

OTAY WATER DISTRICT
SPECIAL MEETING OF THE BOARD OF DIRECTORS
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

MONDAY
May 9, 2011
3:30 P.M.

AGENDA

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE
3. APPROVAL OF AGENDA
4. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

INFORMATIONAL ITEM

5. REPORT AND DISCUSSION OF THE ECONOMIC OUTLOOK FOR THE DISTRICT AND THE EXPECTED HOUSING GROWTH RATE THROUGH 2040 (ALAN NIVEN)
6. ADJOURNMENT

All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

The Agenda, and any attachments containing written information, are available at the District's website at www.otaywater.gov. Written changes to any items to be considered at the open meeting, or to any attachments, will be posted on the District's website. Copies of the Agenda and all attachments are also available through the District Secretary by contacting her at (619) 670-2280.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on May 6, 2011, I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 24 hours in advance of the special meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on May 6, 2011.



Susan Cruz, District Secretary



STAFF REPORT

TYPE MEETING:	Special Board Meeting	MEETING DATE:	May 9, 2011
SUBMITTED BY:	Joseph R. Beachem, Chief Financial Officer	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)			
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager, Finance and Administration		
SUBJECT:	Informational Item Regarding the Economic Outlook Study by MarketPointe Realty Advisors		

GENERAL MANAGER'S RECOMMENDATION:

This is an informational item regarding the economic outlook for Otay Water District and the expected growth rate for housing for three timeframes: 2012 through 2017, through 2030, and through year 2040.

COMMITTEE ACTION: _____

None.

PURPOSE:

To present to the Board the economic outlook study by Alan Nevin, Director of Economic Research, MarketPointe Realty Advisors.

ANALYSIS:

Each year in the District's budgeting and rate model process, the Engineering staff develops a growth projection which is a key element in the setting of rates. This estimate is based upon the District's Master Plan, developer input including Subarea Master Plans, SANDAG projections, and the City of Chula Vista's growth estimates.

This year because of the economic uncertainty, staff hired an Advisor to provide an economic outlook study and assist in the estimation of potential growth within the District. The District hired Alan Nevin, Director of Economic Research for MarketPointe Realty Advisors.

The Engineering staff used the findings of this economic outlook study to develop the growth estimates used in the budgeting and rate model process for the Fiscal Year 2012 Operating and CIP budgets.

The Engineering staff used the economist's report to project meter sales estimates for the next six fiscal years. The meter sales projections for each fiscal year correspond very well with the single-family, multi-residential, office, retail, industrial, and hotel projections contained in the economist's report.

The purpose of this meeting is to present the findings of this report which consists of the economic outlook of the nation, the state, and the region, including the positive influences of Baja California on the local economy.

FISCAL IMPACT:

None.

STRATEGIC GOAL:

Ensure financial health through formalized policies, long-term financial planning, and efficient operations.

LEGAL IMPACT:

None.



General Manager

Attachments:

- A) Economic Outlook Study
- B) Presentation



April 29, 2011

Board of Directors
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978

Re: Economic Outlook Study, Otay Water District, San Diego County

Dear Board of Directors:

MarketPointe Realty Advisors has undertaken and now completed an Economic Outlook Study for both San Diego County and the area served by the Otay Water District.

The study concentrates on three timeframes: 2011-2017, 2030 and 2040. The six-year MarketPointe projections (2011-2017) correlate with the District's timeframe for its own projections.

The study analyzes a wide span of economic factors. Initially, we look at the international situation and the multitude of economic and political factors that will have an effect on the United States (and, of course, San Diego County) over the next six years. We do not think it realistic to go beyond the six-year timeframe in determining international factors.

Next, we analyzed the trends in the United States. San Diego County typically represents 1.0% of the Nation in terms of output, employment, housing and other factors.

The County also represents about 10.0% of the state of California for those same economic factors.

Finally, we analyzed San Diego County from the standpoint of demographics, housing supply and demand, and the commercial space market. We also considered the influence of Baja California, in terms of its commercial activity and cross-border demands for housing, as well as other factors.

As a result of our study, we have been able to offer projections on the County's future for the timeframes noted above.

The research sources have been numerous and are typically identified on each table or graph. The historic data on new housing construction (both sale and rental) are from MarketPointe's **Residential Trends**, **Landtracker** and **Rental Trends** databases. The **Residential Trends** database is compiled quarterly by in-person visits to each new project offered for sale in the County.

Summary tables and graphs are typically embedded in the report with the balance of the tables and graphs in the Appendix.

The study is segmented into seven sections:

- Section 1: Otay Water District Overview
- Section 2: Global Economic Conditions
- Section 3: Domestic Economic Conditions
- Section 4: California Economic Conditions
- Section 5: The San Diego Economy
- Section 6: South San Diego County
- Section 7: Projections for the Economy of San Diego County and the Otay Water District service area.

Section 1: Otay Water District Overview

The Otay Water District is made up of 125.5 square miles in Southern San Diego County, primarily encompassing Eastern Chula Vista, Eastern Otay Mesa, Southern Spring Valley and Jamul. The area represents 3% of the total county land area.

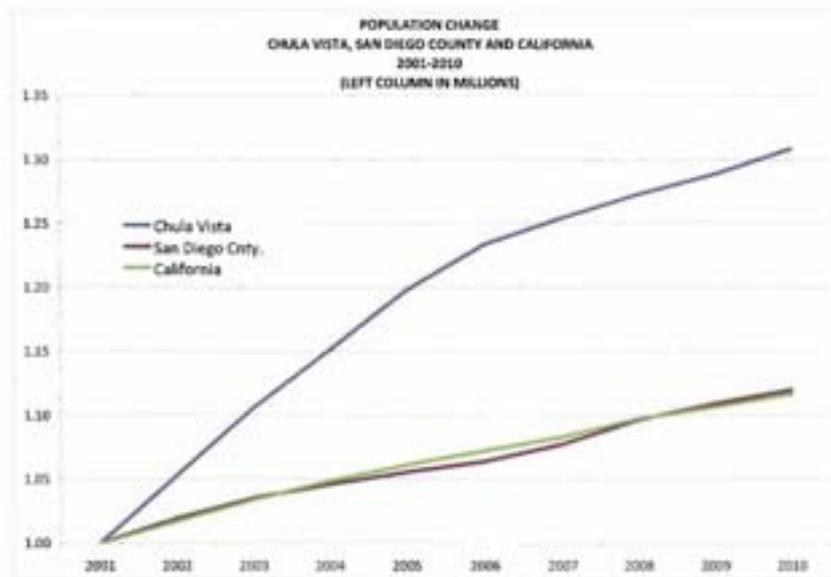
As the District does not solely lie within one or two municipalities, our data comprises the entire area that the District encompasses. This is significant because past projections have largely relied solely on City of Chula Vista data.



The District reports 61,914 residential dwellings are served and we have computed a total resident population of 198,125, a figure that represents 6.4% of the countywide population. 83% of the residential meters serve single-family residences.

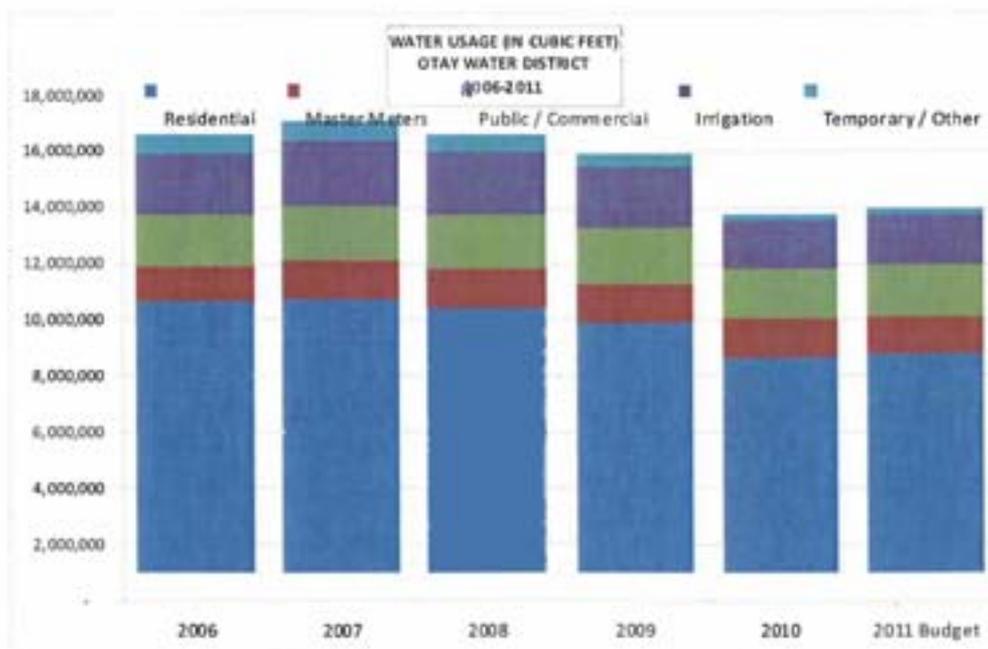
The District covers a largely residential area and, to date, has been void of dense urban neighborhoods.

The South Bay, in general, has grown substantially over the past quarter century and the District itself grew by approximately 30% in the 1990s and nearly 45% in the 2000's.



Water conservation programs have been successful and water usage in the District is down by 30% from its peak in 2007. 2011 projections call for 13,012,500 HCF (hundred cubic feet) of water usage sold. Separating the residential, master meters and irrigation subtotals, the share of total water sold for each District resident is 10,784 gallons per month.

The decline in water usage results from a combination of conservation, an increase in the number of vacant residences (due to higher apartment vacancy rates and vacant foreclosed homes) and a major increase in vacancy rates in commercial/industrial space.



Section 2: Global Economic Conditions

As part of this assignment, MarketPointe has been asked to present a brief synopsis of the current and recent global and domestic economic conditions and present the short and mid-term implications coinciding with the District’s six-year projections.

International Conditions

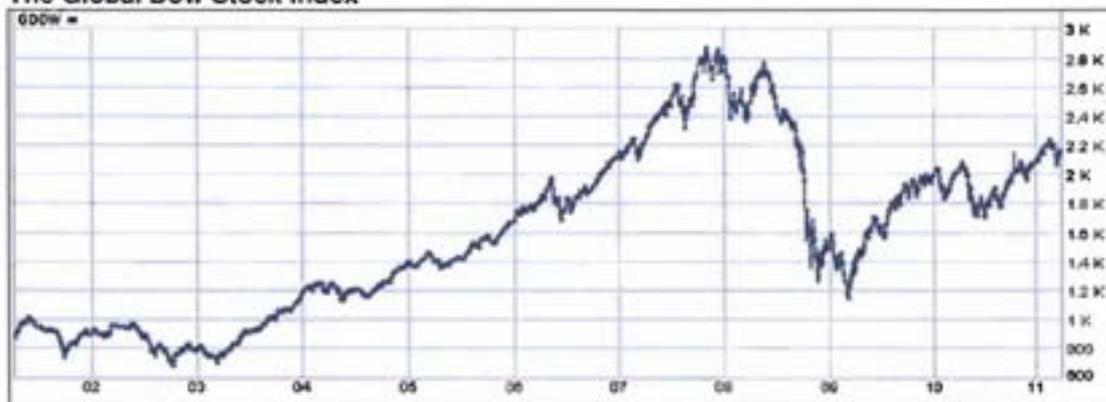
The international equity markets have recently completed a decade of tremendous growth and profitability. Compared with the domestic equity markets which experienced a “lost decade” with very little net appreciation, the international markets truly came into their own.

The financial crisis of 2008-9 proved to be a wake-up call for many investors when the global economy was subject to the same economic contagion as the U.S. markets. The synchronization of the world’s economies provides a new set of opportunities and challenges for the future.

Leading the way for the past ten years, and almost certainly poised to lead the way for the next 10 years, the four dominant emerging market nations, known as the **BRIC** economies (Brazil, Russia, India and China), opened the door to the 21st century.

Growth in these nations helped drive multinational corporate growth and opened the way to increased margins via cheap labor, a thirst to join the developed world and an abundance of natural resources.

The Global Dow Stock Index



The first three quarters of the decade saw a dominant strength in the newly founded European Economic Community and the Euro trounced the dollar throughout the decade. When the economic crisis struck, the house of cards collapsed on Europe as many of the less advanced economies crumbled causing the rest of the EU to catch them.

In the words of Warren Buffet, “it’s only when the tide goes out that we discover who has been swimming naked”, and such words never rang truer. Many of the European

countries were supporting debt laden, pension burdened and over-regulated economies that could not stand the test of time (not unlike California).

The major faults lie with a group of countries, ostensibly known as the **PIIGS**. Portugal, Ireland, Italy, Greece, and Spain are the “poster children” of Western Europe in terms of over-leveraging economies that lacked sustainable substance.

As the height of the economic crisis proved, the dollar is still the currency to be reckoned with (although it has struggled to keep face with the euro, yen and increasingly the yuan).

The dollar has been subject to significant volatility in large part due to the follies of its major trading partners, but seems to be in a better situation now than it was at certain other points in the last decade. Due to the reliance on import/export commerce, the dollar’s fate globally is paramount to continued economic progress.

Dollar Index Against Major Trading Partner Currencies (Lower value = Stronger dollar)



We identify three major issues that will define the next phase of the global economy:

- **Inflation**
- **Commodity pricing**
- **Strength of the U.S. economy**

To respond to the economic crisis, central banks were pushed to lower interest rates to near zero rates and as the global economies have recovered, inflation is now the word that everyone fears.

The larger developed economies have been able to temper inflation well thus far, but the emerging markets are having a more difficult time and management of their

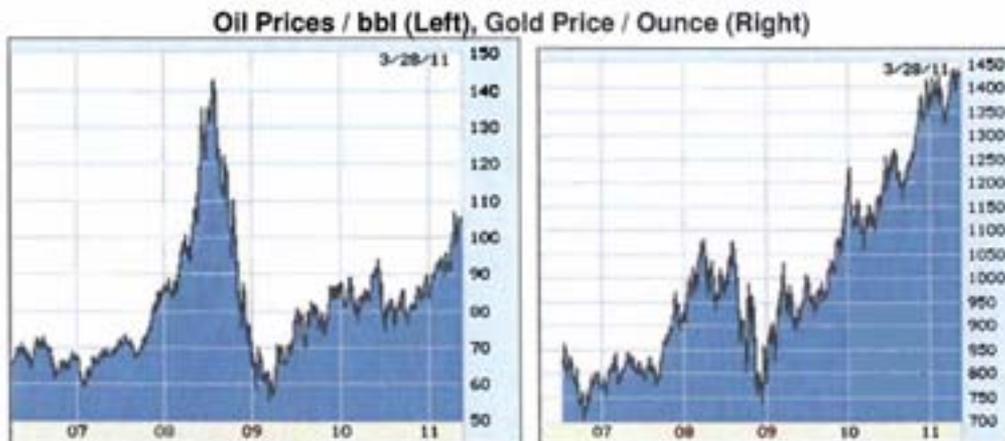
currency has proved to be a hornets' nest to deal with. The chart below displays the warning signs of inflation in the BRIC countries.

Country	2010 Inflation Rate
Australia	2.9%
Brazil	4.9% ←
Canada	1.6%
China	5.0% ←
France	1.5%
Germany	1.1%
India	11.7% ←
Japan	-0.7%
Mexico	4.1%
Russia	6.7% ←
United Kingdom	3.3%
United States	1.7%

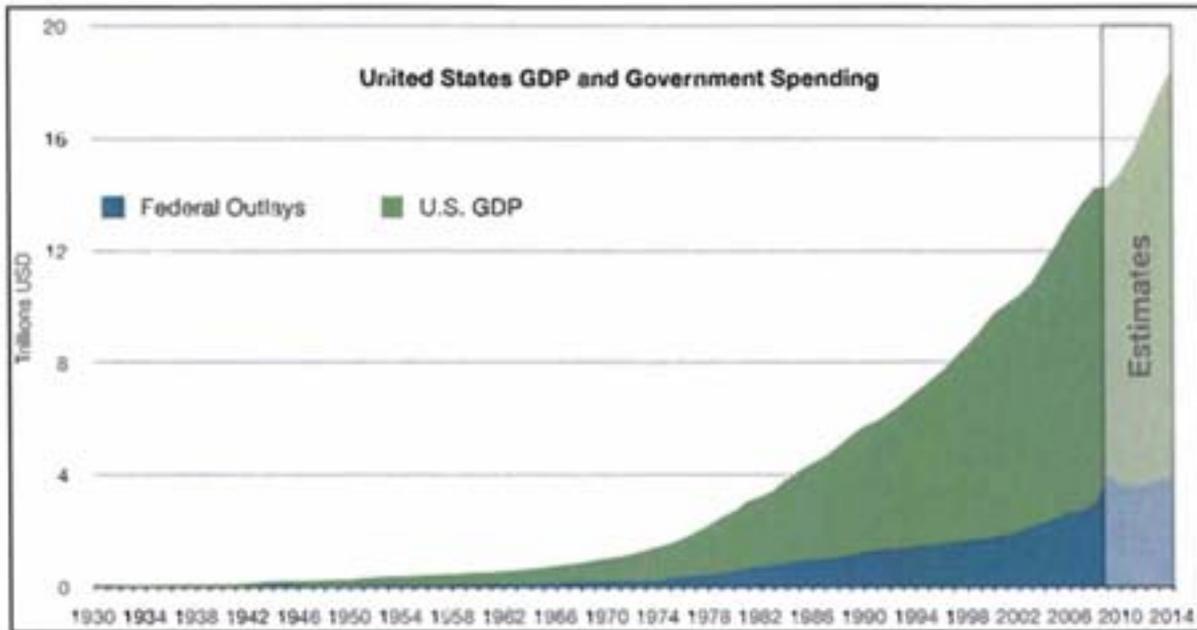
It generally seems that consumers in the developed world tend not to notice the nuances of volatility in the commodity market until oil prices begin to flux. Many of food staple commodities have been highly volatile, and the net effect on the developing world is tremendous. The true inflation that half a billion residents of a third world country endures when wheat prices double in six months is immense.

The two commodities at the forefront of every investor's mind (albeit for less than altruistic reasons) are **oil** and **gold**. Since the beginning of the financial crisis, gold prices have nearly doubled and the amount of capital inflows to gold funds has been phenomenal. Initially an inflation hedge tactic, the bandwagon investing by many prominent investors has reached a feverish pitch and many fear an asset bubble is well in the making.

Oil prices, particularly in light of the recent political unrest in the Middle East, have the world on edge. The effect of oil price shock on the global economies is very significant and could single-handedly stop the incipient recovery in its tracks.



The last major tenet of global economic health is that the U.S. must maintain a **smooth course on the recovery**. In terms of the global economy, the financial crisis proved more than anything that if the U.S. is having problems economically – every country is having problems economically.



The ability of the United States to:

- Manage the obnoxious federal debt that has accumulated;
- Manage inflation;
- Jump start the job market (and replace the 8,000,000 jobs lost); and
- Revitalize the new home and apartment market.

will be the prominent factors in this prolonged and painful recovery.

In the meantime, the world, including the United States, will struggle with these factors, among others:

Economic Event Impact on United States Near-Term Future			
Category	Current	Near Future	Positive / Negative for U.S.
Oil Prices	Rising	Instability, Continued Increases	All-encompassing Economic Impact
Gold Prices	Historical Highs	Potential for Asset Bubble	Significant Consumer Wealth May Be Lost
Food Based Commodities	Historical Highs, Volatile	Continued Volatility	Minimal
Inflation	Stable in Developed World	Potential for Global In	Significant Consumer Impact
Interest Rates	Low	Will need to rise	May Halt Real Estate Market
Political	Multiple Areas of Severe Unrest	Continued Volatility	Investor Uncertainty, Military Action
Terrorism	Erratic	Erratic	Loss of Life, Economic Disruption
Implications of climate change and erratic weather patterns	Recent tragedies in Japan, Turkey, Thailand	Unknown	Interruptions in international supply chain, human toll
Strength of Dollar	Average to Underperforming	Continued Underperformance	Handicapped Trade Balance
MARKETPOINTE REALTY ADVISORS 4.11			

Section 3: Domestic Economic Conditions

Demographic Trends

To a major degree, **demographics drive a nation**. As can be seen in the demographic trends of Russia and Japan, a shrinking population will have devastating economic results in the next few decades.

With the release of the preliminary data for the 2010 U.S. census, we now have a picture of what the last three decades have meant towards the demographic composition of the U.S. As the table below shows, the mass is moving south and west, as it has since the first census in 1790. Trends are a difficult thing to change.

The United States continues to grow by almost 3,000,000 persons annually because of its relatively youthful profile. And that youthful profile is due mostly to the nation's young Hispanic population.

The midwest and northeast portions of the country are slowly cascading as industrial economies dry up and the population heads to warmer environs with more high quality employment opportunities and more habitable lifestyles.



This 30-year picture of the growth trends in the United States basically tells the story of ten states that account for two thirds of the growth of the United States since 1980. In the past decade, of the Nation's 27 million population gain, two thirds was in the states of California, Florida, Texas, Arizona, Colorado, Georgia, Nevada, North Carolina, Virginia and Washington.

POPULATION TRENDS UNITED STATES 1980-2010				
DECADE:	1980-1990	1990-2000	2000-2010	1980-2010
BIG 10 GROWTH STATES	17,130,881	19,337,583	17,926,893	54,395,357
UNITED STATES	22,164,068	32,712,033	27,323,632	82,199,733
BIG 10 AS % OF U.S.	77.30%	59.10%	65.60%	66.20%
SOURCE: U.S. CENSUS				
MARKETPOINTE REALTY ADVISORS 3.2011				

The same three strongest population gain states continue to excel in population gain; however, California has been growing at a slower pace in each of the last three decades. In this past decade, Texas was the clear winner in the population gain race adding almost one million persons more than California. That said, **California's annual average population gain in the past decade was 338,000 persons.**

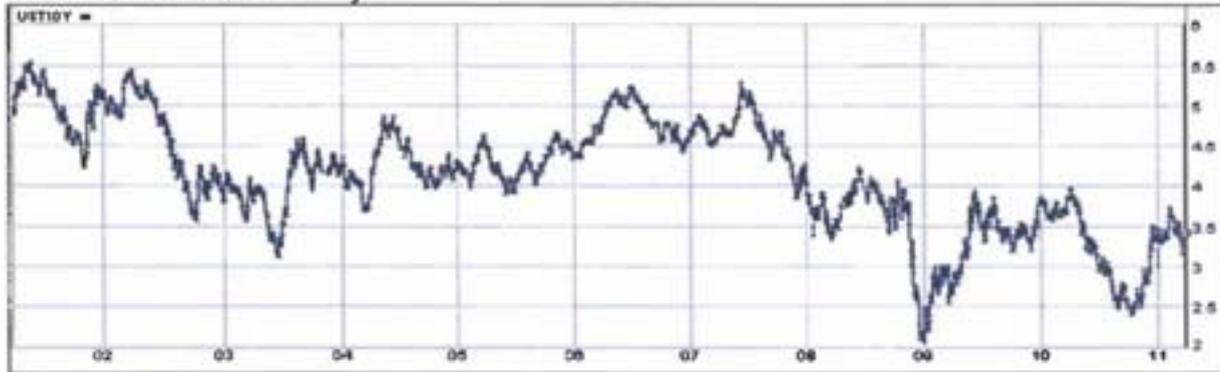
POPULATION CHANGE CALIFORNIA, FLORIDA AND TEXAS 1980-2010				
DECADE	1980-1990	1990-2000	2000-2010	1980-2010
CALIFORNIA	6,092,119	4,111,627	3,382,308	13,586,054
FLORIDA	3,191,602	3,044,452	2,818,932	9,054,986
TEXAS	2,757,319	3,865,310	4,293,741	10,916,370
TOTAL	12,041,040	11,021,389	10,494,981	33,557,410
% OF TOTAL	54.30%	33.70%	38.40%	41.0%
SOURCE: U.S. CENSUS				

The Financial Market

In lieu of posting a table displaying the lackluster decade in the Dow Jones Industrial Average, a better table to display the last decade in the domestic economy is the table below displaying the yield of the 10 Year U.S. Treasury. The reason is two-fold:

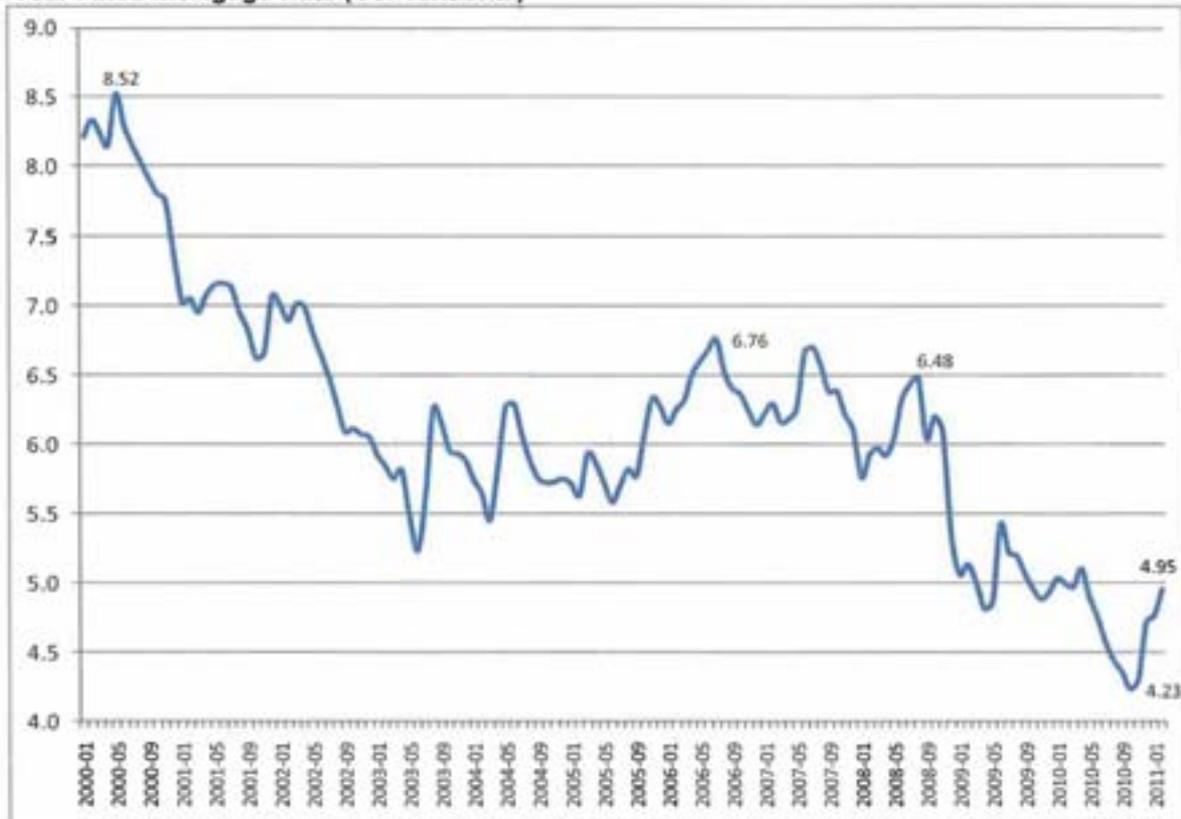
First, the table shows the decade-long trend of decreasing yield / interest rate. This trend of cheap credit (both for the federal government and the consumer) is what drove the previous decade.

Yield - 10 Year U.S. Treasury



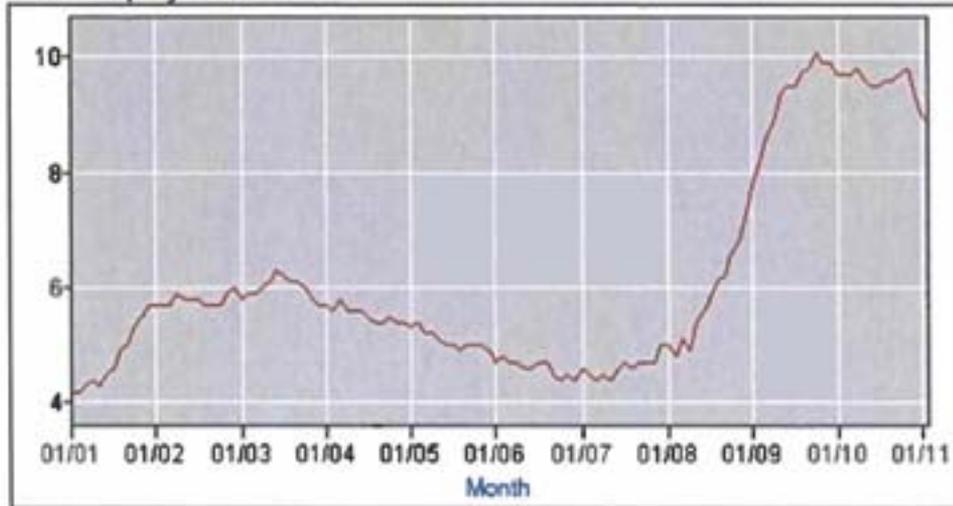
Second, as the primary driver of the 30 year mortgage rate, the fact that the 10-year yield was sub-5% for the majority of the last decade, means that mortgage rates hovered around historical lows for the last decade. This easy credit drove the housing boom (and fall) of the 2000's.

30 Year Fixed Mortgage Rate (Conventional)



The lingering handicap from the financial crisis for the U.S. is the lagging employment rate. After flirting with a rate of 10% for the better part of a year, it has started to recede but maintains a figure of approximately 9% - a level of unemployment that is not conducive to economic health or acceptable to an economy that must grow in order to reduce its governmental deficits.

Federal Unemployment Rate



The Job Market

It is true that America has lost 8,000,000 jobs since the beginning of the recession; however, two industries suffered the brunt: manufacturing and construction.

Manufacturing

In the past decade, the United States has lost 1/3rd of its total manufacturing jobs, total massive and probably irreversible 5,739,000 jobs. From 1980 through 2000, manufacturing jobs were relatively stable, but this past decade has been disastrous. Traditionally, the manufacturing sector has been among the highest paying fields and the backbone of our nation.

WAGE AND SALARY EMPLOYMENT UNITED STATES 1990-2010				
YEAR	2000	2010	1990-2000	2000-2010
TOTAL	110,995,000	107,337,000	19,293,000	(3,658,000)
CONSTRUCTION	6,787,000	5,526,000	1,524,000	(1,261,000)
MANUFACTURING	17,263,000	11,524,000	(432,000)	(5,739,000)
US % GAIN/LOSS				
TOTAL			21.0%	-3.3%
CONSTRUCTION			29.0%	-18.6%
MANUFACTURING			-2.4%	-33.2%
SOURCE: BUREAU OF LABOR STATISTICS MARKETPOINTE REALTY ADVISORS 3.2011				

Admittedly, much of that manufacturing went abroad, but much of the loss was the result of major gains in productivity. The unusually slow economic recovery is, in large part, due to the non-recovery of the manufacturing sector.

The Housing Market

Along with manufacturing, recovery of the **housing market** is a keystone to the strength of the domestic recovery. As can be seen in the previous table, the construction industry in the past decade lost more than a million and a quarter jobs.

Residential construction units permitted fell to an all-time low, declining 73% from top to bottom.

The importance of the homebuilding industry relates not only to its primary task of providing housing, but it is also a driving force in the economy. The residential construction industry has **twice the multiplier effect** of any other industry in the United States. Because of that, housing typically drives the Nation's economic recovery.

RESIDENTIAL CONSTRUCTION UNITED STATES 2000-2010			
YEAR	TOTAL	SINGLE-FAMILY	MULTI-FAMILY
2000	1,592,300	1,198,100	394,200
2001	1,636,700	1,235,600	401,100
2002	1,747,700	1,332,600	415,100
2003	1,889,200	1,460,900	428,300
2004	2,070,100	1,613,400	456,700
2005	2,155,530	1,682,000	473,530
2006	1,838,900	1,378,200	460,700
2007	1,398,400	979,900	418,500
2008	905,400	575,600	329,800
2009	583,000	441,100	141,900
2010	598,000	446,600	151,400
DECLINE FROM TOP TO BOTTOM	73.0%	73.8%	70.0%
SOURCE: CENSUS.GOV			
MARKETPOINTE REALTY ADVISORS 3.2011			

The recovery in general has been characterized by a lackluster flatness of home prices and a slow absorption of distressed transactions. The foreclosure and distressed sales have been more abundant than at any time in the past 50 years.

In tandem with the residential construction industry, the **resale housing industry** has seen its totals nationally fade from a booming 7.0 million units sold in 2005 to 4.0 million in 2010.

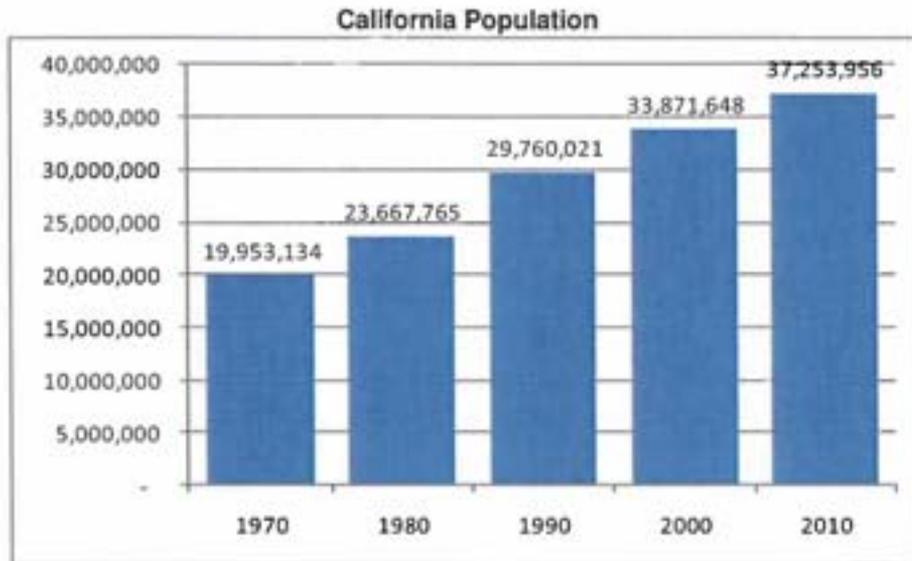
The residential meltdown has been paralleled by the **commercial property** construction industry where construction is also down 70+% nationwide. Most affected have been the hotel, retail and office industries.



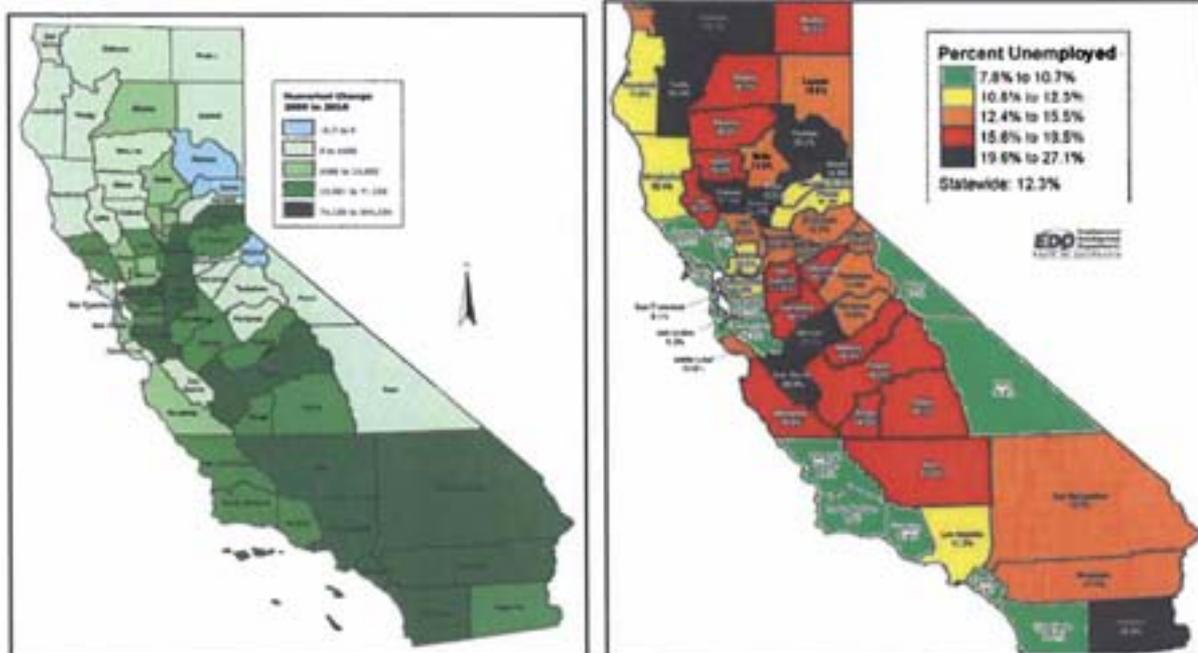
While the resale housing market slowly rights itself, the new home construction industry is moribund. New housing starts are a fraction of what they were just four years ago and this segment of the economy does not appear to have any near-term strength. Until there is a more sustained stability to absorption and price increases, large builders are very hesitant to start putting shovels in the ground.

Section 4: California Economic Conditions

With more than 37,000,000 citizens and an economy that is larger than Russia's or Brazil's, the State of California continues to be the economic hub for the United States. With only 1/2 percent of the world's population, the economic output of California is equivalent to 3.0% of the world's GDP. The population of California has doubled since 1970.



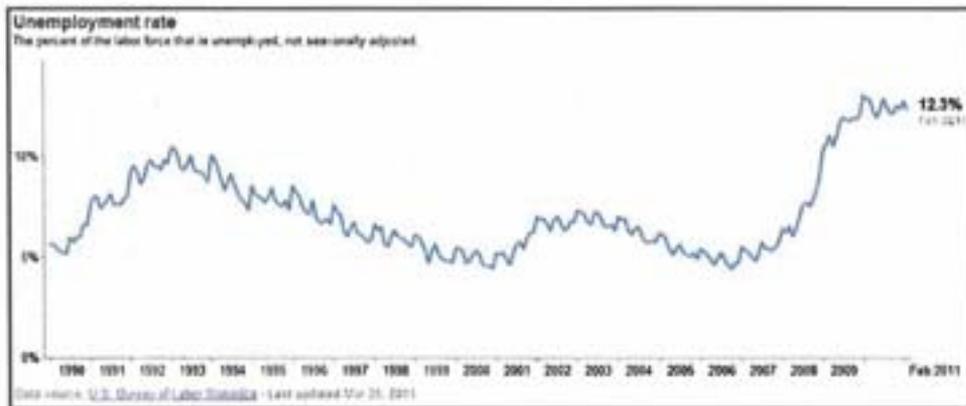
The population growth in California (chart below left) has been largely focused in the southern half of the state and the Central Valley.



The Economy of California

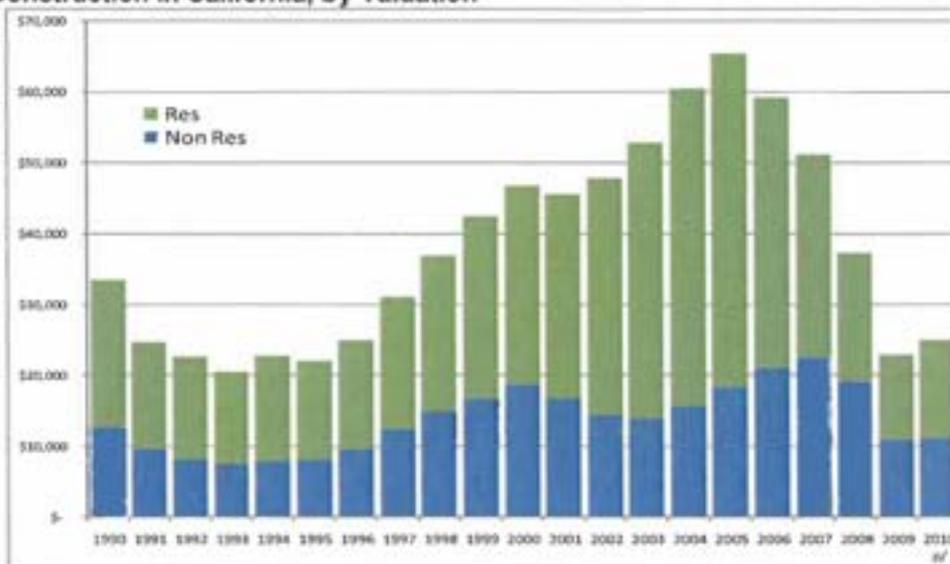
Unemployment in California has been significant and is still about 2.5% higher than the federal rate. There has been minimal shrinkage of this figure since the financial crisis began. Imperial County lays claim to having the highest unemployment rate in the country.

The chart above displays unemployment rates by county and shows many similarities to the population growth chart (unemployment is high in the Central Valley and southeast part of the state).



Similar to the country as a whole, much of California's employment woes are tied to the construction industry. As the chart below shows, after a decade long climb, 2009 and 2010 produced construction at early 1990s levels. Particularly painful is the drop in residential construction, which fueled the economic strengths of the early part of the 2000's.

New Construction in California, by Valuation



California's losses mirror those of the Nation in most categories of employment, but are far more severe in the loss of construction jobs.

We do not want to overlook, however, **the loss of 640,700 manufacturing jobs in California** in the past decade. Those losses represent 11% of the Nation's loss of manufacturing jobs.

WAGE AND SALARY EMPLOYMENT CALIFORNIA 1990-2010				
YEAR	2000	2010	1990-2000	2000-2010
TOTAL	14,896,000	14,278,000	2,032,600	(618,000)
CONSTRUCTION	733,400	559,800	88,500	(173,600)
MANUFACTURING	1,882,700	1,242,000	(81,700)	(640,700)
CA % GAIN/LOSS				
TOTAL			15.8%	-4.1%
CONSTRUCTION			13.7%	-23.7%
MANUFACTURING			-4.2%	-34.0%
SOURCE: BUREAU OF LABOR STATISTICS MARKETPOINTE REALTY ADVISORS 3.2011				

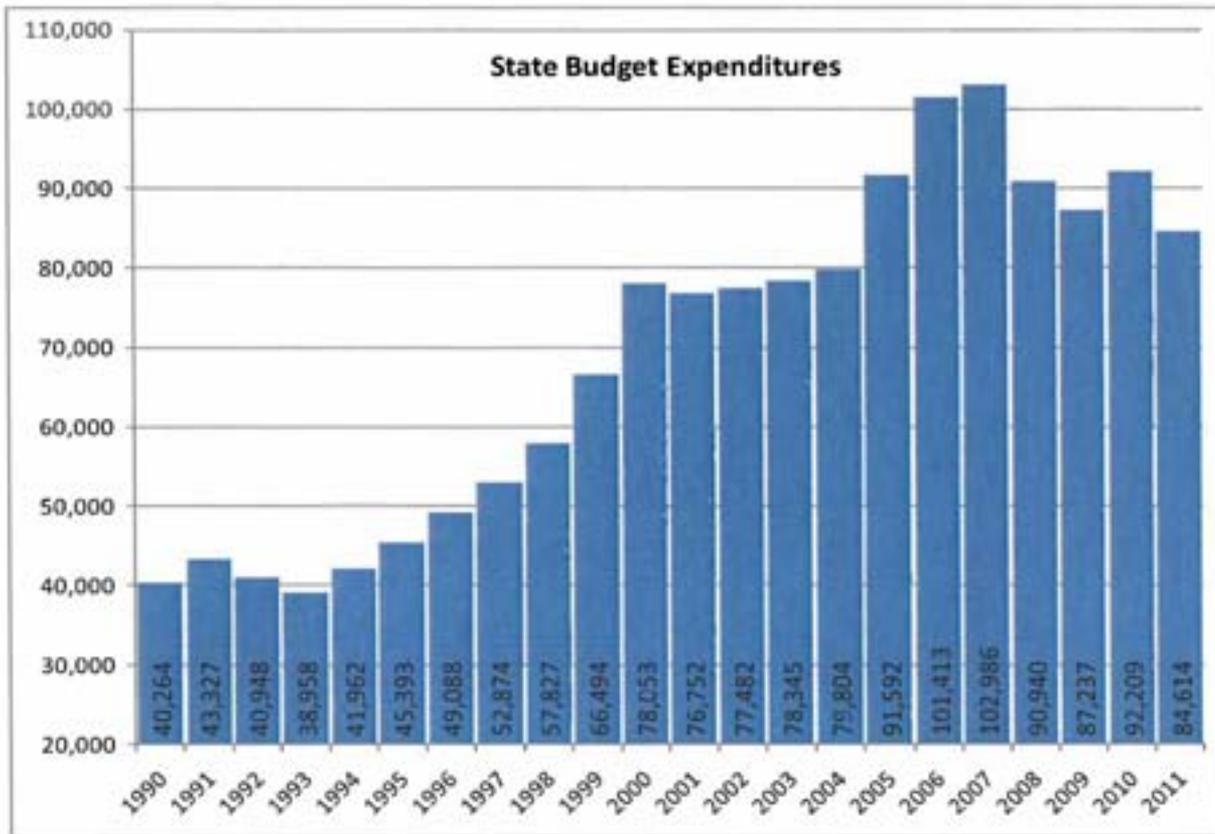
State Government

Much has been made of the woes of the state government fiscal situation. The inability to pass a timely balanced budget has become the norm instead of the exception.

Unlike many other fiscally challenged municipalities, the State of California's budget woes cannot solely be tied to expenditures. The revenue side of the budget faces significant volatility and the impact of decreasing sales tax revenues and uncertain federal subsidies is severe.

Truth be told, expenditures by the State are down by nearly 17% from their 2007 peak. 2010 expenditures are at the lowest level since 2004. Approximately two thirds of all expenditures go to social programs and K-12 education.

Also contrary to popular belief, California has the second lowest number of state and local government employees per capita in the country. More than one third of all employees work in the higher education system and another quarter work in hospitals or corrections.

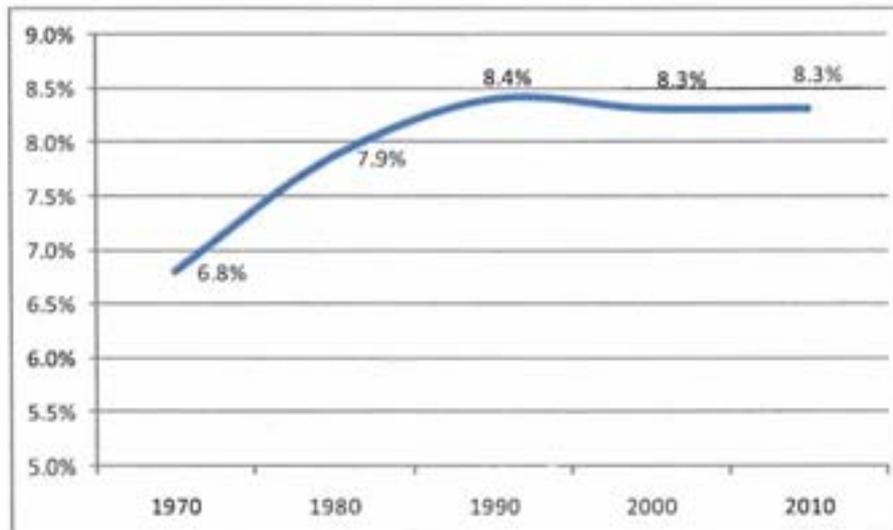


Section 5: San Diego Economic Conditions

In this Section we discuss the historic trends in County population, employment and housing.

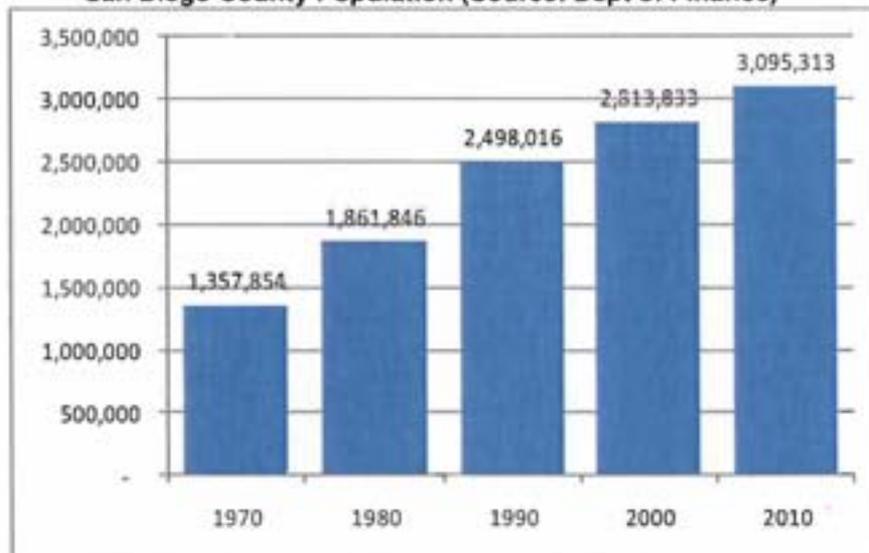
Population Change

San Diego County for the twenty years has remained a stable 8.3-8.4% share of the state's population.



The population of San Diego County has now passed 3,000,000 people. Thus, one in twelve residents of California now lives in San Diego County.

San Diego County Population (Source: Dept of Finance)



In analyzing the growth of San Diego County, we looked at the three traditional components of population change; natural increase (births over deaths); net foreign migration and net domestic migration.

The most stable component is natural increase which is typically 25,000-26,000 persons annually. The other category is divided into foreign and domestic in-migration. The domestic in-migration is inevitably subject to cyclical swings in the local economy. Thus, in 2006-2010 there was an out-migration of domestic residents.

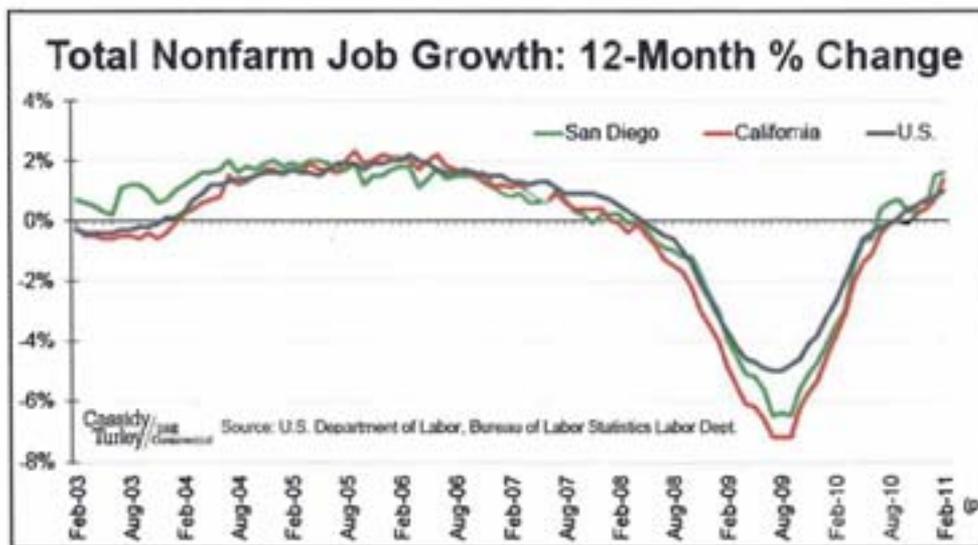
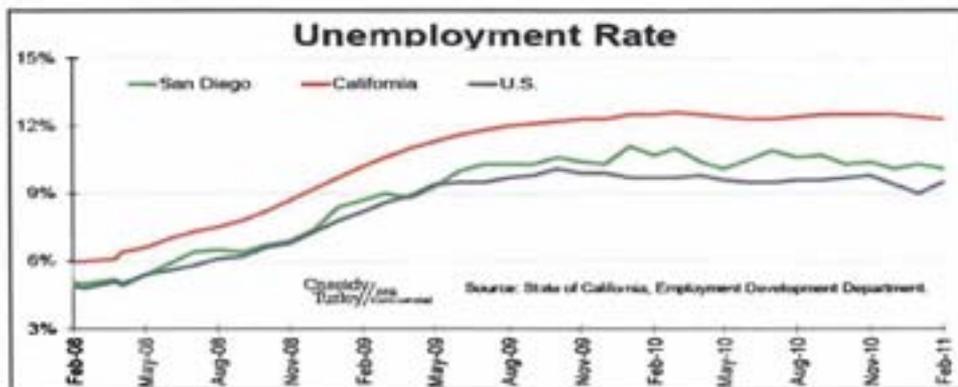
COMPONENTS OF POPULATION CHANGE SAN DIEGO COUNTY 2000-2010			
YRS.	AVG. CHANGE	NATURAL INCREASE	IN-MIGRATION
2000-2005	32,122	25,051	7,071
2006-2010	32,373	26,809	5,564
2000-2010	32,247	25,850	13,361
SOURCE: CALIFORNIA DEPARTMENT OF FINANCE, DEMOGRAPHIC DIVISION			

Employment Trends

San Diego has long been blessed by a diversified employment sector and has enjoyed lower unemployment than California for the past two decades. Particularly noteworthy, since the financial crisis of 2008-2009, San Diego has not had near as severe a climb in unemployment as has had the State.

Further, it should be noted that the unemployment rate quoted in the media is a civilian unemployment rate. It ignores the 120,000 uniformed military in the County and also ignores the 30,000 Mexicans who cross the border each day and who are employed. We should also note that the unemployment survey is based on calls to 370 households in the County that have hard-wired phones, thus ignoring those with only cell phones.

Although we are unable to be precise in this statistic, we believe that the unemployment rate in the County (including the military and cross-border workers) is at least 1.0% below that which is reported. Thus, the local employment rate is most probably in the 8.0-8.5% range, not that far removed from a very acceptable 6.0% norm.



Indicators of Economic Health

The nominal **Gross Domestic Product** of San Diego County is approximately \$171.4 billion and ranks 16th in the United States. This figure is up from 2006, when the figure was \$159.9 billion. In the past four years, there has only been one year when the GDP declined and that was 2009.

INFLATION ADJUSTED GDP (\$2005) SAN DIEGO COUNTY	
YEAR	GDP (real)
2006	\$ 154,930,000,000
2007	\$ 157,499,000,000
2008	\$ 159,733,000,000
2009	\$ 155,850,000,000

Source: San Diego County
MARKETPOINTE REALTY ADVISORS 4.11

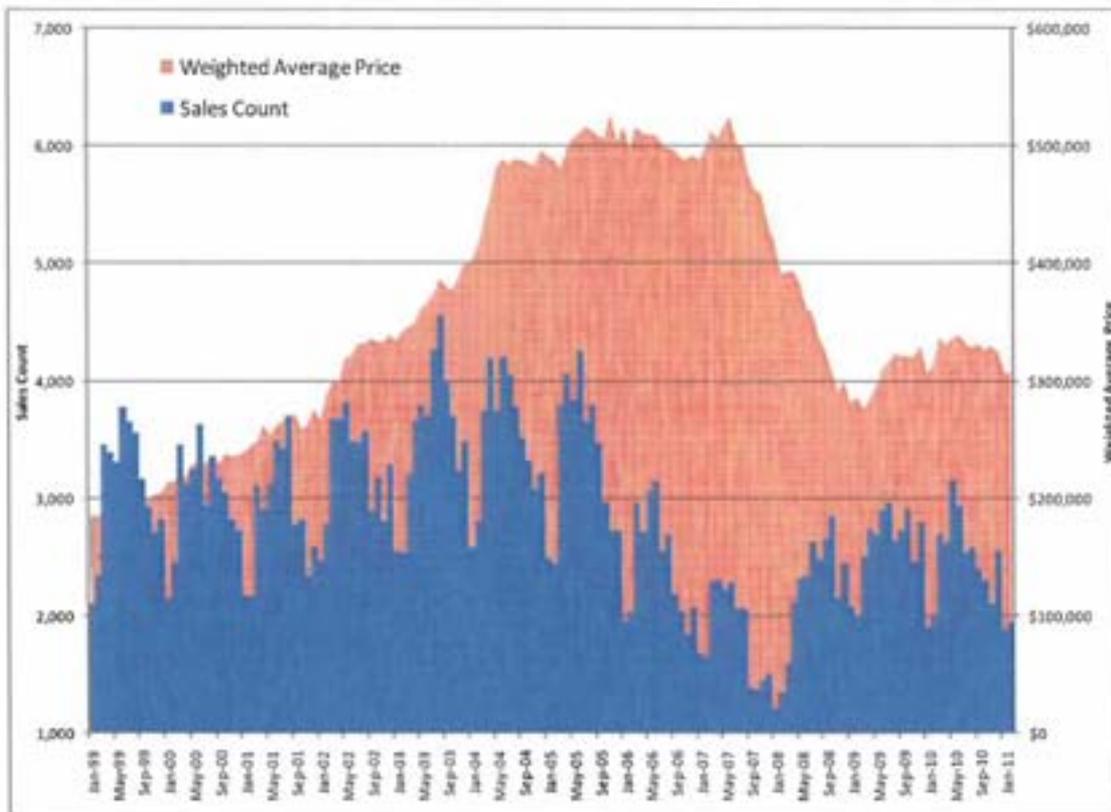
Retail sales tax collections are a key indicator of the health of the economy. Starting in 2008, collections declined and continued downward through 2009. In 2010, collections started to climb upward and are moving in a positive direction so far in 2011. As a side note, San Diego's collections are gradually increasing as a percent of the total California collections.

Sales Tax - Point of Sale San Diego County & State of California				
	2007	2008	2009	2010
San Diego County	\$ 479,321,893	\$ 459,722,550	\$ 400,443,927	\$ 422,136,500
California Total	\$ 5,678,049,172	\$ 5,404,318,187	\$ 4,617,418,638	\$ 4,830,249,373
SD as % of CA	8.44%	8.51%	8.67%	8.74%

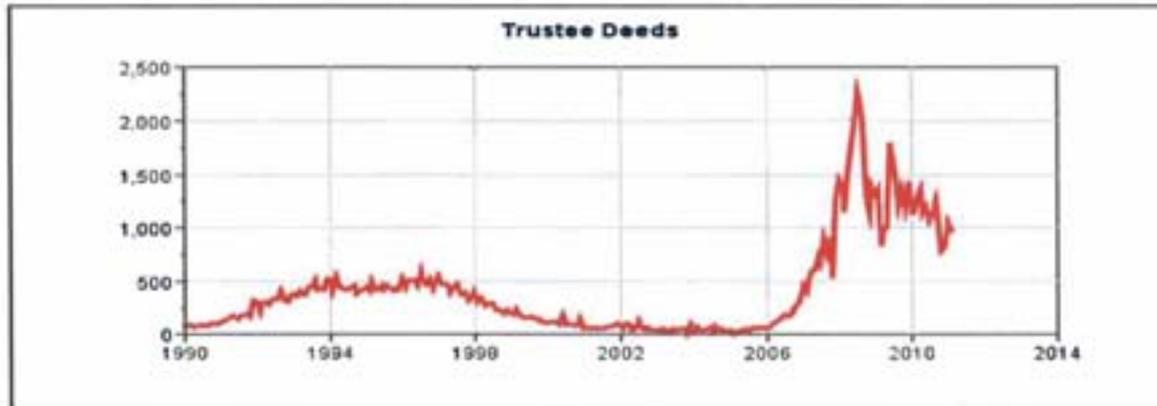
Source: HDL
MARKETPOINTE REALTY ADVISORS 4.11

The San Diego Housing Market

The **resale housing market** in San Diego is currently considered one of the strongest in the nation and has recovered significantly since the end of 2008. While sales volume is not back to pre crisis levels, things are moving along in a healthy manner.



The **foreclosure crisis**, which hit South San Diego particularly hard, has subsided significantly from its peak in 2008-2009. The number of completed foreclosures has been in a downward trend since mid 2009.



A particular caveat that bodes extremely well for the near term recovery, but creates a strong possibility of future pricing run-ups, is the constrained supply of housing in San Diego.

New Home Sales

MarketPointe's **Residential Trends** surveys all new residential construction in San Diego County every quarter. The following table shows the massive decline in construction in the past four years. The attached product includes new as well as conversion projects.



New home prices fell as well, plummeting from 2006-2010. The following table shows the averages for both single-family and condominiums. Recognize that the prices shown here have not declined anywhere nearly as rapidly as in the resale sector, but the reason is that very few new units were sold. Countywide, most of the homes being built and sold are higher priced. Relatively few entry level homes or condominiums have been built since the recession began.

NEW HOME PRICING DATA SAN DIEGO COUNTY 2006 - 2010						
Submarket	Data	2006	2007	2008	2009	2010
South County	Weighted Avg Price	\$511,105	\$446,352	\$437,691	\$441,124	\$452,356
	Weighted Avg \$/Sqft	\$ 295	\$ 277	\$ 224	\$ 187	\$ 188
Rest of County (S. County excluded)	Weighted Avg Price	\$528,726	\$571,759	\$576,321	\$551,100	\$616,677
	Weighted Avg \$/Sqft	\$ 343	\$ 320	\$ 274	\$ 272	\$ 263

Apartment construction remained at a modest pace, with relatively few units built in the past five years. More information on that topic appears in Section 6.

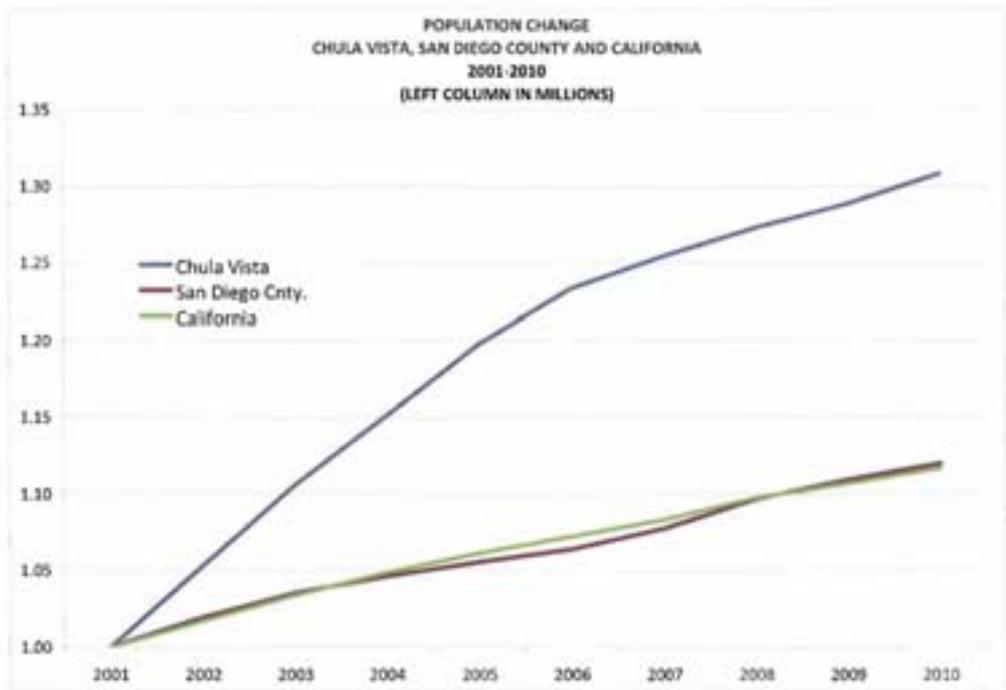
Section 6: South Bay, San Diego County

The South Bay region of San Diego County has seen booming growth over the previous two decades, led by several large master-planned communities. Inexpensive new housing, border proximity and quality schools led to rapid growth of the area east of Interstate 805. And, as usual, there continues to be a heavy cross-border influence.

The population, demographic profile and historic housing production will be discussed in this section.

Population Growth

The south county has strongly outpaced the growth path of the County and California, with most of that south county growth in the City of Chula Vista:



POPULATION CHANGE CHULA VISTA, SAN DIEGO COUNTY AND CALIFORNIA 2000-2010				
AREA	2000	2010	CHANGE 2000-2010	
			NO.	%
CHULA VISTA	181,613	237,595	55,982	30.8%
SD COUNTY	2,892,542	3,239,223	346,681	12.0%
CALIFORNIA	34,766,730	38,826,898	4,060,168	11.7%
SOURCE: U.S. CENSUS				
MARKETPOINTE REALTY ADVISORS 3.2011				

In the past decade the population of the City of Chula Vista grew at more than twice the rate as the County as a whole and three times faster than the state of California.

Profile of the Otay Water District Population and Demographics

Median age in the District is 33.5 years old. One-third of the population has at least a four-year college degree and the median household income is \$83,115. Compared with the county, the Otay population is slightly younger, has denser households and has significantly higher median household incomes.

Demographic Overview		
	County	Otay District
1990 - 2000 Growth	12.6%	30.0%
2000 - 2010 Growth	10.5%	44.4%
Persons / Household	2.8	3.2
% White	63.3%	54.6%
% Hispanic	31.3%	37.3%
Median Age	34.5	33.5
% > 4 Yr Degree	34.0%	33.9%
Median Household Income	\$64,890	\$ 83,115
Source: Claritas		
MARKETPOINTE REALTY ADVISORS 3.11		

"For Sale" New Housing Production in South County

In the following table we document the new residential construction activity in South County. In the 2000-2004 period, the south County accounted for almost one-third of County production of new "for sale" housing. In the years since then, South County has accounted for 20-25% of production, most of which was in the Otay Ranch.

In 2010, a total of 2,221 new homes sold, 352 of which were in the South County. Over the past decade, one in every four new homes sold were in the South County.

NEW HOME SALES AS % OF TOTAL SAN DIEGO COUNTY SALES														
NEW CONSTRUCTION														
SOUTH COUNTY & SAN DIEGO COUNTY														
2001 - 2010														
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total		
SOUTH COUNTY	SFA	Weighted Avg Price	\$199,476	\$256,142	\$216,499	\$390,552	\$429,109	\$422,588	\$347,460	\$303,880	\$325,192	\$318,001	4,590	
		Weighted Avg \$/Sqft	\$147.75	\$187.69	\$228.01	\$283.05	\$306.61	\$301.69	\$294.17	\$235.53	\$205.53	\$205.70		
		CuSold	499	254	393	1,205	759	697	372	123	186	102		
	SFD	Weighted Avg Price	\$315,690	\$203,433	\$501,270	\$624,504	\$749,164	\$740,114	\$704,083	\$639,298	\$521,625	\$513,243		12,467
		Weighted Avg \$/Sqft	\$132.55	\$157.22	\$193.96	\$248.85	\$283.28	\$280.20	\$256.61	\$215.93	\$185.43	\$183.10		
		CuSold	2,295	2,574	2,555	2,409	932	526	345	284	287	250		
	Total	Weighted Avg Price	\$294,379	\$281,129	\$476,655	\$545,814	\$605,020	\$586,250	\$518,378	\$494,090	\$445,401	\$452,356		17,057
		Weighted Avg \$/Sqft	\$134.22	\$159.18	\$196.27	\$256.31	\$290.34	\$288.61	\$268.58	\$220.18	\$186.90	\$187.62		
		CuSold	2,794	2,828	2,948	3,614	1,691	1,223	717	407	473	352		
COUNTY WIDE	SFA	Weighted Avg Price	\$300,945	\$416,940	\$400,500	\$485,269	\$509,683	\$489,513	\$479,395	\$463,325	\$470,608	\$528,134	24,198	
		Weighted Avg \$/Sqft	\$228.66	\$307.85	\$295.82	\$394.20	\$397.86	\$377.32	\$364.13	\$352.61	\$346.86	\$369.30		
		CuSold	2,220	2,354	3,351	6,116	3,714	2,161	1,091	730	1,072	699		
	SFD	Weighted Avg Price	\$424,689	\$510,261	\$579,419	\$709,840	\$844,334	\$856,091	\$815,364	\$715,838	\$648,817	\$628,341		43,457
		Weighted Avg \$/Sqft	\$156.79	\$180.62	\$200.92	\$253.11	\$278.46	\$284.77	\$269.50	\$233.69	\$216.53	\$220.83		
		CuSold	6,804	8,979	7,571	5,884	4,467	2,676	2,379	1,528	1,317	1,522		
	Total	Weighted Avg Price	\$394,647	\$490,815	\$524,514	\$594,352	\$694,399	\$698,338	\$667,248	\$617,172	\$566,514	\$595,032		67,655
		Weighted Avg \$/Sqft	\$166.47	\$194.66	\$222.60	\$297.87	\$311.77	\$309.83	\$293.68	\$258.31	\$253.00	\$249.86		
		CuSold	9,154	11,333	10,922	12,000	8,181	5,037	4,076	2,258	2,389	2,221		
SO. CNTY % OF SD	SFA	22.5%	10.8%	11.7%	19.7%	20.4%	32.3%	22.0%	16.8%	17.4%	14.6%	19.0%		
	SFD	33.1%	28.7%	33.7%	40.9%	20.9%	18.6%	14.5%	18.6%	21.8%	16.4%	28.7%		
	Total	30.5%	25.0%	27.0%	30.1%	20.7%	24.5%	17.6%	18.0%	19.8%	15.8%	25.2%		
*EXCLUSIVE OF CONDOMINIUM CONVERSIONS AND CONDO HOTEL PURCHASES														
** SOUTH COUNTY INCLUDES NATIONAL CITY, IMPERIAL BEACH, SAN YSIDRO, CHULA VISTA, NESTOR AND OTAY MESA														
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Apartment Production

Apartment production in south county has been relatively meager in the past few years, with only 760 units produced since 2003. The county as a whole has produced almost 17,000 in that ten-year timeframe.

APARTMENTS BY YEAR BUILT (MARKET RATE PROJECTS LARGER THAN 25 UNITS) EAST CHULA VISTA/OTAY MESA AND SAN DIEGO COUNTY 2000-2010								
Yr Built	Zip: 91913		Zip: 92154		TOTAL ECV/OTAY MESA		S D COUNTY	
	Units	Complexes	Units	Complexes	UNITS	COMPLEXES	UNITS	COMPLEXES
2001	364	1			364	1	3,064	9
2002	422	1	562	2	984	3	3,822	13
2003					-	-	1,318	3
2004					-	-	2,986	7
2005					-	-	353	2
2006					-	-	1,488	7
2007					-	-	955	5
2008	98	1	282	3	380	4	1,582	14
2009					-	-	1,023	5
2010					-	-	229	2
TOTAL 2001-2010	884	3	844	5	1,728	8	16,820	67
TOTAL	884	3	844	5	1,728	8	16,820	67

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The projects built in south County since 2008 are shown here:

RECENTLY BUILT MARKET-RATE APARTMENT COMPLEXES SOUTH COUNTY AS OF MARCH 2011												
Development/Owner	Weighted Average			Ranges			Lease/Start	Units	Leased	Vacant	Vacancy Rate	Community Location
	Rent	Sqft	\$/Sqft	Rent	Sqft	\$/Sqft						
MARQUIS VILLAS AT OTAY RANCH OAKWOOD DEVELOPMENT	\$2,457	1,954	\$1.25	\$2,400	1,917	\$1.19	3-Jul-08	98	97	1	1.0%	CHULA VISTA
				\$2,600	2,182	\$1.30	704					
GREENFIELD VILLAGE GARDEN COMMUNITIES	\$1,735	1,028	\$1.69	\$1,345	723	\$1.61	15-Dec-08	288	283	5	1.7%	OTAY MESA
				\$2,150	1,338	\$1.86	765					
GREENFIELD VILLAGE TOWNHOMES GARDEN COMMUNITIES	\$1,728	1,162	\$1.50	\$1,850	972	\$1.39	1-Jul-08	72	70	2	2.8%	OTAY MESA
				\$1,785	1,280	\$1.70	766					
RIVEREDGE TERRACE PARDEE CONSTRUCTION COMPANY	\$1,940	1,224	\$1.58	\$1,675	966	\$1.52	23-Dec-08	50	50	0	0.0%	OTAY MESA
				\$2,200	1,451	\$1.68	768					
4 Total Projects	\$1,941	1,085	\$1.79	\$1,345	723	\$1.19		508	500	8	1.6%	
				\$2,600	2,182	\$1.86						

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Section 7: Projections for the Otay Water District Service Area

In this section of the report, we address the future growth of the Otay Water District service area and the events that will guide its future. In the following table, we have itemized the major events, estimating the time span in which the event would take place. Some items, like the development of the balance of the Otay Ranch will span multiple time periods.

PROPOSED/PLANNED PROJECTS AFFECTING OTAY WATER DISTRICT SOUTH BAY SAN DIEGO 2011-2040				
TIME SPAN			EVENT (2)	CATEGORY
2011- 2016	2017- 2030	2030- 2040		
X			COMPLETION OF SR-11	TRANSPORTATION
X			COMPLETION OF MESA DE OTAY II PORT OF ENTRY (20 NORTHBOUND LANES)	TRANSPORTATION
X			FULL-SERVICE CROSS-BORDER TERMINAL TO TULANA INTL AIRPORT	TRANSPORTATION
X	X	X	TRUCKS TRAFFIC IN NORTHBOUND DIRECTION FROM MEXICO IS PROJECTED TO INCREASE FROM 749,464 TODAY TO 4,442,000 BY 2040	TRANSPORTATION
	X	X	MAJOR RESIDENTIAL DEVELOPMENT ON THE EASTERN SIDE OF TULANA	RESIDENCES
	X	X	MAJOR COMMERCIAL DEVELOPMENT ON THE EASTERN SIDE OF TULANA	EMPLOYMENT
	X	X	NEW TOWN OF 500,000 PEOPLE TO BE DEVELOPED IN TECATE	RESIDENCES
	X		NEW DESALINATION PLAN IN ROSARITA TO SERVICE OTAY WATER DISTRICT & BAJA CALIFORNIA	UTILITIES
	X		DEVELOPMENT OF UNIVERSITY ON OTAY RANCH	EDUCATION
X	X	X	BUILD-OUT OF HOUSING ON OTAY RANCH (21,000 ADDITIONAL RESIDENCES)	RESIDENCES
X	X	X	BUILD-OUT OF HOUSING ON OTAY MESA (10,000+ UNITS)	RESIDENCES
X	X		BUILD OUT OF EASTERN URBAN CENTER (3,000 UNITS & COMMERCIAL)	RESIDENCES
X			SOUTH BAY BUS RAPID TRANSIT ROUTE	TRANSPORTATION
X			COMPLETION OF I-905	TRANSPORTATION
X			WIDENING OF I-805 FROM CHULA VISTA NORTH	TRANSPORTATION
	X	X	DEVELOPMENT OF MAJOR EMPLOYMENT CENTER ON BOTH SIDES OF SR11 (AREA HAS 4,000 ACRES, 40% OF COUNTY'S DEVELOPABLE EMPLOYMENT LAND)	EMPLOYMENT
		X	I-805 REACHES GRIDLOCK IN PEAK HOURS	TRANSPORTATION
	X		COMPLETION OF 3 MORE INTERCHANGES ON SBX	TRANSPORTATION
	X		BROWN FIELD COMMERCIAL AIR TRAFFIC EXPANSION	TRANSPORTATION
	X	X	EMPLOYMENT GROWTH IN SBX CORRIDOR & OTAY MESA	EMPLOYMENT
X			LAND MAPPED AND READY TO BE DEVELOPED WHEN THE ECONOMY IMPROVES	RESIDENCES

(1) CORRELATES WITH OTAY WATER DISTRICT SIX YEAR PROJECTIONS
(2) MEXICAN RELATED EVENTS HIGHLIGHTED IN LIGHT PURPLE
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The Cross-Border Influence

Several of the events that will take place will involve the **Mexican economy**. Those events are highlighted in light purple. Certainly none of these events is guaranteed to occur, but most are well into the planning and financing process and several are already underway.

It is difficult to place an economic impact figure on these events, but it can be stated that all would have a very positive effect on the future of south San Diego County and, of course, the Otay Water District demand for services.

In terms of their relationship to the service area of the Otay Water District, perhaps the most important elements are the residential demand and the commercial space demand created by the growth of the cross-border economy.

Residential Demand

Demand for residential housing in the South County by persons previously living in Tijuana has been bolstered over the past decade by a combination of factors, two of which stand out:

First, the expansion of the maquiladora plants has meant a major increase in non-Mexican management positions. The non-Mexican management has typically opted to live on the U.S. side of the border and commute.

Second, the drug-related crime rates have caused a substantial number of Tijuana businessmen to have their families in the U.S. The most affluent of these tend to buy in the north county coastal areas, but the majority opt to live in south county. The attraction of the schools (public and private) on the U.S. side of the border has proven to be a major component in the decision process.

We are unaware of any source that can document the number of Tijuana residents who have opted to have a home on this side of the border, but we are convinced that the number is substantial. Our conversations with members of the realty and construction community give rise to our position.

In the eastern reaches of Tijuana, the **Valle Las Palmas** master-planned community by URBI will eventually have more than 10,000 units at an average density of ten units per acre. The community will also contain 500 acres of industrial development which is anticipated to produce 13,000 jobs. The project, being built in cooperation with the government of Baja California, will be a "sustainable community" with a strong emphasis on environmental sensitivity. Once again, we cannot document how that community will enhance business opportunities in south county, but know that the retail community will benefit as it does at present from cross-border shopping.

Commercial Space Demand

Research by local development agencies indicates that as many as 50% of the maquiladora firms operating in the greater Tijuana/Tecate area also have a presence in San Diego. That presence may be office or warehouse space, but in either case, it contributes to the demand for space. We are unaware of any statistics that show where the maquiladora companies are in San Diego County, but are certainly aware of a number of Mexican firms that do business with the import/export community near the border and occupy industrial space in south County.

Based on the changing NAFTA rules on product content, it is likely that there will be continued expansion of the maquiladora industry in Tijuana.

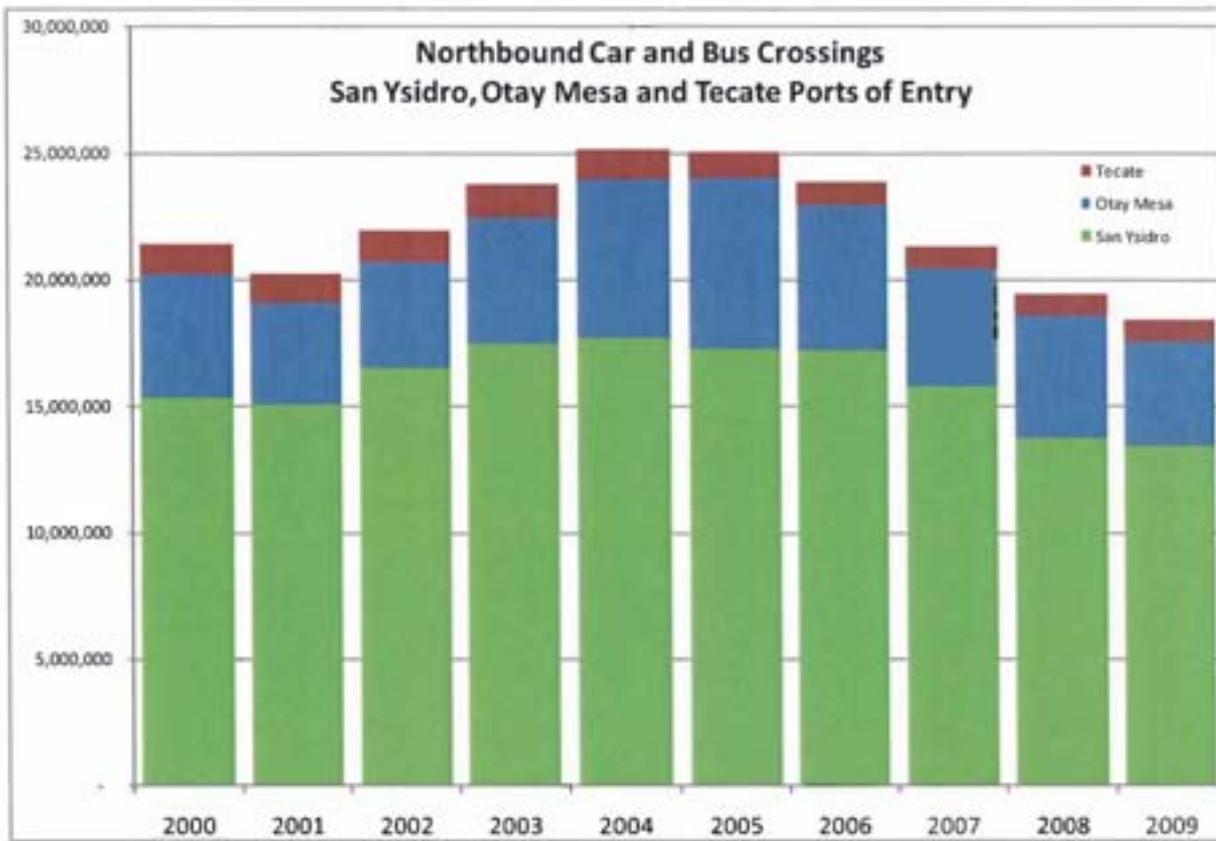
By way of example of the growing influence of the Mexican economy on San Diego, the following table indicates the major increase in anticipated truck traffic crossing the border. The newest regulations allowing Mexican trucks to drive freely in the United States (they were previously allowed to drive only 25 miles in the United States) will have a heightened effect on this trend.

Truck POE Freight Forecast			
	2007 Estimate	2050 Forecast	Average Annual Growth
Otay Mesa / Mesa de Otay POE			
volume, million tons	8.4	35.5	3.4%
value, \$billion	\$30.7	\$280.1	5.3%
loaded trucks, '000s	810.1	4,021.1	3.8%
Tecate POE			
volume, million tons	0.9	3.7	3.4%
value, \$billion	\$3.2	\$29.3	5.3%
loaded trucks, '000s	84.8	420.9	3.8%
Calexico East / Mexicali II POE			
volume, million tons	3.9	16.9	3.4%
value, \$billion	\$14.6	\$142.8	5.4%
loaded trucks, '000s	378.4	1,912.9	3.8%

Note: Estimates in volume and value include both imports and exports. Number of loaded trucks estimated from average payload factors; includes both incoming and outgoing loaded trucks.

Source: Team HDR analysis

In the table below, we show the recent car and truck crossing trends at the crossings at San Ysidro, Otay Mesa and Tecate. Over the past decade, the total crossings average almost 20,000,000 vehicles annually.



The population of Tijuana grew by 29% during the 2000 – 2010 period and is *officially* 1,559,683. During the same period, Baja California grew by nearly 27% to a total of 3,155,070 residents. It is generally accepted that the Mexican census significantly underestimates actual population figures. Baja California grew at a pace of more than three times that of San Diego County in the past decade.

CENSUS POPULATION TIJUANA AND BAJA CALIFORNIA 2000 - 2010		
Year	Tijuana	Baja
2000	1,210,000	2,487,367
2010	1,559,683	3,155,070
CHANGE 2000-2010	349,683	667,703
% CHANGE	28.9%	26.8%
Source: INEGI		

Tijuana is home to the second largest base of maquiladora manufacturing employment with approximately 140,000 jobs. This is second only to Juarez in this category. Mexicali is the sixth largest maquiladora employment center with 45,145 jobs.

SIX YEAR TREND – OTAY WATER DISTRICT AREA

The development of residential housing will drive population gains and demand for retail and other commercial space as well as government services.

South County Residential Housing Demand

We have prepared projections of residential construction for the south County and the Otay Water District service area. For all intents and purposes, virtually all of the future residential development will take place within the Otay Water District boundaries, with the exception of the development that will ultimately take place east of I-5 in Chula Vista and the very limited spot development elsewhere in the south County.

The Otay Water District prepares six-year projections of demand for its services. Those demands are based on the number of new residences, commercial space and governmental needs of its service area. Therefore, we have prepared the following table which provides our estimate of the activity in the Otay Water District area as a percent of the County activity.

We project residential construction over the next six years to average about 6,000 units countywide. Of that total, 18-20% or 1,100+ units annually would be built in the Chula Vista/Otay Mesa area, the vast majority of that housing to be built on the Otay Ranch, with a growing percentage in the Millenia (Eastern Urban Center) community across from the regional shopping mall.

The table below documents the remaining lands to be developed on the Otay Ranch including Millenia (Eastern Urban Center).

ADOPTED PLAN AND UNITS REMAINING OTAY RANCH AND EUC (MILLENNIA) AS OF YEAR END 2010							
HOUSING TYPE	ADOPTED PLAN	UNITS REMAINING IN OTAY RANCH	UNITS BUILT OUT	% BUILT OUT	% REMAINING	EUC	EUC AS % OF UNITS REMAINING IN OTAY RANCH
SINGLE-FAMILY	11,082	2,281	8,801	79%	21%	-	0%
MULTI-FAMILY	15,915	8,677	7,238	45%	55%	3,300	38%
TOTAL	26,997	10,958	16,039	59%	41%	3,300	30%

SOURCE: CITY OF CHULA VISTA
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In the latter part of the six-year period, we anticipate more multi-family construction in the Otay Mesa area, in line with the new specific plan of the City of San Diego with its heightened densities.

NEW RESIDENTIAL CONSTRUCTION PROJECTIONS CHULA VISTA/OTAY MESA AND SAN DIEGO COUNTY 2011-2017								
YEAR	2011	2012	2013	2014	2015	2016	2017	6-YEAR AVERAGE
CHULA VISTA/OTAY MESA								
SINGLE FAMILY	250	375	375	450	450	450	450	400
CONDOMINIUM (1)	200	200	300	500	625	750	700	468
APARTMENTS	200	200	300	400	400	400	500	343
TOTAL	650	775	975	1,350	1,475	1,600	1,650	1,211
SAN DIEGO COUNTY								
SINGLE FAMILY	2,000	2,500	2,500	3,000	3,000	3,000	3,000	2,714
CONDOMINIUM (1)	1,000	1,500	1,500	2,000	2,500	3,000	3,000	2,071
APARTMENTS	1,000	1,000	1,500	2,000	2,000	2,000	2,000	1,643
TOTAL	4,000	5,000	5,500	7,000	7,500	8,000	8,000	6,429
CV/OM AS % OF COUNTY								
SINGLE FAMILY	13%	15%	15%	15%	15%	15%	15%	14.7%
CONDOMINIUM (1)	20%	25%	25%	25%	25%	25%	30%	22.6%
APARTMENTS	20%	20%	20%	20%	20%	20%	25%	20.9%
TOTAL	16%	16%	18%	18%	18%	20%	21%	18.8%
(1) TOWNHOMES, GARDEN, MID-RISE AND HIGH-RISE CONDOMINIUMS								
MARKETPOINTE REALTY ADVISORS 4.2011								

The table above projects new construction, excluding condominium conversions.

In terms of density, we anticipate that the single-family units will have an average of 3.5 persons per unit; condominiums 3.0 and apartments 2.0.

Thus, the average population gain during the next six years is estimated to be more than 3,000 persons as a result of new construction. We are unable to calculate any changes in densities in the existing housing stock.

PROJECTED DENSITIES AND POPULATION OTAY WATER DISTRICT AREA 2011-2017			
HOUSING TYPE	HOUSING UNITS	PERSONS PER HOUSEHOLD	TOTAL POPULATION
SINGLE-FAMILY	400	3.50	1,400
CONDOMINIUM (1)	468	3.00	1,404
APARTMENTS	343	2.00	686
TOTAL	1,211	2.88	3,489

(1) MOSTLY TOWNHOMES; EXCLUDES CONDOMINIUM CONVERSIONS
MARKETPOINTE REALTY ADVISORS 3.2011

Non-Residential Construction

During the next six years, we anticipate relatively little non-residential construction in the south County. The current vacancy rates in south County are 5.1% for retail with more than 800,000 square foot vacant; 17.2% vacant for office (2,899,876 square foot vacant) and 12.6% vacant (4,129,102 square feet vacant) for industrial space. Until those vacancy rates recede to much lower levels, there will be minimal construction.

The current direct vacancy rates in south county are comparable with those in the rest of the county. Note that the figures are direct vacancy rates and do not include properties that may have sub-let potential. The sub-let space adds yet another dimension to the vacancy situation.

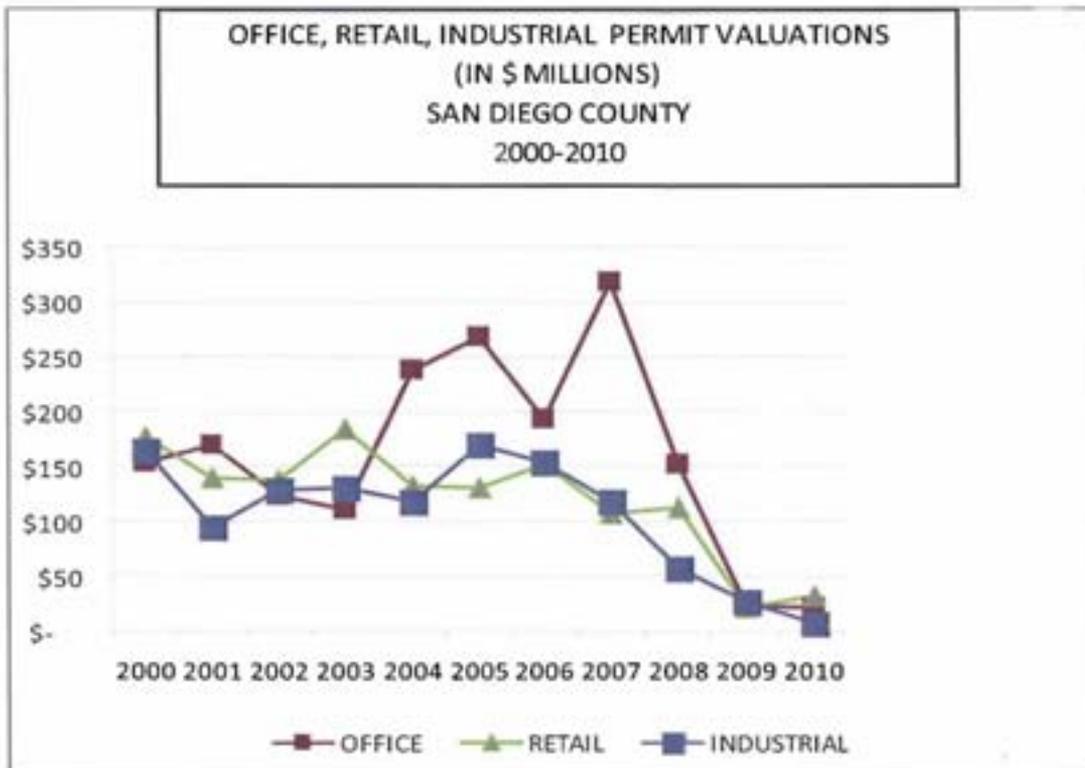
DIRECTLY VACANCY RATES COMMERCIAL REAL ESTATE SOUTH COUNTY AND SAN DIEGO COUNTY 4TH QUARTER 2010				
PROPERTY TYPE	SOUTH COUNTY		S D COUNTY	
	SQ.FT. VACANT	VACANCY RATE	SQ.FT. VACANT	VACANCY RATE
RETAIL (1)	827,734	5.1%	3,338,101	5.5%
OFFICE	2,899,876	17.2%	12,227,894	16.9%
INDUSTRIAL	4,129,102	12.6%	33,569,356	10.1%

(1) EXCLUDES OWNER-OCCUPIED SPACE
SOURCE: CASSIDY FURLEY
MARKETPOINTE REALTY ADVISORS 3.2011

In the following table, we show the non-residential permit valuations for the County of San Diego from 2001 through 2010. After a vigorous development period from 2001 through 2006, construction declined dramatically falling to near zero in 2009 and 2010, as shown here:

NON-RESIDENTIAL PERMIT VALUATIONS (IN \$ MILLIONS) SAN DIEGO COUNTY 2001-2010					
YEAR	\$ MILLIONS				
	OFFICE	RETAIL	INDUSTRIAL	HOTEL	TOTAL
2001	\$ 170	\$ 139	\$ 94	\$ 72	\$ 475
2002	\$ 123	\$ 138	\$ 128	\$ 97	\$ 486
2003	\$ 110	\$ 184	\$ 131	\$ 22	\$ 447
2004	\$ 237	\$ 132	\$ 117	\$ 40	\$ 526
2005	\$ 267	\$ 131	\$ 170	\$ 69	\$ 637
2006	\$ 193	\$ 152	\$ 153	\$ 198	\$ 696
2007	\$ 317	\$ 108	\$ 118	\$ 43	\$ 586
2008	\$ 151	\$ 112	\$ 57	\$ 41	\$ 361
2009	\$ 23	\$ 21	\$ 26	\$ 4	\$ 74
2010	\$ 22	\$ 32	\$ 8	\$ 15	\$ 77
AVERAGE					
2001-2005	\$ 181	\$ 145	\$ 128	\$ 60	\$ 514
2006-2010	\$ 141	\$ 85	\$ 72	\$ 60	\$ 359

SOURCE: CONSTRUCTION INDUSTRY RESEARCH BOARD
MARKETPOINTE REALTY ADVISORS 4.2011



It is our contention that the non-residential permit activity will recover very slowly throughout the County over the next six years. In the table below, we show permit valuation projections through 2017 with averages during the 2001-2017 timeframe.

NON-RESIDENTIAL PERMIT VALUATIONS (IN \$ MILLIONS) SAN DIEGO COUNTY 2001-2017p					
\$ MILLIONS					
YEAR	OFFICE	RETAIL	INDUSTRIAL	HOTEL	TOTAL
2001	\$ 170	\$ 139	\$ 94	\$ 72	\$ 475
2002	\$ 123	\$ 138	\$ 128	\$ 97	\$ 486
2003	\$ 110	\$ 184	\$ 131	\$ 22	\$ 447
2004	\$ 237	\$ 132	\$ 117	\$ 40	\$ 526
2005	\$ 267	\$ 131	\$ 170	\$ 69	\$ 637
2006	\$ 193	\$ 152	\$ 153	\$ 198	\$ 696
2007	\$ 317	\$ 108	\$ 118	\$ 43	\$ 586
2008	\$ 151	\$ 112	\$ 57	\$ 41	\$ 361
2009	\$ 23	\$ 21	\$ 26	\$ 4	\$ 74
2010	\$ 22	\$ 32	\$ 8	\$ 15	\$ 77
2011	\$ 25	\$ 30	\$ 25	\$ 10	\$ 90
2012	\$ 30	\$ 30	\$ 30	\$ 10	\$ 100
2013	\$ 35	\$ 30	\$ 35	\$ 20	\$ 120
2014	\$ 45	\$ 40	\$ 45	\$ 20	\$ 150
2015	\$ 55	\$ 50	\$ 55	\$ 30	\$ 190
2016	\$ 65	\$ 60	\$ 65	\$ 30	\$ 220
2017	\$ 75	\$ 70	\$ 75	\$ 30	\$ 250
AVERAGE					
2001-2005	\$ 181	\$ 145	\$ 128	\$ 60	\$ 514
2006-2010	\$ 141	\$ 85	\$ 72	\$ 60	\$ 359
2011-2014	\$ 34	\$ 33	\$ 34	\$ 15	\$ 115
2015-2017	\$ 65	\$ 60	\$ 65	\$ 30	\$ 220

SOURCE: CONSTRUCTION INDUSTRY RESEARCH BOARD
MARKETPOINTE REALTY ADVISORS 4.2011

Traditionally, the Chula Vista/Otay area accounts for approximately 10% of the retail/office/industrial development in the County. Therefore, we have developed the following table which estimates the permit valuations for both the County and Chula Vista/Otay Mesa area from 2011-2017. :

NON-RESIDENTIAL PERMIT VALUATIONS (PROJECTIONS) (IN \$ MILLIONS) SAN DIEGO COUNTY AND OTAY MESA 2001-2017p					
		\$ MILLIONS			
YEAR	OFFICE	RETAIL	INDUSTRIAL	HOTEL	TOTAL
SAN DIEGO COUNTY					
AVERAGE ANNUAL					
2001-2005	\$181	\$145	\$128	\$60	\$514
2006-2010	\$141	\$85	\$72	\$60	\$359
2011-2014	\$34	\$33	\$34	\$15	\$115
2015-2017	\$65	\$60	\$65	\$30	\$220
CHULA VISTA/OTAY MESA					
AVERAGE ANNUAL					
2011-2014	\$3	\$3	\$3	\$2	\$12
+ 20% MISCELLANEOUS	\$1	\$1	\$1	\$0	\$2
TOTAL	\$4	\$4	\$4	\$2	\$14
2015-2017	\$7	\$6	\$7	\$3	\$22
+ 20% MISCELLANEOUS	\$1	\$1	\$1	\$1	\$4
TOTAL	\$8	\$7	\$8	\$4	\$26
SOURCE: CONSTRUCTION INDUSTRY RESEARCH BOARD MARKETPOINTE REALTY ADVISORS 4.2011					

Having said that, there are always opportunities for selected construction activity in the commercial sector, primarily for owner-occupied space for industrial and office use. We are unable to project this type of space.

THIRTY YEAR TREND – OTAY WATER DISTRICT AREA

For the time period between 2010 and 2040, we have opted to rely on the Series 12 statistics from the San Diego Association of Governments. The series was completed in February 2010 and projects population and housing units by decade from 2010 to 2040 for both San Diego County and within it the Otay Water District area.

SANDAG projects the County population to reach the 4,000,000 level by 2040 with 11.5% of that growth within the OWD boundaries. Thus, the OWD area would grow by 116,715 persons or an average of 3,891 persons per year.

We do have some concern over their density projections. SANDAG is projecting an average of 3.5 persons per unit, a rather high density given their projections of housing unit mix. SANDAG is projecting approximately 75% of new units to be multi-family over the next 30 years. We believe that that ratio is rational, but the persons per household are typically far less with multi-family units than single-family units.

POPULATION AND HOUSING PROJECTIONS OTAY WATER DISTRICT AREA 2010-2040				
AREA	TOTALS		ANNUAL CHANGE	
	POPULATION	HOUSING UNITS	POPULATION	HOUSING UNITS
OWD AREA				
2010	198,125	61,914	N/A	N/A
2020	251,386	75,945	5,326	1,403
2030	283,565	83,211	3,218	727
2040	314,840	95,694	3,128	1,248
2010-2040	116,715	33,780	3,891	1,126
SAN DIEGO COUNTY				
2010	3,095,313	1,091,399	N/A	N/A
2020	3,393,445	1,198,753	29,813	10,735
2030	3,715,030	1,300,654	32,159	10,190
2040	3,996,957	1,383,963	28,193	8,331
2010-2040	901,644	292,564	30,055	9,752
OWD AS % OF SD CO				
2010	6.4%	5.7%	N/A	N/A
2020	7.4%	6.3%	17.9%	13.1%
2030	7.6%	6.4%	10.0%	7.1%
2040	7.9%	6.9%	11.1%	15.0%
2010-2040	12.9%	11.5%	12.9%	11.5%
NOTE: PREPARED PRIOR TO RELEASE OF 2010 CENSUS DATA				
SOURCE: SERIES 12 SANDAG				
MARKETPOINTE REALTY ADVISORS 3.2011				

Household Income Projections

The San Diego Association of Governments (SANDAG) has produced income projections for the county. Using the SANDAG methodology, we have applied the growth rates to the Otay Water District residents. By 2040, median household income is projected to be \$113,353.

Median Household Income Projections Otay Water District			
2010	2020	2030	2040
\$83,115	\$92,212	\$103,841	\$113,353
*SANDAG Countywide methodology used MARKETPIONTE REALTY ADVISORS 3.11			

SANDAG has also prepared projections for both civilian and military jobs by area. In the table below, SANDAG projects that more than 20% of newly created jobs in the 2020-2040 time period will be created in the Chula Vista/Otay Mesa area. This analysis is based on SANDAG's analysis of land available for development, much of which is on both sides of SR-11.

CIVILIAN AND MILITARY JOBS CHULA VISTA / OTAY MESA 2020 - 2040			
DECADE	CIVILIAN	MILITARY	TOTAL
CHULA VISTA / OTAY MESA			
2020	102,293	1,356	103,649
2030	132,230	1,356	133,586
2040	155,690	1,356	157,046
2020-2040	53,397	-	53,397
SAN DIEGO COUNTY			
2020	1,515,346	104,269	1,619,615
2030	1,648,361	104,269	1,752,630
2040	1,773,399	104,269	1,877,668
2020-2040	258,053	-	258,053
CV / OM AS % OF COUNTY			
2020	6.80%	1.30%	6.40%
2030	8.00%	1.30%	7.60%
2040	8.80%	1.30%	8.40%
2020-2040	20.69%		20.69%
SOURCE: SANDAG SERIES 12 MARKETPIONTE REALTY ADVISORS 3.11			

SUMMARY OF FINDINGS

The following summarizes our opinions and projections as to the growth of San Diego County and, within it, the Otay Water District area:

- The economic recovery in the United States has only just begun. It will take several more years to reach the type of growth levels we have become accustomed to in the past.
- The international situation will play havoc with the world economy, but most of its effect will be on the price and availability of oil, which, in turn, will drive up prices of almost all goods. Thus, there will be modest inflation in the U.S. in the next few years.
- In the next six years, San Diego County will fare better economically than most of the rest of the nation because of its highly diversified economy. Most of its major industries are on a long-term growth path.
- As a result, the County's population will continue to grow, most probably by 30,000+ persons annually. Most of that growth will result from natural household formations.
- Annual job growth in San Diego County will most likely average 18,000-20,000 range during the next six years as well as in the next two decades.
- Housing construction will average 6,000-7,000 units during the next six years, with as much as 20% of that growth in the OWD area. This percentage is distinctly higher than that of SANDAG projections. The MarketPointe projections relate to the relative availability of developable and "ready to go" land in the County and the lesser price of land in south county than in northern parts of the County. The Mexican influence will also add to the demand for housing in south county.
- Looking out further, SANDAG projects that by 2040, the County will reach 4,000,000 persons, a total that will require growth in excess of 30,000 persons annually. The challenge will be to provide adequate new housing to achieve those totals. In all likelihood, as much as 75% of the new housing will be attached.

On balance, San Diego County is one of the more vibrant economies in the Nation and should outpace the Nation in its recovery and ongoing economic growth. .

We have enjoyed working on this assignment for you and stand prepared to respond to any follow-up concerns you may have.

Sincerely,



Alan N. Nevin
Director of Economic Research



Jon Nevin
Research Associate

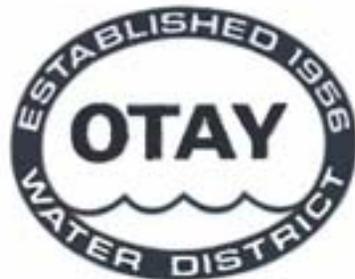
**SOURCES OF INFORMATION
ECONOMIC OVERVIEW
OTAY WATER DISTRICT**

Bureau of Labor Statistics
California Department of Finance, Demographics Dept.
Cassidy Turley Commercial Real Estate
City of Chula Vista
Claritas
Construction Industry Research Board
County of San Diego
Dow Jones
Foreclosure Radar
HdL Tax Advisors
INEGI (Mexican Census Bureau)
MarketPointe **Landtracker**
MarketPointe **Rental Trends**
MarketPointe **Residential Trends**
Otay Mesa Chamber of Commerce
Otay Water District
San Diego Association of Governments
State of California
Team HDR Analysis
U.S. Census Bureau
U.S. Department of Immigration
U.S. Treasury
URBI, Inc.

ECONOMIC OVERVIEW SOUTH BAY REGION SAN DIEGO COUNTY

Prepared for

**The Otay Water District
by
MarketPointe Realty Advisors**



WATER DISTRICT OVERVIEW

MarketPointe Realty Advisors

Service Area – Otay Water District



DEMOGRAPHIC OVERVIEW SAN DIEGO CO. & OTAY WATER DISTRICT AREA 2010		
	SD CO.	OWD
1990 - 2000 Growth	12.6%	30.0%
2000 - 2010 Growth	10.5%	44.4%
Persons / Household	2.8	3.2
Median Age	34.5	33.5
% \geq 4 Yr Degree	34.0%	33.9%
Median Household Income	\$ 64,890	\$ 83,115
Source: Claritas MARKETPOINTE REALTY ADVISORS 3.11		

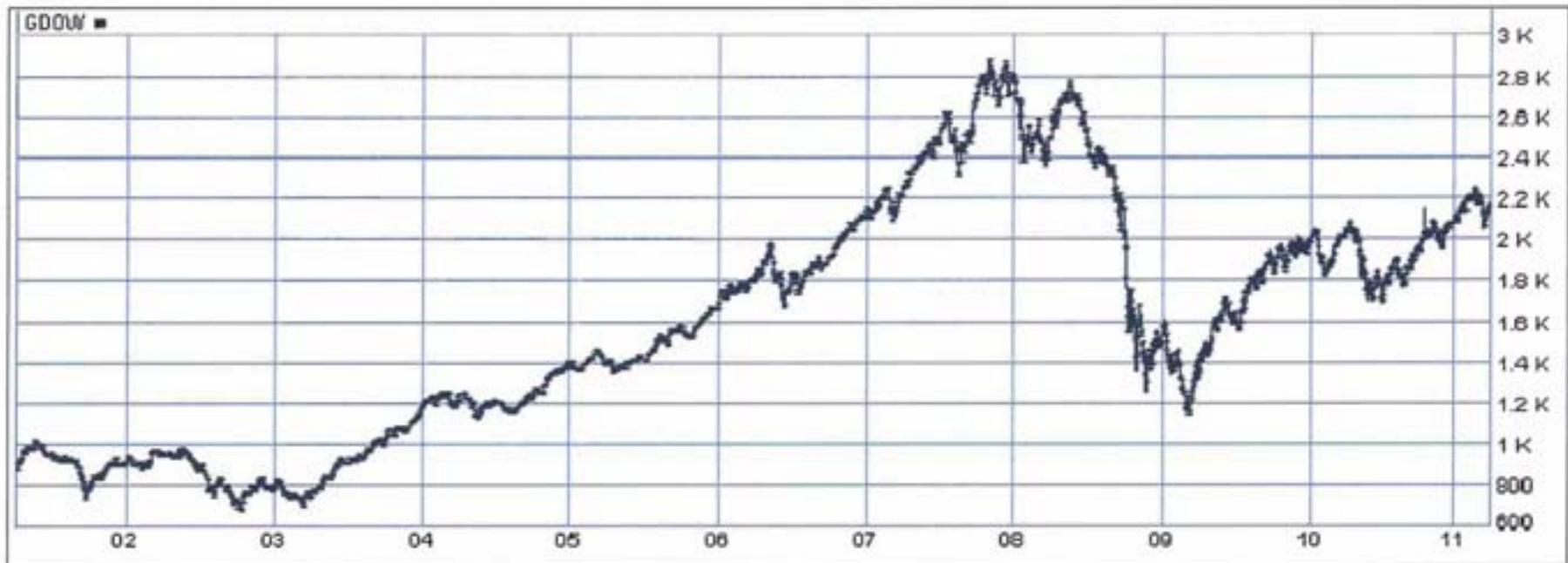
MEDIAN HOUSEHOLD INCOME PROJECTIONS

Median Household Income Projections Otay Water District			
2010	2020	2030	2040
\$ 83,115	\$ 92,212	\$ 103,841	\$ 113,353
*SANDAG Countywide methodology used MARKETPIONTE REALTY ADVISORS 3.11			

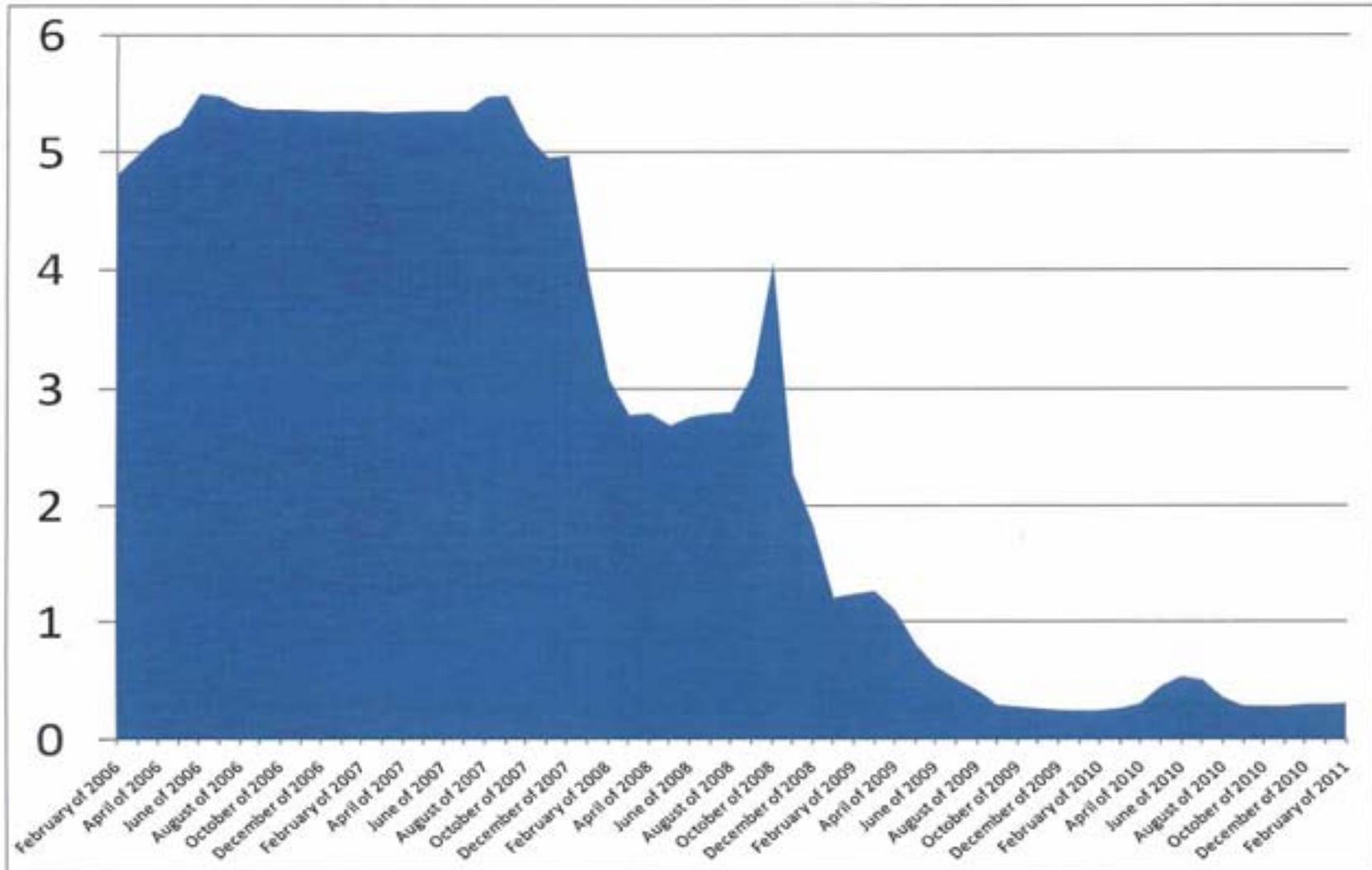
INTERNATIONAL TRENDS

MarketPointe Realty Advisors

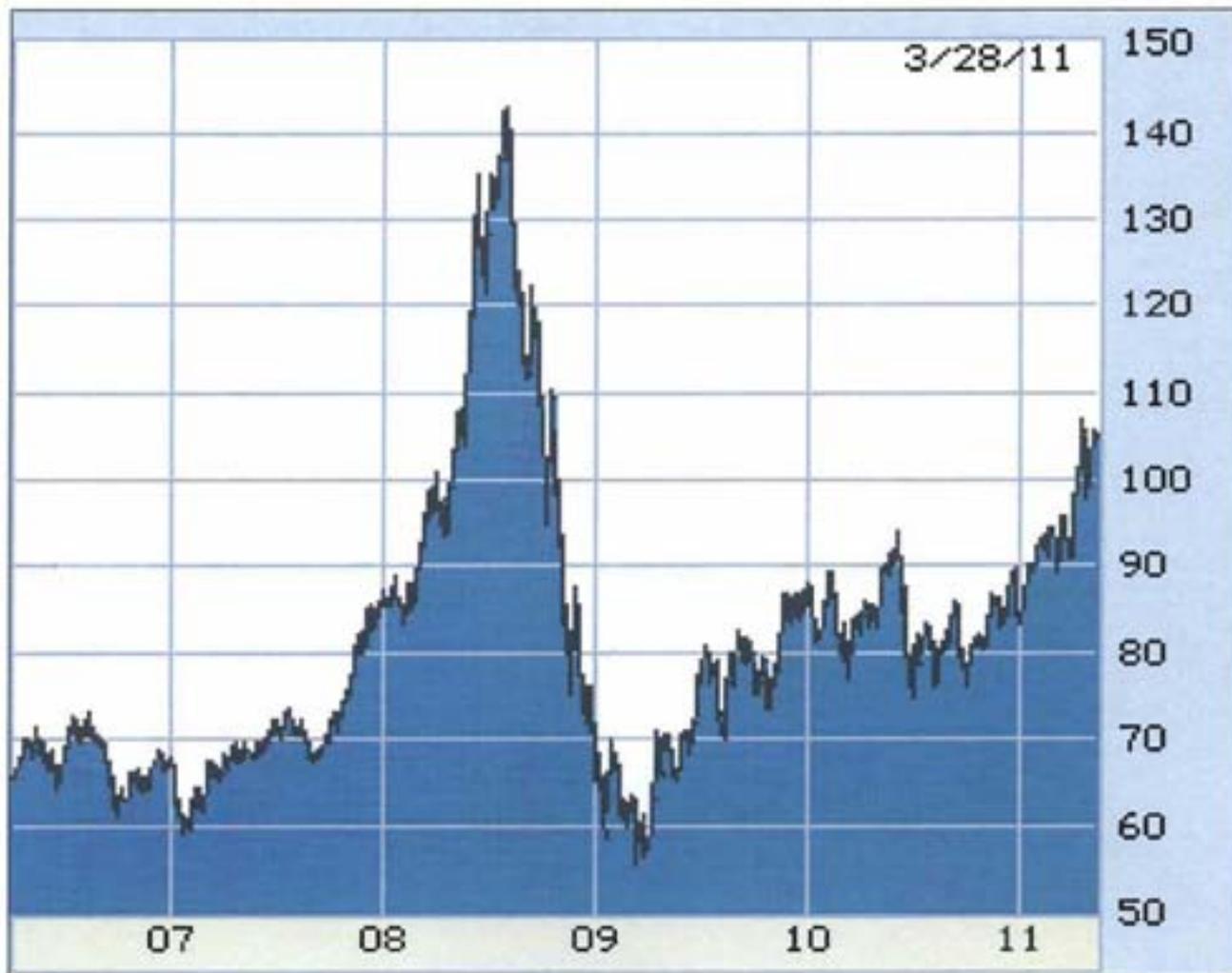
GLOBAL DOW STOCK INDEX (BLUE CHIP)



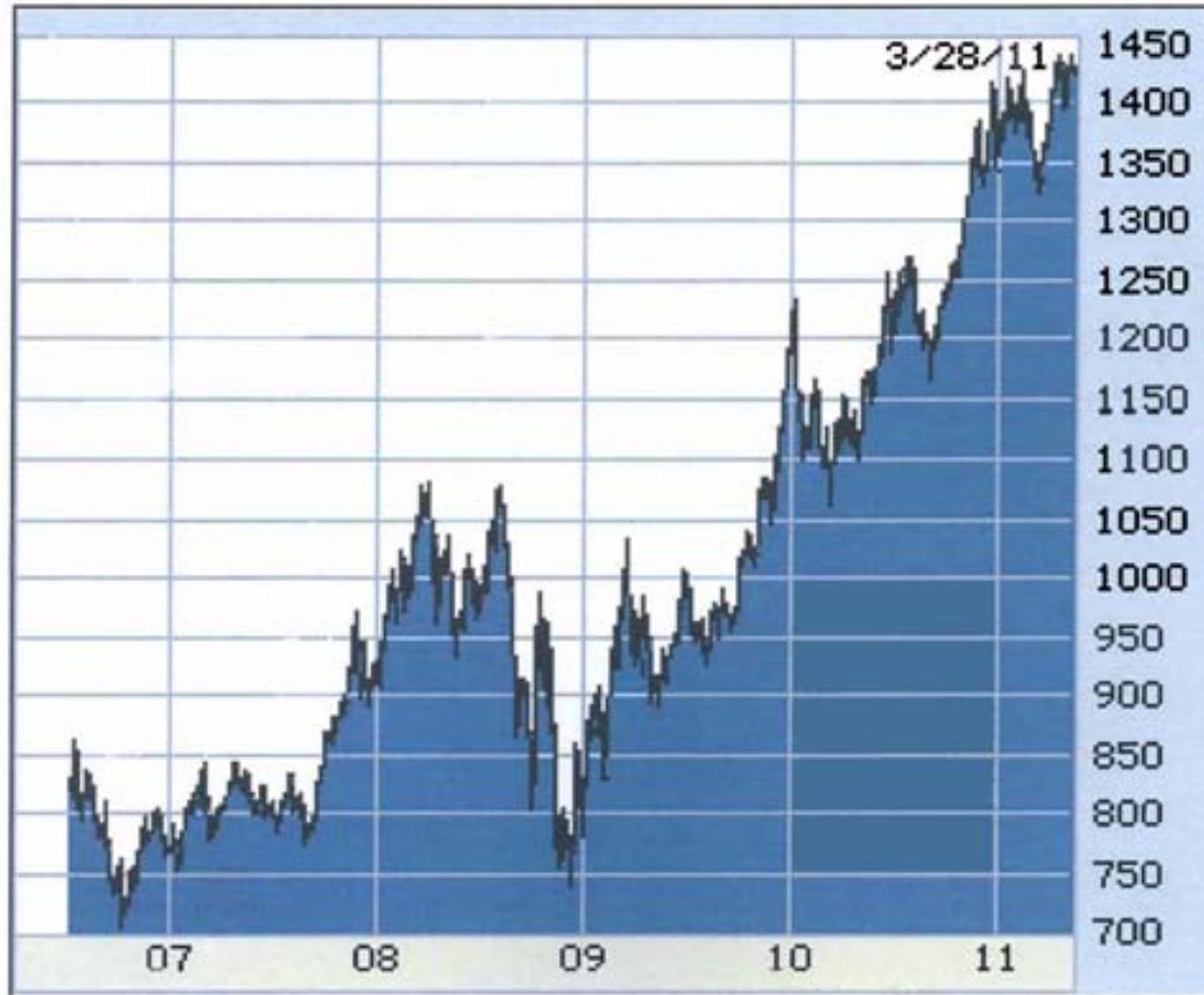
90 DAY LIBOR INTEREST RATES (LONDON INTERBANK OFFERED RATES)



CRUDE OIL PRICES (\$)

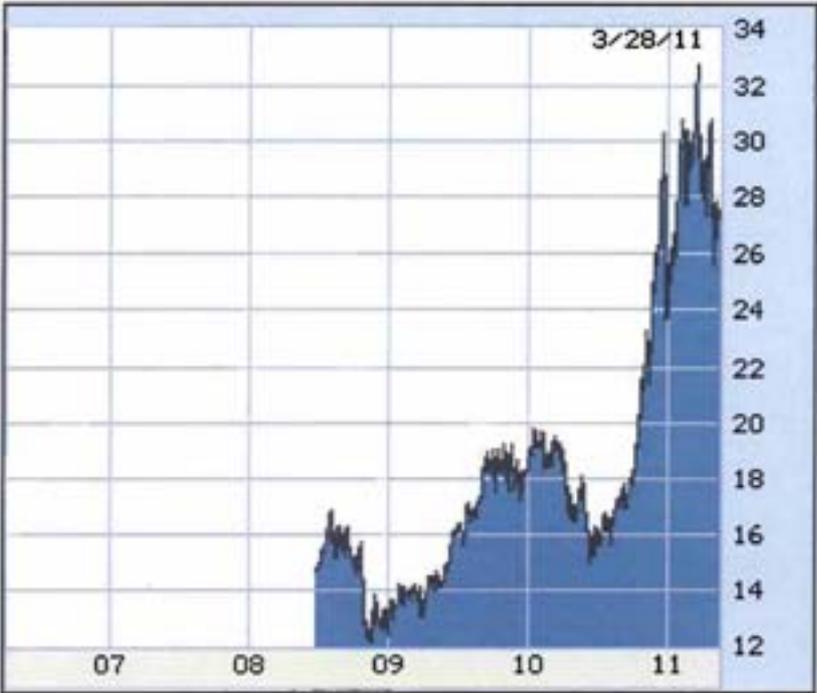


GOLD PRICES / OUNCE (\$)



COMMODITIES AS OF SPRING 2011

Sugar



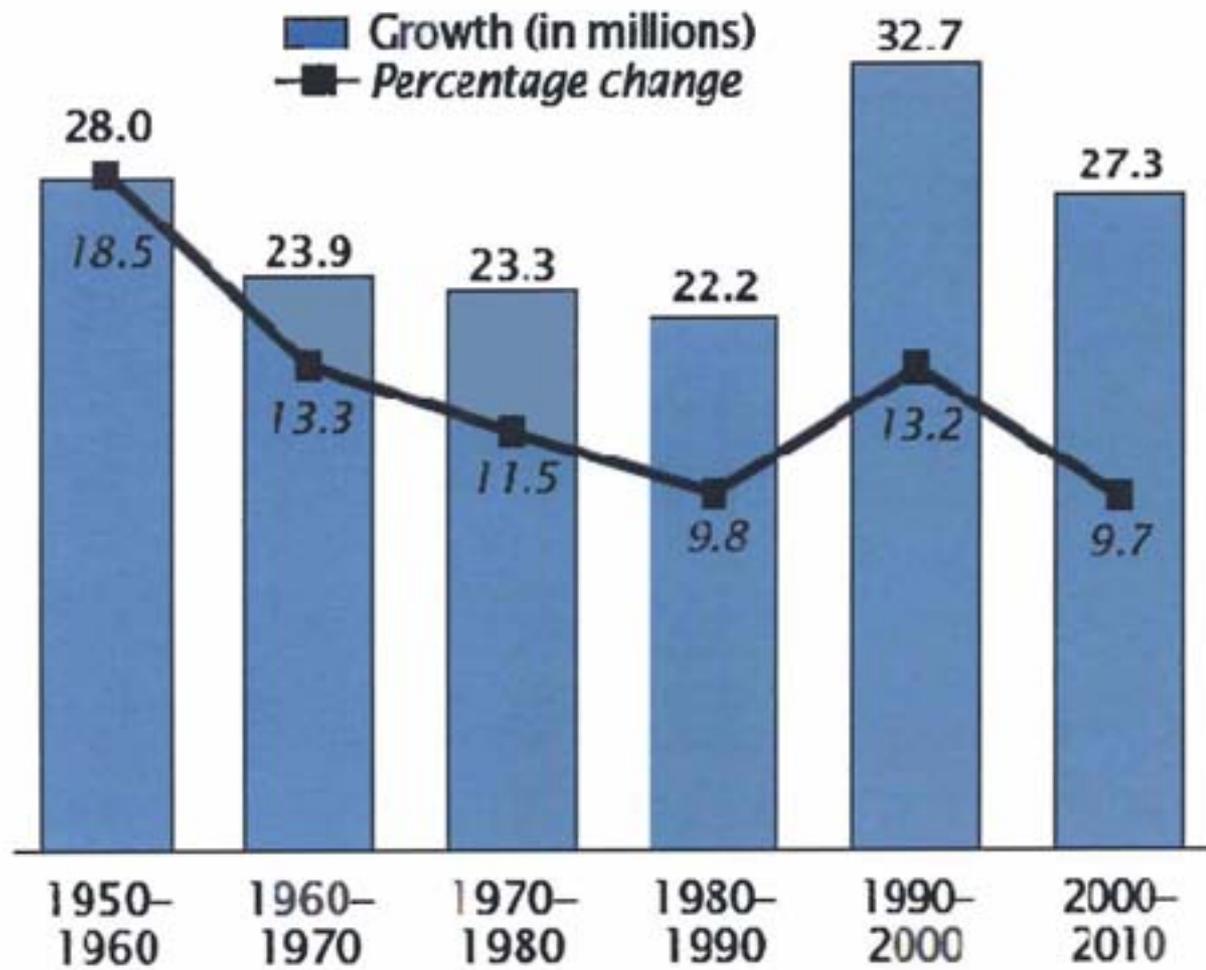
Wheat



U.S. ECONOMIC TRENDS

MarketPointe Realty Advisors

U.S. Population Change

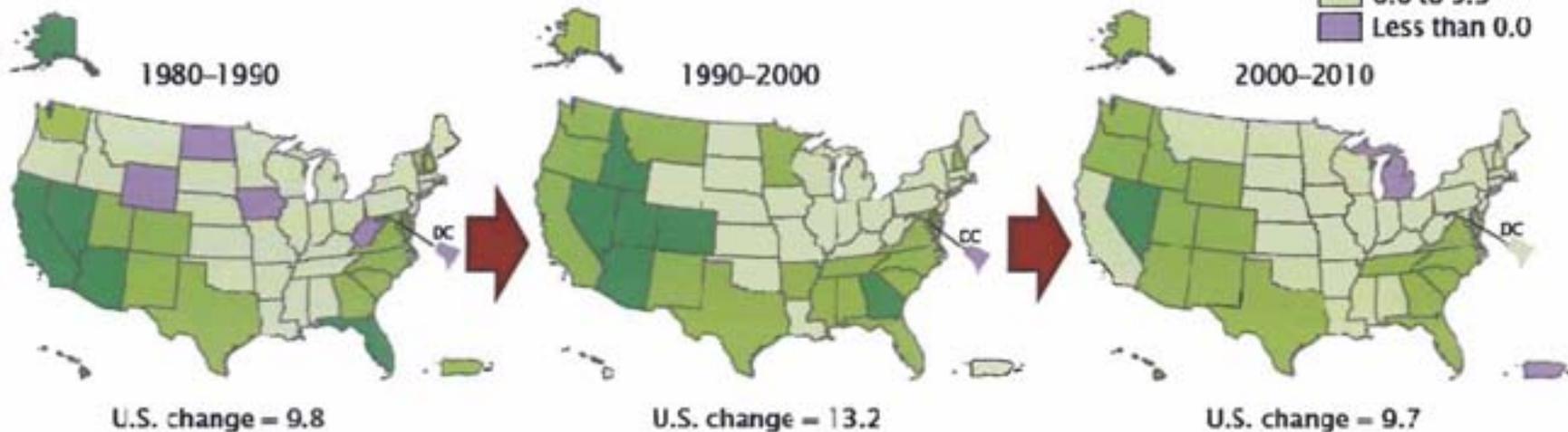
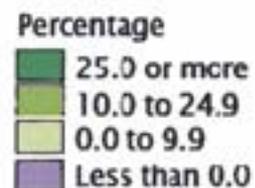


POPULATION CHANGE, BY DECADE

UNITED STATES

1980-2010

Percentage Change in Population by State and Decade:

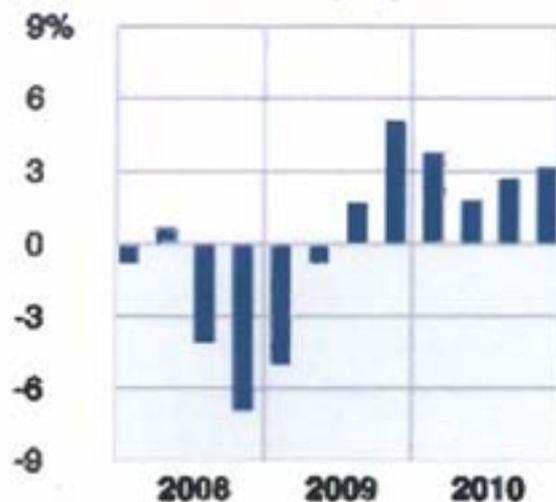


Source: U.S. Census Bureau

REAL GDP UNITED STATES

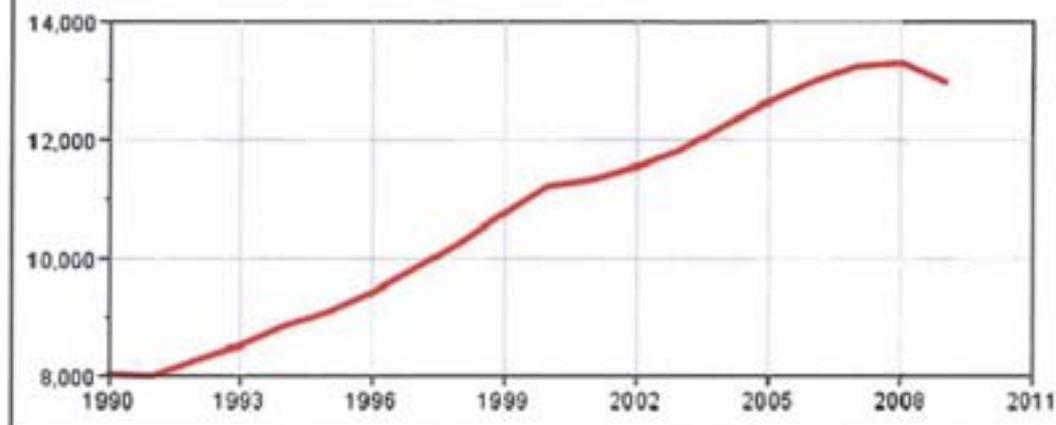
REAL GDP

Change from previous quarter at annual rate, seasonally adjusted



Source: Department of Commerce

Real Gross Domestic Product - Annual



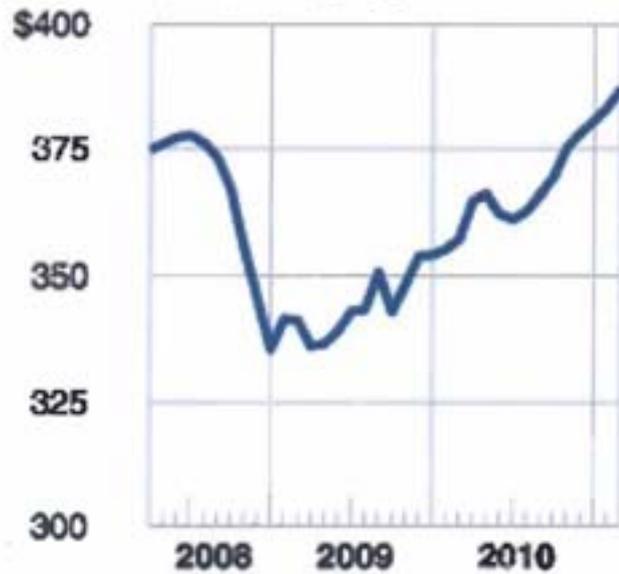
CONSUMER BEHAVIOR

16

RETAIL SALES & CONSUMER SPENDING UNITED STATES

RETAIL SALES

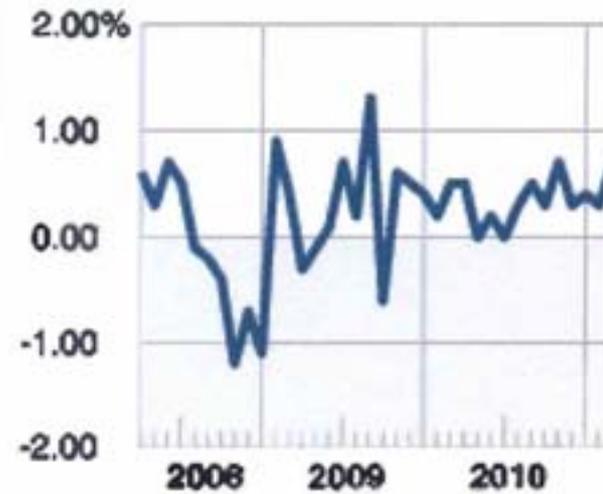
In billions, seasonally adjusted



Source: Department of Commerce

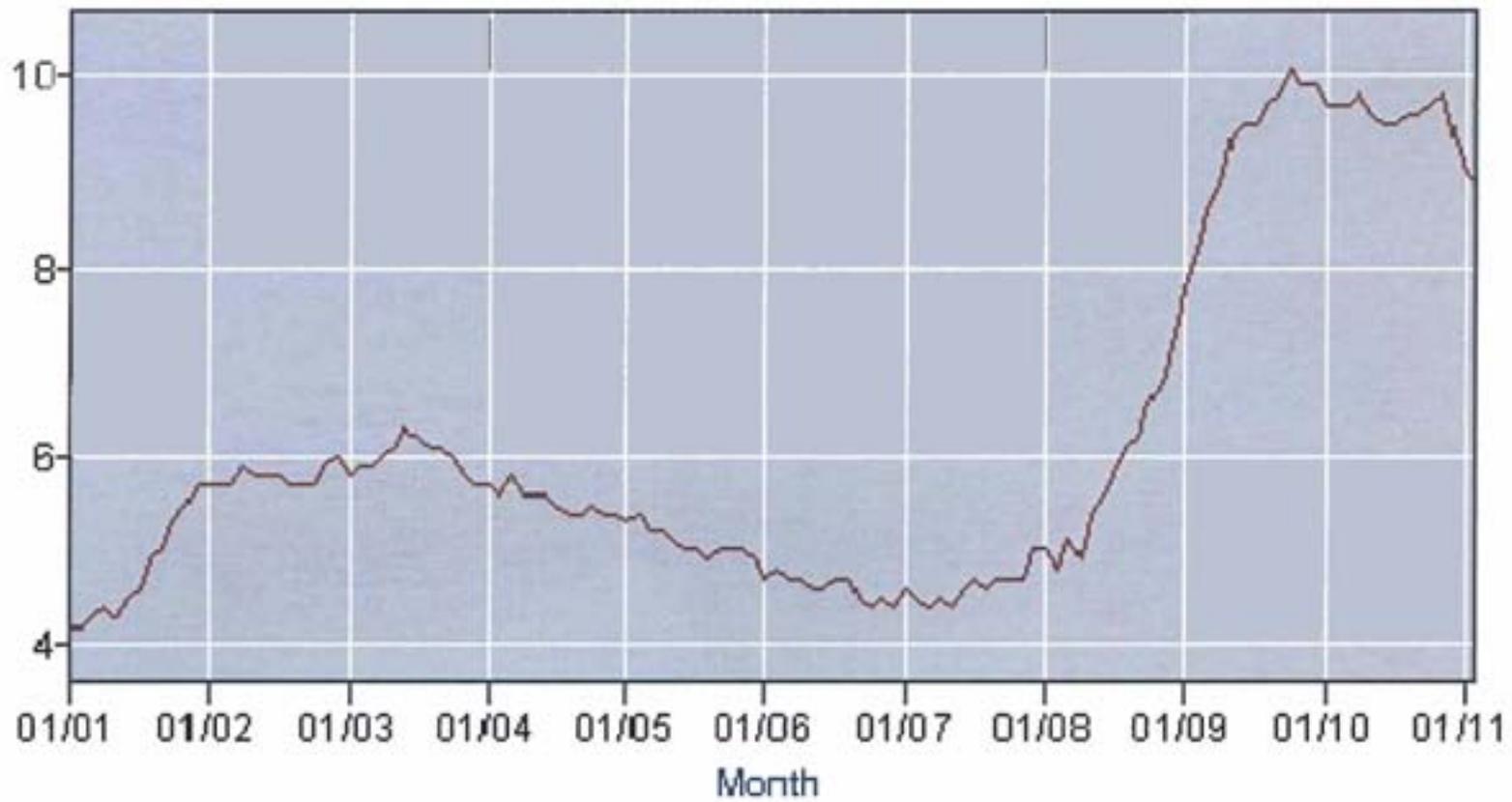
CONSUMER SPENDING

Personal consumption expenditures, change from previous month, seasonally adjusted

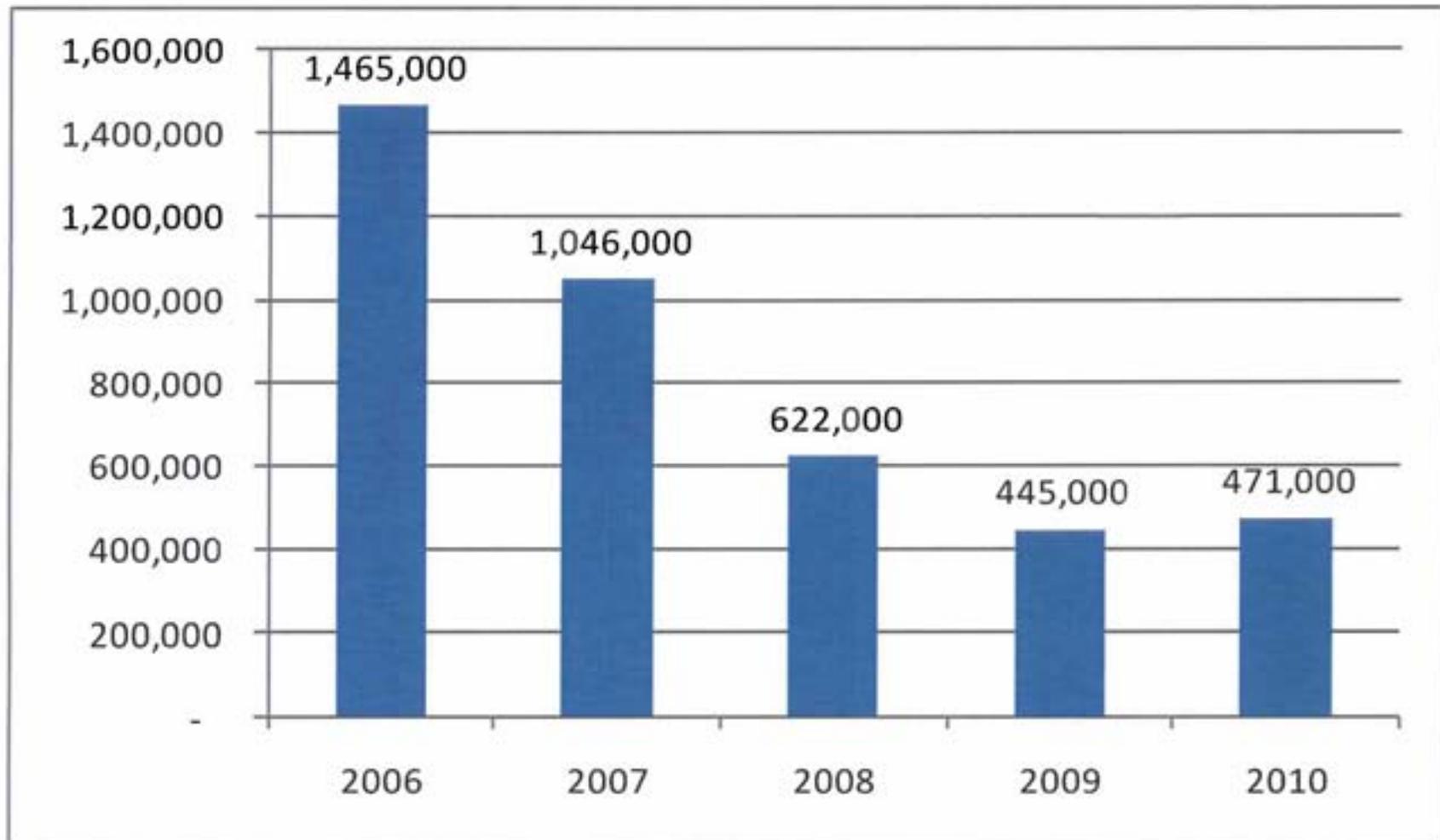


Source: Department of Commerce

UNEMPLOYMENT RATE
UNITED STATES
2001-2011



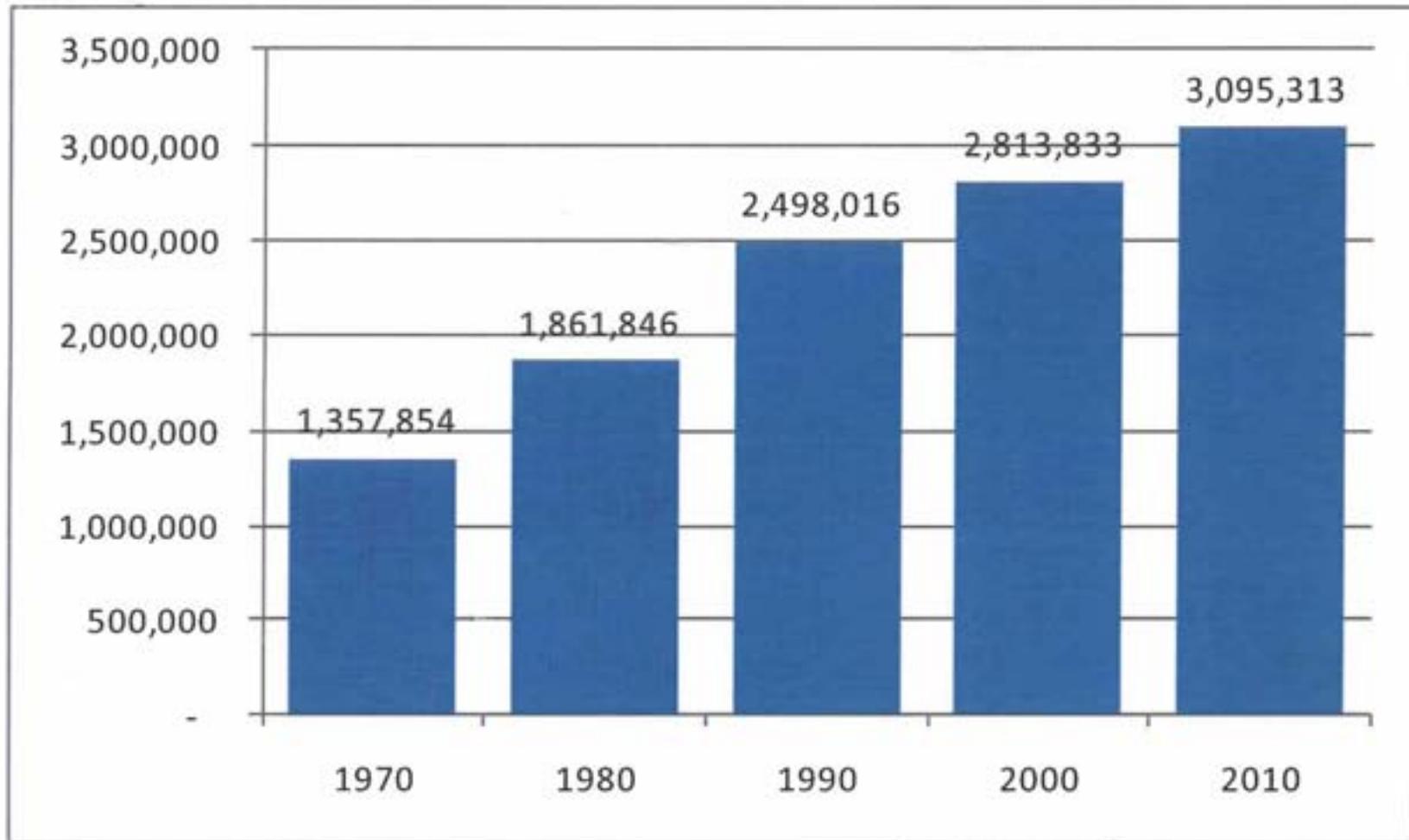
NEW HOME CONSTRUCTION
UNITED STATES
2006-2010



ECONOMIC TRENDS – SAN DIEGO COUNTY

MarketPointe Realty Advisors

POPULATION SAN DIEGO COUNTY 1970-2010

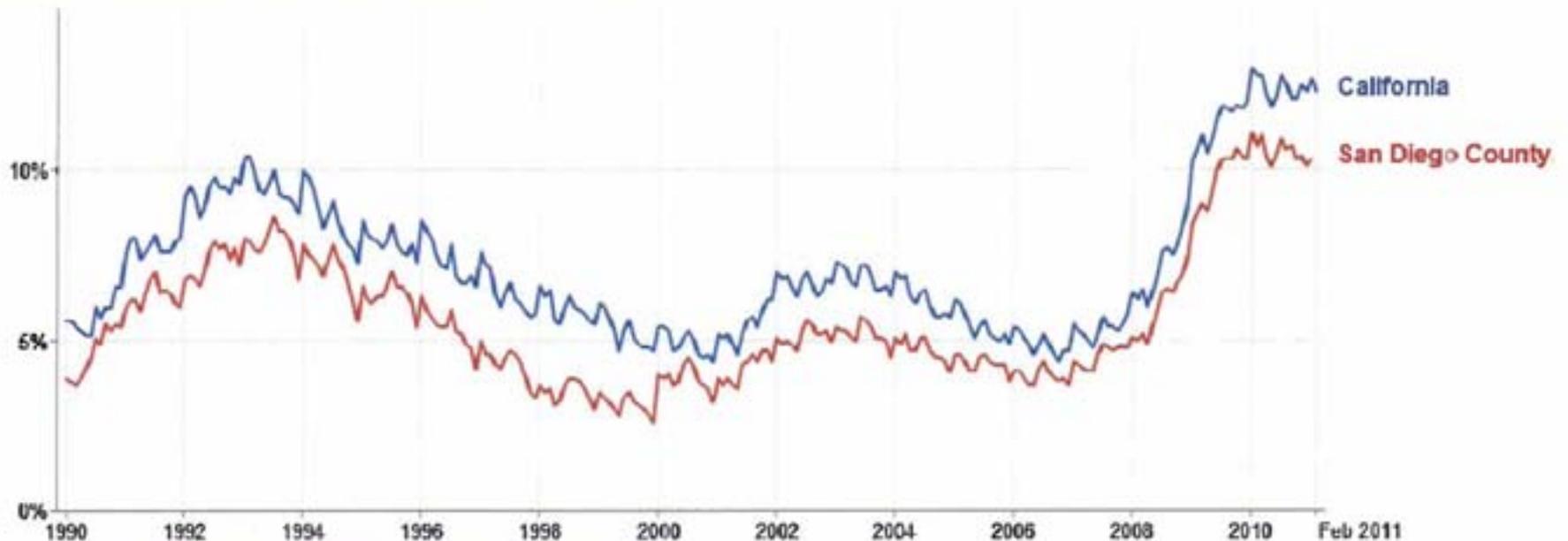


SAN DIEGO COUNTY UNEMPLOYMENT RATE 1990-2011 (FEB)

21

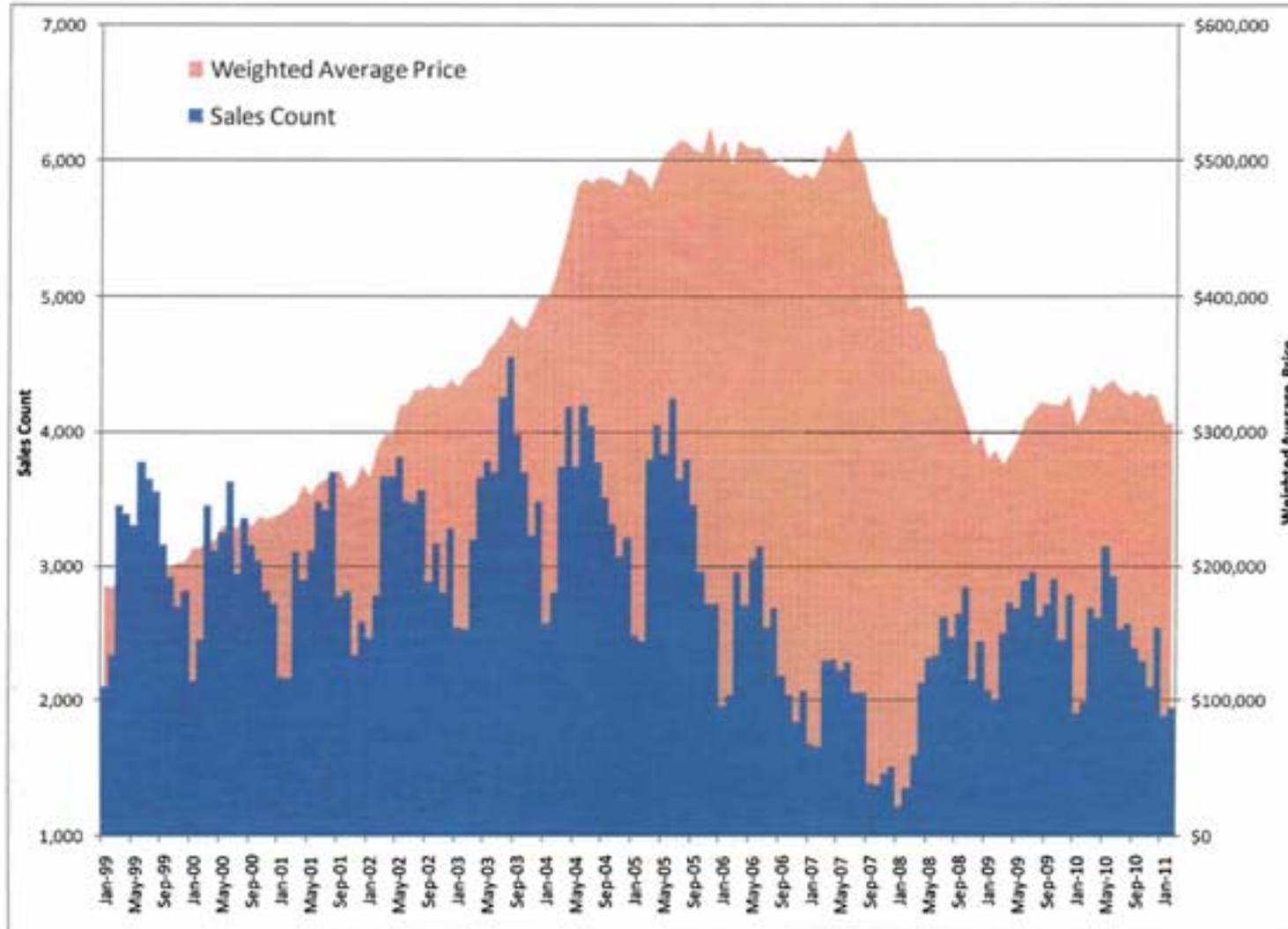
Unemployment rate

The percent of the labor force that is unemployed, not seasonally adjusted.

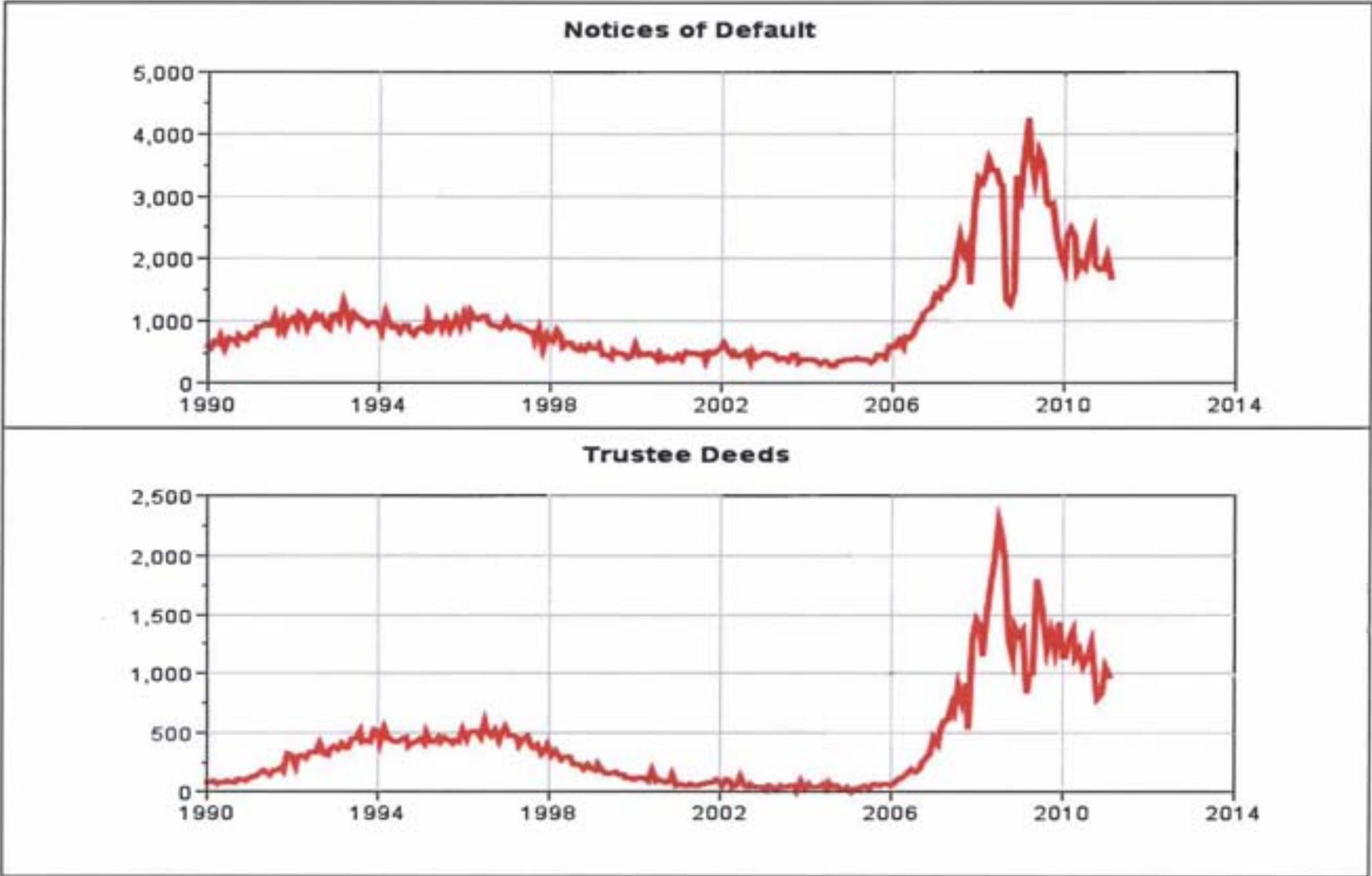


Data source: [U.S. Bureau of Labor Statistics](#) - Last updated Mar 25, 2011

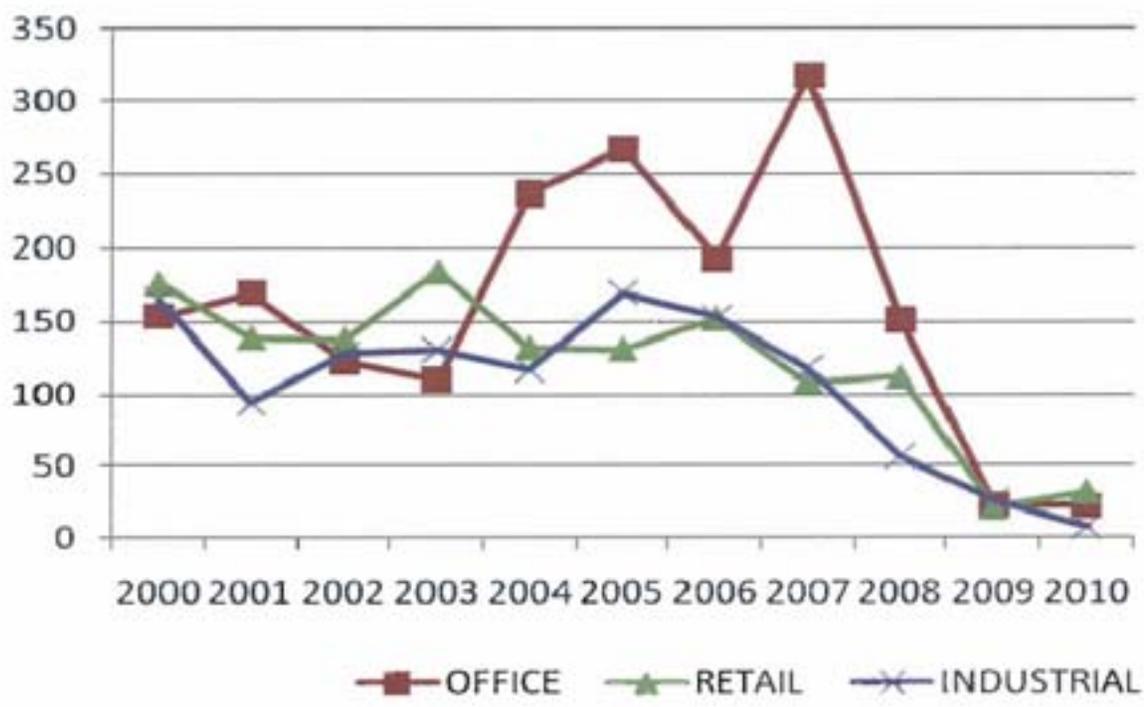
RESALE HOME SALES & PRICES SAN DIEGO COUNTY 1999-2011



SAN DIEGO COUNTY, NOD / TRUSTEE SALE 1990-2011



OFFICE, RETAIL, INDUSTRIAL PERMIT VALUATIONS
(IN \$ MILLIONS)
SAN DIEGO COUNTY
2000-2010



2030	8.00%	1.30%	7.60%
2040	8.80%	1.30%	8.40%

SOURCE: SANDAG SERIES 12
MARKETPOINTE REALTY ADVISORS 3.11

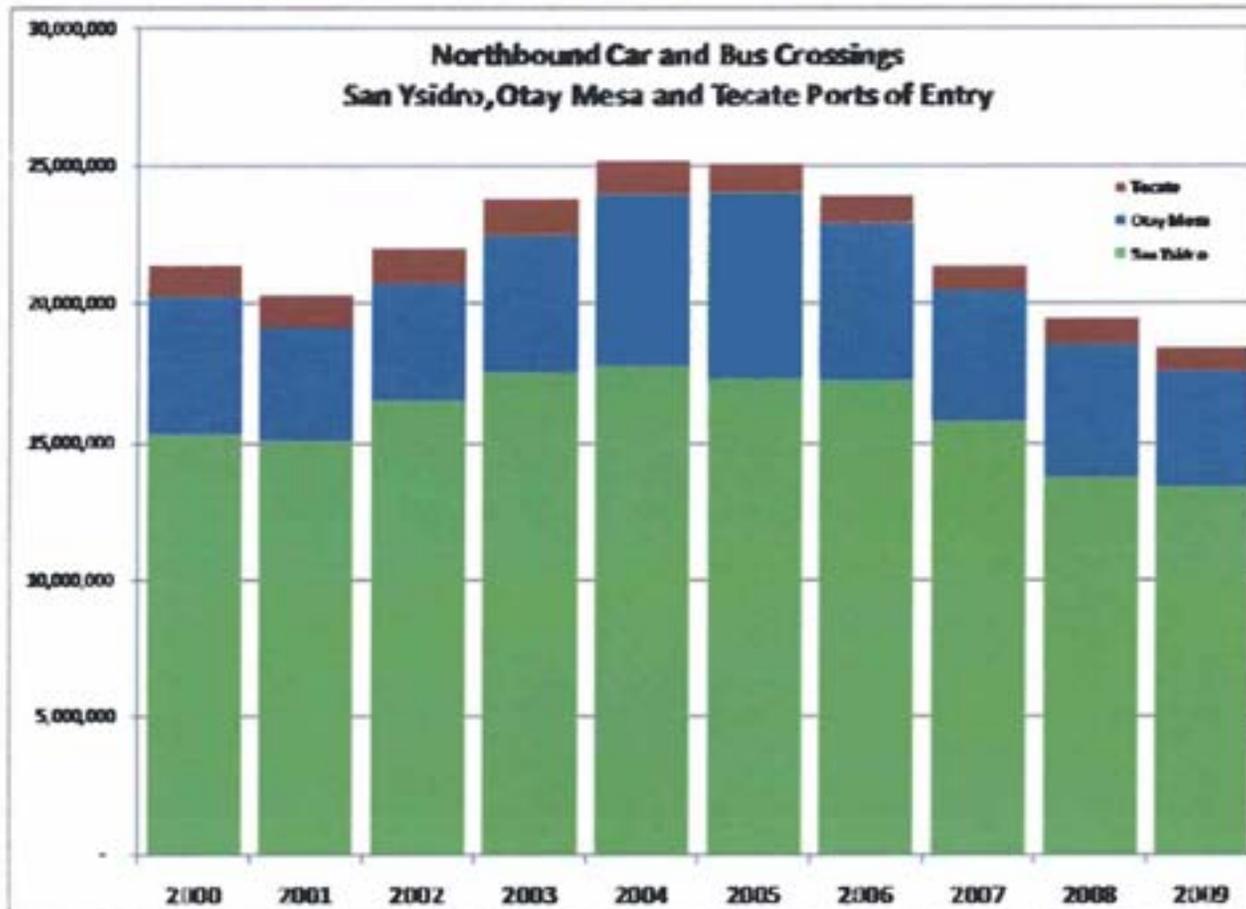
Sales Tax - Point of Sale				
San Diego County & State of California				
	2007	2008	2009	2010
San Diego County	\$ 479,321,893	\$ 459,722,550	\$ 400,443,927	\$ 422,136,500
California Total	\$ 5,678,049,172	\$ 5,404,318,187	\$ 4,617,418,638	\$ 4,830,249,373
Source: HDL				
MARKETPOINTE REALTY ADVISORS 4.11				

SOUTH COUNTY

MarketPointe Realty Advisors

NEW RESIDENTIAL CONSTRUCTION PROJECTIONS CHULA VISTA/OTAY MESA AND SAN DIEGO COUNTY 2011-2017	
YEAR	6-YEAR AVERAGE
CHULA VISTA/OTAY MESA	
SINGLE FAMILY	400
CONDOMINIUM (1)	468
APARTMENTS	343
TOTAL	1,211
SAN DIEGO COUNTY	
SINGLE FAMILY	2,714
CONDOMINIUM (1)	2,071
APARTMENTS	1,643
TOTAL	6,428
CV/OM AS % OF COUNTY	
SINGLE FAMILY	14.7%
CONDOMINIUM (1)	22.6%
APARTMENTS	20.9%
TOTAL	18.8%
(1) TOWNHOMES, GARDEN, MID-RISE AND HIGH-RISE CONDOMINIUMS	
MARKETPOINTE REALTY ADVISORS 4.2011	

BORDER CROSSINGS SAN YSIDRO, OTAY MESA & TECATE 2000-2009





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