Development Feasibility Analysis

San Antonio, TX

MEYERS RESEARCH
a Kennedy Wilson Company

CONTACT INFORMATION

This market analysis was prepared by Meyers Research, a market research and consulting firm specializing in the real estate industry. It has been commissioned by George Gervin Youth Center.

Kimberly Byrum served as Project Director and oversaw all aspects of this assignment. Christine Sills contributed to the research and recommendations. Follow-up questions should be directed to Kimberly Byrum at 469.513.8490 or kbyrum@meyersllc.com.

OBJECTIVE

The objective of the engagement is to work with the assembled development team and consultants to assess the market demand and determine the financially feasible uses for a 20-acre tract of land located in the South San Antonio submarket. More specifically, the project will be located along East Commerce Street near Spriggsdale Blvd. Potential uses for the site include office, retail, multifamily residential, and hospitality. The site is located in a neighborhood in the early stages of redevelopment, and the subject development will act as a catalyst for that effort. Meyers anticipates the project to deliver in 2018. The scope of this assignment includes research, financial modeling, and ranking.

LIMITING CONDITIONS

George Gervin Youth Center is responsible for representations about its development plans, marketing expectations and for disclosure of any significant information that might affect the ultimate realization of the projected results.

There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material.

We have no responsibility to update our report for events and circumstances occurring after the date of our report.

Payment of any and all of our fees and expenses is not in any way contingent upon any factor other than our providing services related to this report.

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Introduction / Background

Introduction / Background

George Gervin Youth Center is contemplating the use of a 20-acre development site. The land is located in east San Antonio, TX in the South San Antonio submarket as defined by MPF Research in the San Antonio-New Braunfels, TX Metropolitan Statistical Area ("MSA"). The AT&T Center and Freeman Coliseum are approximately 0.8 miles to the north. Surrounding land uses include the Barrio Family Health Center, the George Gervin Technology Center, single family residential, and industrial. The property is conveniently located along East Commerce Street which provides direct access to downtown San Antonio 3.0 miles to the west, and Interstate 10 1.5 miles to the east.

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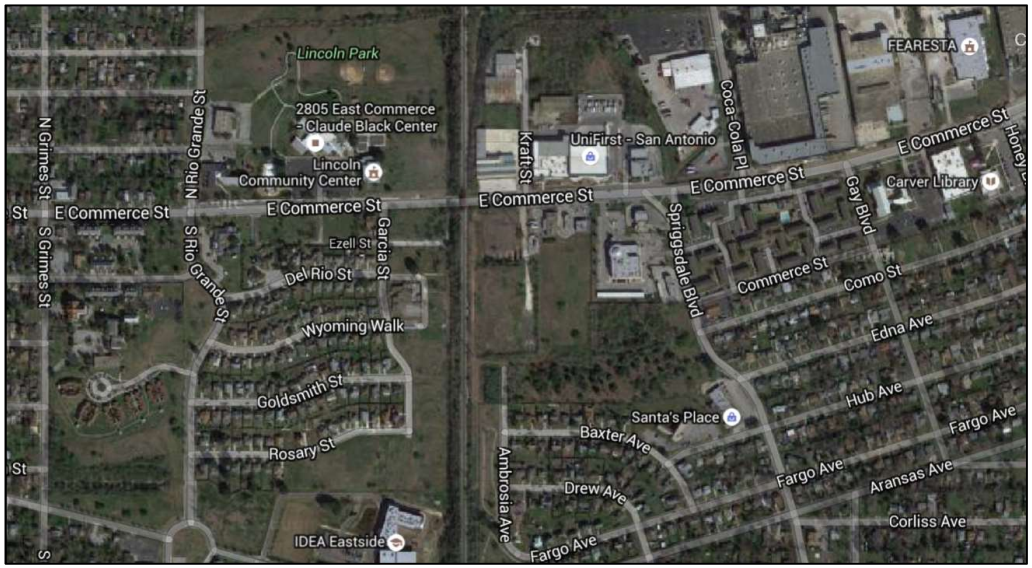


Recommendations & Conclusions

Recommendations

Ranking:

1. Retail

- ✓ In Meyers' cost/benefit analysis for the site, a retail use produced the highest indicated internal rate of return.
- ✓ The site's neighborhood has a "retail gap" (where demand exceeds supply) totaling $11.5m. By applying an Average Sales per Square Foot, the $11.5m gap is converted to 25,000 square feet of unmet demand.
- ✓ Meyers' recommends up to 25,000 square feet of retail for the subject site.

2. Multifamily

- ✓ Multifamily use yields the second highest indicated internal rate of return.
- ✓ Using recently redeveloped Peer Markets as benchmarks, the subject's neighborhood could achieve a "critical mass" with 2,125 additional multifamily units.

3. Office

- ✓ Households within the subject's neighborhood have a low spending potential index (48) for medical products or services relative to a national average of 100.

4. Hospitality

- ✓ Hospitality use yields the lowest indicated internal rate of return.
- ✓ Meyers performed a site analysis and examined the positive and negative attributes for hospitality use. The results indicate that the neighborhood is not ready for hospitality use.

Scenario 1:

Meyers' base case scenario for the subject is 280 units in a wrap design around parking (70 units/acre) and 210 units in a garden design (30 units/acre) for a total of 490 units, along with 25,000 square feet of ground floor retail. Scenario 1 produces the highest profit margin after development, lease-up to stabilization, and sale of the property.

Scenario 2:

Meyers analyzed the subject with 480 garden-style units only (30 units/acre) along with 25,000 square feet of retail in a strip shopping center. Scenario 2 produces the lowest profit margin after development, lease-up to stabilization, and sale of the property.

Competitive Market – Overview

AT&T Center

The AT&T Center is a multi-purpose indoor arena located 0.8 miles north of the subject. It is home to the NBA San Antonio Spurs, the WNBA San Antonio Silver Stars, and the AHL San Antonio Rampage. It seats up to 19,000 for concerts, 18,418 for basketball, and 16,151 for ice hockey. The arena was built in 2002 (originally named the SBC Center before being re-branded) at a cost of roughly $175 million. Financing was provided by county-issued bonds totaling $146.5 million which were supported by a hotel-occupancy and car-rental tax increase, and a $28.5 million contribution from the San Antonio Spurs organization. SBC Communications, Inc. (now AT&T Inc.) purchased the naming rights under a 20-year, $41 million agreement between Bexar County, the San Antonio Spurs, and the San Antonio Stock Show & Rodeo.

In addition to basketball and ice hockey, the arena also hosts the annual San Antonio Stock Show & Rodeo and an Xtreme Bulls tour event, and monthly San Antonio Sports Car Association autocross competitions. The Spurs sponsor several annual youth competitions including cheerleading, dance, and Math Counts. In the summer of 2015, the Spurs Sports and Entertainment organization began a $101.5 million renovation to the arena including a new scoreboard, updated televisions inside and outside, a new state of the art sound system, improved Wi-Fi that will cover about 90% of the venue, and expansions to the fan shop.

The Freeman Coliseum is adjacent to the AT&T Center. Constructed in 1949, the arena seats 9,500 for motor sports, rodeos and professional bull riding, 9,800 for basketball, and up to 11,700 for concerts, boxing and wrestling. The two venues combine to host the San Antonio Stock Show & Rodeo. Today, the Freeman Coliseum primarily hosts concerts, high school graduations, gun shows, career fairs, the Annual San Antonio Collector Car Auction & AutoRama Car Show, and food and drink fests.

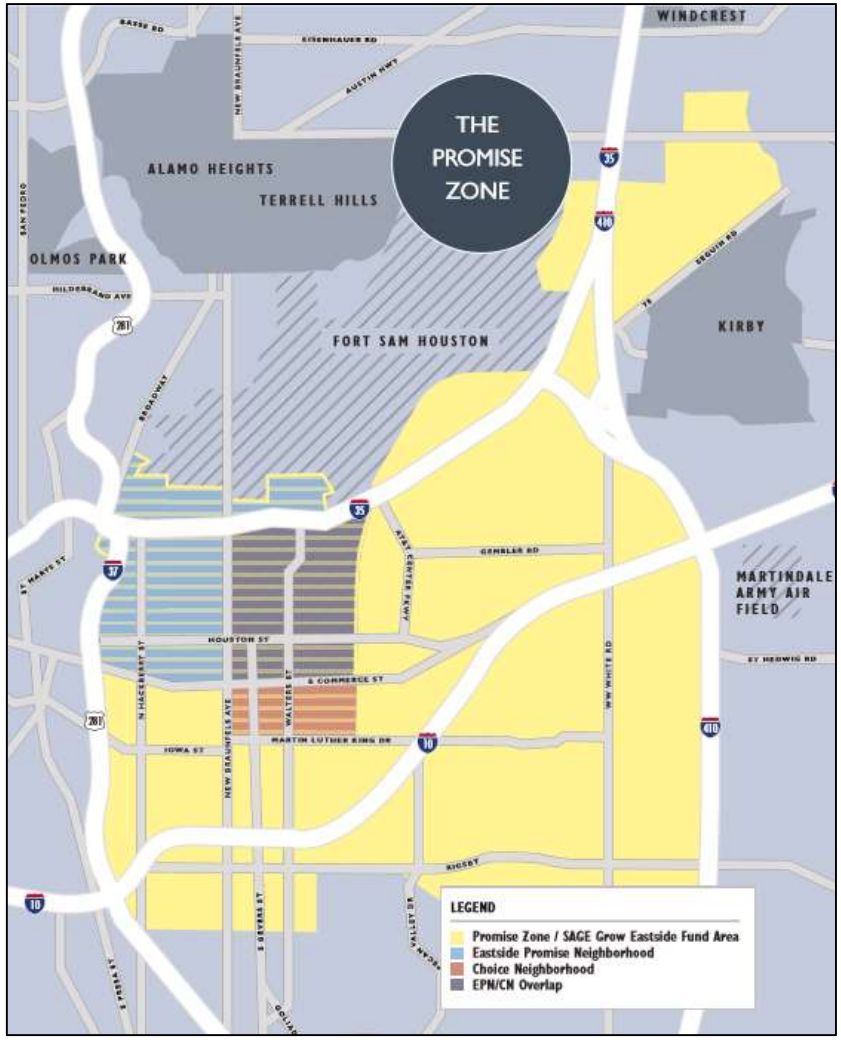
When voters approved the construction of the AT&T Center in 1999, many hoped the arena would spur growth in the east side of San Antonio. After years with little change, the consensus today among local leaders is that the presence of the AT&T Center will eventually lead to revitalization of the neighborhood and that the process is a long one. San Antonio Mayor Julian Castro has always been vocal about ways to aid redevelopment of the east side including making infrastructure improvements to help traffic flow better and incentivizing developers to do retail in the area.

Promise Zone

In 2013, President Obama established a Promise Zone Initiative which partners the Federal government with the local governments of high-poverty areas. To be considered for Promise Zone status, the applicants had to demonstrate not only a need but also local organizational infrastructure, commitment from local leaders, and demonstrated success in local initiatives. The Promise Zone partnership aims to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. In 2014, a 22-square mile section of east San Antonio (including the subject) was designated as one of three first-phase Promise Zones.

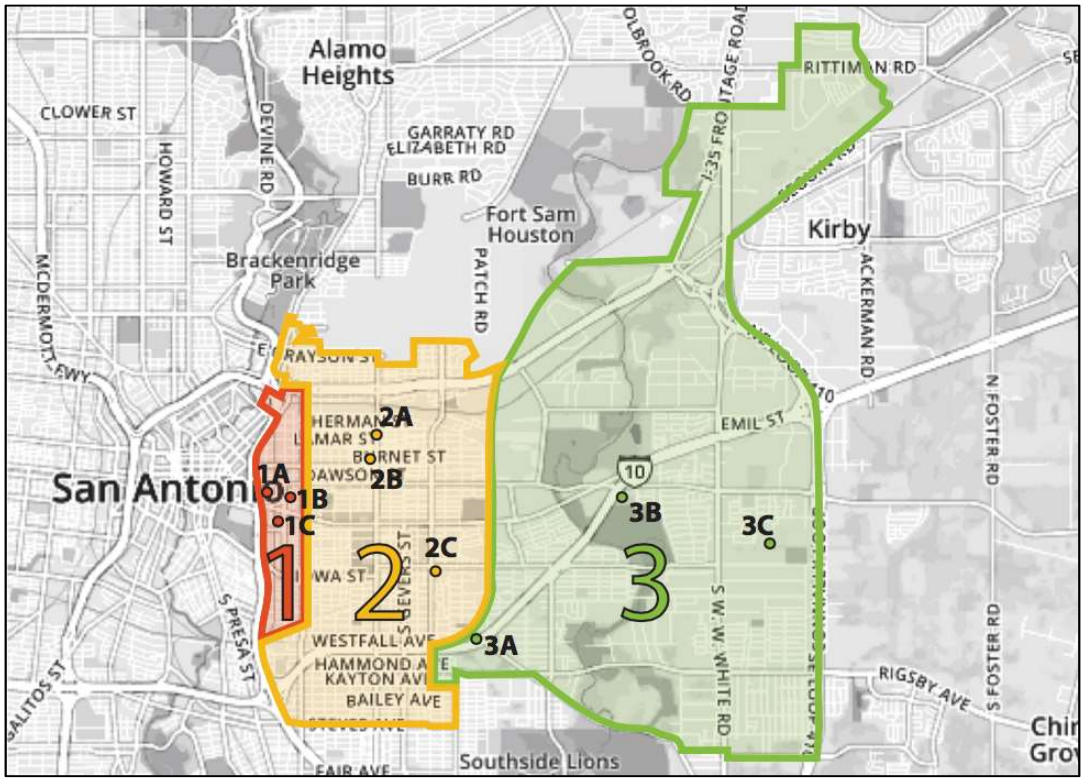
The map on this page depicts the boundaries of the Promise Zone in yellow, as well as two other economic empowerment zones: the Eastside Promise Neighborhood and the Choice Neighborhood. The three zones overlap each other in some areas.

Since the designation, the San Antonio Promise Zone has received $32 million in federal investments.



East Side Redevelopment

One of the Promise Zone partners, the San Antonio for Growth on the Eastside (SAGE) program, was awarded a $500,000 federal grant to create a redevelopment plan for the area. The plan outlines nine development opportunities for added market rate housing, seniors housing, office, and retail uses. The projects are shown in the map on this page.



According to the executive director of SAGE, one roadblock in recruiting single family housing developers to the area is the mixed quality of the schools in the San Antonio ISD. One of the empowerment zones, the Eastside Promise Neighborhood (EPN) Program, is a U.S. Department of Education funded program that puts school improvement at the center of local efforts to revitalize the east side neighborhood.

The Eastside Promise Neighborhood, managed by the United Way of San Antonio and Bexar County, received a federal planning grant of $312,000 in 2010 and a $23.7 million implementation grant in 2011. The funding is aimed at specific programs such as increased kindergarten readiness and higher high school and college graduation rates. The Promise Zone also has educational initiatives, and upcoming plans include the development of a charter school, and developing a new Head Start program. The educational initiatives will help attract single family developments to the area, however school districts are less of a concern for typical renters.

Critical Mass

The Promise Zone has placed emphasis on bringing housing to the area as urban redevelopment typically comes in the form of new housing before business corridor revitalization. Neighborhoods need a "critical mass" of residents to support local business. The chart below compares the neighborhood within a 1-mile radius from the subject to other recently redeveloped urban neighborhoods across Texas.

	SUBJECT (San Antonio, TX)	Washington Corridor (Houston, TX)	Henderson (Dallas, TX)	South Congress (Austin, TX)	Riverside (Austin, TX)	Medical District (Dallas, TX)
2015 Summary	1-Mile	1-Mile	1-Mile	1-Mile	1-Mile	1-Mile
Apartment Submarket Size (# of Units)	15,030	28,597	21,412	11,931	21,369	14,363
Peer Market Size	**3,908**	7,495	6,293	4,489	8,204	3,890
MF Units as % of Submarket	**26%**	26%	29%	38%	38%	27%
Submarket Rent	$1,033	$1,712	$1,182	$1,309	$1,019	$1,480
Est. Mortgage Payment 10% Down	$1,635	$2,528	$2,671	$2,874	$1,340	$1,456
Mortgage vs. Rent Differential	1.6	1.5	2.3	2.2	1.3	1.0
Rent within 1 mile Radius	**$1,229**	$2,039	$1,244	$2,160	$1,019	$2,026
Mortgage vs. Rent Differential (1 Mile Radius)	**1.3**	1.2	2.1	1.3	1.3	0.7
Rent within 1 mile Radius as % of Submarket	**119%**	119%	105%	165%	100%	137%
% Retail Food/Drink	36%	27%	32%	23%	19%	18%

Using the Washington Corridor as a benchmark, the subject's neighborhood could achieve a critical mass with 26% of the submarket stock, or 3,908 units. Approximately 1,783 units are currently in the neighborhood which yields a shortfall of 2,125 units.

Current submarket rent is $1,033 per month, but as indicated by the peer markets, newly redeveloped neighborhoods achieve a premium to the submarket. Using Washington Corridor's premium of 119% as a benchmark, the subject neighborhood could achieve a rent of $1,229 upon achieving critical mass. The presence of Food and Drink retail has been shown to have a positive affect on rental rates more so than other types of retail.

	Estimated Target Today	Inventory	Difference	In the pipeline	Shortfall
Critical Mass MF Units	3,908	1,783	2,125	0	2,125
Critical Mass SF Units	782	1,836	n/a	0	n/a
	4,690	3,619	2,125	0	2,125

Notable Developments

- A public-private partnership between NRP Group, Terramark Homes and Wallace-Bajjali Development Partners, will redevelop the Red Berry Estate. The $150 million project will include 600 apartments, 66 townhouses and more than 300,000 square feet of commercial space. Much of that space will become medical offices with the remainder devoted to retail shops and restaurants.

- Phase Two of Wheatley Court is under construction. The $27 million project is in the Promise Zone and will consist of a 417-unit, mixed-income community built with funds from the San Antonio Housing Authority which were received from the U.S. Department of Housing and Urban Development in December 2012. Wheatley Court Phase II will open by December 2017 and is located next to the Sutton Oaks property's 286 mixed-income units. The two developments are part of SAHA's master-planned neighborhood.

- San Antonio's near east side has three multifamily developments currently in the planning stages. The Merchants Ice House is a proposed mixed-use mixed-income redevelopment of a former ice house, the Crockett Street Urban lofts entails new construction wrapping around The Vidorra condo tower, and the GJ Sutton Complex will be renovated and repurposed including construction of a new office building and parking garage. All in total, the three projects would bring 530 units to the area and represent over $240 million in investments. Half of the units will be for individuals making less than $50,000 per year.

- St. Philips' College is one of the city's best nursing colleges and is located 1.2 miles west of the subject. The college is investing $15 million dollars to re-do the third floor of their science building.

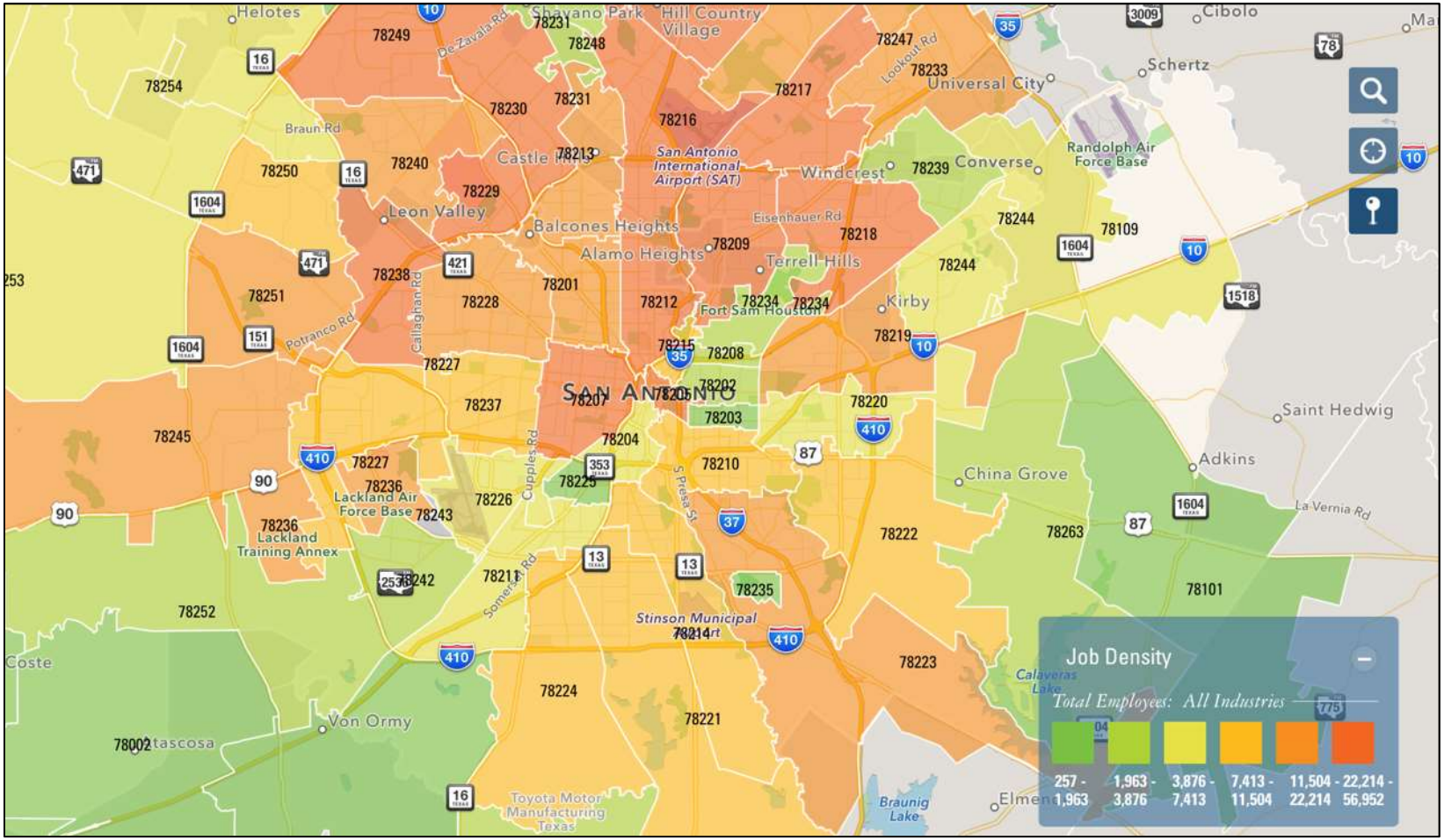
Fort Sam Houston

Fort Sam Houston is a U.S. Army post in San Antonio, Texas located approximately three miles north of the subject. On October 1, 2010, Fort Sam Houston joined Lackland and Randolph Air Force Bases to create Joint Base San Antonio, under Air Force administration. Joint Base San Antonio supports a population of approximately 80,000 as well as 138,000 students at all three installations. It is the largest single Department of Defense installation/enterprise with over 8,000 personnel, an annual budget of $800 million, and supports more than 250,000 other personnel including 425 retired general officers.

As a result of the Base Realignment and Closure Commission (BRAC) 2005 recommendations, all military medical training has been consolidated at Fort Sam Houston, making is the largest military medical training facility in the world. The post is home to the Brooke Army Medical Center (BAMC), the Army's largest and busiest medical center. The center is composed of ten separate organizations centered around the Army's largest in-patient hospital, the San Antonio Military Medical Center (SAMMC). SAMMC is the busiest inpatient medical facility in the Department of Defense, serving more than 250,000 beneficiaries throughout the San Antonio Region, It is a certified Level I Trauma Center, one of only 31 hospitals in the United States that holds both Level I Trauma certification and accreditation from the American Burn Association. The hospital has more than 89 accredited educational programs

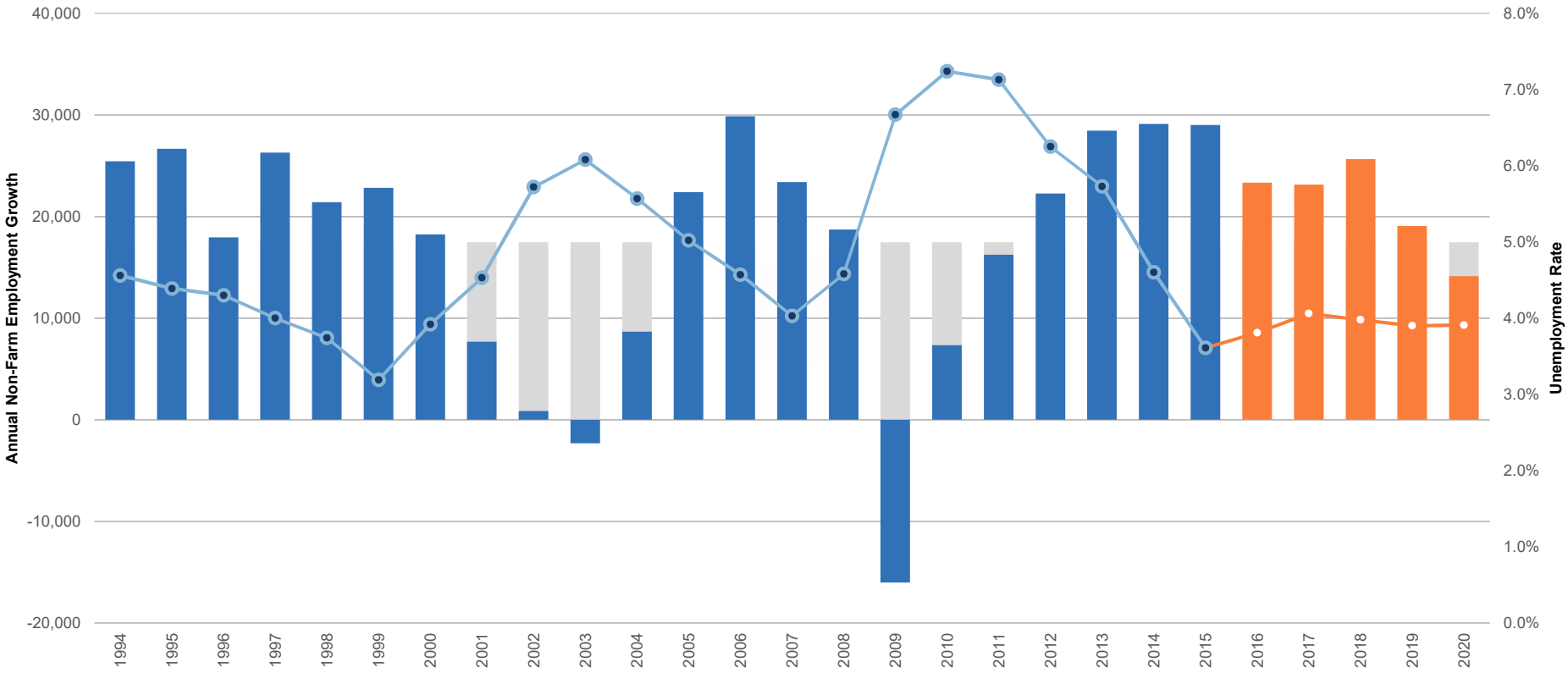
Job Density

The heat map below shows job density in San Antonio. The subject property is located on the northern edge of zip code 78220 which has medium job density (3,876 to 7,413 jobs). Employment count is high in the zip code directly north of the subject (11,504 to 22,214 jobs).



Competitive Market – Office

Metro recovered all jobs lost during downturn in 2011

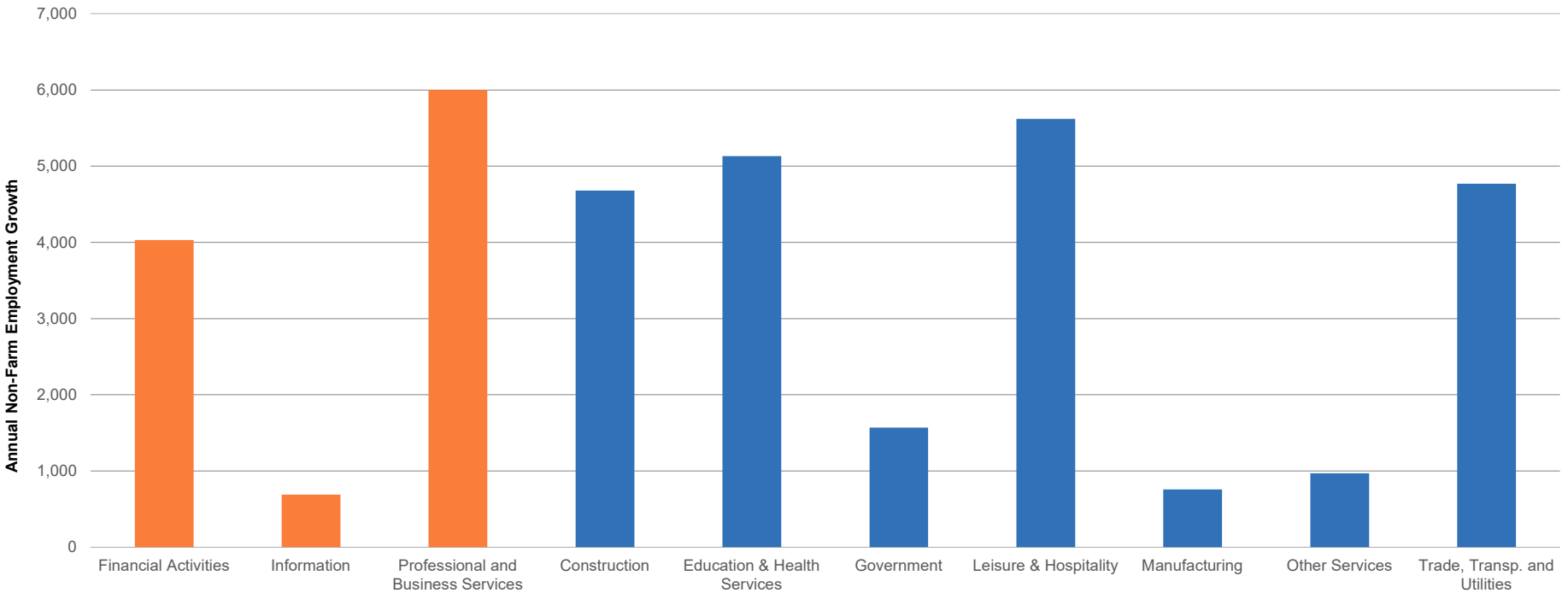


Source: Economy.com

Employment History & Forecasts	San Antonio-New Braunfels, TX Metropolitan Statistical Area - Ten Year History										Five-Year Forecast*				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016F	2017F	2018F	2019F	2020F
Non-Farm Employment	818,330	841,700	860,400	844,380	851,700	867,920	890,170	918,600	947,720	976,720	1,000,060	1,023,210	1,048,870	1,067,930	1,082,060
Prior Year Change	29,860	23,370	18,700	(16,020)	7,320	16,220	22,250	28,430	29,120	29,000	23,340	23,150	25,660	19,060	14,130
Annual % Change	3.8%	2.9%	2.2%	-1.9%	0.9%	1.9%	2.6%	3.2%	3.2%	3.1%	2.4%	2.3%	2.5%	1.8%	1.3%
Unemployment Rate	4.6%	4.0%	4.6%	6.7%	7.2%	7.1%	6.3%	5.7%	4.6%	3.6%	3.8%	4.1%	4.0%	3.9%	3.9%

Growth Expected in Office-Using Employment Sectors

Employment in high-income sectors in the MSA increased by 10,720 in 2015. With a total of 238,750 office-using jobs as of 2015 and rentable stock of $25.3 million, the MSA has 106 square feet of space per job.



Source: Economy.com

Employment by Sector	High Income Sectors			Other Sectors						
	Financial Activities	Information	Professional and Business Services	Construction	Education & Health Services	Government	Leisure & Hospitality	Manufacturing	Other Services	Trade, Transp. and Utilities
Current Month	86,860	22,360	129,530	52,460	152,600	164,630	126,090	46,610	35,930	171,050
Same Month Previous Year	82,830	21,670	123,530	47,780	147,470	163,060	120,470	45,850	34,960	166,280
12-Month Growth	4,030	690	6,000	4,680	5,130	1,570	5,620	760	970	4,770

Inventory and Pipeline

According to 4Q15 CBRE-EA data, the overall San Antonio market contained 25.3 million square feet of commercial office space as of year-end 2015. Of this inventory, 5.9 million square feet are located in the Central Business District (23% of the overall market inventory).

The table presents the total inventory for the San Antonio office market from 2000 to 2015 and the new supply forecast for 2016 to 2021. As illustrated, completions have averaged 307,000 square feet per year for the past 15 years. Going forward, new completions are expected to average 245,000 square feet per year.

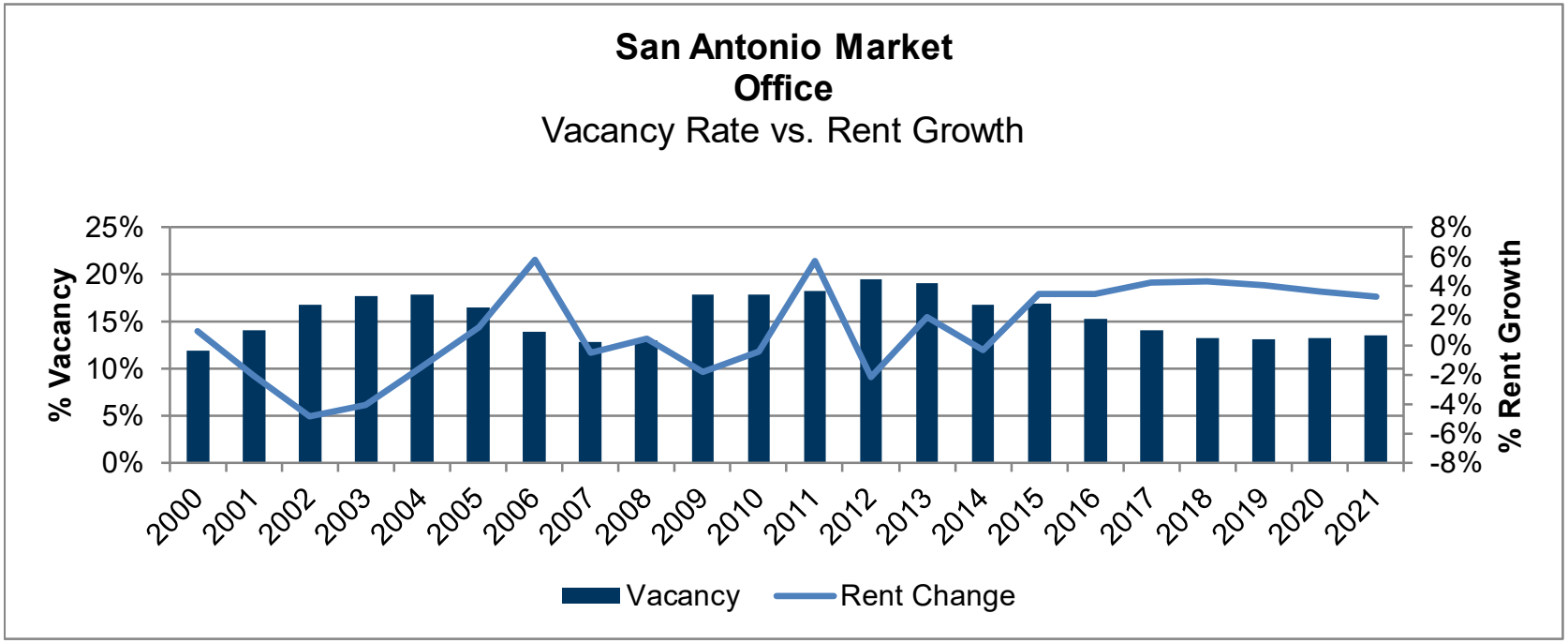
The subject property is located in the Northeast office submarket which contains 6.0 million square feet (24% of the overall market inventory). Of the 418,000 square feet that was delivered to the market in 2015, 393,000 square feet was located in the Northeast submarket.

San Antonio Market
Office
Rentable Inventory

Year	Rentable Stock (SF x 1,000)	Rentable Completions (SF x 1,000)	% Change in Rentable Stock
2000	20,491	60	0
2001	20,905	414	2.0%
2002	21,130	225	1.1%
2003	21,188	58	0.3%
2004	21,568	380	1.8%
2005	21,805	237	1.1%
2006	21,972	167	0.8%
2007	22,693	721	3.3%
2008	23,307	614	2.7%
2009	24,011	704	3.0%
2010	24,261	250	1.0%
2011	24,509	248	1.0%
2012	24,577	68	0.3%
2013	24,683	106	0.4%
2014	24,920	237	1.0%
2015	25,338	418	1.7%
2016	25,390	52	0.2%
2017	25,558	168	0.7%
2018	25,840	281	1.1%
2019	26,157	317	1.2%
2020	26,483	327	1.3%
2021	26,808	325	1.2%

Vacancy, Absorption, Rent Growth

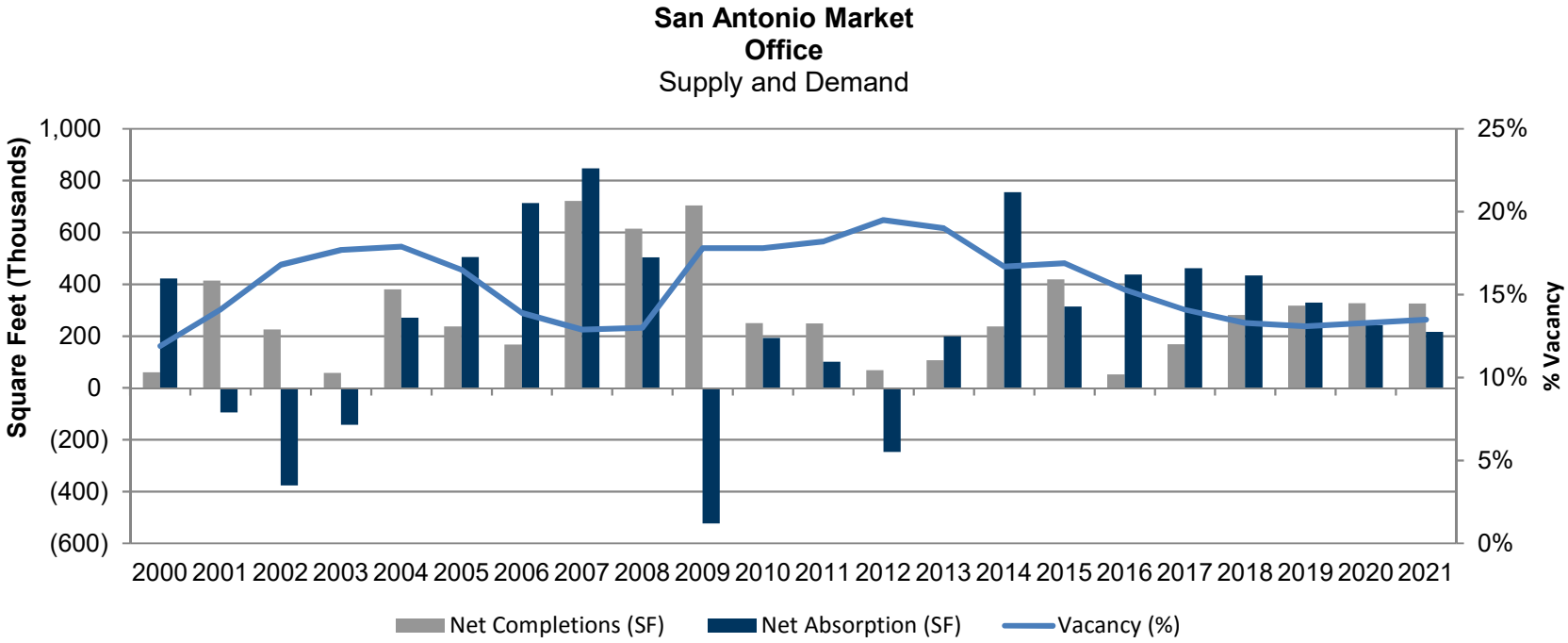
The chart below presents historical/projected office vacancy and rent growth for the San Antonio market. In the late 90's, after several years of vacancy in the 10-11% range, the market suffered a decline in demand which led to consecutive years of weakening fundamentals beginning in 2001 through 2003. Subsequently, in 2007 through 2009, a record 2 million square feet were constructed, and the market experienced another year of negative absorption in 2009 with the Great Recession. In 2012, construction slowed as vacancy had risen to above 19% and rents were declining. However, in the three year period since 2012, absorption has outpaced construction by 506,000 square feet which has led to a steady decline in vacancy and positive rent growth.



Fundamentals are expected to continue to improve over the next five years. Vacancy is expected to decrease to 13.5% by 2021. Rent growth is forecast to average 3.8% per year over the next five years.

Vacancy, Absorption, Rent Growth

The chart below summarizes the historical and forecast construction and absorption in the San Antonio office market. Going forward, absorption is expected to average 353,000 square feet per year and outpace construction by 648,000 square feet over the six year forecast period.



Vacancy, Absorption, Rent Growth

The subject is located in the Northeast office submarket within the San Antonio market. Office properties in the Northeast submarket have an average year built of 1988 and an average size of 61,596 square feet.

The table below summarizes the historical performance for the Northeast submarket. As compared to the overall market, average vacancy in the Northeast submarket is significantly lower and average asking rent per square foot is slightly higher. For the past five years, the submarket has consistently represented 23%-24% of the overall market inventory.

Northeast Submarket
Class A Office
Vacancy and Rent Growth

Year	Rentable Stock (SF x 1,000)	Rentable Completions (SF x 1,000)	Vacancy Rate	Vacant Stock	Occupied Stock	Net Absorption	Asking Rent	Asking Rent Change %
2010	5,504	25	15.4%	848	4,656	(74)	$20.72	2.0%
2011	5,504	0	12.8%	705	4,799	143	$21.37	3.1%
2012	5,612	108	13.2%	741	4,871	72	$21.70	1.5%
2013	5,679	67	11.1%	630	5,049	178	$21.80	0.5%
2014	5,655	41	10.5%	594	5,061	12	$22.05	1.1%
2015	6,048	393	12.0%	726	5,322	261	$21.80	-1.1%

In the near future, the Northeast submarket will deliver two projects totaling 186,000 square feet that are currently in the planning stages. Both are located within the Fort Sam Houston boundaries. Within the Promise Zone, the Red Berry Estate redevelopment project has announced plans for 300,000 square feet of commercial space with the majority dedicated to medical office use, and SAGE's Redevelopment Plan has a few proposed office projects in the East Point neighborhood including 5,500 sf of co-working space, and an 11,500 sf adaptive re-use on the near east side.

Rental Rates

Information contained in the 4Q15 REIS Property Report indicates the average gross asking rent for commercial office properties in the overall San Antonio market is $20.22 PSF, an increase of 3.5% YOY. The average gross asking rent in the Northeast submarket is $21.80 PSF or 7.8% higher.

The Promise Zone is a small part of the Northeast submarket that currently has no Class A office inventory. Options for an office component for the subject include traditional office space or medical office. Traditional offer space could be incorporated into the multifamily aspect of the project as live/work units. Medical office space could compliment the adjacent health center. To address the possibilities for the subject, Meyers analyzed two sets of comparable office properties. The first set contains select traditional Class A and B properties located in the CBD and Northeast submarkets (excluding historical buildings). The second set contains select medical office buildings.

As illustrated on the following page, the traditional office comparables in the CBD submarket are generally larger, and most have asking rents in the mid to high $20s PSF. However, both submarkets show a wide range of asking rents and vacancy levels. Trinity Plaza II in the Northeast submarket has the highest asking rent.

Rental Rates – Traditional Office

All rents are quoted as Full Service except where noted.

Building	Address	Submarket	Class	Year Built	SF	Asking Rent	Vacancy
Bank of America Plaza	300 Convent St	CBD	A	1983	542,835	$27.00	14.1%
Weston Centre	112 E Pecan St	CBD	A	1989	498,136	$26.50	25.5%
175 E Houston St	175 E Houston St	CBD	A	1984	279,214	$25.00	10.3%
One Riverwalk Place	700 N St. Mary's St	CBD	A	1981	261,633	$24.00	13.8%
IBC Centre	130 E Travis St	CBD	A	1984	89,689	$25.00	26.0%
Travis Park Plaza	711 Navarro St	CBD	B	1970	160,172	$17.50	31.0%
Washington Square	800 Dolorosa St	CBD	A	1979	56,000	$29.79	1.4%
Morris K Building	214 Dwyer Ave	CBD	B	1947	25,000	$24.00	5.2%
One Alamo Center	106 S St. Mary's St	CBD	B	1981	165,500	$18.00	25.6%
206 San Pedro Ave	206 San Pedro Ave	CBD	B	1972	15,568	$14.40	7.7%
CBD Submarket Totals / Avgs				**1983**	**2,124,970**	**$24.30**	**18.8%**
Trinity Plaza I	750 E Mulberry Ave	Northeast	A	1983	47,640	$27.00	16.5%
Trinity Plaza II	750 E Mulberry Ave	Northeast	A	1985	119,456	$31.00	1.0%
South Building	2632 Boardway St	Northeast	B	2005	20,832	$11.04	0.0%
The Lab	303 Pearl Parkway	Northeast	B	2012	56,483	$22.50nnn	4.6%
2251 Broadway St	2251 Broadway St	Northeast	A	2012	22,816	$19.00nnn	92.2%
1422 Grayson	1422 Grayson	Northeast	B	1983	61,117	$13.22	29.5%
Comerica Bank	403 S W.W. White Rd	Northeast	B	1982	41,238	$19.07	41.9%
512 E Highland Blvd	512 E Highland Blvd	Northeast	B	1981	35,497	$15.57	53.8%
Brackenridge Plaza	3308 Broadway St	Northeast	B	1984	14,618	$21.00	0.0%
4040 Broadway St	4040 Broadway St	Northeast	A	1983	97,000	$26.27	23.6%
Northeast Submarket Totals / Avgs				**1989**	**516,697**	**$23.37**	**21.3%**

Rental Rates – Medical Office

The second comparable set, listed below, contains select medical office comparables in the same two submarkets. As illustrated, the gross asking rent for the comp set ranged from $16.00 PSF to $26.50 PSF for an average of $20.92 PSF. Vacancy ranges from 0.0% to 39.5% for an average of 23.6%.

Building	Address	Submarket	Class	Year Built	SF	Asking Rent	Vacancy
M&S Tower	730 N Main Ave	CBD	B	1964	71,093	$17.65	9.2%
One Lexington	215 E Quincy St	CBD	B	1989	66,657	$21.00	0.0%
Quincy Professional Bldg	303 E Quincy St	CBD	B	1960	17,514	$16.00	0.0%
Madison Square Medical Bldg	311 Camden St	CBD	B	1973	50,359	$19.00	23.3%
2520 Broadway St	2520 Broadway St	Northeast	B	2007	17,426	$26.50	0.0%
Santa Rosa Professional	315 N San Saba	CBD	B	1986	128,578	$22.33	35.2%
Rosa Verde Towers	343 W Houston St	CBD	B	1972	123,324	$22.00	39.5%
Medical Office Comps Totals / Avgs				**1978**	**474,951**	**$20.92**	**23.6%**

Medical Expenditures

Within the Promise Zone boundaries, the Medical Expenditures Spending Potential Index is 48. The Spending Potential Index is household-based, and represents the amount spent for a product or service relative to a national average of 100. In other words, the population within the Promise Zone spends a far lower amount for medical products or services relative to a national average of 100. A lower spending potential could negatively impact a medical office development scenario.

Medical Expenditures Promise Zone Boundaries			
	Spending Potential Index	Average Amount Spent	Total
Health Care	48	$2,279.71	$52,563,355
Medical Care	48	$1,009.32	$23,271,865
Physician Services	48	$126.83	$2,924,270
Dental Services	45	$174.77	$4,029,731
Eyecare Services	49	$27.09	$624,540
Lab Tests, X-Rays	48	$32.34	$745,574
Hospital Room and Hospital Services	51	$103.50	$2,386,483
Convalescent or Nursing Home Care	45	$14.09	$324,854
Other Medical services (1)	44	$51.03	$1,176,552
Nonprescription Drugs	50	$63.98	$1,475,211
Prescription Drugs	50	$250.31	$5,771,345
Nonprescription Vitamins	44	$30.45	$702,089
Medicare Prescription Drug Premium	54	$47.86	$1,103,500
Eyeglasses and Contact Lenses	46	$41.88	$965,625
Hearing Aids	44	$11.90	$274,312
Medical Equipment for General Use	46	$2.78	$64,194
Other Medical Supplies (2)	47	$30.52	$703,585
Health Insurance	48	$1,270.39	$29,291,490
Blue Cross/Blue Shield	48	$407.15	$9,387,636
Commercial Health Insurance	46	$231.36	$5,334,372
Health Maintenance Organization	46	$206.24	$4,755,183
Medicare Payments	54	$280.00	$6,456,020
Long Term Care Insurance	42	$42.16	$972,125
Other Health Insurance (3)	47	$103.49	$2,386,154

Expenses

In order to estimate expenses for the property, Meyers analyzed data on the comparable rental properties as well as industry sources such as International Facility Management Association ("IFMA").

The REIS Property Report 4Q15 indicates average operating expenses in the Northeast submarket of $8.46 PSF. This estimate is in line with the operating expenses of the comparable properties previously discussed which range from $4.29 PSF to $12.03 PSF for an average of $8.53 PSF. According to the Operations and Maintenance Benchmarks 2008 report by the IFMA, average operating expenses for the office component of mixed-use office properties is $7.80 PSF. However, if the subject were to function as a medical office building, expenses would be at the higher end of the range of comparables.

Expenses are expected to grow at a rate of 3.0% per year which is in line with information obtained from local brokers as well as published data from IRR Viewpoint 2015.

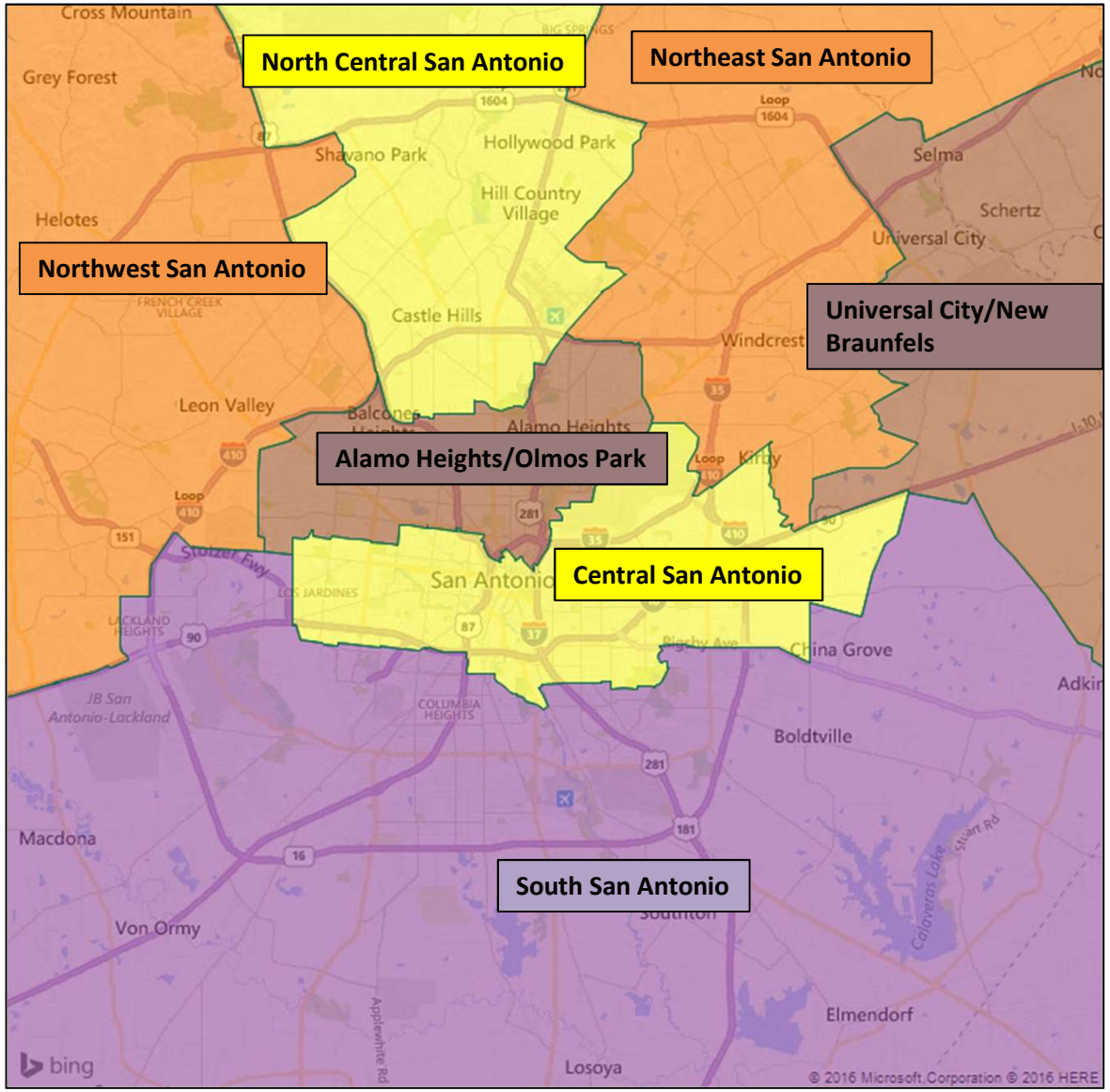
Competitive Market – Retail

Submarket Map

The subject property is located in the Central San Antonio retail submarket as defined by CBRE-EA.

- **Adjoining Submarkets**
  - South San Antonio
  - Alamo Heights/Olmos Park
  - Northeast San Antonio

- **4Q15 Neighborhood and Community Market**
  - 5.2% of total metro division
  - 94.5% occupancy
  - $13.74 average rent



Inventory and Pipeline

According to 4Q15 REOC data, the overall San Antonio market contained 47.7 million square feet of total retail space as of year end 2015. Of this inventory, 2.5 million square feet (5.2% of the overall market inventory) is considered "neighborhood and community" retail space located in the Central San Antonio submarket.

The table below presents the neighborhood and community retail inventory in the Central San Antonio submarket from 2004 to 2015 and the new supply forecast for 2016 to 2021. As illustrated, the submarket has not added any inventory since 2008. In total, the submarket realized a net gain of 28,000 square feet of inventory from 2004 to 2015.

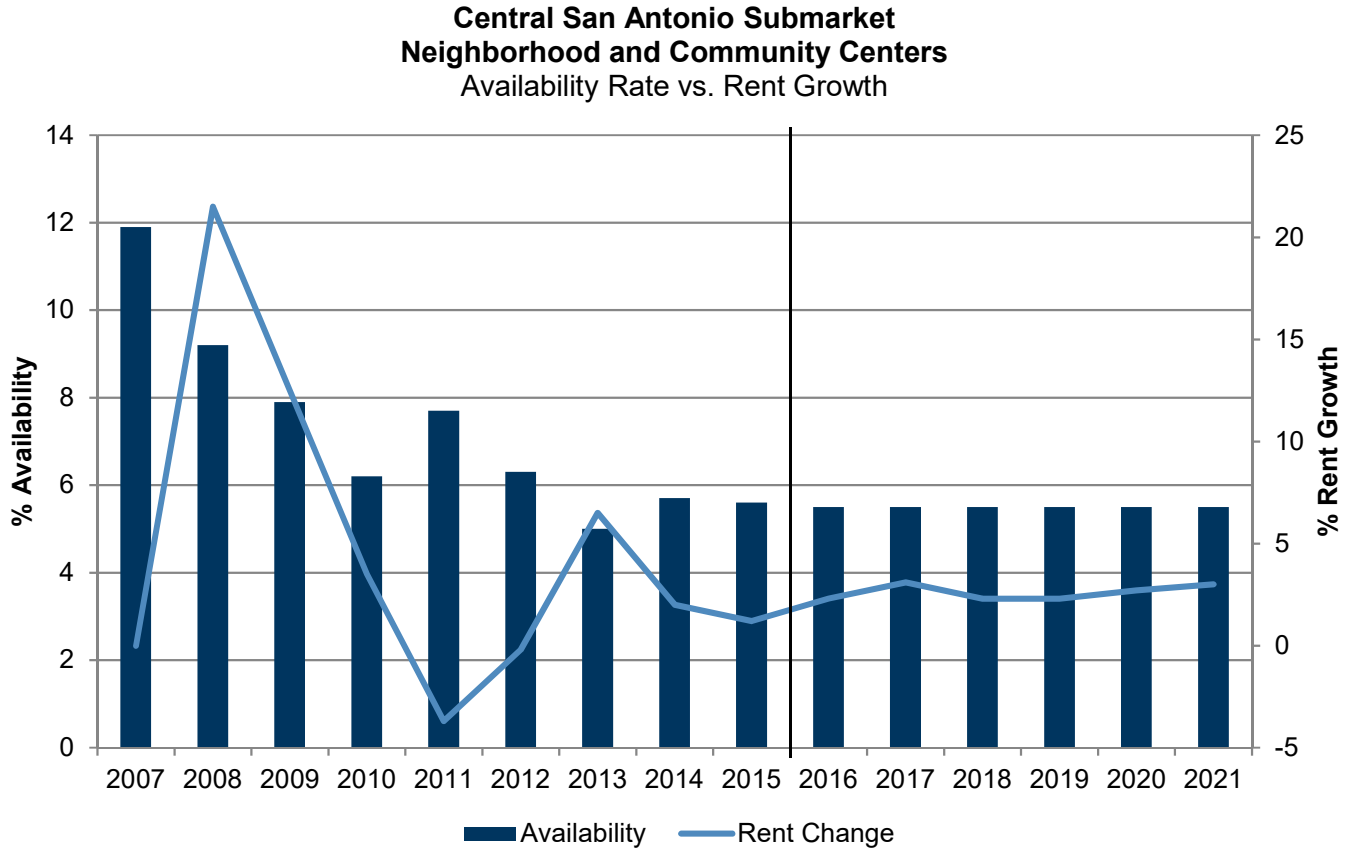
Going forward, construction is expected to resume by 2019 with 11,000 square feet of new inventory delivered between 2019 and 2021.

Central San Antonio Submarket
Neighborhood and Community Centers
Rentable Inventory

Year	Rentable Stock (SF x 1,000)	Rentable Completions (SF x 1,000)	% Change in Rentable Stock
2004	2,504	na	na
2005	2,509	5	0.2%
2006	2,520	11	0.4%
2007	2,529	9	0.4%
2008	2,532	3	0.1%
2009	2,532	0	0.0%
2010	2,532	0	0.0%
2011	2,532	0	0.0%
2012	2,532	0	0.0%
2013	2,532	0	0.0%
2014	2,532	0	0.0%
2015	2,532	0	0.0%
2016	2,532	0	0.0%
2017	2,534	0	0.0%
2018	2,535	0	0.0%
2019	2,537	3	0.1%
2020	2,540	4	0.2%
2021	2,542	4	0.2%

Availability, Absorption, Rent Growth

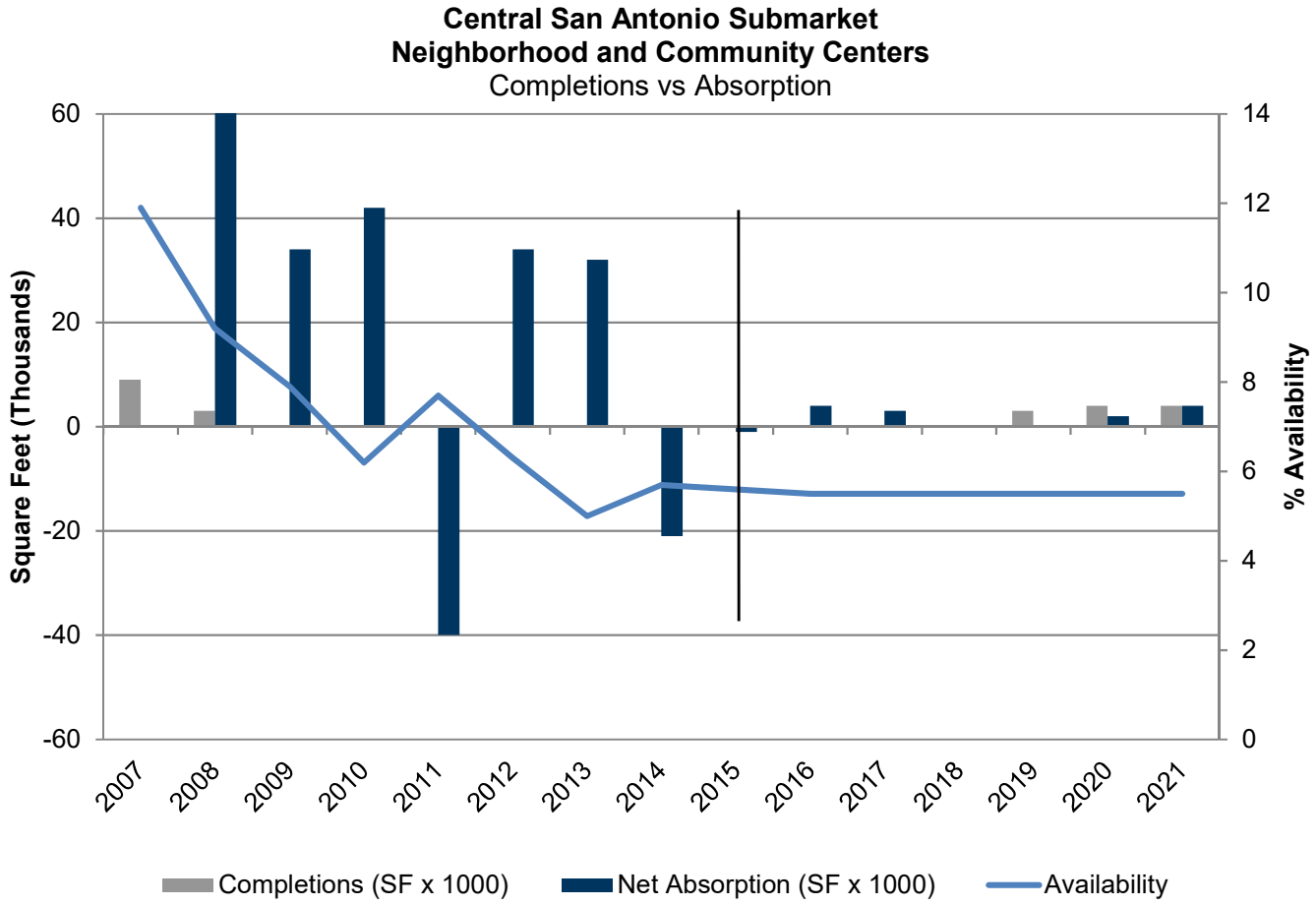
Neighborhood and community retail space in the Central San Antonio submarket has historically experienced strong rent growth, averaging 5.4% per year since 2007. The following chart presents historical/projected Neighborhood and community center vacancy and rent growth for the Central San Antonio submarket.



As illustrated, availability in the submarket peaked in 2007 at 11.9% and is forecast to decrease to 5.5% in 2016 before leveling off. While the submarket experienced negative rent growth in two out of the past five years, future rent growth is expected trend positively with average growth of 2.6% per year over the next 6 years.

Availability, Absorption, Rent Growth

The following chart summarizes the historical and forecast construction and absorption in the Central San Antonio submarket for neighborhood and community centers.



Rental Rates

Information contained in the 4Q15 CBRE-EA Retail Market Trends Forecast Report indicates the average asking rent for retail properties in the Central San Antonio submarket is $13.74 PSF NNN. Going forward, absorption is expected to outpace the minimal new supply and rent growth will average 2.6% per year.

Central San Antonio Submarket
Neighborhood and Community Centers
Vacancy and Rent Growth

Year	Rentable Stock (SF x 1,000)	Rentable Completions (SF x 1,000)	Vacancy Rate	Vacant Stock	Occupied Stock	Net Absorption	Asking Rent	Asking Rent Change %
2007	2,529	9	11.9%	301	2,228	na	$9.19	na
2008	2,532	3	9.2%	233	2,299	68	$11.17	21.5%
2009	2,532	0	7.9%	200	2,332	34	$12.57	12.5%
2010	2,532	0	6.2%	157	2,375	42	$13.01	3.5%
2011	2,532	0	7.7%	195	2,337	(40)	$12.53	-3.7%
2012	2,532	0	6.3%	160	2,372	34	$12.51	-0.2%
2013	2,532	0	5.0%	127	2,405	32	$13.32	6.5%
2014	2,532	0	5.7%	144	2,388	(21)	$13.58	2.0%
2015	2,532	0	5.6%	142	2,390	(1)	$13.74	1.2%
2016	2,532	0	5.5%	139	2,393	4	$14.06	2.3%
2017	2,534	0	5.5%	139	2,395	3	$14.49	3.1%
2018	2,535	0	5.5%	139	2,396	0	$14.82	2.3%
2019	2,537	3	5.5%	140	2,397	0	$15.16	2.3%
2020	2,540	4	5.5%	140	2,400	2	$15.57	2.7%
2021	2,542	4	5.5%	140	2,402	4	$16.04	3.0%

Leasing Activity

Recent retail leasing activity and four listings in and around downtown San Antonio are summarized in the table below. As shown, leases range from $14.00 PSF NNN to $22.00 PSF NNN.

The leases at 202-214 Broadway St and 1915 Broadway are noteworthy. Both are retail space below apartment buildings, and both locations have a Walk Score of 73 which is on the low side for an urban neighborhood (for example, the Visitana Apartments has a Walk Score of 93). For comparison purposes, the subject Walk Score is 52. Expenses for the NNN comparables range from $4.36 to $8.66 PSF and are passed through to the tenant. Note the rent for 1915 Broadway St is displayed as Modified Gross.

Address	Building	Building Yr Built	Building Size	Lease Date	Lease SF	Term	Rent	Type
2515 Broadway	-	2013	4,740	Aug-15	4,710	1	$22.00	NNN
327-331 W Commerce St	-	1920	7,500	Jul-15	3,500	5	$14.00	NNN
207-211 Broadway St	-	1945	5,430	May-15	2,095	N/A	$14.00	NNN
202-214 Broadway St	Calcasieu Apartments	1920	43,017	Apr-15	2,400	N/A	$17.00	NNN
1915 Broadway St	Mosaic on Broadway	2012	13,535	Mar-15	2,038	10	$25.00	MG
118 Broadway St	The World Trade Center	1910	78,170	Mar-15	2,214	5 mo	$16.26	MG
118 Broadway St	The World Trade Center	1910	78,170	Feb-15	2,214	1	$20.00	NNN
2230-2342 Presa St	-	1945	7,629	Feb-15	970	5	$11.13	+ Utilities
1915 Broadway St	Mosaic on Broadway	2012	13,535	Jan-15	1,488	10	$25.00	MG
707-721 St. Mary's	King William Center	1935	9,830	Dec-14	1,360	N/A	$16.50	MG
1915 Broadway St	Mosaic on Broadway	2012	13,535	Oct-14	1,317	5	$25.00	MG
2230-2342 Presa St	-	1945	7,629	Sep-14	1,300	5	$12.00	+ Utilities
102 Navarro St	-	1940	4,983	Jun-14	3,235	5	$16.69	NNN
100 N. Santa Rosa Dr	Visitana Apartments	2011	17,394	Listing	1,150-12,265	N/A	$18.00	NNN
302 Montana St	-	N/A	2,816	Listing	2,816	N/A	$20.00	NNN
201 W. Commerce	Former Kress Building	1938	31,073	Listing	4,835	3	$18.00	NNN
201 W. Commerce	Former Kress Building	1938	31,073	Listing	1368-1896	3	$24.00	NNN

Demand Potential

Meyers analyzed the relationship between retail supply and demand within the boundaries of the Promise Zone using the geographic information tools available with ESRI's Business Analyst Online ("ESRI"). A "retail gap" exists where demand (the expected amount spent by consumers at retail establishments) is greater than the current supply (estimates sales to consumers by establishments; sales to businesses are excluded).

A positive retail gap represents potential opportunity to capture demand that is currently going outside of the trade area (known as leakage). The data indicates that residents of the Promise Zone are currently underserved in several categories. The table on the following page summaries the leakage/surplus by industry group.

For each industry group with leakage, the retail gap was divided by an average sales per square foot to convert the potential demand from dollars to square feet.

Retail Gap – Promise Zone

Retail MarketPlace Profile Promise Zone Boundaries							
Summary Demographics							
2015 Population					67,522		
2015 Households					23,057		
2015 Median Disposable Income					$22,784		
2015 Per Capita Income					$12,488		
Industry Summary	**Demand** (Retail Potential)	**Supply** (Retail Sales)	**Retail Gap**	**Leakage/Surplu Factor**	**Number of Businesses**		
Total Retail Trade and Food & Drink	$458,779,256	$1,163,398,264	-$704,619,008	-43.4	534		
Total Retail Trade	$414,892,012	$1,053,381,244	-$638,489,232	-43.5	352		
Total Food & Drink	$43,887,244	$110,017,020	-$66,129,776	-43.0	182		
Industry Group	**Demand** (Retail Potential)	**Supply** (Retail Sales)	**Retail Gap**	**Leakage/Surplus Factor**	**Number of Businesses**	**Average Sales Per SF**	**Potential Demand (SF)**
Motor Vehicle & Parts Dealers	$94,738,251	$463,925,375	-$369,187,124	-66.1	84		
Automobile Dealers	$78,722,771	$436,155,995	-$357,433,224	-69.4	42		
Other Motor Vehicle Dealers	$9,633,193	$4,558,862	$5,074,331	35.8	2	$250	20,297
Auto Parts, Accessories & Tire Stores	$6,382,287	$23,210,518	-$16,828,231	-56.9	40		
Furniture & Home Furnishings Stores	$11,529,055	$19,098,225	-$7,569,170	-24.7	17		
Furniture Stores	$7,697,206	$4,693,719	$3,003,487	24.2	5	$250	12,014
Home Furnishings Stores	$3,831,849	$14,404,506	-$10,572,657	-58.0	12		
Electronics & Appliance Stores	$19,502,955	$22,245,083	-$2,742,128	-6.6	14		
Bldg Materials, Garden Equip. & Supply Stores	$17,199,555	$82,408,610	-$65,209,055	-65.5	49		
Bldg Material & Supplies Dealers	$15,535,856	$79,768,514	-$64,232,658	-67.4	43		
Lawn & Garden Equip & Supply Stores	$1,663,699	$2,640,096	-$976,397	-22.7	6		
Food & Beverage Stores	$79,199,947	$214,263,412	-$135,063,465	-46.0	61		
Grocery Stores	$70,666,612	$197,283,487	-$126,616,875	-47.3	42		
Specialty Food Stores	$4,996,082	$14,375,742	-$9,379,660	-48.4	15		
Beer, Wine & Liquor Stores	$3,537,253	$2,604,183	$933,070	15.2	4	$350	2,666
Health & Personal Care Stores	$22,919,551	$38,824,177	-$15,904,626	-25.8	15		
Gasoline Stations	$30,819,772	$57,242,216	-$26,422,444	-30.0	25		
Clothing & Clothing Accessories Stores	$18,036,088	$13,076,099	$4,959,989	15.9	17	$530	9,358
Clothing Stores	$12,214,765	$10,454,506	$1,760,259	7.8	14	$530	3,321
Shoe Stores	$2,236,176	$538,048	$1,698,128	61.2	1	$530	3,204
Jewelry, Luggage & Leather Goods Stores	$3,585,147	$2,083,545	$1,501,602	26.5	2	$530	2,833
Sporting Goods, Hobby, Book & Music Stores	$11,197,582	$10,546,856	$650,726	3.0	12	$220	2,958
Sporting Goods/Hobby/Musical Instr Stores	$8,700,516	$7,801,385	$899,131	5.4	11	$220	4,087
Book, Periodical & Music Stores	$2,497,066	$2,745,471	-$248,405	-4.7	1		
General Merchandise Stores	$82,900,399	$33,305,423	$49,594,976	42.7	20	$350	141,700
Department Stores Excluding Leased Depts.	$61,880,280	$12,691,194	$49,189,086	66.0	5	$350	140,540
Other General Merchandise Stores	$21,020,119	$20,614,229	$405,890	1.0	15	$350	1,160
Miscellaneous Store Retailers	$18,295,442	$23,006,486	-$4,711,044	-11.4	28		
Florists	$672,529	$1,352,227	-$679,698	-33.6	5		
Office Supplies, Stationery & Gift Stores	$3,101,464	$4,115,779	-$1,014,315	-14.1	1		
Used Merchandise Stores	$3,360,230	$3,776,535	-$416,305	-5.8	12		
Other Miscellaneous Store Retailers	$11,161,219	$13,761,945	-$2,600,726	-10.4	10		
Nonstore Retailers	$8,553,415	$75,439,282	-$66,885,867	-79.6	10		
Electronic Shopping & Mail-Order Houses	$5,656,940	$0	$5,656,940	100.0	0	$325	17,406
Vending Machine Operators	$629,972	$8,531,251	-$7,901,279	-86.2	4		
Direct Selling Establishments	$2,266,503	$66,908,031	-$64,641,528	-93.4	6		
Food Services & Drinking Places	$43,887,244	$110,017,020	-$66,129,776	-43.0	182		
Full-Service Restaurants	$23,367,041	$62,703,363	-$39,336,322	-45.7	119		
Limited-Service Eating Places	$18,198,987	$29,597,349	-$11,398,362	-23.8	33		
Special Food Services	$476,835	$3,777,788	-$3,300,953	-77.6	11		
Drinking Places - Alcoholic Beverages	$1,844,381	$13,938,520	-$12,094,139	-76.6	19		
TOTAL					**1,014**		**361,545**

Competitive Market – Multifamily

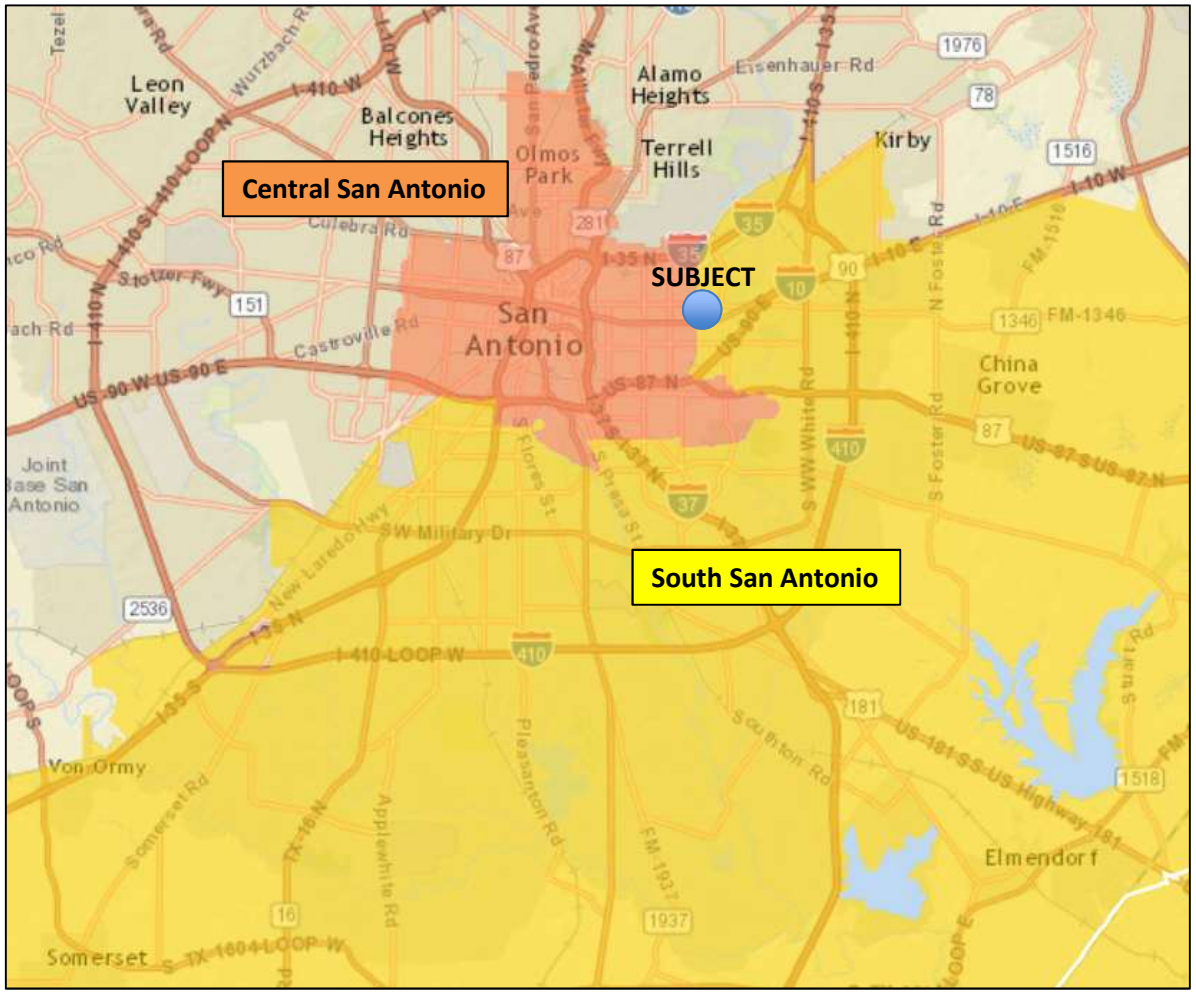
Submarket Map – Central & South San Antonio

The subject property is located in zip code 78220 which places it in the vast South San Antonio multifamily submarket as defined by MPF. However, the subject is on the border with the Central San Antonio multifamily submarket. Considering the urban nature of the subject neighborhood, and the lack of new inventory in the South San Antonio submarket, the Central San Antonio submarket is more relevant to the subject. As such, the following submarket analysis is based on the Central San Antonio submarket.

- **Principal highways**
  - US 87
  - US 90
  - Interstate 10
  - Interstate 35

- **Adjoining Submarkets**
  - South San Antonio
  - Alamo Heights
  - West San Antonio
  - Southwest San Antonio

- **4Q15 Apartment Market**
  - 7.6% of total metro division
  - 96.2% occupancy
  - $1,033 average rent/mo



Submarket Demographics

Using the geographic information tools available with ESRI's Business Analyst Online ("ESRI"), Meyers analyzed demographics of the Central San Antonio submarket using the "Demographic and Income Profile" report. This data is driven by the U. S. Census Bureau's "2010 Census of Population and Housing" with ESRI statistical forecasts for 2014 and 2019.

The Central San Antonio submarket has a total population of 160,049 as of 2015. Average household size is large with 2.92 residents comprising a typical household. The ratio of owner occupied housing to renter occupied housing 45.8%/54.2%.

Approximately 7.0% of households in the submarket earn over $100,000 per year.

The typical renter population age groups (20 to 34 years) comprise approximately 15% of the households in the submarket. The 58% gap between median and average household incomes is an indication of a large disparity of incomes among the population.

2015 Summary	Central San Antonio Submarket
Total Population	160,049
Total Households	54,865
Average Household Size	2.92
Estimated HH Growth Rate (ESRI)	3.8%
Median Age	33.6
% 25 to 34 years	15%
Median Household Income	$26,356
Average Household Income	$41,671
Income Gap	58%
% HHs Over $100,000	7%
Owner Occupied Housing	45.8%
Renter Occupied Housing	54.2%
SFD New Home Closing Price	$179,151
SFD Existing Home Closing Price	$138,966
House Price Gap ($)	$40,185
House Price Gap (%)	28.9%

Inventory and Pipeline

According to the 1Q16 MPF data, the overall San Antonio market contained 177,031 multifamily units as of 4th quarter 2015. Of this inventory, 13,470 units (7.6% of the overall market inventory) are located in the Central San Antonio submarket.

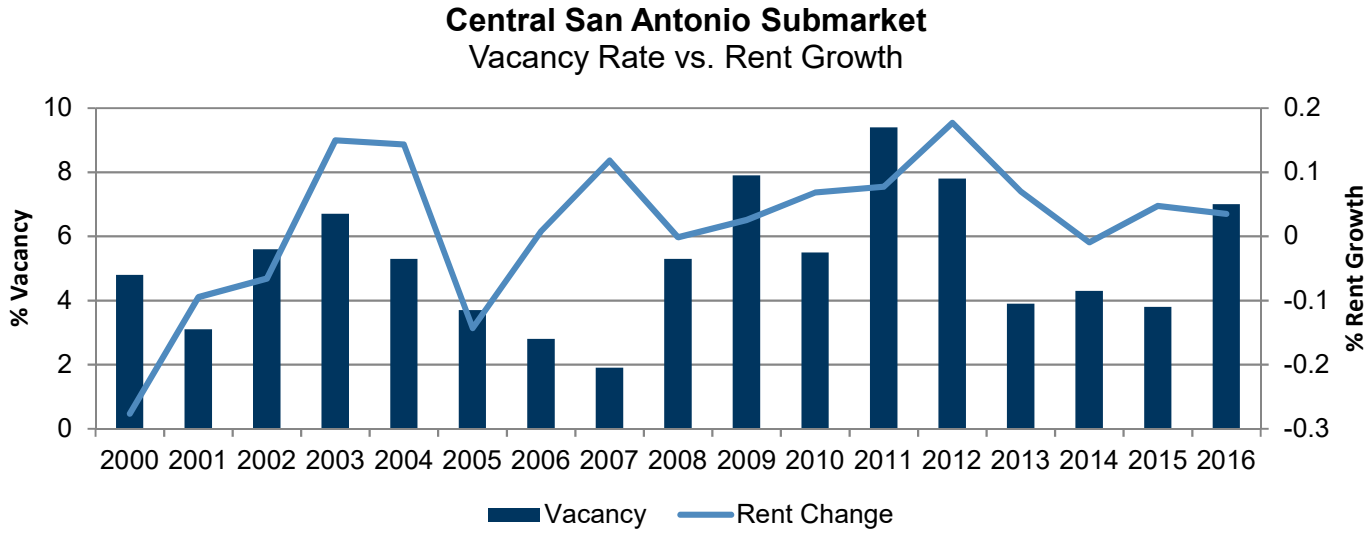
The table presents the rentable inventory for the Central San Antonio submarket from 2000 to 2015 and the new supply forecast for 2016. As illustrated, construction gained momentum in 2007, and an average of 480 units have been added to the market every year since. In total, the submarket gained 3,812 units from 2000 to 2015. Going forward, construction is expected to reach a peak in 2016 with the addition of 1,560 units to the submarket.

Central San Antonio Submarket Rentable Inventory			
Year	Rentable Stock (Units)	Rentable Completions (Units)	% Change in Rentable Stock
2000	9,658	0	n/a
2001	9,658	0	0.0%
2002	9,658	0	0.0%
2003	9,658	0	0.0%
2004	9,184	-474	-4.9%
2005	9,200	16	0.2%
2006	9,152	-48	-0.5%
2007	9,404	252	2.8%
2008	9,547	143	1.5%
2009	9,871	324	3.4%
2010	10,512	641	6.5%
2011	10,958	446	4.2%
2012	11,830	872	8.0%
2013	12,180	350	3.0%
2014	12,855	675	5.5%
2015	13,470	615	4.8%
2016F	15,030	1,560	11.6%

Vacancy, Absorption, Rent Growth

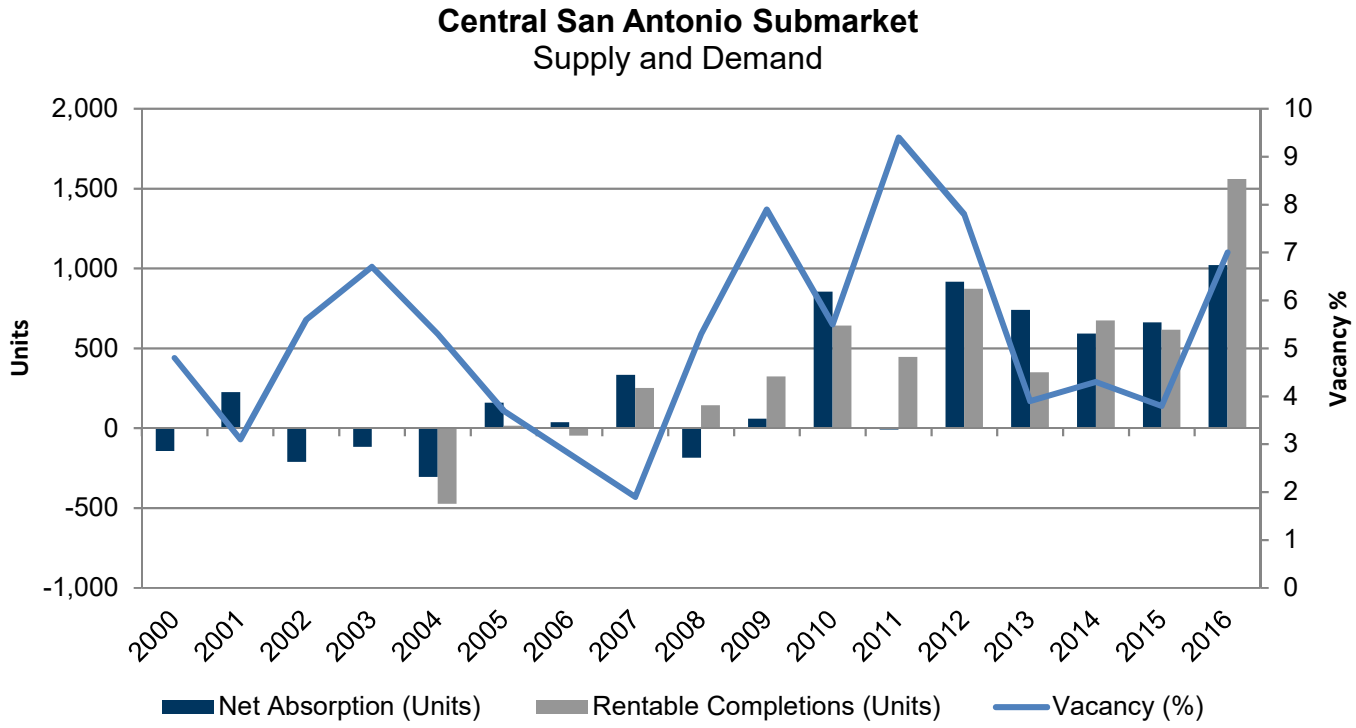
After seven years of minimal multifamily development in the Central San Antonio submarket, vacancy reached a low of 1.9% in 2007. In the same year, construction started back up at a normal rate, and vacancy has averaged 5.8% over the past five years. With a record 1,560 units in the pipeline for 2016, vacancy is expected to tick upwards to 7.0%.

Rent growth has averaged 6.4% per year in the period since 2007 as more class A properties are being added to the submarket. With the help of a healthy market for renters and strong job growth in the region, future rent growth for 2016 is forecast to be 3.5%.



Vacancy, Absorption, Rent Growth

The chart below summarizes the historical and forecast construction and absorption in the Central San Antonio submarket for multifamily. After seven years with virtually no completions in the market in 2000 through 2006, absorption was variable, averaging -51 units during the same period. In 2007, after the construction of 252 units, absorption rose to 334 units the same year. Over the past five years, absorption has kept pace with completions.



Rental Rates

In order to arrive at the indicated effective rent for the subject property, Meyers surveyed 16 comparable properties (or 3,564 units) in and around the Central San Antonio submarket. The top seven comparables are properties built since 2001 and located in the Promise Zone. Note these comparables have larger average unit sizes and effective rents in the $0.70 to $0.80 PSF range.

The second set of nine comparables are located in the Downtown/Riverwalk/King William neighborhoods and are considered product comparables. The majority of the properties are wrap design. Peanut Factory Lofts is a noteworthy comparable for the subject. It is a 102-unit garden-style project currently in lease-up. Like the subject, it is in a redeveloping area and has a comparatively low Walk Score of 47.

Property Name	Location	Property Manager	# Units	Yr. Completed	Avg. Unit Size	Avg. Monthly Market Rent	Avg. Monthly Eff. Rent	Avg. Monthly Eff. Rent PSF	% Occ.
Park at Sutton Oaks	Promise Zone	Franklin Development Company	208	2012	750	$612	$612	$0.82	94%
Sutton Oaks	Promise Zone	Franklin Development Company	194	2011	1,027	$767	$767	$0.75	90%
Artisan at Salado Falls	Promise Zone	Franklin Development Company	252	2007	992	$778	$778	$0.78	97%
Rosemont at Highland Park	Promise Zone	Pinnacle Realty Management	252	2006	887	$681	$681	$0.77	92%
Artisan at Salado Creek	Promise Zone	Franklin Development Company	200	2005	1,064	$745	$745	$0.70	97%
Aritsan at Willow Springs	Promise Zone	Franklin Development Company	248	2005	1,052	780	780	$0.74	98%
Place at Houston Street	Promise Zone	MC Companies	200	2003	1,324	1,038	1,038	$0.78	95%
Total/Weighted Avg.			**1,554**	**2007**	**1,009**	**$768**	**$768**	**$0.76**	**95%**
Rivera	Downtown	San Miguel Management	302	2016	725	$1,456	$1,456	$2.01	1%
Agave	Downtown	Greystar Management	349	2015	869	$1,750	$1,605	$1.85	36%
Peanut Factory Lofts	Downtown	Greystar Management	102	2014	933	$1,652	$1,476	$1.58	59%
River House	Downtown	Greystar Management	261	2014	992	$2,115	$1,845	$1.86	92%
1010 South Flores	Downtown	3N Management Development	46	2013	843	$1,281	$1,281	$1.52	N/A
Mosaic on Broadway	Downtown	Broadway Developments	120	2013	756	$1,438	$1,438	$1.90	89%
1800 Broadway	Downtown	Churchill Forge Properties	230	2012	897	$1,659	$1,521	$1.70	93%
Can Plant	Downtown	Embrey Partners	293	2012	871	$1,712	$1,570	$1.80	93%
1221 Broadway	Downtown	Lynd	307	2010	749	$1,270	$1,174	$1.57	93%
Total/Weighted Avg.			**2,010**	**2013**	**844**	**$1,630**	**$1,509**	**$1.79**	**93%**

Central San Antonio Submarket – Recent Construction

Peanut Factory Lofts

As noted, the Peanut Factory Lofts is a notable comparable for the subject. Peanut Factory Lofts offers efficiencies, one bedrooms, two bedrooms, and three bedrooms. A majority of the one bedroom units is a 862 square-foot floor plan with a den. There are also a handful of two story townhome designs and one 3,047 square foot three bedroom three and a half bath floor plan. Amenities include an on-site food park, elevators, 24-hour fitness center, resort pool with cabana, dog park, and valet trash. The units are finished out as depicted in the photo including wood plank flooring, balconies, ceiling fans, counter seating, and walk-in closets. Select homes also feature an attached garage or a granite package that features full granite countertops in both the kitchens and bathrooms. The property is a mixture of new construction and historic renovation with some units located in the original peanut processing plant structure.

Central San Antonio Submarket – Fundamentals

The table below summarizes the 4Q15 fundamentals for the Central San Antonio submarket. The data was sourced from MPF and is broken out into floor plan type and year built. As shown, occupancy in the submarket is strong across all floor plan types. Average monthly rent for properties built after 2000 equals $1,245 or $1.31. The average unit size for newer properties is 951 square feet which would indicate that these properties have a healthy mix of two and three bedroom floor plans in their offering.

Unit Type	Occupancy	Monthly Rent	Rent PSF	Average Size	% Offering Concessions	Average Concession	Annual Same Store Rent Change
Eff	95.0%	$833	$1.59	524	23.6%	1 month free	5.5%
1BR	96.3%	$901	$1.30	692	6.3%	1 month free	4.2%
2BR	96.4%	$1,274	$1.23	1,040	0.0%	N/A	3.0%
3BR	96.2%	$1,200	$0.99	1,213	0.0%	N/A	3.0%
Total 2000+ Properties	95.8%	$1,245	$1.31	951	10.1%	1 month free	3.3%

Expenses

In order to estimate expenses for the subject, Meyers analyzed data on five recently constructed comparable rental properties with market level amenities. Total operating expenses range from $2.88 to $4.92 PSF or $2,095 to $2,126 per unit excluding taxes. Taxes are estimated using 85% of development costs multiplied by the current tax rate.

Management fees at the comparables range from 2.0% to 3.0% of EGI. Replacement reserves are typically $200 to $250 per unit. Expenses are expected to grow at a rate of 2.5% per year which is in line with information obtained from local market participants as well as published data from IRR Viewpoint 2015.

Competitive Market - Hospitality

San Antonio Market Outlook

San Antonio hotels can be categorized as Upper-Priced or Lower-Priced hotels. Upper-Priced hotels are full-service with representative brands including Fairmont, Four Seasons, Loews, Ritz Carlton, W Hotels, Embassy Suites, Hilton, Hyatt, Marriott, Westin, Courtyard by Marriott, Crowne Plaza, Hyatt Place, Radisson, and Residence Inn. Lower-Priced hotels are limited-service and include the brands Best Western, Comfort Inn, Hampton Inn, Holiday Inn, TownePlace Suites, Red Lion, La Quinta, Mainstay Suites, Quality Inn, Days Inn, Econo Lodge, Extended Stay America, Red Roof Inn, and Value Place. For the purposes of this analysis, Meyers examined the performance metrics of Upper-Priced hotels.

In 2015, San Antonio Upper-Priced hotels saw an increase of 2.4% in RevPAR and a 3.4% gain in ADR despite a 1.0% decrease in occupancy. San Antonio Upper-Priced hotels trail the 2015 national average RevPAR growth which was 6.3% by comparison.

Going forward, RevPAR growth is expected to average 2.8% per year over the next five years. Occupancy in 2016 is forecast to decline slightly but remain steady through 2020, while average room rates are projected to increase 2.9% to $152.04. Revenue is expected to continue to climb over the next five years.

San Antonio Upper-Priced Hotel Forecast Summary

Year	Occ	Occ Change	ADR	ADR Change	RevPAR	RevPAR Change
2011	66.8%	4.0%	$131.15	-0.4%	$87.56	3.5%
2012	68.6%	2.7%	$131.78	0.5%	$90.41	3.3%
2013	68.4%	-0.3%	$139.24	5.7%	$95.26	5.4%
2014	70.2%	2.6%	$142.92	2.6%	$100.27	5.3%
2015	69.5%	-1.0%	$147.81	3.4%	$102.70	2.4%
2016F	69.1%	-0.6%	$152.04	2.9%	$105.08	2.3%
2017F	69.6%	0.7%	$156.82	3.1%	$109.09	3.8%
2018F	69.8%	0.3%	$161.57	3.0%	$112.85	3.4%
2019F	69.7%	-0.1%	$165.77	2.6%	$115.49	2.3%
2020F	69.5%	-0.3%	$169.27	2.1%	$117.70	1.9%

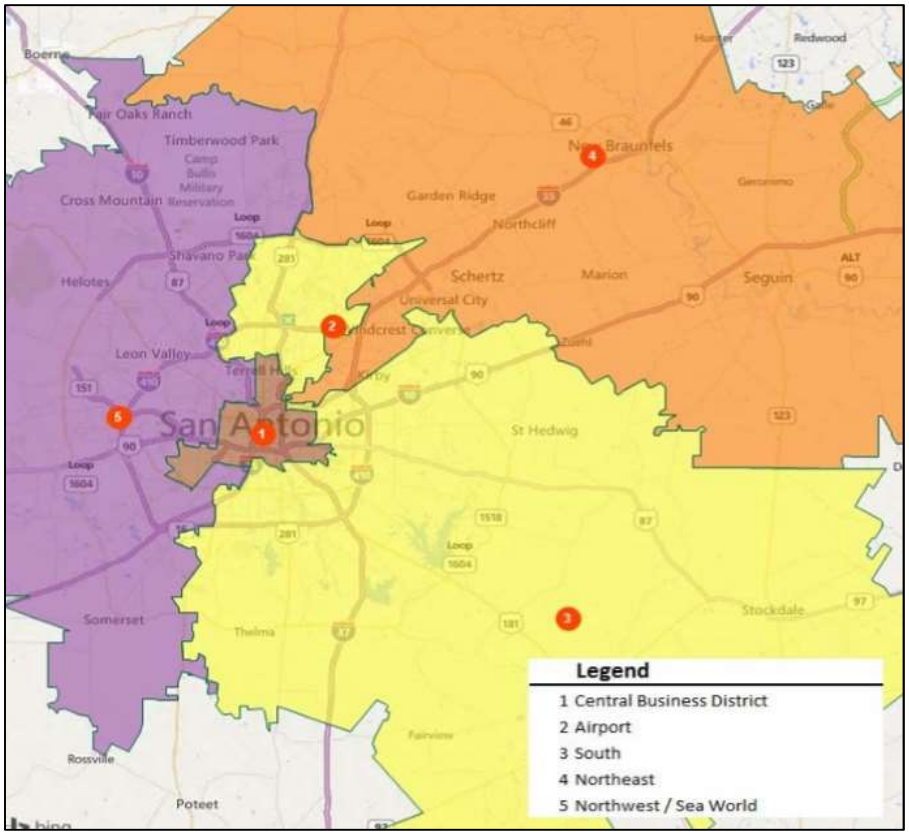
Central Business District Submarket

The subject is located in the Central Business District hotel submarket as defined by CBRE.

The submarket includes downtown San Antonio and surrounding areas. Most of the hotels are located around the Riverwalk which is also the most expensive hotel district in the market.

The Central Business District is the smallest submarket in terms of geography but it has the highest concentration of hotel properties as well as the highest total room supply (80 properties and 14,099 rooms as of 4Q15).

Submarket	Properties	Upper Priced Rooms	% Market	Total Properties	Total Rooms	% Market
Central Business District	36	9,407	20.8%	80	14,099	31.2%
Airport	17	2,885	6.4%	63	7,504	16.6%
Northwest / Sea World	20	3,640	8.0%	89	10,287	22.7%
Northeast	13	1,912	4.2%	117	9,569	21.2%
South	2	225	0.5%	66	3,768	8.3%
Totals	**88**	**18,069**	**39.9%**	**415**	**45,227**	**100.0%**



Upper-Priced Rooms comprise 67% of total rooms in the Central Business District submarket (9,407 rooms). With 36 Upper-Priced properties in the submarket, the average hotel has 261 rooms. Based on the total San Antonio market of 88 Upper-Priced properties and 18,069 rooms, the average size of a hotel equals 205 rooms.

Central Business District Submarket Outlook

Historically, the Central Business District submarket has realized a RevPAR penetration of over 100.0 (RevPAR Penetration is a percentage of the submarket RevPAR to the market RevPAR for the previous four quarters).

As shown in the table below, the Central Business District submarket realized a RevPAR penetration of 140% in 4Q15 (the highest among the submarkets) and ranks 2nd in terms of RevPAR growth over the trailing four quarters. The submarket's high penetration is influenced by the Riverwalk hotels which are the most expensive in the market. The Northeast submarket edged out the Central Business District with more year-over-year RevPAR growth. Penetration is increasing in both submarkets relative to last year's performance.

Submarket	Occ	ADR	RevPAR	RevPAR Penetration	Y/Y RevPAR Growth	Rank	Trend
Central Business District	69.3%	$160.71	$111.39	140.2%	4.1%	2	Increasing
Airport	72.5%	$103.85	$75.29	86.0%	2.3%	3	Neutral
Northwest / Sea World	68.1%	$91.96	$59.58	86.0%	1.7%	4	Decreasing
Northeast	67.0%	$185.86	$124.57	83.0%	4.2%	1	Increasing
South	56.2%	$69.59	$39.08	56.0%	-5.0%	5	Decreasing

Based on past performance, the Central Business District submarket should continue to outperform the overall San Antonio market in terms of RevPAR.

Inventory and Pipeline

The Central Business District submarket contains 80 properties and 14,099 rooms. Of those, Marriott represents the largest share with three properties and 1,764 rooms. The Lower Priced brand with the biggest share in the submarket is Holiday Inn with two properties and 625 rooms. The table below summarizes the other top brands by share in the submarket.

Brands by Share	Category	Properties	Rooms	% Submarket
Marriott	Upper Priced	3	1,764	12.5%
Grand Hyatt	Upper Priced	1	1,003	7.1%
Hyatt Regency	Upper Priced	1	629	4.5%
Holiday Inn	Lower Priced	2	625	4.4%
La Quinta Inn and Suites	Lower Priced	3	624	4.4%
Drury Plaza Hotel	Lower Priced	1	367	2.6%

Going forward, the submarket has a total of three properties and 483 rooms in the planning or construction phases. All three properties are Upper Priced hotel brands.

Status	Properties	Rooms	% Submarket
Unconfirmed	0	0	0.0%
Planning	2	357	2.5%
Final Planning	0	0	0.0%
Under Construction	1	126	0.9%

Expenses

The table below summarizes financial benchmarks for San Antonio full service hotels.

Full-Service Hotels - Percent of Total Revenue			
Financial Line Item	South Central Region	w/ ADR Between $100 & $200	w/ 150 to 300 Rooms
Rooms Revenue	71.6%	71.9%	72.2%
Food and Beverage Revenue	23.9%	24.3%	23.7%
Total Departmental Expenses	34.3%	36.7%	38.7%
Total Departmental Income	65.7%	63.3%	61.3%
Total Undistributed Expenses	26.0%	26.0%	25.8%
Gross Operating Profit	39.8%	37.3%	35.5%
Management Fees, Property Taxes, and Insurance	8.2%	7.8%	7.8%
Net Operating Income	31.6%	29.5%	27.7%

Development Checklist

Positive Neighborhood Attributes	Present at the Subject?	Comments
Site close to attractions and amenities	Yes/No	The site is close to AT&T Center, but otherwise not close to restaurants or retail
Growing roads, highways and/or interstate systems	No	
Close proximity to businesses or corporate/industrial parks	Yes	The site is adjacent to Coca Cola Vending
Lack of hotels in the market	Yes	The lack of hotels in a market can represent an opportunity or indicate lack of demand generators
Historical area	No	
Growing market	No	
Revitalization/Redevelopment Occurring	Yes	Funds are being reinvested back into the community
Site located in economic empowerment zone	Yes	The site is located in a Promise Zone
Government seat	No	
University located in area	No	
Large regional hospital	No	
Military base located in area	Yes	Fort Sam Houston is 3 miles to the north
Near international or regional airport	No	
Low unemployment rates	Yes	MSA unemployment is below 5%

Negative Neighborhood Attributes	Present at the Subject?	Comments
Lack of hotels in the market	Yes	The lack of hotels in a market can represent an opportunity or indicate lack of demand generators
Industrial employers	Yes	Depending on the type of brand being converted or constructed, industrial employers may have a positive or negative impact on a hotel
Industrial/Corporate space with high vacancy	No	
Population decreasing	No	
Lack of tourism	Yes	A diverse set of demand generators is important to any hotel market
Lack of new hotels or brands in area	Yes	The lack of new hotels or brands in an area is an indicator that the market may be stagnant
Decreasing market RevPAR	No	

Indicated Internal Rate of Return

Base Case Assumptions

Relying on market data previously presented, Meyers examined the feasibility of each of the four proposed uses (office, retail, multifamily, and hospitality) by calculating an indicated internal rate of return at stabilization.

Revenue Assumptions				
			Multifamily	
Completion Date: 2018	Office	Retail	Wrap	Garden
Stabilization Year	2019	2018	2020	
Net Rentable SF	20,000	25,000	238,000	195,300
Absorption	18 months	13 months	20 units/mo	
Units	N/A	N/A	280	210
Average Unit Size	N/A	N/A	850	930
Current Asking Rent (psf)	$21.00	$17.00	$1.46/mo	$1.20/mo
Stabilized Yr. Asking Rent (psf)	$22.18	$17.93	$1.65/mo	$1.36/mo
Current Market Vacancy	7.0%	5.0%	6.0%	
Stabilized Year Vacancy	7.0%	5.0%	6.0%	
Concessions	10%	0%	8%	

Revenue Assumptions	
Hospitality	
# Keys	200
Total Room Nights	73,000
Occupied Room Nights	47,450
Occupancy	65%
ADR	$115
RevPAR	$91

Cost Assumptions				
	Office	Retail	Multifamily	
			Wrap	Garden
Operating Expenses (psf)	$11.00	$8.50	$4.75	
Operating Expenses Growth Rate	3%	3%	2.5%	
Construction Costs (psf)	$147.24	$88.27	$135.00	$107.29
Replacement Reserves	$0.25 psf	$0.10 psf	$200 per unit	
Tenant Improvements	$15	$10	n/a	
Leasing Commissions	6.00%	6.00%	n/a	

Indicated Internal Rate of Return

Based on Meyers' analysis of market absorption and discussions with market participants, it is assumed that the office space will have an 18 month lease-up period, and the retail space will have a 13 month lease-up period. Meyers anticipates a rate of absorption of 20 units per month for the multifamily units with a lease-up concession of one month free. Given these rates of absorption, each property type will reach stabilization at a different pace. Hospitality is analyzed as of 2018.

Projected rents, vacancy rates, and operating expenses are based on Meyers' research of the current market and market forecasts as discussed in the previous sections. Replacement reserves, leasing commissions, and tenant improvements are estimated based on research and conversations with market participants, and are in line with general underwriting standards.

Meyers' analysis does not take into account land cost or remediation costs as these costs will be the same no matter which use is developed and is therefore not necessary for the ranking exercise.

As shown, retail has the highest indicated rate of return of the four property types followed by multifamily. Office and hospitality represent the lowest indicated rates of return. As previously discussed, the site has specific challenges related to hospitality use which could further erode margins and net cash flow, making hospitality the least practical of all four uses.

Indicated Rate of Return				
	Office	**Retail**	**Multifamily**	**Hotel**
Stabilization Year	2019	2018	2020	2018
Total GLA	20,000	25,000	433,300	200,000
% Total	2.9%	3.7%	63.9%	29.5%
Net Rentable Area	20,000	25,000	433,300	150,000
% Rentable	3.2%	4.0%	69.0%	23.9%
Asking Rent Unit / SF	$22.18	$17.93	$16.27	$140
Total Units / SF	20,000	25,000	490	200
Potential Gross Income	**$443,511**	**$448,253**	**$7,047,805**	**$10,220,000**
Expense Reimbursements	$48,080	$214,169	n/a	n/a
Vacant Units / SF	1,400	1,250	29	25,550
% Vacant	7.0%	5.0%	6.0%	35.0%
Concessions	10.0%	0.0%	8.3%	n/a
Effective Gross Income	**$419,299**	**$640,010**	**$6,075,067**	**$6,643,000**
Less: Operating Expenses	$240,400	$225,441	$2,271,840	$2,325,050
Per Unit	$12.02	$9.02	$5.24	$0.35
Less: Undistributed Expenses	n/a	n/a	n/a	$2,271,906
Per Unit				34.2%
Less: Replacement Reserves	$5,000	$44,825	$98,000	$332,150
Per Unit	$0.25	$0.10	200	5.0%
Net Operating Income	**$173,899**	**$369,743**	**$3,705,227**	**$1,713,894**
Margin	39.2%	82.5%	52.6%	25.8%
Construction Cost	$2,944,872	$2,206,859	$53,083,614	$24,508,603
Construction Cost PSF	$147.24	$88.27	$122.51	$122.54
FF&E and OS&E	n/a	n/a	n/a	$7,000,000
Per Unit				$35,000
Leasing Commisions	$251,579	$384,006	n/a	n/a
Per Unit	6.0%	6.0%		
Tenant Improvements	$300,000	$250,000	n/a	n/a
Per Unit	$15.00	$10.00		
Total Development Cost	**$3,496,451**	**$2,840,864**	**$53,083,614**	**$31,508,603**
	$174.82	$113.63	$108,334	$157,543
Return on Cost	**5.0%**	**13.0%**	**7.0%**	**5.4%**

Rankings

Methodology

Meyers utilized data from Real Capital Analytics, the National Council of Real Estate Investment Fiduciaries and CBRE-EA to analyze transaction trends, investment returns, and projected market fundamentals, respectively. The table below illustrates the ranking in each of these three categories as well as the subcategories utilized.

	Office	Retail	Multifamily	Hospitality
Indicated Rate of Return				
Indicated Rate of Return	5.0%	13.0%	7.0%	5.4%
Rank	4	1	2	3
Transactions				
Volume Volatility	3.7%	4.7%	4.1%	8.5%
Rank	1	3	2	4
Cap Rate Volatility	1.2%	1.0%	0.9%	2.0%
Rank	3	2	1	4
Investment Returns				
10 Yr - Total Return	7.4%	8.5%	8.1%	7.1%
Rank	3	1	2	4
10 Yr - Return Volatility	12.0%	10.7%	12.0%	13.3%
Rank	3	1	2	4
10 Yr - Return per Unit of Risk	0.62	0.80	0.68	0.53
Rank	3	1	2	4
Fundamentals				
Overall Supply Trend	Positive	Positive	Positive	Positive
Projected Trend vs Market	Positive	Negative	Positive	Negative
Rank	1	3	1	3
Overall Absorption Trend	Positive	Positive	Positive	Negative
Projected Trend vs Market	Negative	Positive	Negative	Negative
Rank	2	1	2	4
Overall Change in Rent Trend	Positive	Positive	Positive	Positive
Projected Trend vs Market	Negative	Positive	Positive	Negative
Rank	4	1	1	4

Methodology

Meyers applied a weighting for each of the categories as shown in the table below.

Weightings	Office	Retail	Multifamily	Hospitality
Indicated Rate of Return	**40%**	**40%**	**40%**	**40%**
Transactions	**15%**	**15%**	**15%**	**15%**
Volume Volatility	7.5%	7.5%	7.5%	7.5%
Cap Rate Volatility	7.5%	7.5%	7.5%	7.5%
Investment Returns	**25%**	**25%**	**25%**	**25%**
10 Yr - Total Return	2.5%	2.5%	2.5%	2.5%
10 Yr - Return Volatility	2.5%	2.5%	2.5%	2.5%
10 Yr - Return per Unit of Risk	20%	20%	20%	20%
Fundatmentals	**20%**	**20%**	**20%**	**20%**
Change in Rent Trend	5%	5%	5%	5%
Supply Trend	5%	5%	5%	5%
Absorption Trend	10%	10%	10%	10%
Total	**100%**	**100%**	**100%**	**100%**

For a definition and explanation of each of the above factors, refer to the Appendix. The indicated internal rate of return was given the highest weight (40%) because it represents a comprehensive metric for the projected financial viability of the asset type. However, by its very nature, return on cost is a static metric and doesn't take into consideration investment over a period of time. Therefore, Meyers included and gave significant weight (20%) to Return per Unit of Risk (Investment Return) in order to capture the historic trend of each asset type with respect to risk adjusted returns.

Meyers also took into account projected market fundamental trends (Fundamentals) and gave highest weight (10%) to the Change in Rent Trend given absorption and supply change are inherent in rental rate movement. Additionally, Meyers looked at transaction volume and cap rate volatility (Transaction) to incorporate a transaction based factor into the calculation.

Conclusion

Finally, the rankings and weighting were then used to arrive at an overall score and comprehensive ranking for each of the product types as illustrated in the table below.

Weightings	Office	Retail	Multifamily	Hospitality
Indicated Rate of Return	**1.6**	**0.4**	**0.8**	**1.2**
Transactions	**0.3**	**0.4**	**0.2**	**0.6**
Volume Volatility	0.1	0.2	0.2	0.3
Cap Rate Volatility	0.2	0.2	0.1	0.3
Investment Returns	**0.8**	**0.3**	**0.5**	**1.0**
10 Yr - Total Return	0.1	0.0	0.1	0.1
10 Yr - Return Volatility	0.1	0.0	0.1	0.1
10 Yr - Return per Unit of Risk	0.6	0.2	0.4	0.8
Fundatmentals	**0.5**	**0.2**	**0.2**	**0.2**
Change in Rent Trend	0.2	0.1	0.1	0.2
Supply Trend	0.1	0.2	0.1	0.2
Absorption Trend	0.2	0.1	0.2	0.4
Total Score	**3.1**	**1.2**	**1.7**	**3.0**
Final Rank	**4**	**1**	**2**	**3**

Meyers ranking methodology concludes that retail and multifamily are the highest ranked uses while office and hotel are the two lowest. Meyers recommends a maximum of 25,000 square feet based on the retail gap analysis described previously.

Scenario Analysis

Methodology

Meyers created two development scenarios in order to compare different options for the subject. Based on the results from the ranking analysis, Meyers' two scenarios contain only multifamily and retail uses. The first scenario contemplates multifamily development in both wrap and garden-style designs with retail. The second scenario has the same amount of retail with all multifamily units in a garden-style design.

	Scenario 1	Scenario 2
Retail SF	25,000	25,000
Multifamily SF	433,300	446,400
Multifamily Units (Wrap)	280	0
Multifamily Units (Garden Style)	210	480
Total	**458,510**	**471,880**

Assumptions for the two different product types are as follows:

Multifamily		
	Wrap	Garden
Average Unit Size	850	930
Monthly Rent	$1,245	$1,120
Rent PSF	$1.46	$1.20
Construction Costs PSF	$135.00	$107.29

Methodology

Incorporating all other income, expense, lease-up and absorption assumptions utilized in the indicated internal rate of return analysis, Meyers examined the financial feasibility of each scenario using a discounted cash flow analysis.

- The discounted cash flow analysis incorporates the development costs (including hard costs, soft costs, and entrepreneurial profit), potential revenues derived from the subject during the lease-up period and the costs associated to operate and lease-up the property, and the proceeds from the sale of the property at stabilization.
- Meyers assumes that development costs will be incurred in 2017 and leasing up the property will begin in 2018.
- A discount rate of 7.5% and an exit cap rate of 6.5% were used in both scenarios. Selling costs are estimated at 2%

Full detail of the analysis is found on the following pages. These pro formas are for comparison purposes only and are not intended to represent a valuation.

Scenario 1 - Wrap and Garden-Style with Retail

Scenario 1	Retail	Multifamily	TOTAL
Net Rentable Area	25,000	433,300	458,300
Units		490	
NRA per Unit		884	
Estimated completion date	2018		

Absorption Schedule					
		1	2	3	4
Property Type	**Timing**	**2017**	**2018**	**2019**	**2020**
Retail - Annual	23,000 sf	-	23,000	2,000	-
Retail - Cumulative		-	23,000	25,000	25,000
Retail Occupancy		0%	92%	100%	100%
Retail General Vacancy		100%	8%	5%	5%
Multifamily Units - Annual	192 Units		240	192	58
Multifamily Units - Cumulative		-	240	432	490
TOTAL		**-**	**23,240**	**2,192**	**51,289**
CUMULATIVE		**-**	**23,240**	**25,432**	**76,721**

Scenario 1 – Wrap and Garden-Style with Retail

	2017 Year 1	2018 Year 2	2019 Year 3	2020 Year 4	TOTALS
Revenue					
Retail	-	448,253	458,563	469,110	1,375,926
Multifamily	-	7,464,067	7,687,989	7,918,628	23,070,683
Base Rental Revenue	**-**	**7,912,320**	**8,146,551**	**8,387,738**	**24,446,609**
Absorption Vacancy - Retail	-	(35,860)	-	-	(35,860)
Absorption & Turnover Vacancy - MF	-	(4,887,186)	(2,902,608)	-	(7,789,794)
Scheduled Rental Revenue	**-**	**2,989,273**	**5,243,943**	**8,387,738**	**16,620,954**
Expense Reimbursement (NNN)	-	207,406	220,594	227,212	655,212
Gross Potential Income	**-**	**3,196,679**	**5,464,538**	**8,614,950**	**17,276,167**
Economic Loss					
General Vacancy - Retail	-	-	(22,928)	(23,455)	(46,384)
General Vacancy - Multifamily	-	-	-	(475,118)	(475,118)
Concessions (% of Net Retail Revenue)	-	-	-	-	-
Concessions (% of Net MF Revenue)	-	(213,881)	(397,187)	-	(611,068)
Total Economic Loss	**-**	**(213,881)**	**(420,115)**	**(498,573)**	(1,132,569)
Effective Gross Income	**-**	**2,982,798**	**5,044,423**	**8,116,377**	**16,143,598**
Operating Expenses - Retail		225,441	232,204	239,171	696,816
Operating Expenses - MF		2,162,370	2,216,429	2,271,840	6,650,640
Total Operating Expenses	**-**	**2,387,811**	**2,448,634**	**2,511,011**	**7,347,456**
Replacement Reserves - Retail		41,239	45,856	46,911	134,007
Replacement Reserves - MF		100,450	102,961	105,535	308,947
Total Replacement Reserves	**-**	**141,689**	**148,818**	**152,446**	**442,953**
Net Operating Income	**-**	**453,297**	**2,446,972**	**5,452,920**	**8,353,189**
Leasing Commissions	-	239,996	20,869	-	260,865
Tenant Improvements	-	230,000	20,000	-	250,000
Total Lease-up Costs	**-**	**469,996**	**40,869**	**-**	**510,865**
Operating Cash Flow	**-**	**(16,699)**	**2,406,102**	**5,452,920**	**7,842,324**
Land Cost					**Fixed**
Total Development Cost	**(55,924,478)**				**(55,924,478)**
Reversion				**82,213,255**	**82,213,255**
Cash Flow	**(55,924,478)**	**(16,699)**	**2,406,102**	**87,666,175**	**34,131,101**

Discount Rate	7.0%	7.5%	8.0%
Net Present Value	$16,563,749	$15,544,076	$14,551,057
Per Unit	$33,804	$31,723	$29,696

Scenario 2 – Garden-Style with Retail

	Retail	Multifamily	TOTAL
Net Rentable Area	25,000	446,400	471,400
Units		480	
NRA per Unit		930	
Estimated completion date	2018		

Absorption Schedule					
		1	2	3	4
Property Type	**Timing**	**2017**	**2018**	**2019**	**2020**
Retail - Annual	23,000 sf	-	23,000	2,000	-
Retail - Cumulative		-	23,000	25,000	25,000
Retail Occupancy		0%	92%	100%	100%
Retail General Vacancy		100%	8%	5%	5%
Multifamily Units - Annual	192 Units		240.00	192	48
Multifamily Units - Cumulative		-	240.00	432.00	480
TOTAL		**-**	**23,240**	**2,192**	**44,640**
CUMULATIVE		**-**	**23,240**	**25,432**	**70,072**

Scenario 2 – Garden-Style with Retail

	2017 Year 1	2018 Year 2	2019 Year 3	2020 Year 4	TOTALS
Revenue					
Retail	-	448,253	458,563	469,110	1,375,926
Multifamily	-	6,844,078	7,049,400	7,260,882	21,154,361
Base Rental Revenue	**-**	**7,292,331**	**7,507,963**	**7,729,992**	**22,530,287**
Absorption Vacancy - Retail	-	(35,860)	-	-	(35,860)
Absorption & Turnover Vacancy - MF	-	(4,990,474)	(2,570,094)	-	(7,560,568)
Scheduled Rental Revenue	**-**	**2,265,997**	**4,937,869**	**7,729,992**	**14,933,859**
Expense Reimbursement (NNN)	-	207,406	220,594	227,212	655,212
Gross Potential Income	**-**	**2,473,403**	**5,158,464**	**7,957,204**	**15,589,071**
Economic Loss					
General Vacancy - Retail	-	-	(22,928)	(23,455)	(46,384)
General Vacancy - Multifamily	-	-	-	(435,653)	(435,653)
Concessions (% of Net Retail Revenue)	-	-	-	-	-
Concessions (% of Net MF Revenue)	-	(153,849)	(371,782)	-	(525,632)
Total Economic Loss	**-**	**(153,849)**	**(394,711)**	**(459,108)**	**(1,007,668)**
Effective Gross Income	**-**	**2,319,554**	**4,763,753**	**7,498,096**	**14,581,403**
Operating Expenses - Retail		225,441	232,204	239,171	696,816
Operating Expenses - MF		2,227,745	2,283,439	2,340,525	6,851,709
Total Operating Expenses	**-**	**2,453,187**	**2,515,643**	**2,579,695**	**7,548,525**
Replacement Reserves - Retail	-	41,239	45,856	46,911	134,007
Replacement Reserves - MF		98,400	100,860	103,382	302,642
Total Replacement Reserves	**-**	**139,639**	**146,716**	**150,292**	**436,648**
Net Operating Income	**-**	**(273,272)**	**2,101,393**	**4,768,108**	**6,596,230**
Leasing Commissions	-	239,996	20,869	-	260,865
Tenant Improvements	-	230,000	20,000	-	250,000
Total Lease-up Costs	**-**	**469,996**	**40,869**	**-**	**510,865**
Operating Cash Flow	**-**	**(743,268)**	**2,060,524**	**4,768,108**	**6,085,365**
Land Cost					**Fixed**
Total Development Cost	**(50,028,692)**				**(50,028,692)**
Reversion				**71,888,396**	**71,888,396**
Cash Flow	**(50,028,692)**	**(743,268)**	**2,060,524**	**76,656,504**	**27,945,069**

Discount Rate	7.0%	7.5%	8.0%
Net Present Value	$12,757,897	$11,877,580	$11,020,435
	$26,579	$24,745	$22,959

Appendix

Hospitality Pro Forma

Hospitality Pro Forma			
Assumptions:			
Year	2018		
# Keys	200		
Total Room Nights	73,000		
Occupied Room Nights	47,450		
Occupancy	65%		
ADR	$115		
		%	**PAR / POR**
Rooms	$5,456,750	82.1%	$115
Total Food & Beverage	$949,000	14.3%	$20
Other	$237,250	3.6%	$5
Total Revenues	**$6,643,000**	**100.0%**	**$91**
Departmental Expenses			
Rooms	$4,092,563	75.0%	$86
Total Food & Beverage	$189,800	20.0%	$4
Other	$35,588	15.0%	$1
Total Departmental Profit	**$4,317,950**	**65.0%**	**$91**
Undistributed Operating Expenses			
General & Administrative	$597,870	9.0%	$8
Sales & Marketing	$465,010	7.0%	$6
Repairs & Maintenance	$265,720	4.0%	$4
Utilities	$398,580	6.0%	$5
Total Deductions	**$1,727,180**	**26.0%**	**$24**
Gross Operating Profit	**$2,590,770**	**39.0%**	**$35**
Fixed Expenses & Management Fee			
Base Management Fee	$265,720	4.0%	$4
Taxes	$199,290	3.0%	$3
Insurance	$66,430	1.0%	$1
Other	$13,286	0.2%	$0
Total Fixed Charges	**$544,726**	**8.2%**	**$7**
Net Operating Profit	**$2,046,044**	**30.8%**	**$28**
FF&E Reserve	$332,150	5.0%	$5

Definitions

Definition of Factors Considered in Rankings

Transaction

Volume Volatility: Utilizing the RCA data, the standard deviation was calculated for the ten year time series and compared to the total to arrive at a percentage of volatility. This metric represent the degree of fluctuation or consistency of transactions taking place in the market.

Cap Rate Volatility: Utilizing the RCA data, the standard deviation was calculated for the ten year time series to arrive at a percentage of volatility. This metric represents the degree of fluctuation or consistency of pricing realized in the market over the last ten years.

Investment Returns

10-Yr – Total Return: NCREIF calculates the total return by property types based on data from its institutional members. The total return metric incorporates both an income and appreciation component. The total return metric was chosen in order to eliminate any bias in one component over another.

10-Yr – Return Volatility: Utilizing the NCREIF total return data, the standard deviation was calculated for the ten year time series to arrive at a percentage of volatility. This metric presents the degree of consistency in returns over the ten year period.

10-Yr – Return per Unit of Risk: Calculated as the NCREIF 10-Yr Total Return as a function of the NCREIF 10-Yr Return Volatility. This metric incorporates risk into the return metric in order to best understand the risk adjusted return for each property type.

Fundamentals

Overall Trend: The Overall Trend compares the historic average for each category (absorption, supply, and change in rent) vs the projected average at both the market and submarket levels.

Projected Trend vs Market: The Projected Trend vs Market compares the projected submarket trend vs the market trend.