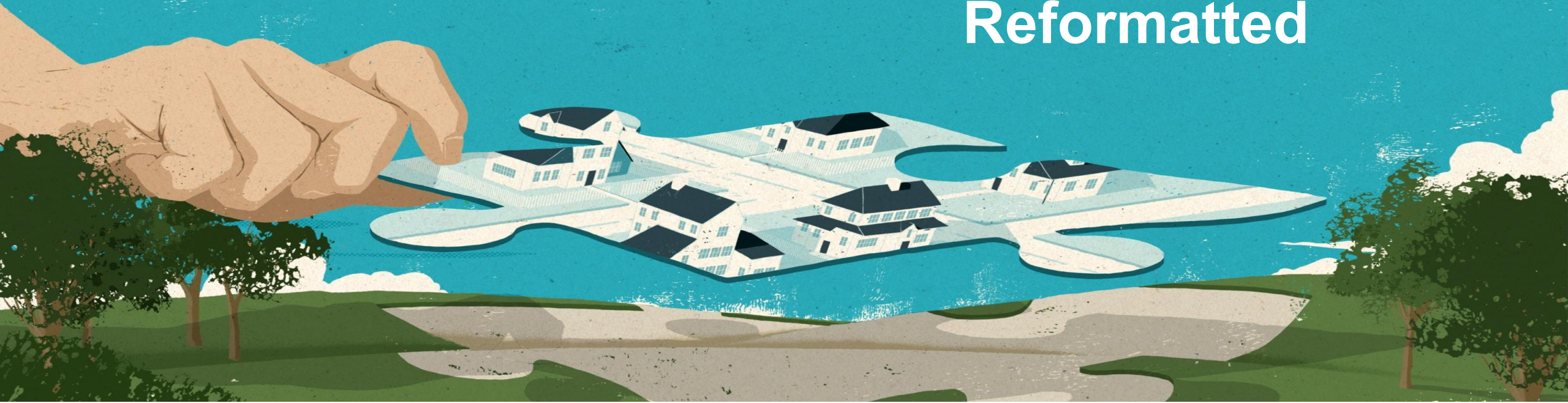


RCLCO

Master-Planned Community Reformatted



ULI/Orange County/Inland Empire

June 9, 2016

Gadi Kaufmann, Managing Director/CEO

Master-Planned Community Reformatted

Greg Bielli, Tejon Ranch Company

Paul Johnson, Rancho Mission Viejo

Randall Lewis, Lewis Operating Company

Gadi Kaufmann, RCLCO

Master Planning

EXPLORING INNOVATION



Chris Crawford, PLA

- Innovation takes time.
- Innovation involves failure.

MILLENNIAL WORKSHOPS





MPC should start with fresh lifestyle and design ideas, not land-area placeholders.

Today's MPC stakeholders want the design experience to permeate their community at all levels; homes, shopping, work, schools and open spaces.

An MPC that relies on market segmentation, lot sizes, parcel areas and density won't attract today's lifestyle-driven buyers, renters and end-users.

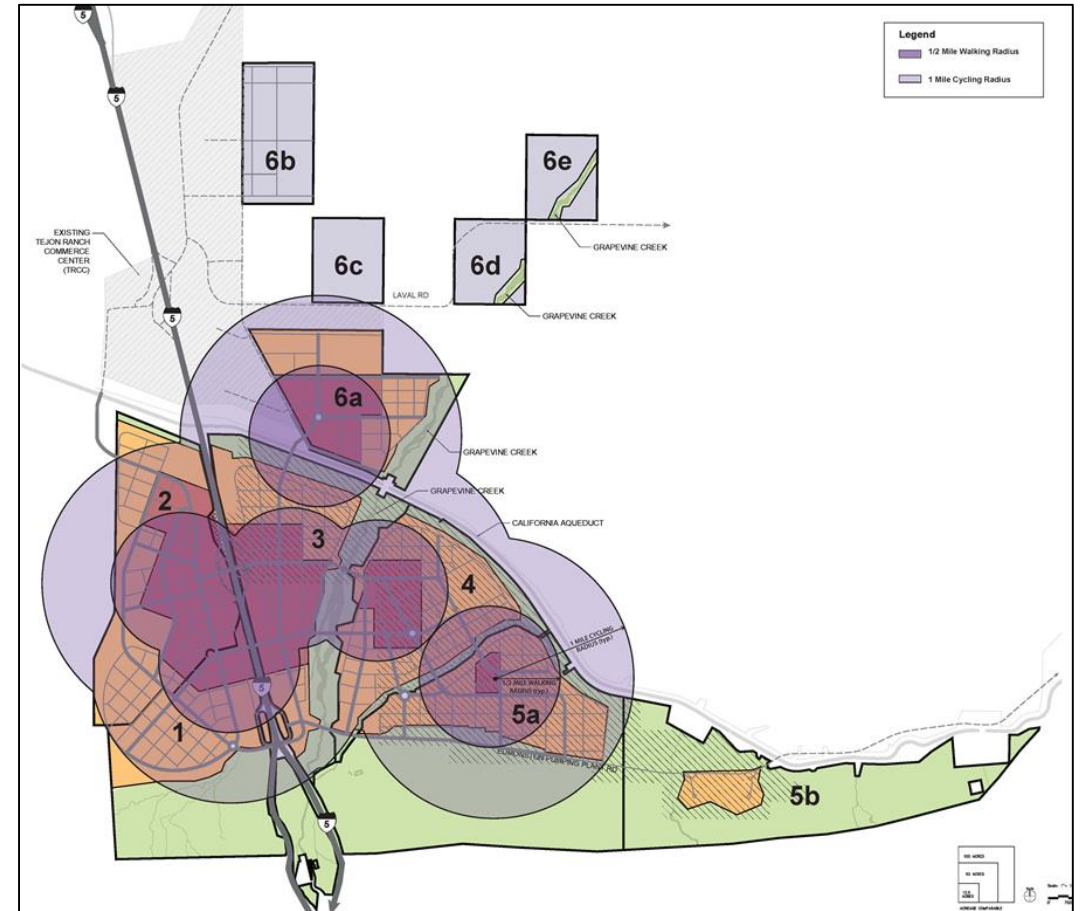
Your community planner must know the latest architectural concepts and how they function to create the most desirable community.

Some emerging "lifestyle and design" groups:

- Millennials, both young and old (Gen Y)
- Multigenerational Households
- Intergenerational Communities
- Transit Oriented Development (TOD)
- Mixed Use and Live Work
- Urban Homes: vertical lofts/towns/SFD
- Renters by choice
- Neighborhood Shopping experience
- Unstructured workplaces
- Nontraditional commuters

VILLAGE-BASED DESIGN

- Segmentation and Beyond With Scale
- Jobs Base
- Amenities: Either Within or Exterior
- What Makes You Different and A Feeling of Belonging to Your Customers?



New Products and Segmentation

RISING HOME PRICES

- Experiencing rapidly escalating home prices
- 25% of buyers from within community
- Entry-level buyers pushed out

BROAD COMMUNITY SEGMENTATION PLAN

- Product mix drives absorption
- Creates strong sense of community
- Accommodates diverse life stages

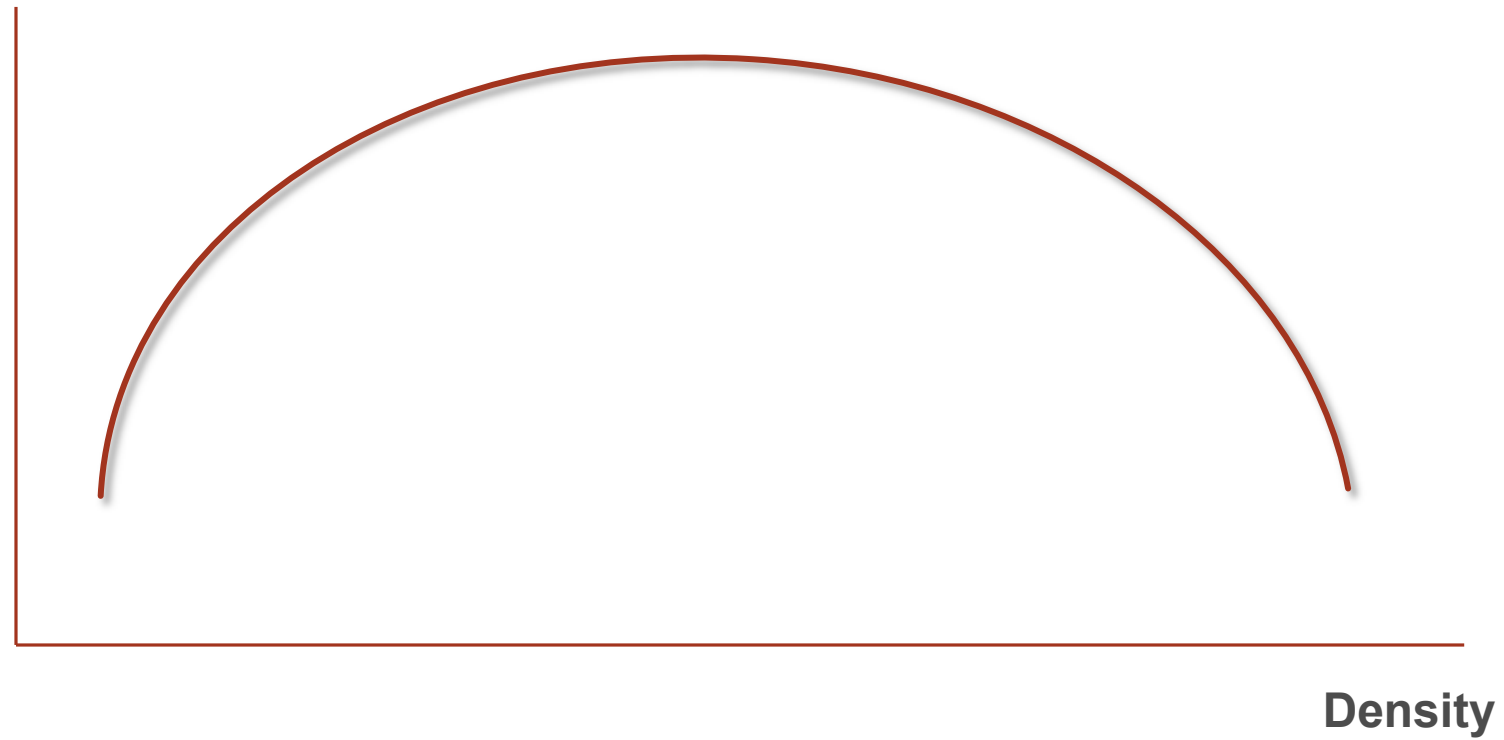
DRIVE LAND REVENUE HIGHER

- Introduction of new products
- Reaching new buyers
- Lot prices increase

STAPLETON™

DENSITY DRIVES HIGHER LAND VALUE – TO A POINT

\$/Acre



ALTERNATIVE HOUSING PRODUCTS IN MPCs

Imagination Homes by David Weekley Homes

- First Time Buyer Focused, Targeted to Younger Millennials and Gen Z
- Simpler Floor Plans with Fewer Flex Options and Designer Selections
- Standard Finishes with Higher Quality vs Starter Homes from Early 2000's

Central Living by David Weekley Homes

- High Density Detached and Attached Homes – Urban / Town Center Locals
- Densities up to 25 Units / Acre
- Targeted to Both Millennials and Empty Nesters

Encore by David Weekley Homes

- Age Restricted 55+ and Age Targeted
- Single level plans with Open Design Concept
- Clubhouse with Full-Time Lifestyle Director and Adult-Only Amenities

HIGH DENSITY SINGLE-FAMILY DETACHED 9-13 DU/AC

Site Plan



Home Sales

Type	Value of Developed Lots per Net Acre	Home Sales per Gross Acre
Two Story	\$585,104	\$2,269,800
Single Story	\$367,536	\$1,442,480



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CANIN ASSOCIATES



NEW PRODUCTS...



Expand the “Missing Middle Housing”

- 8 inch air gap – Fee simple SFD
- High density – SFD Clusters
- Tiny Homes – Modernize the mobile home

What’s Working?

- SFA - William Lyon, Aurora, 1,582 sf / \$351K
- HD-SFD, Warmington, Trellis, 1,717 sf / \$653K
- Duplex cluster 55+, Lyon, Vireo, 1,687 sf / \$633K

THE ACTIVE ADULT SEGMENT

- **Consumer Knowledge**
 - ProMatura and Lifestory
 - 55+ demand
 - Ageless living vision
 - Urban design
- **Product Testing**
 - ProMatura
 - New product – HD-SFD
 - One-car garage
 - Remote parking in SFD
- **Amenity Testing**
 - ProMatura
 - Amenity configurations
 - HOA limits
 - Pools
- **55+ Market Opportunity**
 - Ageless Living Approach
 - Intermix product
 - Gates and no gates
 - Exclusive amenities
 - Ageless amenities
 - Lifestyle – RanchLife
 - Subsidy amount
 - Alcohol license & operations



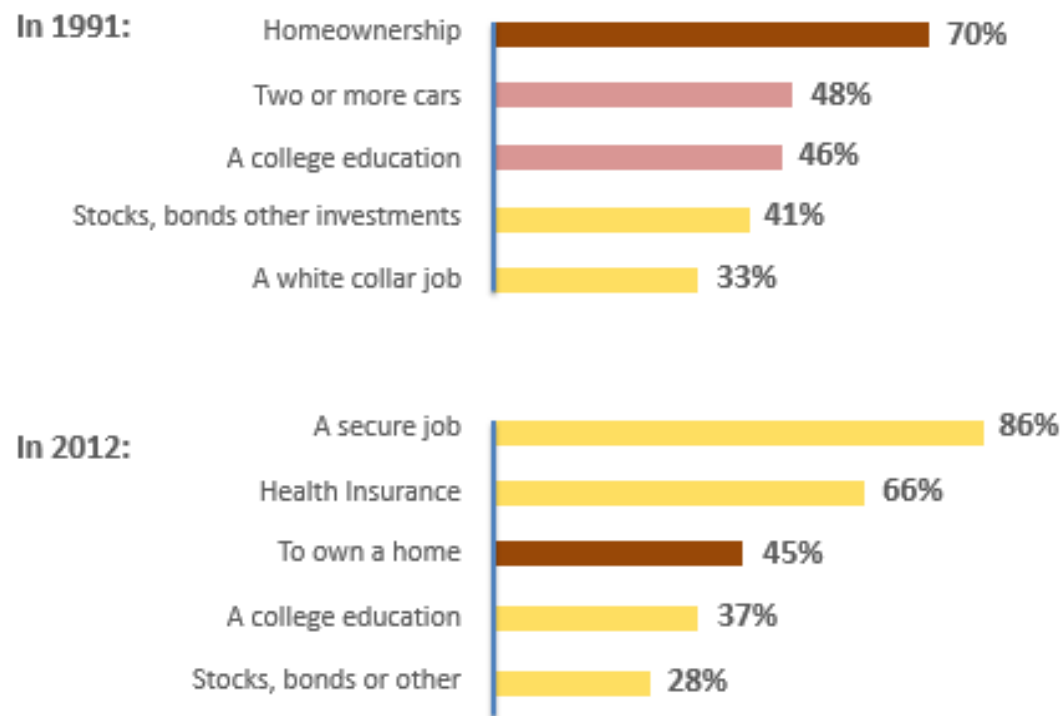
DEMOGRAPHICS

- **Millennials...an opportunity not to miss**
 - Research
 - Segmentation study
 - Community design – Esencia 2.3
 - Product design



The New Middle class

PERCENT SAYING AMERICANS TO BE
CONSIDERED PART OF THE MIDDLE CLASS



SOURCE: CENSUS; PEW RESEARCH CENTER

RENTAL PRODUCTS IN MPCs

- Balance the product segmentation
- 15% of total product mix
- 5% is affordable, 55+/MR
- Long term ownership – cash flow
- A part of master HOA – pay 3 to 1 rate
- Separate apartment complex amenities
- Location in community is important

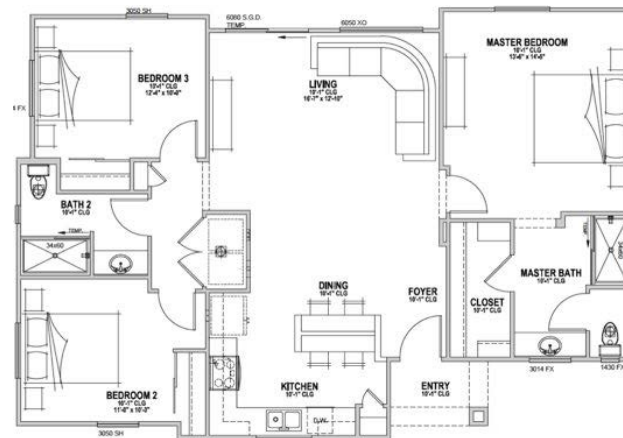


NEXmetro

Communities

<https://youtu.be/dUhYFRh0dhk>

Rental SFD Concept: "A Housing Option for A NEW FUTURE"



PURPOSE BUILT SFD FOR-RENT

Benefits to the MPC

- Architecturally consistent and similarly scaled
- Meets unmet demand
- Accords with demographic reality
- Drives traffic
- Adds smaller product, which is otherwise difficult to pencil out
- Provides future homebuyers for ownership product

Examples

- Vistancia, Peoria, AZ (Stratford Land) – 134 finished lots
- Verrado, Buckeye, AZ (DMB) – 122 finished lots

MPC Developer Issues

- Sub-Declarant
- Design Review
- Access to Amenities and Community Buy-In

PURPOSE BUILD TOWNHOMES FOR RENT

Santa Barbara at Rancho Cucamonga



First Floor



Second Floor



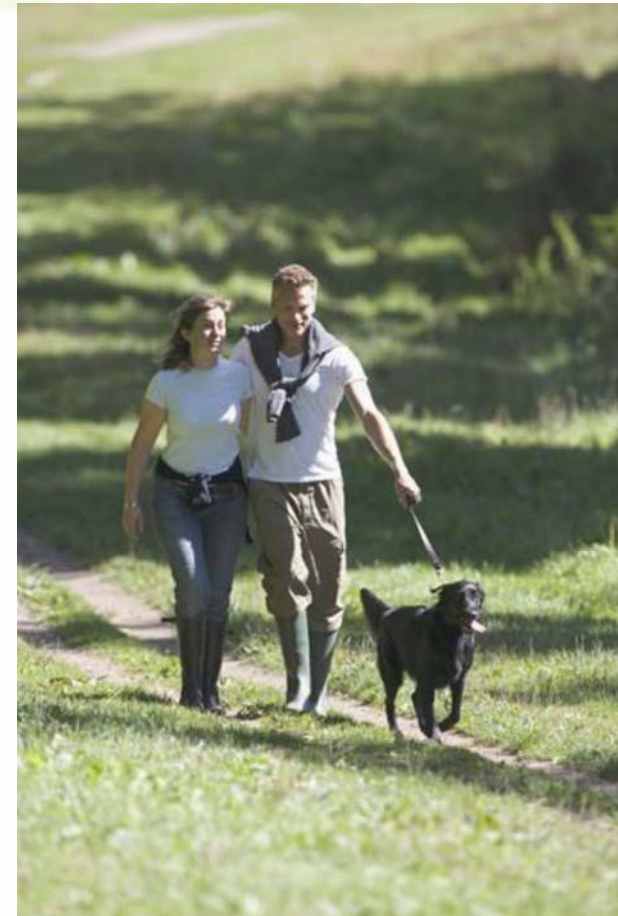
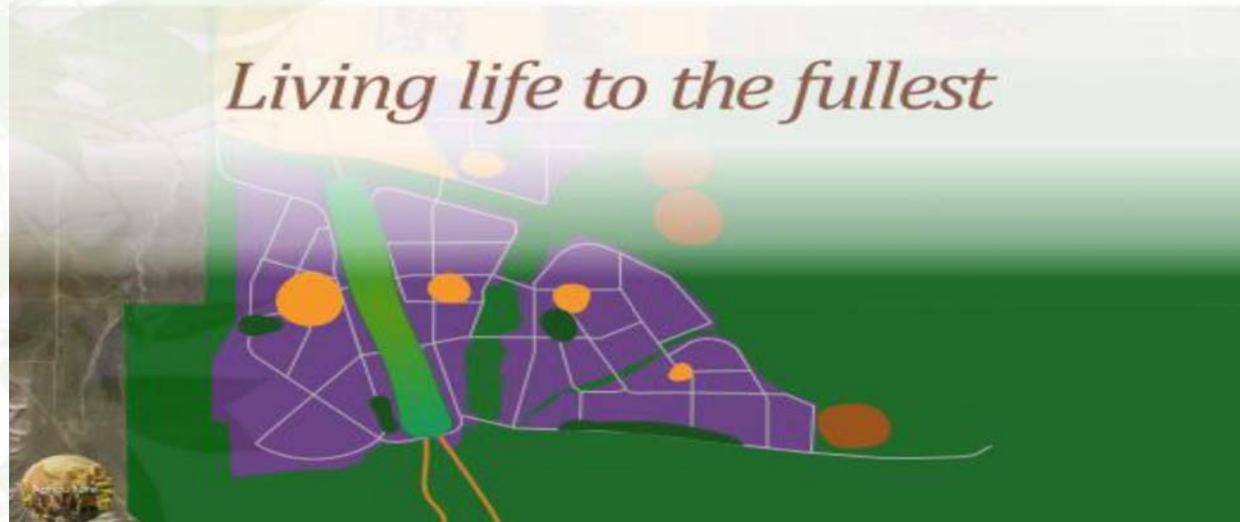
Third Floor

Reunion Plan
1987 Sq Ft
4 Bedrooms with 3 Baths
Current Rent \$2,830

Lifestyle – Live, Work, Learn, Play

LIFESTYLE

- Over-used Term – A Place Your Consumer Calls Home
- Unique and Timeless
- Amenities That Are Diverse as Possible



Randall Lewis, Lewis Management Corp.

AGRIHOOD: TERRA VISTA COMMUNITY GARDEN



AGRIHOOD™ - MAKING IT WORK

Lessons Learned

- Get the design right
- Hire a “Community Farmer/team”
 - \$ for contract - \$100,000/yr.
- # of homeowners involved
 - Up to 120 Farm Hands
 - \$100 per household twice yr.
 - Annual revenue up to \$24,000
- Farm Stand sales - \$6,000/yr.
- Events/classes
 - Local college interns (2x/yr. for 3 months)
 - Cost - 1.25 acres, \$2.6MM



Paul Johnson

LIFESTYLE...MAKING IT HAPPEN

Implementation



LIFESTYLE...MAKING IT HAPPEN

Amenities

- The Canyon House
- Canyon Coffee
- Esencia Farm
- The South Plunge
- The Outlook
- B.B.Q. Barn
- Sunrise Park
- Sunset Park

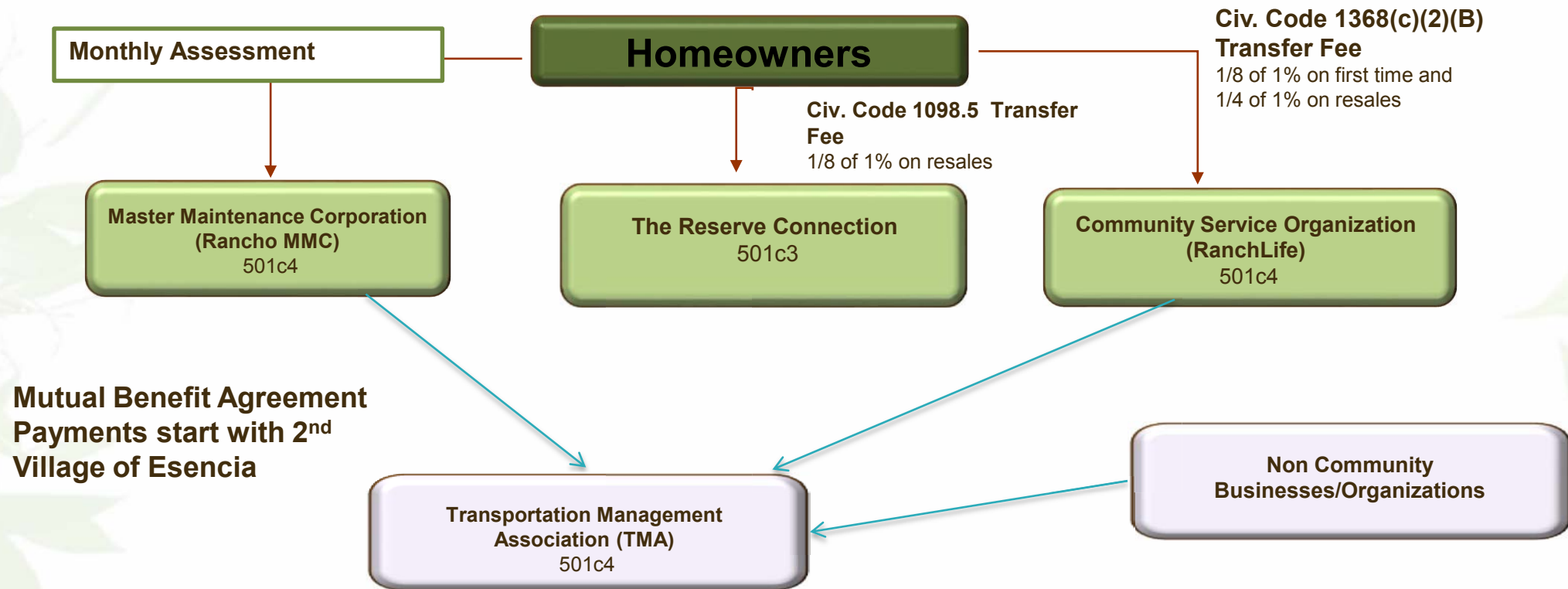


- Creekview
- The Campout
- The Getaway
- Hilltop Club
- Esencia Green
- The Pavilion
- South Paw Dog Park
- Sports Park (TBD)



LIFESTYLE...MAKING IT HAPPEN

Organization



MULTIFAMILY DEVELOPERS HAVE THE AMENITY GAME FIGURED OUT.

MPC developers should tour surrounding Class A multifamily before determining their amenity packages.

If not comparable, **don't do it.**



Randall Lewis, Lewis Management Corp.

HEALTH



HEALTHY COMMUNITIES...HOW?

- **Through physical improvements/design**
 - Community trails, walkability
 - Connecting the neighborhoods/elements
 - Open space and trails
 - Parks and amenities
 - Agrihood – “Farm to table”

- **Through a lifestyle focus**
 - Establish organizations
 - RanchLife
 - The Reserve



RETAIL STRATEGY IN A MPC

Greg

- Evaluate Existing Needs and Infrastructure Opportunities
- Greenfield Means Seed it Yourself (Building, Operational Subsidy, Scale, etc.)
- Housing Leads to Retail Later, So Recognize Value You Allow Others to Enjoy by Selling Off the Value You Created

Paul

- Delivering retail really is a matter of location and marketplace (Ladera Ranch vs Sendero)
- “Under Retail” to assure success
- Quality of tenants is key



Live, WORK, Learn, Play:
Bringing Jobs Early

Marketing the MPC

MASTER MARKETING IN A MPC...

- Focus is digital and social
- 1% of total sales price, paid @ closing
- Monthly marketing and sales meetings
- Yearly strategy
- Establish grand opening events



LESSONS FROM HOW RETAILERS DO MARKETING

- Knowledge of The Consumer Base – Not Just Demographics But Trends
- Information Exchange – Not Just Branding But Communications Timely
 - Traffic and Conversion to Sales Goals

BUILDER RELATIONS

Achieve Collaboration and Synergy...How?

Feedback – Builder Reports; A through D

- Areas; Project Management
 - Construction
 - Marketing
 - BRE (Bureau of Real Estate) Processing
 - Land Sales/Administration
- Topics; Attitude
 - Cooperation
 - Responsiveness
 - Schedule
 - Team Play

Personnel – Provide an “in-house” person to support agency approvals

- Monthly team meetings on project management, marketing, BRE and construction.

Assistance – Community developer oversight on public facility agencies and payment of all impact fees.



MAXIMIZE ABSORPTION ...HOW?

- Product Segmentation
- Benchmark delivery – be different
- Deliver to multiple consumers
 - 55+
 - Market rate
 - Age targeted
 - Intergenerational
 - Rentals
 - New product concepts



Provocative Tool:

Secret Shopper

- Our Projects – Sales Processes
- Competitor Projects – Sales Representations

Innovative New Tool:

Linking Web Access to Customer Intelligence

- Customer Sign Up
 - Sales Center
 - On-line
- Customer Accesses Web Site
 - Phone
 - Desktop/Laptop/Tablet
 - Subsequent Tracking of Devices and Access
- Customer Intelligence
 - Record of Web Access Times and Duration
 - Portions of Web Site Viewed
 - Daily Sales Reports on Web Access Data

Vapor Tool:

Location Tracking Software

- Customer with Opened Facebook App
- Project Beacon
- Prompts to Customer of Project Location and Project data

* Thanks for our partner, Elm Street Development, for information on these tools.

Future Proofing

- Entitlement rights – development agreement
- Secure water rights/quantity
- Traffic solutions
- Monitor legislation
- Monitor environmental groups



- Recognize It Is Not Getting Easier – Move As Quickly As Possible
- Record Maps, Pull Permits, Development Agreements – Overall Vest Rights
- Put In Future Infrastructure – Scale

MORGAN STANLEY PREDICTS UTOPIAN SOCIETY BY 2026

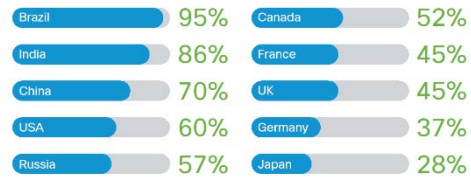
Consumers Desire More Automated Automobiles

Consumers Trust Driverless Cars



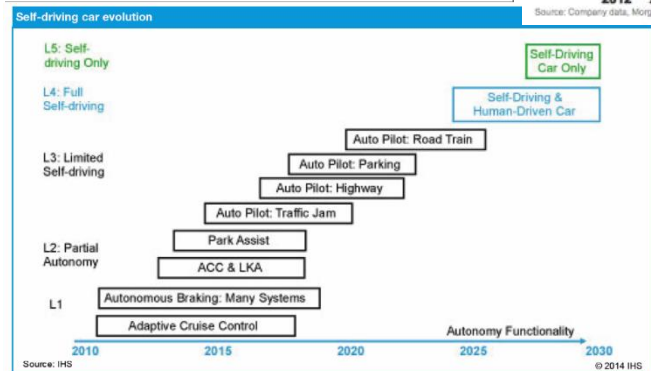
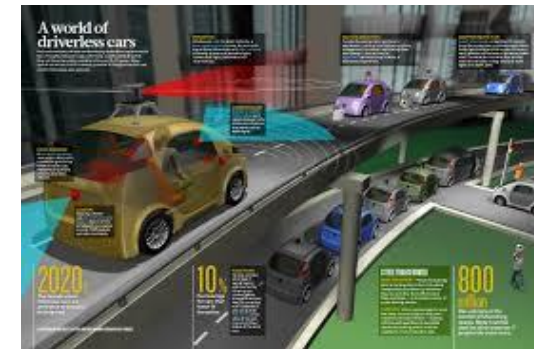
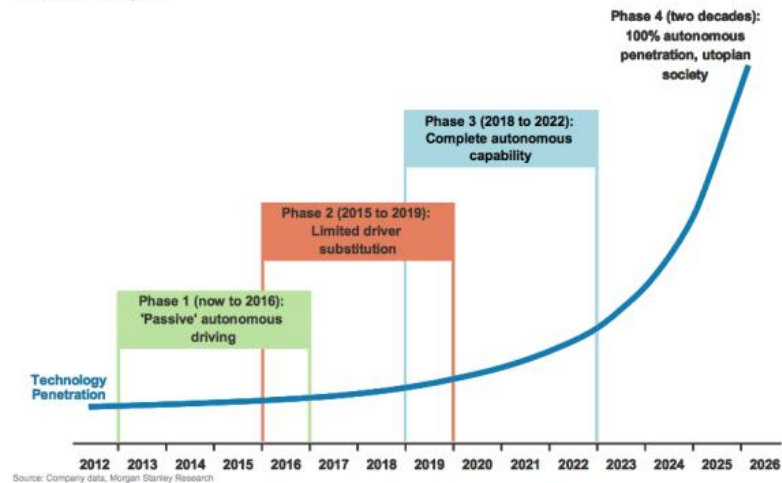
57%

of consumers, globally, trust driverless cars—even more so in emerging markets



Source: Cisco Customer Experience Report for Automobile Industry, May 2013 survey of 1,511 consumers in 10 countries.

Exhibit 20
Timeline for Adoption

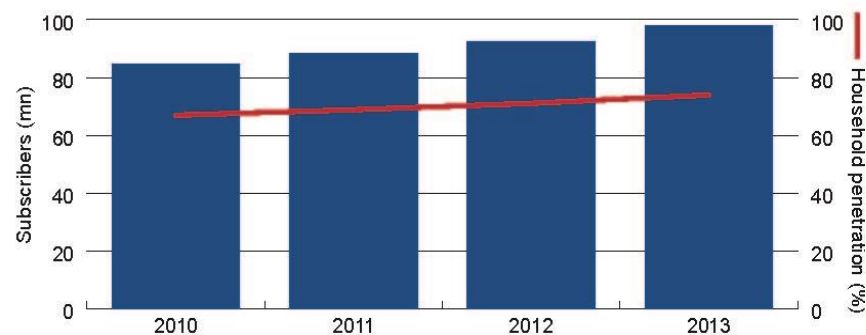


TECHNOLOGY

- Consumer's Interest
 - High speed
 - Secure
 - Reliable
- Developers Interest
 - Data Gathering
 - Knowledge of Consumer
 - Knowledge of How Project is Operating

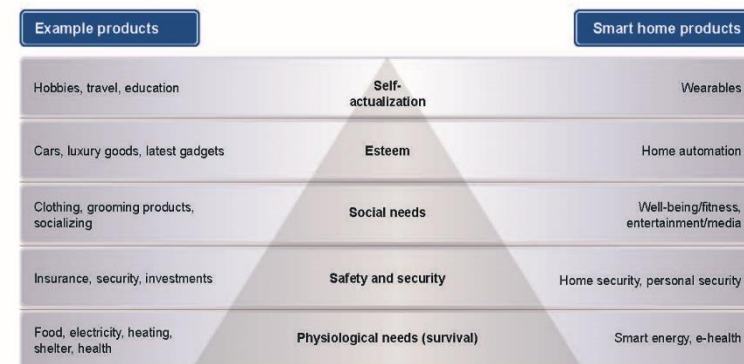


Figure 5: US fixed broadband subscriptions and penetration, 2010–13



Source: Ovum

Figure 2: Maslow's Hierarchy of Needs applied to the connected home



Sources: Maslow, Ovum

TECHNOLOGY

Greatest Areas of Impact...

Construction

- Grading based upon modeling and GPS vs staking
- Utility modeling to resolve conflicts
- Drone flights for dirt balance and construction progress
- All development working drawings and digital – iPad
- “Smart Sheet” communications

Marketing

- Virtual top table
- Social Media

Wireless masterplan

- Early delivery
- Control location/design
- Income flow



Competitive Strategies

COMPETITIVE STRATEGIES

Information Sharing

- Weekly sales and closings
- Long term buildout projections
- Track product direction



New Ideas, New Opportunities?

Where do you go and who do you follow to find inspiration and new ideas?

The coolest new idea you've seen or heard lately?

Paul Johnson

TINY HOMES



Melinda Masson, Scripsense

- Amenities:
 - Using rooftops as cool gathering places
 - Providing wine/spirits lockers
- Funding HOAs:
 - Finding creative means for associations to earn rebates



Kathy Cecilian, Cecilian Worldwide



RCLCO

Robert Heineman, The Woodlands Development Company

PUBLIC ART PROGRAM

The Woodlands, Houston TX



Rise of The Midgard Serpent



QUESTIONING THE NORMAL WAY

1. Raising Equity or Debt through Crowdfunding

For What?

- Retail Uses
- Community Amenities that Generate Income
- Apartments, including Affordable Housing

How Much?

- 100% to Only a Slice of the “Capital Stack”

How?

- Use Social Media to Design Program and “Test the Waters”
- Follow Later With Investment Offering

2. Planning Ahead for Driverless Cars

- Ownership, Leasing and Licensing of Parking Areas
- Entitlement and Infrastructure Design Benefits
- Master Association CC&Rs

INNOVATIVE TOOLS FOR COMMUNITY ENGAGEMENT DURING ENTITLEMENTS

How You Can Get Involved!



1. Visit Us At www.BradentonsFuture.com
2. Read What Others Have Said and Give Us Feedback
3. Like Us On Facebook & Follow Us On Twitter
4. Email Your Commissioner To Express Your Support

 LAKE FLORES  



The Future of MPCs in California

MPCs in California Becoming More Limited...Why?

- Location in suburban, greenfield areas
- Land supply
- Regulations
- Lengthy entitlement
- Cost of infrastructure/development

Entitlements...Elements of Change

Landscape

- Drought tolerant plant pallet
- Mandated reclaimed water use/amount
- Computerized managed irrigation systems
- Weather stations

Environmental

- The Reserve solution to sensitive habitat
- Mutual water company, riparian water rights

Traffic/Transit

- Operate a TMA – RanchRide
 - \$430,000 to operate
 - 6,000 of units to self sustain
 - \$6 per unit per month from HOA

ENTITLEMENTS FOR MPCs

- Complying with CEQA
 - Traffic, Biology, Water, Greenhouse Gas, etc.
- Water and Greenhouse
 - Moving Targets: Litigation, Changing Definitions, Yet to be Defined, etc.
- Affordable Housing
 - Burden Is Going To Be On New Projects



FEDERAL & STATE REGULATORY BACKGROUND

- Project Initiation:
 - Entitlement Climate:



- Now:
 - Entitlement Climate:



Anti-Greenfield Efforts Are Growing

- RTP/Sustainable Communities Strategies – AB 32/SB375
- USFWS/DFW
 - MESA Guidance
 - New Endangered Species Listings
- OPR – Vehicle Miles Traveled CEQA Policy Guidance
- Newhall Verdict

TOD and Infill Push

- Permit Expediting for Affordable, TOD Housing

CEQA Reform Getting No Traction

WHY SMART GROWTH AND MULTI-MODALITY

- **Auto-Focused Planning Results in Diminishing Returns**
 - Adding car capacity to keep up w/LOS uses more land, increases maintenance costs
 - Road maintenance budgets compete w/ economic development, parks, other services
 - Developers have tight capitalization requirements and limited financing sources – cost of construction of wider roads reduces funds available
 - Maintaining car-centered LOS no longer a reality as growth occurs
- **Multi-Modal Concept**
 - Provides additional capacity in a less expensive form
 - Creates additional benefits to health, community scale, and quality of life
 - Creates limited areas of congestion to make alternative modes of transportation more attractive

IMPACTS OF REGULATORY ENVIRONMENT:

- Significantly fewer units built than needed
- Significant portion of per unit costs due to regulation

California's housing crisis continues

This probably doesn't sound like news given the recent publicity about disputes over homelessness, rapidly rising rents, and gentrification — and the flurry of policy proposals for everything from rent control to fees on commercial construction and

property sales used to support affordable housing programs. Unfortunately, the conversation about housing is largely disconnected from the reality of the problem, its causes, and potential fixes.

Debate about the housing crisis typically revolves around low-income households, and understandably so. The rule of thumb is that people shouldn't spend more than 30 percent of their income on housing. Meeting such a standard is nearly impossible for most low-income families. More than 90 percent of California families earning less than \$35,000 per year spend more than 30 percent of their income on housing.

But this isn't new; that percentage has been stubbornly high for years. Nor is this an exclusively Californian problem — the comparable figure for the United States overall is 83 percent.

The crisis for families living at or close to the poverty line absolutely deserves attention. But what is also disturbing about current trends is that the crisis is now spreading to middle-income households, families earning between \$35,000 and \$75,000 per year.

In 2006, 38 percent of middle-class households in California used more than 30 percent of their income to cover rent. Today, that

figure is over 53 percent. The national figure, as a point of comparison, is 31 percent. It is even worse for those who have borrowed to buy a home — over two-thirds of middle-class households with a mortgage are cost-burdened in California — compared to 40 percent in the nation overall.

The social costs of this middle-class housing crisis are not sufficiently appreciated. These middle-income families have less money to spend on other goods and services — and that creates huge losses across the economy. It forces California employers to pay higher wages than elsewhere in the nation, raising costs for California consumers and diminishing the state's competitiveness. Some middle-class households choose to move out of California in search of more affordable housing, depriving the state of young, skilled workers who represent the backbone of the workforce — and the state's future.

What's driving this housing crisis? It's a classic problem of supply and demand. Put simply, the state doesn't build enough housing to accommodate its population growth. California is home to roughly 13 percent of the nation's population, and has slightly greater than average population growth.

Over the last 20 years the state has accounted for only 8 percent of all national building permits. This chronic lack of new residential construction has led to the higher costs associated with less inventory (low housing vacancy rates) and elevated levels of overcrowded housing. 8.2 percent of Californians live in overcrowded circumstances compared to 3.4 percent of all Americans).

To put the shortage in proper context, consider the amount of housing that would need to be built in order to move the state to national norms for housing stock, vacancy rates, and crowding: California would need to expand its stock by between 6 and 7.5 percent — that's between 800,000 and a million additional residential units. In Los Angeles County, where the situation is far more acute, the state would need to add 180,000 to 210,000 units, between 12 and 14 percent of the total.

These figures dwarf the meager efforts policymakers are proposing to fix the problem. The bill known as AB 35, recently vetoed by Gov. Brown, would have raised \$1.5 billion over 5 years — to build a mere 3,000 affordable housing units.

Another piece of legislation, AB 2, proposed a new form of tax-increment financing that would have partially replaced the redevelopment agencies the governor closed at the start of his current term. The redevelopment system only managed to build 10,000 affordable housing units in a decade — a tiny fraction of what was needed.

How do we build more? Given the scale of the problem, we need the market to do the work. But why haven't builders been able to keep up? One obstacle is the high cost of building and doing business generally in California.

The state has stiff regulations regarding construction quality, high labor costs (in part because construction workers also need to handle their own high housing costs), higher land costs, and fees and expenses charged to developers by local governments.

These higher costs are very real.

But taken together, they do not provide a complete explanation for the shortage of housing.

If you were to compare the same newly built house in California and Texas, the California house would typically sell for twice as much as the one in Texas. If you were to add up all the additional costs of building that house in California — land costs, permit fees, construction code — the number would not fully explain the gap in prices. The gap is much wider.

In other words: builders make a lot more profit building a house in California than they do in Texas.

Normally, this would suggest a surge in building in California, as opposed to the opposite, as capital is allocated to pursue higher returns. The trouble is, we're not talking about a free market in California, which limits competition in the construction business. The state has erected two giant barriers to entry: Proposition 13 and the California Environmental Quality Act, known as CEQA.

Proposition 13 limits the value of housing to local governments by keeping property taxes much lower than in other parts of the United States. This means that California's local governments — at least the ones that are fiscally wise — do not encourage residential investment, since it produces less in taxes. In fact, they often promote commercial investment that brings in other types of taxes instead. And they use their power to levee very high fees on those who develop, and create restrictive rules that add to the cost of the process.

The state's CEQA law imposes similar costs on growth. Yes, such environmental laws are well intentioned and desirable in theory — forcing developers to mitigate excessive disruptions they might create in the natural or urban environment.

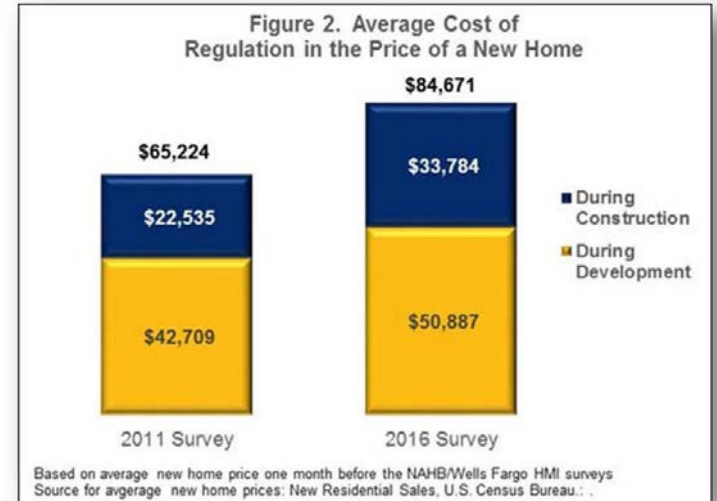
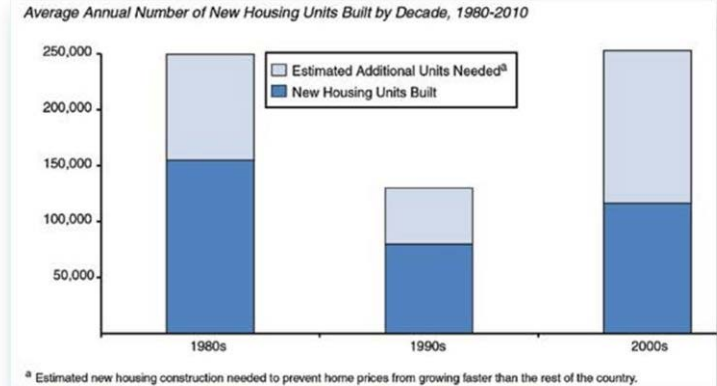
The problem is that "excessive" is being interpreted to mean "any" in the current application of the law. Developers are forced to pay for many costly mitigations.

Even worse, various interest groups and NIMBY-minded residents have essentially figured out how to hijack the system to block development and serve their own ends.

Is there any conversation about reforming CEQA in Sacramento? None. Any chance of reforming Proposition 13? Very little. The only discussion to date involves the so-called "split-roll" that would raise commercial rates while leaving Proposition 13's limits on residential property taxes untouched. This will only make the local government bias against residential real estate worse.

And so, California families continue to face a very real housing crisis. The state leaders, meanwhile, are not helping. It's the cruelest irony: we have a housing crisis, and California's leaders are not addressing it. They're merely professing to help with costly policy gimmicks that are no substitute for leaving the market to align supply with demand.

Christopher Thornberg is the founding partner of Beacon Economics LLC and the director of the UC Riverside School of Business Administration Center for Economic Forecasting and Development. Thornberg previously worked on the UCLA Anderson Forecast and received his doctorate from UCLA.



DEALING WITH THE ENVIRONMENTAL COMMUNITY

- Conservation Agreements: Before Project is Filed
- 1 to 4 Ratio
- Help the Decision Makers With the Story

RCLCO

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June 9, 2016

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