

Executive Summary

DATE: September 2, 2015

TO: Bastrop Economic Development Corporation

FROM: RCLCO

SUBJECT: Comprehensive Housing Supply and Demand Analysis for Bastrop, Texas – Executive Summary

Our objective for this assignment has been to conduct a comprehensive housing market analysis for the city of Bastrop, providing market-driven demand recommendations and a comprehensive review of the current availability of housing in Bastrop. In order to do so, we have analyzed the current macro economic context for Bastrop, highlighting key strengths and weaknesses in its ability to capture an increased share of Austin MSA housing activity. This memo summarizes our analysis and findings.

Regional and Local Economics and Demographics

The Austin MSA has steadily rebounded from the recession, continuing to enjoy consistently stronger job growth than the nation as a whole. The MSA has continued to expand substantially, adding about 37,000 jobs in 2013, with future projections suggesting near-term employment growth of more than 30,000 jobs per year. This growth will be driven primarily by Professional Services, Trade, Transportation, and Utilities, and Government.

The housing market in the Austin MSA has experienced a similarly strong recovery since the recession, characterized by increased construction levels, closings, and permitting activity. As construction activity has increased, closings have substantially outpaced lot deliveries, leading to a depletion of inventory and a strong uptick in new home prices. We expect the housing market to continue steady growth, although expect a moderation in price increases as supply begins to catch up with robust demand conditions.

Compared to the MSA, Bastrop County is an area characterized by a much more mature population, with households aged 55+ accounting for over half of households in the county. These current demographics indicate the desirability of Bastrop's charming downtown, affordability, and commercial and recreational amenities to empty nesters and retirees. Further capitalizing on the current appeal to these mature market segments, as well as beginning to attract more young and mature families, will be a critical success factor in Bastrop's long term success.

Market Dynamics: Submarket Shifts

Housing supply and demand dynamics greatly vary across the Austin MSA. Central Austin, Lakeway, Westlake, and other areas in the Hill Country have historically been home to high concentrations of executive households, characterized by limited land availability and sales in very high price points. Round Rock, Cedar Park, Leander, and other areas along the I-35 North corridor are considered high activity submarkets, with multiple actively selling master-planned communities and homes offered across a variety of price points. These high activity areas account for over half of all MSA new home sales. Bastrop, along with Manor, Manchaca, Kyle, and Buda, are less mature, but strong 'emerging' areas, characterized by value-oriented homes and large land availability. These 'emerging' areas will likely begin to play a larger role in the regional housing market as the most desirable land in the high activity areas is developed. Given the MSA's continued growth, new home construction will likely have to be redistributed to other emerging areas that offer strong access to key job centers as well as greater land availability,

where housing at attractive and attainable price points can be delivered. With its established character, commercial and recreational amenities, and improving access, Bastrop should be well positioned to compete with Manor, Kyle, and Buda for this growth, as well as areas in the Southwest (Dripping Springs).

Market Positioning

Within the Southeast portion of the MSA, Southeast Travis County accounts for the majority of sales, with relatively stronger access to employment and commercial amenities, and multiple actively selling communities. Del Valle also accounts for some sales in the area, although in very low price points – a condition we expect to continue. Due to Bastrop’s unique attributes including appealing topography and aesthetics, charming downtown, sense of community, abundant river frontage, and strong recreational amenities, it is well positioned to capture more sales by establishing a critical mass of development projects that offer a variety of price points and specifically target the key buyer types currently in Bastrop, as well as those that are buying elsewhere in the southeastern region of the Austin MSA.

As Bastrop begins to expand home offerings and establish its positioning in the marketplace as a strong alternative to other nodes of development, the area will likely be able to sell homes at higher price points, particularly in well-executed, diversified master-planned communities that offer an array of lifestyle options, amenities, and home choices. Critical success factors in this evolution include the completion of major infrastructure improvements currently under way (particularly Highway 71 improvements), which will improve access to existing employment nodes in the region, employment gains in Bastrop itself, school improvements, a strong branding strategy, and development catalysts such as a large-scale master planned community and/or active adult community.

Demand

Annual new for-sale housing demand in the Austin MSA is estimated to average approximately 11,000 closings over the next 15 years. Currently the Southeast submarket, which includes Bastrop, accounts for approximately 6% of all MSA closings. We expect that this proportion could likely increase to 10% of all closings in the next five years, 15% by 2020, and up to 20% by 2025. Assuming access, perception, and school challenges are successfully addressed, Bastrop could likely capture a significant share of this momentum, especially in higher price points given the quality of place offered in the community.

Bastrop is also well-suited to appeal to empty nesters and retirees. As this group begins to age and transition between life stages, many will downsize, sometimes purchasing a home in age-restricted or age-targeted communities. Age-restricted communities are generally limited to home buyers 55+ years old. The only currently selling large scale age-restricted active adult community in the Austin region is Sun City Texas in Georgetown. Given Bastrop’s current appeal with this age group, an age-restricted community in Bastrop could very well serve as Sun City’s replacement.

Implementation Strategy

Strategies for capturing a larger share of Austin’s annual home demand are outlined below.

Phase 1 (0-5 Years): In this phase, Bastrop will work to develop a brand, strong sense of place, and community, ultimately establishing a critical mass of households. This will be achieved through offering various housing types, priced from \$150K-\$350K, primarily appealing to young and growing families and empty nester/retirees. At the end of this phase, closings in Bastrop should approach approximately 250 per year, with Bastrop ‘on the map’ as a desirable residential community for the growing Austin MSA as well as to regional retirees.

Phase 2 (5-10 Years): In this phase, Bastrop will begin to offer more diverse housing and community types, with move up homes, highly amenitized communities, etc. The previously described ‘submarket shift’ will begin to take place. Improved access and an established brand will allow Bastrop to capitalize on this shift resulting in approximately 325 or more closings per year. Sun City Texas will likely be nearing

build out, offering a strong opportunity to attract active adult buyers still looking to relocate to Central Texas. Taking into account demand from local, regional, and national buyers, a well-executed AAC in Bastrop could potentially achieve over 300 sales annually.

Phase 3 (10+ Years): Multiple communities and housing types make Bastrop an attractive option for a variety of market segments. The emergence of a local employment core will also continue to influence growth in Bastrop.

Offering a wide range of housing types in various price ranges will be a critical success factor in Bastrop's ability to increase its capture of MSA home buyers, as well as begin to sell at higher price points. As development reaches a critical mass and communities in Bastrop begin to mature, a greater variety of higher density and alternative housing will become feasible. In the near term, the strongest development opportunity will be for homes on lots between 50'-60' wide lots priced between \$150K-\$250K, homes on lots between 60'-65' wide lots priced between \$200K-\$250K, and a limited amount of larger lot housing priced above \$300K.

Various study areas lend themselves to certain types of development:

- **XS Ranch** – Master-planned community with active adult component; premium homes based on nature, park, and view offerings
- **Texas 71** – Value-oriented small and medium lot SFD, oriented towards younger families
- **FM 969** – Closer to Highway 71 positioned as value-oriented homes (small and medium lot SFD); River frontage oriented towards larger lot and premium housing
- **FM 20** – Appealing topography provides some premium opportunities, small to large lot SFD
- **Tahitian Village** – Custom home and acreage sales in slightly higher price points with lower sales volume due to unique topography

Rental Housing

The current supply of market rate multifamily rental communities in Bastrop is very limited, and mostly located along Highway 71. While older communities are achieving lower rents, the two newer communities in Bastrop, Walnut Ridge and Lodge at Lost Pines, are achieving much more attractive rents, averaging \$1,040 per unit or \$1.15 per square foot.

As Bastrop continues to experience household growth, the demand for renter housing will increase. New renter households will be attracted to the area due to nearby retail, services, schools, and other amenities that serve the growing household base as well as renters looking to locate proximate to nearby family members. In addition, demand for new multifamily rental housing will be driven by employment growth in Bastrop, as market segments who rent often choose their home based upon proximity and access to their jobs as well as neighborhood services/retail. For this reason, we expect the opportunity for new multifamily housing development in Bastrop to grow significantly if the local employment base grows. The type of rental housing demanded will depend largely on the household incomes of these renters, which will be driven by the type of employment Bastrop attracts.

Currently, only 7% of renter households rent in buildings with 10+ units in Bastrop County, well below the Austin MSA average at 48%. This lower than average proportion of renters in larger multifamily communities is attributable primarily to limited supply offerings, suggesting that there is likely pent up demand for more traditional multifamily rental apartments. (See page 47 of the report.)

Based upon current household growth trends, as well as the likely pent up demand for renter housing, we estimate annual demand for 150 to 225 units per year in the next five years, which equates to one small to moderately sized apartment community per year. There is additional upside to this demand should an employment center emerge comprised of jobs less dependent on retail services and leisure.

Critical Assumptions

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers.
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

Comprehensive Housing Supply and Demand Analysis Bastrop, Texas

Prepared for Bastrop Economic Development Corporation | Bastrop, Texas | September 23, 2015

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Objectives

Our objective for this assignment has been to conduct a comprehensive housing market analysis for the city of Bastrop, providing market-driven demand recommendations and a comprehensive review of the current availability of housing in Bastrop. In order to do so, we have analyzed the current macro economic context for Bastrop, highlighting key strengths and weaknesses in its ability to capture an increased share of Austin MSA housing activity.

Our analysis addresses the following major questions:

- Who is currently being drawn to the area? How could new forms of housing impact the market audiences drawn to the area?
- What types of products are being offered in the Bastrop market? What market audiences are missing from Bastrop? How will new forms of housing help attract different types of households to the area?
- What are the key strengths and weaknesses of Bastrop? What incentives or policy changes could increase the likelihood of further high-quality housing development?
- What is a realistic timeline for delivering higher-value housing in Bastrop?
- How can Bastrop incorporate quality workforce housing options (homes priced under \$200K) as the area continues its strong growth?



Key Findings

The Austin MSA has steadily rebounded from the recession, continuing to enjoy consistently stronger job growth than the nation as a whole. The MSA has continued to expand substantially, adding about 37,000 jobs in 2013, with future projections suggesting near-term employment growth of more than 30,000 jobs per year. This growth will be driven primarily by Government, Trade, Transportation, and Utilities, and Professional Services.

The housing market in the Austin MSA has experienced a similarly strong recovery since the recession, characterized by increased construction levels, closings, and permitting activity. As construction activity has continued to increase, closings have substantially outpaced lot deliveries, leading to a depletion of inventory and a strong uptick in new home prices. We expect the housing market to continue steady growth, although expect a moderation in price increases as supply begins to catch up with robust demand conditions.

Compared to the MSA, Bastrop County is an area characterized by a much more mature population, with households aged 55+ accounting for over half of households in the county. These current demographics indicate the desirability of Bastrop's charming downtown, affordability, and commercial and recreational amenities to empty nesters and retirees. Further capitalizing on current appeal to these mature market segments, as well as beginning to attract more young and mature families, will be a critical success factor in Bastrop's long term success.

Housing supply and demand dynamics greatly vary across the Austin MSA. More mature locations, primarily in the Central, West, and Southwest areas of the MSA, are considered "historically favored" submarkets and characterized by limited land availability, and sales in very high price points. The North and Northwest areas of the MSA are considered "high activity" submarkets, with multiple actively selling master planned communities and product stemming all price points. These "high activity" areas account for over 50% of all MSA new home sales. Bastrop, along with the East, Southeast, and South areas of the

MSA, is considered an "emerging" area, characterized by value-oriented product and large land availability. These "emerging" areas will likely begin to play a larger role in the regional market as the most desirable land in the "high activity" areas continues to build out.

In recent history, job and household growth has been directed towards the North and Northwest. However, with the most desirable areas of these submarkets approaching build out, and land availability shifting further away from Austin employment hubs, these submarkets will likely begin to lose market share. This market share will be redistributed to other emerging areas that offer strong access to Travis County jobs and greater land availability. With its established character, commercial and recreational amenities, and improving access, Bastrop should be well positioned to compete with the South and East submarkets for this growth.

Key Findings

Within the Southeast area of the MSA, Bastrop currently accounts for just 15% of new home sales. Southeast Travis County accounts for the majority of sales, with relatively stronger access to employment and commercial amenities, and multiple actively selling community and product options. Del Valle also accounts for some sales in the area, although in very low price points – a condition we expect to continue. Due to Bastrop’s unique attributes including appealing topography and aesthetics, charming downtown, sense of community, abundant river frontage, and strong recreational amenities, it is well positioned to capture more higher end sales than the rest of the Southeast area in the mid to long term.

Bastrop will benefit from a variety of established competitive advantages over other emerging submarkets including access to services, shopping, retail, and recreational amenities, proximity to Hyatt Lost Pines, availability of land, established character and cultural attributes, and appealing topography. Opportunities to increase Bastrop’s desirability exist in terms of access to regional employment, growing local employment cores, improving school performance, and establishing a strong, positive perception. Strategies for each of these strengths and challenges are provided throughout this report.

In the near term, Bastrop can begin to develop a critical mass of development via more value-oriented housing options in addition to a potential large scale active adult community. As Bastrop begins to expand product offerings and establish a “sense of place”, more diverse community and product offerings in higher price points will become feasible. Critical success factors in this evolution include a strong product segmentation strategy, access, employment, and school improvements, a strong branding strategy, and a development catalyst such as a large scale master planned community, active adult community, or both.

A well-executed, large scale master planned community, as described throughout this report, could potentially capture up to 15%-20% of the SE submarket sales, assuming a strong segmentation strategy penetrating multiple price segments with various product types and community orientations. Such a community could likely achieve 100-150 sales in the first phase of development (0-5 years), 180-225 sales in the second phase (5-10 years), and over 300 sales in later phases of development., although this number will vary greatly depending on size and scale of the community, and future competition. In order to achieve such absorption, the community must have a well segmented product strategy, appealing to a very wide range of buyer types and price points.

Assuming Bastrop is able to offer multiple new home products and communities, including a master planned community, but also builder subdivisions and other orientations, a critical mass will establish, creating momentum for growth. With multiple types of development, Bastrop as a whole could likely achieve +/- 250 sales annually in early years, ramping up to +/- 325 sales annually in years five to 10, and up to 400+ sales in the very long term, once Bastrop is established and a submarket shift has begun to materialize. There is also a significant potential upside from a large scale active adult community, from 50 sales in early years to over 200 sales in later phases, as these communities can often have a broader regional and even national appeal than more conventional product.

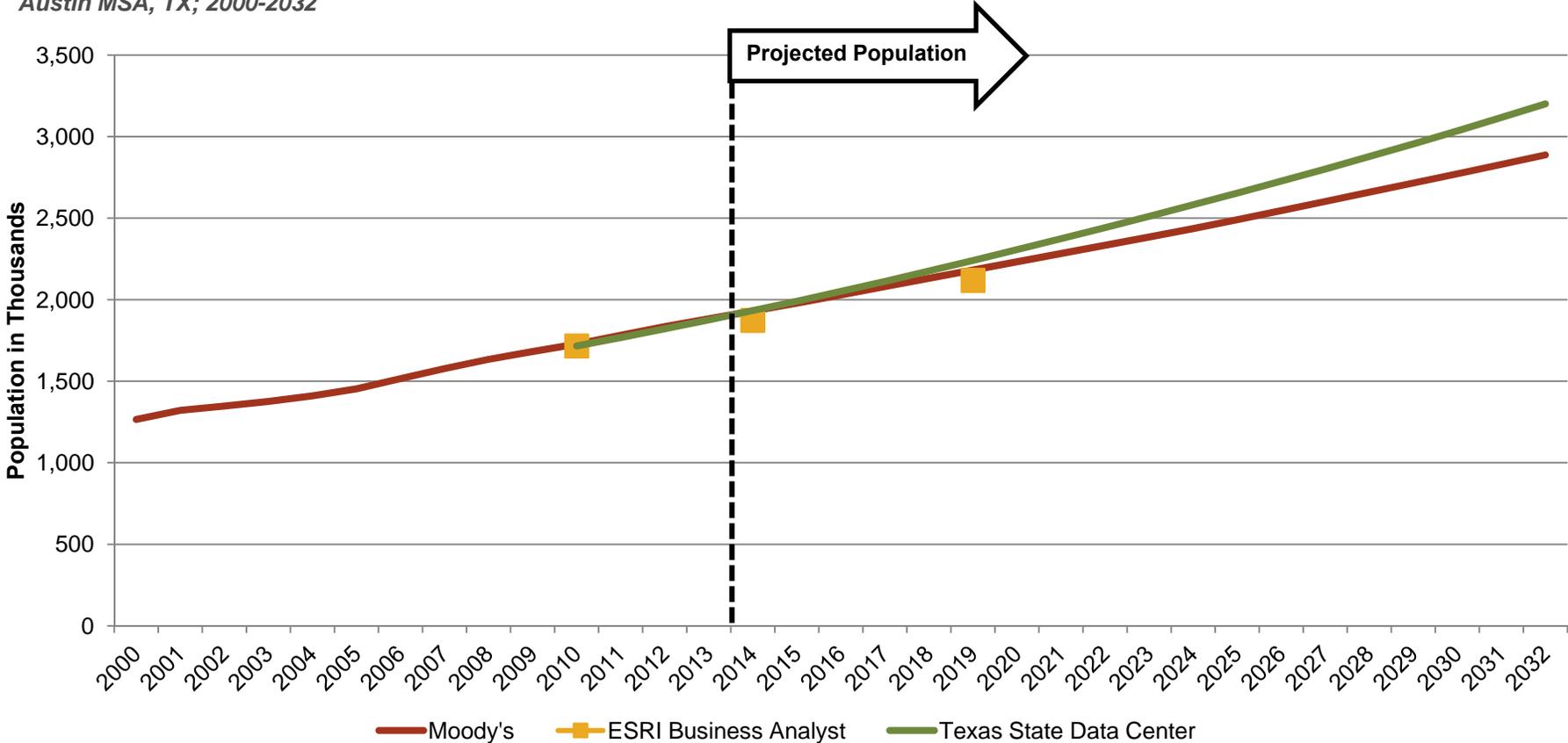
Economics and Demographics

Population and Household Growth

The Austin MSA is projected to grow substantially over the next two decades, adding more than one million people. Overall, the Austin region is projected to add about 50,000 residents annually, driven by strong job growth and the area's positive reputation, especially among younger residents. This population growth should translate to more than 22,000 new households per year over the next decade.

Historically, Bastrop County's share of total Austin MSA population has ranged from 4.6% in 2000 to its current level, a historical low, of 4.1%. While the county's share has declined slightly since 2000, this trend is likely to reverse in the future. By 2032, the county's share of MSA population is projected to return to its historical high of 4.6% indicating an average annual population growth rate of 4% in Bastrop County over the next 20 years.

**Historical and Projected Population
Austin MSA, TX; 2000-2032**



Source: Moody's Economy.com; ESRI Business Analyst; Texas State Data Center

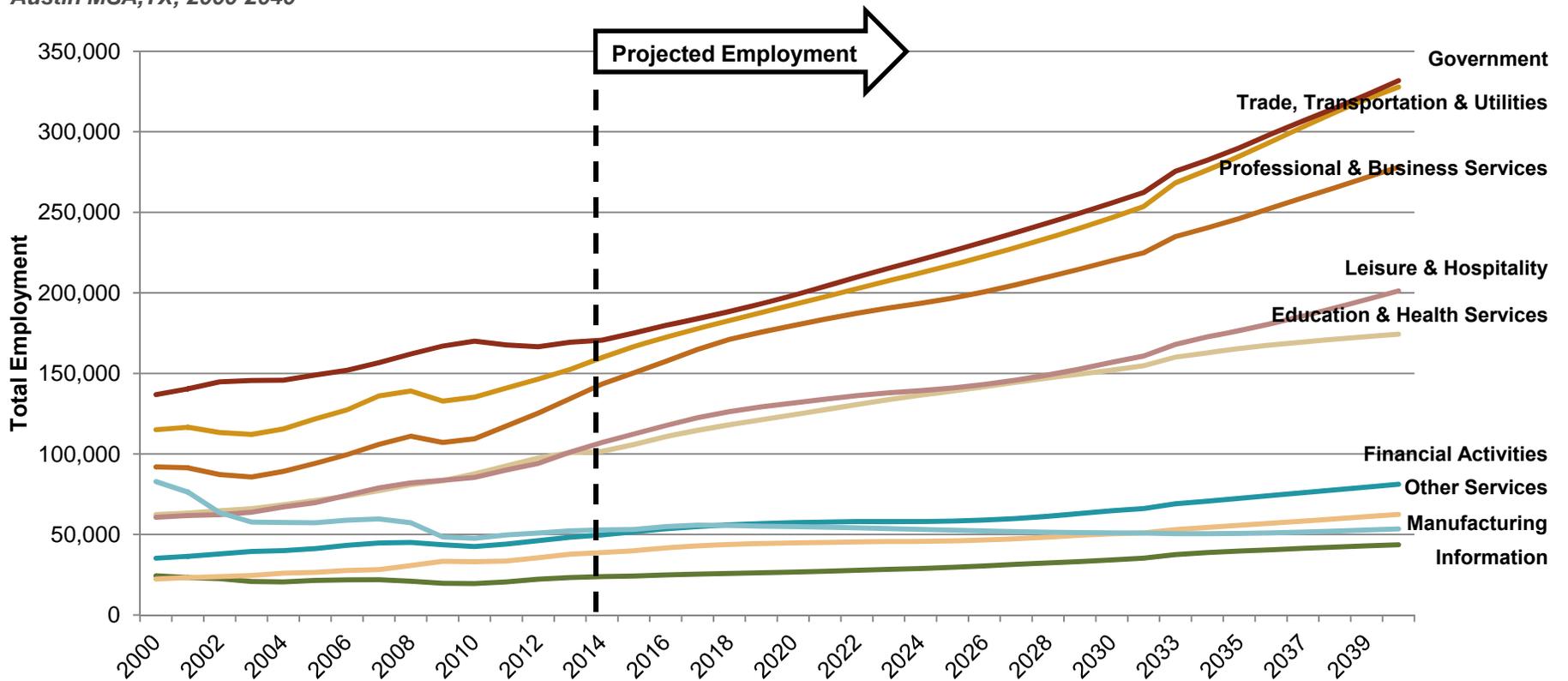


Employment – Austin MSA

The Austin MSA has steadily rebounded since the recession, and continues to expand, with employment growing by 115,000 since 2008. The Austin MSA added about 37,000 jobs in 2013, after adding more than 31,000 in 2012. Future projections indicate near-term employment growth of more than 30,000 jobs per year.

Austin’s economy has seen consistently stronger job growth than the nation as a whole since the tech bust that took place from 2000 to 2003. The economy has since diversified from its heavy reliance on technology employment, seeing strong gains in the Government and Professional Services sectors. Regional job growth continues to be fueled by Government, Trade, Transportation, & Utilities, and Professional Services, which are expected to account for more than half of all job growth over the next five years.

**Historical and Projected Employment by Industry
Austin MSA, TX; 2000-2040**



Source: Moody's Economy.com

Employment – Regional Dynamics

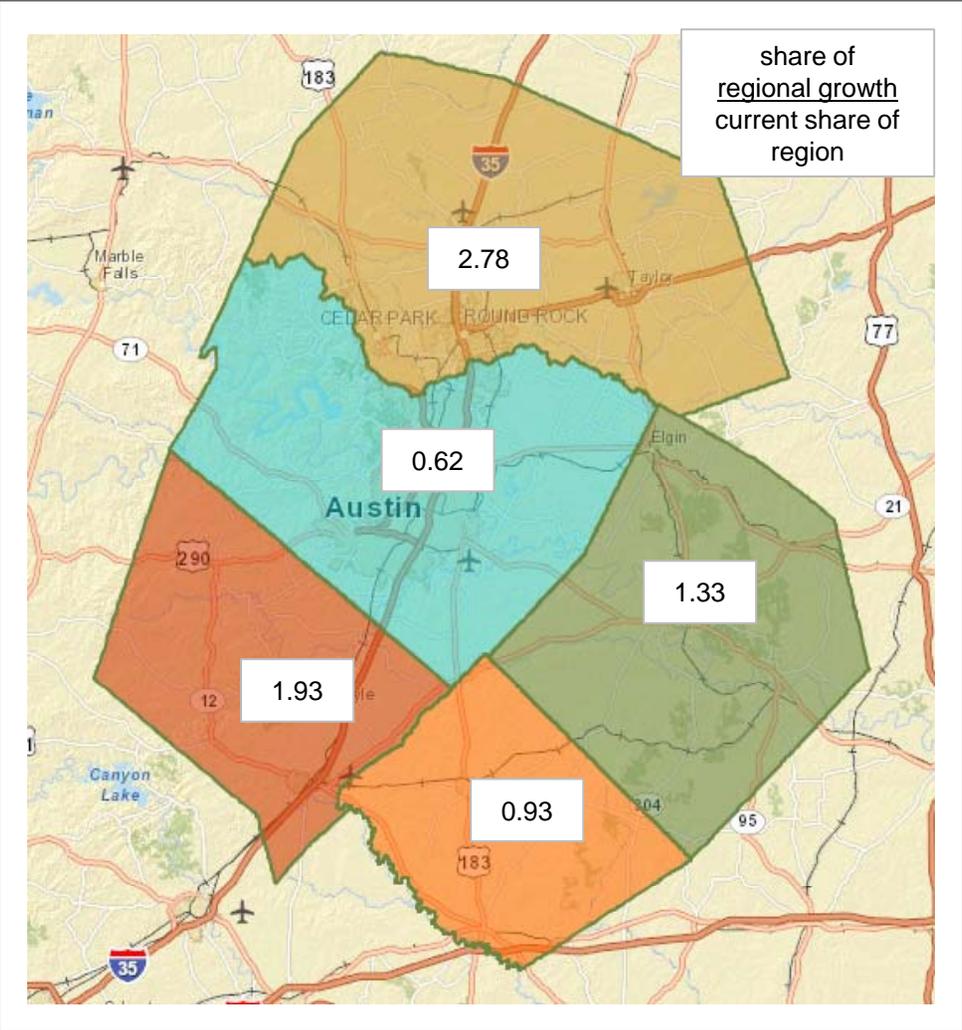
Bastrop County has historically captured a limited amount of the MSA’s employment, ranging from just 1.6% to 1.9% of all employment in the MSA. Thus, Bastrop County remains very residential in nature, demonstrated by its jobs to household ratio of 0.56, compared to 1.2 jobs per household in the MSA overall.

The map to the right displays each county’s “fair share” capture of the MSA’s employment growth since 2001. Counties achieving a “fair share” capture of greater than one captured a greater share of the region’s employment growth from 2001-2013 than their share of employment in the year 2001, while counties with a factor below one captured a lower share of the MSA’s employment growth from 2001-2013 than their share of employment in 2001.

These “fair share” captures indicate the direction of employment growth corridors in the Austin MSA, which lie north and south of Travis County, in Williamson and Hays Counties. Although Travis County continues to account for the largest portion of MSA employment growth, Williamson County has increased its share of MSA employment from 11.6% in 2001 to 16.1% in 2013, capturing 32% of MSA employment growth over that period.

While Bastrop employment is heavily driven by the Trade, Transportation, and Utilities, and Professional and Business Services sectors, similar to the MSA, the nature of employment in Bastrop differs slightly from the MSA as a whole. Namely, Education & Health Services is the largest industry in Bastrop County, accounting for 25% of total employment in the county, versus 12% in the MSA.

**Historical Fair Share of Employment Growth
Austin MSA, TX; 2001-2013**



Source: Bureau of Labor Statistics



Employment – Regional Dynamics

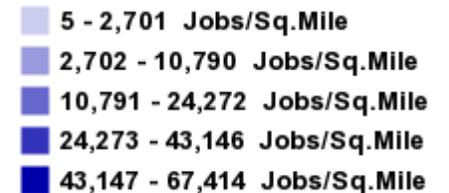
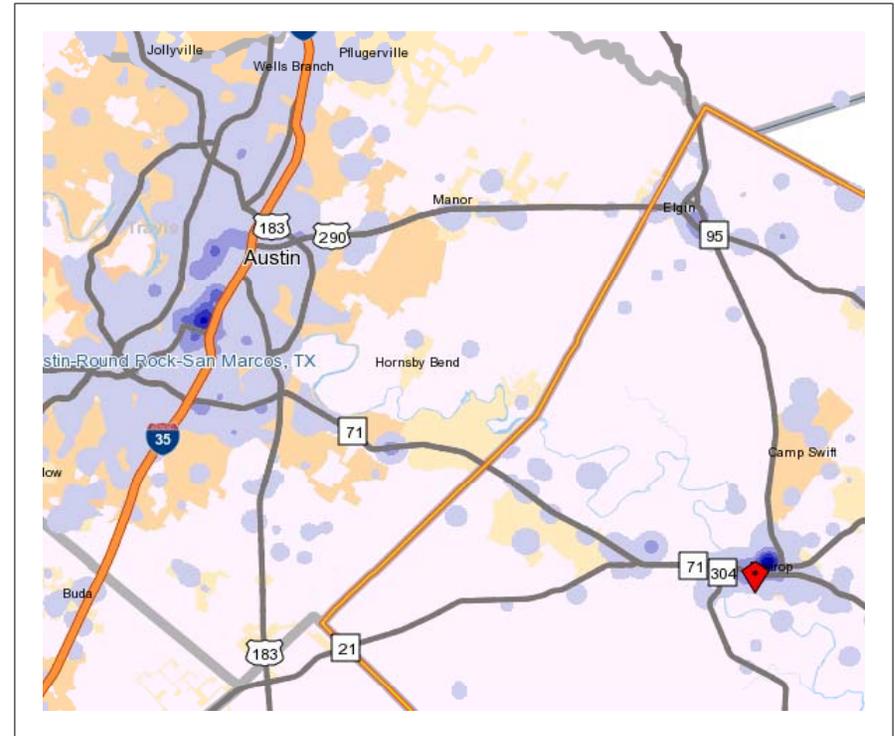
Due to Bastrop’s limited employment opportunities, only 16% of Bastrop County residents are employed within the county. The remaining 84% of residents commute outside of the county to other employment cores across the MSA. Thus, only 11% of workers commute less than 10 miles, while 45% commute 10 to 50 miles, and the remaining 44% commute over 50 miles.

One-third of commuters are employed in the city of Austin (as shown by the map to right). This demonstrated willingness of Bastrop residents to commute to the Austin CBD bodes well for further residential development in Bastrop, suggesting that home buyers may trade off further commute distances for superior value, lifestyle, and commercial and recreation outlets offered in Bastrop.

Additionally, over 50% of Bastrop County workers live outside of the county, suggesting there may be an opportunity to attract these workers to become both employees and residents of Bastrop County, should more appealing product and communities be offered.

Historically, higher end residential development has followed job growth corridors in the region, exemplified by the growing employment cores and higher end residential offerings north and northwest of the Austin CBD. Thus, the feasibility of higher end residential product in Bastrop will be partially dependent on bringing jobs to the area. This effort is currently being spearheaded by the Bastrop Business and Industrial Park, which offers a variety of attractive economic incentives and has experienced a recent uptick in activity, with multiple deals currently in the pipeline. Additionally, other opportunities to capitalize on Bastrop’s proximity to Austin Bergstrom International Airport will likely help further recruit IT and Professional Services employment. Further efforts of this nature will be critical in establishing employment, and thus advancing the development opportunity in Bastrop.

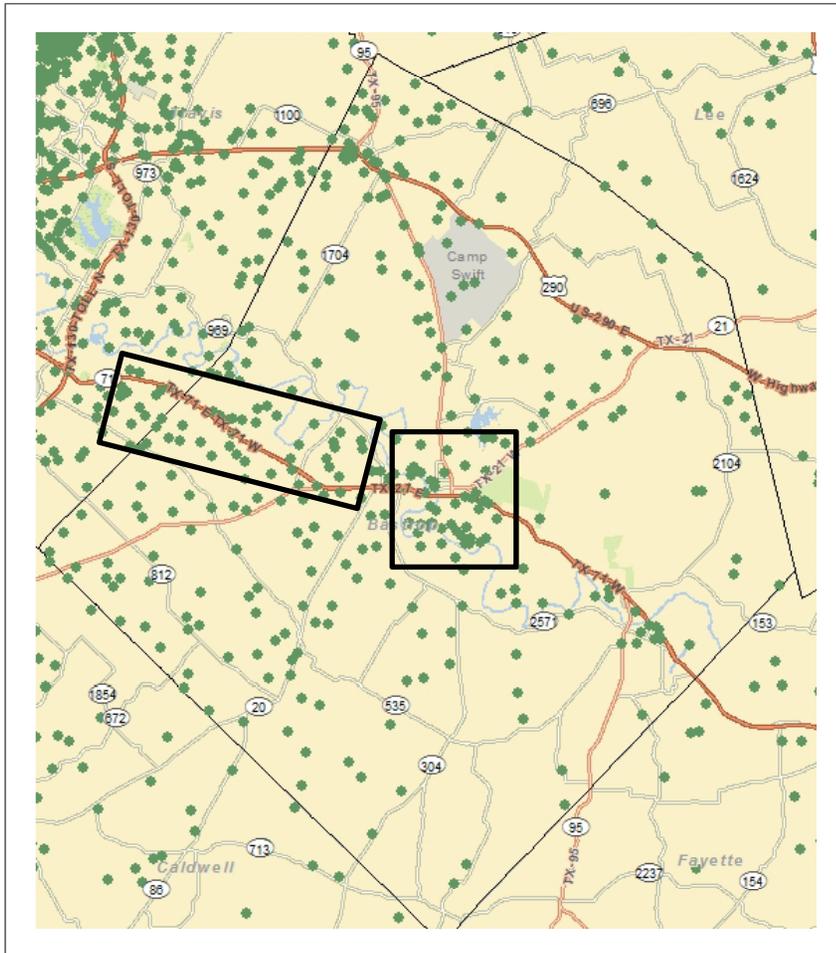
**Commuting Patterns for Bastrop County Residents
Austin MSA; 2011**



Source: U.S. Census

Demographics

**Map of Households with Incomes \$75,000+
Bastrop County; 2013**



MAP KEY
1 dot = 25 HHs with Inc. \$75K+

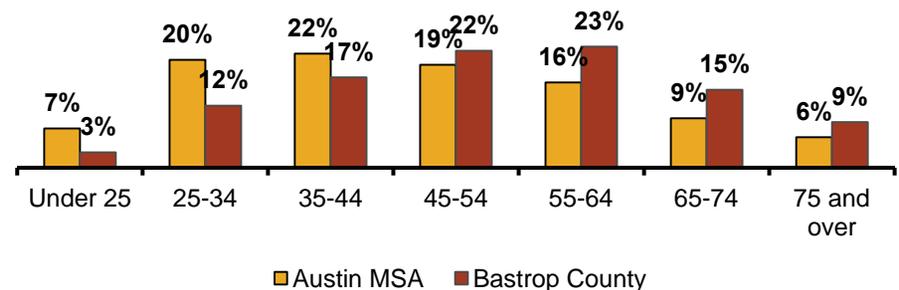
Source: ESRI Business Analyst

Bastrop County is an area characterized by more mature demographics, including a high proportion of empty nesters and retirees. Both demographic groups have substantially higher shares of representation in Bastrop County than at the Austin MSA level, with nearly 50% of households in Bastrop County aged 55+, compared to just 31% in the MSA. These demographics demonstrate the appeal of Bastrop’s character, affordability, and location to more mature market audiences.

The relatively lower proportions of younger market audiences in Bastrop County is largely due to the limited employment opportunities in the area. If local employment cores grow, the growth of this market segment will naturally follow.

Largely indicative of its location outside of the historically favored quarter and current growth corridors, Bastrop County has a much lower proportion of higher income households than the MSA as a whole. In the MSA, just under 30% of households make above \$100,000, compared to 20% in Bastrop County. Within Bastrop County, the largest concentrations of higher income households (\$75,000+) are located near downtown Bastrop, and along the Highway 71 corridor towards Austin, as indicated on the map below.

**Distribution of Households by Age of Householder
Bastrop County and Austin MSA; 2014**



Housing Market Trends

Housing Market Conditions – Austin MSA

The recovery in the new home sales market is well underway, with over 9,000 closings recorded for the Austin region in 2013, an increase of 25% from 2012 levels. Activity recorded during the first three quarters of 2014 indicates a 12% increase from 2013 levels. Overall, the region is on pace for over 10,000 closings in 2014. Permits reflect a strong recovery in the Austin MSA, with 2014 permits on track to finish 34% above 2013 levels.

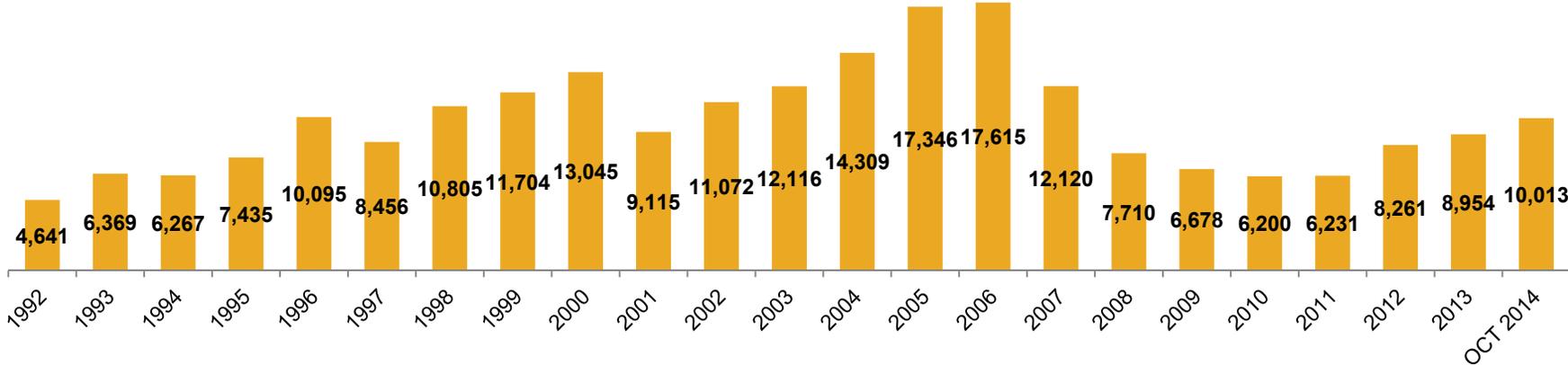
With housing starts continuing to increase year over year since the recession, lot inventories have continued to be depleted by the recovery of housing construction. Austin’s housing market experienced relatively limited inventory growth before the Recession, which limited price depreciation once the Recession began.

Since 2007, closings have substantially outpaced lot deliveries, leading to a tightened inventory environment. However, lot deliveries have exceeded closings during all three quarters of 2014, a supply condition

that has not occurred since before the recession. Should these dynamics continue, price increases are likely to moderate as supply begins to finally catch up with robust demand conditions.

Inventories remain tight in the Austin MSA, with just over 17 months of vacant developed lot inventory, well below the equilibrium level of 24 months (assuming structural demand of 11,500 homes per year in Austin). Housing inventory stands just above the equilibrium level of six months. Given that a sizeable portion of this inventory is contained in projects with limited access to capital or in poor locations, the inventory situation is much tighter for well-located master-planned communities. Given the current inventory situation, and the lack of a large concentration of well-located master-planned communities in the Austin area, there is a significant opportunity for new community development, especially as desirable land in favored submarkets dwindles.

**Historical SFD Permitting Activity
Austin MSA; 1992-October 2014**



Source: HUD; Austin Board of Realtors; TAMU Real Estate Center

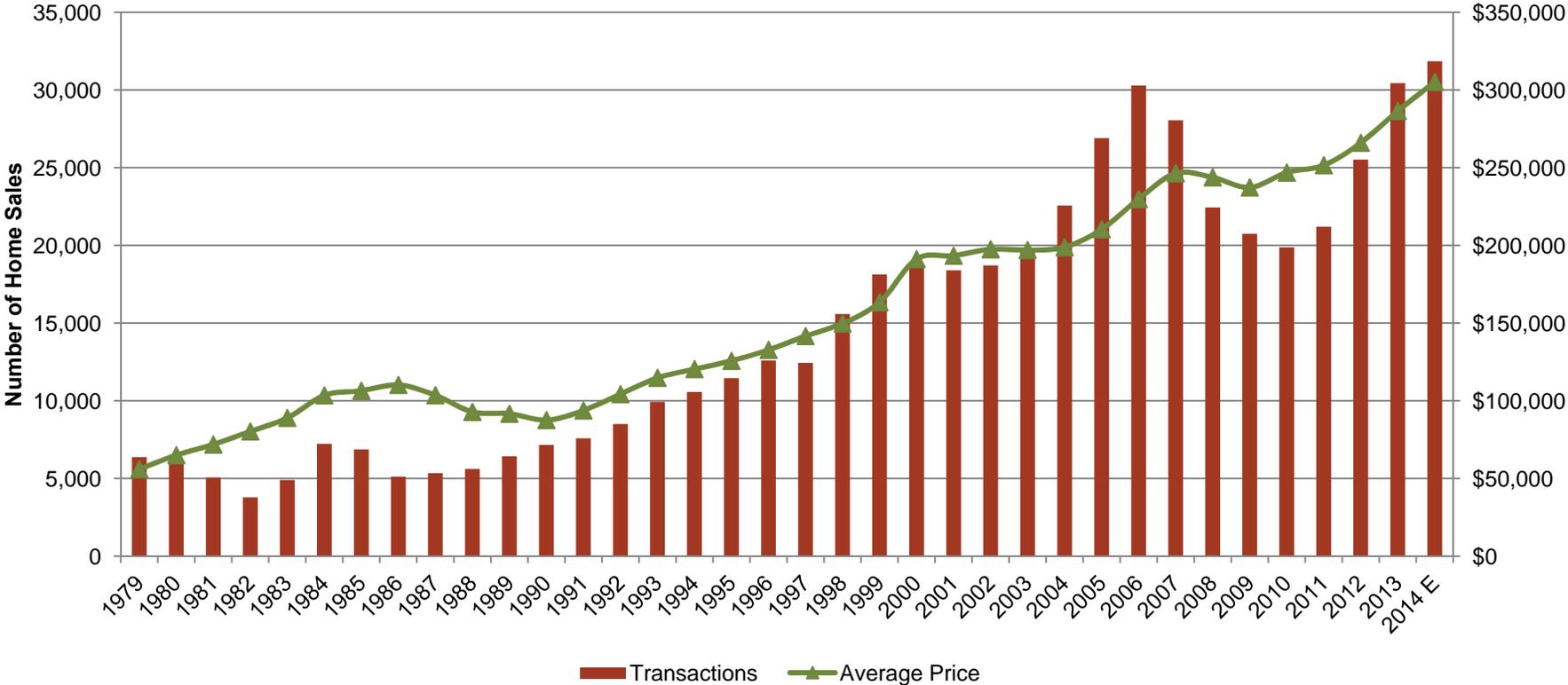


Housing Market Conditions – Austin MSA

Overall resale activity continues to increase in the Austin MSA. Resale activity increased by 19% in 2013, with less than three months of inventory remaining at the end of the year. Based on activity recorded through October of 2014, home sales activity is expected to only increase 5%, moderated by very low inventory.

Prices have increased steadily since the downturn, and are likely to increase further, but at a more moderate pace as supply begins to catch up to robust demand conditions. Average prices have increased about 29% since bottoming in 2009, reaching an all-time high of \$305,200 in 2014.

Home Sales Volume and Average Resale Price: Austin MSA 1979-2014



Source: Austin Board of Realtors; TAMU Real Estate Center



Housing Market Conditions – Southeast Submarket

Similar to the MSA, new home sales in the Southeast Submarket have continued to recover. Sales increased markedly since 2012, partially attributable to the opening of a new section of McKinney Heights. Additionally, competitive access to Central Austin employment and relative affordability have contributed to the Southeast submarket's recovery.

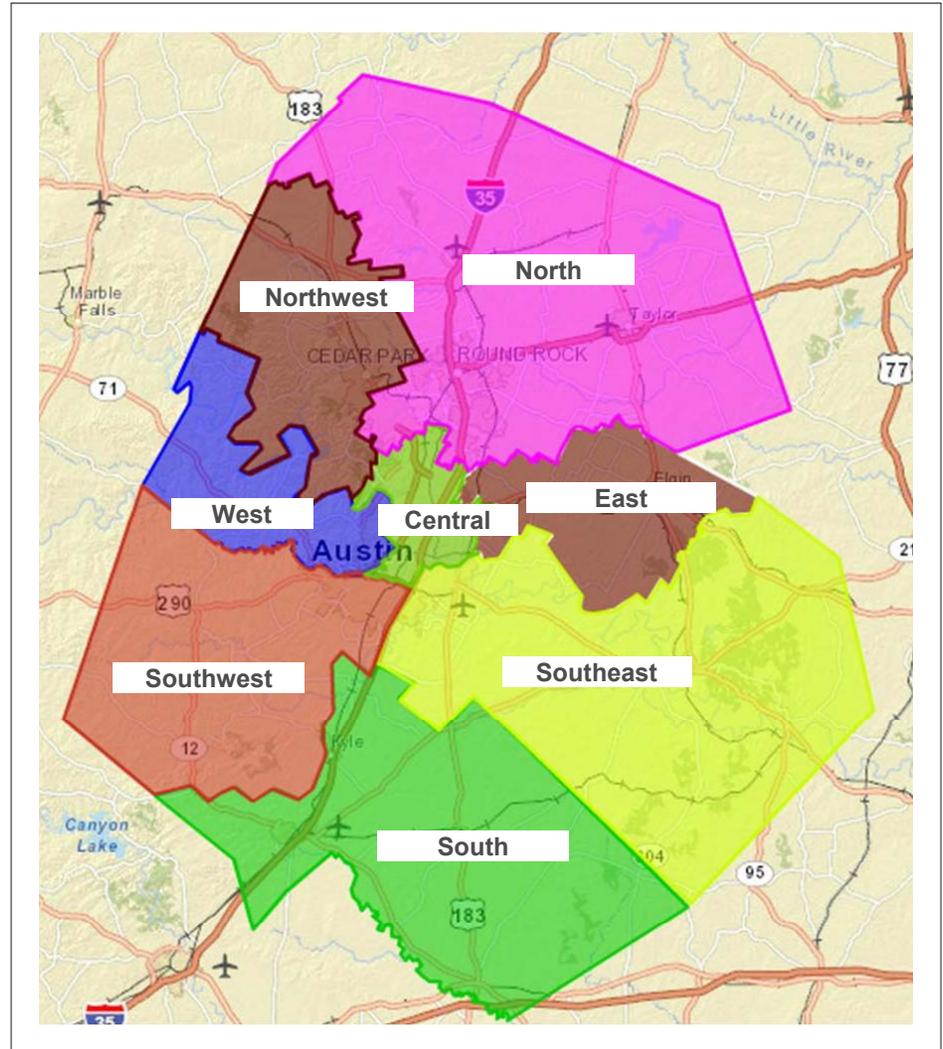
Inventories are tightening in the Southeast submarket, with just over 14 months of vacant developed lot inventory, assuming current structural demand of 700 homes per year. Housing inventory stands at five months, just under the equilibrium level of six months.

According to Metrostudy, the Southeast submarket has captured approximately 7% of all MSA closings since the Recession. The area has increased in popularity over the last 14 years but is experiencing increased competition from the East and South Submarkets as communities there begin to develop.

The Southeast submarket would likely be able to increase its capture with the development of new large scale communities. Currently, Austin's Colony and McKinney Heights are the only large scale communities in the area, with the rest of new home offerings characterized as builder subdivisions with limited product segmentation and amenities. The delivery of a new master-planned community with a variety of products, high-quality amenities, and convenient access to the Austin MSA will likely enhance the Southeast Submarket's ability to capture a higher proportion of new home closings in the region.

Additionally, as lot prices in the preferred North, Northwest, and West submarkets continue to increase rapidly, along with the fact that these areas are increasingly removed from key job centers, momentum should increase in the Southeast submarket.

Map of Austin MSA Submarkets



Source: RCLCO; Austin Board of Realtors; TAMU Real Estate Center; Metrostudy

Submarket Dynamics

Submarket Dynamics

Currently, the submarkets in the Austin MSA fall into three different categories, defined by the following market dynamics:

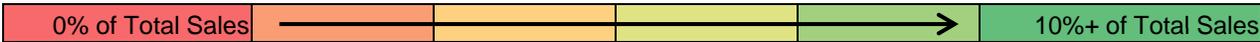
- Historically Favored “High End”:** These markets are the most desirable in the region among executive households, but have relatively less available land for new construction of any magnitude given topography challenges, access to utilities, environmental concerns, and high land costs. They generally achieve very high price points, but account for a relatively small proportion of new sales. Historically favored submarkets include the Southwest, West, and Central submarkets. Combined, these submarkets account for less than 25% of closings in the MSA, but make up over half of all sales above \$350K.
- High Activity:** These submarkets represent a large proportion of new construction activity in the region, including the majority of

large scale MPC development. They account for a high proportion of sales across multiple price points, due to well-segmented product programs simultaneously selling in multiple communities. These submarkets include the North and the Northwest, which combined account for 52% of total MSA closings, and over half of MSA closings \$250,000+.

- Emerging:** These submarkets are characterized by relatively lower total sales, that tend to be concentrated in lower price points (below \$250,000). These submarkets have abundant available land with relatively good access to key employment centers and various amenities, and thus are ripe to capitalize on the likely shift of momentum in the MSA in the next 4-10 years. These submarkets include the Southeast, East, and South which currently account for 23% of all MSA sales, but just 11% of sales over \$250,000.

Distribution of Austin MSA New Sales by Submarket and Price Point 2014

PRICE RANGE	Submarket							
	EAST	SOUTHEAST	SOUTH	NORTH	NORTHWEST	SOUTHWEST	WEST	CENTRAL
\$100,000 - \$149,999	Red	Yellow	Yellow	Yellow	Red	Red	Red	Red
\$150,000 - \$199,999	Orange	Light Green	Light Green	Light Green	Yellow	Red	Red	Orange
\$200,000 - \$249,999	Yellow	Orange	Yellow	Light Green	Light Green	Yellow	Orange	Orange
\$250,000 - \$349,999	Yellow	Orange	Yellow	Light Green	Light Green	Light Green	Light Green	Yellow
\$350,000 - \$499,999	Red	Red	Red	Light Green	Light Green	Light Green	Light Green	Yellow
\$500,000 and above	Red	Red	Red	Yellow	Yellow	Orange	Light Green	Orange
TOTAL MSA CAPTURE	5.0%	6.1%	11.9%	33.0%	18.2%	9.2%	9.1%	5.8%
	Emerging			High Activity		Historically Favored		



Source: RCLCO; Metrostudy



Submarket Shifts

As demonstrated on the previous page, the Central, West, and Southwest submarkets are either building out, or becoming increasingly challenging to deliver at price points under \$300,000, and thus will likely each continue to capture less than 10% of new MSA home sales. In other words, we expect very little change in the dynamic of these submarkets, as they are likely to continue to account for a small amount of new home closings, largely concentrated in price points well above the market median.

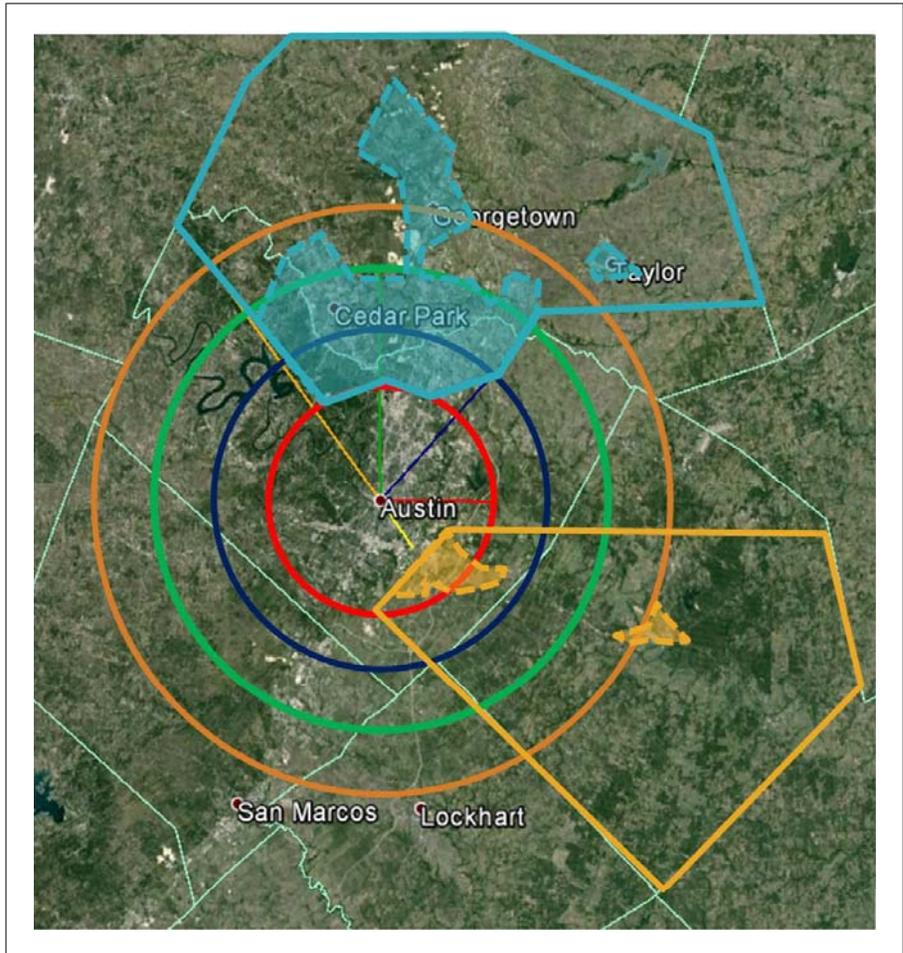
On the contrary, it is likely that the dynamic of the high activity North and Northwest submarkets will change substantially in the next five to 10 years. The most desirable Travis County portions of the North and Northwest submarkets (areas with strong access to employment and other regional amenities) are nearing build out, and thus activity and growth will soon have to shift primarily to the Williamson County areas of these submarkets, much of which are very distant and served by inadequate infrastructure.

As the North and Northwest submarket offerings begin to exist only in further out areas of Williamson County, these submarkets will become less attractive to employees who commute to the Austin CBD. This trend is already starting to become apparent – 45% of commuters in closer in areas of Round Rock, Cedar Park, and Pflugerville commute to the Austin CBD, while just 33% of commuters in further out areas (Liberty Hill and Georgetown) commute to the CBD. As the North and Northwest submarkets continue to appeal less to Austin CBD employees, other submarkets offering a more attractive commute will gain popularity.

These dynamics suggest that demand will have to shift to other locations in Travis, Hays, and Bastrop Counties (South, Southeast, and East Submarkets), which offer stronger access than the more remote regions of Williamson County to the growing job centers in Travis County.

Source: RCLCO

**Map of Regional Dynamics
Austin MSA**



Note: Shading represents areas that are primarily built out

Competitive Submarket Positioning

As indicated on the previous pages, the Southeast, South, and East submarkets are most well suited to capitalize on the submarket shift likely to take place in the region, based on land availability and relative access to Austin MSA employment. The matrix below summarizes each of these submarkets, as well as Bastrop, by attributes that are

generally deemed important by prospective home buyers including perception of the area, access to employment, commercial and recreation outlets, and schools.

**Summary of Competitive Positioning by Submarket
Austin MSA; 2014**

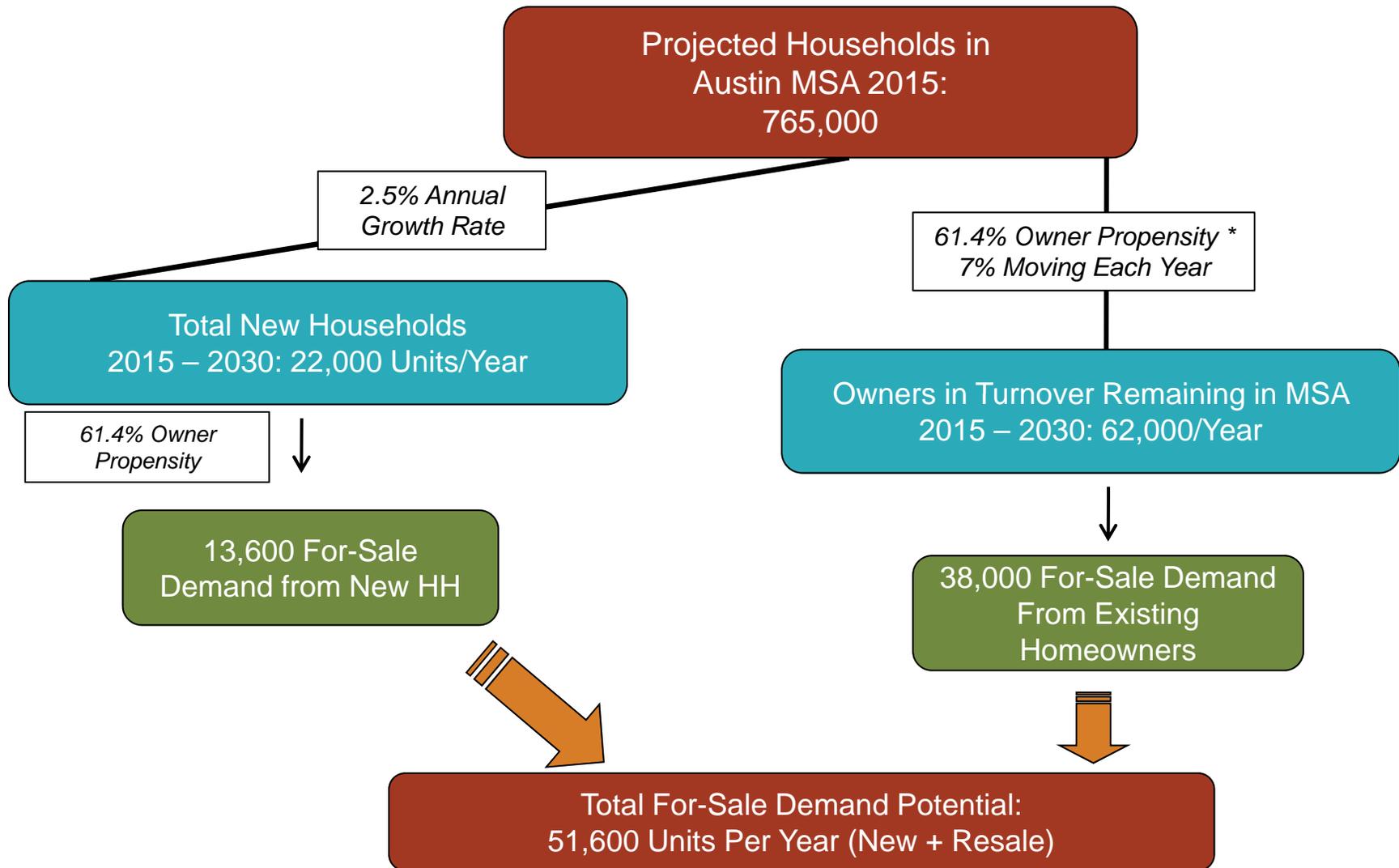
	Bastrop	Southeast (Del Valle, SE Travis County)	South	East
Perception	No established perception, neither negative or positive	Generally unfavorable perception; areas not considered “desirable”	Favorable impression, offers value for first time buyers, young families, etc	Perception is generally unfavorable, very value-oriented
Existing Product Offerings	Limited product offerings outside of large, acreage lots	Just over 70% of all closings are on lots smaller than 50 feet. Large lot sales (90 feet and up) account for 10% of all closings.	Lots in the 50s and 60s account for about half and a third, respectively, of all closings. Smaller lot product (<50’) accounts for the remainder.	Half of all closings were on lots between 50 and 55 feet while the other half were lots smaller than 50 feet.
Access to Employment	Competitive access to Central Austin, although access improvements are likely necessary to compete at MSA level	Strong access to Central and SW Austin jobs from SE Travis County, but less convenient access to other job centers.	Less accessible and high congestion to Central Austin, but provides optimal access to San Marcos and New Braunfels employment as well as emerging employment along the 130 corridor.	Most accessible to job centers near Round Rock and Central Austin via the improved 290 corridor and 130.
Commercial Outlets	Boutique, historical shopping and dining available in downtown Bastrop; in addition to multiple neighborhood and big box offerings	Strong neighborhood and power center retail offerings , although Del Valle communities are located further from these amenities	Good proximity to neighborhood retail, in addition to strong access to large power centers along I-35.	Far removed from retail concentrations, limited grocery store options
Recreational Outlets	Abundant nearby options – Bastrop State Park	Abundant nearby options – McKinney Falls State Park, future Onion Creek Park	Some nearby options – Mary Moore Searight Park	Limited – Walter Long Park
Schools	Bastrop ISD schools are competitive with communities in the South	Schools are less desirable than Bastrop and South submarkets	Hays CSD is competitive with Bastrop ISD; although may be perceived more favorably	Underperforming and least preferred schools



Demand

Austin MSA Demand

Estimated For-Sale Demand: Austin MSA
2015 – 2030



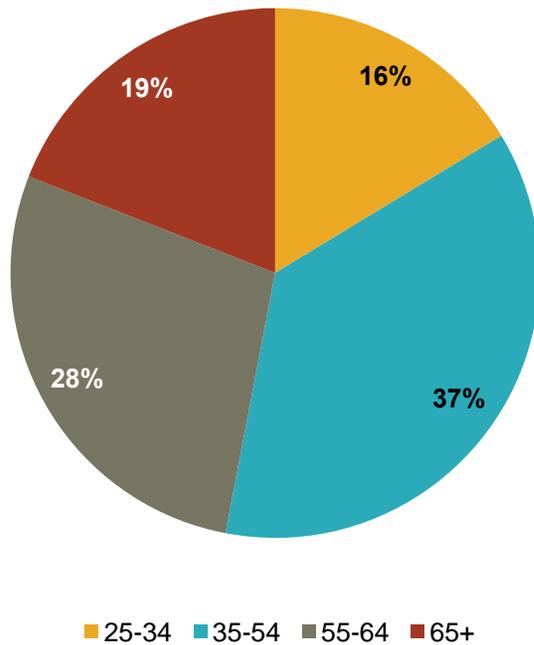
Source: U.S. Census American Community Survey; Moody's Economy.com; RCLCO

Austin MSA Demand

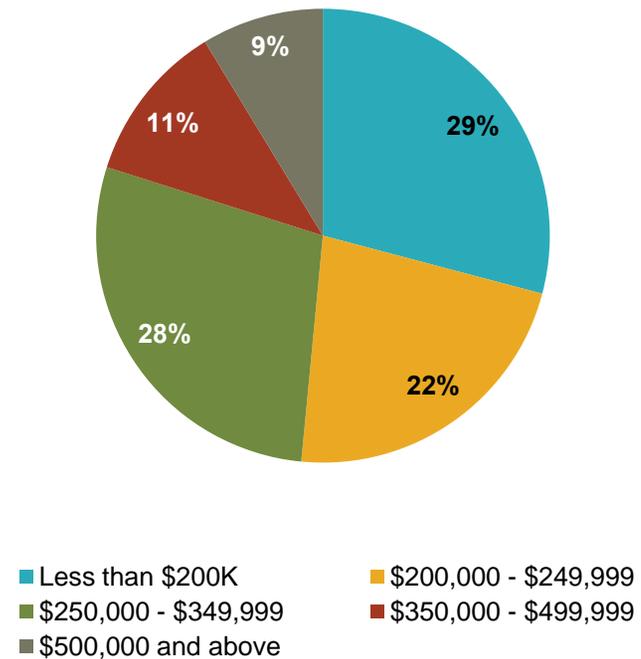
Structural demand, or market potential, for the Austin MSA is well distributed across price bands, offering the opportunity to increase absorption by offering multiple product types to penetrate multiple price points. Just over 50% of demand falls below \$250,000, while another 20% of demand falls above \$350,000. The \$250,000-\$350,000 price band makes up over one-quarter of all MSA demand, and will be an important segment to fully penetrate as Bastrop begins to offer more upscale housing options.

Just over half of structural demand falls in the age range from 25-54, considered to be peak home buying years. Many of these buyers will be young and mature families working in various employment centers in Travis County. The other 47% of demand is concentrated in the empty-nester and retiree categories (ages 55+), a segment which is currently met with few products offered in the area. Well-executed projects offering products targeting these segments are achieving strong sales pace in the MSA.

Structural Demand by Age: 2015-2030



Structural Demand by Price: 2015-2030



Source: U.S. Census American Community Survey; Moody's Economy.com; RCLCO

Southeast Submarket Demand – Current Capture

*Estimated For-Sale Demand: Southeast Submarket
2015 – 2030*



**2015-2030 Average New Home Demand in the Southeast Submarket
(Current Market Dynamics)**

Price Range ¹	SE Submarket Current Capture of MSA Sales	Avg. Annual Demand (2015-2030)
\$100,000 - \$149,999	34%	136
\$150,000 - \$199,999	19%	498
\$200,000 - \$249,999	3%	67
\$250,000 - \$349,999	2%	56
\$350,000 - \$499,999	0%	3
\$500,000 and above	2%	17
Total	6%	777

Source: U.S. Census American Community Survey; Moody's Economy.com; RCLCO



Bastrop Capture of Southeast Submarket

The Southeast submarket can be divided into three subareas: Southeast Austin, Del Valle, and Bastrop.

- Southeast Austin** provides relatively stronger access to employment and commercial amenities, and will likely continue to play a strong role in the submarket, with two large scale planned communities in the pipeline, Easton Park and Goodnight Ranch. There have been approximately 350 sales in Southeast Austin in the past year, accounting for over half of sales in the Southeast submarket. Prices range from \$140K to \$250K for SFD product on 40'-50' lots, and \$150K to \$220K for townhome product. Typical communities can achieve 40-50 sales annually, with top performers achieving over 100 sales annually.
- Del Valle** provides strong access to employment, but lacks quality schools, commercial amenities, appealing topography, and sense of community and character, which gives Bastrop a competitive edge for many buyers who will trade off close in location for other attributes. In fact, the success of the Hunter's Crossing community in Bastrop demonstrates the willingness of home buyers to "skip over" Del Valle and accept further out locations in return for other commercial and lifestyle amenities. Del Valle sales have been concentrated in very value-oriented product on smaller lots (30'-50') ranging from \$100K to \$200K, with top communities achieving 30-50 sales annually. The Del Valle area has achieved around 200 sales in the past year.
- Bastrop** In the past year, Bastrop has captured just 15% of closings in the Southeast submarket, which is more indicative of the current supply offerings in each subarea than relative desirability. In the past year, Bastrop has offered products in six different communities, all of which are offering primarily large, acreage lots, with the exception of Hunter's Crossing, which is nearing build out and offers 60' lots. In comparison, Southeast Austin offers seven communities with lot sizes ranging from 40' to 50', two of which are large scale communities with some amenity offerings and multiple

product lines. Del Valle has 11 communities currently offering products on 30'-60' lots, four of which are achieving notable sales pace (30+ sales annually).

Our analysis suggests that the desirability of Bastrop is in line with, if not surpassing, other subareas in the Southeast submarket. However, the current product offering in the Bastrop area is not competitive with offerings across the submarket. Thus, Bastrop's ability to improve its capture of the Southeast submarket depends on its ability to offer multiple communities with product diversity to appeal to the depth of demand. Bastrop's position within the submarket can be further enhanced by the offering of a large scale master planned community, which will help to develop critical mass of development, generate activity, provide multiple product lines, and begin to penetrate the depth of potential demand in the Southeast submarket.

Past Year Sales by Subarea Southeast Submarket

	CLOSINGS	PRODUCT TYPE	PRICE RANGE
			MIN - MAX
SOUTHEAST AUSTIN	350	Townhome	\$130,000 - \$275,000
		40'	\$170,000 - \$210,000
		45'	\$130,000 - \$275,000
		50'	\$144,000 - \$215,000
DEL VALLE	200	Townhome	\$100,000 - \$199,000
		30'	\$120,000 - \$125,000
		40'	\$100,000 - \$140,000
		45'	\$115,000 - \$181,000
		50'	\$128,000 - \$199,000
BASTROP	100	50'-60'	\$100,000 - \$150,000
		125'	\$120,000 - \$201,000
		150-200'	\$235,000 - \$310,000
		200'	\$235,000 - \$450,000
			\$260,000 - \$420,000

Source: RCLCO

Southeast Submarket Demand – Potential Capture of MSA

Although the Southeast submarket is currently capturing only 6% of sales in the MSA, this is strongly influenced by the limited new supply available in the submarket. Since 2003, the Southeast submarket's capture of the MSA has ranged from 5%-9%, with an average capture of 7% of MSA sales.

Multiple supply and demand conditions will create the opportunity to potentially increase this capture of MSA sales across multiple phases of development. Strategies for increasing this capture are as follows:

- **Near term:** There is currently a limited amount of new, well-segmented product being offered in the SE submarket. Offering new, value-oriented product targeting primarily young families, will allow the submarket to achieve closer to a 10% capture of the MSA, once a critical mass of development is achieved. This is comparable to what is currently being achieved in the South submarket.
- **Midterm:** The submarket shift (as described on pages 16-18) will likely begin to take place, shifting momentum towards submarkets

with well-located, readily available land, to include the East, South, and Southeast submarkets. The SE submarket offers a competitive option amongst these submarkets; and with improvements to employment access, perception, and schools, will be well positioned to capitalize on these changing market dynamics.

- **Long term:** As the area matures, local employment cores emerge, and multiple communities with various orientations and products are offered simultaneously, the Southeast submarket, namely the Bastrop area, has the potential to become one of Austin's most desirable areas, with the potential to achieve attractive pricing and strong sales pace.

The assumptions and further details regarding each development phase and likely submarket captures are provided on the following page.

MSA Capture and Potential Average Annual Demand Southeast Submarket; 2015-2030

Price Range	Capture of MSA				Avg. Annual Demand Potential			
	Current	Phase 1 (Years 0-5)	Phase 2 (Years 5-10)	Phase 3 (Years 10+)	Current	Phase 1 (Years 0-5)	Phase 2 (Years 5-10)	Phase 3 (Years 10+)
\$100,000 - \$149,999	34%	30%	28%	25%	127	122	110	104
\$150,000 - \$199,999	19%	25%	23%	20%	369	587	611	583
\$200,000 - \$249,999	3%	5%	12%	20%	55	124	275	497
\$250,000 - \$349,999	2%	3%	6%	10%	57	101	173	317
\$350,000 - \$499,999	0%	1%	3%	5%	6	12	35	66
\$500,000 and above	2%	1%	1%	3%	15	9	9	28
Total MSA Capture	6%	9%	12%	15%	628	955	1,214	1,594

Source: RCLCO; Metrostudy



Southeast Submarket Demand – Potential Capture of MSA

	Phase 1 (0-5 Years)	Phase 2 (5-10 Years)	Phase 3 (10+ Years)
Assumptions	<ul style="list-style-type: none"> Multiple product lines (2-4) are offered in the following price ranges: \$150K-\$200K; \$200K-\$250K; \$250K-\$350K SE submarket is able to attract similar demand as currently being achieved in South submarket with the offering of new product; SW, West, North, and NW Submarkets continue to dominate in higher price points 	<ul style="list-style-type: none"> North and Northwest submarkets approach build out in well-located and desirable locations resulting in a submarket shift; Bastrop is well suited to capitalize on shift Improved access challenges and strong branding and marketing alleviate the notion of Bastrop as "far out" from MSA employment 	<ul style="list-style-type: none"> North and Northwest submarkets are unable to offer affordable homes in meaningful numbers, shifting momentum to South and SE submarkets Emergence of local employment core, in addition to other emerging cores located south of current concentrations
SE Submarket Share of the MSA	<ul style="list-style-type: none"> 10% MSA Capture, beginning to offer product in the \$250,000-\$350,000 price point 	<ul style="list-style-type: none"> 12% MSA Capture; simultaneous maturity of area and submarket shift offer opportunity to increase price points 	<ul style="list-style-type: none"> Up to 15%+ MSA capture in SE Submarket potential; assuming a broad range of price points are being penetrated
Annual Average Sales in SE Submarket (Percent of Sales \$250+)	950 (12%)	1,200 (18%)	1,600 (25%)
Annual Average Sales in Bastrop (Assuming MPC and Builder Subdivisions)	+/- 250	+/- 325	400+

Bastrop offers a variety of unique attributes not available elsewhere in the Southeast, South, or East including available land with appealing topography and aesthetics, charming downtown, sense of community, abundant river frontage, and strong recreational amenities. Taking these attributes into account, it is possible that in the long term, some areas in Bastrop could become an alternative to the Southwest as it gets more expensive and builds out completely. In this sense, Bastrop could grow this unique positioning to capture higher price points in the long run.

Assuming the offerings of a large scale master planned community, as well as multiple builder subdivisions, Bastrop could likely build up to a capture of 25%-30% of Submarket sales, as detailed in the chart above.

This opportunity in Bastrop differs from the rest of the Southeast submarket, which will benefit more from employment cores emerging along I-35 South and very value-oriented product, while Bastrop will benefit more from better access to existing and future employment cores as well as creating its own, and offering a wide variety of product.

Source: U.S. Census American Community Survey; RCLCO

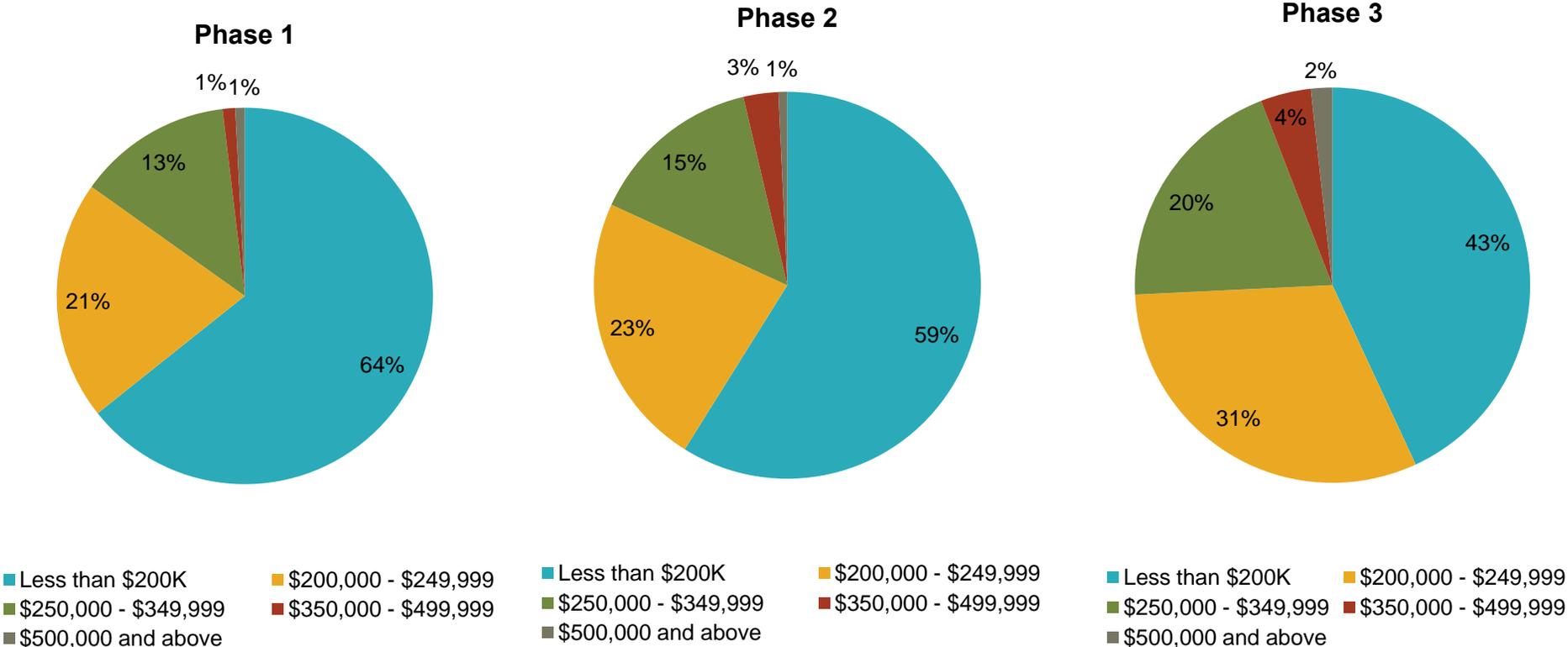


Southeast Submarket Demand

The opportunity to attract demand in higher price points will depend on the ability of the Southeast submarket, and more specifically Bastrop, to provide a compelling “full package” to home buyers, especially in the context of competitive communities in the South and East submarkets.

Assuming access, perception, and school challenges are successfully addressed, the opportunity to penetrate these higher price points will

exist through higher end product offerings with a master planned orientation. However, even as these opportunities begin to come to fruition, it will be important to continue to offer more affordable product for the more value-oriented home buyer, as nearly 30% of all structural demand in the MSA from 2015-2030 will fall below \$200,000.



Source: U.S. Census American Community Survey; RCLCO



Active Adult Demand

Bastrop as an Active Adult/Retiree Destination

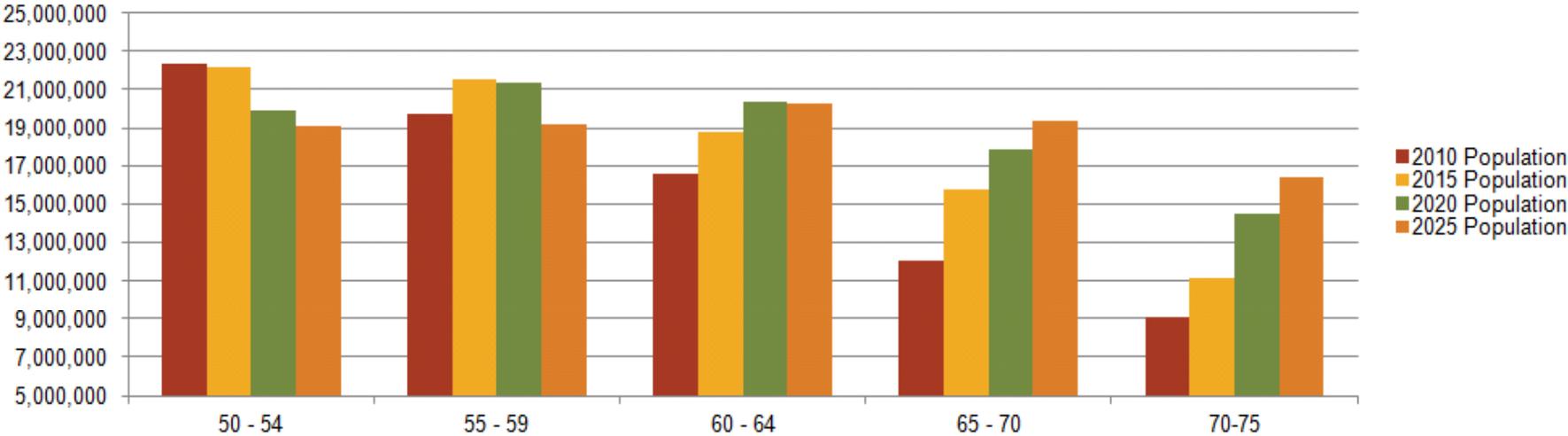
The US is currently experiencing a significant increase in retiree-aged population – a trend that will continue for the next 10 years, with the 60-75 year old cohort growing by seven million nationally from 2015-2020, and another 3.3 million from 2020-2025. As this increasing number of households begin to transition to a new life stage, many will choose to move based on a variety of factors, including climate, cost of living, community orientation, location of family, and quality healthcare. Generally, these buyers seek a home and community more supportive of their new life stage with features like lower maintenance, maximized single level living, good area reputation, and proximity to healthcare, retail, parks, green spaces, trails, and fitness.

The NAR 2011 Community Preference Survey reports that while just over 15% of the 50+ population currently lives in a small town environment, over 20% would prefer this location. Suburban locations

represent a popular preference amongst these home buyers as well, indicating that the small town character and suburban location of Bastrop will appeal to a large portion of these buyers.

Strategically located between the Austin and Houston MSAs near the preferred Hill Country region, Bastrop is positioned to attract many empty nester and retiree buyers from both MSAs, as well as across the state and at the national level. Offering the proper product and community orientations to complement Bastrop’s established small town charm, strong sense of community, and ample commercial and recreational outlets will create the opportunity for Bastrop to capitalize on this lucrative and growing market segment.

National Population by Age, 2010-2025



Source: RCLCO, ESRI
 Note: Mortality rates in 2010 and 2015 were applied to population estimates for 2020 and 2025



Retiree Preferences

Within the group of empty nesters and retirees choosing to find a new home as they transition life stage, there are multiple market segments. Two major segments within the mature market are as follows:

- **Active Adult/Age-Restricted:** A traditional active adult community is an age-restricted community, meaning residents must be aged 55+. These communities are characterized by large scale amenity offerings including golf or water oriented amenities, a strong network of paths and trails, fitness center including group fitness room and pools, parks and open space, sports courts (shuffleboard, bocce ball, etc), children’s playground area for visiting families, arts and crafts center, and a full time activities director responsible for recreational and social events for community residents. The preference to live in an age-qualified community as described above has been measured by multiple national home builders, industry organizations, and RCLCO consumer research, which suggest that 16%-27% of 55+ buyers prefer an age-qualified community, or consider it an important component of their new home purchase, although those for whom it is a critical factor may be closer to 10%.

There is currently only one large scale Active Adult community in the Austin region – Sun City Texas, which is located in Georgetown. This community has achieved a sales pace of 320 sales in the past year, and has just acquired approximately ten more years of lot supply. Taylor Morrison has also recently announced plans to move forward with a 55+ enclave in the Vizcaya community in Round Rock, which will be a bit smaller in scale with only 450 homes. With the growing retiree base, it is likely that the demand for this product type will soon begin to outpace the limited supply, offering a unique opportunity for available large scale land tracts in the MSA.

- **Age-Targeted Product:** Many empty nesters and retirees do not have a strong preference for this type of traditional active adult community, and may instead prefer to live in a traditional

multigenerational community. These home buyers are often attracted to home products most fitting to their life stages, namely smaller lots, lower maintenance, and one-story homes, offering a strong value proposition and high level of execution. These buyers can be found in communities throughout the MSA, although there is a relatively limited amount of supply targeting this type of buyer throughout the region.

The offering of either a traditional active adult community, an age-targeted product, or both will create the opportunity increase as sales in Bastrop substantially. Along with growing residential development and a strong base of new households likely to be invested in the character and flourishing of the community, age-restricted and age-targeted communities provide a strategy for improving schools – by increasing the tax base without putting a further burden on the ISD. Due to the high sales pace generally achieved at active adult communities, they can also act as a catalytic driver in establishing a critical mass of development and generating further new construction activity in the area.

Outdoor Amenities, Sun City Texas in Georgetown

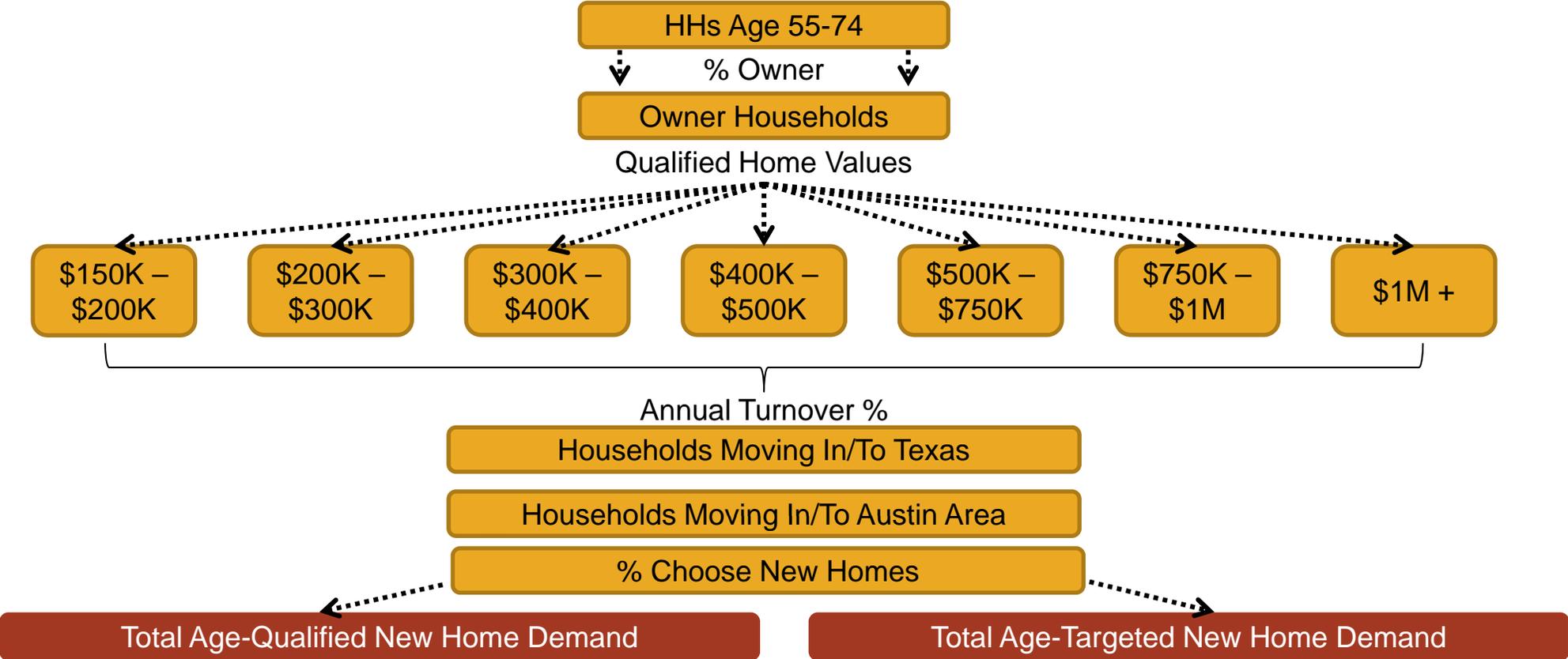


Source: RCLCO

55+ Market Demand – Methodology

RCLCO utilized a demand model employing both statistical and judgmental methodologies to estimate annual new mature market home demand in the Austin region. The demand analysis builds off household growth trends for the age 55+ demographic segment in Texas, and from regions across the USA. We then apply demographic trends related to housing (e.g. owner propensity, turnover rates, etc.) from the U.S. Census Bureau American Community Survey to determine the annual number of age 55+ households that move in a given year within

the Austin MSA, or to the area from another region of Texas or the USA. Texas receives a sizeable amount of Midwestern households, with over 12% of 55+ households migrating out of state in this region relocating within Texas. Finally, we apply the propensity for these households to choose a new home versus an existing home, and allocate by community preference.



Source: RCLCO



55+ Potential Demand

Our demand analysis of mature home buyers, ages 55-74, suggests that there is potential demand for an average of 2,100 new homes annually in the Austin MSA, from buyers aged 55-74. This analysis takes into account likely migration from other regions of the country, as well as empty nesters and retirees living in other Texas MSAs.

As shown below, 35% of demand will likely be driven from households within the Austin MSA, with another 34% of demand from Houston MSA households who will likely move outside of the region in search of different community orientations. Assuming that 20% of these buyers prefer traditional active adult communities, there is potential demand for an annual average of 420 age-restricted new homes in the Austin region.

Although the major active adult community of the region, Sun City Texas in Georgetown, has recently purchased approximately ten more years of lot inventory, there is likely sufficient demand to provide an

alternative active adult option in the region. If a new, active adult community were to begin sales in Bastrop in the near term, this community would likely begin to serve as a replacement for Sun City Texas as it nears build out, and thus experience increased absorption potential throughout the project life cycle. Assuming a fully segmented strategy with multiple product lines and ample amenities, it is likely a new community could capture 25% of demand in early years (50-100 sales per year), with increased potential capture and sales in the longer term (up to 200+ sales per year).

Due to ample land availability, established retail offerings, charming character, and affordability, Bastrop is well positioned to capitalize on the excess demand for active adult communities in the Austin region. Additionally, Bastrop will likely be able to attract other mature buyers, without the preference for active adult communities, with more age-targeted recommendations.

Summary of Age 55-74 Mature Market Demand Austin MSA; 2015-2030

Source Market	Dist.	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austin MSA	35%	560	588	615	640	666	692	711	726	741	759	781	805	825	844	862	881
Houston MSA	34%	649	671	689	705	720	733	713	716	717	721	727	738	748	756	763	772
Dallas MSA	19%	321	335	348	361	374	386	396	403	410	418	427	437	446	453	459	465
Midwest	3%	61	62	64	65	66	67	68	68	68	68	69	69	69	69	68	68
West	4%	71	73	74	76	77	78	79	79	80	80	81	81	81	81	81	80
Southeast	3%	68	69	70	71	72	73	74	74	74	74	75	75	74	74	73	73
Northeast	1%	22	23	23	23	24	24	24	24	24	24	25	25	25	24	24	24
Total	100%	1,751	1,820	1,883	1,942	1,999	2,053	2,066	2,091	2,115	2,145	2,184	2,229	2,268	2,300	2,330	2,364
Preference for AAC (20%)		350	364	377	388	400	411	413	418	423	429	437	446	454	460	466	473
<i>No Preference *</i>		841	868	892	913	933	951	942	947	951	957	966	978	989	996	1,002	1,009

Source: U.S. Census American Community Survey; ESRI; RCLCO Consumer Research
 *Exclusive of households currently residing in the Austin MSA ages 55-74, as this demand is taken into account in the "primary demand" analysis on pages 20-26



Recommendations/Strategy

Recommendations/Strategy

The matrix below summarizes both established strengths and current challenges that will drive Bastrop’s ability to offer higher end residential product.

Major strengths include an established set of commercial, cultural, and recreational amenities, proximity to Hyatt Lost Pines, large scale land availability, and appealing topography. Challenges include access to

employment, limited existing supply, school performance, and “far out” perception.

The strategies below will be critical in exploiting strengths, as well as improving less desirable features, and ultimately increasing Bastrop’s desirability and appeal.

ESTABLISHED STRENGTHS	STRATEGIES TO CAPITALIZE ON STRENGTHS
Access to services, shopping, retail, recreational amenities more established than competing submarkets	Continue to establish a sense of place in Bastrop; critical in attracting residents who may consider Bastrop a "far out" location
Proximity to Hyatt Lost Pines	Capitalize on strong, established brand and reputation associated with the resort to position Bastrop with destination and recreational appeal
Large contiguous land holdings provide potential locations for various community orientations	Take advantage of particular land attributes and position communities with varying orientations to particular market segments
Established character, cultural and recreational amenities	Strong branding and marketing strategy to convey Bastrop’s multiple attributes
Topography	Some sites within Bastrop offer much more appealing aesthetics than available in East, SE Travis, South, and NE submarkets; Location within the “Lost Pines” offers similar, but unique, "Hill Country" experience

CHALLENGES	POTENTIAL OPPORTUNITIES, SOLUTIONS
Access to Employment	Improvements in Highway 71 access to employment cores throughout the MSA; Implement an aggressive strategy to grow local employment
Limited existing high end housing	Use sites with most appealing topography to target higher price points by appealing to more mature audiences to include families and empty nesters/retirees
School Performance	Continue improvements in BISD performance and scores
"Far Out" Perception	Aggressive branding/marketing campaign to debunk this perception; Bastrop is comparably located to many other higher end residential areas and offers neighborhood, cultural, and recreational amenities
Planned Developments with more proximal locations (primarily along SH-130)	Influence job growth to the local market; Offer a more attractive "whole package" through well segmented residential product program

Source: RCLCO



Recommendations/Strategy

	Phase 1 (0-5 Years)
Objectives	Establish critical mass of development with strong Bastrop brand and sense of place and community
Assumptions	<ul style="list-style-type: none"> Multiple product lines (2-4) are offered in the following price ranges: \$150K-\$200K; \$200K-\$250K; \$250K-\$350K SE submarket is able to attract similar demand as currently being achieved in South submarket with the offering of new product, but SW, West, North, and NW Submarkets continue to dominate in higher price points
Market Segments	First time home buyers, young families, value-seeking retirees and empty nesters
Product Opportunity	Entry level 50'-55' lots, some larger (60'+) lots, as well as acreage and ranchette product
Potential MPC Absorption	MPC – 100-150 annual sales;
Potential Upside Opportunities	Potential of additional sales with large scale active adult community; potential upside from age-targeted product, assuming strong branding to grow regional and national appeal
Outcome	The submarket gains momentum; Bastrop is put "on the map" as a desirable residential community for the growing Austin MSA and regional retirees

	Phase 2 (6-10 Years)
	Begin to offer more diverse product and community orientations, including move up product, communities with strong amenity offerings, etc
	<ul style="list-style-type: none"> North and Northwest submarkets approach build out in well-located and desirable locations resulting in a submarket shift; Bastrop is well suited to capitalize on shift Improved access challenges and strong branding and marketing alleviate the notion of Bastrop as "far out" from MSA employment
	In addition to Phase 1 segments, mature families, empty nester and retirees buyers seeking higher level of lifestyle and product. Young professionals will follow job growth to the area .
	Add in higher density product 35' lots as a value alternative as prices rise; larger 60'-75' lots with higher end product appealing to mature families; higher end, view-oriented 50' to 55' lots oriented towards age-targeted buyers. Rental product will appeal to younger professionals as local employment grows.
	MPC – 180-225 annual sales
	Sun City Texas build out and maturity of AAC community into a retirement destination offers upside of 200+ sales annually
	Positioning and perception is improved through increased density and price points

	Phase 3 (10+ Years)
	Multiple product and community orientations with a complete segmentation strategy and multiple community concepts make Bastrop an attractive option for multiple market segments
	<ul style="list-style-type: none"> North and Northwest submarkets are unable to offer affordable homes in meaningful numbers, shifting momentum to South and SE submarkets Emergence of local employment core, in addition to other emerging cores located south of current concentrations
	Continue to grow capture and penetrate higher price points of phase 1 and 2 segments; emergence of local employment will increase opportunity to attract young and mature professionals
	Continue to offer alternative products and multiple community orientations; higher end rental product likely to become feasible as young and mature professionals are attracted to the area
	MPC – 300+ annual sales
	Additional, higher end rental product to become feasible as local employment cores emerge
	Bastrop is an established, desirable community in the Austin MSA, offering multiple residential options and achieving maximum absorption potential



Recommendations/Strategy – Market Segments

The matrix below describes market segments, their motivations and preferences, depth, and the strategies and factors that will be important in attracting them to Bastrop.

Bastrop is well-suited to continue to attract more mature segments (empty nesters and retirees), and increase this capture through the offering of a more appealing product type. Improvements in schools, access, and employment will drive younger segments to the area.

Segmentation Matrix

	Young Singles and Couples	Move Up Buyers (Growing Families, Mature Couples and Singles)	Empty Nesters	Retirees
Age	Under 35	35-54	55-64	65+
Geographic Source Markets	Austin MSA, some upside from Houston MSA	Austin MSA, some upside from Houston MSA	Regionally from the Austin and Houston MSAs, and to a lesser extent, Dallas MSA; Nationally from the Midwest, West, and to a lesser extent, Southeast and Northeast	
Purchase Motivations	Proximity to employment and commercial and entertainment outlets, affordability, value	Schools, proximity to jobs, access to commercial and recreational outlets, product level finishes and community amenities	Change in life stage driving new home purchase, seeking a home and community more supportive of this stage of life; attracted to lower maintenance homes that maximize single level living, safe environment, good area reputation, proximity to health care, retail, parks, green spaces, walking, jogging, biking trails, fitness	
Critical Success Factors	Grow local employment cores, Improve access to employment with Highway 71 upgrades	Continue to address school quality and perception, Grow local employment cores, Improve access to employment with Highway 71 upgrades	Ability to create the perception and brand of Bastrop as a retirement destination; Offer attractive combination of product, price, and amenities that incites prospects to take action; Establish perception that the project represents a superior value and good investment	
Segmentation Strategy	Offer a variety of home products and orientations that appeal to the value-seeker, including entry-level ownership opportunities	Offer a variety of product types including both standard and move up, with an emphasis on sense of community, significant outdoor space and amenities, higher quality builder options	A mix of age-qualified communities, age-targeted and multigenerational options, to capture the entire spectrum of these buyers	
Product Type Preference	Smaller lot product (35'-55'), Attached	Medium and larger lot product (50'-70')	Smaller lot product (35'-55'), Attached, AAC	Smaller lot product (35'-55'), Attached, AAC
Depth of Market*	1,894	4,257	3,242	2,212

Source: RCLCO,
 *Represents average annual demand by market segment for the Austin MSA from 2015-2030



Recommendations/Strategy – Product Types

Offering a wide range of product types in various price ranges will be a critical success factor in Bastrop's ability to increase its capture of MSA housing demand, as well as begin to penetrate higher price points. As development reaches a critical mass and communities in Bastrop begin to mature, a greater variety of higher density and alternative products will become feasible.

Product types that are well-suited to be offered in Bastrop in the near term are as follows:

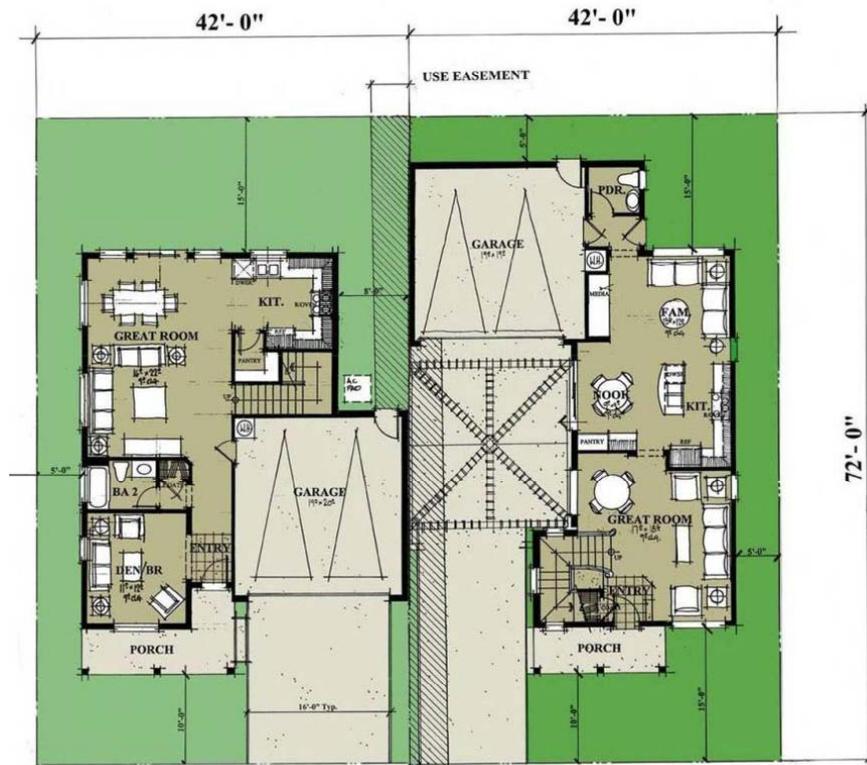
- **Small and Medium Lot SFD (40'-55')**: These products can be offered in a variety of settings ranging from a builder subdivision (similar to DR Horton's Hunter's Crossing), an enclave within a master planned community, or at more premium locations (park or nature oriented) at higher price points. Small lot product in value price points (40'-50') with strong access will be attractive to the young family segment, which is currently under represented in Bastrop. Additionally, small lot product can be offered as "age-targeted" product that maximizes single level living and low maintenance lifestyle appealing to empty nesters and retirees. This type of offering is currently limited in the MSA. In the very near term, we suggest offering product no smaller than 50', to encourage buyers to accept a more immature location for larger lot product.
- **Large Lot SFD (60'+)**: These products can be offered in a variety of settings ranging from a builder subdivision (similar to DR Horton's Hunter's Crossing) or an enclave within a master planned community. Larger lot products offering nature, park, or water views within an amenitized community will receive a premium and appeal to the mature family/move up buyer that is currently under-represented in Bastrop.
- **Large Lot Acreage and Custom Homes**: Large lots oriented towards custom homes (similar to offerings in The Colony) and ranchette style offerings (3-10 acres) offer an opportunity for incremental absorption. These products will appeal to buyers from the Austin and Houston regions, and receive strong premiums for water and view orientations.
- **Active Adult**: This product offering will consist of mostly small and medium lot product, and is feasible only when offered as a complete lifestyle package with strong amenity infrastructure, as discussed further on pages 28-31.

Product types that will become feasible as communities in Bastrop mature and a true sense of place is developed are as follows:

- **Attached Product (Townhome, Duplex)**: This product is feasible only when offered at premium locations or with a strong amenity orientation. A location near a town center or other commercial amenities offers the opportunity for higher density, attached product. These products can appeal to young singles, couples, and families who are looking for a value alternative, as well as empty nesters and retirees looking for a low maintenance lifestyle alternative.
- **Alternative, Higher Density SFD Product (35' Lots, 45' Zipper Lots)**: These products are feasible in later stages of development, after the area as a whole begins to mature. These higher density products will appeal to young families, as well as empty nesters and retirees.

Alternative Product Types – Zipper Lot

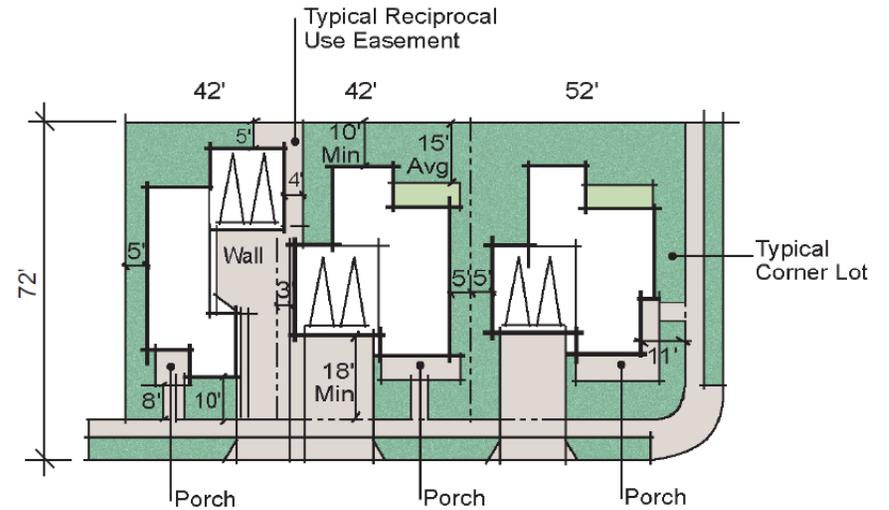
Evergreen; Palm Beach Gardens, FL



**FIRST FLOOR PLAN
PLAN 3
1838 S.F.**

**FIRST FLOOR PLAN
PLAN 4
1952 S.F.**

Ladera Ranch, CA



Regional Positioning – Master Planned Communities

A master planned community is a large scale community generally characterized by a strong execution of connecting infrastructure and amenities. These communities simultaneously offer multiple product lines and product types from a variety of builders within separate enclaves throughout the greater master plan. These communities offer an appealing lifestyle for young and mature families, as well as empty nesters and retirees. Due to their large scale supply offerings and appeal to multiple market segments, master planned communities can act as a catalyst, generating home buyer and builder activity for a local market or entire submarket.

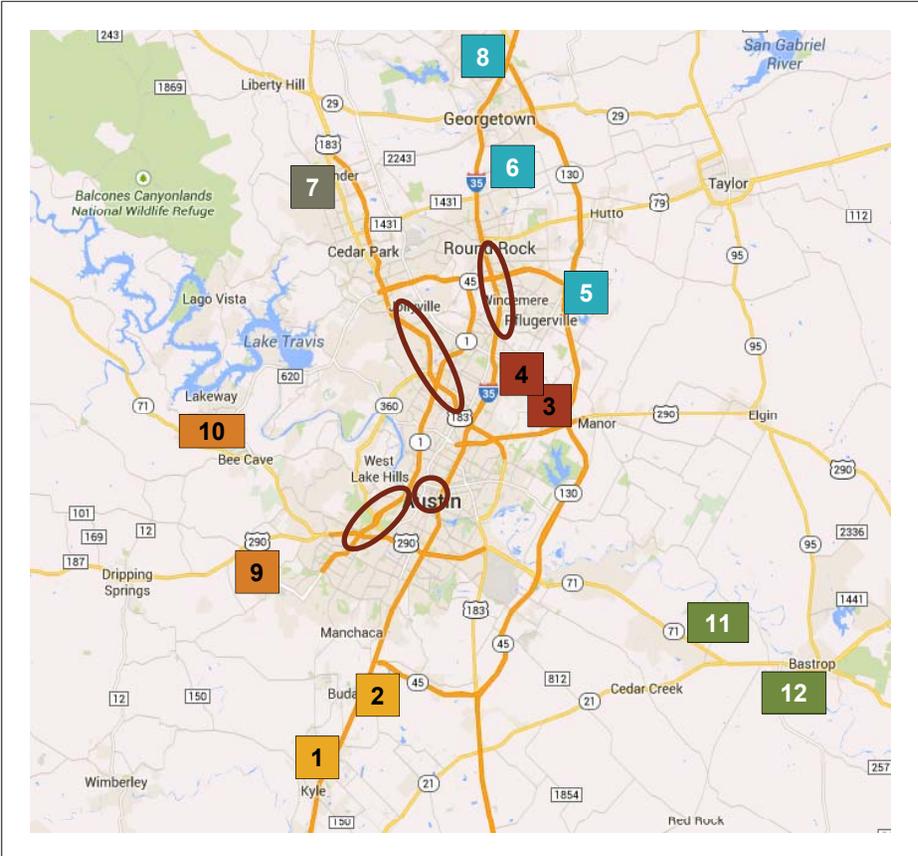
There are multiple actively selling master planned communities throughout the MSA, many of which are located a similar distance outside of the Austin CBD (as shown below). Bastrop's proximity to Central Austin employment is competitive with many of these communities, indicating an opportunity for this type of development. It should be noted, however, that many of the communities profiled below are located closer to employment growth corridors in the MSA, and thus increased accessibility provides a competitive advantage over Bastrop. However, these dynamics could change over time as discussed previously in this report.

Comparable Master-Planned Communities in Austin MSA, TX 2014

MAP KEY	COMMUNITY	MILES TO DWNTWN	TOTAL UNITS	RANGE \$ (1,000)
1	Plum Creek	21	3,233	\$164 - \$272
2	Sunfield	16	4,579	\$168 - \$266
3	Harris Branch	12	1,822	\$154 - \$209
4	Pioneer Crossing	11	2,012	\$196 - \$222
5	Falcon Pointe	22	1,616	\$189 - \$340
6	Teravista	23	3,890	\$190 - \$710
7	Crystal Falls	28	3,471	\$220 - \$528
8	Sun City Georgetown	34	7,874	\$184 - \$337
9	Belterra	19	1,853	\$290 - \$465
10	Sweetwater	22	1,537	\$308 - \$660
11	The Colony	23	3,144	\$260 - \$332
12	Hunter's Crossing	27	509	\$159 - \$185

MAP KEY	SUBMARKET	OTHER
	SOUTH	
	EAST	
	NORTH	
	NORTHWEST	
	WEST & SOUTHWEST	
	SOUTHEAST	
		EMPLOYMENT CORE

Source: MetroStudy; RCLCO



Regional Positioning – Master Planned Communities

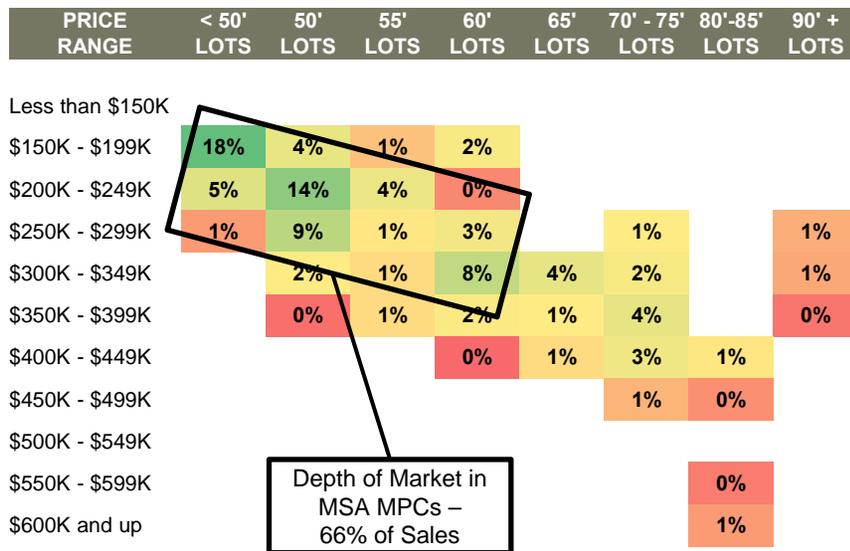
A master planned community could act as a catalyst for housing in Bastrop, and create the opportunity to offer multiple product lines, from more value-oriented to much higher end. As shown below, master planned communities around the region (as indicated on the previous page), provide products across wide range of price points and lot sizes. The difference in distribution of sales in master planned communities across the region versus actively selling smaller scale communities in Bastrop (as indicated below) largely explains why Bastrop has seen limited home buyer activity – lack of product offerings where the depth of the market exists.

In regional master planned communities, 60% of sales have been on lots 55' and smaller, although many of these communities are located in much more mature locations than Bastrop. Offering product on slightly

larger lots (60'-65') may act as a competitive edge for buyers willing to make a trade off of a less mature location for a larger lot. Although almost completely sold out currently, 60' lots in DR Horton's Hunter's Crossing community off of Highway 71 in Bastrop have experienced a strong sales pace, indicating the desirability of this product at the local level. The ability to expand product offerings to include a greater degree of diversity, particularly in a master planned community environment, will be key in Bastrop's ability to compete at the regional level.

Although a master planned community in Bastrop would likely require value-oriented positioning in the near term, it could grow to compete at the regional level as the location and community mature.

Sales by Price and Lot Size: Austin MSA Master-Planned Communities 2014



Sales by Price and Lot Size: Bastrop Communities 2014



Source: RCLCO

Recommendations/Strategy – Product Matrix

The matrix below demonstrates likely market depth in Bastrop, in both the near and longer term, for a variety of product types and price points.

In the near term, Bastrop is well suited to increase its capture of MSA demand by offering a greater variety of small and medium lot products with a value-oriented positioning, in addition to some more premium larger lot products (indicated by the green Xs below). As the location and communities mature, the opportunity will arise to offer a greater variety of products, including more high density attached and SFD product, and to offer product lines in increasingly higher price points (as indicated by the red Xs below).

There may also be a near term opportunity to offer higher priced product, based on premium views from appealing topography and water frontage. Product lines offered within a master planned community are also likely to achieve price premiums, based on the desirability of these communities, as well as the relatively limited availability of these offerings throughout the MSA.

	Attached	Alternative Products (35' SFD, 45' Zipper)	AAC	40'-45' SFD	50'-55' SFD	60'-65' SFD	65'-75' SFD	Large Lot/ Custom
\$100K-\$150K	- XXXX	- XXXX	XXXXX XX	-- XXX	XXXX X	XX --		
\$150K-\$200K	- XX	- XXXX	XXX XXXXX	- XXXX	XX XXXX	XXXXX X		
\$200K-\$250K			XX XXX		- XXX	XXX XXXXX	XXXX X	
\$250K-\$300K						- XXX	XX XXXX	
\$300K-\$400K								XXX XX
\$400K+								XX XXX

Number of Xs represents depth of market
 Near Term Opportunity
 Mid to Long Term Opportunity

Source: RCLCO

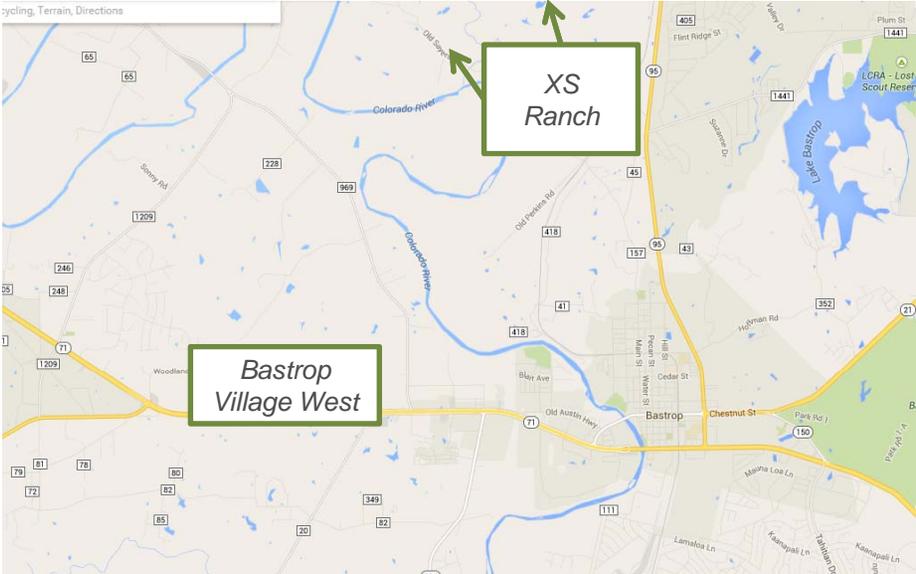


Recommendations/Strategy – MPC Absorption

A master planned community, as described on the previous slides, has the potential to capture a significant portion of new home activity in the submarket. Although this capture will vary based on future competition that comes to fruition in the submarket, a well-executed MPC could likely capture up to 15%-20% of sales in the Southeast Submarket, assuming a well segmented product strategy, appealing to a very wide range of buyer types and price points. This capture would not be immediate, but could be achieved as sales ramp up. Should this capture of the submarket be achieved, a MPC could achieve annual absorption as follows:

- Phase 1 (0-5 Years): 100-150 sales
- Phase 2 (5-10 Years): 180-225 sales
- Phase 3 (10+ Years): 300+ sales
- Upside from Active Adult Community: 100-250 sales (see page 31 for details)

Potential MPC Sites; Bastrop, TX



Source: RCLCO

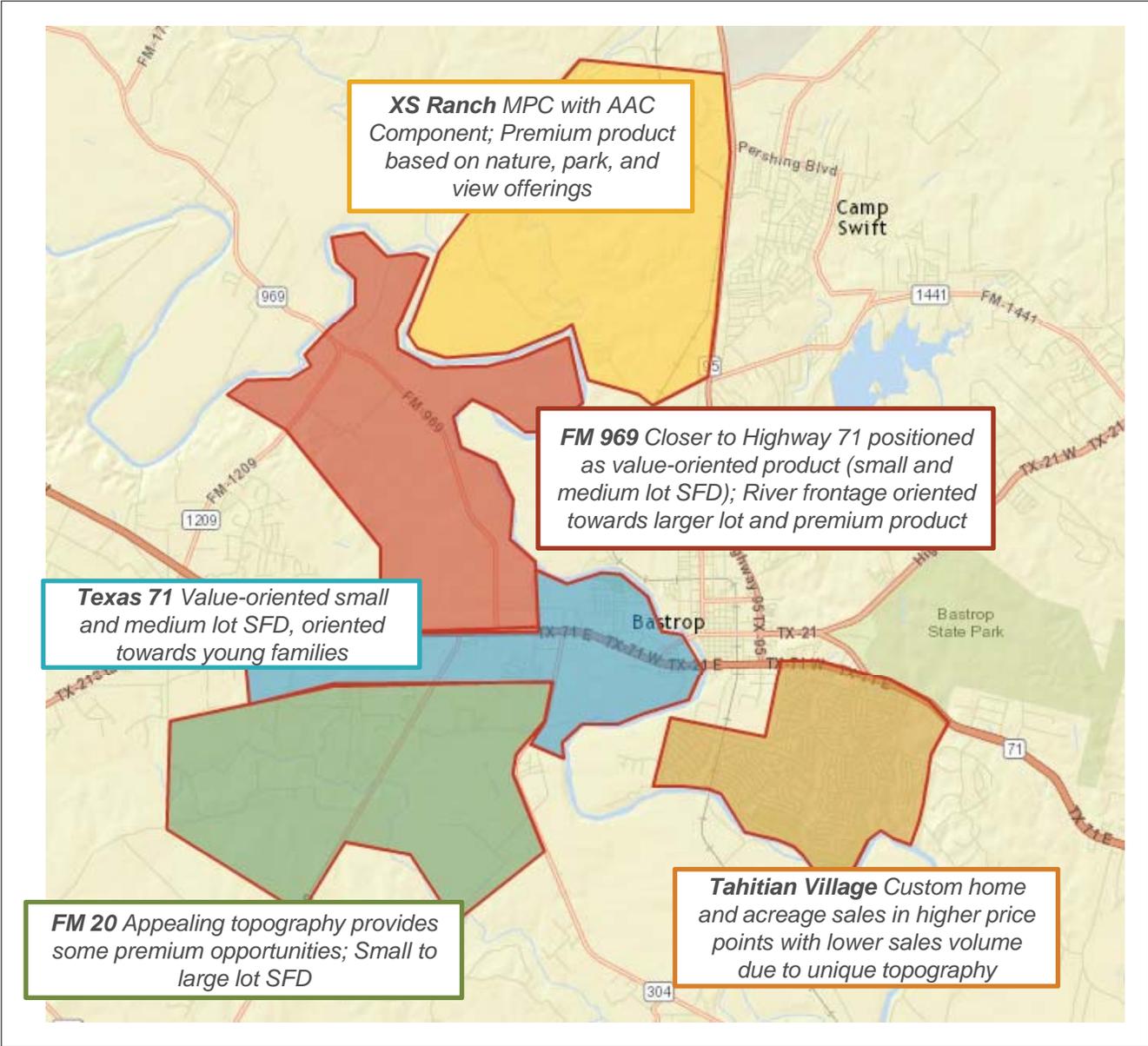
These numbers represent estimates, and will vary based on the following factors:

- Ability of SE submarket to continue to gain market share as Northern areas build out
- Level of competition in the submarket including other MPCs and builder subdivisions
- Level of execution of MPC in terms of product, segmentation, amenities, etc

It should be noted that there are a limited number of land holdings in the area that could support the development of a master planned community, considering the size and scale of contiguous land necessary for this type of development. The XS Ranch site offers a compelling site with 9,000 acres, with some of the most appealing topography in the MSA. Additionally, the Bastrop Village West parcel provides an opportunity for a smaller, likely more value-oriented master planned community, with excellent access to Highway 71. Other large land holdings could present opportunity as identified.



Product and Community Recommendations by Geographic Area



Multifamily Rental Housing



Multifamily Rental – Current Conditions

The current supply of non tax credit, multifamily rental communities in Bastrop is very limited, representing approximately 450 units. These communities are located along Highway 71, providing strong regional access.

While older communities (built before 2000) are achieving lower rents, the two newer communities in Bastrop, Walnut Ridge and Lodge at Lost Pines, are achieving much more attractive rents, averaging \$1.15 per square foot. These communities offer full amenities including a clubhouse, pool, fitness center, business center, and playgrounds with a standard level of finish and unit features. Leasing agents report that one-bedroom units are most popular. Both communities have strong occupancy rates, with a waiting list for both one- and two-bedroom units at Lodge at Lost Pines.

Reflective of limited, traditional apartment options, over two-thirds of current renters in Bastrop rent SFD or other types of homes, while only 7% of renters reside in multifamily buildings with ten or more (10+) units. Of the renters in SFD or other types of non traditional rental housing, 51% do not have children, indicating that some of these renters may prefer to rent in a more traditional, multifamily complex, should the product become available. Anecdotal evidence from community members and the existence of waiting lists at some apartment complexes in Bastrop also support that there is some pent up demand for traditional multifamily rental product in the local area.

The rents currently being achieved at these communities indicate that new, garden style apartment construction is likely financially feasible in Bastrop.

Multifamily Rental Communities; Bastrop, TX

MAP KEY	COMMUNITY	YEAR BUILT	OCC.	UNITS	UNIT MIX	AVG SIZE	AVERAGE RENT		
							TOTAL	PER SF	
1	ARBORS OF BASTROP	1990	93%	87					
					1BR	45%	612	\$599	\$0.98
					2BR	55%	915	\$733	\$0.80
2	WALNUT RIDGE	2008	93%	152					
					1BR	26%	723	\$ 932	\$1.29
					2BR	69%	1,012	\$1,160	\$1.15
				3BR	5%	1,199	\$1,265	\$1.06	
3	LODGE AT LOST PINES	2002	99%	160					
					1BR	40%	688	\$900	\$1.30
					2BR	50%	947	\$1,005	\$1.05
					3BR	10%	1,202	\$1,225	\$1.02
4	PINE POINT	1989	99%	55					
					1BR	14%	777	\$595	\$0.77
					2BR	86%	1,027	\$740	\$0.72
TOTAL/WTD. AVG.				454	100%	892	\$934	\$1.06	

Source: ADS; RCLCO



Multifamily Rental – Pent Up Demand

Currently, only 7% of renter households rent in buildings with 10+ units in Bastrop County, well below the Austin MSA average at 48%. However, this lower than average propensity is likely attributable to limited supply offerings, suggesting that there may be pent up demand for a more traditional rental apartment product. Given an increase in supply, it is likely that the propensity of renters to choose traditional apartment buildings with 10+ units would increase to be more comparable to current levels in the suburban and rural areas of northern Williamson County at 26%.

In order to quantify and understand the potential pent up demand for multifamily rental product in Bastrop, we have analyzed demand dynamics based on job and household growth in Bastrop County since 2000 as well as supply conditions based on new multifamily rental development. Since 2000, Bastrop County has added 2,691 renter

households. In that same period of time, just 464 traditional rental apartment units have been added in the county. As shown below, assuming Bastrop County’s demonstrated 7% propensity for 10+ unit buildings would suggest that the market is far oversupplied in these types of units. However, in reality, these new complexes are showing high occupancies and strong rent growth. These dynamics suggest that there has historically been pent up demand for this type of product in Bastrop County, and that the propensity to rent in 10+ unit buildings is likely increasing in the county.

Due to these dynamics, we hypothesize that pent up demand likely exists for a small (100-150 unit) complex in the near term. This opportunity will continue to grow with other catalysts, as described on the following pages.

MF Rental Supply & Demand Dynamics; Bastrop County; 2000-2014

New Renter HHs 2000-2014: 2,691	Bastrop County	N. Williamson County	Austin MSA
% Rent in MF 10+ Buildings	7%	26%	48%
# of New Units Demanded in MF 10+ Buildings 2000-2013	188	700	1,292
Less new MF 10+ units developed since 2000	-276	236	828

Oversupply
Undersupply

Indicates that the market should be oversupplied, but strong performance of apartment buildings shows otherwise



Multifamily Rental Demand from Job Growth

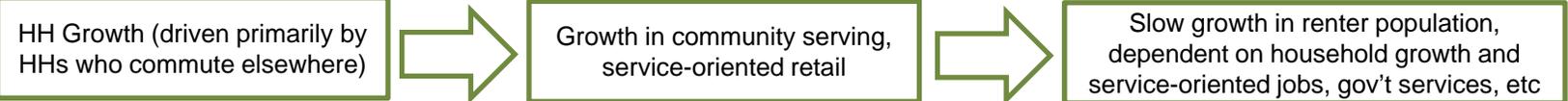
Demand for new multifamily rental housing development generally follows growing employment cores, as market segments who rent often choose their home based upon proximity and access to their jobs and neighborhood services/retail. For this reason, we expect the opportunity for new multifamily housing development in Bastrop to grow significantly as the employment base grows locally.

To estimate new households associated with job growth, we took into account renter propensity and preferences as well as an analysis on jobs to household ratios in both Bastrop County and the Austin MSA overall. Bastrop County’s current job to household ratio is only 0.56 (compared to the Austin MSA average of 1.2), which is typical of a bedroom community where a large share of workers commute elsewhere for work, and a large share of the local employment base is

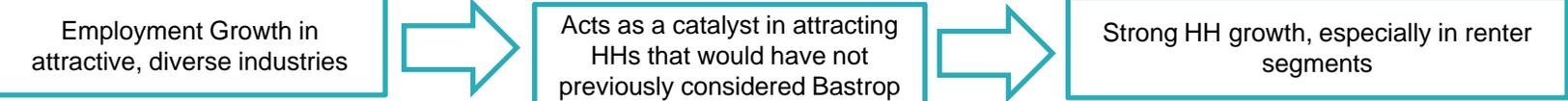
in industry sectors that serve local households. Said another way, service-oriented jobs in Bastrop are currently driven by the growth of households versus jobs in other sectors that actually attract households. Going forward, should Bastrop attract different types of employers (in addition to those it has traditionally attracted), the city’s jobs/household ratio would begin to increase over time as it attracts households that want to live close to these new jobs (rather than primarily attracting commuter households that choose Bastrop solely for lifestyle reasons).

The type of rental product demanded will depend largely on household incomes in the area, which will be driven by the type of employment Bastrop attracts. A general guide for translating household incomes to affordable monthly rent ranges is provided in the chart below.

Current Dynamics in Bastrop



Potential Dynamics in Bastrop



Affordable Rental Rates by Household Income

Household Income	Rent as a % of Income	Affordable Monthly Rent Range
UNDER \$35,000	35% - 35%	UNDER - \$1,020
\$35,000 - \$50,000	35% - 33%	\$1,020 - \$1,380
\$50,000 - \$75,000	33% - 29%	\$1,380 - \$1,810
\$75,000 - \$100,000	29% - 25%	\$1,810 - \$2,080
\$100,000 - \$150,000	25% - 25%	\$2,080 - \$3,130
\$150,000 - AND OVER	25% - 25%	\$3,130 - AND OVER



Multifamily Rental – Demographics and Demand

Currently, renters in Bastrop County are primarily seeking very value-oriented product, with 54% of rental demand over the next five years having household incomes below \$35,000. Age of current renters is skewed to younger age groups, although fairly evenly distributed with one-third of renters under 35 years old, 43% aged 35-54, and 23% aged 55+.

Demand from seniors (aged 65+) accounts for just 13% of all rental demand in the next five years in Bastrop County. Thus, demand for a senior-oriented multifamily rental product is relatively limited, and such an offering should be small in magnitude. Current senior living options in Bastrop are either assisted living or nursing/memory care, so a facility with a lower level of services (independent living) could offer an option currently not available in the local market. Generally, these types of facilities locate near family households, as the largest demand driver for senior living facilities is proximity to children and family. As Bastrop continues to grow, so will this opportunity.

Current demographic conditions indicate that renters in more traditional complexes (10+ units) generally have fewer children than renters in other types of product. In buildings with 10+ units, there is currently 0.46 children per household on average. This number increase to 0.69 children per household in buildings with less than 10 units, and 0.82 children per household in SFD rental homes.

Based upon current household growth trends, as well as the likely pent up demand for renter housing, we estimate annual demand for 150 to 225 units per year in the next five years, which equates to one small to moderately sized apartment community per year. There is additional upside to this demand should an employment center emerge comprised of jobs less dependent on retail services and leisure. Sites along major transportation routes (namely Highway 71) will be best suited to capitalize on this type of development.

Renter Demographics, Bastrop County, 2014-2019



Source: RCLCO, ESRI, American Community Survey PUMS



Critical Assumptions

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers.
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not

be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

Appendix: Supporting Exhibits

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