover, administrative expenses of $10,000 quarterly are employed in the analysis.

Absorption or Sales Rate

Analysis of the competing subdivisions in Lemoore as well as competing and similar areas indicates new housing product is being absorbed. Based on my observations of retail housing product being constructed as well as my discussions with market participants, the greatest demand is for entry level and move-up product, which is what the subject site will offer. Surveys of agents representing these subdivisions revealed monthly sales rates generally ranging from approximately 3 to 5 units. There are only two subdivisions within the City of Lemoore that are currently selling new homes. The Divante Villas subdivisionis nearly sold out and the remaining inventory is not adequately marketed. The remaining subdivision is the Legacy Classics built by Lennar and, based on current absorption rates, the project will likely be sold out within a year, but may be sold-out by March 2011 given current absorption rates report. Per my conversations with City planners in Hanford and Lemoore, there are no other subdivision developments planned for near-term development. Therefore, I haveassumed that the subject will capture adequate demand for new homes within the City of Lemoore. Given my analysis of the competing subdivisions in the market area, the availability of USDA financing within the City of Lemoore, and the current depth of the market for entry as well as move up level product, I have concluded an absorption rate of 4 units per month, or 12 per quarter, for the analysis.

Discount Rate

When analyzing a real estate investment, a required rate of return, or discount rate, should be considered by investors over the investment period. The discount rate should be based on risk when compared with returns earned on competing investments and other capital market benchmarks. However, an appropriate discount rate is difficult to quantify for land development projects for a number of reasons. First, it cannot be extracted directly from market data because bulk sales of completed subdivisions rarely, if ever, occur. As a result, there are no comparable properties in this market from which to obtain the required yield rate. My approach to determining an appropriate discount rate was via surveys of investment brokers active in the land development business in the Central Valley areas. These market participants suggested a range of internal rates of return currently commanded in the market place from 20 to 30 percent depending on the risk characteristics of the property. For further support on my selection of an appropriate discount rate, I considered a survey performed by RealtyRates.com, which offered a range from 17.46 percent to 35.06 percent with an average of 25.74 percent for residential subdivisions of 100 units or less in California.

The subject site is significantly improved and already has local government approvals as well as the building plans and; therefore, is not faced with entitlement risk. Compared to other land development projects without government approvals or site improvements, the subject site is a relatively less risky venture. Additionally, demand in the market place was observed to be fairly healthy despite current economic conditions. However, macro market conditions have not improved and the subject area’s unemployment rate is significantly higher than the State. Moreover, the subject area’s economic base is not as well diversified as other areas that are in closer proximity to major metropolitan areas. A diverse employment base helps deliver more stability to a local economy and is favorable when contemplating land development investments. Considering the aforementioned risk characteristics of the subject site, a discount rate at the middle of the range indicated in the surveys is appropriate. I will use a 25 percent discount factor for the analysis which considers risk, entrepreneurial profit, as well as opportunity costs.

Financing

The prime interest rate, which is the interest rate charged by banks to their most creditworthy customers, typically plays a critical role in determining the appropriate interest rate to apply to a loan. Development loans are often tied to the prime interest rate with an additional premium that accounts for the projects relative risk. This premium generally ranges from 2 percent to 4 percent; however, a lender would likely command a higher premium given the project's relatively remote location. I was able to speak with a lender regarding financing the development of the subject site. He volunteered a quote of for a loan at a 60 percent to 65 percent loan to cost ratio, a 1.5% loan fee, 9% interest, and 40 percent acceleration, which will be discussed later in the analysis. The most capital-intensive part of the project is the up-front costs. Considering this, a lender may also offer significant up-front financing in exchange for an accelerated loan payment. Table 42 below illustrates a history of prime interest rates ranging from January 2001 to October 2011(Money Café 2011).

Table 42 Historical Prime Interest Rates

Prime Rate											
Month/Day	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Jan 1	9.50%	4.75%	4.25%	4.00%	5.25%	7.25%	8.25%	7.25%	3.25%	3.25%	3.25%
Feb 1	8.50%	4.75%	4.25%	4.00%	5.25%	7.50%	8.25%	6.00%	3.25%	3.25%	3.25%
Mar 1	8.50%	4.75%	4.25%	4.00%	5.50%	7.50%	8.25%	6.00%	3.25%	3.25%	3.25%
Apr 1	8.00%	4.75%	4.25%	4.00%	5.75%	7.75%	8.25%	5.25%	3.25%	3.25%	3.25%
May 1	7.50%	4.75%	4.25%	4.00%	5.75%	7.75%	8.25%	5.00%	3.25%	3.25%	3.25%
Jun 1	7.00%	4.75%	4.25%	4.00%	6.00%	8.00%	8.25%	5.00%	3.25%	3.25%	3.25%
Jul 1	6.75%	4.75%	4.00%	4.25%	6.25%	8.25%	8.25%	5.00%	3.25%	3.25%	3.25%
Aug 1	6.75%	4.75%	4.00%	4.25%	6.25%	8.25%	8.25%	5.00%	3.25%	3.25%	3.25%
Sep 1	6.50%	4.75%	4.00%	4.50%	6.50%	8.25%	8.25%	5.00%	3.25%	3.25%	3.25%
Oct 1	6.00%	4.75%	4.00%	4.75%	6.75%	8.25%	7.75%	5.00%	3.25%	3.25%	3.25%
Nov 1	5.50%	4.75%	4.00%	4.75%	7.00%	8.25%	7.50%	4.00%	3.25%	3.25%	
Dec 1	5.00%	4.25%	4.00%	5.00%	7.00%	8.25%	7.50%	4.00%	3.25%	3.25%	

For nearly three years, the prime rate has been at 3.25 percent. Given an absorption rate of four homes per month, the subdivision will be built-out within two years and the loan balance will be recovered. In light of the relatively short life of the project, coupled with its remote location, I have given weight toward the lender’s quote and concluded an interest rate premium of 5.75 percent above the current prime rate, or 9 percent total.

Estimating the amount of interest carry depends on the loan draws. Table 43 below shows a summary of estimated monthly construction draws and monthly sales revenue, including the total and present value of the monthly amounts.

Table 43 Monthly Subdivision Homes Sales and Loan Draws

Monthly Sales and Draws		
Month	***Draw Amounts***	***Monthly Sales Volume***
0	$700,000	$0
1	700,000	0
2	800,000	0
3	200,000	840,000
4	-	840,000
5	-	840,000
6	-	840,000
7	-	840,000
8	-	840,000
9	-	840,000
10	-	840,000
11	-	840,000
12	-	840,000
13	-	840,000
14	-	840,000
15	-	840,000
16	-	840,000
17	-	840,000
18	-	840,000
19	-	840,000
20	-	840,000
21	-	840,000
22	-	945,000
23	-	245,000
Total	$2,400,081	$17,150,998
Present Value @ 9.0%	$2,365,995	$15,495,317

I used this information to calculate the percentage of the home sales revenue that is required to be paid to the lender. As each home is sold, the lender releases its lien held on that parcel as part of the collateral for the loan and the borrower pays the lender for a release, which is referred to as the release price. The release price is calculated by taking the ratio of the present value of the loan draws to the present value of the sales revenue. Since this analysis focuses on the average home characteristics, the average release price is calculated as follows:

PV of Loan Draws $2,365,995 / PV of Sales Volume $15,495,317 = 15.27 percent

Since most lenders require that the loan be paid before the last anticipated home sells, they will typically structure a loan agreement so the loan is repaid at a faster rate. The reason for negotiating an accelerated payment is that a developer will invest a significant amount of equity during the first several months into the project and the lender wants assurance that the loan repayment is given preference as sales revenue is generated. Many lenders set the acceleration rate so that the loan is repaid when 80 to 90 percent of the total revenue is realized (Brueggeman 2005). Considering existing market conditions, the perceived uncertainty in the economy, and discussions with lenders, I have assumed that the loan will be accelerated by 140 percent of sales revenue. This means the release rate calculated above will increase by 28.57 percent in order to pay down the loan at 140% as fast as revenue generation (100% / (1-28.57% = 71.43%) = 140%). It also means that the loan will be paid for when the project is roughly 70 percent complete. Table 44 shows a loan repayment schedule based on the accelerated release rate.

Table 44 Summary of Draws and Payments

	Draws			Payments			
Month	Construction Draw	Interest	Total Draw	Payments Principal	Interest	Total Payments	Ending Balance
0	$700,000	$0	$700,000	$0	$0	$0	$700,000
1	700,000	5,250	705,250	0	5,250	5,250	1,405,250
2	800,000	10,539	810,539	0	10,539	10,539	2,215,789
3	200,000	16,618	216,618	179,169	16,618	195,787	2,253,239
4	0	16,899	16,899	179,169	16,899	196,068	2,090,969
5	0	15,682	15,682	179,169	15,682	194,851	1,927,482
6	0	14,456	14,456	179,169	14,456	193,625	1,762,769
7	0	13,221	13,221	179,169	13,221	192,390	1,596,821
8	0	11,976	11,976	179,169	11,976	191,145	1,429,628
9	0	10,722	10,722	179,169	10,722	189,891	1,261,181
10	0	9,459	9,459	179,169	9,459	188,628	1,091,471
11	0	8,186	8,186	179,169	8,186	187,355	920,488
12	0	6,904	6,904	179,169	6,904	186,073	748,222
13	0	5,612	5,612	179,169	5,612	184,781	574,665
14	0	4,310	4,310	179,169	4,310	183,479	399,806
15	0	2,999	2,999	179,169	2,999	182,168	223,635
16	0	1,677	1,677	179,169	1,677	180,846	46,144
17	0	346	346	46,490	346	46,836	0
18	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0
21	0	0	0	0	0	0	0
22	0	0	0	0	0	0	0
23	0	0	0	0	0	0	0
Totals	$2,400,000	$154,857	$2,554,857	$2,554,857	$154,857	$2,709,713	

Cash Flow Analysis

Table 45 on the following page provides a quarterly cash flow summary for the life of the project and takes into consideration the aforementioned assumptions. It indicates the project's estimated net present value and its internal rate of return (IRR). Additionally, I calculated the lenders yield as illustrated below in Table 46.

Table 45 Estimated Cash Flow, NPV, and IRR

DEVELOPER'S CASH FLOW, NPV AND IRR									
Quarter	0	1	2	3	4	5	6	7	8
Inflow:									
Sales	$0	$840,000	$2,520,000	$2,520,000	$2,520,000	$2,520,000	$2,520,000	$2,520,000	$1,190,000
Loan Draw	700,000	1,700,000	0	0	0	0	0	0	0
Interest Draw	0	15,789	0	0	0	0	0	0	0
Total Inflow	$700,000	$2,555,789	$2,520,000	$2,520,000	$2,520,000	$2,520,000	$2,520,000	$2,520,000	$1,190,000
Outflows:									
Site Purch.	$300,000								
Cost to Finish	777,630	777,630							
Closing	9,000								
Construction Costs		$ 1,809,985	$ 1,549,985	$ 1,549,985	$ 1,549,985	$ 1,549,985	$ 1,549,985	$ 1,549,985	$ 645,827
Property Tax	10,462		8,396		5,296		2,196		
Loan Fee	36,237								
Loan Pmt.		179,169	537,507	537,507	537,507	537,507	225,659	0	0
Interest Cost	0	15,789	0	0	0	0	0	0	0
Admin	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Sales Exp.		42,000	126,000	126,000	126,000	126,000	126,000	126,000	59,500
Total Outflow	$1,143,329	$2,834,573	$2,231,888	$2,223,492	$2,228,788	$2,223,492	$1,913,839	$1,685,985	$715,327
Net Cash	**($443,329)**	**($278,784)**	**$288,112**	**$296,508**	**$291,212**	**$296,508**	**$606,161**	**$834,015**	**$474,673**
Net Present Value		1,503,353	25%	discount rate					
Internal Rate of Return		145.52%							

Table 46 Lenders Yield

LOAN SCHEDULE AND LENDER'S IRR							
				Payments			
Month	Interest	Total	Principal	Interest	Total	Balance	Cash Flow
0	$0	$700,000				$700,000	($663,763)
1	5,250	705,250	0	5,250	5,250	1,405,250	(700,000)
2	10,539	810,539	0	10,539	10,539	2,215,789	(800,000)
3	16,618	216,618	179,169	16,618	195,787	2,253,239	(20,831)
4	16,899	16,899	179,169	16,899	196,068	2,090,969	179,169
5	15,682	15,682	179,169	15,682	194,851	1,927,482	179,169
6	14,456	14,456	179,169	14,456	193,625	1,762,769	179,169
7	13,221	13,221	179,169	13,221	192,390	1,596,821	179,169
8	11,976	11,976	179,169	11,976	191,145	1,429,628	179,169
9	10,722	10,722	179,169	10,722	189,891	1,261,181	179,169
10	9,459	9,459	179,169	9,459	188,628	1,091,471	179,169
11	8,186	8,186	179,169	8,186	187,355	920,488	179,169
12	6,904	6,904	179,169	6,904	186,073	748,222	179,169
13	5,612	5,612	179,169	5,612	184,781	574,665	179,169
14	4,310	4,310	179,169	4,310	183,479	399,806	179,169
15	2,999	2,999	179,169	2,999	182,168	223,635	179,169
16	1,677	1,677	179,169	1,677	180,846	46,144	179,169
17	346	346	46,490	346	46,836	0	46,490
18	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0
21	0	0	0	0	0	0	0
22	0	0	0	0	0	0	0
23	0	0	0	0	0	0	0
	$154,857	$2,554,857	$2,554,857	$154,857	$2,709,713		
Lender's Yield	**11.25%**						

The financial feasibility of the subdivision is determined from the developer's perspective based on whether the sales revenue will exceed the acquisition and construction costs of the project in addition to interest and other costs as indicated above. To explore the project's profitability, a statement of cash flows has been prepared. I estimated the inflow based on the average sale price of the floor plans and loan draws while the outflows includes the development and construction costs, site acquisition, closing costs, financing costs, administrative expenses, marketing, etc.

A prospective developer will have a negative cash flow during the first two quarters. However, the stream of estimated cash flows generates a 145.52 percent IRR. The net present value discounted at the required rate of return of 25 percent is $1,503,353, which suggests that the project is exceptionally profitable. This section of the analysis is considered to be the "most-likely" scenario as it relies on assumptions that are substantiated by the market analysis and marketability analysis in Chapters 2 and 3, respectively. Additionally, the lender's yield is estimated to be 11.25 percent which is also indicative of a financially feasibility project.

Sensitivity Analysis

Although the project appears to be financially feasible under reasonably conservative assumptions, I have prepared a sensitivity analysis whichaccounts for changes market conditions. In addition to the "most likely" scenario, I offer a pessimistic scenario and an optimistic scenario, as demonstrated in Tables 47 and 48, respectively, that employs several different assumptions in the analysis. Specifically, for the pessimistic scenario, I assumed absorption is three homes per month and the average base price is reduced to $200,000 per home. The slower absorption rate added an additional 2 quarters to the life of the project. In the optimistic scenario, I assumed absorption of six units per month and maintained the average estimated selling price. The increased absorption reduced the project's life by 2 quarters.

Table 47 Pessimistic Scenario

DEVELOPER'S CASH FLOW, NPV AND IRR (Pessimistic)											
Quarter	0	1	2	3	4	5	6	7	8	9	10
Inflow:											
Sales	$0	$600,000	$1,800,000	$1,800,000	$1,800,000	$1,800,000	$1,800,000	$1,800,000	$1,870,000	$1,905,000	$1,340,000
Loan Draw	700,000	1,700,000	0	0	0	0	0	0	0	0	0
Interest Draw	0	32,408	47,266	0	0	0	0	0	0	0	0
Total Inflow	$700,000	$2,332,408	$1,847,266	$1,800,000	$1,800,000	$1,800,000	$1,800,000	$1,800,000	$1,870,000	$1,905,000	$1,340,000
Outflows:											
Site Purch.	$300,000										
Cost to Finish	777,630	777,630									
Closing	9,000										
Construction Costs		$ 1,551,654	$ 1,162,489	$ 1,162,489	$ 1,162,489	$ 1,162,489	$ 1,162,489	$ 1,162,489	$ 1,162,489	$ 1,162,489	$ 774,992
Property Tax	10,462		8,912		6,587		4,262		1,937		0
Loan Fee	36,237										
Loan Pmt.	0	174,114	522,343	522,343	522,343	522,343	295,485	0	0	0	0
Interest Cost	0	32,408	47,266	0	0	0	0	0	0	0	0
Admin	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Sales Exp.		30,000	90,000	90,000	90,000	90,000	90,000	90,000	93,500	95,250	67,000
Total Outflow	$1,143,329	$2,575,806	$1,841,010	$1,784,831	$1,791,419	$1,784,831	$1,562,235	$1,262,489	$1,267,926	$1,267,739	$851,992
Net Cash	**($443,329)**	**($243,398)**	**$6,257**	**$15,169**	**$8,581**	**$15,169**	**$237,765**	**$537,511**	**$602,074**	**$637,261**	**$488,008**
Net Present Value		**886,740**	25%	discount rate							
Internal Rate of Return		74.77%									

Table 47 shows a significant decline in the IRR and net present value when compared to the previous scenarios; however, it still reflects a highly profitable investment opportunity. The IRR is estimated to be 74.77 percent and the net present value is $886,740 when using a discount rate of 25%. The IRR fell significantlyin this scenario compared to the “most likely” scenario because the recovery of the investment and profit is realized over a longer period. The NPV also declined as the majority of the cash flows are realized later in the life of the project and are more heavily discounted. Under this scenario, the equity investment required is the sum of the negative cash flows, which is $686,727. Moreover, this scenario indicates that the project will generate minimal cash flow for the first 5 quarters, which may be difficult for a prospective developer to endure. Because of the increased absorption period, the scenario suggests a greater interest carry expense. However, my conversations with a professional in the lending industry suggested that this project may achieve a loan to cost ratio of 60 percent to 65 percent. I have underwritten the loan well below this loan to cost range, which suggests debt financing can be structured to offer greater proceeds during the first 5 quarters of the project. Next, I present the optimistic scenario.

Table 48 Optimistic Scenario

DEVELOPER'S CASHFLOW, NPV AND IRR (Optimistic)							
Quarter	0	1	2	3	4	5	6
Inflow:							
Sales	$0	$1,260,000	$3,780,000	$3,780,000	$3,780,000	$3,815,000	$735,000
Loan Draw	700,000	1,700,000	0	0	0	0	0
Interest Draw	0	15,789	0	0	0	0	0
Total Inflow	$700,000	$2,975,789	$3,780,000	$3,780,000	$3,780,000	$3,815,000	$735,000
Outflows:							
Site Purch.	$300,000						
Cost to Finish	777,630	777,630					
Closing	9,000						
Construction Costs		$ 2,068,316	$ 2,324,977	$ 2,324,977	$ 2,324,977	$ 2,324,977	$ 387,496
Property Tax	10,462		7,362		2,712		0
Loan Fee	36,237						
Loan Pmt.		262,160	786,481	786,481	676,213	0	0
Interest Cost	0	15,789	0	0	0	0	0
Admin	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Sales Exp.		63,000	189,000	189,000	189,000	190,750	36,750
Total Outflow	$1,143,329	$3,196,895	$3,317,821	$3,310,458	$3,202,902	$2,525,727	$434,246
Net Cash	**($443,329)**	**($221,106)**	**$462,179**	**$469,542**	**$577,098**	**$1,289,273**	**$300,754**
Net Present Value		**1,763,446**	25% discount rate				
Internal Rate of Return		**219.43%**					

Table 48 shows a gain in the IRR and net present value when compared to the previous scenarios and reflect an even more profitable investment opportunity. The IRR is estimated to be 219.43 percent and the net present value is $1,763,446 when using a discount rate of 25%. The total equity investment is estimated to be the sum of the negative cash flow, which is $664,435. The IRR is significantly higher in this scenario largely because the analysis assumes that the investment and profit is recovered faster than in the previous scenarios. Moreover, the NPV is also higher since the positive cash flows are realized earlier in the life of the project and are not discounted as heavily as in previous scenarios. This concludes the investment analysis.

Investment Summary

A summary of the results of from the investment analysis is provided in Table 49 below.

Table 49 Investment Summary

Measure	Most Likely	Pessimistic	Optimistic
NPV	$1,503,353	$886,740	$1,763,446
IRR	145.52%	74.77%	219.43%

Chapter 6

CONCLUSION

The project is an 81- unit subdivision located in the City of Lemoore, California. It has all public approvals and has been substantially improved, though additional infrastructure improvements are needed prior to constructing vertical improvements. The lots range from 4,362 square feet to 9,914 square feet in size with an average lot size measured at 5,566 square feet one and are approved to host seven different floor plans ranging in size from 1,380 square feet to 2,200 square feet. The subject site can be purchased for $300,000. This study took into account the remaining site costs, the utility of the site, the market area, the marketability of the proposed subdivision homes, and analyzed the profitability of investment in the site.

Based on my site analysis, the physical characteristics of the site appear to be adequate for subdivision development and offers utility commensurate with competing subdivisions. Moreover, the site benefits from convenient access to commercial amenities and freeways, and is well servedby other public amenities. It is also within close proximity to the City of Fresno, which will serve as a significant employment base for the subject future residents. Bids for the remaining site work were collected from several contractors and were aggregated to determine the total remaining site costs, which is approximately $1.5 million. No adverse environmental issues were observed and soils are reported to be supportive of the proposed floor plans. Based on my observations and due diligence undertaken, the site is adequate for subdivision development.

After analyzing the site, I provided a market analysis that looked at the economic and demographic trends in Kings County as well as the subject site’s immediate areas. Data revealed moderate-income levels countywide; however, economic and demographic data associated with the subject's immediate area was indicative of characteristics that are more favorable. Specifically, current household income, estimated income growth, and median home values were higher on average when compared to Kings County as a whole. Additionally, the number of vacant housing units is relatively lower in the immediate area than in the County as well as the State, which may be a result more economic stability afforded by the Naval Air Base.

Next, I prepared a marketability study that analyzed the competitive market area. I underwent numerous interviews of market participants, inspected competing subdivisions, collected data related to competing subdivisions, and gathered absorption data. With the results of my interviews and by observations of competing subdivision, I was able to prepare a well-honed valuation of the proposed floor plans and determine appropriate pricing relative to absorption.

My findings from the market study, marketability study, and site analysis offered a solid basis for the assumptions used in my investment analysis. In this analysis, I explored the financial feasibility of investing in the subject site while considering changes in market conditions. Three cash flow summaries were provided: a pessimistic scenario, a "most-likely" scenario, and an optimistic scenario. All three scenarios indicated that investing in the subject site would be lucrative and all offered NPVs significantly higher than 0 when discounted at 25 percent. Moreover, these NPVs and were supported by IRRs ranging from approximately 75 percent to nearly 220 percent.Based upon my findings, I recommend that a qualified builder/developer invest in the remaining site improvements and construction of retail homes.

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[1]Access to this website requires a paid subscription