

May 13, 2013

Valentine S. Hoy, Esq.  
Allen Matkins Leck Gamble Mallory & Natsis  
501 West Broadway, 15<sup>th</sup> Floor  
San Diego, CA 92101

Re: CP III Centrepoint, LLC v. City of San Diego, et al.

Dear Mr. Hoy:

At your request, I have prepared a preliminary analysis of the damages sustained by CP III Centrepoint, LLC ("Centrepoint") as a result of the Administrative Hold placed on the construction of the Centrepoint project by the City of San Diego ("the City").

As we have discussed, I am a forensic accountant, and the majority of my practice over the past twenty years involves evaluating damages in matters similar to this. I have attached my curriculum vitae, which provides additional information about my background and experience.

In preparing my analysis I have spoken with representatives of Centrepoint, and Carmel Partners. I have also reviewed various financial records and documents related to the Centrepoint project. To the extent that I am provided with additional information, it may impact my conclusions, and, if appropriate, I will supplement this analysis accordingly.

**Executive Summary:**

Based on my analysis to date I have determined that Centrepoint's damages related to the Administrative Hold placed on the Project result from increased construction, administrative and financing costs as well as reduced earnings related to the Project's rental operations. Further, the magnitude of these damages are dependent upon the date on which Centrepoint is allowed to continue construction, if at all. Accordingly, I have prepared damage analyses under the following scenarios and with the following findings:

- *Economic damages if Administrative Hold is lifted as of the date of this correspondence: **\$4,540,000.***
- *Estimated minimum damages associated with each additional day the Administrative Hold is not lifted during the next approximate two months: **\$56,000 per day.***
- *Estimated damages if Administrative Hold is lifted two months from today: **\$11,905,000.***
- *Estimated damages if Administrative Hold is lifted ten months from today: **\$25,345,000.***
- *Estimated damages if Administrative Hold is lifted more than ten months from today: **In excess of \$30,000,000.***



**Background:**

Based on the information I have been provided to date, I understand that Centrepoint is the owner of real property located, generally, at the intersection of 63<sup>rd</sup> Street and El Cajon Blvd in the City of San Diego. Centrepoint has applied for, and obtained, permits for construction of a mixed-use project on the property which will consist of 332 residential apartment units and approximately 10,000 square feet of commercial space in four buildings, and a parking structure (collectively referred to as the "Project").

By the date of its completion, it has been estimated that the Project's costs would be in excess of \$100 million – approximately \$14.8 million of land costs plus estimated construction costs of over \$88 million.

Once completed the project was expected to generate annual rental revenues totaling over \$12.5 million from apartments (approximately \$12.2 million) and retail (approximately \$300,000).

The Project's construction was scheduled to begin December 2012, and it was scheduled to be completed at the end of April of 2014, with move-ins commencing at the end of May of 2014. This completion date was significant in that it allowed for apartment tours and leasing, followed by move-in, during the prime summer leasing period for all potential tenants, and prior to the start of the Fall 2014 semester for San Diego State students, which is expected to be in mid-August of 2014.

Construction on the Project began with demolition of previously existing structures on the property upon issuance of a demolition permit by the City on or about December 20, 2012, consistent with the scheduled start date. On March 22, 2013 the Administrative Hold was issued by the City of San Diego. Through that date hard and soft construction costs of \$14,440,000 had been incurred. Given land cost of \$14 million to date, \$28,440,000 had been invested in the Project when inspections were halted.

**Impact of Administrative Hold:**

As a result of the Administrative Hold, the Project's construction and completion date have been delayed. The magnitude of that delay is dependent upon when and if construction is allowed to recommence.

Regardless of the Project's ability to continue construction, the Administrative Hold has and will cause increased construction, administrative and financing costs as well as reduced earnings related to the Project's rental operations<sup>1</sup>.

To provide an indication of how the construction delay to date, and a continued delay to the extent there is one, will impact the amount of damages, I have estimated the damages based on the delay to date and have also provided an indication of damages if construction were allowed to continue at later alternative dates.

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<sup>1</sup> For purposes of this analysis I have not included legal fees which have been incurred by Centrepoint to date, which I understand are in excess of \$250,000.

**Economic damages if Administrative Hold was lifted immediately:**

I understand that if the City was to lift the Administrative Hold today (May 13, 2013), construction could recommence, after a three week mobilization period, by June 3, 2013 and the expected move-in ready date, assuming no additional delays would be mid-July of 2014 - a delay of approximately 72 days from the original date.

Based on information provided by Centrepoint, the costs to develop the Project have already been increased by \$2,277,000. Attached is a Schedule 1 summarizing these specific increases.

In addition to those increased costs, the Project has lost rental income that it would have otherwise received if no Administrative Hold had been issued on the Project. Centrepoint believes that the current delay will impact their rental operations in two respects. First, approximately two months of rent which could have been obtained had the Project been completed on time. Secondly, given that they will now be delayed in their ability to allow prospective tenants an opportunity to tour their apartments during important summer months they will experience a decreased occupancy rate during their first year of operations. Centrepoint believes that they will experience a 10% reduction in occupancy during their first year in operations as a result of this delay. With these expectations the Project's lost earnings will be \$1,845,000, accounting for lost rents, reduced by avoided costs. Schedule 2 provides a summary of the comparative occupancy rates and incremental rental income<sup>2</sup> during the project's first year of operations.

Including the increased financing charges of approximately \$418,000 that will accrue on these costs, I have estimated the damages to the Project if the City lifted the Administrative Hold immediately, to be approximately \$4,540,000.

**Impact on Project and damages if Administrative Hold is not lifted today:**

Centrepoint has indicated that any further delays in construction will cause ongoing losses similar to those described above. However, in addition to those damages the company also believes that any further delay will result in a significant risk that subcontractors which had originally been scheduled to work on the Project will find it necessary to schedule alternative work. Losing these subcontractors will require Centrepoint to re-bid those contracts. They believe pricing on a number of the subcontracts currently in place could not be obtained in the current market and in the current circumstances for the Project. At this time it is difficult to quantify the impact of this issue and those amounts have not been included here. However, Centrepoint representatives believe this to be another significant component of damages, and I will re-evaluate this issue once I receive additional information.

**Daily damages if Administrative Hold is lifted within two months of current date:**

If Centrepoint is not allowed to begin construction immediately Centrepoint representatives have indicated that there may be a short period of additional delay during which it is possible

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<sup>2</sup> Incremental rental income has been determined by reducing the gross expected rental rates by estimated avoided costs.

that no further decrease in occupancy percentages would occur<sup>3</sup>. They have identified that time period as two additional months of delay. During those two additional months of delay, in addition to the damages identified above Centrepoint will be damaged on a daily basis by: \$32,400 per day of rental income; increases in construction costs of approximately \$18,700 per day (excluding the impact of increased construction cost associated with the potential need to re-bid certain subcontracts as discussed above); \$4,100 per day in increased general conditions; and, \$800 per day of overhead costs. Accordingly, Centrepoint's minimum daily damages during this period of delay will be approximately \$56,000 per day, which is approximately \$392,000 per week and \$1,703,000 per month (excluding the subcontractor re-bid issue discussed above).

**Estimated damages if Administrative Hold is lifted after two months, but prior to ten months from the current date:**

If, however, the Administrative Hold is not lifted by the middle of July, further impact to construction costs and occupancy rates will occur beyond the daily increases noted above. This additional impact will occur as a result of more potential tenants having found alternative housing.

If construction could recommence by August 1, 2013 and if the expected completion date assuming no additional delays would be in September 2014, Centrepoint has indicated that the costs to develop the project will have increased by a total of \$3,715,000, excluding the potential need to rebid some subcontracts related to the additional delay. See attached Schedule 1.

If completion of construction is delayed at this level, Centrepoint will not have any units available during the important August month and will not have the ability to provide tours of the facility prior to that time. The impact on the Project's occupancy rates will be significantly in excess of those associated with a shorter delay. Accordingly the loss of rental income will significantly exceed that associated with shorter delays. With these expectations the Project's lost earnings will be \$7,281,000, accounting for lost rents and reduced by avoided costs. Schedule 3 provides a summary of the comparative occupancy rates and rental income during the Project's first year of operations under this scenario.

Including the increased financing charges of \$909,000 that will accrue on these costs, I have estimated the damages to the Project if the move in date was approximately September 1, 2014 to be approximately \$11,905,000.

Since the next significant impact to the rental occupancy will not occur until the tenants who would be interested in moving in during the Fall of 2015 are affected, each additional day of delay in construction recommencement beyond two months, but less than ten months would be estimated by the daily lost rent and the daily increased holding and construction costs. Accordingly, during this time period damages would be increased on a daily basis by a minimum of \$56,000, as discussed above, or approximately \$392,000 per week and \$1,703,000 per month (excluding the subcontractor re-bid issue discussed above).

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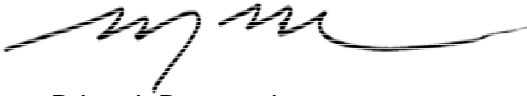
<sup>3</sup> This analysis assumes no additional decreases in relative occupancy rates, however, it is likely that the longer the delay the more likely occupancy rates would be further impacted.

Accordingly, if construction is delayed by ten months from the current date the total estimated damages would be \$25,345,000 (\$11,905,000 plus \$56,000 x 240 additional days).

**Damages if the delay is in excess of ten months from present date:**

Although further analysis is being performed related to options available to Centrepoint, if the delay is in excess of ten months, it is likely that to mitigate its damages Centrepoint would liquidate its investment. At that point, the company's investment in the Project, excluding the land, would be well in excess of \$30,000,000 once current costs and holding costs over the next ten months are considered. Assuming that the company could find a buyer for the land at the same price at which it was purchased the economic damages would be represented by that \$30,000,000 investment plus the expected increase in the Project value if the project had been completed. At this time, we have not quantified the value of that expected increase, however, based on current market conditions and the expected operating earnings of the Project upon its completion I expect that component of damages in the multiple millions of additional dollars.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brian J. Bergmark', with a long horizontal flourish extending to the right.

Brian J. Bergmark

Attachments

**Brian J. Bergmark, MBA, CPA, ABV, ASA**  
 Managing Director

Brian J. Bergmark, MBA, CPA, ABV, ASA, is a Managing Director of Torrey Partners and offers his clients over 20 years experience providing damage analysis, business valuation, business consulting, and accounting services to clients involved in dispute resolution, business management and tax matters.

Mr. Bergmark’s industry experience includes construction, telecommunication, healthcare, computer hardware and software, real estate, manufacturing, and professional businesses, among others. His appraisal experience includes the valuation and apportionment of tangible and intangible assets, analyses prepared for estate and gift tax purposes, marital dissolution, ownership transfers, eminent domain and various consulting matters.

Mr. Bergmark has extensive experience providing business analysis and qualified testimony on complex business, wage loss, wage and hour, economic, valuation, and marital dissolution matters in Federal and State Superior Courts. The scope of his involvement in litigation matters includes discovery assistance, causation analysis, damage quantification and forensic accounting / fraud investigations.

**PROFESSIONAL EXPERIENCE**

2011 to present	<b>Torrey Partners</b>	Managing Director
2006 to 2011	<b>LECG</b>	Director
1992 to 2006	<b>Mack   Barclay Inc.</b>	Shareholder
1989 to 1992	<b>Brodshatzer, Wallace, Spoon &amp; Yip</b>	Senior Manager
1988 to 1989	<b>Engicon</b>	Controller
1986 to 1988	<b>Steres, Alpert &amp; Carne</b>	Senior Accountant
1984 to 1986	<b>Ernst &amp; Whinney</b>	Auditor

**EDUCATION**

**Master of Business Administration**, San Diego State University, 1992  
 Emphasis in Finance.

**Bachelor of Science in Economics – Systems Science**, University of California, Los Angeles, 1984



## **CERTIFICATIONS AND LICENSES**

Certified Public Accountant, California  
Accredited in Business Valuation  
Accredited Senior Appraiser  
Certified in Financial Forensics  
Certified Management Accountant (Inactive)

## **MEMBERSHIPS IN PROFESSIONAL ORGANIZATIONS**

American Institute of Certified Public Accountants  
California State Society of Certified Public Accountants  
American Society of Appraisers

## **TEACHING**

University of California, San Diego Department of Extended Studies – instructor  
San Diego State University School of Business - guest lecturer  
University of San Diego School of Law - guest lecturer  
Various law firms and seminars - MCLE instructor

F & C International: A Case Study of an I.P.O. Valuation –  
Co-authored - Journal of Financial Education - Spring, 1997

**CP III Centrepont, LLC v. City of San Diego, et al.**  
**Analysis of Increased Costs due to Delay**  
**Centrepont Delay / Cost Impact Summary**

Hard Costs		Contracts Issued	Current Budget	Estimated Impact of Delay	Comments
<b>Division 1</b>					
1-10020	Temp Roads	General Conditions	\$ 30,500	\$ -	
1-10070	Surveying (Sub)	PDC	148,235	-	
1-10080	Final Cleanup (Sub)	General Conditions	151,025	-	
1-10090	Maint. & Management Cart	General Conditions	11,545	-	
1-10100	Superintendent	General Conditions	1,198,175	252,247	Additional Cost Dependent on Duration of Delay
1-10650	General Labor	General Conditions	192,495	40,525	Additional Cost Dependent on Duration of Delay
1-10660	Security guard	General Conditions	123,000	25,895	Additional Cost Dependent on Duration of Delay
1-35510	Weather Protection	General Conditions	30,720	6,467	Additional Cost Dependent on Duration of Delay
1-51101	Temp Electricity	General Conditions	202,460	42,623	Additional Cost Dependent on Duration of Delay
1-51103	Temp Water	General Conditions	13,675	2,879	Additional Cost Dependent on Duration of Delay
1-51104	Temp Toilet	General Conditions	66,400	13,979	Additional Cost Dependent on Duration of Delay
1-51105	Temp Heat	General Conditions	26,735	5,628	Additional Cost Dependent on Duration of Delay
1-51107	Temp Phone	General Conditions	23,105	4,864	Additional Cost Dependent on Duration of Delay
1-52120	Temp Fence (Own)	General Conditions	22,069	4,646	Additional Cost Dependent on Duration of Delay
1-59020	Office Supplies	General Conditions	17,600	3,705	Additional Cost Dependent on Duration of Delay
1-59030	Job Photographs	Lenska	7,500	1,579	Additional Cost Dependent on Duration of Delay
1-59040	As Built Plans / Reproductions	General Conditions	57,776	-	
1-59101	Office Trailer	Modular Concepts	25,400	5,347	Additional Cost Dependent on Duration of Delay
1-59102	Office Furnishings	General Conditions	21,000	-	
1-59109	Delivery Services	General Conditions	10,875	2,289	Additional Cost Dependent on Duration of Delay
1-59110	Job Sign	General Conditions	9,500	-	
1-59210	Traffic Control	General Conditions	24,000	-	
1-59240	Safety Meetings	Safety Centers	43,150	-	Additional Cost Dependent on Duration of Delay
1-65110	3rd Party Inspections	Quality Built	286,505	-	Additional Cost Dependent on Duration of Delay
1-70320	Equipment Rental	General Conditions	40,000	-	
1-70520	Rent Dumpster	General Conditions	132,800	-	
1-70540	Cut and Patch	General Conditions	24,900	-	
1-70550	Street Cleaning	General Conditions	21,780	-	
1-72510	Punch List	General Conditions	116,928	-	
1-73010	Tools & Equipment	General Conditions	12,700	-	
1-73012	Temporary Lighting	General Conditions	43,160	-	
1-74110	Travel & Entertainment	General Conditions	20,500	-	
1-80130	Builders Risk Insurance	General Conditions	299,174	62,984	Additional Cost Dependent on Duration of Delay
1-80135	OCIP Insurance	General Conditions	672,062	30,000	Additional Cost Dependent on Duration of Delay
<b>Division 2</b>					
2-02010	Soils Testing	GeoCon	65,560	10,000	Estimated cost to Reconfirm Soils & Foundation Conditions / Additional Cost Dependent on Duration of Delay
2-02050	Demolition	Naton Engineering	322,745	-	Work Completed
2-02080	Abatement	Naton Engineering	52,206	-	Work Completed
2-02220	Mass Excavation	Naton Engineering	411,255	-	Work Completed
2-02270	Erosion Control	Summit	72,793	1,092	Estimate 3% increase for materials & labor escalation
2-02350	Joint Trench	TBD	488,908	7,334	Estimate 3% increase for materials & labor escalation
2-02380	Finish Grading	TBD	64,203	963	Estimate 3% Material & Labor Escalation. Additionally, potential cost to Rectify pads dependent of extent of Delay TBD.
2-02470	Site Signage	TBD	2,325	116	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
2-02510	Asphalt Paving	TBD	68,000	1,700	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
2-02520	Sidewalks	TBD	190,949	4,774	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
2-02660	Domestic Water	JonDel Construction	357,958	42,727	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
2-02669	Fire Line	JonDel Construction	99,574	-	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
2-02710	Footing Drains	TBD	115,471	2,887	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
2-02720	Storm Sewer	JonDel Construction	199,394	-	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
2-02730	Sanitary Sewer	JonDel Construction	87,365	-	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
2-02910	Landscape & Irrigation	TBD	2,550,241	89,258	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
2-02999	Misc. Sitework	TBD	100,000	2,500	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation



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	Hard Costs	Contracts Issued	Current Budget	Estimated Impact of Delay	Comments
<b><u>Division 3</u></b>					
3-01640	Crane / Manhoist	TBD	151,079	3,777	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
3-03300	Foundation Midrise	Bomel Contractors	8,769,616	91,944	Potential cost of Remediation of existing work Dependent on Duration of Delay as well as potential 5% Material / Labor Escalation
3-03306	Foundation Garden	EtiVista Concrete	1,940,000	69,966	Remediation of Existing Work required as well as Concrete & Steel Increases incurred due to current delay. Additional Costs Dependent on Duration of Delay and potential 5%Material / Labor Escalation
3-03510	Gypsum Underlayment	TBD	584,235	14,606	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
3-07100	Foundations Waterproofing	TBD	48,300	1,208	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
<b><u>Division 4</u></b>					
4-04150	Masonry Accessories	TBD	102,785	2,570	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
4-04210	Brick	TBD	83,403	2,085	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
4-04220	CMU	EtiVista Concrete	185,000	-	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
<b><u>Division 5</u></b>					
5-05100	Structural Steel Framing	TBD	96,000	3,360	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
5-05500	Misc. Metals	TBD	283,531	9,924	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
5-05520	Railing	TBD	42,432	1,485	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
5-05521	Balcony Railing	TBD	291,931	10,218	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
5-05522	Pool Railing	TBD	78,190	2,737	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
5-05523	Site Fencing	TBD	139,710	4,890	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
5-05700	Ornamental Metals	TBD	112,735	3,946	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
<b><u>Division 6</u></b>					
6-06100	Rough Framing	RJR Construction	6,419,495	205,243	Estimated Storage Fees & Extended OH due to Delay / Potential of extended storage fees and / or 15% lumber & Trusses Materials increase plus labor increase Dependent on Duration of Delay
6-06200	Finish Carpentry	TBD	284,714	9,965	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
6-06410	Cabinets	TBD	710,858	24,880	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
6-06640	Countertops	TBD	681,190	23,842	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
<b><u>Division 7</u></b>					
7-07100	Waterproofing	TBD	277,610	13,881	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
7-07210	Insulation	TBD	322,420	16,121	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
7-07270	Fire Stopping	TBD	102,920	5,146	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
7-07460	Siding	RJR Construction	509,688	-	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation

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7-07500	Roofing	TBD	728,233	36,412	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
7-07600	Flashing / Sheet Metal	TBD	517,601	25,880	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
7-07720	Roof Specialties	TBD	110,630	5,532	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
<b>Division 8</b>					
8-08110	Common Area Doors & Frames	TBD	276,130	9,665	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08210	Interior Doors & Frames	TBD	646,986	22,645	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08360	Garage Doors	TBD	54,670	1,913	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08400	Storefront	TBD	260,800	9,128	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08600	Windows	TBD	815,432	28,540	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08710	Door Hardware	TBD	662,273	23,180	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08800	Glazing	TBD	11,250	394	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
8-08810	Mirrors	TBD	91,200	3,192	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
<b>Division 9</b>					
9-09200	Stucco	TBD	1,411,600	35,290	Estimate 5% increase for materials & labor escalation
9-09250	Drywall	TBD	3,217,860	193,072	Estimate 12% increase for materials & labor escalation
9-09650	Resilient Flooring	TBD	447,142	15,650	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
9-09680	Carpeting	TBD	628,482	21,997	Dependent on Duration of Delay - Current Estimate of 7% increase for materials & labor escalation
9-09900	Painting	TBD	1,079,736	16,196	Estimate 5% increase for materials & labor escalation
<b>Division 10</b>					
10-10430	Entry Monument Signage	TBD	7,000	350	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
10-10440	Building Signage	TBD	106,942	5,347	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation
10-10522	Fire Extinguishers	TBD	70,145	1,052	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
10-10536	Awnings	TBD	28,080	421	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
10-10552	Mailboxes / Directories	TBD	36,447	547	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
10-10685	Wood / Wire Shelving	TBD	90,976	1,365	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
10-10800	Toilet / Bath Accessories	TBD	109,919	1,649	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
<b>Division 11</b>					
11-11170	Trash Compactor / Dumpster	TBD	112,397	2,810	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
11-11450	Kitchen Appliances	TBD	1,147,724	28,693	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
11-11480	Bike Racks	TBD	83,825	4,191	Dependent on Duration of Delay - Current Estimate of 10% increase for materials & labor escalation

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<b>Division 12</b>					
12-00000	Clubhouse Finishes / FF&E	TBD	1,149,859	28,746	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
12-12500	Window Treatments	TBD	149,000	2,235	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
<b>Division 13</b>					
13-00010	Pools & Spas	TBD	307,150	7,679	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
<b>Division 14</b>					
14-14240	Hydraulic Elevators	TBD	572,428	22,470	Cost increase incurred due to escalation Notice of Low bidder / Additional cost is Dependent on duration of Delay and potential 5% Material / Labor Escalation
14-14560	Trash Chutes	TBD	84,232	2,106	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
<b>Division 15</b>					
15-15300	Fire Sprinklers	Innovative Fire Protection	938,698	14,080	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
15-15400	Plumbing	Hale & Sons Plumbing	6,805,231	119,200	Extended OH and Material increase due to Delay / Additional Cost Dependent on Duration of Delay and Potential 7% Material / Labor Escalation
15-15500	HVAC Systems	TBD	1,888,427	47,211	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
15-15890	Ventilation	TBD	78,100	1,953	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
15-15895	Suite Venting	TBD	246,520	6,163	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
<b>Division 16</b>					
16-16100	Electrical	Seal Electric	2,588,066	67,000	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
16-16500	Light Fixtures	TBD	749,504	56,213	Dependent on Duration of Delay - Current Estimate of 15% increase for materials & labor escalation
16-16720	Fire Alarms	City Wide Electronics	461,497	-	Dependent on Duration of Delay - Current Estimate of 3% increase for materials & labor escalation
16-16725	Access Garage	TBD	273,997	6,850	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
16-16740	Low Voltage	TBD	363,096	9,077	Dependent on Duration of Delay - Current Estimate of 5% increase for materials & labor escalation
<b>Total Impact Costs</b>				<b>\$ 2,076,892</b>	
<b>Other items:</b>					
Carmel Partners administrative costs				\$ 50,000	
Park improvement				150,000	
<b>Increased costs if Administrative Hold were removed on May 13, 2013</b>				<b>\$ 2,276,892</b>	
Additional costs associated with an additional two month delay					
Further increase in Construction Costs*				\$ 1,138,000	
Further increase in General Conditions				250,000	
Further increase in Administrative Costs				50,000	
<b>Increased costs assuming Administrative Hold is not lifted for an additional two months</b>				<b>\$ 3,714,892</b>	

**Notes:**

Per Carmel Partners, monthly administrative costs related to this project are \$25,000 and approximately \$800 per day. General Conditions are estimated at \$125,000 per month and \$4,100 per day.

\* - Estimated at 1% per month excluding impact of re-bidding subcontracts when necessary.

**CP III Centrepoint, LLC v. City of San Diego, et al.**  
**Analysis of Occupancy Rates and Rental Income - First Year of Operations**  
**Scenario 1 - Recommence Construction June 3, 2013**

Incremental Rent (\$/Unit/Month) <sup>(1)</sup>: \$ 2,938

<b>ECONOMIC LOSS CASH FLOW - SCENARIO 1</b>																		
Item	04/01/14	05/01/14	06/01/14	07/01/14	08/01/14	09/01/14	10/01/14	11/01/14	12/01/14	01/01/15	02/01/15	03/01/15	04/01/15	05/01/15	06/01/15	07/01/15	08/01/15	TOTAL
<i>Loss of Rental Income</i>																		
Seasonal apartments	\$ 68,162	\$ 102,242	\$ 136,323	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ 68,162	\$ -	\$ 1,192,828
Other apartments	117,520	220,350	176,280	73,450	-	-	-	-	-	-	-	-	-	-	-	-	-	587,600
Commercial	32,500	32,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,000
<b>TOTAL</b>	<b>\$ 218,182</b>	<b>\$ 355,092</b>	<b>\$ 312,603</b>	<b>\$ 141,612</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ -</b>	<b>\$ 1,845,428</b>

<b>LEASE-UP CURVES - SCENARIO 1</b>																		
<b>SEASONAL APARTMENT TENANTS</b>																		
Original - %	10.0%	15.0%	20.0%	50.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Original - Unit	23	35	46	116	232	232	232	232	232	232	232	232	232	232	232	232	232	
Updated - %	0.0%	0.0%	0.0%	40.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	100.0%	
Updated - Unit	-	-	-	93	209	209	209	209	209	209	209	209	209	209	209	209	232	
Delta	23	35	46	23	23	23	23	23	23	23	23	23	23	23	23	23	-	
<b>LOSS OF INCOME</b>	<b>\$ 68,162</b>	<b>\$ 102,242</b>	<b>\$ 136,323</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ 68,162</b>	<b>\$ -</b>	<b>\$ 1,192,828</b>
<b>OTHER APARTMENT TENANTS</b>																		
Original - %	40.0%	75.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Original - Unit	40	75	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
Updated - %	0.0%	0.0%	40.0%	75.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Updated - Unit	-	-	40	75	100	100	100	100	100	100	100	100	100	100	100	100	100	
Delta	40	75	60	25	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>LOSS OF INCOME</b>	<b>\$ 117,520</b>	<b>\$ 220,350</b>	<b>\$ 176,280</b>	<b>\$ 73,450</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 587,600</b>
<b>COMMERCIAL</b>																		
Original - %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Original - Unit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Updated - %	0.0%	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Updated - Unit	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Delta	10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>LOSS OF INCOME</b>	<b>\$ 32,500</b>	<b>\$ 32,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 65,000</b>

**Notes:**

<sup>(1)</sup> Gross monthly rent adjusted for avoided costs resulting from delayed rental activity.

**CP III Centrepoint, LLC v. City of San Diego, et al.**  
**Analysis of Occupancy Rates and Rental Income - First Year of Operations**  
**Scenario 2 - Recommence Construction August 1, 2013**

Incremental Rent (\$/Unit/Month)<sup>(1)</sup>: \$ 2,763

<b>ECONOMIC LOSS CASH FLOW - SCENARIO 2</b>																		
Item	04/01/14	05/01/14	06/01/14	07/01/14	08/01/14	09/01/14	10/01/14	11/01/14	12/01/14	01/01/15	02/01/15	03/01/15	04/01/15	05/01/15	06/01/15	07/01/15	08/01/15	TOTAL
<i>Loss of Rental Income</i>																		
Seasonal apartments	\$ 64,102	\$ 96,152	\$128,203	\$320,508	\$641,016	\$576,914	\$544,864	\$512,813	\$480,762	\$384,610	\$352,559	\$352,559	\$320,508	\$320,508	\$320,508	\$320,508	\$ -	\$5,737,093
Other apartments	110,520	207,225	276,300	276,300	276,300	165,780	69,075	-	-	-	-	-	-	-	-	-	-	1,381,500
Commercial	32,500	32,500	32,500	32,500	32,500	-	-	-	-	-	-	-	-	-	-	-	-	162,500
<b>TOTAL</b>	<b>\$207,122</b>	<b>\$335,877</b>	<b>\$437,003</b>	<b>\$629,308</b>	<b>\$949,816</b>	<b>\$742,694</b>	<b>\$613,939</b>	<b>\$512,813</b>	<b>\$480,762</b>	<b>\$384,610</b>	<b>\$352,559</b>	<b>\$352,559</b>	<b>\$320,508</b>	<b>\$320,508</b>	<b>\$320,508</b>	<b>\$320,508</b>	<b>\$ -</b>	<b>\$7,281,093</b>

<b>LEASE-UP CURVES - SCENARIO 2</b>																		
<b>SEASONAL APARTMENT TENANTS</b>																		
Original - %	10.0%	15.0%	20.0%	50.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Original - Unit	23	35	46	116	232	232	232	232	232	232	232	232	232	232	232	232	232	
Updated - %	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	15.0%	20.0%	25.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%	50.0%	100.0%	
Updated - Unit	-	-	-	-	-	23	35	46	58	93	104	104	116	116	116	116	232	
Delta	23	35	46	116	232	209	197	186	174	139	128	128	116	116	116	116	-	
<b>LOSS OF INCOME</b>	<b>\$ 64,102</b>	<b>\$ 96,152</b>	<b>\$128,203</b>	<b>\$320,508</b>	<b>\$641,016</b>	<b>\$576,914</b>	<b>\$544,864</b>	<b>\$512,813</b>	<b>\$480,762</b>	<b>\$384,610</b>	<b>\$352,559</b>	<b>\$352,559</b>	<b>\$320,508</b>	<b>\$320,508</b>	<b>\$320,508</b>	<b>\$320,508</b>	<b>\$ -</b>	<b>\$5,737,093</b>
<b>OTHER APARTMENT TENANTS</b>																		
Original - %	40.0%	75.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Original - Unit	40	75	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
Updated - %	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	75.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Updated - Unit	-	-	-	-	-	40	75	100	100	100	100	100	100	100	100	100	100	
Delta	40	75	100	100	100	60	25	-	-	-	-	-	-	-	-	-	-	
<b>LOSS OF INCOME</b>	<b>\$110,520</b>	<b>\$207,225</b>	<b>\$276,300</b>	<b>\$276,300</b>	<b>\$276,300</b>	<b>\$165,780</b>	<b>\$ 69,075</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,381,500</b>
<b>COMMERCIAL</b>																		
Original - %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Original - Unit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Updated - %	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Updated - Unit	-	-	-	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Delta	10,000	10,000	10,000	10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	
<b>LOSS OF INCOME</b>	<b>\$ 32,500</b>	<b>\$ 32,500</b>	<b>\$ 32,500</b>	<b>\$ 32,500</b>	<b>\$ 32,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 162,500</b>

**Notes:**

<sup>(1)</sup> Gross monthly rent adjusted for avoided costs resulting from delayed rental activity