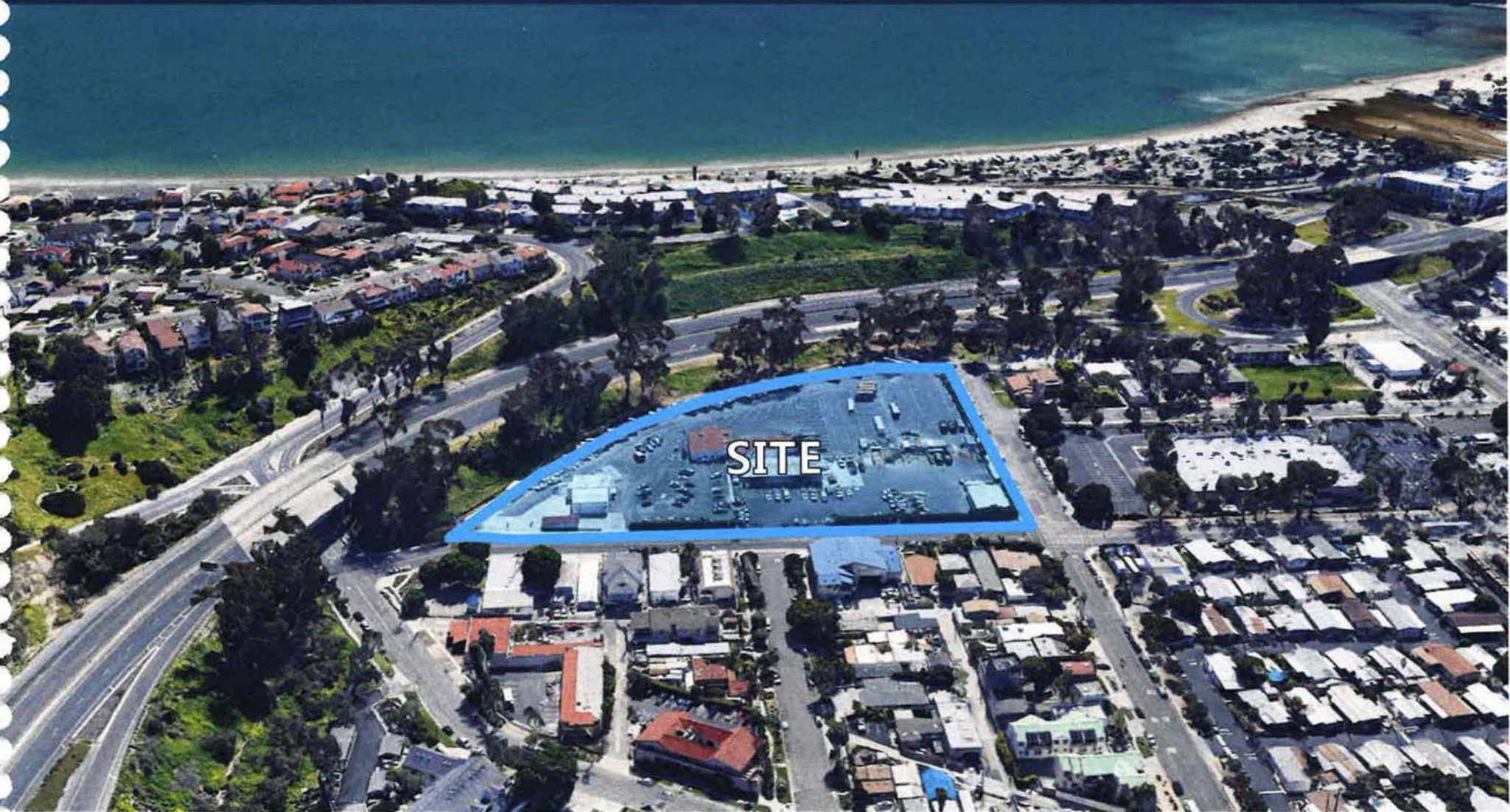


Capistrano USD South Bus Yard Property Lease Proposal

Toll Brothers Apartment Living



I. Letter of Intent

▶ **I. Letter of Intent**

II. Project Approach

III. References and Experience

IV. Financial Proposal and Projections

V. Statement of Financial Qualifications

VI. Appendix

- A. Credit Rating Report
- B. Addendum 1: Responses to Questions Acknowledgement
- C. Impact Fee Analysis
- D. Ground Lease Guidelines Checklist

I. Letter of Intent

June 19, 2018

Clark D. Hampton
Deputy Superintendent, Business and Support Services
Capistrano Unified School District
33122 Valle Road
Capistrano, CA 92624

RE: Surplus School Property located at 26126 Victoria Boulevard in the City of Dana Point, CA and more commonly known as the South Bus Yard property

Dear Mr. Hampton,

Toll Brothers is excited to team with the District and the City to form a partnership and redevelop this unique site. Exclusively focused on luxury developments, Toll has a reputation of building the most desirable communities in the country, and are committed to ensure that all stakeholders will be proud of this project for generations to come. We are an all-cash lessee/developer with over \$1.7B in cash and will put the full resources of our company and balance sheet behind this partnership; we therefore **require no outside financing (debt or equity) in order to close on this ground lease.**

We are pleased to submit the following proposal for the referenced property subject to the execution of a mutually satisfactory Pre-development and Ground Lease Agreement (the "Agreement").



I. Letter of Intent

The Agreement will provide for the execution of a ground lease (the "Ground Lease") upon receipt by Toll of all required development entitlements for the intended Project.

- A. Ground Lease Property:** Approximately 5.51 gross acres located at 26126 Victoria Boulevard in the City of Dana Point, CA and more commonly known as the South Bus Yard property.
- B. Project:** The Base Rent contemplates a fully entitled (all discretionary approvals through applicable appeal periods) site consisting of 425 residential units in a "wrap" style multi-family rental building (the "Project"). The "wrap" building is expected to consist of a five-story wood frame residential building wrapped around a Type-I parking garage. Our proposed project has been designed and vetted with our architects to be consistent with the City's vision originally expressed in the proposed Doheny Village Masterplan and the 5 story/70ft height restriction.

Additional key assumptions utilized in the underwriting that are the basis of the offered Base Rent are:

- Permit and Impact Fees no greater than \$20,543 per unit (see attached Fee Schedule)
- There is no affordable housing obligation to be satisfied by the Project
- No retail component to be developed as part of the Project
- No extraordinary offsite improvement requirements for the Project
 - o All utilities are available and installed in adjacent public street rights-of-way
- CUSD will take all actions necessary and appropriate to remove all underground storage tanks from the property and remediate the Property in accordance with applicable law

- C. Ground Lessee:** Toll Bros., Inc. or its affiliate ("Toll").
- D. Ground Lessor:** Capistrano Unified School District ("CUSD").



I. Letter of Intent

E. Ground Lease Term: Ninety-nine (99) years, commencing upon execution of the Ground Lease ("Lease Commencement"). The Term shall be subject to two (2) twenty-five (25) year extensions at Lessee's request.

F. Financing: This proposal is not subject to any financing contingency.

G. Base Rent: The Base Rent for the initial 5-Year period of the Ground Lease shall be as follows:

Base Rent Years 1-3: \$0.00

Base Rent Years 4-5: Three Million One Hundred Fifty Thousand Dollars (\$3,150,000.00) per annum

The Base Rent assumes a triple net lease structure, and Ground Lessee will assume the payment of all real estate taxes and assessments, insurance and costs of public utilities and services.

H. Rent Adjustments: Commencing on the first day of year six of the Term, and every five years thereafter (year 11, 16, 21, 26, 31, etc.) rent shall be adjusted at a fixed increase of 13.14% applied to the then current Base Rent.

I. Deposit under Agreement: Total of \$1,300,000 placed in escrow as follows:

- (i) A first deposit of Three Hundred Thousand Dollars (\$300,000) within Five (5) business days following the execution of the Agreement.
- (ii) A second deposit of Five Hundred Thousand Dollars (\$1,000,000) within Five (5) business days following the expiration of the Feasibility Period.
- (iii) The deposit shall be non-refundable after the expiration of the Feasibility Period except as provided in the Agreement.
- (iv) The deposit will be applied against the Base Rent due in Year 4.



I. Letter of Intent

- J. Feasibility Period under Agreement:** Commences upon execution of the Agreement. The Feasibility Period expires sixty (60) days after the Agreement is negotiated and executed. CUSD will provide immediate access to the Property and all feasibility materials in its possession.
- K. Entitlements:** If Toll elects to proceed with the Agreement following the expiration of the Feasibility Period, then Toll will seek in good faith all necessary development entitlements for the Project. CUSD will cooperate with Toll in this process by joining in any related requests and application submissions; provided, however, that (i) such cooperation shall be at the sole cost of Toll and (ii) CUSD shall not be required to consent to any entitlements that would be binding on the Property if Ground Lease Commencement does not occur.
- L. Ground Lease Financing:**
- Ground Lessor:** CUSD will be free to mortgage its interest in the Ground Lease Property via a fee mortgage. Ground Lessee is willing to subordinate the Ground Lease to any such fee mortgage provided that such fee mortgagee recognizes the rights of Ground Lessee under the Ground Lease pursuant to a subordination, non-disturbance and attornment agreement acceptable to Ground Lessee.
- Ground Lessee:** Ground Lessee will be free to enter into a leasehold mortgage of the Property. The Ground Lease shall be financeable including but not limited to customary leasehold mortgage protective provisions, including notice & cure rights for Ground Lessee's mortgagee.
- M. Transfer and Right of First Refusal:** The Ground Lease shall be fully transferable by either party. Ground Lessee will have a right of first refusal with respect to any transfer by Ground Lessor of Ground Lessor's fee interest in the Ground Lease Property.
- N. Broker:** Toll will be responsible for the payment of any brokerage commissions or fees.



I. Letter of Intent

- O. Exclusivity:** From and after the execution of this letter of intent, and until the earlier to occur of (i) execution of the Agreement, and (ii) the date CUSD notifies Toll in writing that it does not wish to proceed with the transaction contemplated hereby, CUSD agrees to negotiate exclusively with Toll and to remove the Property from the market. In this regard, CUSD further covenants that it shall neither solicit nor respond to any inquiries or proposals pertaining to the sale or lease of any portion of the Property.

- P. Confidentiality Agreement:** Please be advised that all information contained herein shall be treated as confidential and shall not be disclosed or revealed to any person except for each party's attorneys, clients and consultants who are reasonably required to receive such information and who agree to maintain the confidentiality of such information and except as required by applicable law.

- Q. Intent:** This letter expresses only intent of the parties and, notwithstanding anything herein to the contrary, shall not be deemed a legally binding agreement except with respect to sections P and Q herein, which shall be binding presently and shall survive the termination of this Letter.

If this proposal is acceptable, please let me know as soon as possible so we can diligently proceed with the negotiation and execution of the Agreement.

This proposal expires on July 3, 2018 at 5:00 pm EST.

Sincerely yours,



Michael McCann
Regional Director
Toll Brothers Apartment Living
Telephone: 949-370-8155
Email: mmccann@tollbrothers.com

Accepted: _____
By: _____

II. Project Approach

I. Letter of Intent

II. Project Approach

III. References and Experience

IV. Financial Proposal and Projections

V. Statement of Financial Qualifications

VI. Appendix

- A. Credit Rating Report
- B. Addendum 1: Responses to Questions Acknowledgement
- C. Impact Fee Analysis
- D. Ground Lease Guidelines Checklist

II. Project Approach Goals

The primary goals for the project are to:

- **Maximize CUSD ground lease revenue** to best support the District's core function of providing the facilities and services required to educate those student's entrusted to CUSD.
- Design a project that **integrates programmatically, visually and functionally** with the Doheny Village as well as the greater Dana Point community.
- Deliver a community that can be operated by Toll Brothers Apartment Living (TBAL) as a **financially feasible asset for the long-term.**

TBAL has a unique combination of the **local expertise** necessary to work with the existing community and City stakeholders and the depth and breadth of **development and financial capabilities** required to analyze, design, program, price and ultimately finance, build and operate a luxury apartment community as a tenant/partner of CUSD.

II. Project Approach Plan

- Our approach to the planning and permitting process will be to design our project to the maximum extent possible to embody the City of Dana Point's vision and goals articulated in the previously proposed Doheny Village Masterplan.
- The CUSD site is situated adjacent to Pacific Coast Highway and approximate ¼ miles from Interstate 5. It is therefore at one of the most prominent locations in Dana Point and serves as one of the primary gateways to and from the City.
- Our plan therefore is to design, entitle and build a large luxury residential community that will complement the Doheny Village neighborhood while also enhancing a key transit corridor in the City of Dana Point.
- We intend to create a luxury multi-family community consisting of 425 residential units in a 5-level, wrap-style building. The community will include lushly landscaped courtyards, enhanced streetscapes, plazas and a host of amenities.
- To ensure the project enhances both the immediate neighborhood and the entire City of Dana Point, the massing of the apartments will purposefully play with loft spaces, step downs, tower features, cornice elements and variation in architectural expression on all sides of the buildings.

II. Project Approach Plan

- In addition to contributing to the emerging renaissance of Doheny Village, the project will be designed to encourage biking and walking to the greater Dana Point community, particularly the beaches, harbor, shopping and restaurants that are within a couple miles of the project's location.
- Secure bicycle storage with easy street-level access will be provided to encourage biking for residents, with the potential of providing bikeshare for residents only.
- While the CUSD site's location in the City of Dana Point will be one of the greatest resident amenities, the project itself will offer a variety of indoor and outdoor amenities that will offer special retreats for residents and their guests.
 - Resident services and amenities on the ground floor will include leasing, lobbies, and amenity spaces with package and mail rooms.
 - The community will include a fitness facility, club rooms, and multiple courtyards.
- Approximately 750 parking spaces will be provided in a 6.5-level on-grade parking structure that will be wrapped by the apartment building.

II. Project Approach Statistical Summary

General

- 5.51 Gross Acres
- 425 Total Units
- Gross Density – 77.1 DU/AC

Residential Building

- 5-story wrap-style building
- Type III construction
- Unit Mix
 - Studios – 600 average SF; 32 units; 8% of total
 - 1 Bed/1 Bath – 760 average SF; 246 units; 58% of total
 - 2 Bed/2 Bath – 1060 average SF; 147 units; 35% of total

Parking Structure

- 6.5 levels above grade
- Type I construction
- 750 stalls

II. Project Approach Development Timetable

ANTICIPATED PROJECT SCHEDULE		
Activity Description	Projected Date	Triggers and Durations
<i>Negotiate Agreement and Due Diligence</i>		
Execution of Lease Agreement	August 2018	Execution of Letter of Intent
Initial Deposit	August 2018	Upon execution of lease agreement
TBAL Due Diligence	Aug thru Oct 2018	60 days
Second Deposit	October 2018	At end of due diligence period
<i>Entitlements</i>		
Kick-off Entitlements	October 2018	At end of due diligence period
Submittal of Entitlements Application	December 2018	60 days from start of entitlements period
Multiple Cycles of City Comments and Applicants Responses	Feb thru Aug 2019	7 months for up to 4 rounds of comments/responses
Determine and Initiate CEQA Process	March 2019	Within 90 days of entitlements application submittal
Circulate CEQA Documents/Studies	August 2019	6 months to develop EIR and technical studies
Respond to Comments on CEQA Documents	October 2019	45-day circulation of CEQA documents
Planning Commission Hearings	November 2019	End of CEQA process and City comments
City Council Approvals / Discretionary Entitlements Received	December 2019	Planning Commission Approvals
<i>Final Design and Permitting</i>		
Design Development Drawing Completion	March 2020	12 weeks from receipt of entitlements
Construction Document Drawing Completion	June 2020	12 weeks from design development completion
Receipt of Building Permit	September 2020	12 weeks from construction documents completion
<i>Construction and Lease-Up</i>		
Construction Commencement – Sitework	August 2020	8 weeks from construction documents completion
Construction Commencement - Vertical	September 2020	Receipt of building permit
Kick-off Leasing	April 2022	20 months from receipt of building permit
Temporary Certificate of Occupancy for Phase 1	June 2022	22 months from receipt of building permit
Temporary Certificate of Occupancy for Phase 2	August 2022	24 months from receipt of building permit
Construction Completion	August 2022	24 months from receipt of building permit
Stabilization	December 2023	18 months from TCO for Phase 1

III. References and Experience

I. Letter of Intent

II. Project Approach

III. References and Experience

IV. Financial Proposal and Projections

V. Statement of Financial Qualifications

VI. Appendix

- A. Credit Rating Report
- B. Addendum 1: Responses to Questions Acknowledgement
- C. Impact Fee Analysis
- D. Ground Lease Guidelines Checklist

III. References and Experience

Toll Brothers Corporate Overview

#1 LUXURY BRAND

- Nation's leading luxury home builder
- Nationally recognized, award-winning brand
- Founded in 1967 and listed on NYSE since 1986
- Average Q2 FY 2018 delivered home price of \$848,000
- Average price is double that of most other public homebuilders
- *Fortune Magazine's* World's Most Admired Companies - #1 Homebuilder four years in a row: 2015, 2016, 2017 & 2018*



GEOGRAPHIC & PRODUCT DIVERSITY

- Builds in 20 states and approximately 50 markets
- Balanced footprint across the East, West and South
- Strong land position – Own or Control 51,000 lots
- Urban presence in NYC, Metro DC & Philadelphia
- Serves urban/suburban, luxury move-up, millennial, empty nester, & active-adult buyers and renters in select markets



SOLID MANAGEMENT & FINANCIAL BASE

- Strong balance sheet and credit ratings
- Approx. \$ 1.7 BN of available liquidity at Q2 2018
- Member of the 2018 *FORTUNE 500*
- Executive & director beneficial ownership of approx. 9.0%†
- Average senior management tenure of 19 years



III. References and Experience

Toll Brothers Apartment Living Overview

MAJOR RENTAL MARKET PLAYER

- Investing in Apartment & Student Housing rental development to maximize operational synergies
- Building on Toll Brothers brand name and skills
- Own or control land for approximately 16,430 units

BROAD EXPERIENCE

- Developed & operate 2,500 units
- Developed and sold 418 Campus Living units (1,500 beds) at Univ. of Maryland in College Park
- Leasing up at 2 communities of 750 units
- 2,300 rental units under construction in 7 projects from Massachusetts to Atlanta

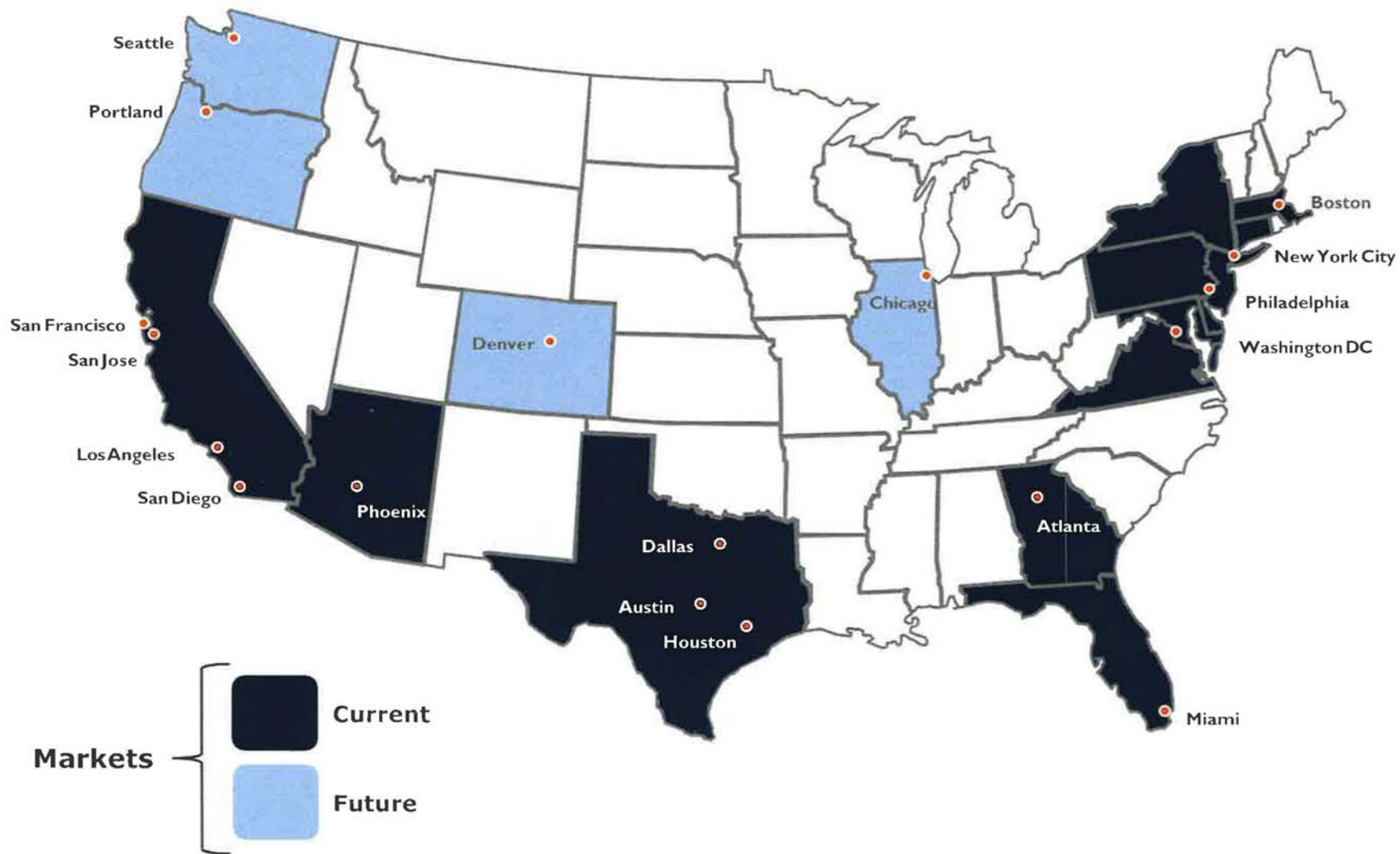
STRATEGIC GROWTH

- Control land for 10,800 future apartment & student living units in Northeast/Mid-Atlantic, Texas, California, Atlanta, Phoenix & Miami
- Expect to invest additional \$100 - \$200 million
- Plan to expand business nationally
- Combine premier locations with luxury, for-sale finishes, services and amenities



* As of June 14, 2018

III. References and Experience Toll Brothers Apartment Living Markets



III. References and Experience Current Apartment Living Pipeline

		Estimated Timing			
Existing Apartments	Location	Total Units	Dev. Start	Open For Occupancy	Stab. Year
Dulles Greene	Herndon, VA	806	1998	1999	2003
The Mews at Princeton Junction	Princeton, NJ	635	2003	2005	2008
Parc Riverside (Phase I)	Washington, DC	287	2013	2015	2016
Parc Plymouth Meeting	Plymouth Meeting, PA	398	2013	2015	2016
The Morgan at Provost Square	Jersey City, NJ	417	2013	2015	2016
Parc Westborough	Westborough, MA	249	2015	2016	2017
6 Total Existing Apartments		2,792			
In Lease-Up	Location				
Riverworks	Phoenixville, PA	349	2015	2016	2018
Kensington Place	East Brunswick, NJ	400	2013	2017	2019
2 Total In Lease-Up		749			
Under Construction	Location				
Union Place	Washington, DC	525	2016	2018	2020
The Bradford	Belmont, MA	112	2017	2018	2019
Parc at Princeton Junction	Princeton, NJ	232	2017	2018	2020
The Kendrick	Needham, MA	390	2017	2018	2021
Carraway	Harrison, NY	421	2017	2019	2021
Parc Riverside (Phase II)	Washington, DC	308	2017	2019	2021
Oleander	Atlanta, GA	348	2018	2019	2021
7 Total Under Development		2,336			

* As of January 31, 2018

III. References and Experience Current Apartment Living Pipeline

Future Apartments	Location	Total Units	Dev. Start	Estimated Timing	
				Open for Occupancy	Stab. Year
Kilby	Frisco, TX	259	2018	2019	2021
West Commerce	Dallas, TX	327	2018	2019	2021
East Thomas	Phoenix, AZ	256	2018	2019	2021
Welborn	Dallas, TX	267	2018	2019	2021
River District	Ft. Worth, TX	290	2018	2019	2021
5th & Van Buren	Phoenix, AZ	230	2018	2019	2021
Main Street Apartments	Voorhees, NJ	290	2018	2019	2021
Warm Springs	Fremont, CA	261	2018	2020	2021
Howell Mill	Atlanta, GA	326	2018	2020	2022
Westcore	Orange, CA	262	2018	2020	2021
Hanover	Hanover, MA	224	2018	2020	2021
Palomar	Dallas, TX	260	2018	2020	2022
Penn State**	Penn State University	268	2019	2020	2020
Bartlett Fields	Scituate, MA	234	2019	2020	2022
Saugus	Saugus, MA	300	2019	2020	2022
1105 K Ave	Plano, TX	385	2019	2020	2022
Morristown	Morristown, NJ	163	2019	2020	2022
Edge on Hudson	Sleepy Hollow, NY	184	2019	2020	2021
1st & L	Washington, DC	1244	2019	2020	2022
Bryant	Chantilly, VA	250	2019	2021	2022
Peachtree Pavilion	Atlanta, GA	500	2019	2021	2023
First American	Santa Ana, CA	218	2019	2021	2022
The Milano	San Diego, CA	228	2019	2022	2023
Forest Ridge	Winchester, MA	402	2020	2021	2022
Daily Local	West Chester, PA	300	2020	2022	2023
Port Liberte	Jersey City, NJ	372	2021	2022	2024
26 Projects		8,300			

III. References and Experience

Southern California Projects

Westcore, Orange, CA

- Westcore is a 262-unit luxury apartment community located in Orange, CA.
- Construction Type: Type III - Wrap
- Total Project Costs: \$106MM
- Construction Start: Groundbreaking Q4 2018
- Leasing anticipated to commence: Q2 2020
- Stabilization anticipated on: Q2 2021

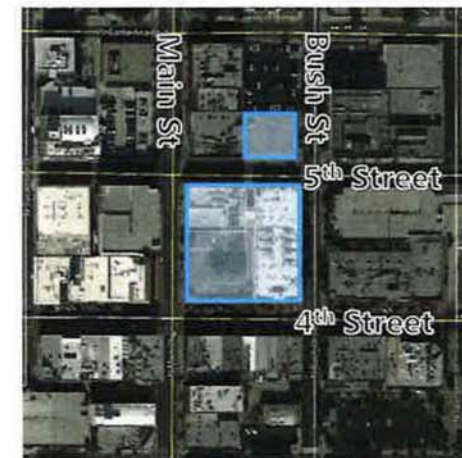


III. References and Experience

Southern California Projects

4th and Main, Santa Ana, CA

- 4th and Main is a 7-story, 218-unit luxury apartment project located in downtown Santa Ana, CA.
- Total Project Costs: \$87MM
- Construction Type: Type III – Podium
- Construction Start: Groundbreaking Q4 2019
- Leasing anticipated to commence in Q3 2021
- Stabilization anticipated on Q2 2023



III. References and Experience

Southern California Projects

Milano, San Diego, CA

- The Milano is a 24-story, 228-unit luxury high rise apartment project located at the south end of the Little Italy district in San Diego, CA. It will include 21,000 SF of office and retail space.
- Total Project Costs: \$123MM
- Construction Type: Type I
- Construction Start: Groundbreaking Q2 2019
- Leasing anticipated to commence in Q3 2021
- Stabilization anticipated on Q3 2022



III. References and Experience

Southern California Projects

Edinger and Redhill, Tustin, CA

- Edinger and Redhill is a 28 acre, infill, mixed-use community located in Tustin, CA.
- Total Project Costs: \$480MM
- Construction Type: Type III – Wrap, Type I, SF Townhome
- Construction Start: Groundbreaking Q3 2020
- Leasing anticipated to commence in Q2 2022
- Stabilization anticipated on Q3 2023



III. References and Experience

Completed Ground Lease Projects



Pierhouse at Brooklyn Bridge Park, Brooklyn, NY

- A 590,000 GSF mixed-use development including 106 townhouse-style luxury condominiums and a 192-key luxury hotel located on Pier 1 of Brooklyn Bridge Park
- The site will operate under a **97-year ground lease** with the City of New York
- Total Project Cost (est.): \$300 million
- The Hotel opened in early 2017 and the first move-ins commenced at the condominiums mid-2017
- Project Developed as a JV between Toll Brothers and Starwood Capital Group



III. References and Experience Completed Ground Lease Projects



100 Barrow Street, New York, NY

- 100 Barrow is a graceful new addition to the historic West Village district of Manhattan. The site consists of 4 rental townhomes and 25 market rate condominiums.
- The site will operate under a **99-year ground lease** with a local Church
- Total Project Cost (est.): \$107MM
- **100% Toll owned, no outside financing used**
- Completed: Q4 2017

III. References and Experience Ground Lease Projects



Executive Park, Atlanta, GA

- 348 apartments in a 6-story, elevator-served building. The project was secured through a **ground lease** with Emory University
- Amenities include a game room, coffee bar, fitness center, resort-style pool and sundeck, grill area, and playground
- Total Development Costs: \$76.7MM
- Construction Began: Q1 2018
- Stabilization Anticipated: Q2 2021
- Project developed in a 75/25 Joint Venture with Toll managing project development, design, financing, and construction start to finish.

III. References and Experience

Other Notable Projects



Terrapin Row, College Park, MD

- 418-Luxury Student Housing Units with 1,493 beds
- Located across the street from the southern tip of the University of Maryland campus, The Robert H. Smith Business School and the Downtown College Park retail core
- The site enjoys a premier location in the market, within a 10-minute walk of the campus's central McKeldin Mall
- The luxury community will feature best-in-class amenities including a fitness center, yoga room, outdoor pool, volleyball court, and study rooms
- Total Project Cost: \$152 million
- The site is being developed in a 75/25 JV
- Construction began: Q4 2014
- Stabilized: Q4 2016
- Project sold in November 2017
- Reported to be the largest dollar single student housing asset sale in the U.S. at the time of sale

III. References and Experience

Other Notable Projects



The Morgan at Provost Square, Jersey City, NJ

- The Morgan at Provost Square offers 417 Luxury Apartment units with high-end amenities
- Total Project Cost: \$171 million
- The Morgan offers studio, one-, two-, and three-bedroom residences
- Construction began: Q4 2013
- Initially constructed in a 50/50 JV
- Recapitalized project through the sale of our partner's interest and 50% of our interest
- Toll owns the project in a 75/25 JV, with Toll as the manager
- The JV is financing the project with a \$133 million perm loan
- The total development will ultimately consist of three buildings and a total of 925 units
- Leasing commenced: Q3 2015
- Stabilized: Q4 2016

III. References and Experience Other Notable Projects



Parc Riverside, Washington, DC

- The site is being developed in two phases, the first of which will offer 287 studio, one-, and two-bedroom apartment residences, and a 180-space parking garage
- Total Project Cost (Phase I): \$81 million
- Phase I was developed in a 50/50 JV, with Toll as manager
- Construction began: Q4 2013
- The JV originally financed the project with a \$54 million construction loan
- Leasing for Phase I commenced: Q1 2015
- Stabilization of Phase I occurred: Q1 2016
- Replaced construction loan with \$60 million perm loan in May 2016

IV. Financial Proposal and Projections

I. Letter of Intent

II. Project Approach

III. References and Experience

IV. Financial Proposal and Projections

V. Statement of Financial Qualifications

VI. Appendix

- A. Credit Rating Report
- B. Addendum 1: Responses to Questions Acknowledgement
- C. Impact Fee Analysis
- D. Ground Lease Guidelines Checklist

IV. Financial Proposal and Projections Summary

TBAL's Letter of Intent provides the financial terms proposed for the contemplated lease transaction with CUSD. Such terms include significant deposits held in escrow during the due diligence and entitlements periods, initial lease payments during the first five "Base Rent" years and fixed rent increases every five years of the Ground Lease Term.

In summary, TBAL proposes the following:

- **Deposits:**
 - First Deposit - \$300,000 upon execution of the Ground Lease Agreement
 - Second Deposit - \$1,000,000 following the expiration of the Feasibility Period
- **Base Rent:**
 - Years 1 – 3 = \$0, TBAL will be entitling, permitting and constructing the Project
 - Years 4 and 5 = \$3,150,000 each year, while TBAL leases up and stabilizes the Project
- **Periodic Rent Adjustments:**
 - Commencing on the first day of year six of the Term, and every five years thereafter (year 11, 16, 21, 26, 31, etc.) rent shall be adjusted at a fixed increase of 13.14% applied to the then current Base Rent

V. Statement of Financial Qualifications

I. Letter of Intent

II. Project Approach

III. References and Experience

IV. Financial Proposal and Projections

V. Statement of Financial Qualifications

VI. Appendix

- A. Credit Rating Report
- B. Addendum 1: Responses to Questions Acknowledgement
- C. Impact Fee Analysis
- D. Ground Lease Guidelines Checklist

V. Statement of Financial Qualifications

Overview

- Toll Brothers, a *FORTUNE 500* Company, is a full service residential real estate development company with communities in 50 markets and 20 states. For over 50 years, including more than 30 years as a public company (NYSE: TOL), Toll Brothers has acquired, developed, marketed and operated a wide variety of residential and commercial real estate projects, and earned its reputation as “America’s Luxury Home Builder.” Toll Brothers has developed over 100,000 homes across the United States. Toll Brothers Apartment Living, a division within the Toll Brothers Fortune 500 company, also develops apartment properties, with over 749 units in lease-up, over 2,336 rental units in development and over 8,300 units in its pipeline. Toll Brothers Apartment Living also manages our 2,792 stabilized units.
-
- Toll Brothers enjoys an excellent reputation with institutional capital and has raised, through both the capital markets and project level financing, more than \$12 billion since 2013.
- **TBAL has comfort and experience entering into and financing ground leases.**
- Strong corporate credit ratings from Standard & Poor’s (BB+), Moody’s Investor Services (Ba1), and Fitch (BBB-). These ratings place Toll Brothers among the top-rated residential developers in the United States.



V. Statement of Financial Qualifications

Financial Statements

- Below are Toll's Consolidated Balance Sheets, Income Statements and Statements of Cash Flow for the previous three years. The full report is available to be viewed at <https://www.tollbrothers.com/investor-relations/annual-reports>.

CONSOLIDATED BALANCE SHEETS (Amounts in thousands)		
	October 31,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 7,369	\$ 633,715
Restricted cash and investments	2,460	31,291
Inventory	7,204,438	7,353,967
Property, construction, and office equipment, net	218,148	169,576
Receivables, prepaid expenses, and other assets	4,447	582,758
Mortgage loans held for sale	152,942	248,601
Customer deposits held in escrow	41,369	53,057
Investments in unconsolidated entities	40,577	496,411
Deferred tax assets, net of valuation allowances	1,012,227	167,413
	<u>\$ 9,736,789</u>	<u>\$ 9,736,789</u>
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	\$ 871,079	\$ 871,079
Senior notes	2,694,372	2,694,372
Mortgage company loan facility	210,000	210,000
Customer deposits	309,099	309,099
Accounts payable	281,955	281,955
Accrued expenses	1,072,300	1,072,300
Income taxes payable	62,782	62,782
Total liabilities	<u>5,501,587</u>	<u>5,501,587</u>
Equity		
Stockholders' equity		
Preferred stock, none issued		
Common stock, 177,937 shares issued at October 31, 2017 and 2016, respectively	1,779	1,779
Additional paid-in capital	728,464	728,464
Retained earnings	3,977,297	3,977,297
Treasury stock, at cost — 20,732 and 16,154 shares at October 31, 2017 and 2016, respectively	(474,912)	(474,912)
Accumulated other comprehensive loss	(3,336)	(3,336)
Total stockholders' equity	<u>4,229,292</u>	<u>4,229,292</u>
Noncontrolling interest	5,910	5,910
Total equity	<u>4,235,202</u>	<u>4,235,202</u>
	<u>\$ 9,736,789</u>	<u>\$ 9,736,789</u>

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Amounts in thousands, except per share data)			
	Year ended October 31,		
	2017	2016	2015
Revenues	\$ 5,271,000	\$ 5,169,508	\$ 4,171,248
Cost of revenues	4,682,000	4,144,065	3,269,270
Selling, general and administrative	535,382	535,382	455,108
	<u>4,679,447</u>	<u>4,679,447</u>	<u>3,724,378</u>
Income from operations	490,061	490,061	446,870
Other:			
Income from unconsolidated entities	40,748	40,748	21,119
Other income - net	58,218	58,218	67,573
Income before income taxes	<u>589,027</u>	<u>589,027</u>	<u>535,562</u>
Income tax provision	206,932	206,932	172,305
Net income	<u>\$ 382,095</u>	<u>\$ 382,095</u>	<u>\$ 363,257</u>
Other comprehensive income (loss), net of tax:			
	1,627	(827)	329
Total comprehensive income	<u>\$ 383,722</u>	<u>\$ 381,268</u>	<u>\$ 363,586</u>
Per share:			
Basic earnings	\$ 2.27	\$ 2.27	\$ 2.06
Diluted earnings	\$ 2.18	\$ 2.18	\$ 1.97
Weighted-average number of shares:			
Basic	168,261	168,261	176,425
Diluted	175,973	175,973	184,703

V. Statement of Financial Qualifications

Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts in thousands)

	Year Ended October 31,				Year Ended October 31,		
	2017	2016	2015		2017	2016	2015
Cash flow provided by operating activities:				Cash flow (used in) provided by investing activities:			
Net income	\$ 559,495	\$ 382,095	\$ 363,167	Purchase of property and equipment — net	(29,872)	(28,426)	(9,447)
Adjustments to reconcile net income to net cash provided by operating activities:				Sale and redemption of marketable securities and restricted investments — net	16,049	10,000	2,000
Depreciation and amortization	25,343	23,121	23,557	Investments in unconsolidated entities	(122,324)	(69,655)	(123,940)
Stock-based compensation	29,465	26,679	22,903	Return of investments in unconsolidated entities	195,505	47,806	39,766
Excess tax benefits from stock-based compensation	(5,328)	(2,114)	(1,628)	Investment in foreclosed real estate and distressed loans	(739)	(1,135)	(2,624)
Income from unconsolidated entities	(316,060)	(40,748)	(21,119)	Return of investments in foreclosed real estate and distressed loans	13,765	49,619	37,625
Distributions of earnings from unconsolidated entities	174,291	15,287	19,459	Net increase in cash from purchase of joint venture interest			3,848
Income from foreclosed real estate and distressed loans	(4,937)	(8,390)	(13,269)	Acquisition of a business	(13,088)		
Deferred tax provision	217,804	19,252	62,084	Net cash (used in) provided by investing activities	(7,685)	8,211	(52,772)
Change in deferred tax valuation allowances	(72,154)	1,018	(12,642)	Cash flow (used in) provided by financing activities:			
Inventory impairments and write-offs	14,794	13,807	35,709	Proceeds from issuance of senior notes	457,481		350,000
Other	1,815	(1,739)	(316)	Proceeds from loans payable	2,622,045	2,443,496	1,954,432
Changes in operating assets and liabilities				Debt issuance costs	(4,449)	(4,903)	(3,175)
Decrease (increase) in inventory	179,666	(391,178)	(351,983)	Principal payments of loans payable	(1,999,357)	(2,497,595)	(1,659,458)
Origination of mortgage loans	(1,217,174)	(1,275,047)	(1,029,112)	Redemption of senior notes	(647,500)		(300,000)
Sale of mortgage loans	1,378,297	1,150,156	1,007,671	Proceeds from stock-based benefit plans	10,000	6,986	39,514
Decrease (increase) in restricted cash and investments	10,639	(14,496)	1,547	Excess tax benefits from stock-based compensation	5,328	2,114	1,628
Decrease (increase) in receivables, prepaid expenses, and other assets	71,746	(307,351)	(55,553)	Purchase of treasury stock	(390,881)	(392,772)	(56,888)
Increase in customer deposits	(7,487)	27,838	46,478	Dividends paid	(10,567)		
(Decrease) increase in accounts payable and accrued expenses	(140,653)	524,553	28,729	Receipts related to noncontrolling interest, net		404	(785)
(Decrease) increase in income taxes payable	(53,980)	6,028	(65,500)	Net cash (used in) provided by financing activities	(672,920)	(442,260)	325,268
Net cash provided by operating activities	659,219	348,771	60,182	Net increase (decrease) in cash and cash equivalents	79,114	(285,278)	332,678
				Cash and cash equivalents, beginning of period	653,715	918,993	586,315
				Cash and cash equivalents, end of period	\$ 732,829	\$ 633,715	\$ 918,993

V. Statement of Financial Qualifications

Financial References



PNC

J. Richard Litton
Senior Vice President
Two Tower Center Blvd, 18TH Floor
East Brunswick, NJ 08816
Phone: 732-220-6963
Fax: 732-220-3755

Mr. Litton is Administrative Agent for both Provost Square and River Parc. He is also the relationship manager for Toll Brothers' relationship with PNC, including their \$125 million commitment to our credit facilities.



Wells Fargo

Elena Bennett
Senior Vice President
2030 Main Street, 8TH Floor
Irvine, CA 92614
Phone: 949-251-4438
Fax: 949-851-9728

Ms. Bennett is Administrative Agent for Provost Square, Parc Plymouth Meeting, and Toll Brothers' student housing development at the University of Maryland. She is also the Toll Brothers relationship manager, overseeing Wells Fargo's \$125 million commitment to our credit facilities.



Capital One

Kevin Christman
Senior Vice President
1000 Continental Drive
King of Prussia, PA 19406
Phone: 610-254-4810
Fax: 866-889-4820

Mr. Christman is Administrative Agent for Tices Lane, Parc Plymouth Meeting, Brooklyn Bridge Park, and The Sutton. He is also the Toll Brothers relationship manager, overseeing Capital One's \$125 million commitment to our credit facilities.

V. Statement of Financial Qualifications

Debt and Equity Sources

EQUITY PARTNERS



LENDER RELATIONSHIPS



V. Statement of Financial Qualifications Reference Letter



June 16, 2018

Mr. Clark D. Hampton
Deputy Superintendent, Business and Support Services
Capistrano Unified School District
33122 Valle Road
Capistrano, CA 92624

Re: Request for Proposal for the Lease of School District Surplus Real Property

Dear Clark,

PNC has a significant lending relationship with Toll Brothers. PNC is a \$125 million participant in Toll Brothers' unsecured, corporate-level credit facilities, and also regularly lends at the project-level on Toll Brothers' multifamily communities. Subject to our due diligence and the execution of formal legal documentation, the development of the South Bus Yard is one that we would consider for our lending program thanks to the following characteristics:

- We are experienced lending on projects subject to a ground lease.
- We are active lending on high-density, infill multifamily projects with experienced developers, including multiple deals developed by Toll Brothers.
- We have a strong Agency and balance sheet lending platform, which has placed permanent financing on Toll Brothers' properties.

If you have any questions please feel free to contact me directly at 732-220-6963 [rick.litton@pnc.com].

Yours truly,

A handwritten signature in black ink, appearing to read 'J. Richard Litton', written over a horizontal line.

J. Richard Litton
Senior Vice President

V. Statement of Financial Qualifications

Financial Q&A

Responses to the questions posed on Page 5 of the *REQUEST FOR PROPOSALS FOR THE LEASE OF SCHOOL DISTRICT SURPLUS REAL PROPERTY*:

1. Is the Respondent a subsidiary of, or affiliated with, any other corporation, corporations, partnerships or firms? If so, please specify. If the Respondent is a subsidiary, please indicate the extent to which the parent entity will guarantee performance by the subsidiary.

Toll Brothers Apartment Living is an operating division of Toll Brothers, Inc.

2. Names and addresses of three financial references, including a primary bank.

See page 36

3. Has the Respondent or its officers, principal members, shareholders or investors, or any of its parent, subsidiary or affiliated entities or other interested parties been adjudged bankrupt, either voluntary or involuntarily, within the past ten years? If so, explain.

Toll Brothers has never filed for bankruptcy or even negotiated a reduced payoff on any loan.

4. Is there pending litigation against the Respondent entity or its officers, principal members, shareholders or investors, or any parent, subsidiary or affiliated entities or other interested parties other than minor personal injury suits involving claims under \$250,000? If so, explain.

As a developer and home builder in over 20 states, TBI and its affiliates are occasionally subjects in litigation, though nothing is currently material to TBI's ability to provide support to the contracting entity. As of 4/30, TBI had cash of \$475 million and availability under its unsecured revolving credit facility of \$1.25 billion, for total liquidity of \$1.7 billion.

5. Audited financial statements for the previous three years for the Respondent with whom the District will contract or, in the likely event that the contracting entity is a newly formed special purpose entity, the member or members of that entity who will be responsible for financial obligations and on whom the District should rely for financial performance whether or not the final formal documentation calls for guarantees.

See pages 34 and 35

6. Report from any financial credit rating service for the Respondent with whom the District will contract or, in the likely event that the contracting entity is a newly formed special purpose entity, the member or members of that entity who will be responsible for financial obligations and on whom the District should rely for financial performance whether or not the final formal documentation calls for guarantees.

See Appendix A