

**COMMUNITY FACILITIES DISTRICT NO. 2023-1  
RIENDA PHASE 2B  
(PLANNING AREA 3.2B)**

**MARKET ABSORPTION STUDY**

**PREPARED FOR:  
COUNTY OF ORANGE  
ORANGE COUNTY, CALIFORNIA**

**PREPARED BY:  
EMPIRE ECONOMICS, INC.  
JOSEPH T. JANCZYK, PH.D**

**AUGUST 9, 2023  
(OCTOBER 3, 2023: GRAMMATICAL REVISIONS ONLY  
NO CHANGES IN ABSORPTION SCHEDULES.)**

# OVERVIEW OF THE MARKET ABSORPTION STUDY

## Introduction

- Rancho Mission Viejo requested the County of Orange to form Community Facilities District No. 2023-1 Rienda Phase 2B (CFD No. 2023-1 Rienda 2B) to assist with the financing of the public infrastructure that is required to support the development of the forthcoming residential projects in the Planned Community of Rienda Planning Area 3.2B.
- CFD No. 2023-1 Rienda 2B is expected to have 514 for-sale homes in six all-age residential projects (two attached, four detached) with five different builders and each of these will have a model complex.

### Section I: Expected Residential Product Mix Characteristics of CFD No. 2023-1 Rienda 2B

- For all of the projects, as a whole, the base prices amount to some \$834,804, on the average, and they have a range of \$520,000 to \$1,100,000.
- While their living areas amount to some 1,587 sq.ft., on the average, and they have a range of 922 to 2,182 sq.ft. Their overall value ratio (price/living area) amounts to \$527 sq.ft., on the average.
- The total tax burdens are expected to be 2.00%; a base tax rate of 1.07% and the remaining 0.93% for special taxes as well as other assessments.

### Section II: Economic and Real-Estate Forecasting Model Underlying the Market Absorption Study

- Total employment for Orange County (OC) and California (CA) are only slightly above pre-covid levels. However, OC's unemployment rate was 3.2%, lower than both the U.S. (3.6%) and CA (4.5%).
- Mortgage rates have risen significantly, from 2.9% in August 2021 to ~6.9% through mid-July 2023 while key inflation measures fell to ~4% in May 2023, well below their mid-2022 peak levels of 7%+.
- After mid-2022 peak, Los Angeles area home prices fell before rising slightly month-by-month in 2023, and OC has the highest prices compared to other SCAL counties and lowest price drop vs. peak levels.
- Both home demand and supply in 2022-2023 have been below 2018-2021 historical averages while the annual OC housing payment remains ~50% above levels two and a half years ago.

### Section III: Overview of Development Trends/Patterns and Socioeconomic Factors

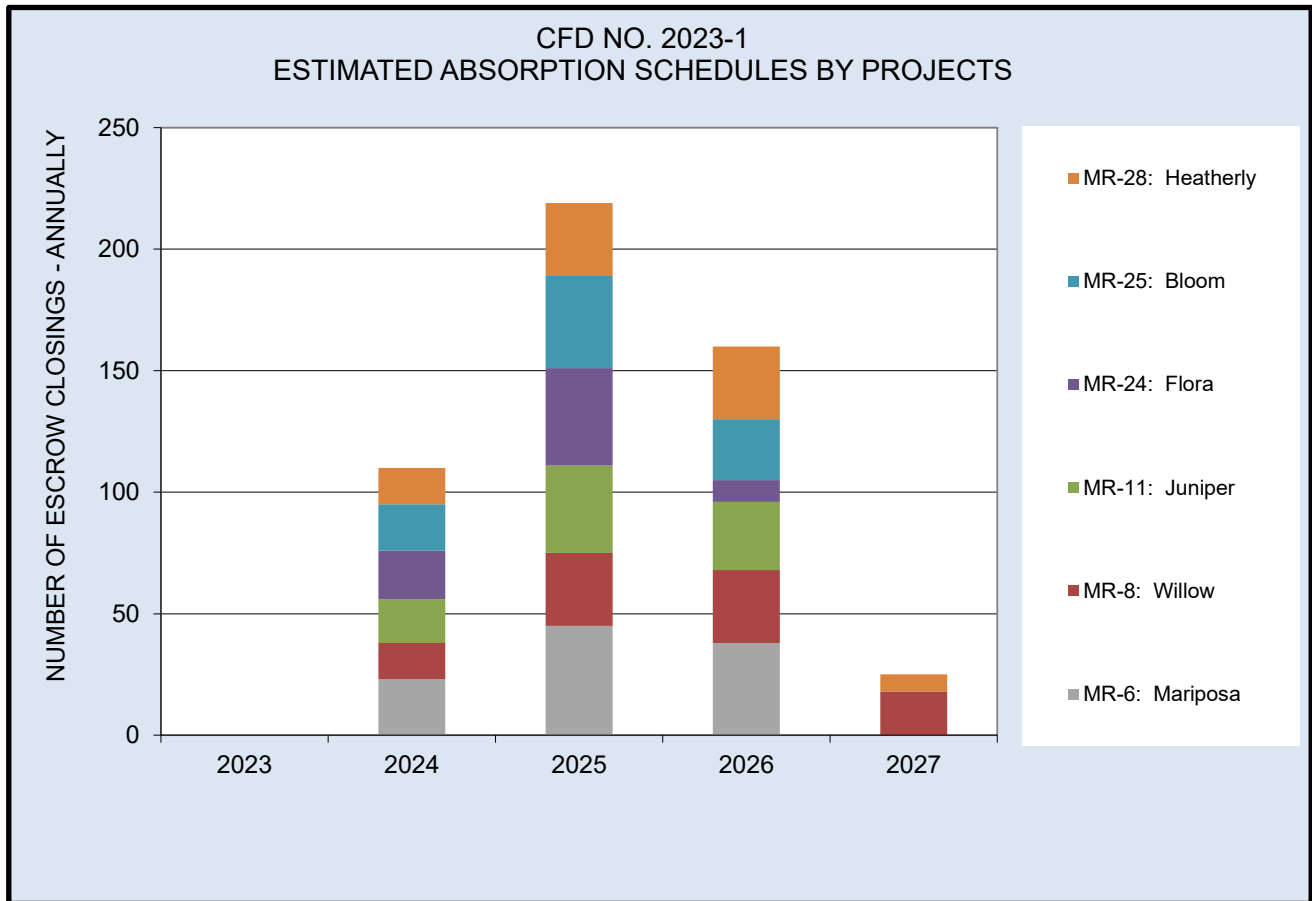
- From a socioeconomic perspective, CFD No. 2023-1 (Rienda 2B), has a relatively low crime rate and a relatively high graduation rate, and this will be beneficial for marketing its forthcoming homes.

### Section IV: Competitive Market Analysis of the Residential Projects in CFD No. 2023-1 Rienda 2B

- For Market Comparables, Empire selected CFD No. 2021-1 Rienda 2A which is in close proximity and has currently active projects that offer similar product types. The market comparable projects are expected to have a total of 805 homes; of these, 252 are attached and 553 are detached.
- CFD No. 2023-1 attached homes have prices of \$685,995/avg. with 1,327 ft.<sup>2</sup>/avg. while detached homes have prices of \$909,208 with 1,718 ft.<sup>2</sup>. While Market Comparables attached homes have prices of \$656,990/avg. with 1,156 ft.<sup>2</sup>/avg. while detached homes have prices of \$960,640 with 1,847 ft.<sup>2</sup>.
- CFD No. 2023-1 attached homes have value ratios of \$519/avg. while detached homes have value ratios of \$531/avg. While Market Comparables attached homes have value ratios of \$567/avg. while detached homes have value ratios of \$525/avg.

**Section V: Estimated Absorption Schedules for the Projects in CFD No. 2023-1 Rienda 2B**

- The housing market, especially for new homes, will be significantly impacted by the FRB’s policies until the rate of inflation systematically approaches the target rate of 2%, and then the market will start to return to its normal level of sales and price appreciation.
- Therefore, in the near term, the housing market is expected to continue to be challenged by higher mortgage rates and higher unemployment which will result in lower sales and also price declines, especially for new move-up homes, in particular.
- Accordingly, Empire builds in various safeguards to its forecast of the estimated absorption schedules for the forthcoming homes in CFD No. 2023-1, with regards to potential price reductions as well as slower absorption until the FRB ’s goal of 2% inflation is achieved.
- With Grand Openings with model complexes projected in 4th Quarter of 2023 and escrow closings commencing in the 2nd Qtr. 2024, absorption is projected to be as follows: 110 homes in 2024, 219 homes in 2025, 160 homes in 2026, and the remaining 25 homes 2027 with a CFD No. 2023-1 Rienda 2B Close Out in Spring 2027.



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# INTRODUCTION

## A. OVERVIEW OF THE BOND FINANCING PROGRAM

Rancho Mission Viejo requested the County of Orange to form Community Facilities District No. 2023-1 Rienda Phase 2B (CFD No. 2023-1 Rienda 2B) to assist with the financing of the public infrastructure that is required to support the development of the forthcoming residential projects in the Planned Community of Rienda Planning Area 3.2B.

CFD No. 2023-1 Rienda 2B is hereafter referred to as CFD No. 2023-1 and/or Rienda 2B.

The Planned Community of Rienda represents a newly developing area in the southerly portion of the County of Orange, easterly of the City of San Juan Capistrano. Rienda follows a sequential development pattern of Planned Communities that have previously been developed/built-out in this area, including Ladera Ranch with about 8,000 homes, Sendero with about 900 homes and most recently Esencia with about 3,000 homes.

CFD No. 2023-1 Rienda 2B is expected to have 514 for-sale homes in six residential projects with five different builders and each of these will have a model complex. Accordingly, these projects have been categorized into two product types, attached and detached.

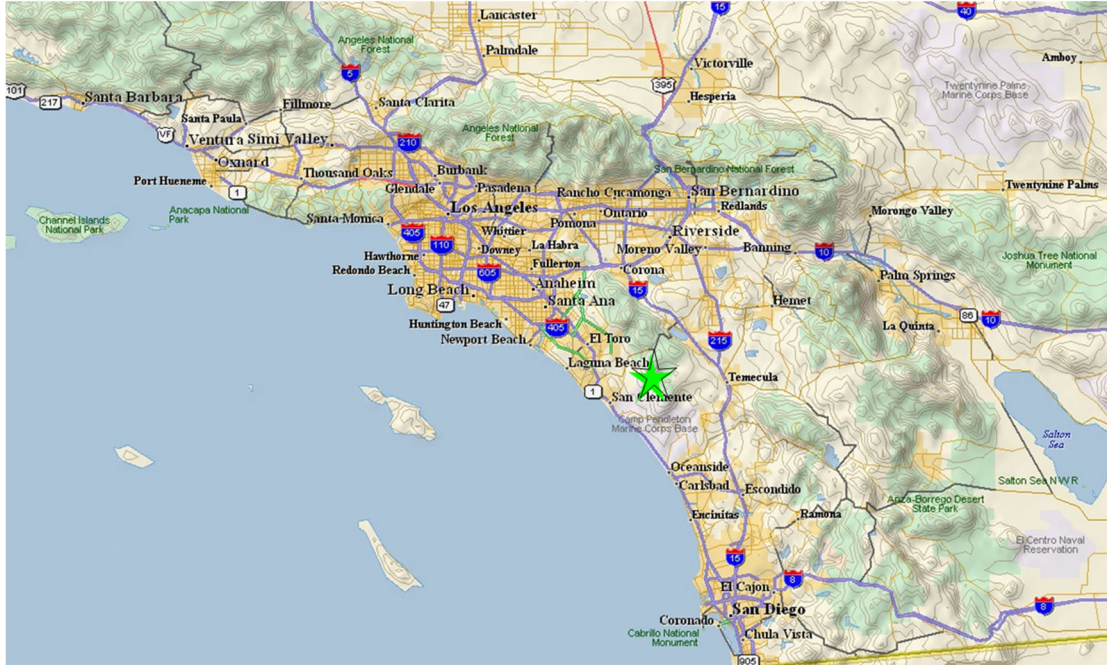
- Attached: All Ages
  - MR-6 Lennar, Condos
  - MR-8 Trumark, Row Townhomes
- Detached: All-Ages:
  - MR-11 Pulte, SFD-Duplex
  - MR-24 Lennar, SFD 30 x 42
  - MR-25 Shea, CFD 43x50
  - MR-28 TriPointe, Detached

The County of Orange retained Empire Economics (Empire), an economic and real estate consulting firm, to perform a Market Absorption Study for the forthcoming projects in CFD No. 2023-1. The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors that are expected to influence the absorption of the forthcoming homes in CFD No. 2023-1, in order to arrive at conclusions regarding the following:

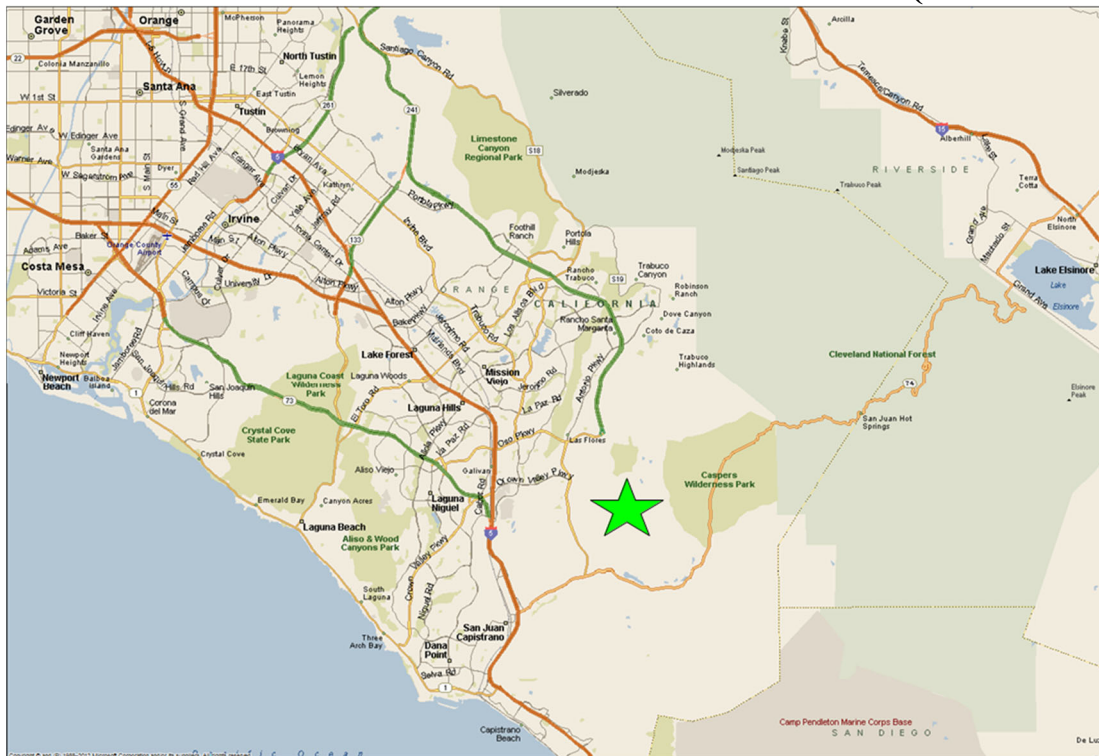
- Estimated absorption schedules for the homes in each of the six residential projects, from market-entry to build-out, on an annualized basis.
- Discussion of potential economic, financial and real estate risk factors that may adversely impact their marketability.

For information on the general location of CFD No. 2023-1 (Rienda 2B), please refer to the maps on the following page.

# SOUTHERN CALIFORNIA MARKET REGION: LOCATION OF CFD NO. 2023-1 (RIENDA 2B)



# SOUTH ORANGE COUNTY APPROXIMATE LOCATION OF CFD NO. 2023-1 (RIENDA 2B)



## **B. ROLES OF THE MARKET ABSORPTION STUDY FOR THE BOND FINANCING**

The Market Absorption Study for CFD No. 2023-1 (Rienda 2B) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are set-forth below:

### **Marketing Prospects for the Residential Products**

Estimated Absorption Schedules:  
Escrow Closings of Homes to Homeowners,  
from Market-Entry to Build-Out for  
each of the Six Projects

Potential Risk Factors that may Adversely Impact  
the Marketability of the Projects

### **Relationship of the Market Study to the Special Tax Payments**

Special Taxes for the Residential Projects/Products  
  
Aggregate Levels of Special Tax Revenues for Bond Sizing

Absorption Rate Determines Shares of Payments:  
Developer/Builders vs. Final-Users/Homeowners

### **Relationship of the Market Absorption Study to the Appraisal/Valuation**

Appraisal of Property  
Appraiser Considers Absorption Schedules for  
Discounted Cash Flow – Present Value  
  
(The Longer the Absorption Time, the Lower the Present Value)

**C. METHODOLOGY UNDERLYING THE MARKET ABSORPTION STUDY  
FOR CFD NO. 2023-1**

The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the projects/homes in CFD No. 2023-1 (Rienda 2B); the primary components of the Study are as follows:

**I. Expected For-Sale Residential Product Mix Characteristics**

**II. Economic and Real Estate Model Underlying the Market Absorption Study**

**III. Overview of the Development Trends/Patterns and Socioeconomic Factors**

**IV. Competitive Market Analysis of the Residential Projects**

**V. Estimated Absorption Schedules for the Projects/Products**

**Assumptions and Limiting Conditions**



## **D. CERTIFICATION OF INDEPENDENCE**

### **EMPIRE ECONOMICS PROVIDES CONSULTING SERVICES ONLY FOR PUBLIC ENTITIES**

The Securities & Exchange Commission has taken action against firms that have utilized their research analysts to promote companies with whom they conduct business, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients, including the County of Orange, are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence.

This Certificate states that Empire performs consulting services only for public entities such as the County of Orange, in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builders.

For example, if a research firm for a specific Community Facilities District were to provide consulting services to both the public entity as well as the property owner/developer/builders, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer/builders.

Accordingly, Empire Economics certifies that the Market Absorption Study for the CFD No. 2023-1 (Rienda 2B) of the County of Orange was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the County of Orange, not the CFD's developer/builders.
- Empire has not performed any consulting services for the CFD's property owner or the developer/builders during the past thirty years.
- Empire will not perform any consulting services for the CFD's property owner or the developer/builders during the next five years.
- Empire's compensation for performing the Market Absorption Study for the CFD is not contingent upon the issuance of bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 2023-1 (Rienda 2B) of the County of Orange was performed in an independent professional manner.

# SECTION I

## EXPECTED FOR-SALE RESIDENTIAL PRODUCT MIX CHARACTERISTICS

**(Source of Data: Merchant Builders)**

CFD No. 2023-1 (Rienda 2B) encompasses the community of Rienda Planning Area 3.2B which is expected to have a total of 514 for-sale attached and detached homes in six projects by five different builders.

- For all the projects, as a whole, the base prices amount to some \$834,804, on the average, and they have a range of \$520,000 to \$1,100,000.
- While their living areas amount to some 1,587 sq.ft., on the average, and they have a range of 922 to 2,182 sq.ft. Their overall value ratio (price/living area) amounts to \$527 sq.ft., on the average.
- The total tax burdens are expected to be 2.00%; a base tax rate of 1.07% and the remaining 0.93% for special taxes as well as other assessments.

### **Attached Housing Products:**

MR-6 Mariposa by Lennar has 106 Condos  
Prices range from \$520,000-\$765,000 for 922 to 1663 ft.<sup>2</sup>

MR-8 Willow by Trumark has 93 Row Townhomes  
Prices range from \$579,990-\$788,990 for 923 to 1540 ft.<sup>2</sup>

### **Detached Housing Products:**

MR-11 Juniper by Pulte has 82 SFD-Duplex  
Prices range from \$690,000-\$800,000 for 1142 to 1608 ft.<sup>2</sup>

MR-24 Flora by Lennar has 69 SFD 30x42 Lot Size  
Prices range from \$822,000-\$945,000 for 1397 to 1818 ft.<sup>2</sup>

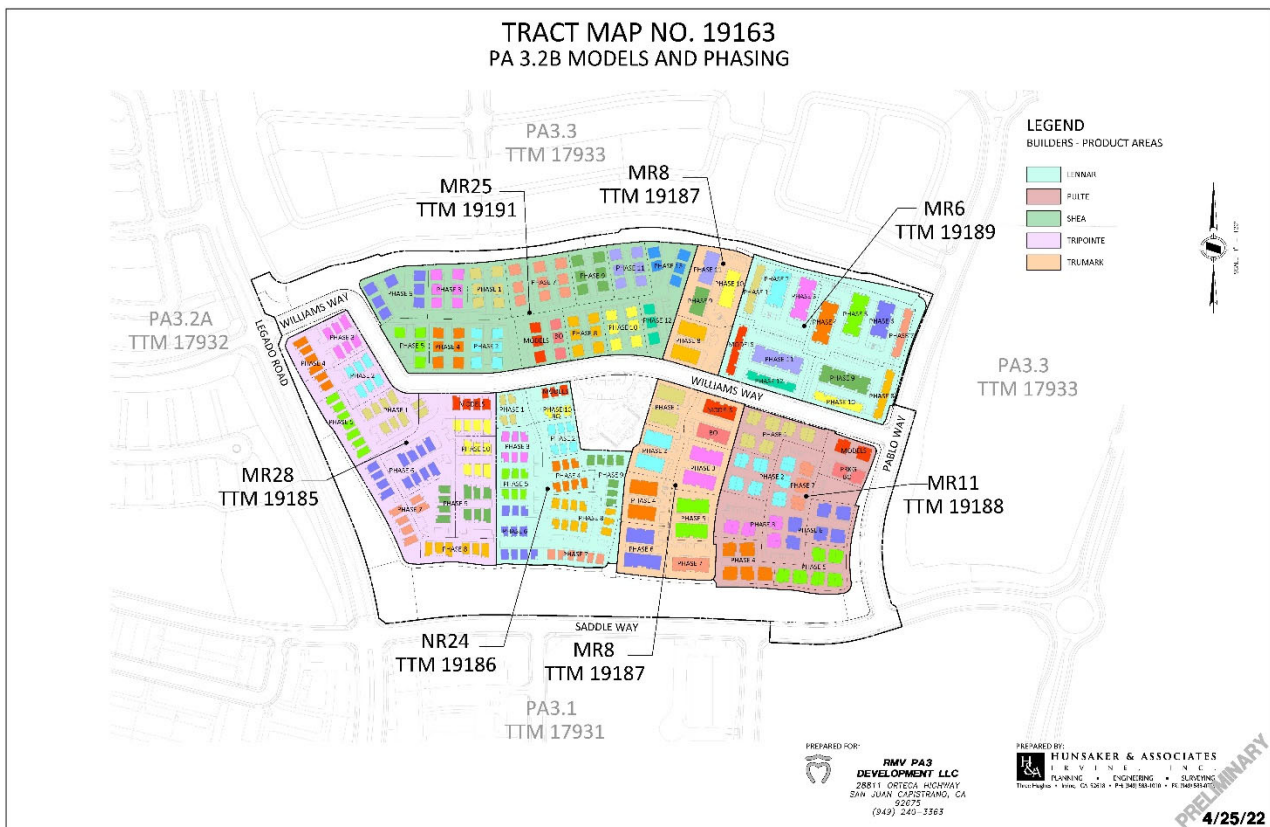
MR-25 Bloom by Shea has 82 SFD 43x50 Lot Size  
Prices range from \$990,000-\$1,100,000 for 1753 to 2150 ft.<sup>2</sup>

MR-28 Heatherly by TriPointe has 82 Detached  
Prices range from \$893,000 - \$1,043,000 for 1691 to 2182 ft.<sup>2</sup>

For more information on these projects, please refer to the following exhibit, graphs and table.

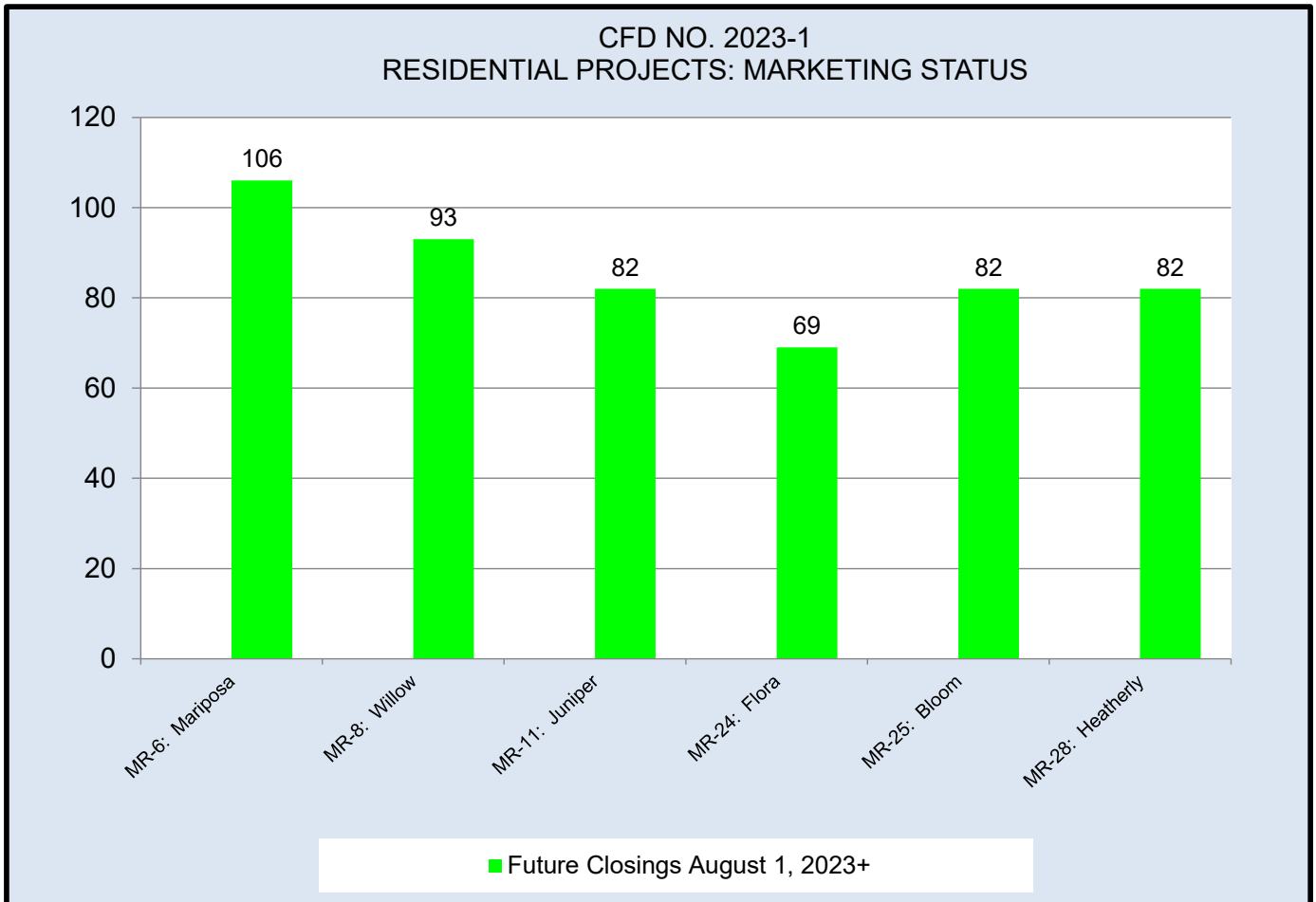
# CFD NO. 2023-1 PLANNING AREAS 2B PROJECT MAP

SOURCE: RANCHO MISSION VIEJO; JULY 31, 2023



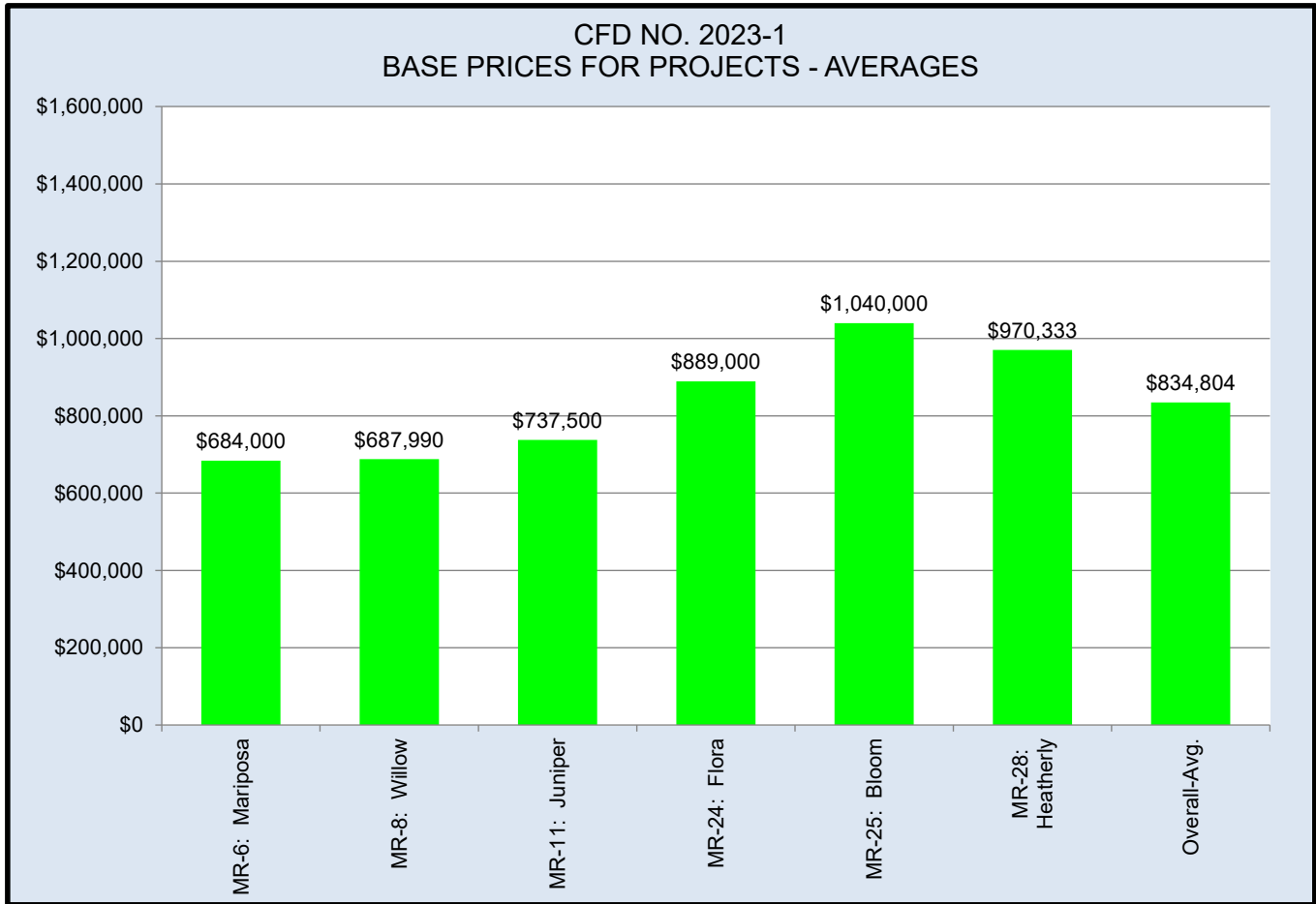
## CFD NO. 2023-1 (RIENDA 2B)

### RESIDENTIAL PROJECTS: MARKETING STATUS



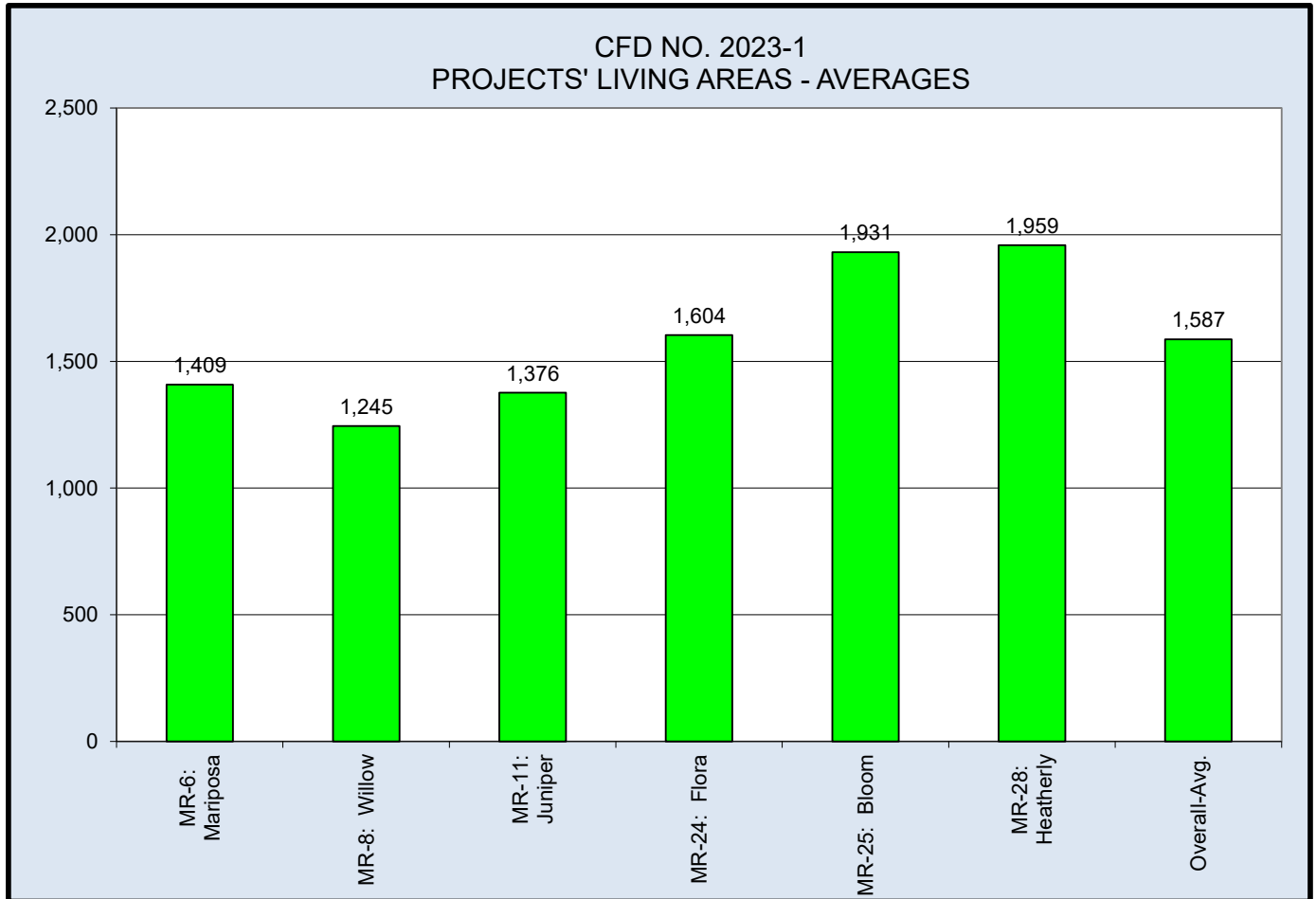
### CFD NO. 2023-1 (RIENDA 2B)

## BASE PRICES FOR PROJECTS - AVERAGES



## CFD NO. 2023-1 (RIENDA 2B)

### PROJECTS' LIVING AREAS – AVERAGE



## CHARACTERISTICS OF THE EXPECTED PRODUCT MIX CFD NO. 2023-1 (RIENDA 2B)

Planning Area Code	MR-6	MR-8	MR-11	MR-24	MR-25	MR-28
<b>Planning Area</b>	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B
<b>Market Segment</b>	All Ages	All Ages	All Ages	All Ages	All Ages	All Ages
<b>Expected Product Type</b>	Condos	Row Townhomes	SFD - Duplex	SFD 30 x 42	SFD 43x50	Detached
<b>Project Name</b>	Mariposa	Willow	Juniper	Flora	Bloom	Heatherly
<b>Builder</b>	Lennar	Trumark	Pulte	Lennar	Shea	TriPointe
Total Homes	106	93	82	69	82	82
Escrows Closed: July 30, 2023	0	0	0	0	0	0
Future Closings August 1, 2023+	106	93	82	69	82	82
<b>Market-Entry - Models Open</b>	Q4-2023	Q4-2023	Q4-2023	Q4-2023	Q4-2023	Q4-2023
<b>Commence Escrow Closings</b>	Q2-2024	Q2-2024	Q2-2024	Q2-2024	Q2-2024	Q2-2024
<b>Estimated Number of Homes</b>						
Plan #1	16	13	20	26	26	27
Plan #2	20	40	21	22	28	27
Plan #3	30	40	21	21	12	28
Plan #4	26		20		16	
Plan #5	14					
<b>LIVING AREA</b>						
Plan #1	922	923	1,142	1,397	1,753	1,691
Plan #2	1,371	1,272	1,230	1,597	1,805	2,003
Plan #3	1,482	1,540	1,525	1,818	2,017	2,182
Plan #4	1,605		1,608		2,150	
Plan #5	1,663					
Average	1,409	1,245	1,376	1,604	1,931	1,959
Minimum	922	923	1,142	1,397	1,753	1,691
Maximum	1,663	1,540	1,608	1,818	2,150	2,182
<b>BASE PRICES</b>						
Plan #1	\$520,000	\$579,990	\$690,000	\$822,000	\$990,000	\$893,000
Plan #2	\$695,000	\$694,990	\$710,000	\$900,000	\$1,010,000	\$975,000
Plan #3	\$710,000	\$788,990	\$750,000	\$945,000	\$1,060,000	\$1,043,000
Plan #4	\$730,000		\$800,000		\$1,100,000	
Plan #5	\$765,000					
Average	\$684,000	\$687,990	\$737,500	\$889,000	\$1,040,000	\$970,333
Minimum	\$520,000	\$579,990	\$690,000	\$822,000	\$990,000	\$893,000
Maximum	\$765,000	\$788,990	\$800,000	\$945,000	\$1,100,000	\$1,043,000
<b>Value Ratios: (Price/Sq.Ft.)</b>	\$486	\$553	\$536	\$554	\$539	\$495

## SECTION II

### MACROECONOMIC ANALYSIS

### RECENT ECONOMIC AND REAL ESTATE CONDITIONS

This section describes the Economic and Real Estate Model underlying the forecasts for the absorption of the residential products in CFD No. 2023-1 (Rienda 2B) during the foreseeable future; accordingly, the primary components are as follows:

#### A. Overview of Recent Economic/Housing Market Conditions

- Aggregate Employment: California (CA) and Orange County (OC)
- Unemployment Rates: United States (US), CA and OC
- Employment Changes by Sector since Pre-Covid – CA and OC
- Recent Trends for 30-Year Fixed Mortgage Rates
- California Gas Prices

#### B. Federal Reserve Board Target: Inflation Rate of 2%

- Recent U.S. inflation rate trends
- Federal Reserve Board (FRB) projections of federal funds rate
- FRB projections unemployment rates
- FRB portfolio of treasury and mortgage bonds
- Federal Government Budget Deficits

#### C. Recent Housing Trends/Patterns

- Historical annual housing price changes - Los Angeles region (LAR)
- Recent monthly housing price changes - LAR
- Recent home prices and growth - Southern California counties
- Residential building permits – CA and OC
- Market demand and supply – OC
- Annual housing payments for home sales - OC

Accordingly, each of these topics are now discussed, in order to provide a background on the economic and real estate factors underlying Empire's forecasts for the active projects in CFD No. 2023-1 (Rienda 2B).



## A. OVERVIEW OF RECENT ECONOMIC/HOUSING MARKET CONDITIONS

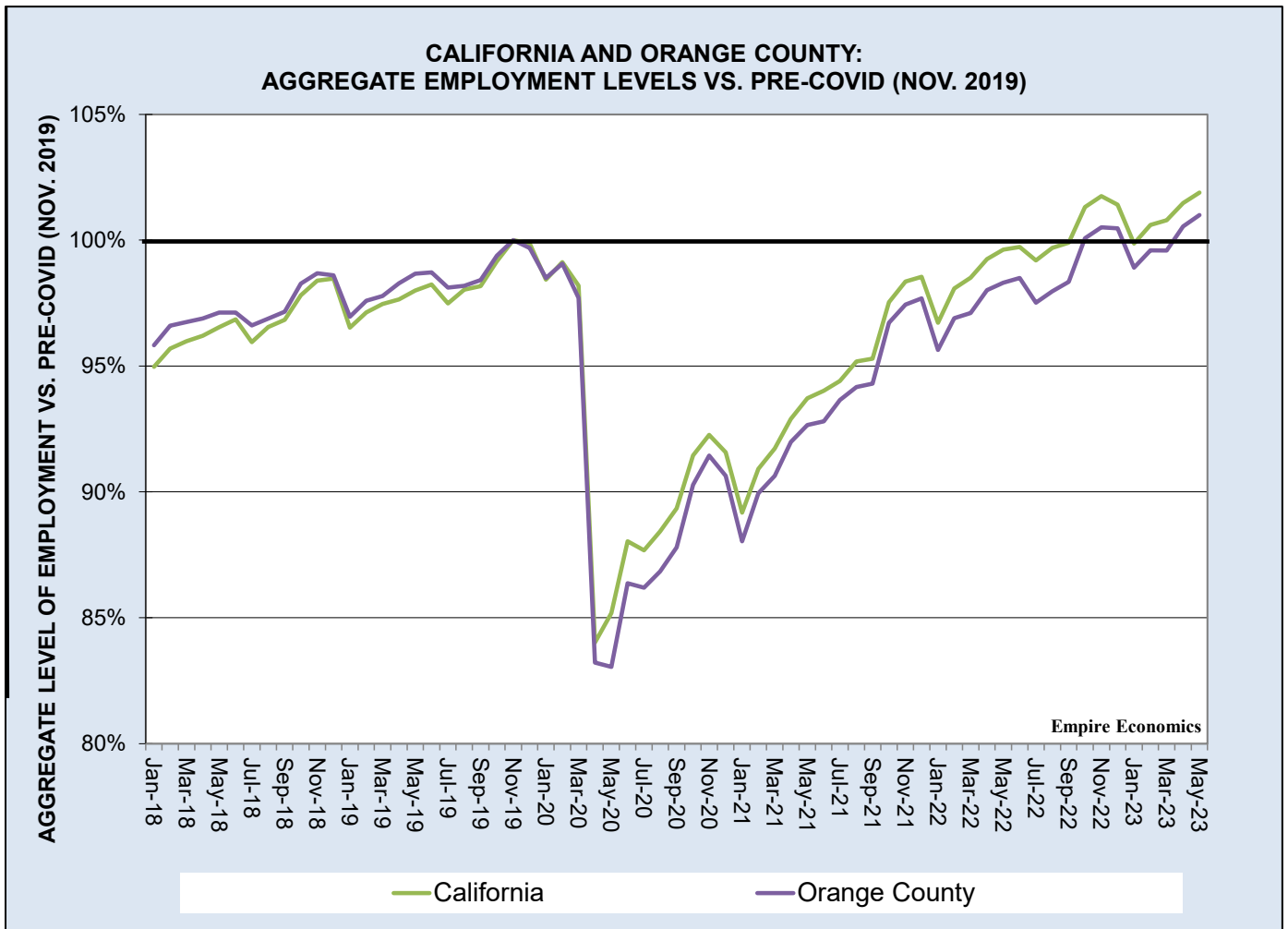


## AGGREGATE EMPLOYMENT RECOVERY BY GEOGRAPHY

Levels of employment previously reached peak levels in November 2019 before COVID significantly adversely impacted employment levels in Spring 2020.

Orange County, where CFD No. 2023-1 (Rienda 2B) is situated, reached new aggregate employment highs by Fall 2022, slightly lagging behind California, which first reached a new high several months before.

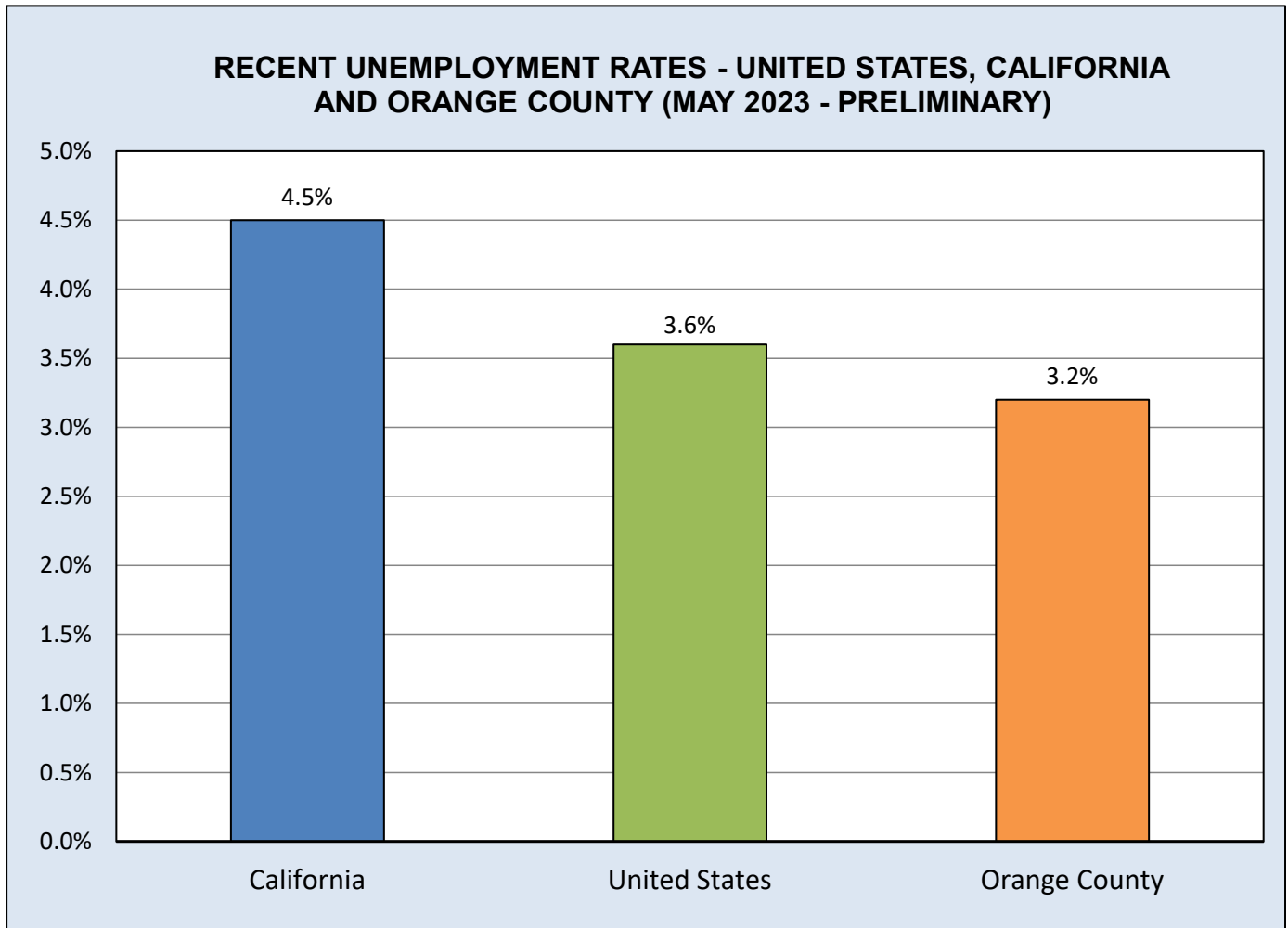
So, aggregate employment levels for both Orange County and California are only slightly above pre-covid levels.



## UNEMPLOYMENT RATES - SELECT GEOGRAPHIES

California’s preliminary May 2023 unemployment rate amounted to 4.5%. For Orange County, the unemployment rate was lower at 3.2%, and also below the U.S. rate of 3.6%.

Unemployment rate measures the percentage of people currently seeking employment. Consequently, it does not include a significant number of people who have recently left the labor force.

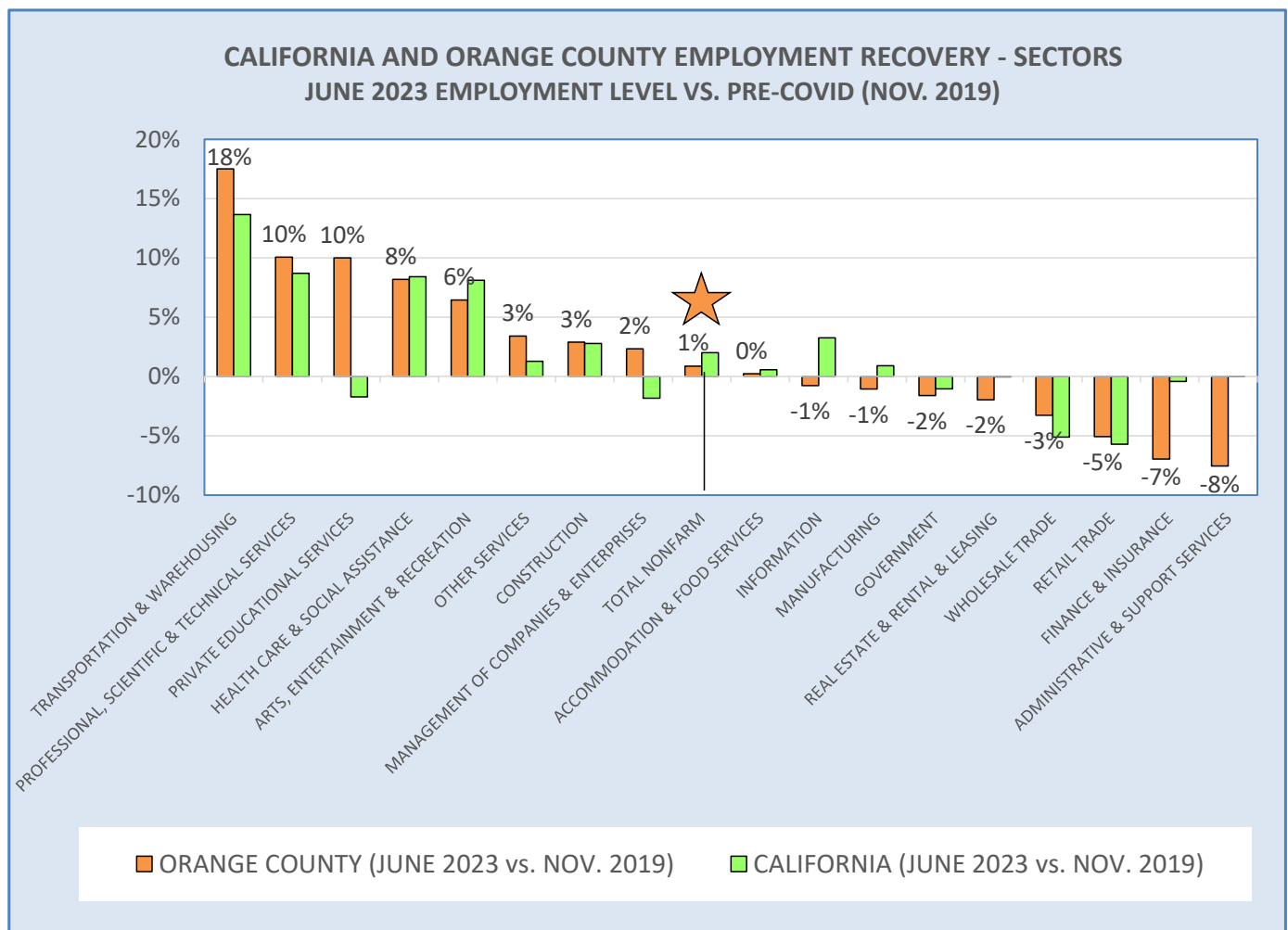


## RECENT EMPLOYMENT RECOVERY BY SECTORS ORANGE COUNTY AND CALIFORNIA

Although the CFD’s Market Region (Orange County) employment increased from its COVID trough, some employment sectors continue to be below pre-Covid 2019 peak levels achieved in November 2019; those that remain the furthest below are administrative and support services, finance and insurance, and retail as well as wholesale trade.

Orange County sectors that have fully recovered and surpassed the prior highs are transportation/warehousing, professional services, private educational services, healthcare and social assistance, arts, entertainment and recreation, other services, construction, and management.

Sectors where Orange County’s recovery has significantly outperformed California’s recovery include transportation/warehousing, professional services and private educational services.



## RECENT TRENDS FOR MORTGAGE RATES

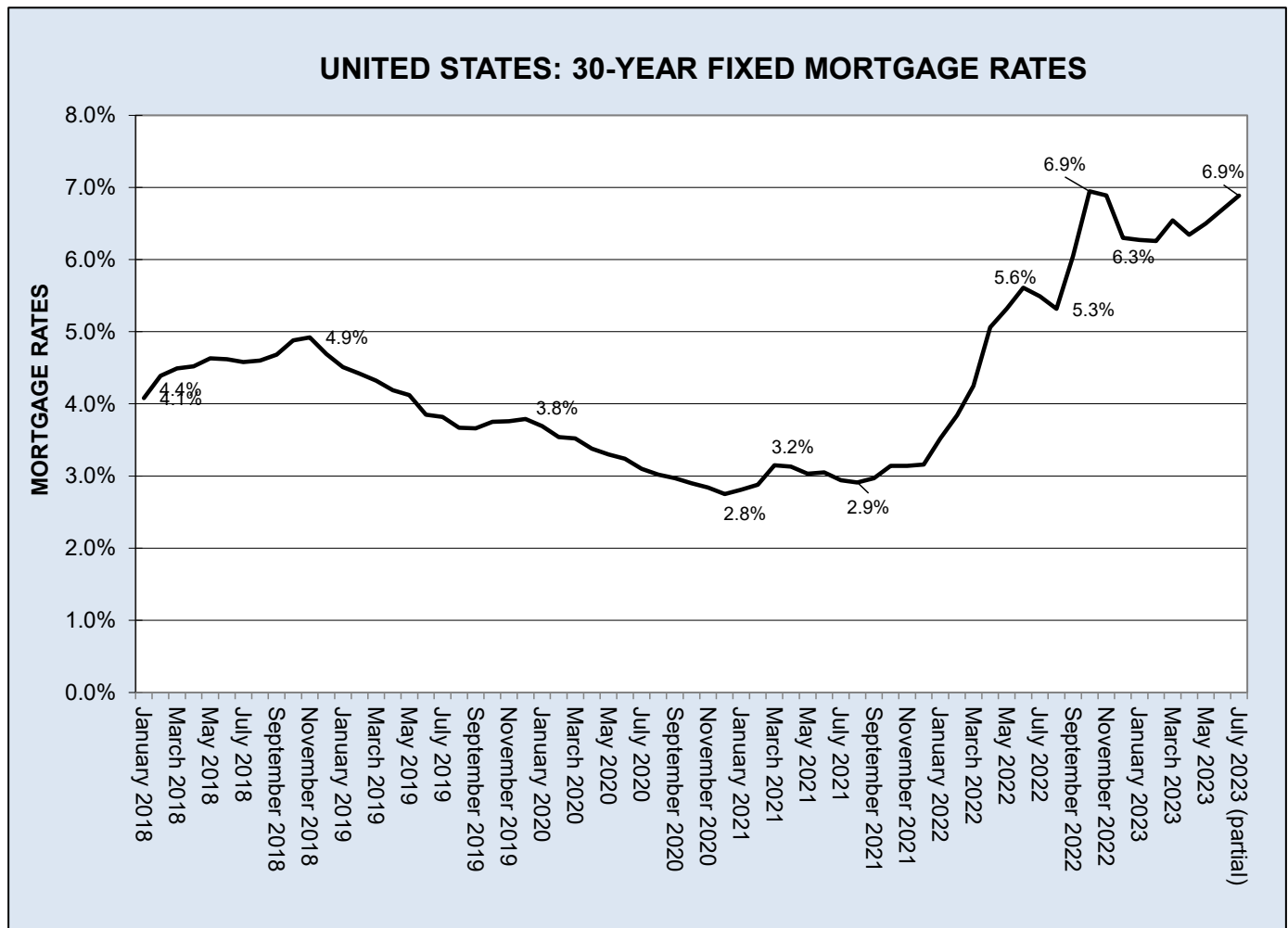
Mortgage rates have risen significantly, from a recent low of 2.9% in September 2021 to between 6.3% to 6.9% during January- July 2023.

Mortgage rates rose to higher levels after the FRB’s September 2021 meeting, reaching a recent peak level of 6.9% in October 2022, before moderating somewhat and then rising recently back to about 6.9%.

For example, on a \$400,000 purchase with a 30 year fixed rate mortgage loan:

At a 2.9% mortgage rate, the mortgage interest on the loan would be about \$200,000.

At a mortgage rate of 6.5%, mortgage interest on the loan would be about \$500,000.

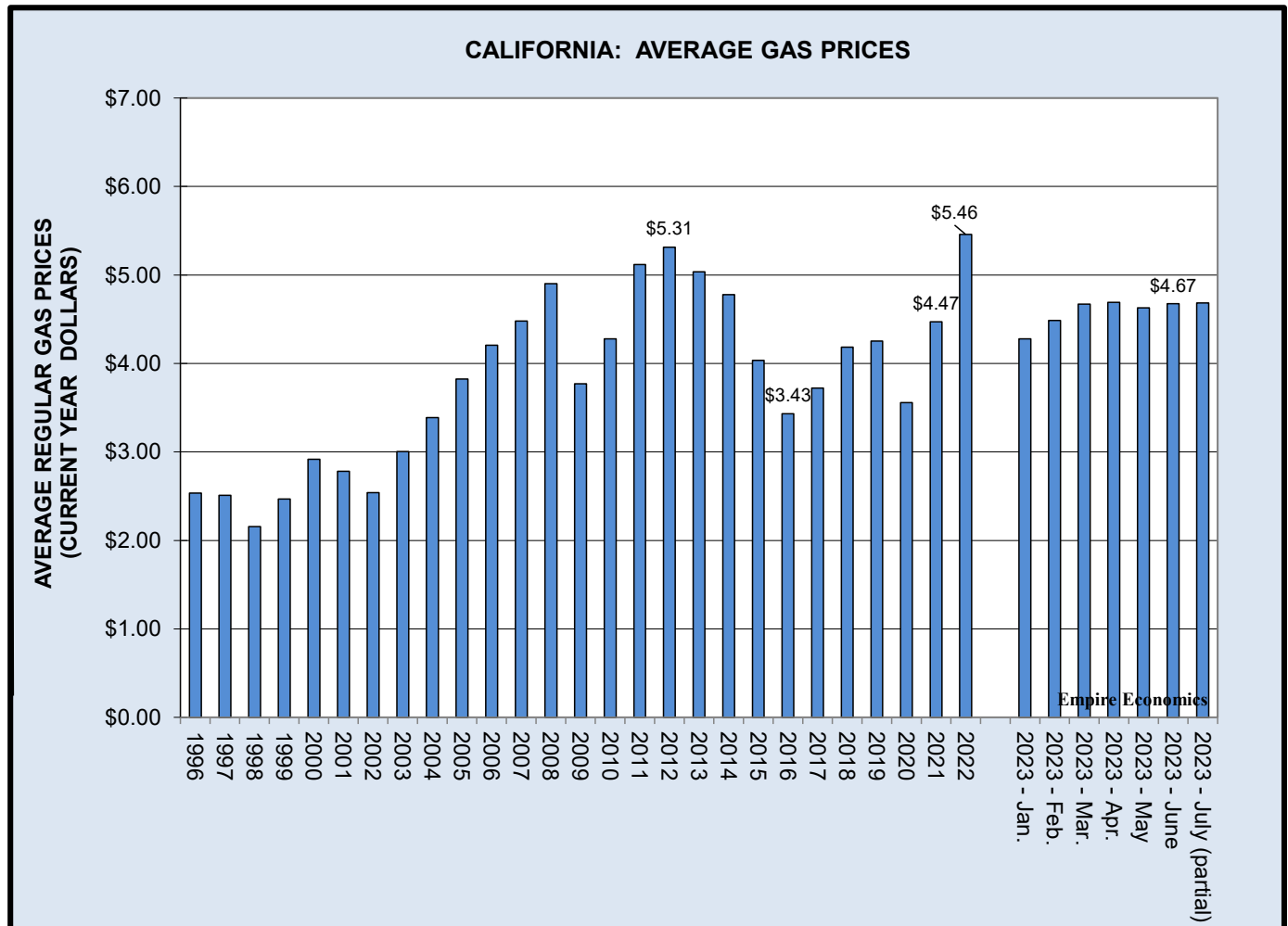


## CALIFORNIA GAS PRICES - YEARLY SINCE 1996 AND MONTHLY FOR 2023

A contributing factor to housing demand, especially for households commuting to the suburbs for moderately priced single-family homes, is the price of gas, since this impacts commuting costs.

After reaching a peak level in 2012, gas prices declined to a low in 2016 but then increased in 2017-2019.

In 2022, gas prices rose to their highest levels in 25+ years (inflation adjusted) before having somewhat lower levels in the first half of 2023.



## **B. FEDERAL RESERVE BOARD (FRB/FED) TARGET: INFLATION RATE OF 2%**

**Starting with the FED/FRB's September 21, 2022 Federal Open Market Committee (FOMC) policy statement, the FRB's primary focus is to reduce the inflation rate to 2%, and so this will be the primary driver of near-term economic/housing market conditions.**

**The FRB will utilize various tools to reduce inflation to 2% including the following:**

The FRB has recently made significant increases in the federal funds rate.

During the past two years, the FRB's balance sheet increased by \$5 trillion but now it is expected to decline by \$0.5-\$1.0 trillion annually.

Part of this includes mortgage-backed securities that if sold would likely push mortgage rates higher.

Furthermore, once the FRB achieves an inflation rate of 2%, the FRB policy will be cautious, to ensure that inflation does not recur.

**Role of housing in the consumer price index (CPI):**

The ownership of a home is regarded as being an asset, so the CPI utilizes the imputed home rent.

Consequently, changes in housing prices and mortgage interest rates do not directly impact the CPI.

However, due to recent strong increases in rental properties, the housing component is becoming more significant.

**The secondary impacts of the FRB policies upon the housing market:**

Mortgage rates remaining relatively high, both for fixed as well as adjustable rates.

Economic slowdown resulting in slower/reduced employment levels and higher unemployment rates.

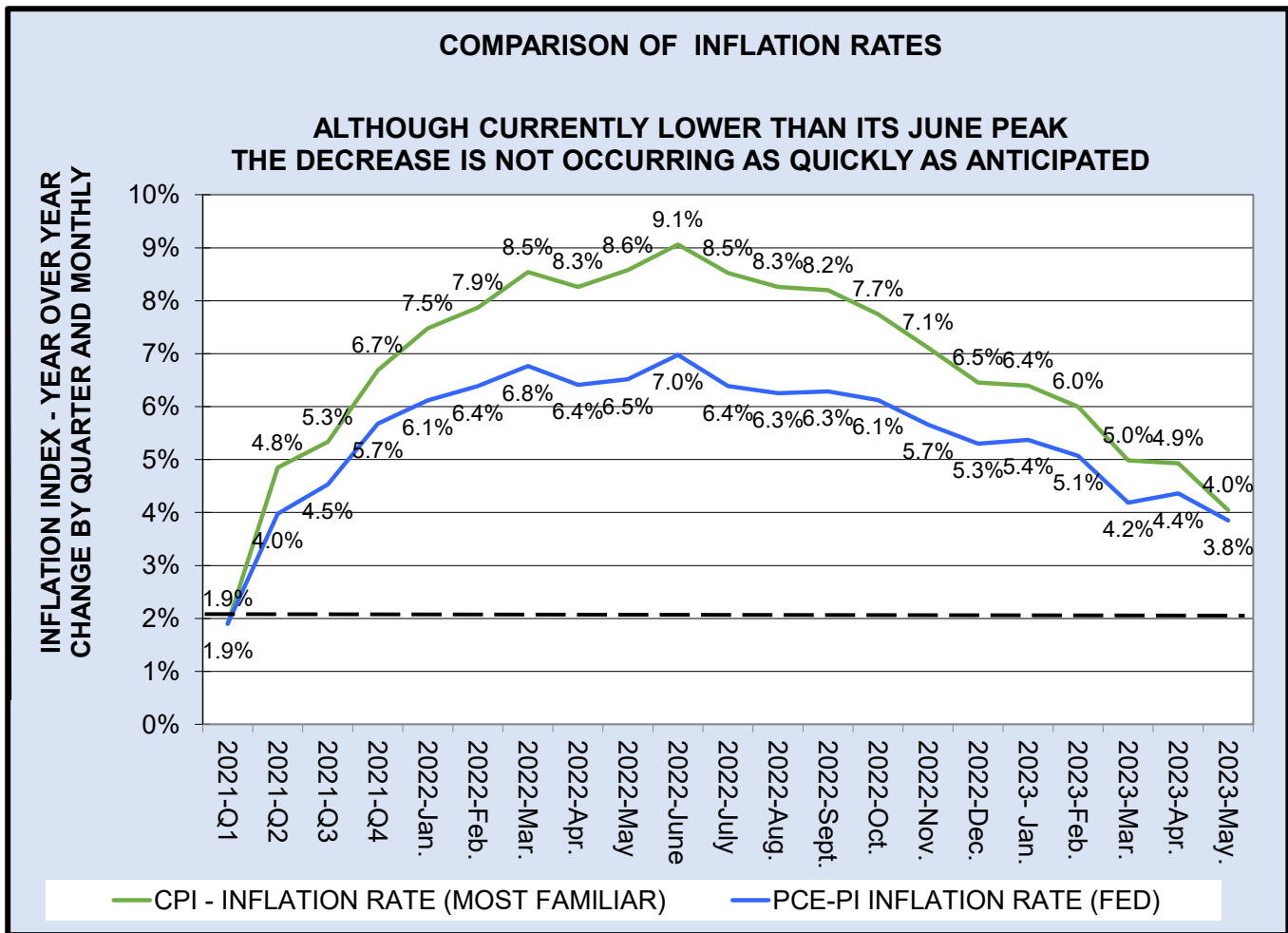
## DISCUSSION OF INFLATION PRICE INDICES

The most well-known indicator of inflation is the Consumer Price Index (CPI), which measures the percentage change in the price of a fixed basket of goods and services consumed by households.

However, the FRB target of 2.0% inflation utilizes the Personal Consumption Expenditure (PCE) price index which captures inflation (or deflation) across a wide range of consumer expenses, reflecting a changing basket of consumer behavior.

An example would be consumers, due to higher meat prices, shifting from filet to sirloin steak.

Since these two indices are similar when their respective inflation rates are relatively low, around 2%, this study typically refers to CPI since it is the most well-known.

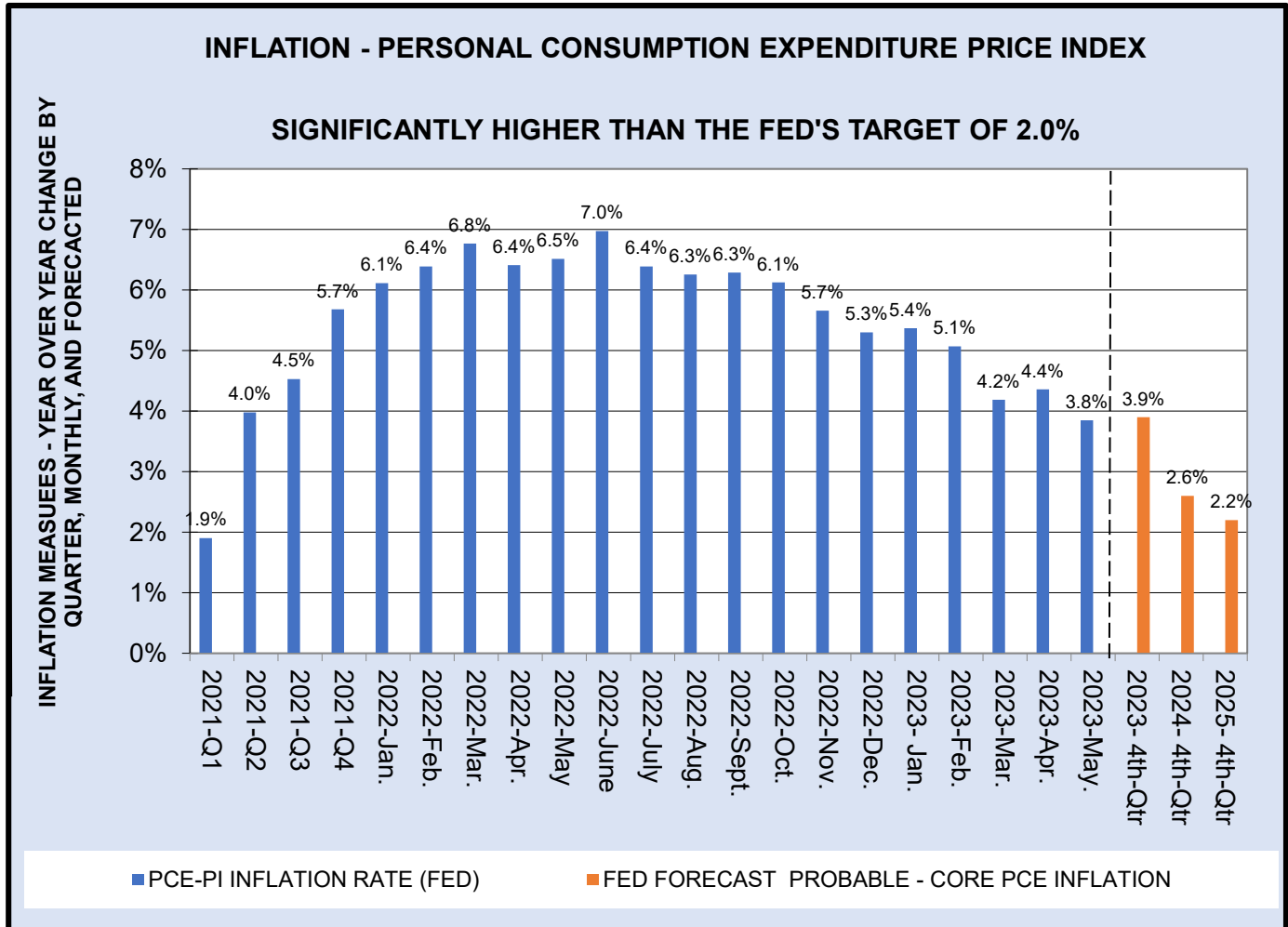




## INFLATION RECENT/EXPECTED CHANGES FOR TWO SCENARIOS

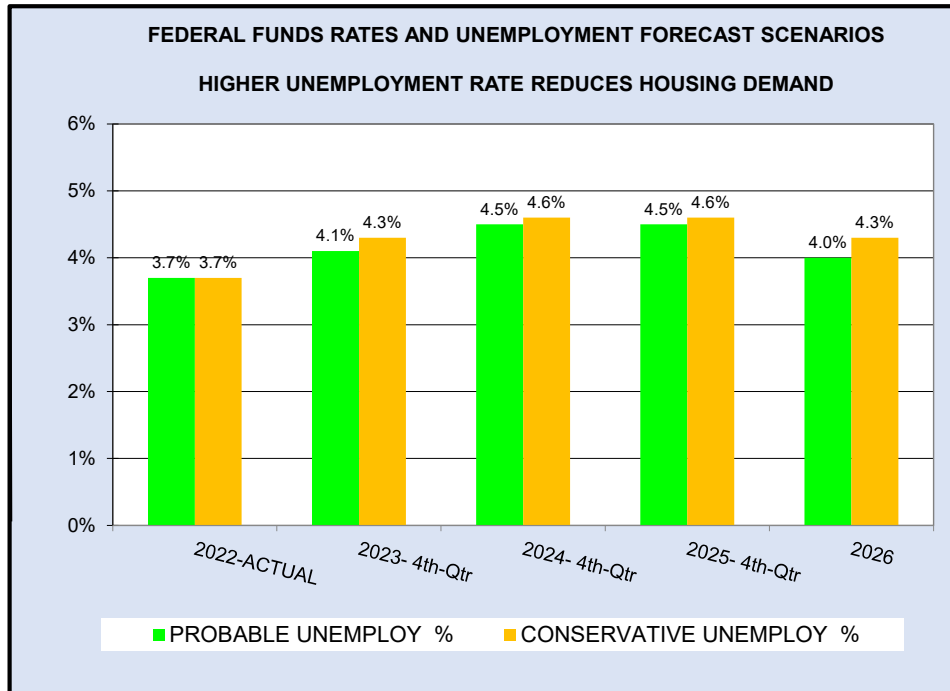
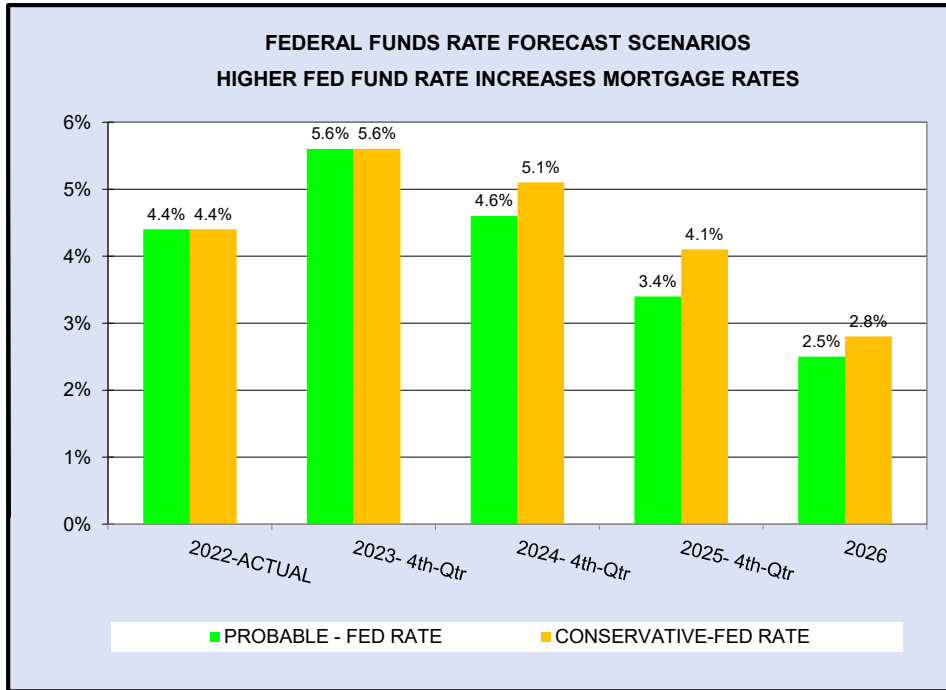
Probable: the median core PCE inflation forecast of the FED participants as of June 14, 2023.

Conservative: the higher end core PCE inflation forecast of the FED participants as of June 14, 2023.



Source: Federal Open Market Committee, Economic Projections, June 14, 2023  
Table 1 Median and Central Tendency (upper)

## EXPECTED CHANGES IN THE FEDERAL FUNDS RATE AND UNEMPLOYMENT RATES FOR TWO SCENARIOS



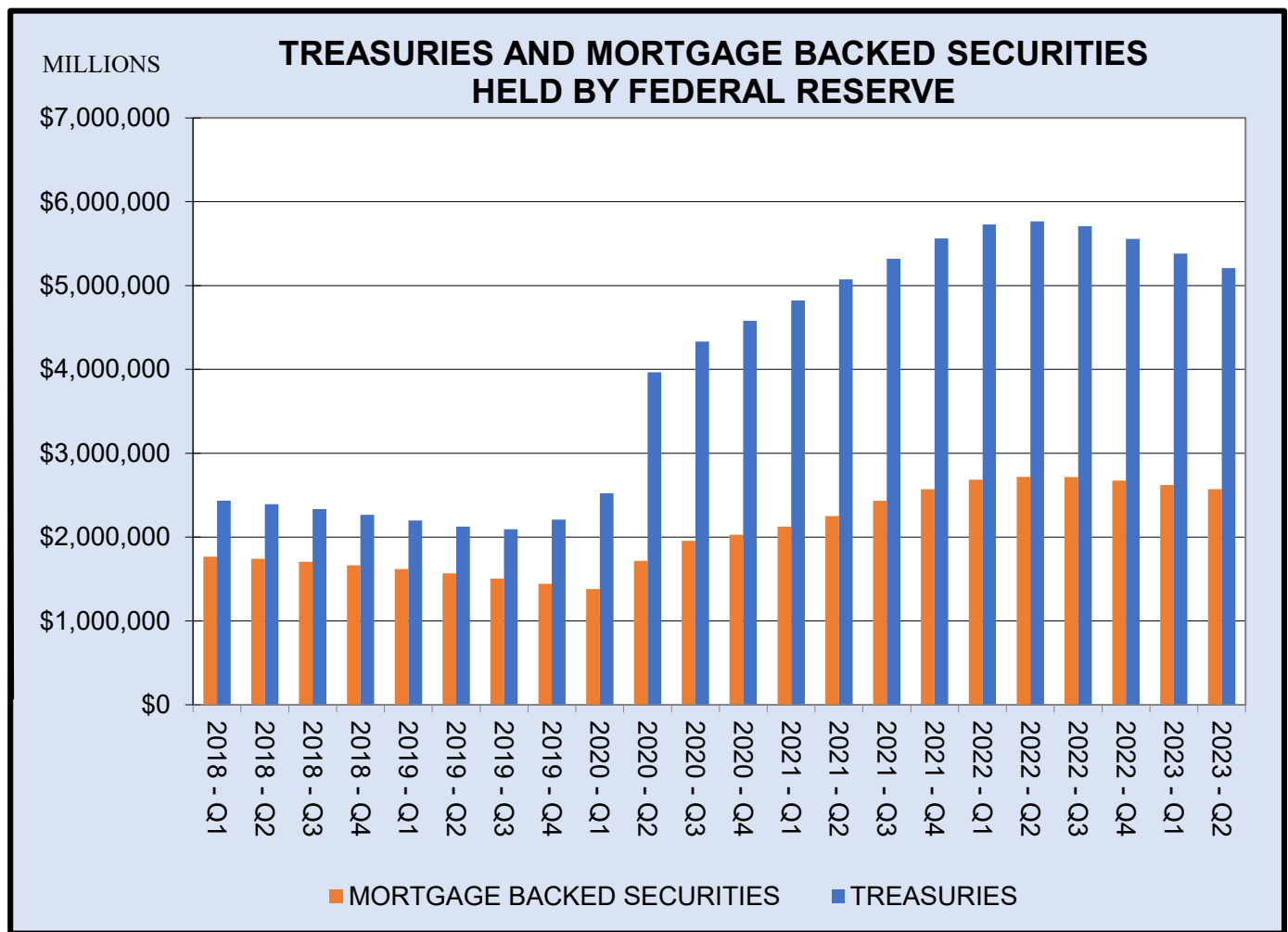
Source: Federal Open Market Committee, Economic Projections, June 14, 2023  
Table 1 Median and Central Tendency (upper)

### TREASURY ASSETS HELD BY THE FRB

The FRB’s asset portfolio recently increased by ~\$5T (T=Trillion), from \$4T in 2019 to \$9T in early 2022.

Mortgage backed securities rose from about \$1.4T in 2020-Q1 to \$2.5T in June 2023.

The FRB is now selling assets: since the 2022-Q2 peak, the portfolio has declined by ~\$0.6T, and such sales are expected to continue.

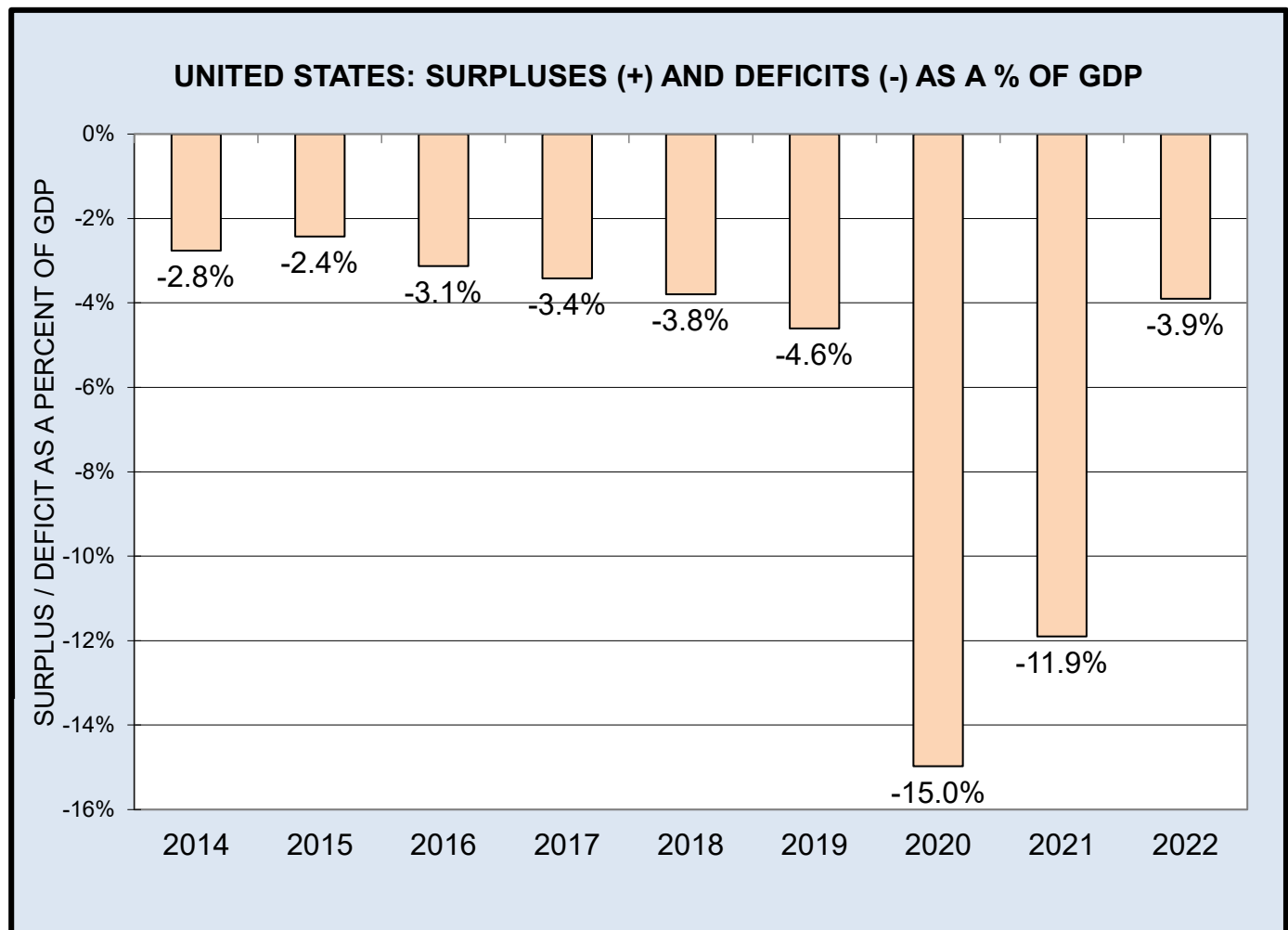


## FEDERAL GOVERNMENT BUDGET DEFICITS

From 2014 to 2019, the federal government deficits increased from -2.4% to -4.6% of GDP.

Then, due to COVID, federal spending rose dramatically while tax revenues declined, resulting in significantly higher deficits of -15.0% in 2020 and -11.9% in 2021.

For 2022, the federal deficits declined to -3.9%.



## C. RECENT HOUSING TRENDS/PATTERNS

### OVERVIEW OF RECENT/EXPECTED HOUSING PRICE PATTERNS

**January 2021 – December 2021:** Robust appreciation, historically low mortgage rates and low supply

**Early 2022:** Inflation rate surges - Federal Reserve Board (FRB/FED) raises interest rates (March 2022)  
Mortgage rates for homes begin to rise

**January 2022– June 2022:** Higher mortgage rates reduce home sales  
Significant proportion of listed homes reduced their offering prices  
Prices experienced peak values

**July 2022:** Actual price declines reflect that the housing market transitions went from strong to soft

**August/September 2022:** inflation remains high - FRB reaffirms goal of 2% inflation  
FRB Policies will increase interest rates, including mortgage rates  
FRB Policies will increase the unemployment rate, diminish consumer confidence

**October 2022 – Mid-2023:**

Los Angeles Region prices declined significantly relative to their recent peak values.

**Empire Provides Forecasts for Two Scenarios**

**Probable:** The median forecasts for the CPI and other economic metrics by FRB participants

**Conservative:** The higher-end forecasts for the CPI and other metrics by the FRB participants

**Forecast of housing prices: Two phases: (A) Reducing and then (B) Stabilizing Inflation**

**Phase A: Reducing the Inflation Rate**

Housing market has shifted to price softness phase - but not as serious as prior 2003-2006 bubble

Housing prices will further correct during 2023 due to high financial rates.

**Phase B: Inflation stabilized at about 2%**

Housing market stabilizes in 2024 and 2025

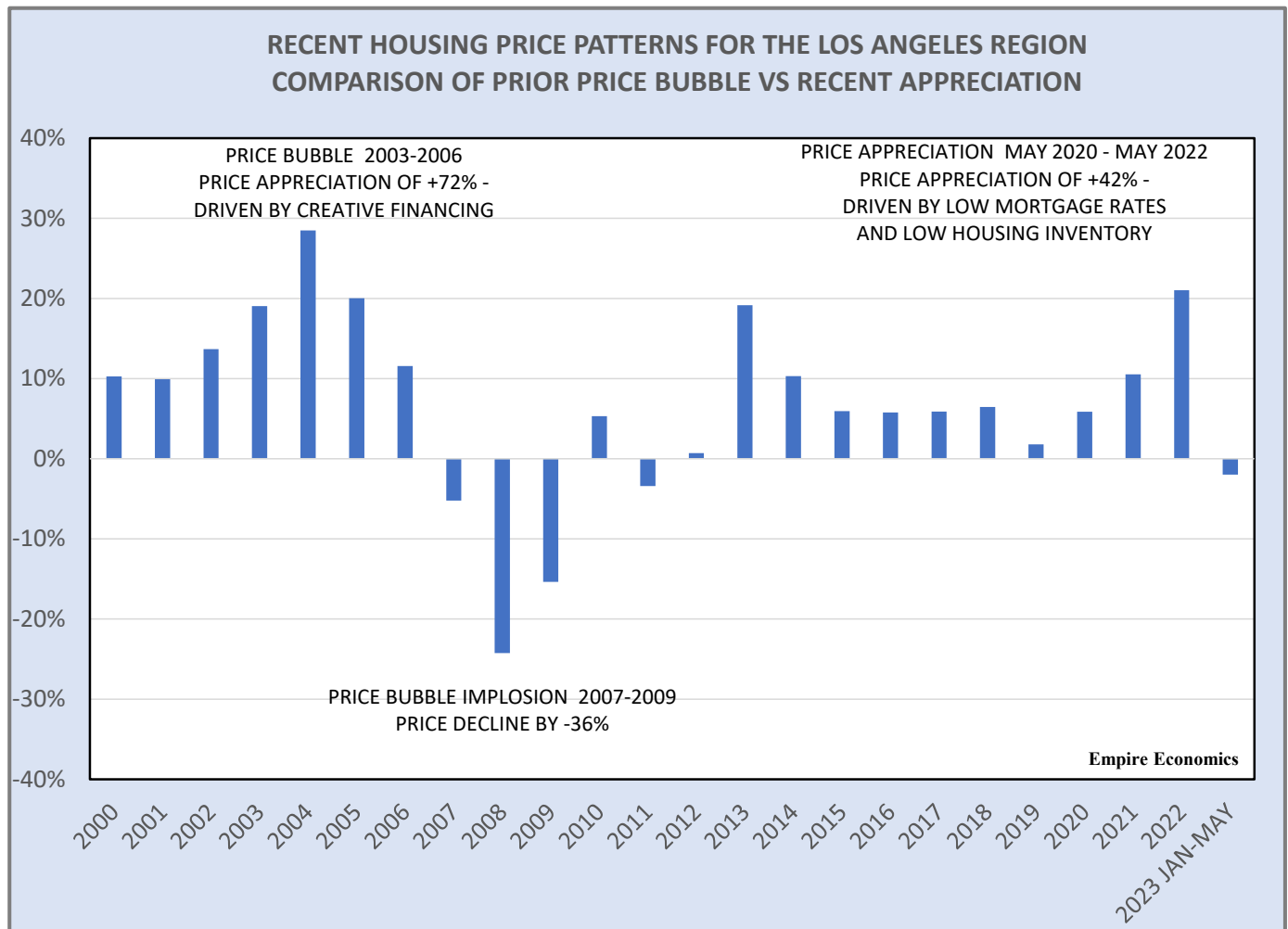
With the 2% inflation rate attained, housing market returns to normal conditions in 2026+

## OVERALL PATTERNS OF PRICE APPRECIATION - LOS ANGELES REGION

Since mid-2020 price appreciation was supported by historically low mortgage rates and low housing inventory, \*not\* creative financing like 2003-2006.

Most current homeowners have locked in relatively low mortgage rates, so many may be reluctant to purchase homes until mortgage rates decline.

After peaking in mid-2022, prices declined through January 2023. Prices through the 1<sup>st</sup> five months of 2023 vs. 2022 decreased at a rate of about -2%.

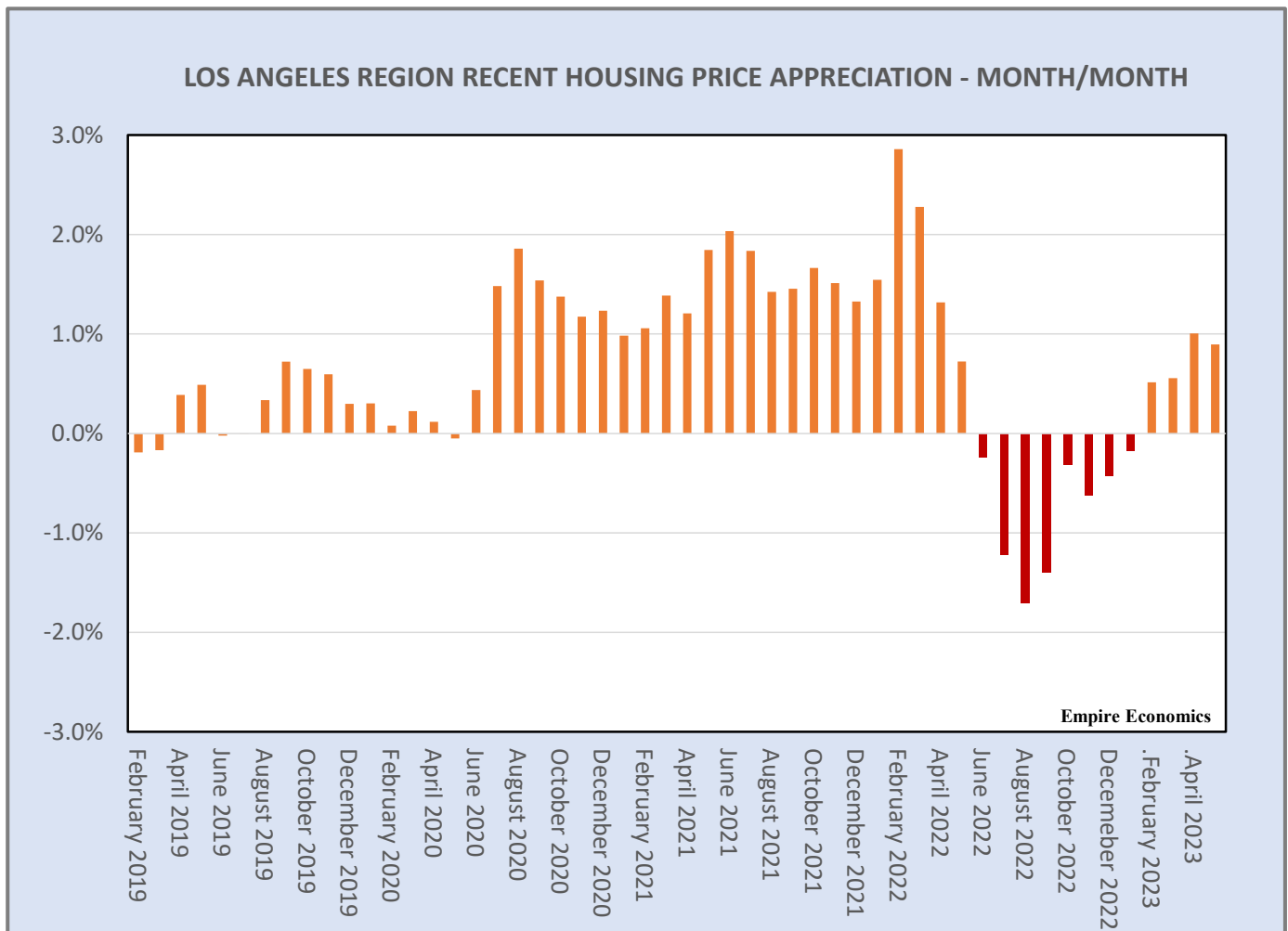


## RECENT HOUSING SALES PATTERNS - LOS ANGELES REGION

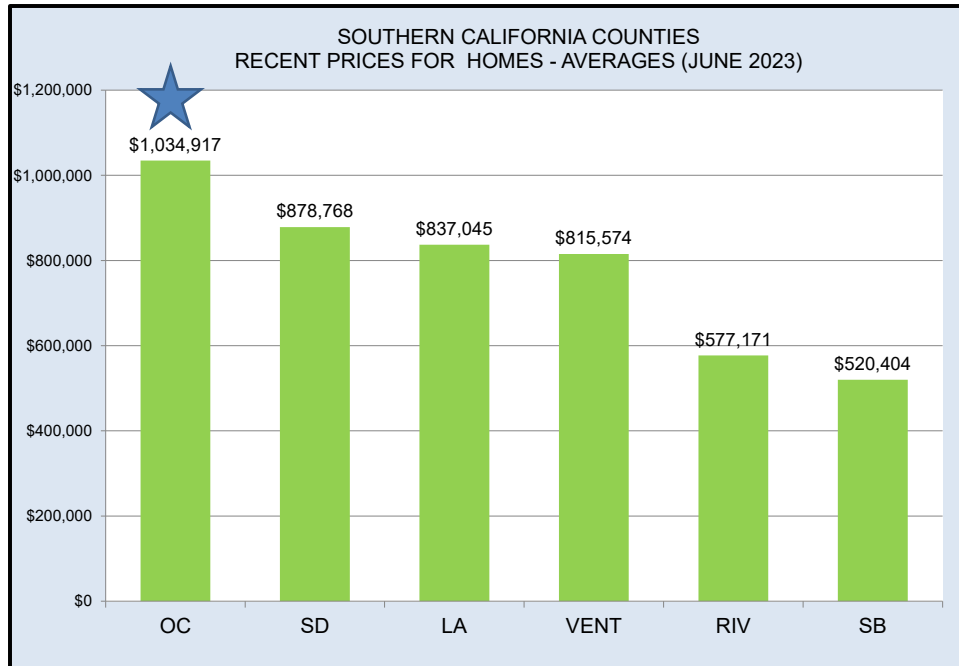
From July 2020 - May 2022, Los Angeles Region’s price appreciation, as measured month to month, was positive and robust.

Starting in June 2022, appreciation turned negative and continued to be negative through January 2023; over this time period, prices fell a total of -6%.

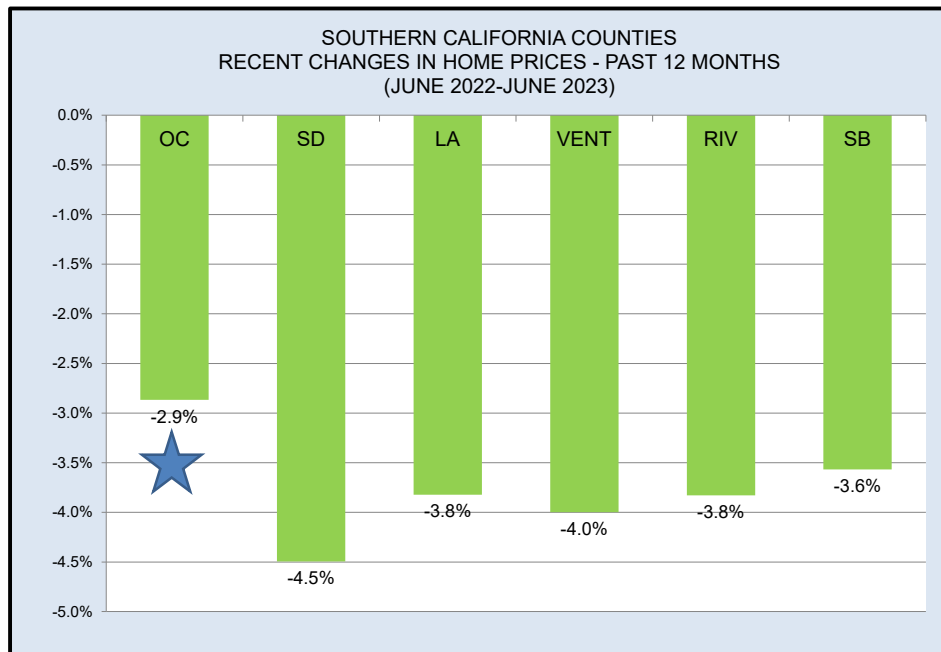
However, from January 2023-May 2023, home prices rose slightly due to abnormally low levels of homes for-sale.



## RECENT HOME PRICES/GROWTH - SOUTHERN CALIFORNIA COUNTIES



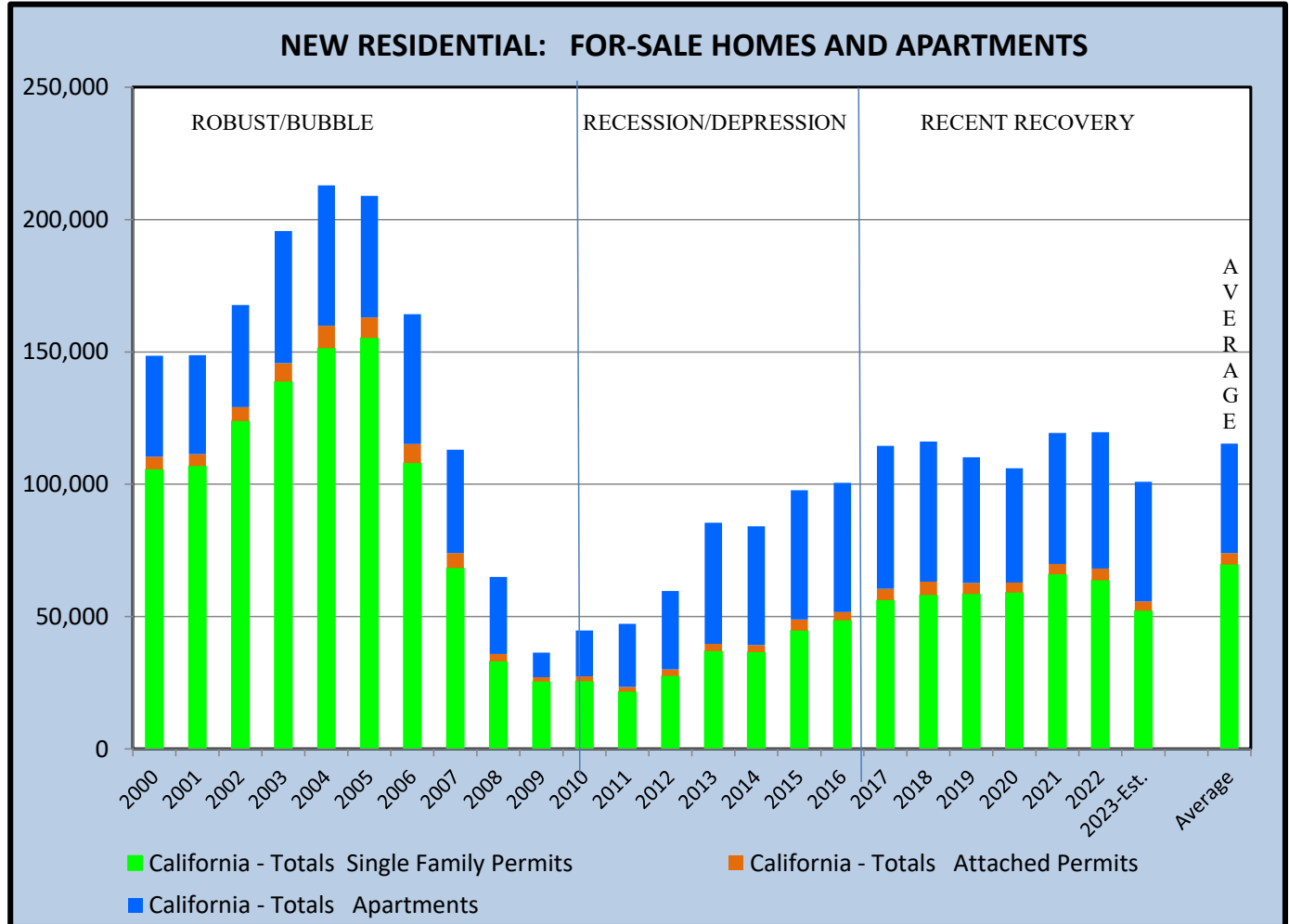
Orange County has the highest prices compared to other Southern California counties while San Bernardino and Riverside counties are the lowest



Housing price changes have been slightly negative across Southern California counties during the past 12 months. Even though Orange County has the highest average price, it also had a slightly lower drop in prices from June 2022 to June 2023 than the other counties.



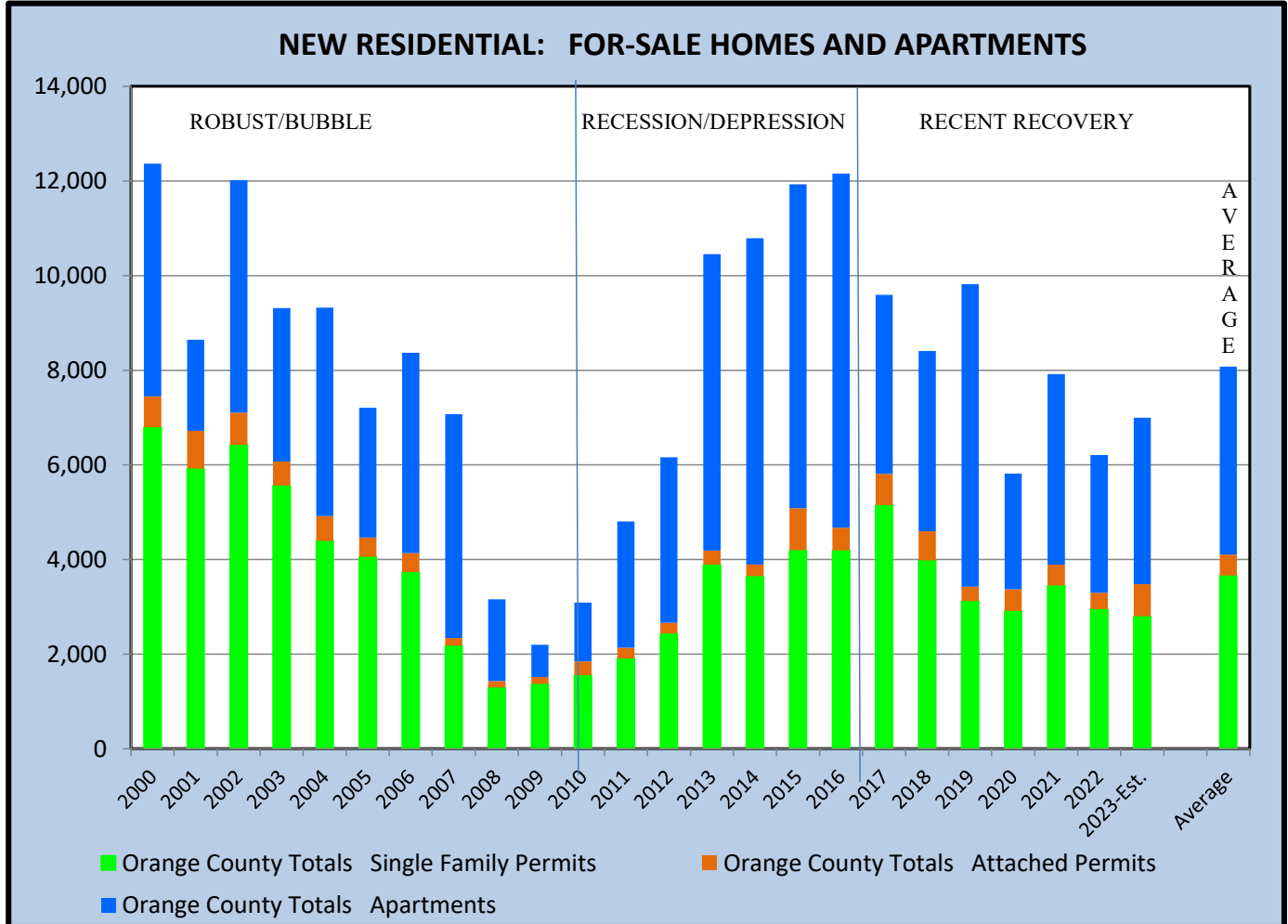
## RESIDENTIAL CONSTRUCTION ACTIVITY – CALIFORNIA



New residential development has been cyclical with highs in 2003-2005 and 2017-2018. However, the 2017-2018 high was much lower due to reduced levels of single-family permits.

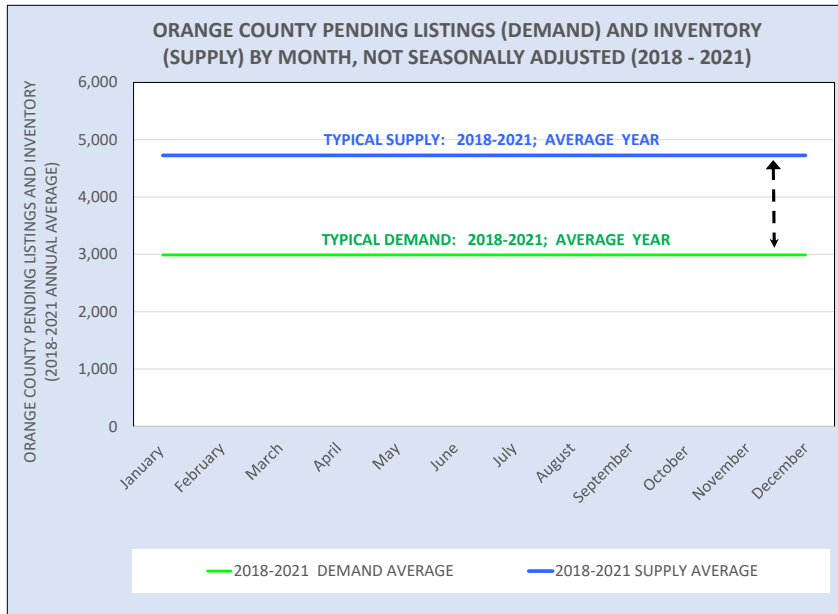
In 2021-2022, single family increased to its highest level since 2017-2018. Total permits for 2023, based on the Jan.-May 2023 pace, are expected to be slightly below 2021-2022.

## RESIDENTIAL CONSTRUCTION ACTIVITY - ORANGE COUNTY

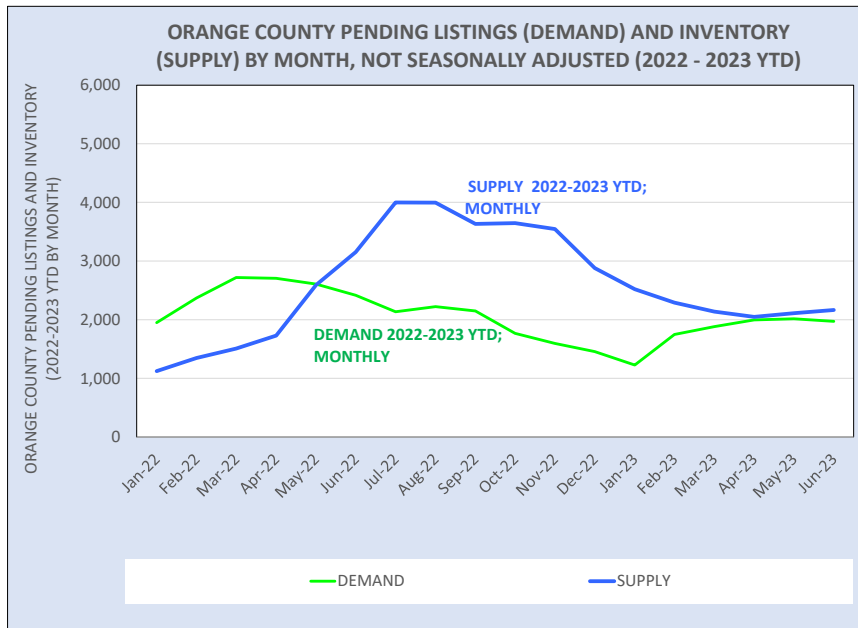


New residential development had prior peak levels in 2000 and 2002. Strong levels occurred during 2015-2016, driven primarily by higher levels of new apartments. Since 2016, levels have moderated.

## RECENT HOUSING MARKET DEMAND/SUPPLY - ORANGE COUNTY



For the County of Orange for 2018-2021, on average, inventory/supply (blue solid line) was well above pending sales/demand (green solid line) and so home prices appreciated at a normal rate.



However, during January 2022-June 2023, demand was similar to supply a few times, and demand was even higher than supply in early 2022.

Both demand and supply have been lower than their 2018-2021 average levels.

### D. ANNUAL HOUSING PAYMENTS (AHP) FOR HOMES - ORANGE COUNTY

AHP = mortgage principal, mortgage interest and property taxes; with wage increase adjustment

**A. 2019-2020:** Lower rates more than offset housing appreciation with overall average of \$50K

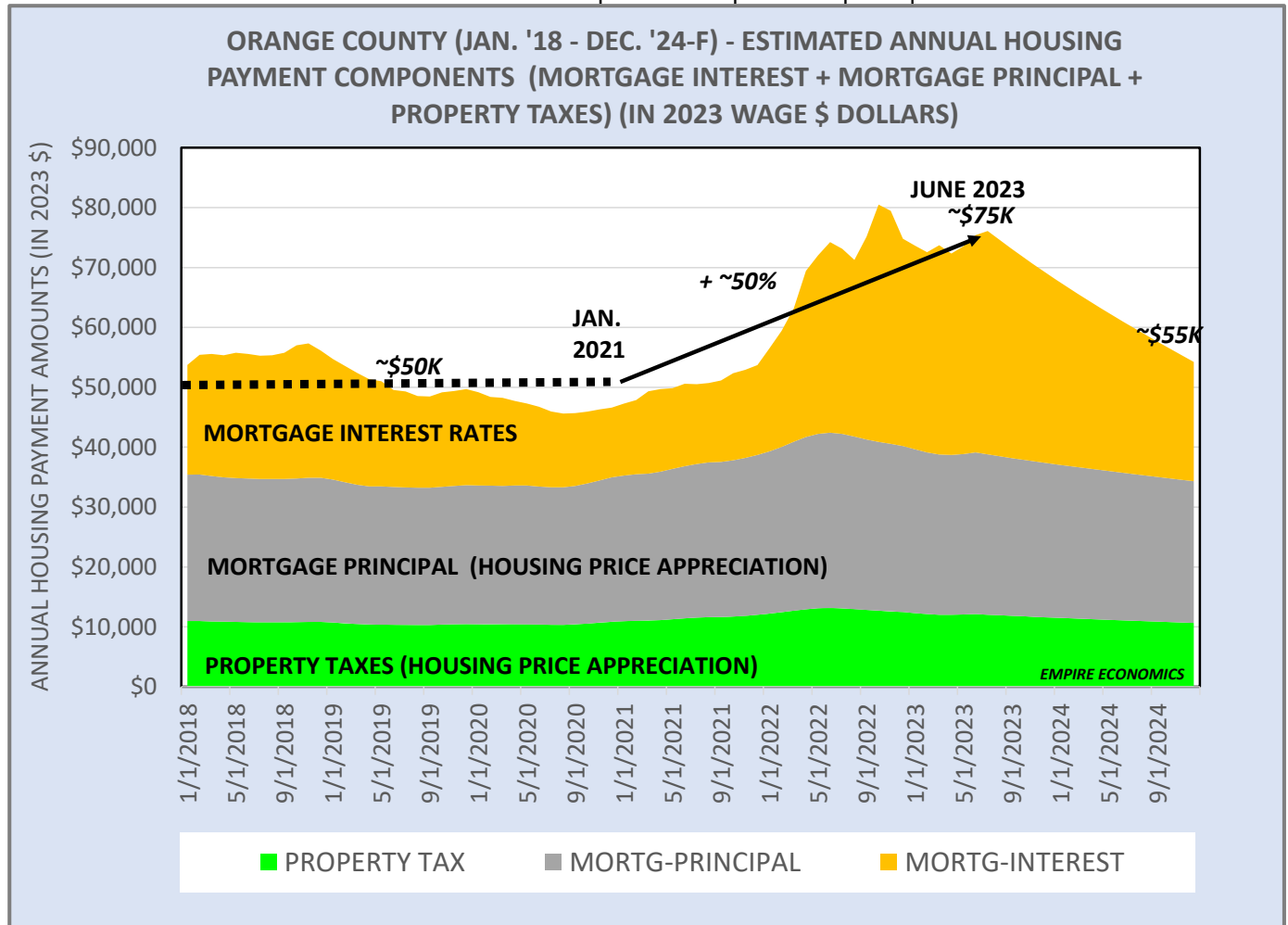
**B. 2021:** Rising prices and stable rates drove payments higher especially at end of year

**C. Early 2022:** Higher prices and mortgage rates drove payments even higher

**D. Mid-Later 2022:** Falling prices offset by rising mortgage rates as payments go even higher, peaking at around \$80K to \$75K in June 2023

**E. December 2024:** If current housing prices declined by -8% and mortgage rates declined to 4.5% by December 2024, the payment would fall to \$55K, similar to 2018 levels

.....**A**.....|.....**B**.....|.....**C**...|..**D**..|.....**E**



## **SECTION III**

### **OVERVIEW OF DEVELOPMENT TRENDS/PATTERNS AND SOCIOECONOMIC FACTORS**

This section discusses the employment and residential development trends/patterns in the general vicinity of CFD No. 2023-1 as well as the County of Orange, and also the socioeconomic factors that households consider when purchasing a home, such as personal safety as well as educational quality.

#### **A. DEVELOPMENT TRENDS/PATTERNS IN SOUTH ORANGE COUNTY**

From a geographical regional perspective, the marketing potential of the forthcoming products in CFD No. 2023-1 involves an analysis of the existing/forthcoming Planned Communities, Retail Centers and Business Parks, in conjunction with the transportation system in south Orange County.

South Orange County includes the southern portion of Orange County that is generally southerly of Route 55, spanning from Newport-Tustin-Irvine at the northern portion, Aliso Viejo in the central area and to San Clemente at the southern portion.

Business Parks generate employment through their industrial-office development while Planned Communities generate residential development which, in turn, generates a demand for Retail Centers; additionally, the flow of traffic between them is facilitated by the freeways and transportation corridors between them.

##### **➤ Primary Employment Center and Business Parks**

The currently established major employment center in south Orange County is the City of Irvine. For example, the City of Irvine has a robust economic base that has created about 90,000 net new jobs since 2003. There are also some secondary employment centers, such as Newport Beach and Aliso Viejo, among others.

##### **➤ Commuting Patterns: Employment Centers to Residential Areas**

The employment growth in the primary as well as the secondary employment centers, in turn, generate a substantial demand for housing in CFD No. 2023-1 Market Area. Some of the households employed in the City of Irvine, due to its high housing prices, will seek moderately priced housing in other areas. Their commuting patterns are based upon the available transportation corridors, including the Interstate 5 freeway that links the City of Irvine to CFD No. 2023-1.

Therefore, CFD No. 2023-1 is situated in the south portion of Orange County, and it offers more moderately priced housing opportunities for households that are employed in the Irvine-Tustin-Newport Beach and Aliso Viejo employment centers.

For additional information on the regional development patterns, please refer to the following exhibit.

# ECONOMIC BASES IN SOUTH ORANGE COUNTY THAT GENERATE A DEMAND FOR HOUSING FOR CFD NO. 2023-1

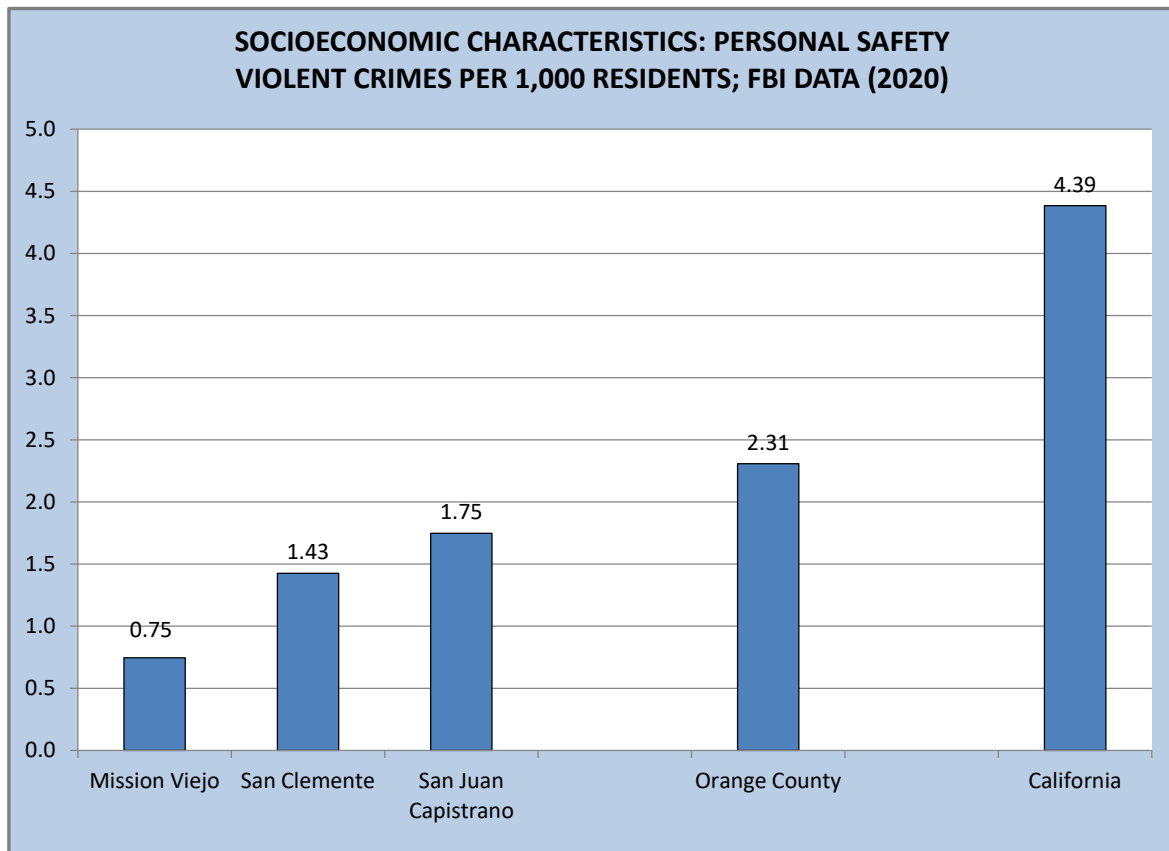


## B. SOCIOECONOMIC CHARACTERISTICS: CRIME LEVELS AND QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location of the residence relative to their place of employment along with the prices that they can afford. Furthermore, secondary socioeconomic factors that are significant include the neighborhood safety as well as the educational quality of the schools; accordingly, these are now discussed.

### Crime Levels and Safety in the County of Orange

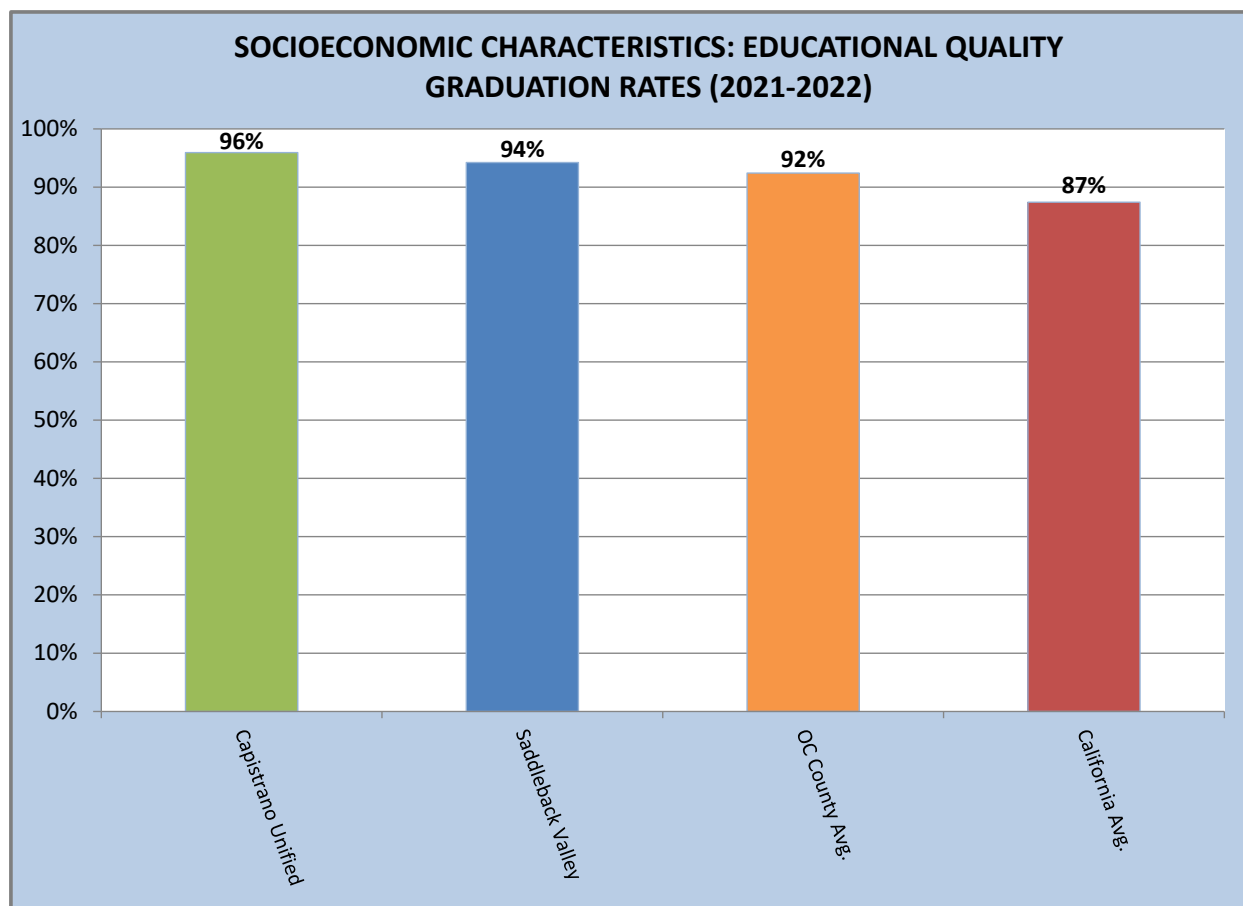
To gauge the safety of the cities in the vicinity of CFD No. 2023-1 (Rienda 2B), information on crime levels was obtained utilizing the most recent data available (the 2020 calendar year) from the Federal Bureau of Investigation (FBI) Index, with a focus on “Violent Crimes.” Accordingly, Orange County had a violent crime rate of 2.31, lower than California which amounted to 4.39. Furthermore, the cities in the vicinity of CFD No. 2023-1 (Rienda 2B) all had lower crime rates than Orange County, and these ranged from 0.75 for Mission Viejo to 1.75 for San Juan Capistrano.



## Quality of Schools and Education

To gauge the quality of schools in the vicinity of CFD No. 2023-1 (Rienda 2B), information was compiled on educational achievement for Capistrano Unified School District utilizing the California Department of Education graduation rates. The educational quality comparison leveraged graduation rates for 2021-2022.

The Orange County's average for all school districts was a graduation rate of 92%. The Capistrano Unified School District (96%) exceeded the Orange County as well as nearby Saddleback Valley Unified (94%); additionally, it was also well above the California (87%).



## Conclusions

From a socioeconomic perspective, CFD No. 2023-1 (Rienda 2B), has a relatively low crime rate and a relatively high graduation rate, and this will be beneficial for marketing its forthcoming homes.



## **SECTION IV**

### **COMPETITIVE MARKET ANALYSIS OF THE RESIDENTIAL PROJECTS IN CFD NO. 2023-1 (RIENDA 2B)**

The purpose of this section is to perform an analysis of the characteristics of the CFD No. 2023-1 (Rienda 2B) forthcoming projects with regards to their product types, prices, living areas and special taxes with the comparable projects in the nearby Planned Community of Rienda 2A to evaluate their competitiveness in the marketplace.

#### **A. IDENTIFICATION OF THE ACTIVE COMPARABLE PROJECTS**

Market surveys were performed to identify currently active projects in newly developing Planned Communities in south Orange County and then select the market comparables based upon a consideration of the following factors:.

Currently active comparable projects offering “attached as well as single-family detached” homes.

- ✓ Currently active projects that are situated in active Planned Communities (PCs)
- ✓ Projects in the vicinity of CFD No. 2023-1
- ✓ Projects that offer attached and detached product types.
- ✓ Projects that have special taxes.

Compilation of information on the projects:

- ✓ Market Segments by Product Types: All-Ages Attached and All-Ages detached
- ✓ Number of homes planned
- ✓ Current base prices
- ✓ Living Areas
- ✓ Special Taxes/Assessments

Based upon a consideration of the geographical location and product types of the various newly developing Planned Communities, Empire selected CFD No. 2021-1 Rienda 2A which is in close proximity and has currently active projects that offer similar product types. Accordingly the specific projects and their characteristics are as follows:

**Attached Housing Products:**

Portico by Lennar has 132 homes that are attached flats  
Prices range from \$512,990-\$664,990 for 727 to 1390 ft.<sup>2</sup>

Oasis by Lennar has 120 homes that are row townhomes  
Prices range from \$614,990-\$834,990 for 961 to 1546 ft.<sup>2</sup>

**Detached Housing Products:**

Paisley by Tri Pointe has 110 homes that are detached duplexes  
Prices range from \$719,000-\$839,000 for 1366 to 1737 ft.<sup>2</sup>

Harvest by Meritage has 67 homes that are detached duplexes.  
Prices range from \$790,000-\$905,000 for 1510 to 1893 ft.<sup>2</sup>

Wildrose by Tri Pointe has 83 homes that are detached stub-alley  
Prices range from \$719,000-\$820,000 for 1329 to 1387 ft.<sup>2</sup>

Serenity by Lennar has 86 homes that are detached stub- alley  
Prices range from \$849,990-\$999,990 for 1418 to 1773 ft.<sup>2</sup>

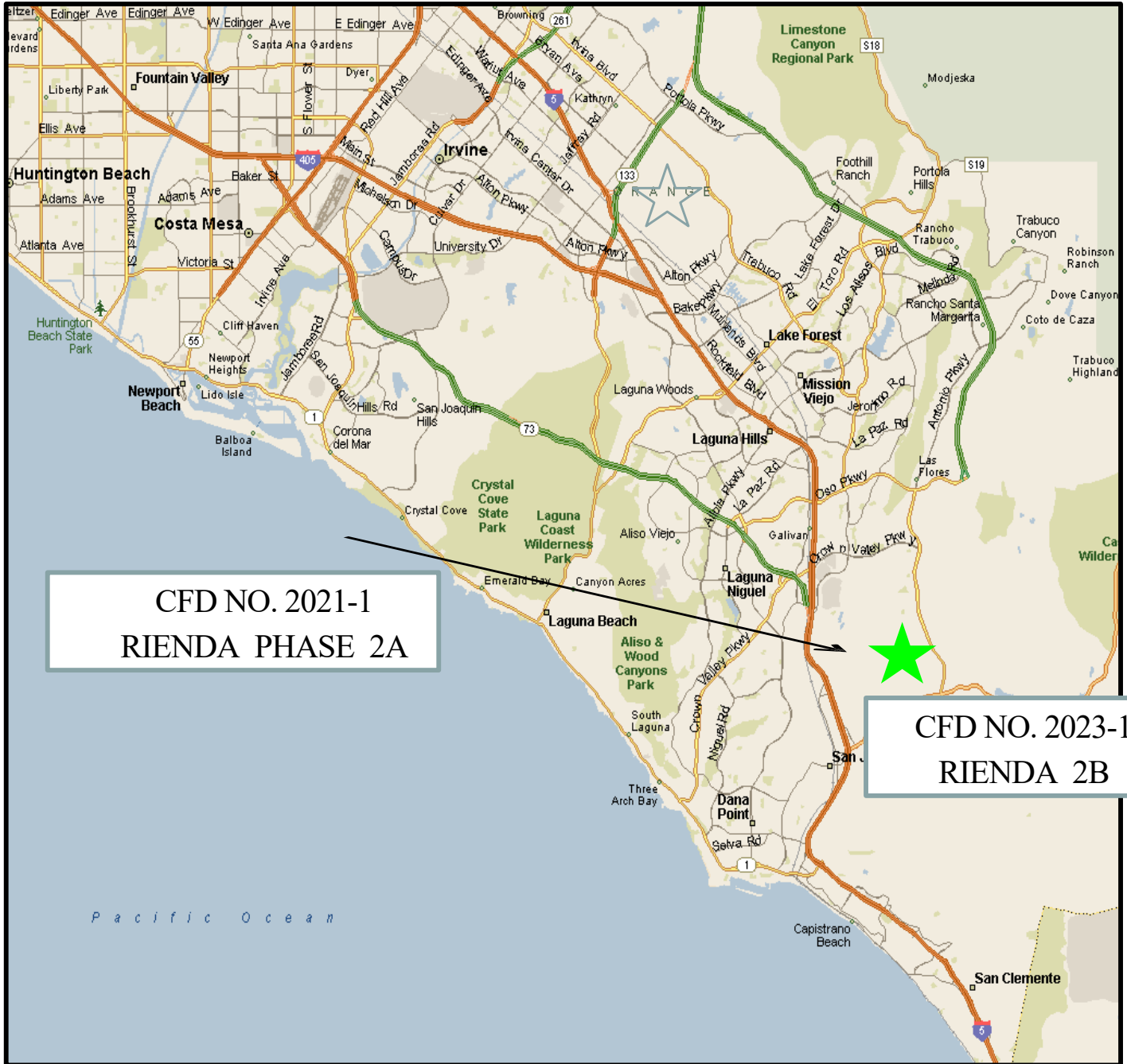
Evolve by Pulte has 73 homes that are detached stub-alley  
Prices range from \$999,990-\$1,069,990 for 1760 to 2124 ft.<sup>2</sup>

Botanica by Tri Pointe has 61 homes that are single-family detached  
Prices range from \$1,060,000-\$1,187,000 for 1982 to 2303 ft.<sup>2</sup>

Dahlia by Trumark has 73 homes that are single-family detached  
Prices range from \$1,206,000-\$1,284,000 for 2451 to 2822 ft.<sup>2</sup>

Please refer to the map on the following page for locations of these Planned Community Areas.

# CFD NO. 2023-1 COMPETITIVE MARKET ANALYSIS COMPARABLE PLANNED COMMUNITY: RIENDA PHASE 2A



CFD NO. 2021-1  
RIENDA PHASE 2A

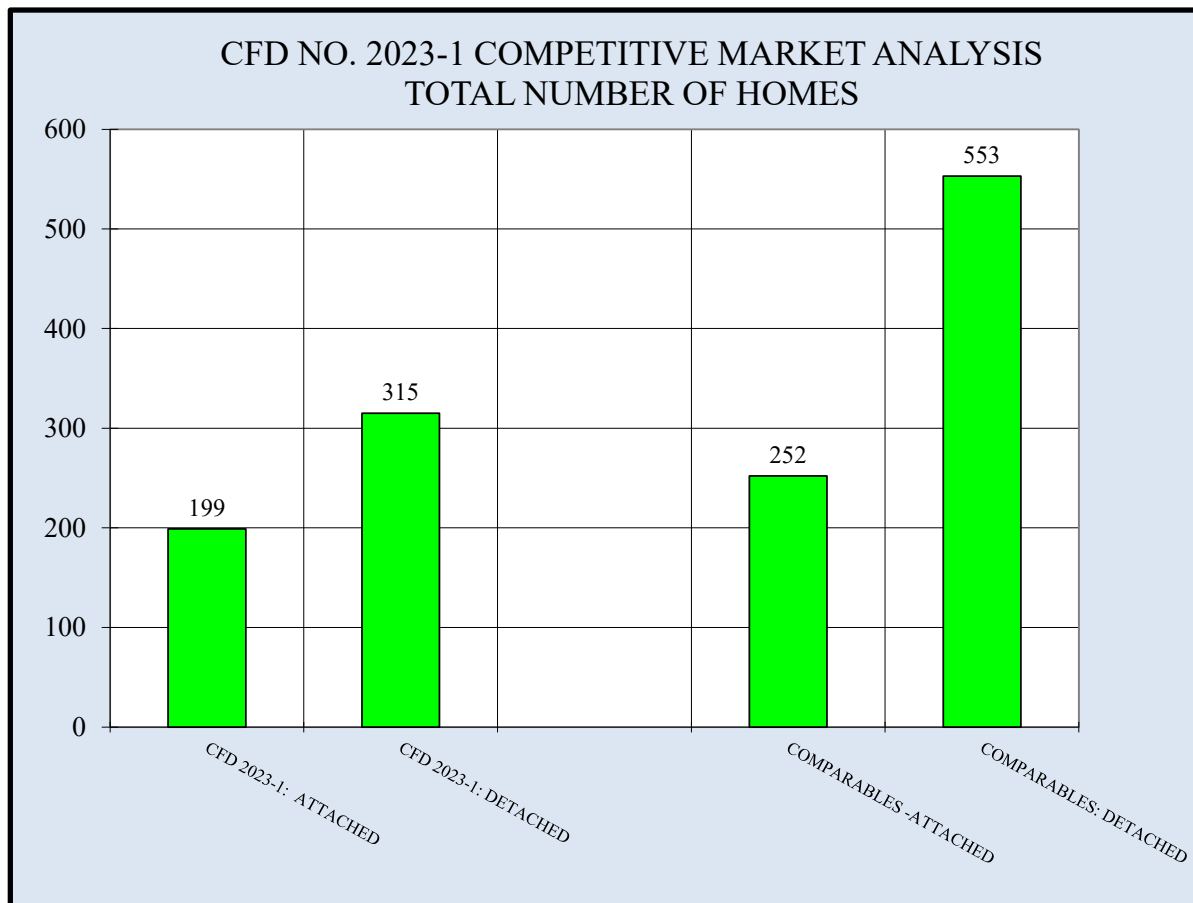
CFD NO. 2023-1  
RIENDA 2B

## B. COMPETITIVE MARKET ANALYSIS FOR THE FORTHCOMING PROJECTS IN THE CFD NO. 2023-1 (RIENDA 2B )

A Competitive Market Analysis of the forthcoming projects in CFD No. 2023-1 is now performed, by comparing their expected characteristics to the currently active comparable projects in the Competitive Market Area (CMA), projects in the active Planned Community of Rienda 2A.

The total number of homes for CFD No. 2023-1 as well as the market comparables amounts to 1,319.

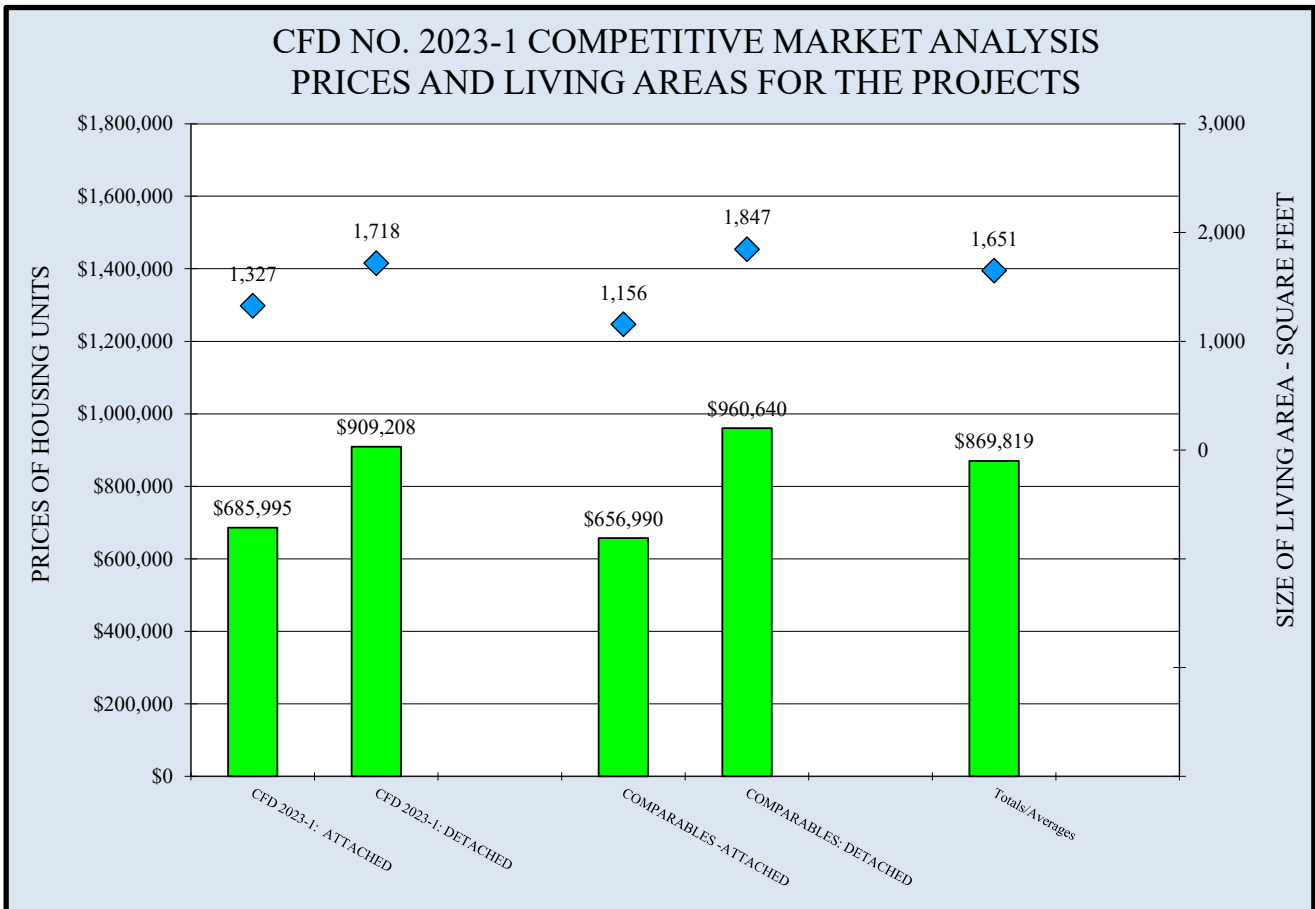
- ✓ CFD No. 2023-1 is expected to have a total of 514 home; of these, 199 are attached and 315 or detached.
- ✓ The market comparable projects are expected to have a total of 805 homes; of these, 252 are attached and 553 are detached.



For all of the projects as a whole, their prices amounts to \$869,819, on the average, and they have 1,651 ft.<sup>2</sup> of living area, on the average

CFD No. 2023-1 attached homes have prices of \$685,995/avg. with 1,327 ft.<sup>2</sup>/avg. while detached homes have prices of \$909,208 with 1,718 ft.<sup>2</sup>.

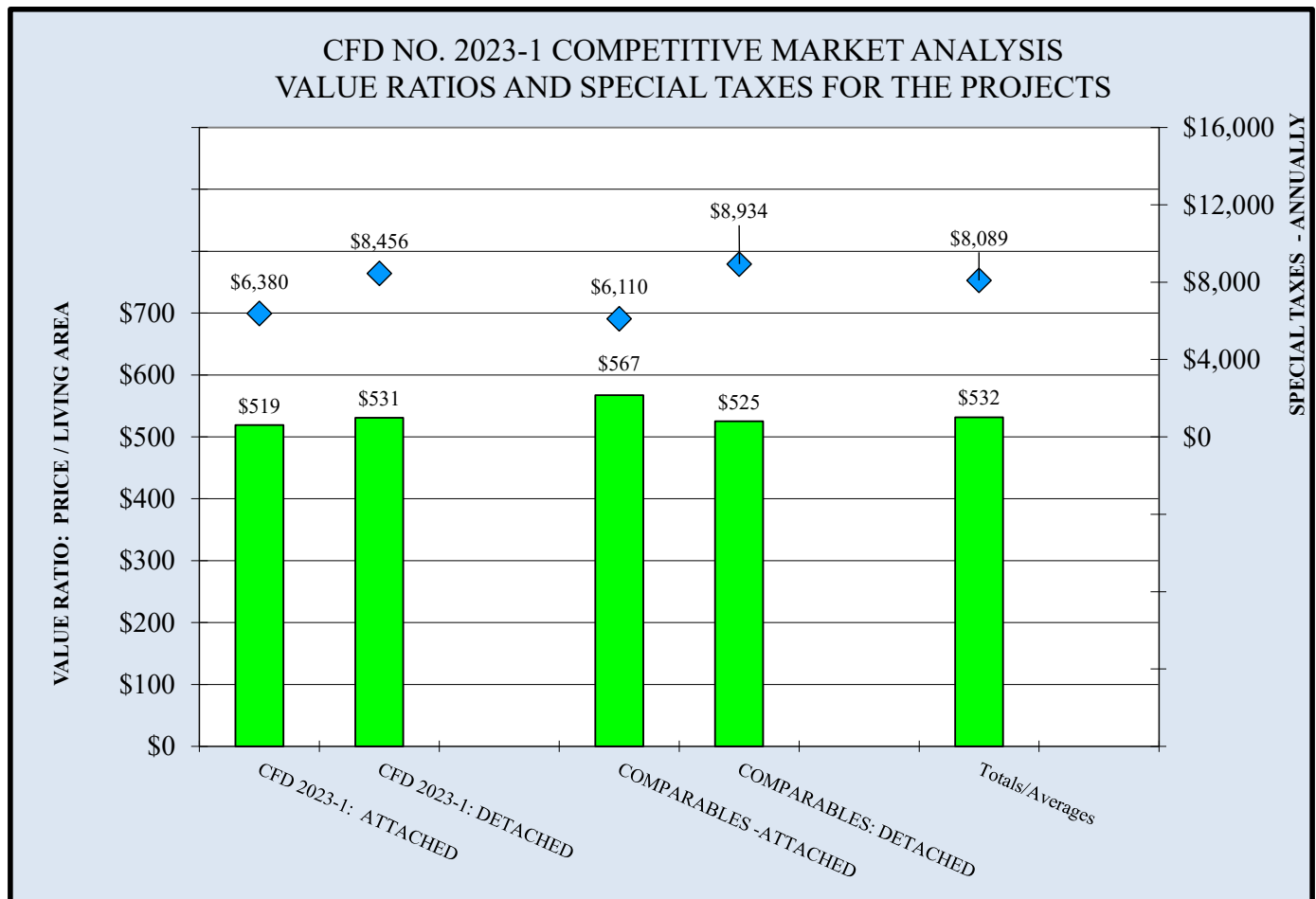
Market Comparables attached homes have prices of \$656,990/avg. with 1,156 ft.<sup>2</sup>/avg. while detached homes have prices of \$960,640 with 1,847 ft.<sup>2</sup>.



For all of the projects as a whole, their value ratios amount to \$532/avg. and they have special taxes of \$8,089 (0.93%)/avg.

CFD No. 2023-1 attached homes have value ratios of \$519/avg. while detached homes have value ratios of \$531/avg.

Market Comparables attached homes have value ratios of \$567/avg. while detached homes have value ratios of \$525/avg.



## CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2023-1 (RIENDA 2B) AND ALSO THE ACTIVE COMPARABLE PROJECTS (RIENDA 2A)

Planned Community & Product Type	Planning Area	Builder	Project Name	Commence Sales	Commence Closings	Total Units	Housing Prices			Size of Living Area			Value Ratio	Special Taxes (Above Base Rate)	
							Lower	Average	Upper	Lower	Average	Upper		Amount/Year	Ratio/Price
<b>RIENDA 2B</b>															
CFD 2023-1: ATTACHED	MR-6	Lennar	Mariposa	Q4-2023	Q2-2024	106	\$520,000	\$684,000	\$765,000	922	1,409	1,663	\$486	\$6,361	0.93%
CFD 2023-1: ATTACHED	MR-8	Trumark	Willow	Q4-2023	Q2-2024	93	\$579,990	\$687,990	\$788,990	923	1,245	1,540	\$553	\$6,398	0.93%
CFD 2023-1: DETACHED	MR-11	Pulte	Juniper	Q4-2023	Q2-2024	82	\$690,000	\$737,500	\$800,000	1,142	1,376	1,608	\$536	\$6,859	0.93%
CFD 2023-1: DETACHED	MR-24	Lennar	Flora	Q4-2023	Q2-2024	69	\$822,000	\$889,000	\$945,000	1,397	1,604	1,818	\$554	\$8,268	0.93%
CFD 2023-1: DETACHED	MR-25	Shea	Bloom	Q4-2023	Q2-2024	82	\$990,000	\$1,040,000	\$1,100,000	1,753	1,931	2,150	\$539	\$9,672	0.93%
CFD 2023-1: DETACHED	MR-28	TriPointe	Heatherly	Q4-2023	Q2-2024	82	\$893,000	\$970,333	\$1,043,000	1,691	1,959	2,182	\$495	\$9,024	0.93%
<b>RIENDA 2A</b>															
COMPARABLE -ATTACHED	Portico	Lennar	Attached Flats	Active	2022	132	\$512,990	\$588,990	\$664,990	727	1,059	1,390	\$556	\$5,478	0.93%
COMPARABLE -ATTACHED	Oasis	Lennar	Row Townhomes (SFD= Single-family)	Active	2022	120	\$614,990	\$724,990	\$834,990	961	1,254	1,546	\$578	\$6,742	0.93%
COMPARABLE -DETACHED	Paisley	TriPointe	SFD-Duplex	Active	2022	110	\$719,000	\$779,000	\$839,000	1,366	1,552	1,737	\$502	\$7,245	0.93%
COMPARABLE -DETACHED	Harvest	Meritage	SFD-Duplex	Active	2022	67	\$790,000	\$847,500	\$905,000	1,510	1,702	1,893	\$498	\$7,882	0.93%
COMPARABLE -DETACHED	Wildrose	TriPointe	SFD Stub Alley	Active	2022	83	\$719,000	\$769,500	\$820,000	1,329	1,358	1,387	\$567	\$7,156	0.93%
COMPARABLE -DETACHED	Serenity	Lennar	SFD Stub Alley	Active	2022	86	\$849,990	\$924,990	\$999,990	1,418	1,596	1,773	\$580	\$8,602	0.93%
COMPARABLE -DETACHED	Evolve	Pulte	SFD Stub Alley	Active	2022	73	\$999,990	\$1,034,990	\$1,069,990	1,760	1,942	2,124	\$533	\$9,625	0.93%
COMPARABLE -DETACHED	Botanica	TriPointe	SFD	Active	2023	61	\$1,060,000	\$1,123,500	\$1,187,000	1,982	2,143	2,303	\$524	\$10,449	0.93%
COMPARABLE -DETACHED	Dahlia	Trumark	SFD	Active	2023	73	\$1,206,000	\$1,245,000	\$1,284,000	2,451	2,637	2,822	\$472	\$11,579	0.93%
<b>Statistical Summary</b>															
	<b>Projects</b>														
CFD 2023-1: ATTACHED	2					199	\$549,995	\$685,995	\$776,995	923	1,327	1,602	\$519	\$6,380	0.93%
CFD 2023-1: DETACHED	4					315	\$848,750	\$909,208	\$972,000	1,496	1,718	1,940	\$531	\$8,456	0.93%
COMPARABLES -ATTACHED	2					252	\$563,990	\$656,990	\$749,990	844	1,156	1,468	\$567	\$6,110	0.93%
COMPARABLES: DETACHED	7					553	\$906,283	\$960,640	\$1,014,997	1,688	1,847	2,006	\$525	\$8,934	0.93%
Totals/Averages	15					1,319	\$797,797	\$869,819	\$936,463	1,422	1,651	1,862	\$532	\$8,089	0.93%

## SECTION V

### ESTIMATED ABSORPTION SCHEDULES FOR PROJECTS IN CFD NO. 2023-1 (RIENDA 2B)

The estimated market absorption schedules for CFD No. 2023-1 take into consideration the significant uncertainty regarding the economic/employment impacts of the FRB's policy of attaining a 2% inflation rate, so Empire has built-in safeguards into its forecasting paradigm.

#### A. SYNOPSIS OF ECONOMIC/FINANCIAL/HOUSING MARKET CONDITIONS

##### Favorable Economic and Housing Market Conditions

Orange County's employment recovered from the COVID-19 recession around September 2022 and recently attained a new peak level in May 2023. Orange County's employment growth rate has been slightly below that of California.

The recent unemployment rate for Orange County was 3.2% which is considered to be full employment. Furthermore, this was lower than California's 4.5% and also United States's 3.6%.

Orange County sectors that have fully recovered and surpassed the prior highs are transportation/warehousing, professional services, private educational services, healthcare and social assistance, arts, entertainment and recreation, other services, construction, and management.

For Rienda 2A (CFD No. 2021-1), most of its projects entered the marketplace in April 2022, and 368 of its 950 homes (including the 145 age-qualified) had closed escrows as of the end of June 2023.

The Competitive Market Analysis compared the characteristics of the projects in CFD No. 2023-1 Rienda 2B with the active comparable projects in Rienda 2A and found that the CFD No. 2023-1 projects are competitive in the marketplace, with regards to their prices, living areas and special taxes.

##### Federal Reserve Board (FRB) Policies – Reduce the Inflation Rate to 2.0%

The FRB is utilizing various tools to reduce inflation:

Federal Funds Rate target was around 5.25% June 2023.

During the past two years, the FRB's balance sheet increased by \$5 trillion, but now it is expected to decline by \$0.5-\$1.0 trillion/yr.

The secondary impacts of the FRB policies upon the housing market:

Mortgage rates remaining relatively high, both for fixed as well as adjustable rates.

Economic slowdown resulting in slower/reduced employment levels and higher unemployment rates.



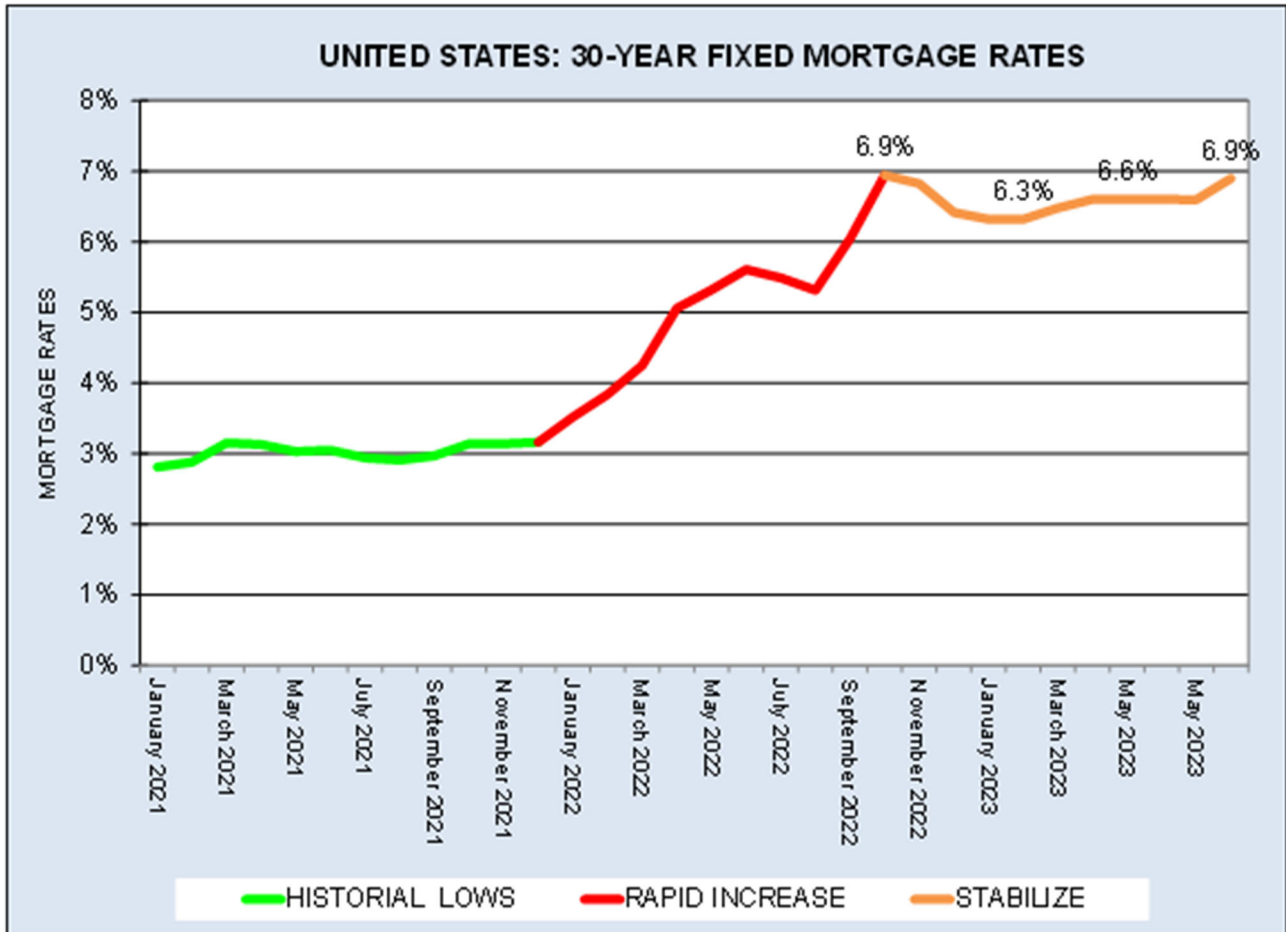
Empire considers two potential scenarios: June 14, 2023, Meeting; FRB Projections for 4th Qtr. 2025.

**Probable:** The median inflation forecast of the FRB participants.  
 Inflation at 2.2%.  
 Federal funds rate at 3.4%.  
 Unemployment rate at 4.5%

**Conservative:** The higher end of the inflation forecast of the FRB participants.  
 Inflation at 2.4%  
 Federal funds rate at 4.1%.  
 Unemployment rate at 4.6%

**Recent Housing Market Conditions and their Impacts on the Projects in CFD No. 2023-1**

The FRB’s goal of reducing the inflation rate to 2% has resulted in higher interest rates in general, including higher mortgage rates that have significantly impacted the housing market:



### **January-October 2022: Dynamic Market Adjustment Phase**

Mortgage rates increased rapidly and significantly from about 3.0% to 6.9%  
Furthermore, there was uncertainty about when the rate increases would peak.

### **October 2022 – July 2023:**

Mortgage rates were generally stable, ranging from about 6.3% to 6.9%.

Consequently, the stability of the rates enabled builders/purchasers to strategize accordingly.

With regards to the market for existing home sales, due to the high mortgage rates:

Demand declined due to higher mortgage rates, with higher monthly payments.

Supply declined further as existing homeowners wanted to keep their low rate loans.

However, the decline in demand has been less than the decline in supply.

This has resulted in even tighter market conditions in the market for existing homes.

Consequently, there has been a stabilization, rather than a decline in prices, even though mortgage rates are high.

However, these conditions are regarded as being a temporary abnormality in the market.

Therefore, the stabilization of the mortgage rates and the tight conditions in the resale market currently provide favorable conditions for newly developing housing projects, with regards to price stability and sales rates.

## **B. Safeguards Underling the Market Absorption Study**

The housing market, especially for new homes, will be significantly impacted by the FRB's policies until the rate of inflation systematically approaches the target rate of 2%, and then the market will start to return to its normal level of sales and price appreciation.

Therefore, in the near term, the housing market is expected to continue to be challenged by higher mortgage rates and higher unemployment which will result in lower sales and also price declines, especially for new move-up homes, in particular.

Accordingly, Empire builds in various safeguards to its forecast of the estimated absorption schedules for the forthcoming homes in CFD No. 2023-1, with regards to potential price reductions as well as slower absorption until the FRB's goal of 2% inflation is achieved.

### **C. ESTIMATED ABSORPTION SCHEDULES FOR THE FORTHCOMING RESIDENTIAL PROJECTS IN CFD NO. 2023-1 RIENDA 2B**

Accordingly, based upon a consideration of the economic/housing factors discussed above, Empire has estimated the absorption schedules (escrow closings) for the forthcoming projects in CFD No. 2023-1 from their market-entry to their close-outs, as follows:

#### **Estimated Absorption Schedules for CFD No. 2023-1 Projects**

Grand Openings with model complexes in 4th Qtr 2023 --- Escrow closings commencing in the 2nd Qtr. 2024.

Expected Closings – Annually

**2024:** 110 homes with closings starting in 2nd Qtr. 2024

All 6 projects on the marketplace commencing escrow closings/move-ins

**2025:** 219 homes with closings, with all of the projects on the market for the entire year

All 6 projects on the marketplace with escrow closings for the entire year

**2026:** 160 homes with closings, with most projects approaching their close-outs

All 6 projects on the marketplace with escrow closings

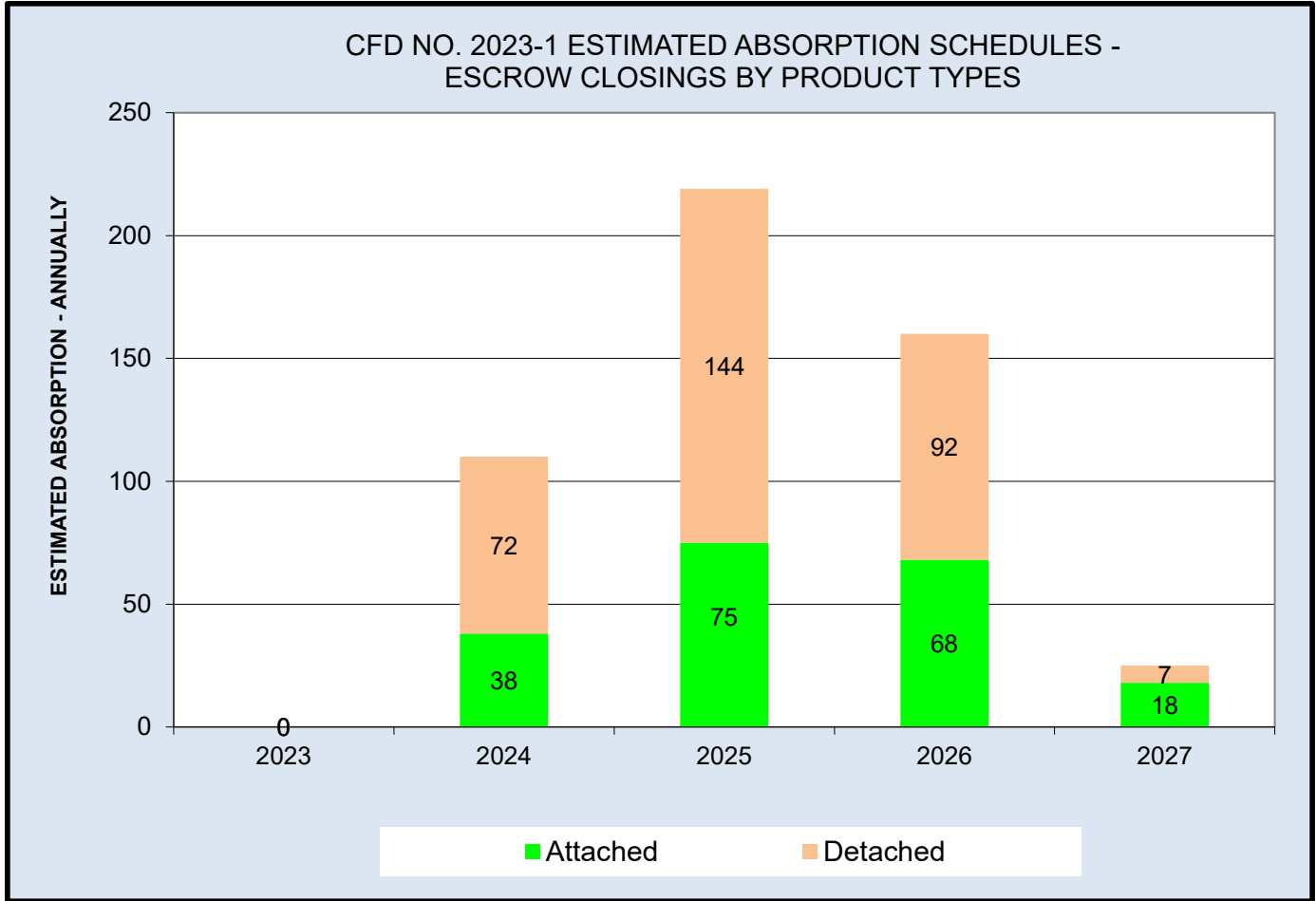
**2027:** The two projects close their remaining 25 homes

CFD No 2023-1 Rienda 2B Close-out: Spring 2027

Finally, the estimated absorption schedules are subject to the additional Assumptions and Qualifications set-forth in the next section.

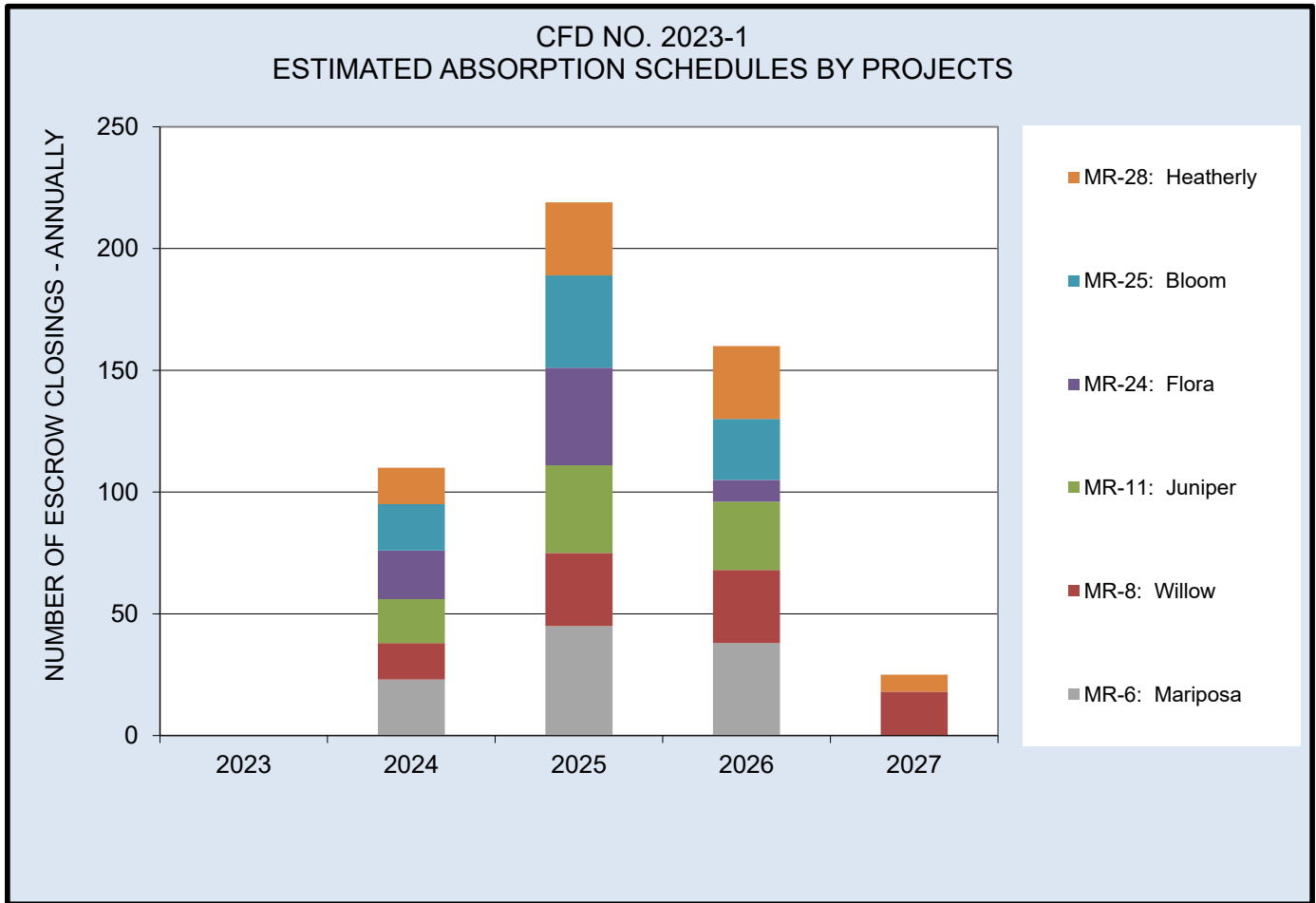
Please refer to the graphs and table on the following pages for additional information on the estimated absorption schedules.

### 2023-1 (RIENDA 2B) ESTIMATED MARKET ABSORPTION SCHEDULES ESCROW CLOSINGS BY PRODUCT TYPES



### CFD NO 2023-1 (RIENDA 2B)

## ESTIMATED ABSORPTION SCHEDULES BY PROJECTS



## ESTIMATED ABSORPTION SCHEDULES FOR CFD NO. 2023-1 RIENDA 2B

Planning Area Code	MR-6	MR-8	MR-11	MR-24	MR-25	MR-28	Totals	Averages
<b>Planning Area</b>	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B	Planning Area 3.2B		
<b>Market Segment</b>	All Ages	All Ages	All Ages	All Ages	All Ages	All Ages		
<b>Expected Product Type</b>	Condos	Row Townhomes	SFD - Duplex	SFD 30 x 42	SFD 43x50	Detached		
<b>Project Name</b>	Mariposa	Willow	Juniper	Flora	Bloom	Heatherly		
<b>Builder</b>	Lennar	Trumark	Pulte	Lennar	Shea	TriPointe		
Total Homes	106	93	82	69	82	82	514	
Escrows Closed; July 30, 2023	0	0	0	0	0	0	0	
Future Closings August 1, 2023+	106	93	82	69	82	82	514	
<b>Market-Entry - Models Open</b>	Q4-2023	Q4-2023	Q4-2023	Q4-2023	Q4-2023	Q4-2023		
<b>Commence Escrow Closings</b>	Q2-2024	Q2-2024	Q2-2024	Q2-2024	Q2-2024	Q2-2024		
<b>Empire's Absorption Schedules - Cumulatively</b>							CUMULATIVELY	
2023	0	0	0	0	0	0	0	
2024	23	15	18	20	19	15	110	
2025	68	45	54	60	57	45	329	
2026	106	75	82	69	82	75	489	
2027	106	93	82	69	82	82	514	
<b>Empire's Absorption Schedules - Annually</b>								ANNUALLY
2023	0	0	0	0	0	0	0	0
2024	23	15	18	20	19	15	110	110
2025	45	30	36	40	38	30	219	219
2026	38	30	28	9	25	30	160	160
2027	0	18	0	0	0	7	25	25
<b>Totals</b>	<b>106</b>	<b>93</b>	<b>82</b>	<b>69</b>	<b>82</b>	<b>82</b>		<b>514</b>

## **ASSUMPTIONS AND LIMITING CONDITIONS**

The Market Absorption Study is based upon various assumptions and limiting conditions; accordingly, these are as follows:

### **Property Boundaries**

No survey or engineering analysis of CFD No. 2023-1 property has been made by the market analyst; the District Engineer's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

### **Maps and Exhibits**

Maps and exhibits included in this report are for illustration only as an aid in visualizing matters discussed within the report. They should not be considered as surveys, or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from the report.

### **Title to Property**

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No. 2023-1 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

### **Earthquakes and Seismic Hazards**

The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

### **Soil and Geological Studies**

No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

### **Presence and Impact of Hazardous Material**

Unless otherwise stated in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material.

### **Structural Deficiencies of Improvements**

The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

### **Environmental and Other Regulations**

The property is evaluated assuming it to be in full compliance with all applicable federal, state and local environmental regulations and laws, unless otherwise stated, and that there are no lawsuits that may adversely impact the rate of development.

### **Required Permits and Other Governmental Authority**

Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

### **Designated Economic Scenario**

The Market Absorption Study focuses upon the expected absorption schedule for the products in CFD No. 2023-1 according to the designated economic scenario. Specifically, this scenario represents the economic and real estate conditions for the Market Region and also the Market Area during the foreseeable future according to the most probable conditions, and this is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No. 2023-1 rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

### **Provision of the Infrastructure**

The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed products/projects in CFD No. 2023-1 can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the products/projects could be adversely impacted.

### **Developer/Builders Responsiveness to Market Conditions**

The Market Absorption Study assumes that the developer/builders in CFD No. 2023-1 Rienda 2B respond to the market conditions with products that are competitively priced and have the features/amenities that are desired by the purchasers. Specifically, since the projects in CFD No. 2023-1 Rienda 2B have not yet entered the marketplace, their specific characteristics of their product types cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future products/projects have prices/features that differ from the competitive market standards, then their absorption schedule would need to be modified from those presented according to the designated economic scenario.



### **Financial Strength of the Projects' Developer/Builders**

The Market Absorption Study assumes that the developer/builders in CFD No. 2023-1 (and also their lenders) have sufficient financial strength to adequately fund their projects, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

### **Accuracy of Information from Others**

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

### **Liability of Market Analyst**

The liability of Empire Economics, the market analyst responsible for this report, is limited to the client only and to the fee actually received by the market analyst. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The market analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property--physical, financial, and/or legal.

### **Testimony or Court Attendance**

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market analysis, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for the market analyst's time to prepare for and attend any such hearing.

### **Right of Publication of Report**

Possession of this report, or a copy of it, does not carry with it the right of publication except for the party to whom it is addressed. Without the written consent of the market analyst, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose which is being published in the Official Statement.

### **Timeliness of the Market Absorption Study**

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic, residential and commercial market conditions that are expected to influence the marketing success of the products/projects in CFD No. 2023-1. Nevertheless, the Study should be dated within six-months of the Bond Sale, or even sooner, should these land-use and/or economic market as well as real estate conditions change significantly.

**APPENDIX: CREDENTIALS/QUALIFICATIONS OF EMPIRE ECONOMICS  
RESUME: JOSEPH T. JANCZYK, Ph.D.**

**Education:** University of California, Riverside, Ph.D. in Economics, Completed in 1976  
Specializations in Urban Economics, Mathematical Modeling and Econometric Analysis  
State University of New York at Buffalo, Bachelors, Completed in 1970  
Dual Majors: Economics and Psychology

**Prior Employment:** California State University, Tenured Economics Professor: 1976-1985  
Courses Taught: Microeconomics, Macroeconomics, Urban Economics, Regional, Computer Modeling, Econometrics, among others

**Empire Economics:** Chairman and President: 1986-Present

- Perform Independent Real Estate Consulting Services Primarily for Land Secured Financings
- Work for Public Entities including Counties, Cities, School Districts and Water Districts
- Long-term Relationships with Many Clients, 25+ years
- Well Established Relationships with Numerous Professionals in the Municipal Finance Industry
- Performed 500+ Studies on behalf of Public Entities for \$15B+ in municipal financing
  - Land Secured Financings for Planned Communities, Business Parks and Retail Centers – for 400+ CFDs/Ads for \$7.5B bonds
    - Price Point Study – Establish Special Taxes that conform to public entities’ policies
    - Market Absorption Studies – Provide timelines for phasing infrastructure
    - Homeowner Equity Studies and Forecasts of Assessed Values
- Economic Forecasting Studies: Forecast Employment and Housing Demand
- Socioeconomic Studies Orange County Transportation Corridors: 2 studies \$2.75B bonds
  - Designated as Municipal Bond Issue of the Year for 1999
  - Rating Agency and Bond Insurer Presentations – Trips to New York City
- Mortgage Revenue Bond Issues: Lower Mortgage Rates 50+ studies for \$1.7B bonds
- Other Municipal Bond Issues: 35+ studies \$2B+ bonds; Certificates of Participation, others
- Forthcoming Bond Issues: 30+ studies for \$500M+ future bond sales

**Industry Contributions – Regular Speaker/Panelist at Following Events:**

- State Treasurer, Mr. John Chiang: Council of Economic Advisors:
- January 2015 – December 2018 (Bi-annual meetings and published articles in the Treasurer’s Newsletter, Intersections)
- UCLA Municipal Bond Financing Seminars (10+ times, as Featured Speaker)
- Bond Buyer Conference, League of Cities, Municipal Bond Industry Association
- Best Practices for Continuing Disclosure, Meetings with Municipal Bond Funds
- Appraisal Standards for Land Secured Financing by CDIAC,

**Dedicated to Public Sector: Certifications Provided in each Study:**

Empire has not performed any consulting services for the CFD/AD property owners nor the developers/builders, during the past thirty years.

Empire will not perform any consulting services for the CFD/AD property owners nor the developers/builders, during the next five years.