



February 15, 2016

Mr. Terry Plowden
Senior Managing Director
Douglas Wilson Companies
1620 5th Avenue, Suite 400
San Diego, CA 92101

Re: Sweetwater Vistas Office Development Site Analysis

Dear Terry:

The following discusses and analyzes the viability of a commercial office project within the Sweetwater Vistas development site located at the corner of Jamacha Boulevard and Sweetwater Springs Boulevard in Spring Valley, County of San Diego, California. I lend my expertise and analysis having spent the last 10 years specializing in the acquisition, disposition and leasing of commercial office buildings throughout San Diego County.

The following summarizes key findings which support the report's preliminary findings:

Site Location and Characteristics

The Sweetwater Vistas development project lacks many, if not all of the key characteristics and elements vital to a successful office project (access, infrastructure, demand, absorption and achievable rental rate). Sweetwater Vistas is located in the municipality of Spring Valley, California. Non-residential real estate in Spring Valley consists primarily of 1.389 million square feet of retail and 1.2 million square feet of industrial. Vacancy rates for both product types are 4.6% and 4%, respectively. In contrast to the retail and industrial supply and vacancy in Spring Valley, office inventory in this area consists of approximately 230,000 square feet with a vacancy rate of 11.5%. In general, Spring Valley is known as a "neighborhood" office submarket. A "neighborhood" office submarket is one which exists to serve the small, immediate surrounding business population. Neighborhood office submarkets often lack the infrastructure, amenities and variety of projects to attract businesses from outside markets. Due to the lack of freeway access and location within the county of San Diego, Spring Valley has never attracted major corporate clients let alone many small businesses.

Neighborhood submarkets are in contrast to "destination" submarkets, which are centrally located, have multiple access points, significant infrastructure and amenities to attract businesses. As an example, Mission Valley would be the closest destination office submarket to Spring Valley. Mission Valley has over 7 million square feet of office space, which serves a broad base of tenants, multiple



access points from all major San Diego freeways and a plethora of retail amenities and housing options to serve the employment base.

San Diego Office Development and Asking Rental Rates

San Diego has seen very limited speculative office development over the last 10 years. Several factors contribute to this including, lack of developable land, high construction costs, and an arduous permitting and approval process. Due to the high barriers to entry and high cost of development there is only speculative office development occurring in submarkets with high population growth (e.g. Downtown) and submarkets where \$3.50/sf/mo to \$4/sf/mo Full Service rents can be achieved (e.g. UTC and Carmel Valley). To put this in perspective, Spring Valley office rents average \$1.24/sf/mo Full Service. An office development in Spring Valley would need to achieve rental rates far above average for the area and what a reasonable business would be willing to pay for this location.

San Diego Office Vacancy and Absorption vs Spring Valley Office Vacancy and Absorption

San Diego office inventory consists of approximately 83,434,000 square feet with a current vacancy rate of 12%. A 12% vacancy rate equates to approximately 10,012,161sf of available office space. San Diego's 10 year rolling average of positive net absorption is 765,000sf. At this average absorption rate it would take approximately 13 years to lease all available space in San Diego assuming no new supply entered the market. Developers of office space are very hesitant to develop new product given 10 year historical absorption rates even in areas of high demand and high rent growth. The entire Spring Valley office market consists of 230,000sf of office space with a vacancy rate of 11.5%, which equates to approximately 23,000sf currently available. On the surface a 11.5% vacancy rate seems relatively healthy; however, one must take into consideration the majority of the entire 230,000sf inventory is occupied by single tenants and owner/occupants, which lowers the overall vacancy rate. If only the multi-tenant office projects with availability are taken into consideration there is a vacancy rate of nearly 30%, the highest vacancy rate in the County.

A new office development project ranging from 80,000sf to 360,000sf would increase the total supply in the Spring Valley submarket by 34% to 155%, which would not be sustainable in this tertiary office submarket. As it currently stands, Spring Valley is having difficulty absorbing their current office vacancy and new supply would only put further strains on this neighborhood submarket.

In summary, any new commercial office development in the Spring Valley submarket, and specifically the Sweetwater Vista development, would not be viable due to access, location, supporting infrastructure and amenities, population growth, tenant demand and rental rates achievable to justify the expense of such development.



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Sincerely,

A handwritten signature in black ink that reads "Derek Hulse".

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Derek Hulse

VICE PRESIDENT



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EDUCATION AND QUALIFICATIONS

University of Redlands
B.S. Business and Economics Degree

AFFILIATIONS AND MEMBERSHIPS

NAIOP - Board Member 2014, 2015
Mission Valley Planning Committee
Colliers International - San Diego,
Board of Directors - 2011, 2012 &
2014
Toastmasters Int. - President of NAIOP
Chapter 2013-2014
SIOR - Candidate
CCIM Scholarship recipient

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AREA OF EXPERTISE

Derek Hulse specializes in the leasing and sale of office properties in the central, urban San Diego office markets. His primary focus is representing owners, both private and institutional, of multi-tenant office projects. Currently he represents 30+ properties totaling nearly 1.5 million square feet. Throughout his career he has represented a variety of owners and users of real estate in a multitude of complex lease and sale transactions. He has developed a reputation with his clients as being a trusted advisor who truly understands their real estate needs and presents clear and concise solutions that add value to their real estate portfolio.

PROFESSIONAL ACCOMPLISHMENTS

Involved in over \$250 million in lease and sales transactions
Consistently a top-producer in the San Diego Region

CENTRAL SAN DIEGO RECENT TRANSACTIONS

SOLD (LAST 12 MONTHS):

- ♦ 2535 Camino del Rio South - 50,000 SF
- ♦ 2635 Camino del Rio South - 39,000 SF
- ♦ 3420 & 3430 Camino del Rio North - 40,000 SF
- ♦ 3530, 3550 & 3570 Camino del Rio North - 90,000 SF
- ♦ 8555 Aero Drive - 48,000 SF
- ♦ 9797 Aero Drive - 73,000 SF

LEASED (LAST 12 MONTHS):

- ♦ District Attorney - 24,000 SF
- ♦ Regus Executive Suites - 15,000 SF
- ♦ First Choice Executive Suites - 15,000 SF
- ♦ CSA - 14,000 SF
- ♦ Volunteers of America - 10,000 SF
- ♦ US Colleges - 8,000 SF
- ♦ Method Schools - 6,000 SF

BUSINESS AND EDUCATIONAL BACKGROUND

Prior to joining Colliers International Derek was a Senior Associate at Lee & Associates where he focused on similar disciplines. Derek began his Real Estate career as an associate at a boutique commercial brokerage firm where he specialized in tenant and landlord representation for office and industrial product in San Diego County, as well as representing buyers in acquisitions for re-development and investment properties. Prior to his involvement in commercial real estate, he managed a highly successful team of mortgage brokers, financial advisors and personal bankers at the La Jolla office of Bank of America.

PARTIAL LIST OF CLIENTS

- ♦ Peregrine Realty Partners
- ♦ Duetsche Asset and Wealth Mgt
- ♦ RREEF
- ♦ Holualoa Companies
- ♦ Commonwealth REIT
- ♦ Brentcrest Associates
- ♦ Terra Enterprises
- ♦ Pacific View Properties
- ♦ Crown Pacific Group
- ♦ Hudson Americas
- ♦ Lonestar
- ♦ CIF
- ♦ San Diego Native Holding Company
- ♦ ScanlanKemperBard
- ♦ Oaktree Capital
- ♦ Bixby Land Company
- ♦ SD Commercial

