NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

Barrio Logan: An Analysis of Future Land Use Demand and Economic Impact of Current Industrial Uses

Prepared For:

Port of San Diego Ship Repair Association

&

Barrio Logan Smart Growth Coalition

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EXECUTIVE SUMMARY AND KEY FINDINGS

The community of Barrio Logan, adjacent to a growing downtown and home to a robust industrial base and more than 4,000 San Diegans, confronts the tensions brought on by close co-location of residential and industrial uses.
It planning challenges are pronounced and the update to the community plan could not come at a better time.

To help inform this planning process, the Port of San Diego Ship Repair Association and the Barrio Logan Smart Growth Coalition retained the National University System Institute for Policy Research to **A) analysis the office market forecast contained within the "Barrio Logan Market Analysis" authored by Economic Research Associates (ERA)** and **B) estimate the size and economic impact of the community's industrial base.**

We reached the following conclusions:

1) It is very doubtful that Barrio Logan could absorb 271,000 to 405,000 square feet of office uses (the estimates made in a study done by Economic Research Associates (ERA) for the City of San Diego). If Barrio Logan is to capture additional office demand, this has to be achieved by presenting a better locational or economic value to prospective firms than alternative locations. In light of significant competition from both traditional and emerging commercial office nodes, this is highly problematic.

2) Moreover, regional office space demand projections made in the study by ERA and the projections for Centre City/Barrio Logan are overstated. Even with renewed, long term prosperity, the regional commercial office demand will be smaller.

3) Barrio Logan is home to at least 200 industrial firms employing approximately 7,750. These firms have nearly $1.05 billion in sales. The procurements and spending by their workers, in turn, support another 11,200 indirect and induced jobs.

4) Federal contracting data, announced Department of Defense policies and the forecasts of the region's major ship builders all suggest a high amount of activity at Barrio Logan shipyards over the next several years.

5) This should mean that there will be continued robust demand for the services carried out by the maritime businesses that call Barrio Logan home and the sub-contractors, suppliers, and partners of these firms that are located throughout Barrio Logan.

INTRODUCTION

Barrio Logan, one of San Diego's oldest and most historic neighborhoods, is located south of San Diego's downtown, west of Interstate 5, and is bisected by the Coronado Bay Bridge. It extends south to the City's boundaries with National City and Naval Station San Diego. It is a community with an extremely rich history. It is also one that helps illustrate some of the damage that can be done to a neighborhood by poor planning, most notably by decisions regarding the routing of Interstate 5 and the approaches to the Coronado Bay Bridge that bisected the community.

In April 2008 the City of San Diego initiated an update to the Barrio Logan Community Plan. Such an effort could not come at a more opportune time. Notwithstanding the recent downturn, San Diego's Centre City has seen a significant amount of new development in the past decade. East Village, one of the downtown neighborhoods adjacent to Barrio Logan, has seen especially intense activity, fueled by both the catalytic impact of San Diego's Ballpark District, as well as the lower land costs in East Village compared to the rest of the downtown community. Concerns about development pressure, gentrification, and unplanned development in Barrio Logan have fueled interest in crafting a land use plan which can be used to channel potential developer interest in ways that serve neighborhood, community and regional goals.

Simultaneously, Barrio Logan remains home to 200 manufacturing and other industrial firms, approximately one-fifth of which support maritime activities, and collectively employ 7,750 workers. These businesses and the wages spent by their employees support another 11,200 workers in the San Diego region. Moreover, many of these firms are being impacted by a dramatic and long-term shift in U.S. defense policy which is resulting in increased ship building and ship repair activities in our region.[1] In 2008, there were more than $2.0 billion in ship building and ship repair contracts signed that went to businesses located in Barrio Logan. An additional $16 million in DOD contracts went for other kinds of goods and services.

In sum, Barrio Logan sits at the intersection of two forces – a growing downtown which MIGHT prompt development activity and investment in the community and, at least for the present, an expanding military and ship building presence and a robust industrial base. At the same time, it is home to more than 4,000 San Diegans that have forged, often in the face of great adversity, one of the region's most vibrant communities.

To make sense of how these forces - development in downtown and the continued existence of manufacturing companies - would interact and shape future development trends in the community, the Port of San Diego Ship Repair Association and the Barrio Logan Smart Growth Coalition retained the National University System Institute for Policy Research (NUSIPR) in

[1] United States Department of Defense, Quadrennial Defense Review, February 2010.

February 2010. Partnering with The London Real Estate Advisors, NUSIPR concentrated our efforts on a review and analysis of the "Barrio Logan Market Analysis" conducted for the City of San Diego by Economic Research Associates (ERA) with a specific focus on:

1) Exploring the competitive environment that would be faced by would-be office developers operating in Barrio Logan so as to **evaluate the forecast that Barrio Logan could capture 271,000 to 405,000 square feet of office development.**[2]

2) Examining the **residual land value analysis** in the "Barrio Logan Market Analysis" study

3) Quantifying **the direct, indirect, and induced employment associated with non-commercial and non-office uses** in Barrio Logan.

4) **Identifying short and mid-term trends among San Diego's major ship builders, ship repairers, and the U.S. Navy** that could impact demand for land uses accommodating local subcontractors and suppliers needing industrial and/or flex space.

From these tasks we reached the following conclusions.

First, it is very doubtful that Barrio Logan could absorb 271,000 to 405,000 square feet of office uses by 2030. This rate of development would mean that Barrio Logan is able to attract a significant share of regional-serving office uses. To do so, it will have to provide better locational and/or economic value to prospective firms than alternative locations.

We believe that is problematic. Would-be office developers in Barrio Logan will face significant competition from both traditional and emerging commercial office nodes. While it is a community that is vibrant and exciting, its geographic location and many of the existing uses in the community, uses that will likely continue to exist for the foreseeable future, will put Barrio Logan at a serious disadvantage. Without significant public subsidies, it is unlikely that demand would be sufficient to warrant this much office construction.

Second, the 2008 study by ERA had regional office space demand projections and the projections for Centre City/Barrio Logan which are overstated. The San Diego Association of Governments (SANDAG) has recently updated regional economic forecasts which project less job growth than the forecasts used by ERA in its Barrio Logan Analysis.

Third, we found a relatively robust employment base in Barrio Logan which supports several thousand additional jobs in the region. Using information from Dun and Bradstreet and augmented by industry contacts, we identified 200 industrial companies in Barrio Logan that, as of 2008, employed approximately 7,750 workers. In addition, these firms buy goods and services

[2] Economic Research Associates, "Barrio Logan Market Analysis," pg. VI-3

and the wages paid to their employees support another 11,200 indirect and induced jobs throughout the San Diego region.

Fourth, while we agree that *regional* forecasts remain negative for industrial users in San Diego County, there are good reasons to believe that Barrio Logan sees an opposite trend. Home to 36 maritime related firms that seem to have a relatively dense network of partnering relationships, Barrio Logan's economic fortunes are influenced by activities at the ship yards in the southern part of the community planning area.[3] Announcements by both the ship repair facilities and the U.S. Navy suggest that, at least in the short term, there will be a robust amount of economic activity occurring at the maritime companies as San Diego firms carry out contracts for the Department of Defense valued in excess of $2 billion.

Fifth, these findings suggest that community plans which shift employment uses away from industrial zonings to exclusively office uses will cut against the market forces impacting Barrio Logan.[4]

The rest of this report is laid out as follows. In Part I, The London Group explores the underlying assumptions and methodologies in the forecast that Barrio Logan could see between 271,000 and 405,000 square feet of office development between 2011 and 2030. They find that ERA's forecast to be overly optimistic. While Barrio Logan is located adjacent to Centre City, regional and neighborhood specific factors are likely to lead to *much less* office development in the neighborhood than other forecasts would suggest.

Part II quantifies the economic impact of Barrio Logan's industrial users. We find that there is a robust and diverse manufacturing and industrial base. Some 200 firms employ thousands of San Diegans and, in turn, the procurement of these firms and the spending of their employees indirectly and induce thousands of more jobs throughout the region. We also explain that, while *regional* forecasts for industrial uses show decline, there are good reasons to believe that Barrio Logan faces countervailing trends that will allow industrial uses to hold at least steady.

[3] Among 41 total maritime businesses identified, 5 are not industrial operations.

PART 1: FUTURE LAND USE REVIEW

This section has been researched and written by The London Group Realty Advisors.

KEY FINDINGS

In December 2008 the Barrio Logan Community Plan Committee received a report, funded by the City of San Diego, from ERA, addressing the market support, jobs impacts, and development feasibility of the Barrio Logan Community Plan.

We have analyzed this report. Its key conclusions as it pertains to directed land use projections, include:

- Over a 19 year period (to the year 2030) ERA projects a demand range for commercial office space of 271,000 to 405,000 square feet.
- Over a 19 year period (to the year 2030) ERA projects a demand range for housing of 1,410 to 1,730 units.
- Over a 19 year period (to the year 2030) ERA projects a demand range for retail and restaurants of 126,350 to 158,650 square feet.
- Over a 19 year period (to the year 2030) ERA projects a total demand range of 43 to 54 acres for the three land uses above (commercial office, retail and restaurants, and housing.

Our overarching conclusion is that ERA's forecast that Barrio Logan will accommodate this substantial additional commercial office space is exceptionally optimistic.[5] Realistically, expected demand for office space in Barrio Logan should be much lower than ERA has concluded. This conclusion is based on four points:

- ERA relies on a San Diego regional office space demand that is not expected to be as high as they have projected.

- ERA's projected market capture for Barrio Logan has no basis in this community's historical, current or prospective office capture potential.

- Barrio Logan will demand local serving office space, but it is less than ERA has projected.

[5] The London Group Realty Advisors has offered these conclusions to ERA in advance of this report.

- Achievable lease rates in Barrio Logan will be order-of-magnitude lower than more established and better located office nodes. This is likely to render any new construction infeasible now and in the foreseeable future.

The overarching difference between the ERA conclusions and ours is based on demand methodology. ERA and the City are marching toward commercial office zoning to replace industrial zones on the theory that the rezoning will attract office space demand. From there, they employ a “share of the regional market” approach in creating their demand projection forecast.

It is unlikely that, in fact, Barrio Logan will attract this much higher share of office space. In the real world of real estate demand and development, marketplace always trumps planning or redevelopment subsidies. The prototypical example of this locally is the redevelopment of Downtown San Diego. The redevelopment agency (CCDC) was created in 1975. However, only sporadic development took place in the early years despite enormous investment in infrastructure and anchor projects such as Horton Plaza and the Convention Center.

In fact, most of the truly private sector development that now presents Downtown as a showcase of redevelopment success was completed over the past 15 years.

In other words, it took the private sector almost twenty years to proactively respond to the redevelopment “carrots” offered by CCDC. And they did so in a manner totally unexpected by CCDC: through large development of residential units (approximately 10,000 housing units between 1995 and 2005), and only modest development of commercial office space (approximately 628,000 square feet in the last 10 years).

The problem will be even more pronounced in an community like Barrio Logan, whose past land use array of mostly industrial uses (with a mix of residential and retail) are largely incompatible with a “new urbanism” approach to redevelopment.

Moreover, there is an important case to be made that these industrial uses, many of which are port-related, cannot be relocated elsewhere in San Diego.

Inevitably, these industrial users would be phased out, and jobs will be lost to the region. There are virtually no defensible arguments that can be made to relocate these uses either on the grounds of locational considerations (e.g. proximity to the water) or economic feasibility –it will be too expensive to locate elsewhere in San Diego County.

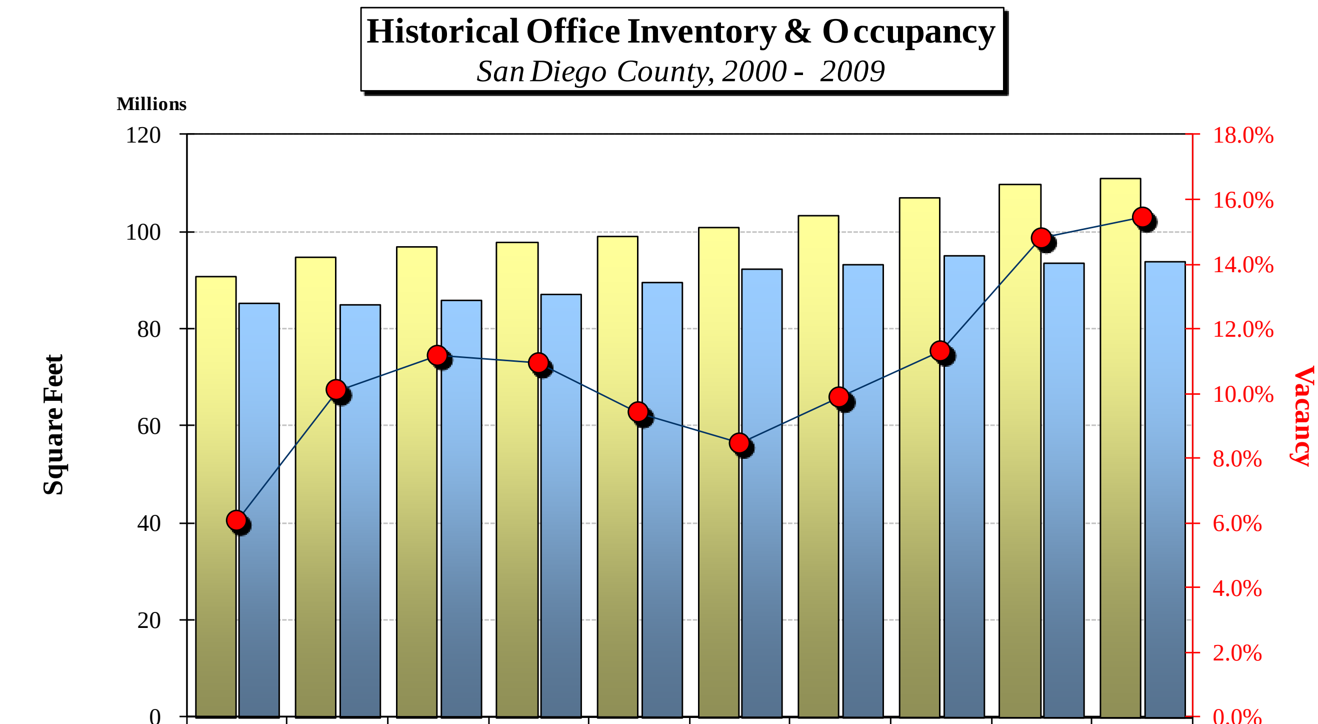
The compelling conclusion from our review of the ERA report, coupled with our own analysis, is that the City and the community leaders of Barrio Logan ought to think carefully about the path they are walking down.

If the land use goals persist to rezone to a higher grade of commercial office, this is not likely to result in these uses being built. And if we are right, the plan serves no practical purpose other than as an obstacle, effectively stymieing right-minded development that might occur if the plan is composed another way.

That "other way" might be to create an opportunity for the enhancement of those uses which celebrate the industrial base within the Barrio Logan community, while at the same time working toward compatibility and co-location with more contemporary land use patterns. It is a delicate balance to keep industrial while encouraging investment in commercial and residential, but it is certainly worthwhile to work toward that goal. If jobs remain, people ought to be able to live nearby in a safe and prosperous environment, including the necessary retail and commercial office uses to support them.

REGIONAL OFFICE SPACE DEMAND IS EXAGGERATED

Overall, ERA's projection for **regional demand for office space is not realistic**. The ERA report forecasts a total of 40.7 million square feet from 2011-2030. This equates to approximately 20 million square feet added in each 10 year period. However, while the San Diego region added 20 million square feet of space during the years 2000 to 2009, the market is now overbuilt and only 12.3 million square feet was actually demanded or absorbed. As a result, the vacancy rate increased by 9% (from 6.1% in 2000 to 15.2% by year end 2009), as shown in the following chart:



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Inventory	90,864,889	94,758,570	96,989,928	98,006,038	99,032,422	100,971,934	103,497,283	107,181,705	109,974,364	111,232,167
Occupied	85,326,254	85,190,939	86,131,747	87,292,159	89,711,406	92,417,470	93,269,660	95,051,633	93,708,756	94,060,085
% Vacant	6.1%	10.1%	11.2%	10.9%	9.4%	8.5%	9.9%	11.3%	14.8%	15.4%

Source: The London Group Realty Advisors, CoStar

This most recent ten year period was defined by high level growth and economic expansion. However, assuming ERA's forecast of 20 million square feet for each of the next two decades, we have concluded that this would result in the regional vacancy rate increasing to 19% in 2020 and 22% in 2030. This is not a realistic scenario. More likely, the market will "self balance" and new development would be curtailed in favor of stabilized, lower vacancy levels.

Corrected Regional Office Demand

We have determined what we believe to be a more realistic office demand forecast for the San Diego region by utilizing SANDAG 2050 forecasts. In our base year of 2000 the California Employment Development Department reported total civilian employment to be 1,322,200. Going forward, SANDAG forecasts that employment growth in San Diego County will be 8,628 jobs per year from 2008 to 2020 and 14,802 from 2020 to 2030.

The following table details the employment growth and space demand in San Diego County from 2000 to 2030. Based on SANDAG's estimates for the ratio of workers in each employment category, the number of employees who principally work in office space in San Diego County was approximately 399,000 in 2000. This figure is anticipated to increase to approximately 493,000 by 2020, and 544,000 by 2030, as shown in the following table:

San Diego County Employment and Office Space Demand Forecast
2000-2030

	% Office Space Users	2000	2008	2020*	2030*
San Diego County Office Employment Projections					
Total Civilian Employment		1,322,200	1,501,080	1,604,615	1,752,630
Employment Categories (SIC)					
Agriculture & Mining	1%	13,222	13,510	11,232	10,516
Construction	2%	66,110	82,559	94,672	105,158
Manufacturing	3%	134,864	109,579	112,323	113,921
Trans., Wrhs., Util.	15%	33,055	34,525	36,906	42,063
Information	15%	43,633	43,531	49,743	57,837
Trade	3%	189,075	211,652	223,041	241,863
Fin./Ins./R.E.	70%	214,196	247,678	267,971	303,205
Prof & Business	50%	214,196	246,177	264,761	292,689
Other Services	10%	46,277	57,041	62,580	68,353
Leisure & Hospitality	1%	141,475	186,134	202,181	220,831
Government	50%	226,096	268,693	279,203	296,194
Total Office Employment		**398,802**	**461,507**	**492,906**	**543,596**
Office Employment as a % of Total		30%	31%	31%	31%
Total Occupied Office Inventory		**85,326,254**	**93,708,756**	**99,674,488**	**109,305,604**
S.F. Per Employee		**214**	**203**	**202**	**201**
Vacancy Rate		**6.1%**	**14.8%**	**14.8%**	**14.8%**
San Diego County Office Space Demand					
Change in County Office Employment			62,705	31,399	50,690
Office Space Demand per Employee (S.F.)			190	190	190
County Incremental Office Space Demand (S.F.)			**11,904,226**	**5,965,732**	**9,631,116**

Source: The London Group Realty Advisors, SANDAG 2050 Forecast, CoStar, CA EDD *Forecasted

The employment located in office space is translated to demand for office space based on the number of square feet per employee. San Diego's office market will not demand as much in the next decades as we did in the past principally due to advances in technology. For instance, hard drives are replacing file cabinets, and phone services are replacing receptionists. This cumulatively translates into lower overall space demand, even if the same numbers of employees are projected.

Twenty years ago, office users required 250 square feet per employee. Today, the same users require only 150 to 230 square feet per employee. It is likely that this trend will continue further downward into the future as technologies advance and business practices evolve. In the following table, we have projected demand based on a range of 150 to 230 square feet per employee:

SQUARE FEET OF OFFICE PER EMPLOYEE
SAN DIEGO COUNTY, 2008-2030

2008-2020	Low	Med	High
Office Space Per Employee	150 S.F.	190 S.F.	230 S.F.
Change in County Office Employment	31,399	31,399	31,399
County Incremental Office Space Demand	4,709,788 S.F.	5,965,732 S.F.	7,221,676 S.F.

2020-2020	Low	Med	High
Office Space Per Employee	150 S.F.	190 S.F.	230 S.F.
Change in County Office Employment	50,690	50,690	50,690
County Incremental Office Space Demand	7,603,513 S.F.	9,631,116 S.F.	11,658,720 S.F.

2008-2030	Low	Med	High
Office Space Per Employee	150 S.F.	190 S.F.	230 S.F.
Change in County Office Employment	82,089	82,089	82,089
County Incremental Office Space Demand	12,313,301 S.F.	15,596,848 S.F.	18,880,395 S.F.

Source: London Group Realty Advisors

We have taken the midpoint forecast for the years 2008 to 2030 of 190 square feet per employee as the basis for our projection. San Diego County is likely to demand approximately 6.0 million square feet between 2008 and 2020 and an additional 9.6 million square feet between 2020 and 2030, totaling 15.6 million square feet between 2008 and 2030.

The vacancy rate for office space has increased from 6.1% in 2000 to 14.8% in 2008. We have assumed in our forecast that the vacancy rate does not change. This is a conservative estimate because it is likely that as the market recovers, existing vacant space will be absorbed before new space is built and the vacancy rate will decrease, resulting in a lower demand for office space.

Our conclusion is that even with renewed, long term prosperity, the overall commercial office demand will be lower. This demand will be subdivided into various commercial office "nodes" throughout the region, including Downtown, Mission Valley, UTC and Del Mar.

The pie will be smaller, and each office node will now share in a piece of a smaller pie.

MARKET CAPTURE IS DISPROPORTIONATE

Will the traditional office "nodes" make way for market share that can be captured in new nodes, such as Barrio Logan? ERA predicts that Barrio Logan will capture 6.2% to 6.3% of Downtown's demand for commercial office space. Essentially, ERA is suggesting that Barrio Logan will become attractive to companies in need of office space who otherwise would locate Downtown.

If Barrio Logan is to be successful with this strategy, it has to achieve this by presenting a better locational or economic value to prospective firms.

Barrio Logan is located just past the southern edge of Downtown San Diego, San Diego's largest office node at approximately 13.1 million square feet. Most of this commercial office space is located in the western portions of downtown, with a vast swath of older, relatively undeveloped downtown properties known as East Village which, outside of the Ballpark District, have experienced virtually no office development over the entire renaissance period of downtown redevelopment.

Yet, East Village is part of the redevelopment and has closer proximity to the other attractive infrastructure of downtown (government offices, restaurants and entertainment, housing, etc.)

Downtown San Diego can accommodate millions of square feet of office space. However, over the past 20 years, less than two million square feet of office space has been built downtown. East Village is likely to house new office space long before Barrio Logan, and for similar locational and economic reasons.

There is also demand for office space in non-downtown markets. However, an emerging Barrio Logan office market will have to compete with other, more established submarkets such as Mission Valley and Chula Vista. These markets already have presence and momentum, and are accommodating the needs of office users who prefer cheaper space to the prestige of a downtown location.

Corrected Barrio Logan Market Capture

To determine the square feet of office space that Barrio Logan will demand over this time period, we have estimated the market capture of Downtown based on the proportion of inventory that currently exists in Downtown relative to the County. There are currently approximately 13.1 million square feet in Downtown, representing 11.8% of the total 111.4 million square feet of office space in San Diego County, as shown in the following table:

MARKET CAPTURE
DOWNTOWN AND BARRIO LOGAN

Total Office Inventory (County)	111,380,654 S.F.
Total Office Inventory (Downtown)	13,103,835 S.F.
Downtown Percentage	11.8%

2008-2020

County Incremental Office Space Demand	5,965,732 S.F.	
	Low	High
Future Downtown Capture Rate	12%	20%
Future Downtown Capture	715,888 S.F.	1,193,146 S.F.
ERA's Forecasted Barrio Logan Capture (6.25%)	44,743 S.F.	74,572 S.F.

2020-2030

County Incremental Office Space Demand	9,631,116 S.F.	
	Low	High
Future Downtown Capture Rate	12%	20%
Future Downtown Capture	1,155,734 S.F.	1,926,223 S.F.
ERA's Forecasted Barrio Logan Capture (6.25%)	72,233 S.F.	120,389 S.F.

2008-2030

County Incremental Office Space Demand	15,596,848 S.F.	
	Low	High
Future Downtown Capture Rate	12%	20%
Future Downtown Capture	1,871,622 S.F.	3,119,370 S.F.
ERA's Forecasted Barrio Logan Capture (6.25%)	116,976 S.F.	194,961 S.F.

Source: London Group Realty Advisors, CoStar, SANDAG 2050 Forecast, ERA

We have conservatively estimated that Downtown's capture rate over the next 20 years will be at least what it is today, ranging from a low of 12% to a high of 20%. Using these rates, Downtown will demand approximately 1.9 to 3.1 million square feet of office space between 2008 and 2030. ERA has estimated that Barrio Logan will capture an average of 6.25% of the Downtown demand for office space. Using ERA's estimate, this calculates to a Barrio Logan capture of approximately 117,000 to 195,000 square feet of office space between the years 2008 and 2030.

This is approximately 52% to 57% lower than ERA's estimates of 271,000 to 405,000 square feet demanded in Barrio Logan between 2011 and 2030.

LOCAL SERVING OFFICE DEMAND

Alternatively, Barrio Logan could be positioned to compete with southern neighborhoods, most notably south bay's National City or Chula Vista. However, over the past ten years, only Chula Vista has experienced office growth, approximately 831,000 square feet, in its attractive redeveloping downtown. In fact, Chula Vista is a good example of why Barrio Logan might achieve office demand: the companies located in Chula Vista offices are small businesses, attorneys, insurance brokers, accountants, architects and other firms who mainly serve the local market.

Barrio Logan does and will have local serving demand for office space. The following table demonstrates the amount of office space in various communities throughout San Diego that primarily include local serving office users:

SQUARE FEET OF OFFICE PER PERSON
SUBMARKETS OF SAN DIEGO COUNTY

Submarket	Population	Office Space	Office S.F./Person
Solana Beach	12,592	934,745 S.F.	74.23
Del Mar	14,398	488,003 S.F.	33.89
La Mesa	70,097	2,272,304 S.F.	32.42
Encinitas	55,560	1,585,037 S.F.	28.53
Clairemont Mesa	11,976	271,162 S.F.	22.64
Chula Vista	230,397	2,976,435 S.F.	12.92
National City	54,947	643,745 S.F.	11.72
Santee	55,850	495,489 S.F.	8.87
Coronado	23,030	201,764 S.F.	8.76
Lemon Grove	30,204	249,437 S.F.	8.26
Fallbrook	49,239	389,192 S.F.	7.90
Ramona	35,313	210,106 S.F.	5.95
Alpine	15,748	55,853 S.F.	3.55
Julian	2,893	7,000 S.F.	2.42
Lakeside	56,901	136,293 S.F.	2.40
Valley Center	22,194	43,336 S.F.	1.95
Kensington	63,346	52,516 S.F.	0.83
Jamul	9,885	2,055 S.F.	0.21
Total	**814,570**	**11,014,472 S.F.**	**13.52**

Source: London Group Realty Advisors, SANDAG, CoStar

We applied this 13.52 average weighted square feet of office space per person to the population of Barrio Logan. By this methodology we have determined that Barrio Logan would demand approximately 102,000 square feet of office space through the years 2008 to 2030, as shown in the following table:

FORECASTED OFFICE SPACE
BARRIO LOGAN, 2008-2030

	2008	2008-2020*	2008-2030*
Total Population	4,227	7,776	11,800
Change in Population	n/a	3,549	7,573
Office Space Per Person	13.52 S.F.	13.52 S.F.	13.52 S.F.
Total Office Space Demanded	57,157 S.F.	105,146 S.F.	159,558 S.F.
Change in Office Space Demanded	n/a	47,989 S.F.	102,401 S.F.

*Forecasted

Source: London Group Realty Advisors, SANDAG, CoStar

This is 62% to 78% less than the 271,000 to 405,000 square feet of office space between 2011 and 2030 that has been estimated by ERA.

THE FEASIBILITY TEST

Market Lease Rates

Office lease rates in Barrio Logan would also have to be less expensive than other, more established commercial office nodes to be competitive. It would be expected that Barrio Logan office space would be substantially less expensive to lease than the top markets in the region, as shown in the following table:

CLASS A OFFICE SPACE LEASE RATES
SAN DIEGO SUBMARKETS, 1999 - 2010 QTD

	Downtown	Del Mar & Carmel Valley	UTC	Mission Valley
1999	$1.99	$2.38	$2.37	$2.04
2000	$2.27	$2.60	$3.12	$2.49
2001	$2.49	$3.06	$3.36	$2.66
2002	$2.39	$3.31	$2.87	$2.74
2003	$2.42	$3.07	$2.85	$2.68
2004	$2.57	$3.17	$2.88	$2.71
2005	$2.76	$3.25	$3.13	$2.78
2006	$2.93	$3.88	$3.63	$2.97
2007	$2.94	$4.00	$3.77	$3.19
2008	$2.88	$3.93	$3.58	$3.03
2009	$2.62	$3.24	$3.03	$2.70
2010 QTD	$2.63	$3.22	$2.72	$2.63

Source: London Group Realty Advisors, CoStar

On average, office lease rates in these four submarkets are 18.8% lower than their peak of 2007. The entire sector is experiencing a downturn in attainable lease rates. The result is that many firms, who normally locate in secondary nodes, or in Class B or C space, can “move up” either in location and/or quality of space at a low rate.

Financial Analysis

It is conceivable that Barrio Logan could capture a modest share of the regional market if office space could be offered at comparatively favorable lease rates. If Barrio Logan were to offer lease rates at 25% less than Downtown Class A office space, today the base lease rate would be $1.98 per square foot per month. This would be an extraordinary bargain.

Yet, pricing at Barrio Logan would need to be substantially lower than the already depressed lease rates in the top markets. This low pricing would render any new construction infeasible. The only way to make these projects feasible would be to incorporate them into a mixed use project. The best approach might be to identify obsolescent inventory in Barrio Logan and retrofit it to be second and third floor office space over retail.

We have reviewed the financial proforma in the ERA report for the office prototype. The ERA report concludes that the Redevelopment Agency (RDA) position would be negative $396,897. This demonstrates that office development is not feasible without City agency assistance. This is calculated in the following table as the City acquiring the property for $1,200,000 and selling it to the developer for a residual land value of $367,440. The RDA would also benefit from the net present value of the tax increment over the 2011 – 2022 period.

However, the ERA proforma contains some critical deficiencies. This most significant is that there are no operating expenses being paid for the office building. For this type of product, operating expenses are approximately 25%. When these are accounted for, the net RDA position is a negative $1,779,246.

In addition, the rental rate assumed by ERA is $2.25 per square foot in 2011, which represents only a 15% discount from Downtown Class A rents. A market analysis would suggest that the discount should be 25%, as it is in other San Diego secondary markets, which would reflect a lease rate of $1.98 per square foot in today’s dollars. Adjusting for this correction further deteriorates the net RDA position to a negative $2,058,188.

The following table summarizes this analysis and the backup proformas are included in the Appendix to this report. The overarching conclusion is that office development is even more in-feasible than originally represented to the City.

Three-Story Office Project
RDA Position

	ERA Report	Op. Expenses @ 25%	Op. Expenses @ 25% Lease Rate at $1.98
Assumed Acquisition @ $50 psf	($1,200,000)	($1,200,000)	($1,200,000)
Estimated Residual Land Value (Afforded by Developer)	$367,440	$0	$0
Additional Project Subsidy	$0	($889,383)	($1,139,905)
NPV of Tax Increment From Development (2011 - 2022)	$435,663	$310,138	$281,717
Net RDA Position	**($396,897)**	**($1,779,246)**	**($2,058,188)**

Source: ERA, The London Group Realty Advisors

Research for this project was completed in March 2010. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report will vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise, of property owners, investors, developers, lenders, public agencies, operators or tenants.

PART II: INDUSTRIAL EMPLOYMENT IN BARRIO LOGAN

This section has been researched and written by the National University System Institute for Policy Research.

KEY FINDINGS

- 200 manufacturing, construction, wholesale trade, transportation, warehousing, other industrial service businesses are presently located in Barrio Logan
- These companies employ 7,750 workers
- 36 of these companies are associated with maritime uses, employing 6,100 workers with combined 2008 revenues of $771 million
- These firms, in turn, have indirect and induced impacts of 11,200 jobs.

Barrio Logan employment is characterized by a diverse mix of businesses and economic activities. Chief among these are the ship yard and specialty manufacturing facilities that support the region's ship building and ship repair activity. In addition to these businesses, however, are a range of other "industrial" enterprises, including commercial launderers, auto repair shops, firms engaged in wholesale trade, warehousing, and transportation.

We estimate that in 2008, a total of 200 employers that could be categorized as manufacturing (NAICS Code 32), construction (NAISC Code 23), wholesale trade (NAICS code 42), transportation and warehousing (NAICS codes 48-49) and most "other services", including auto, nautical, electric and other repair services (NACIS code 81), were located in Barrio Logan. They employ 7,750 workers and have combined reported revenues of $1.05 billion. 36 of these could be classified as being involved in maritime activities and these account for the bulk of overall sales ($771 million) and employment (6,082 employees).

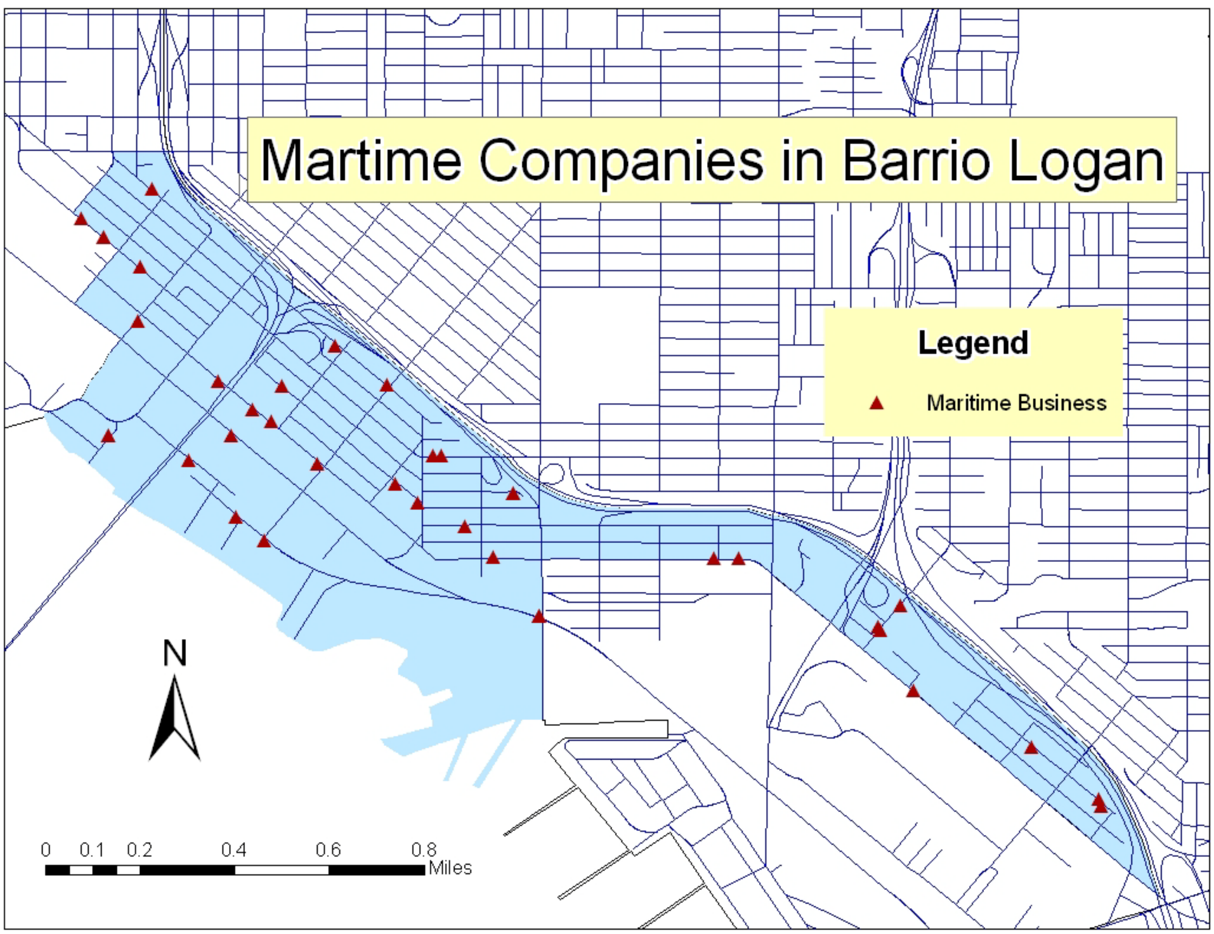
We derived these estimates principally from data compiled by Dun & Bradstreet (D&B) which, in turn, uses a combination of public records, telephone surveys and other proprietary sources to identify nearly every U.S. company, contact information, NAICS classification, revenues, and employment. Since D&B data is reported by the Zip Code level, we used street addresses and GIS mapping to identify those employers located in the Barrio Logan Community Planning Area (CPA) and those that, while located in the 92113 Zip Code, fell outside the boundaries of the Barrio Logan CPA.[6] We subsequently augmented the list with a handful of other firms identified

[6] The Barrio Logan Community Planning Area is designated as a geographic area by the City of San Diego. Interstate 5 serves as the western boundary. Centre City's East Village and the 10th Avenue Marine Terminal borders the north, while the Port of San Diego and Bay are the western boundary. A sliver of land extends from 28th Avenue south between I-5 and Naval Station San Diego.

by industry associations and community leaders that had been overlooked by D&B. In a few cases, we had to estimate the company's employment or revenues by using median values for revenues-per-employee from firms in Barrio Logan engaged in similar activities.

To identify maritime businesses we relied upon the NAICS codes used by the World Trade Center San Diego in their "Maritime Economic Impact & Cluster Analysis" report.[7] We then examined the remaining manufacturing firms, identifying another handful (for example, Eastern Pacific Vessel Management, marketing consultant, and Action Cleaning Corporation, a tank and boiler cleaning service that builds and repairs boats, and provides hazardous waste transportation services) which we classified as being focused on maritime activities.

Figure A notes the location of these maritime-focused companies in the community.



[7] Maritime Economic Impact & Cluster Analysis, *World Trade Center San Diego*, November 30, 2009, "Appendix D: San Diego Maritime Organizations," p 242.

It is important to note that our estimate for 7,750 industrial workers (and 6,082 maritime-related workers) DOES NOT include U.S. Navy personnel, nor the workers at the Port of San Diego's 10th Avenue Marine Terminal, employers that have important impacts on Barrio Logan.

The balance of employment in the Barrio Logan CPA are located as a diverse collection of 182 smaller retail and commercial business which employ 1,877 workers. Among the largest employers listed by D&B are the Metropolitan Area Advisory Committee (MAAC) Project which in 2008 operated a job training program associated with a Barrio Logan address, Tradesman International Inc. (a "hiring hall" for construction workers) and the City of San Diego. The rest are relatively small businesses with fewer than 50 employees, the majority of which have less than 5 employees. Seven small neighborhood markets serve the area, with no major grocery chain currently located in the community.

The direct employment in Barrio Logan also supports other businesses. Barrio Logan firms buy materials and supplies and their employees use wages to consume goods sold and produced in San Diego. These secondary impacts are typically referred to as indirect and induced economic impacts.

There are a number of ways to estimate these impacts. In this study we chose to utilize the Regional Input-Output Modeling System (RIMS II), developed by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA). It has the advantage that its modeling is both transparent and relatively easy to use. RIMS II starts with national data to estimate at the national level how a change in demand for one kind of product results in changes in demand for other industries. These matrixes are then adjusted to account for variations in the composition of regional economies.[8]

Using the previously estimated employment among the various segments of the Barrio Logan employment base, we made the following estimates for indirect and induced employment.

Segment	DIRECT JOBS	Secondary Impacts (Indirect and Induced Employment)
Industrial	7,753	11,232
Maritime Subset	*6,082*	*9,131*
Non-Industrial	2,012	1,320
TOTAL	9,765	12,552

[8] For more information on the construction of the RIMS II model see Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II); U.S. Department of Commerce, Economic Statistics Administration, 1997. Appendix A.

ROBUST ACTIVITY AT REGION'S SHIPYARDS

While Barrio Logan undoubtedly *has* a robust industrial base that directly and indirectly supports thousands of San Diego workers, estimating *future* activity in the community is fraught with difficulties. Regional forecasts compiled by the San Diego Association of Governments (SANDAG) indicate that the percentage of San Diego County's workforce employed in manufacturing, construction, wholesale trade and transportation is likely to decline as the region continues its long-term trend toward a focus on service industries and the decreasing role manufacturing will play in our economy. This is a core data point which would support an analysis that forecasts no increase in industrial demand in Barrio Logan.

However, what such regional forecasts are ill equipped to do is estimating trends WITHIN specific communities and neighborhoods. It could easily be the case that because of particular circumstances, we could see increases in certain economic sectors, including manufacturing, even though these uses in the aggregate are in decline in the region.

This is particularly important when considering Barrio Logan. As pointed out above, the region is home to 36 firms involved in maritime activities. Two major ship builders, General Dynamic National Steel and Shipbuilding Company (GD NASSCO) employing 4,200 workers, and BAE Systems San Diego Ship Repair with 1,000, are located in the southern part of the CPA. Other significant shipbuilders and employers are Pacific Ship Repair and Fabrication (175 employees), International Manufacturing (140 employees), and Continental Maritime Industries (104 employees).

Unlike ports in Hawaii, New Hampshire, Virginia and Washington, the U.S. Navy does not maintain their own shipyards in San Diego. Instead, all of the U.S. Navy's 50 surface ships and aircraft carriers home ported in San Diego, plus visiting ships as needed, are maintained by private industry.[9] In turn and as noted above, these ship builders and repairs have subcontracting relationships with a number of firms in the Barrio Logan CPA.

Recent news suggests that at least for the next few years activity at the ship yards will remain robust and active. In February 2010, GD NASSCO announced an $825 million contract with the U.S. Navy to build two dry cargo/ammunition T-AKE ships. According to GD NASSCO, a total of 14 such ships are expected to be built, with total value for the contracts expected to be about $5.2 billion, giving the company a firm backlog for shipbuilding in San Diego through 2012.[10] BAE San Diego in 2009 was awarded, along with six others, $455 million in contracts (with an estimated 25 percent of the work to be done in San Diego) for engineering and technical services on hull, mechanical, electrical and electronic systems and equipment onboard U.S. naval vessels.[11] According to our interviews with company officials, BAE and GD NASSCO hold multi-year contracts for ship repair with an annual value of $550 million and have an expectation

[9] Brad Graves, "Private Industry is Navy's De Facto Shipyard," *San Diego Business Journal*, August 31, 2009.
[10] *GD NASSCO*, T-AKE Program, February 2010, www.nassco.com (last accessed March 10, 2010)
[11] "Six Share $455 million in Navy Contract", MarineLog.com: September 3, 2009, http://www.marinelog.com/DOCS/NEWSMMIX/2009sep00030.html (last accessed March 11, 2010)

these will last 5 to 10 more years. In 2008, Pacific Ship Repair and Fabrication Inc, Fraser's Boiler Service, South Bay Sand Blasting and Tank Cleaning, Propulsion Controls Engineering additionally reported multi-million dollar defense contracts.

These company announcements parallel Department of Defense (DoD) contracting data. The Federal Procurement Data Center (FPDC) indicates shipbuilding and repair vendors in Barrio Logan executed (signed) in 2008 more than $2.0 billion of DoD contracts. The bulk of these focused on maritime activities, with a total of $16 million for goods and services unrelated directly to ship repair and ship building. FPDC data is only disaggregated by the company's Zip Code, but the vast majority of the $2 billion of DoD contracts flowing to the 92113 Zip Code were to companies located in the Barrio Logan CPA.

This is not surprising in light of the U.S. Navy's announcements that it expects to increase its presence in San Diego by another 20 or more ships. In 2009 ten new vessels became home ported in San Diego Bay, with a minimum of 10 more to be added by the year 2014.[12]

[12] San Diego Week, KPBS, "Top Stories of 2009: Military Expansion and San Diego Budget Crisis", December 31, 2009, www.kpbs.org.

APPENDIXES

Three-Story Office Project

ERA Rental Rate of $2.25 psf (in 2011)

Assumptions & Results

Holding Period:	13
Inflation Rate	3.00%

Financing:

Loan to Value	90%
Interest Rate (Permanent Loan):	6.500%
Amortization Term:	30
Annual Debt Service	$413,013

Stabilized Year	4
Stabilized NOI Year 4	$347,624
Stabilized Value Year 4	$4,634,982
Stabilized Value Per S.F. Year 4	$258.43
Debt Service Coverage Ratio	0.84

Initial Monthly Lease Rate psf in 2011	$2.14
Operating Expense (psf/month)	$0.54
Operating Expense Ratio (Net Rentable S.F.	25.00%

Property Acres (Net)	0.55
Property SF	24,000
Property Equity/S.F.	$0.00
Residual Land Value	$0

Disposition:

Cap Rate On Sale:	7.50%
Commission:	2.00%
Other Costs of Sale:	0.00%

Total Project Costs	$6,050,286
Less Owners Equity	$605,029
Construction Loan Amount	$5,445,257

Cost Per Square Foot	$337.35
Permanent Loan Per Square Foot	$303.61

Investment Performance

Before Tax IRR	**15%**
Total Profit	**$762,005**
NPV	**$111,342**
Discount Rate	10%

RDA Position	
Assumed Acquisition @ $50 psf	($1,200,000)
Estimated Residual Land Value (Afforded by Developer)	$0
Additional Project Subsidy	($889,383)
NPV of Tax Increment From Development (2011 - 2022)	$310,138
Net RDA Position	**($1,779,246)**

Three-Story Office Project
ERA Rental Rate of $2.25 psf (in 2011)
Construction Costs

Project Phasing	**Construction Start Per.**	**Construction Completion Per.**
Office Building Phase 1	1	2

	Square Feet	
Net Rentable S.F.	16,500	92%
Common Space	1,435	8%
Total Project	17,935	100%

Description	**Total Cost**	**Cost / Bldg S.F.**
Construction Costs		
Land	$0	$0.00
Direct Bldg Cost	$4,483,696	$250.00
Parking Cost	$191,400	$10.67
Site Work	$48,000	$2.68
Indirect Construction Cost	$1,039,081	$57.94
Construction Loan Interest	$288,109	$16.06
Land Cost Subtotal	**$6,050,286**	**$337.35**

Total Project Cost	**$6,050,286**
$/S.F.	$337.35
Cost Per Building (excl. land)	**$6,050,286**

Three-Story Office Project
ERA Rental Rate of $2.25 psf (in 2011)
Rental Assumptions

1. Net Rentable S.F.

Net Rentable S.F.	16,500
Inflation Rate	2.00%

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Period	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Rental Rate (Monthly, NNN)	$2.21	$ 2.25	$ 2.30	$ 2.34	$ 2.39	$ 2.44	$ 2.48	$ 2.53	$ 2.58	$ 2.64	$ 2.69	$ 2.74	$ 2.80
Vacancy & Credit Loss Rate	100.00%	30.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Occupied S.F.	0	11,550	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500

Three-Story Office Project

ERA Rental Rate of $2.25 psf (in 2011)

Cash Flow Forecast

Year		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Period	**Initial**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Gross Sched. Inc. (Net Rentable S.F.)		$0	$445,500	$454,410	$463,498	$472,768	$482,224	$491,868	$501,705	$511,739	$521,974	$532,414	$543,062	$553,923
Total Gross Scheduled Income		**$0**	**$445,500**	**$454,410**	**$463,498**	**$472,768**	**$482,224**	**$491,868**	**$501,705**	**$511,739**	**$521,974**	**$532,414**	**$543,062**	**$553,923**
Vacancy & Credit Loss (Net Rentable S.F.)		$0	($133,650)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Operating Income		**$0**	**$311,850**	**$454,410**	**$463,498**	**$472,768**	**$482,224**	**$491,868**	**$501,705**	**$511,739**	**$521,974**	**$532,414**	**$543,062**	**$553,923**
Less: Operating Expenses (Net Rentable S.F.)		$0	($77,962)	($113,603)	($115,875)	($118,192)	($120,556)	($122,967)	($125,426)	($127,935)	($130,494)	($133,103)	($135,766)	($138,481)
Net Operating Income		**$0**	**$233,888**	**$340,807**	**$347,624**	**$354,576**	**$361,668**	**$368,901**	**$376,279**	**$383,805**	**$391,481**	**$399,310**	**$407,297**	**$415,442**
City Assistance (Additional Subsidy)		$0	$889,383	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Annual Debt Service		$0	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)
Additional Capital Contributions	$0	($605,029)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cash Flow Before Taxes	$0	($605,029)	$710,258	($72,205)	($65,389)	($58,437)	($51,345)	($44,112)	($36,734)	($29,208)	($21,532)	($13,702)	($5,716)	$2,430
Asset Value		$0	$3,118,500	$4,544,100	$4,634,982	$4,727,682	$4,822,235	$4,918,680	$5,017,054	$5,117,395	$5,219,743	$5,324,137	$5,430,620	$5,539,233
Sales Commission		$0	($62,370)	($90,882)	($92,700)	($94,554)	($96,445)	($98,374)	($100,341)	($102,348)	($104,395)	($106,483)	($108,612)	($110,785)
Other Costs of Sale		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Loan Balance		$0	($5,384,394)	($5,319,455)	($5,250,167)	($5,176,238)	($5,097,359)	($5,013,196)	($4,923,397)	($4,827,584)	($4,725,355)	($4,616,278)	($4,499,897)	($4,375,721)
Net Sale Proceeds:		$0	($2,328,264)	($866,237)	($707,885)	($543,110)	($371,568)	($192,890)	($6,685)	$187,462	$389,993	$601,376	$822,111	$1,052,726
Owner's Cash Flows	$0	($605,029)	$710,258	($72,205)	($65,389)	($58,437)	($51,345)	($44,112)	($36,734)	($29,208)	($21,532)	($13,702)	($5,716)	$1,055,156
Before Tax IRR	**15%**													
Net Present Value of Profit	$0	($550,026)	$586,990	($54,249)	($44,662)	($36,285)	($28,983)	($22,636)	($17,137)	($12,387)	($8,302)	($4,803)	($1,821)	$305,641
Tax Increment														
Asset Value			$3,118,500	$4,544,100	$4,634,982	$4,727,682	$4,822,235	$4,918,680	$5,017,054	$5,117,395	$5,219,743	$5,324,137	$5,430,620	$5,539,233
Asset Basis @ $35 psf			$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000
Incremental Assessed Value			$2,278,500	$3,704,100	$3,794,982	$3,887,682	$3,982,235	$4,078,680	$4,177,054	$4,277,395	$4,379,743	$4,484,137	$4,590,620	$4,699,233
Annual Tax Increment			$22,785	$37,041	$37,950	$38,877	$39,822	$40,787	$41,771	$42,774	$43,797	$44,841	$45,906	$46,992
Total Tax Increment	**$483,344**													
NPV of Tax Increment @ 6%			$20,279	$31,100	$30,060	$29,051	$28,073	$27,126	$26,207	$25,318	$24,456	$23,622	$22,814	$22,032
Total NPV of Tax Increment @ 6%	**$310,138**													

Three-Story Office Project

Rental Rates Reduced by 25% ($1.98 psf)

Assumptions & Results

Holding Period:	13
Inflation Rate	3.00%

Financing:

Loan to Value	90%
Interest Rate (Permanent Loan):	6.500%
Amortization Term:	30
Annual Debt Service	$413,013

Stabilized Year	4
Stabilized NOI Year 4	$321,388
Stabilized Value Year 4	$4,285,171
Stabilized Value Per S.F. Year 4	$238.93
Debt Service Coverage Ratio	0.78

Initial Monthly Lease Rate psf in 2011	$1.98
Operating Expense (psf/month)	$0.50
Operating Expense Ratio (Net Rentable S.F.	25.00%

Property Acres (Net)	0.55
Property SF	24,000
Property Equity/S.F.	$0.00
Residual Land Value	$0

Disposition:

Cap Rate On Sale:	7.50%
Commission:	2.00%
Other Costs of Sale:	0.00%

Total Project Costs	$6,050,286
Less Owners Equity	$605,029
Construction Loan Amount	$5,445,257

Cost Per Square Foot	$337.35
Permanent Loan Per Square Foot	$303.61

Investment Performance

Before Tax IRR	**15%**
Total Profit	**$272,182**
NPV	**$35,203**
Discount Rate	10%

RDA Position	
Assumed Acquisition @ $50 psf	($1,200,000)
Estimated Residual Land Value (Afforded by Developer)	$0
Additional Project Subsidy	($1,139,905)
NPV of Tax Increment From Development (2011 - 2022)	$281,717
Net RDA Position	**($2,058,188)**

Three-Story Office Project

Rental Rates Reduced by 25% ($1.98 psf)

Construction Costs

Project Phasing	Construction Start Per.	Construction Completion Per.
Office Building Phase 1	1	2

	Square Feet	
Net Rentable S.F.	16,500	92%
Common Space	1,435	8%
Total Project	17,935	100%

Description	Total Cost	Cost / Bldg S.F.
Construction Costs		
Land	$0	$0.00
Direct Bldg Cost	$4,483,696	$250.00
Parking Cost	$191,400	$10.67
Site Work	$48,000	$2.68
Indirect Construction Cost	$1,039,081	$57.94
Construction Loan Interest	$288,109	$16.06
Land Cost Subtotal	**$6,050,286**	**$337.35**

Total Project Cost	**$6,050,286**
$/S.F.	$337.35
Cost Per Building (excl. land)	**$6,050,286**

Three-Story Office Project
Rental Rates Reduced by 25% ($1.98 psf)
Rental Assumptions

1. Net Rentable S.F.

Net Rentable S.F.	16,500
Inflation Rate	2.00%

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Period	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Rental Rate (Monthly, NNN)	$2.04	$ 2.08	$ 2.12	$ 2.16	$ 2.21	$ 2.25	$ 2.30	$ 2.34	$ 2.39	$ 2.44	$ 2.49	$ 2.54	$ 2.59
Vacancy & Credit Loss Rate	100.00%	30.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Occupied S.F.	0	11,550	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500

Three-Story Office Project
Rental Rates Reduced by 25% ($1.98 psf)
Cash Flow Forecast

Year		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Period	**Initial**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Gross Sched. Inc. (Net Rentable S.F.)		$0	$411,877	$420,115	$428,517	$437,087	$445,829	$454,746	$463,841	$473,117	$482,580	$492,231	$502,076	$512,118
Total Gross Scheduled Income		**$0**	**$411,877**	**$420,115**	**$428,517**	**$437,087**	**$445,829**	**$454,746**	**$463,841**	**$473,117**	**$482,580**	**$492,231**	**$502,076**	**$512,118**
Vacancy & Credit Loss (Net Rentable S.F.)		$0	($123,563)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Operating Income		**$0**	**$288,314**	**$420,115**	**$428,517**	**$437,087**	**$445,829**	**$454,746**	**$463,841**	**$473,117**	**$482,580**	**$492,231**	**$502,076**	**$512,118**
Less: Operating Expenses (Net Rentable S.F.)		$0	($72,079)	($105,029)	($107,129)	($109,272)	($111,457)	($113,686)	($115,960)	($118,279)	($120,645)	($123,058)	($125,519)	($128,029)
Net Operating Income		**$0**	**$216,236**	**$315,086**	**$321,388**	**$327,816**	**$334,372**	**$341,059**	**$347,880**	**$354,838**	**$361,935**	**$369,174**	**$376,557**	**$384,088**
City Assistance (Additional Subsidy)		$0	$1,139,905	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Annual Debt Service		$0	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)	($413,013)
Additional Capital Contributions	$0	($605,029)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cash Flow Before Taxes	$0	($605,029)	$943,128	($97,927)	($91,625)	($85,197)	($78,641)	($71,953)	($65,132)	($58,175)	($51,078)	($43,839)	($36,456)	($28,925)
Asset Value		$0	$2,883,141	$4,201,148	$4,285,171	$4,370,874	$4,458,292	$4,547,457	$4,638,407	$4,731,175	$4,825,798	$4,922,314	$5,020,760	$5,121,176
Sales Commission		$0	($57,663)	($84,023)	($85,703)	($87,417)	($89,166)	($90,949)	($92,768)	($94,623)	($96,516)	($98,446)	($100,415)	($102,424)
Other Costs of Sale		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Loan Balance		$0	($5,384,394)	($5,319,455)	($5,250,167)	($5,176,238)	($5,097,359)	($5,013,196)	($4,923,397)	($4,827,584)	($4,725,355)	($4,616,278)	($4,499,897)	($4,375,721)
Net Sale Proceeds:		$0	($2,558,917)	($1,202,331)	($1,050,700)	($892,782)	($728,233)	($556,688)	($377,759)	($191,033)	$3,928	$207,590	$420,448	$643,031
Owner's Cash Flows	$0	($605,029)	$943,128	($97,927)	($91,625)	($85,197)	($78,641)	($71,953)	($65,132)	($58,175)	($51,078)	($43,839)	($36,456)	$614,106
Before Tax IRR	**15%**													
Net Present Value of Profit	$0	($550,026)	$779,444	($73,574)	($62,581)	($52,901)	($44,391)	($36,924)	($30,385)	($24,672)	($19,693)	($15,365)	($11,616)	$177,885
Tax Increment														
Asset Value			$2,883,141	$4,201,148	$4,285,171	$4,370,874	$4,458,292	$4,547,457	$4,638,407	$4,731,175	$4,825,798	$4,922,314	$5,020,760	$5,121,176
Asset Basis @ $35 psf			$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000	$840,000
Incremental Assessed Value			$2,043,141	$3,361,148	$3,445,171	$3,530,874	$3,618,292	$3,707,457	$3,798,407	$3,891,175	$3,985,798	$4,082,314	$4,180,760	$4,281,176
Annual Tax Increment			$20,431	$33,611	$34,452	$35,309	$36,183	$37,075	$37,984	$38,912	$39,858	$40,823	$41,808	$42,812
Total Tax Increment	**$439,257**													
NPV of Tax Increment @ 6%			$18,184	$28,221	$27,289	$26,385	$25,508	$24,657	$23,832	$23,032	$22,256	$21,505	$20,777	$20,072
Total NPV of Tax Increment @ 6%	**$281,717**													

BARRIO LOGAN EMPLOYERS BY INDUSTRY

		TOTAL			Percent of Total		
NAICS	INDUSTRY	Companies	Sales	Employment	Companies	Sales	Employment
	TOTAL+	**384**	**$1,180,742,706**	**9,765**	**100%**	**100%**	**100%**
11	Agriculture, Forestry, Fishing, Hunting	1	80,000	1	0.3%	0.01%	0.01%
21	Mining	1	290,000	4	0.3%	0.02%	0.04%
23	Construction	33	35,396,473	326	8.6%	3.0%	3.3%
32	Manufacturers	50	769,793,843	6,236	13.0%	65.2%	63.9%
42	Wholesale Trade	45	180,028,798	549	11.7%	15.2%	5.6%
44-45	Retail Trade	51	25,705,012	182	13.3%	2.2%	1.9%
48-49	Transportation & Warehousing	16	14,003,395	92	4.2%	1.2%	0.9%
51	Information	1	100,000	2	0.3%	0.01%	0.02%
52	Finance & Insurance	4	5,118,685	25	1.0%	0.4%	0.3%
53	Real Estate, Rental & Leasing	12	8,483,060	81	3.1%	0.7%	0.8%
54	Prof, Scientific, Technical Services	39	33,916,357	465	10.2%	2.9%	4.8%
56	Administrative, Waste Management	16	26,718,958	323	4.2%	2.3%	3.3%
61	Educational Services	2	420,000	49	0.5%	0.04%	0.5%
62	Health Care and Social Services	15	20,887,640	445	3.9%	1.8%	4.6%
71	Arts, Entertainment, Recreation	5	1,260,000	34	1.3%	0.1%	0.3%
72	Accommodation and Food Services	22	9,090,108	247	5.7%	0.8%	2.5%
81	Other Services	69	49,450,377	569	18.0%	4.2%	5.8%
92	Government	2	NA	135	0.5%	NA	1.4%

+Sales estimated for 10 employers; no sales reported for U.S. Navy, City of San Diego, Unified School District and four other employers.

Source: Dun and Bradstreet; National University System Institute for Policy Research.

PROFILE - THE NATIONAL UNIVERSITY SYSTEM INSTITUTE FOR POLICY RESEARCH

Founded in 2006, the National University System Institute for Policy Research (NUSIPR) is a non-partisan organization that formulates and promotes high quality economic, policy, and public-opinion research so as to improve the efficiency and effectiveness of local governments in San Diego County and to improve the quality of life enjoyed by the region's citizens.

W. Erik Bruvold
President

W. Erik Bruvold has been involved with San Diego politics and policy making for two decades. Most recently, he was Vice President of Public Policy for the San Diego Regional Economic Development Corporation (EDC) where he oversaw the organization's public policy efforts on a range of issues impacting San Diego's business climate. Among Erik's achievements at the EDC was his leadership of the successful effort to extend the TransNet sales tax for transportation investment and his leadership of the successful regional response to the 2005 round of military base closures and realignments (BRAC 2005). Prior to joining EDC, Erik was Executive Director for the San Diego chapter of the American Electronics Association. He holds a Bachelors with High Honors from the University of Denver and a Masters with Distinction in Political Science from the University of California, San Diego.

Kelly Cunningham
Economist and Senior Fellow

Kelly Cunningham is Senior Fellow and Economist for the National University System Institute for Policy Research. He is the former chief economist and research director for the San Diego Regional Chamber of Commerce, where he established a reputation for his understanding and expertise of San Diego's regional economy. He was also supervising economist at the City of San Diego and a senior market research analyst for a national apartment developer.

After graduating from Brigham Young University with a degree in business and economics, Cunningham worked in the marketing research department at the corporate offices of the Copley Press, Inc., owners and publishers of *The San Diego Union-Tribune* newspaper. He joined the *San Diego Regional Chamber of Commerce* in 1987 and became director of the Economic Research Bureau. He left to work for the *City of San Diego* in 2004 and the private builder in 2005.

Cunningham has closely monitored San Diego's economy for the past 23 years. His analysis and views on the San Diego economy are sought by local, state, national and international businesses and media.

PROFILE - THE LONDON GROUP REALTY ADVISORS

THE LONDON GROUP
Realty Advisors

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
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Asset Disposition	Strategic Planning	Valuation
Government Processing	Capital Access	Economic Analysis

The London Group is a full service real estate investment and development consulting, capital access and publishing firm. We determine the answers to the questions: Should I purchase the property? If so, how much should I pay and what is my potential rate of return? What type of project should I invest in or develop? What type of deal should I structure?

To answer these questions we conduct market analysis, feasibility studies, provide financial structuring advice and general economic consulting. Often we 'package' the deal and provide access to capital sources. We also have capabilities in pre-development consulting including asset management and disposition and in providing team coordination, processing and disposition services (packaging and promotion).

We cyber publish The Real Estate & Economic Monitor a newsletter providing market trend analysis and commentary for the serious real estate investor. It is available and regularly updated on the World Wide Web at the following address: www.londongroup.com.

As the former West Region Director of the Price Waterhouse Real Estate Consulting Group, Gary H. London, President, brings acknowledged credentials and experience as an advisor and analyst to many successful projects and assignments throughout North America.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff.

Clients who are actively investigating and investing in apartment projects, retail centers and commercial projects have regularly sought our advice and financial analysis capabilities.

We have analyzed, packaged and achieved capital for a wide variety of real estate projects including hotels, office buildings, retail shopping centers and residential housing communities. We are generalists with experiences ranging from large scale, master planned communities to urban redevelopment projects, spanning all land uses and most development issues. These engagements have been undertaken throughout North America for a number of different clients including developers, investors, financial institutions, insurance companies, major landholders and public agencies.

CONTACT INFORMATION – THE LONDON GROUP REALTY ADVISORS

The market analysis in Part I of this report was prepared by The London Group Realty Advisors and commissioned by the San Diego Institute for Policy Research.

Research for this project was completed in March 2010. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report *will* vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise, of property owners, investors, developers, lenders, public agencies, operators or tenants.

This assignment was completed by the staff of The London Group Realty Advisors. **Nathan Moeder**, Principal, served as project director. **Chris White**, Investment Analyst, conducted analysis and prepared the exhibits in this report. **Gary London,** President, provided strategic consultation and recommendations. For further information or questions contact us at:

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