

Report Prepared by



1234 Main St and Adjacent Lot

Market Study

March 1<sup>st</sup> 2016

Confidential

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# 1. Scope of work:

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Mr. Client engaged Talavera Consulting to provide a Market Study (“Market Study”) for proposed condominium complex located at 1234 Main St and adjoining Property, collectively referred to as the Development Project. The initial scope of work is outlined below:

The scope of work consists on the following:

- Executive Summary
- Project Description
  - Number of Units
  - Unit Mix
  - Amenities
- Estimated Project Costs
- Proposed Sources and Uses of Cash
- Demographic and Economic Information for El Paso
- Local Information for Housing Industry
  - Trends
- General Information on the Condominium Market Segment
  - Number of Condominium housing units expected to be released in coming months.
- Demographic Information for Proposed Site
  - 2 Mile Radius
  - 5 Mile Radius
- Primary Market Area
  - Population Trends / Makeup
  - Education
  - Occupations / Employment
  - Mode of Transportation
  - Crime
- Competition / Market
  - Supply of Housing and Availability of Competing Units
  - Construction Trends and Proposed Future Developments
  - Location
  - Pricing
  - Description of Amenities
- Proposed Pricing and Unit Mix
- Debt Service Coverage Analysis
- Break Even Analysis
- Financial Ratios
  - Internal Rate of Return

- Cash on Cash Return
- Modified Internal Rate of Return
- Present Value
- Other Pertinent Ratios
- Exit Strategy Modeling
  - Proposed sales price throughout various years
  - Internal rate of returns before and after taxes at various times.
  - Projected long and short term gains on sale
- Estimated Value for Adjacent Property
  - For apartment complex located at intersection of Oak St. and Oak St.

As the report was being produced the Client requested changes to the Scope work and emphasis on areas that were found to be of interest to the Client.

## 2. Executive Summary:

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### Proposed Site



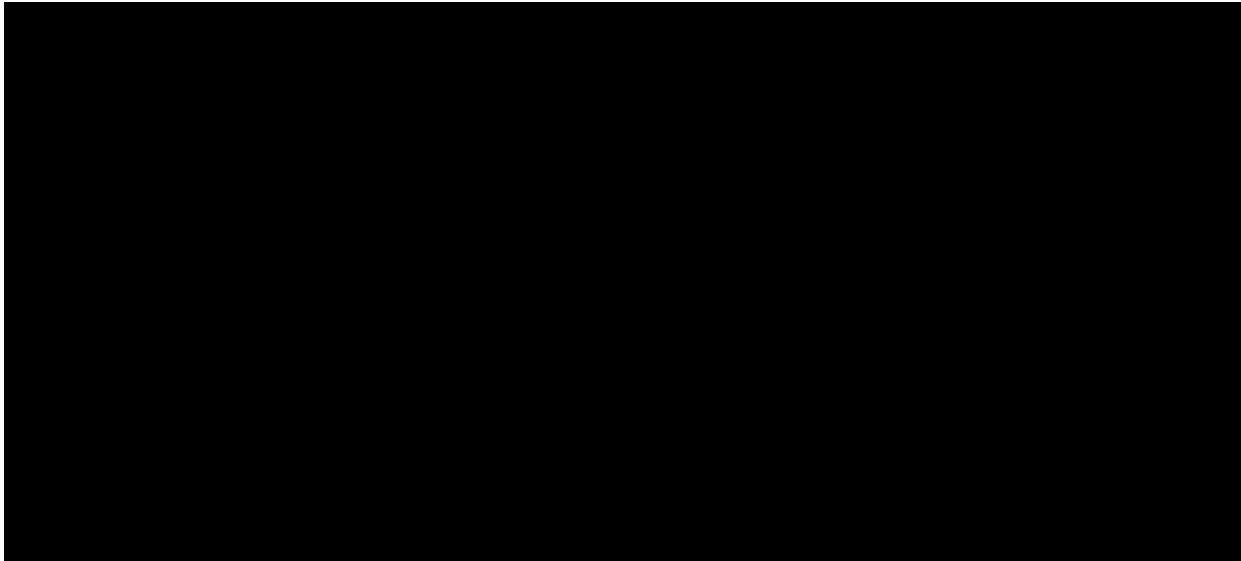
The proposed site consists of two lots located at 1234 Oak St and 456 Main St. (collectively “Subject Property”) measuring collectively and approximately 50,000 Sq Ft. The Subject Property is located at near the intersection of Oak St. and Cedar, El Paso TX 79902 in Alexander Addition Subdivision. The Subject property is approximately 3 mile from the heart of Downtown El Paso and is delimited by Rim and Kern Place subdivision to the North, Sunset Heights to West, Pierce Finley to the East and Downtown El Paso to the South.

### Description

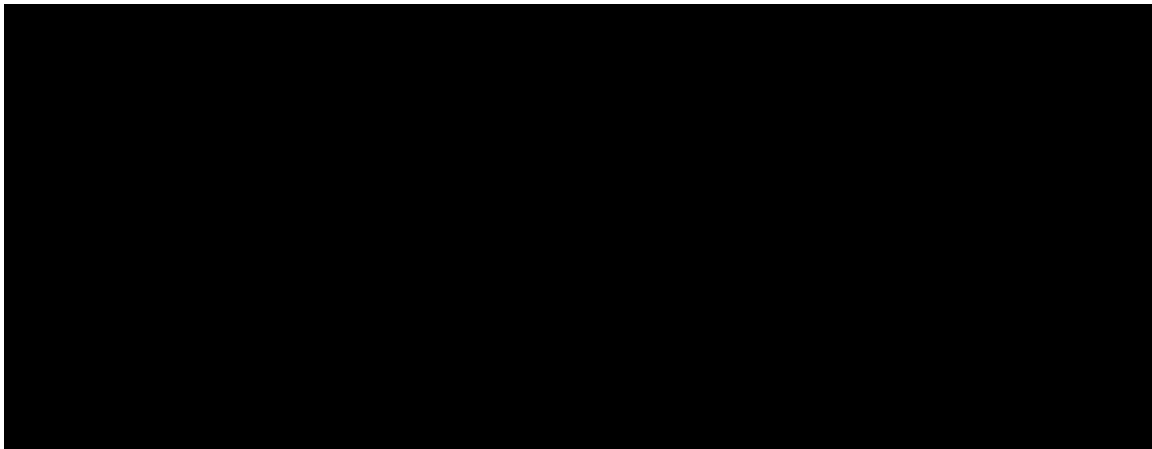
The proposed project would consist of a high-end high-rise condominium complex with 80 units. The complex would cater to an affluent population that is looking to enjoy luxurious amenities, proximity to downtown El Paso, spectacular panoramic views and a hassle free lifestyle. The proposed project would be a mixed-use project that would incorporate live-work space geared towards the professional population, and would have residential amenities such as a resort style pool, 24 state of the art fitness

center, roof top patios, restricted access to, security guard, concierge service and 24 hour valet parking among other luxurious amenities.

The project was estimate at total construction cost of \$35,000,000 and of 10% margin was used for illustrative purposes. Below is the executive summary for the proposed transaction.



Originally proposed unit mix by client.



The client initially provided the above unit mix and projected cost for the project, but requested proposed number of units and pricing based on market conditions.

There are no high rise upscale condominium buildings in El Paso so it difficult to gauge the demand for a new product based on available information.

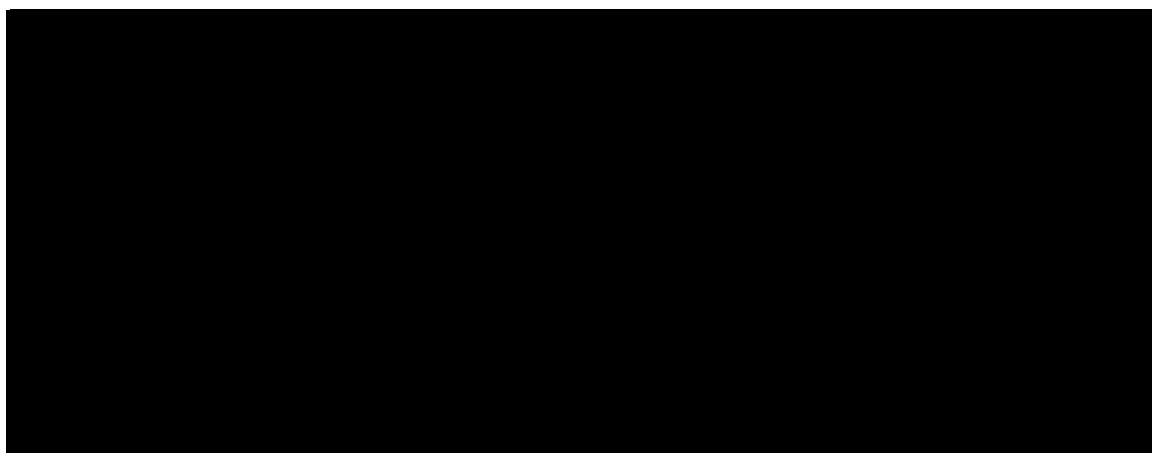
According to local real estate agent Adrienne Alvarez, it has been her experience that the demand for condominium units is approximately 60% for two bedroom, 40% for three bedroom and no demand for 1 bedroom units.

This is direct contrast to the high end rental multifamily market, which demands approximately 63% for 1 bedroom, 40% for two bedroom and 7% for 3 bedroom units.

It is to be noted that the there are two different market segments for apartments and condominiums; the renter tends to be young and middle age professionals and the buyer tends to be establish professionals with no families or older adults looking to downsize, according to Ms. Alvarez.

Based on the premise that some of the current renters that occupy high end multifamily complexes might be swayed to purchase, and that the demand for condominium units is heavily weighted towards the 2 and 3 bedroom units we can estimate the demand at around 10% for one bedroom, 50% for two bedroom and 30% for three bedroom. It is also to be noted, that the average unit size for high en multifamily rental product in El Paso it tends to be smaller than previous product and seems to be well accepted.

Below is the proposed Unit Mix with a higher allocation towards the 2 and 3 bedroom units and with a smaller unit size.



Since there is no existing product that closely resembles the proposed project, the only way to determine the most advantageous unit mix is to concentrate heavily in presales and gauge demand for particular units in that way.

### **Proposed Amenities**

As proposed by the Client, the project would be a mixed-use project that would incorporate live-work space geared towards the professional population, and would have high-end residential amenities such [REDACTED]

[REDACTED]

[REDACTED] These amenities would position the condominium complex as the most luxurious multifamily complex in El Paso.

### **Estimated Project Cost**

As estimated by the client.

[REDACTED]

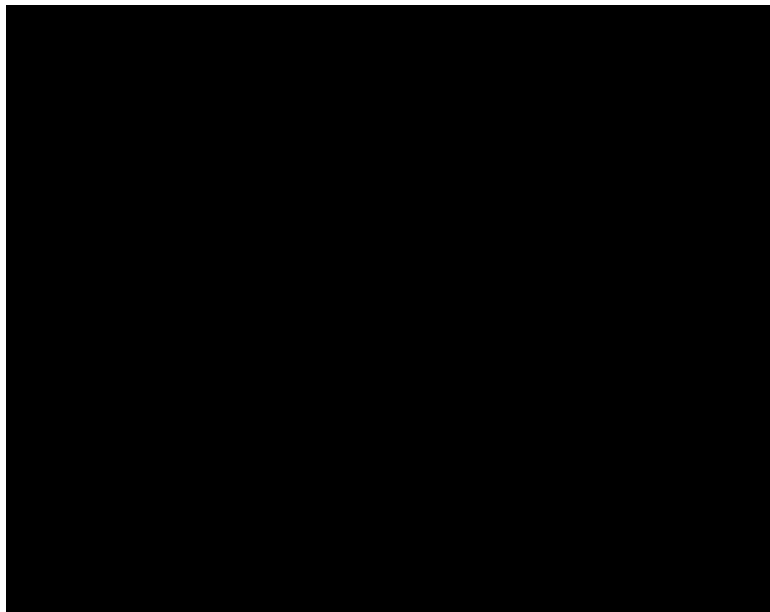
One of the analyses requested was to provide the project costs based on market conditions. It was discussed that there is not truly a condominium community that has been developed recently with the high end amenities the target market area. Also discussed was that a representative product would be the high end multifamily rental market in El Paso as well as current inventory of condominiums within the target area. Based on that premise, the estimated project cost is based on a hypothetical cost of ownership that would be comparable to that of leasing in one of the higher end multifamily communities in El Paso as well as condominiums in the target market area.



### 3. Rent vs. Buy Analysis

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Based on the assumptions above we compare the average rental cost per unit and the cost of homeownership for a comparable condominium. The analysis below takes into account the potential tax benefits of homeownership, assumes that the property is held for perpetuity and therefore does not apply appreciation to the home and rental prices staying the same. The calculation is based on year one to provide an estimate projected net proceeds price in order to estimate the construction cost constrain in order to obtain the required rate of return of 10%. For HOA Association the following assumptions were used (as provided by Client):



It is to be noted that as of 2014 national average for mid-high rise apartment buildings per square foot were as follows:

National Average Expenses for Mid-High Rise Apts 2014		
	Per Year	Per Sq Ft per Yr
Insurance	\$ 46,028	0.34
Administrative	\$ 58,212	0.43
Marketing	\$ 35,198	0.26
Contract Services	\$ 59,565	0.44
Repairs and Maintenance	\$ 77,164	0.57
Wages	\$ 213,894	1.58
Utilities	\$ 81,226	0.60
Capital Expenditures	\$ 199,003	1.47
	\$ 525,259	5.69

Assuming a total of \$4.00 per Sq Ft of HOA fees, property taxes at 2.22% of the value of the property, and the following assumptions for financing and taxes:

<b>Overall Assumptions</b>	
After-tax rate of return on investments	6.00%
Marginal tax rate	18.00%
Down payment on home	5%
Estimated closing costs	1.50%
Annual interest rate	4.75%
Term of mortgage (years)	30
Property Taxes (Of value of Home)	2.20%

Below is the cost analysis of homeownership versus renting using average unit sizes and market prices for high end multifamily product in El Paso:

<b>Buy vs Lease Analysis</b>			
	1 Bedroom	2 Bedroom	3 Bedroom
Price	\$144,503	\$220,166	\$226,359
Sq Ft	709	1,085	1,450
Price / Sq Ft	\$203.91	\$202.86	\$156.11

The above exercise takes into account the potential tax advantages of owning a home. Most buyers are not as sophisticated as to calculate the potential fiscal implications of homeownership. Most buyers will compare the monthly cash expenditures of renting versus the total monthly cost of ownership, albeit applying a slight premium for homeownership.

Below is the comparison of monthly expenditure between renting in a high end apartment complex and owning a condominium.

Below are the average market rents for the high end apartment market in El Paso:

<b>Average High End Market</b>				
		Sq Ft	Price	Price / Sq FT
A	1 BR / 1 BA	709	\$ 881.45	1.27
B	2 BR / 2 BA	1,085	\$ 1,267.56	1.17
C	3 BR / 2 BR	1,450	\$ 1,448.00	1.00

Based on the above average monthly rent prices and square footage, we can estimate the following commensurate monthly mortgage expenditure:

Buy vs Rent Analysis*							
	Bedrooms	Total Pmt	Property Taxes	HOA	Mortgage Pmt	Mortgage Amount	
A	1 BR / 1 BA	\$ 881.45	\$ 214.50	\$ 141.12	\$ 525.84	\$ 101,202.31	
B	2 BR / 2 BA	\$ 1,267.56	\$ 304.33	\$ 216.12	\$ 747.11	\$ 143,787.44	
C	3 BR / 2 BR	\$ 1,448.00	\$ 335.50	\$ 288.75	\$ 823.75	\$ 158,538.61	

\* The calculations do not take into account potential tax benefits of homeownership nor appreciation.

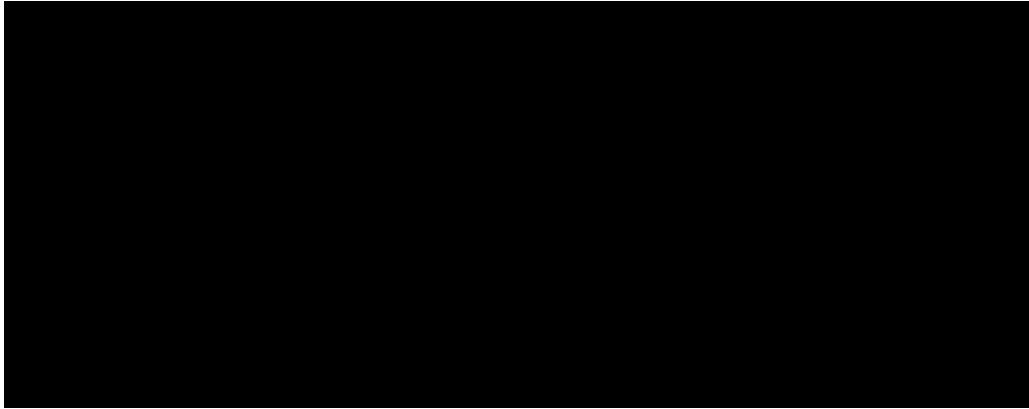
Applying a 15% premium for homeownership, assuming a 5% down payment an average 4% sales commission and buyer paying for all transactional costs, we can estimate the following sales price:

Projected Price of Condominium per Square Foot				
	Sq Ft	Price	Price / Sq FT	
A	1 BR / 1 BA	709	\$ 117,546.49	\$ 165.88
B	2 BR / 2 BA	1,085	\$ 167,009.12	\$ 153.88
C	3 BR / 2 BR	1,450	\$ 184,142.59	\$ 126.99

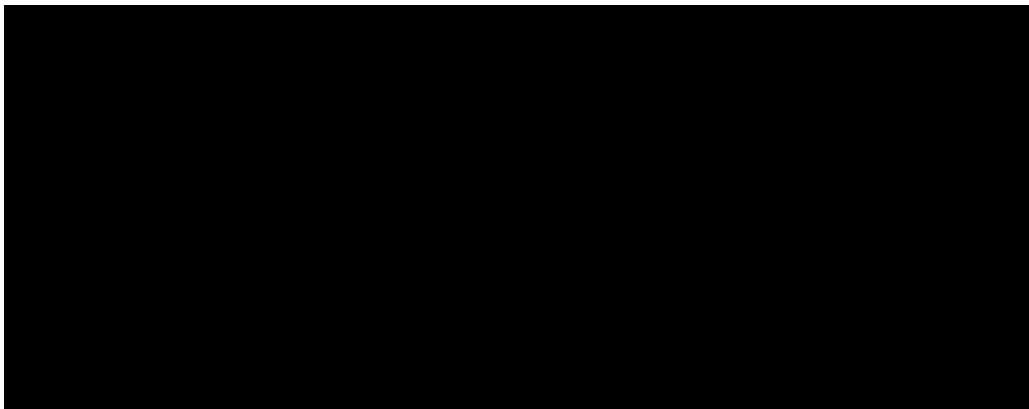
This is in line with the current high end condominium listing price

The Fairmont						
Bedrooms	Bathrooms	Sq Ft	Price	Price per Sq Ft	Monthly HOA	
2 Br	1 Bath	1,100	\$ 165,000	\$ 150.00	\$ 460	
2 Br	1 Bath	1,100	\$ 170,000	\$ 154.55	\$ 460	
3 Br	2 Bath	1,900	\$ 249,000	\$ 131.05	\$ 700	
Average		1,367	\$ 194,667	\$ 145.20	\$ 540	

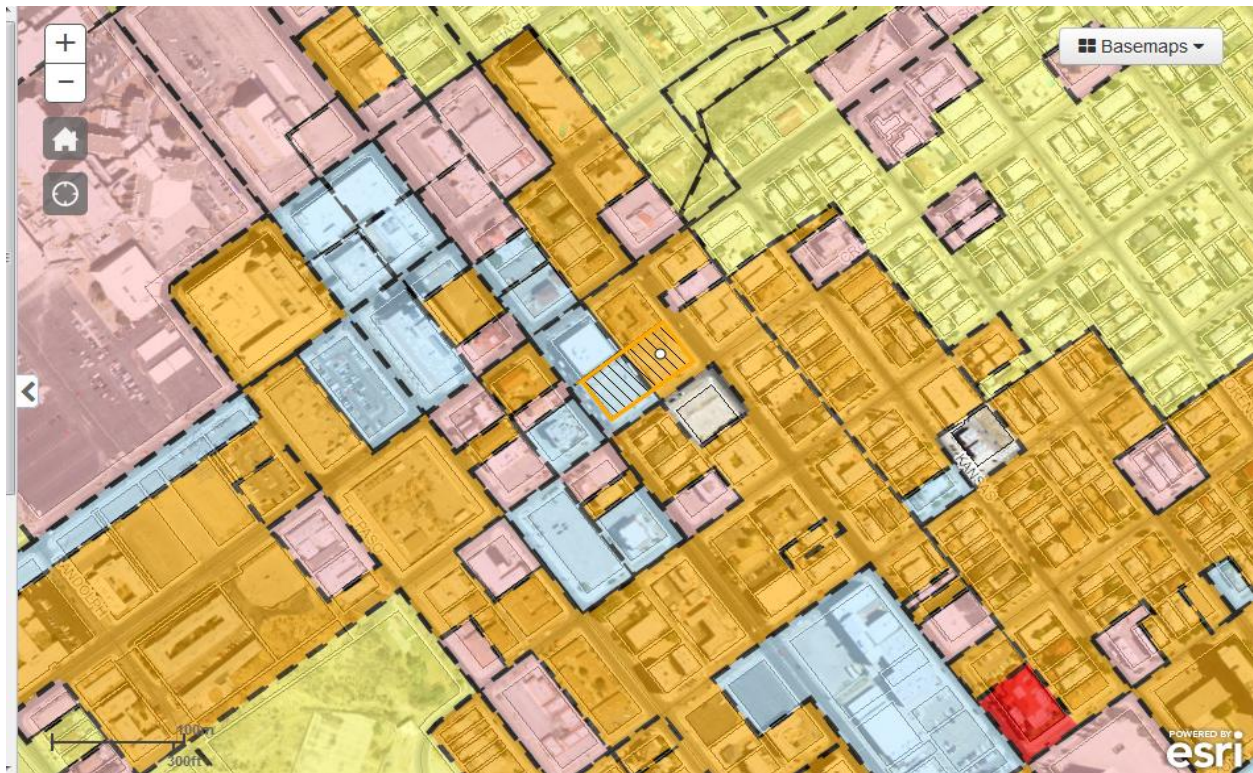
Based on the above projected prices per square foot the project would have the following sales price:



The projected net sales price would be as follows:



## **Zoning**



The Subject Property's parcels are located in the following zoning:

### 456 N. Main St. Zoning – SD (*Special Development*)

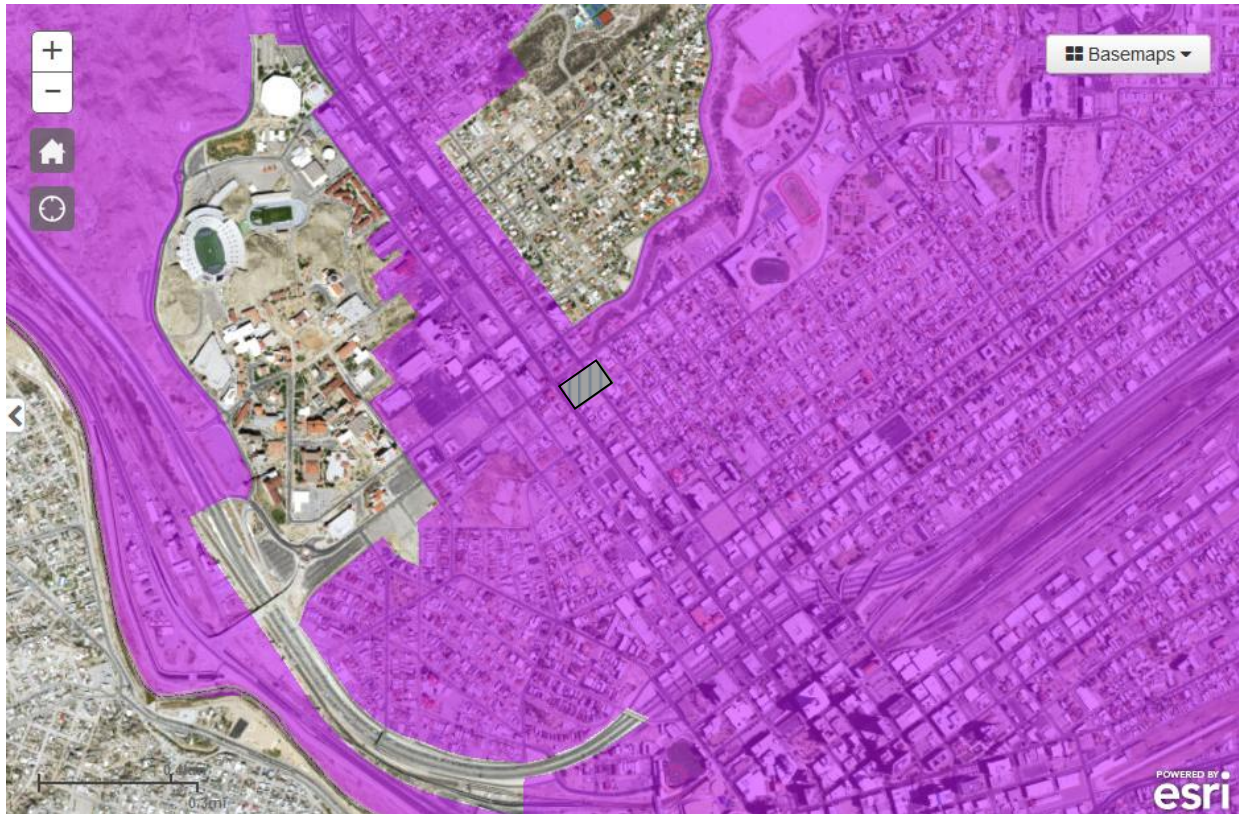
Mixed-use projects, integrated in design, in certain older residential areas where there is a desire to permit a variety of nonresidential uses while maintaining the established residential appearance and landscaping of the area. Designed to ensure compatibility with existing uses in the district; to permit the production, exhibit or sale of goods and the providing of services to the public in such older residential areas; to protect the traffic capacity of streets serving such older residential areas; to encourage flexibility by prescribing general performance standards for such older residential areas; and to protect the environment of adjacent areas. Older areas of the city shall be deemed those areas where development has existed for at least twenty-five years.

### 1234 Main St – A3 (*Apartment/Office High Density District*)

A diversity of residential dwelling types at the highest densities and to provide for the integration of compatible business and professional office uses to complement the areas and to allow for concentrations of population through the use of multi-story facilities. Permit site diversification for high-density residential development in which adequate public facilities are available for present and future needs.



## **Empowerment Zone**



The property is located in the empowerment zone.

An Empowerment Zone is a federally recognized distressed area in need of sustainable community development. On January 13, 1999, El Paso was one of 15 cities nationwide, and the only city in Texas, to receive an Empowerment Zone (EZ) designation from the U.S. Department of Housing and Urban Development (HUD) under Round II of the federal EZ Program.

This program is primarily managed through partnerships between the local entity and the Department of Housing and Urban Development (HUD). Funds are allocated on a year by year basis; please check with local government entities for availability of funds associated with Empowerment Zone programs at the time of commencement of the Project.

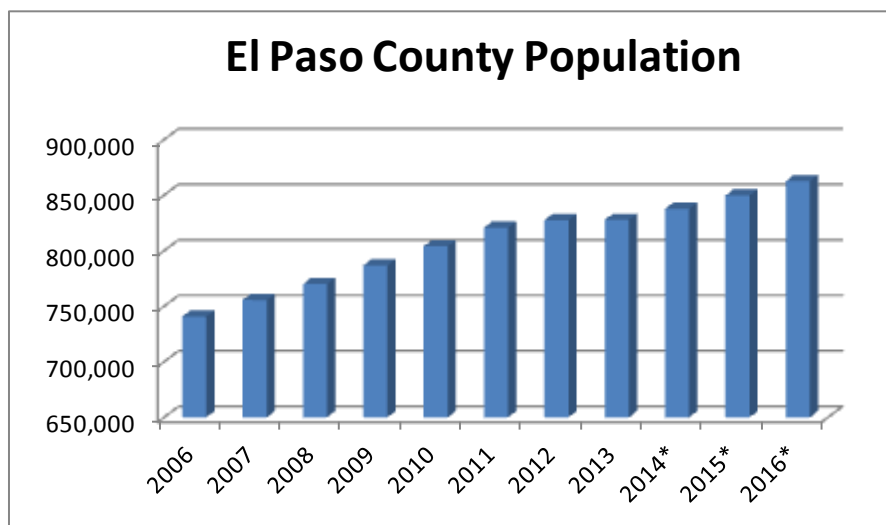
## 4. General Demographics

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### City of El Paso

El Paso is located at the western tip of the state where Texas meets the state of New Mexico and form an international border with Mexico. Las Cruces, New Mexico lies at 46 miles away, while Ciudad Juarez, Mexico is less than a five minute drive from downtown El Paso. Situated on the geographic center of the 2,000 mile United States / Mexico border, El Paso, Las Cruces, and Ciudad Juarez share a common interest for regional development, commercial partnerships and social bonds, while respectively maintaining a unique identity.

Rising over 3,280 feet above the surrounding basin, the Franklin Mountains dominate the El Paso skyline and offer mountain biking, hiking, and rock climbing virtually any time of the year for outdoor enthusiasts. Located in the northern Chihuahuan Desert, El Paso features a great diversity of landscapes and is home to hundreds of species of unique plants and animals. The local region features a climate that averages 297 days of sun during the year, an average temperature of 95 degrees during the summer and 60 degrees during winter.



El Paso Population	
Year	Growth
2006	2.2
2007	2.0
2008	1.9
2009	2.2
2010	2.2
2011	2.1
2012	0.8
2013	0.0
2014*	1.2
2015*	1.4
2016*	1.5

Source U.S. Census Bureau and *Borderplex Economic Outlook: 2016*, UTEP Border Region Modeling Project.

Currently the nineteenth largest city in the United States and the sixth largest in Texas, the City of El Paso has a population just over 674,000. Its metropolitan statistical area,

El Paso County, has a population of over 827,000 with a projection growth to nearly 910,000 by 2017. The El Paso metropolitan statistical area is among the fastest-growing metropolitan areas in the nation with an average growth per-decade of 21% from 1960 to 2010. In more recent time, El Paso has been ranked as one of the fastest growing cities since the recession with a growth of 12% since 2007.

Across the Texas-Mexico border is Ciudad Juarez with an estimated population of 1.3 million people. The two cities along with Las Cruces, with a population estimated over 290,000, form a combined international metropolitan area sometimes referred as the El Paso del Norte Region. The El Paso del Norte region is the largest bilingual, binational work force in the Western Hemisphere.

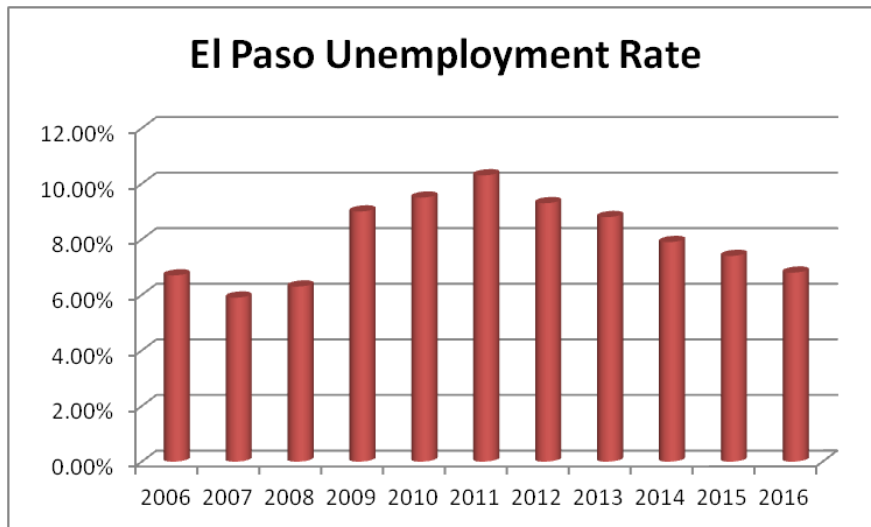
As shown in the graph in the previous page, El Paso population growth has been fairly rapid since 2004. That is in large measure due to greater net migration into the County associated with troop increases at Fort Bliss. In 2009 and 2010, alone, more than 11,000 soldiers and their families relocated to El Paso. El Paso SMA is a young metropolitan area, the median age of El Paso County residents during the last census was 32.5 years.

### **Economic Growth/ Employment**

El Paso's economy is primarily based on international commerce, transportation and warehousing, education, government, retail trade, and, increasingly, on health care. With favorable demographics and regional accessibility, El Paso is increasingly becoming a desirable destination for many nationally recognized firms. Today more than 75 of the fortune 500 companies have a presence in El Paso or Ciudad Juarez. One, Western Refining ranked at number 281, is headquartered in El Paso. El Paso currently has a civilian labor force of 323,600 of whom 300,750 are employed. According to Moody's Analytics' 2015 report, El Paso's unemployment rate is projected to decline in the coming years narrowing the gap with pre-recession levels. Total employment is projected to grow at an average of 2.6% per year through 2018. In fact, Bloomberg Business Week recently ranked El Paso number 10 in "Forty Strongest U.S. Metro Economies". Concurrently, Bloomberg ranked El Paso fifth in job growth since its peak). El Paso also ranked fourth on Forbes Magazine's "Best Mid-Size Cities for Jobs". Paso del Norte economic conditions strengthened substantially in 2014 and 2015. Employment grew in all of the Paso del Norte Region,

As a consequence of the large government presence in El Paso, the local economy was insulated from the sustained economic downturn that occurred across most areas of the country from late 2007 through mid 2009. The local unemployment rate decreased to 7.9% in 2014 from 8.8% in 2013, and it is projected to remain on a downward trend over the next couple of years. It is estimated for unemployment rate to have decreased to 7.6% and will stay at 6.8% for 2015 and 2016, respectively.





The largest employment sector in El Paso is the government sector, which accounts for nearly 24 percent of total nonfarm payrolls. El Paso is home to Fort Bliss Army Base, headquarters of the William Beaumont Army Medical Center and the U.S. Army Sergeants Major Academy. As the leading employer in the El Paso, with approximately 28,650 troops and 8,350 civilian personnel, Fort Bliss has an estimated \$3.1 billion annual economic impact on the HMA (U.S. Army). The 2005 Defense Base Closure and Realignment (BRAC) Commission Report positively affected Fort Bliss. The base was transformed into a heavy armor training post that included 11,500 new troops from the 1st Armored Division, previously stationed in Germany, and units from Fort Sill, Oklahoma, and Fort Hood, Texas. An estimated 15,900 military jobs and 380 civilian jobs transferred to Fort Bliss, bringing the total number of troops stationed at Fort Bliss to 35,000 by 2013. In addition, the U.S. Air Force is in the process of moving the newly configured Security Forces Regional Training Center to Fort Bliss, the military's preferred site for the training operation. When complete, the move would bring between 8,000 and 10,000 airmen to Fort Bliss each year for security forces training, beginning in September 2015.

The state government subsector accounts for nearly 15 percent of all government sector employment in the El Paso. UTEP is a major contributor to the El Paso economy, with 23,000 students enrolled and about 3,700 faculty and staff employed. The university has an estimated annual economic impact of \$1.3 billion on the El Paso economy (Institute for Policy and Economic Development at UTEP). El Paso is also home to another large state education institution, the Texas Tech University Health Sciences Center El Paso campus, a 4-year medical school that enrolls approximately 420 students and 250 residents. The school employs 1,200 faculty and staff and has a \$205 million operating budget. The Table below provides a list of the largest employers in El Paso; two of the top three are in the government sector.

Below are the top ten employers for the El Paso metropolitan area:

El Paso Major Employers		
Employer	Sector	Number of Employees
Fort Bliss Army Base	Government	37,000
T&T Staff Management, Inc.	Professional & Business Services	4,400
University of Texas at El Paso	Government	3,700
Sierra Providence Health Network	Health Services	3,075
RMPersonnel	Professional & Business Services	1,950
Dish Network Corporation	Technical Support Center	1,800
Alorica Inc.	Professional & Business Services	1,750
ReadyOne Industries	Manufacturing	1,300
GC Services Limited Partnership	Professional & Business Services	1,200
Texas Tech University Health Science Center	Government	1,200

Excludes local school districts. Fort Bliss employment includes 28,650 military personnel.

### **2015 and 2016 Employment**

The construction industry, in particular, will benefit from ongoing development of the Union Pacific Rail Hub in nearby Santa Teresa recruiting an estimated 1,000 workers in 2015. In addition, 1,000 specialty trade and general labor positions will be filled through 2016 at the William Beaumont Army Medical Center at Fort Bliss.

Employment is expected to rise again in 2016, expanding 1.3% as businesses are forecast to add 3,800 workers to payrolls.

In northwest El Paso, another hospital will open in late 2016, supporting additional construction workers until completion. Once open, this teaching facility, owned by Tenet Hospitals, will hire 300 medical workers. The construction and medical jobs will be significant contributors to 5,900 new hires for 2015 throughout the metro area, a 2% annual increase.

ADP, a fortune 500 company with 1,100 employees in El Paso, plans to invest \$41M in its El Paso headquarters in order to house a workforce that is expected to double to 2,200 by 2020. This represents almost one new hire per day for the next 4 years.

The financial activities sector will be boosted by expansion at Fred Loya Insurance, resulting in 150 new hires by year-end. The construction sector will be supported by a 125,000-square-foot expansion at the Cielo Vista Mall beginning in the first quarter. In the retail industry, 200 of jobs will be added by the opening of Dave and Busters in the first quarter of 2016, a similar number will be created by Alamo Draft House in the

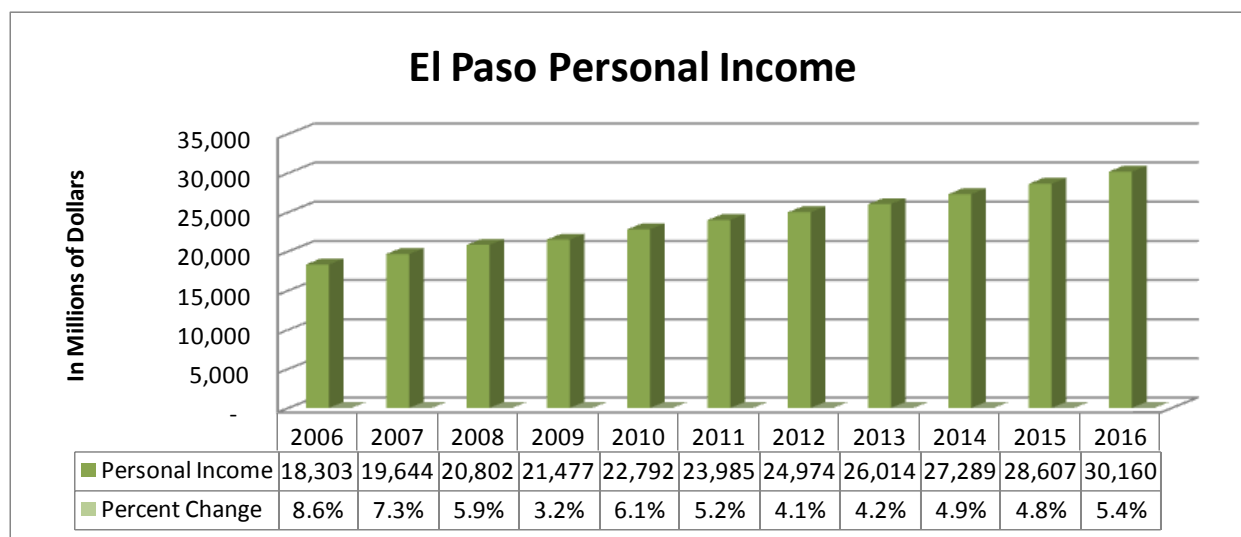
second quarter and of significant number of jobs will be created following the opening of a Whole Foods Market in west El Paso in the fourth quarter.

## **Economic Growth**

El Paso is one of the primary entry points for trade and population flows between Mexico and the United States, derives a significant economic benefit from its proximity to Mexico. Mexican nationals spend \$4.5 billion per year in Texas border retail, approximately 10 to 15 percent of which is spent in the city of El Paso (The Borderplex Alliance). The 47,200 jobs currently in the wholesale and retail trade sector account for 16 percent of all jobs in El Paso, a substantial number of which result from the economic interaction between the two countries. (HUD)

The total number of businesses operating in El Paso is forecast to surpass 14,300 in 2016. Because economic conditions have improved, the number of business bankruptcies is projected to decline through the end of 2016. A similar downward trajectory is also predicted for personal bankruptcies. Local college enrollments, however, grow more slowly as increased hours worked reduces time available for academic pursuits.

Labor force participation is expected to recover at least some of its losses as employment increases in 2015 and 2016. Among other things, lower energy prices are allowing manufacturing jobs to stage comebacks in the United States and those increases have helped create new business opportunities on both sides of the border. Sectors expected to add to their payrolls in order to meet growing sales volumes in 2015 and 2016 include construction, retail trade, call centers, and healthcare companies. Job losses experienced in 2014 in the government sector were attributed to budgetary weaknesses by local government, state government, and federal civilian government payrolls.



It was forecasted for personal income in El Paso to reach \$30.1 billion by the end of 2016, with per capital income reaching \$34,965.

These favorable economic conditions consequentially have a decreasing effect on the volume of business bankruptcies, and create an attractive labor market where residents of both sides of the border are drawn towards El Paso for work. According to the Borderplex Economic Outlook for 2016.

#### **Outlook for 2016.**

According to the Borderplex Economic Outlook for 2016, it forecasted that an improved job market conditions in El Paso will result in positive in-migration flows throughout 2015 and 2016. Although natural increase remains positive, the gap between births and deaths is projected to slowly narrow through 2016. The number of households in El Paso is predicted to move beyond 285,200 by the end of 2016. The total number of businesses operating in El Paso is forecast to surpass 14,300 in 2016. Because economic conditions have improved, the number of business bankruptcies is projected to decline through the end of 2016. A similar downward trajectory is also predicted for personal bankruptcies. Local college enrollments, however, grow more slowly as increased hours worked reduces time available for academic pursuits.

## 5. Housing Market:

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As of the first quarter 2016, the median home price in the El Paso housing market was approximately \$143,700. While cities like Austin and Dallas have outpaced El Paso in appreciation rate, El Paso market continues to make strides in appreciation year after year with housing price appreciation of 5.2% per year in the past three years.

Home prices are up modestly, and with them equity. The following highlights how much equity has been gained relative to the year of the home's purchase:

- Homes purchased in the El Paso housing market three years ago have appreciated, on average, by \$13,935. The national average was \$53,857 over the same period.
- Homes purchased in the El Paso housing market five years ago have appreciated, on average, by \$20,777. The national average was \$48,036 over the same period.
- Homes purchased in the El Paso housing market seven years ago have appreciated, on average, by \$22,445. The national average was \$13,870 over the same period.
- Homes purchased in the El Paso housing market nine years ago have appreciated, on average, by \$40,329. The national average actually decreased \$2,822 over the same period.

The El Paso real estate market is receiving a good amount of support from the current economic conditions; the job sector in particular. While local unemployment is on par with that of the national average, 1-year job growth is encouraging. Job growth over the last 12 months out paced the national average. In other words, local employment growth is has outpaced the nation recently.

Much like the rest of Texas, El Paso remains more affordable than most markets in the United States. El Paso real estate investing, in particular, benefits from the average amount of money spent on mortgages.

According to Realty Trac, the El Paso housing market has about 3,123 homes for sale. In comparing the number of homes for sale, and those that have recently sold (3,509) in the past year, activity is promising. According to the source, El Paso real estate investing should continue to thrive in the current environment. There were an estimated 757 foreclosures in the El Paso housing market as of the beginning of 2016. In one month's times, distressed properties receiving foreclosure notice dropped 19 percent. Over the course of year, foreclosure filings fell a modest 1 percent. On the current market, foreclosures usually go for about \$84,749.

According to Trulia below are some of the most active neighborhoods in El Paso.

- Bear Ridge
- High Ridge
- Upper Mesa Hills
- Ranchos Del Sol
- Kohlberg

The two most popular neighborhoods included on the list are Bear Ridge and High Ridge, with average listing prices of \$329,608 and \$423,146 respectively.

## 6. Housing Market – Foreign Nationals

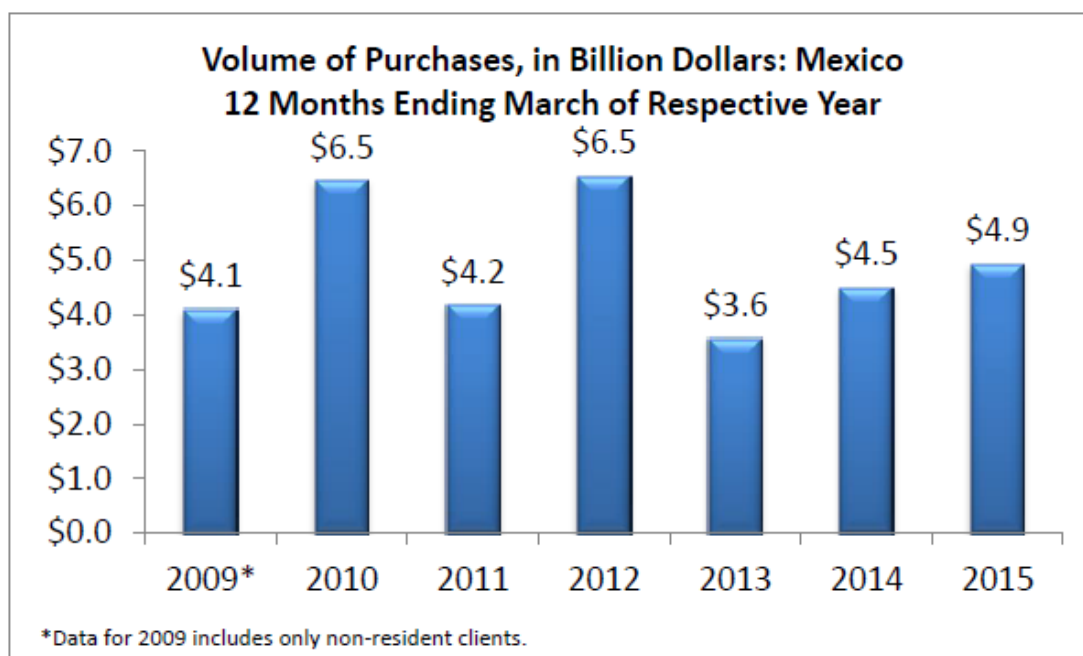
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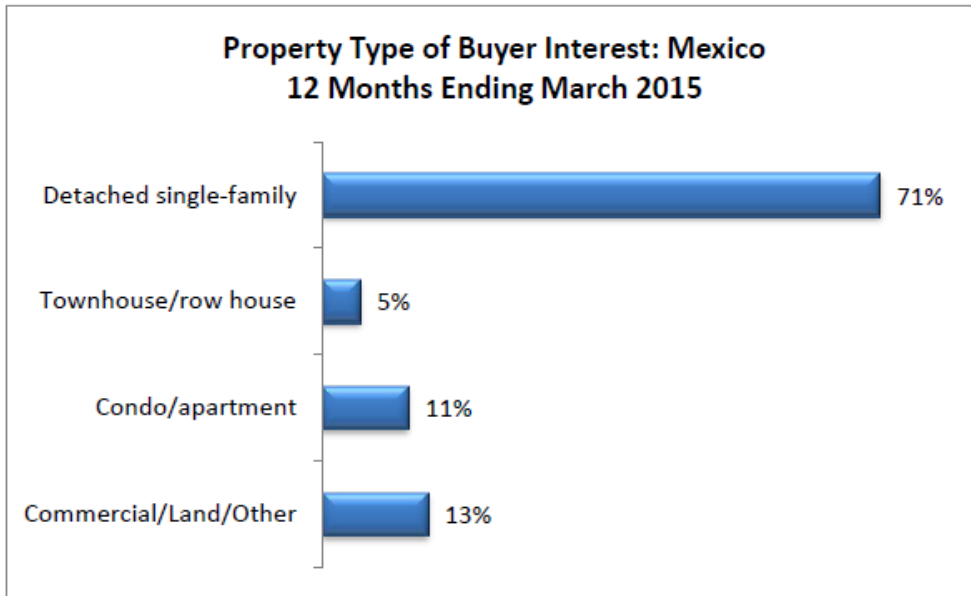
According to the National Association of Realtors, sales of U.S. residential real estate to overseas buyers between April 2014 and March 2015 reached a record \$104 billion, or about 8 percent of total existing home sales. While the number of properties sold slowed to 209,000 from 232,600 last year, buyers acquired more expensive properties, which brought up the sales total.

Chinese were far and away the top foreign buyers of real estate last year, with buyers from China, Hong Kong and Taiwan accounting for \$28.6 billion in sales, according to the report. Canada ranked second, with \$11.2 billion, followed by India with \$7.9 billion.

### Mexico

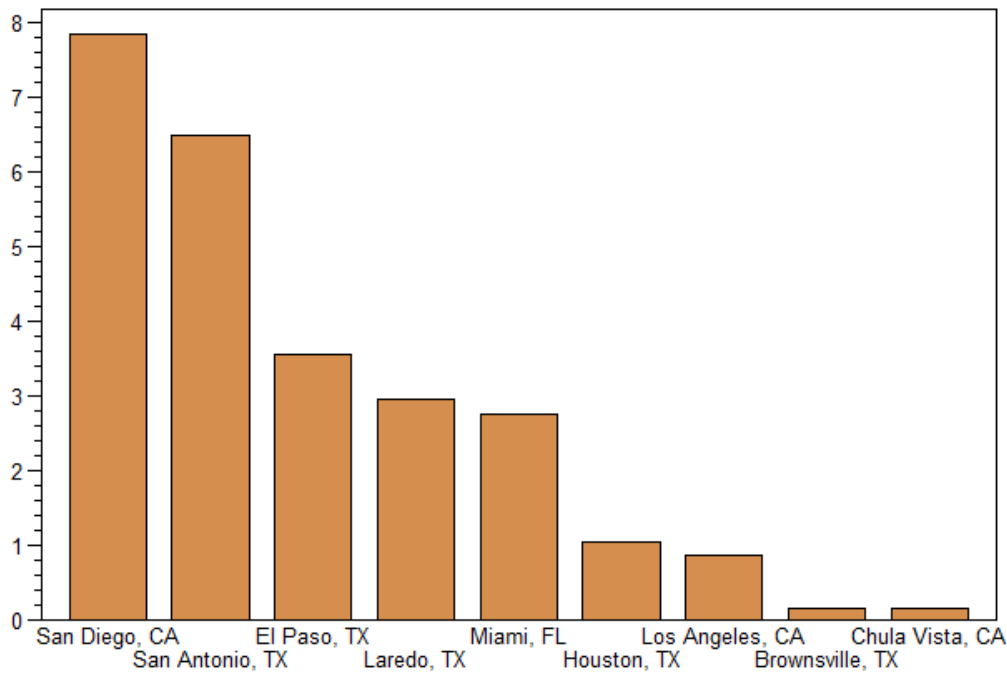
Over the 12 months ended March 2015, buyers from Mexico purchased U.S. properties estimated at \$4.9 billion, slightly above the previous level of \$4.5 billion. Purchases by buyers from Mexico accounted for approximately 5 percent of total international sales in the U.S. Approximately 62 percent of buyers from Mexico were resident foreigners. California, Texas, and Florida accounted for about half of all purchases. Buyers from Mexico bought mostly single-family type properties which were generally located in suburban and urban areas for residential use. The average price was \$274,800. The purchases were an almost an even mix of all-cash and mortgage financing.





According to the report, Mexicans were particularly interested in Texas. Cities include San Antonio, Houston, and El Paso, as well as San Diego and Miami in California and Florida, respectively. Investment, proximity, and lifestyle are areas of interest for Mexican nationals; as well as a desire for vacation homes in some cases.

#### City Search Index





## 7. Apartment Industry:

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### El Paso Apartment Industry 2014

Sustained employment growth and aggressive apartment development marked the El Paso economy in 2014. Employers added 6,100 workers to local payrolls, a 2.1% year-over-year gain. Losses were confined to the manufacturing and information sectors. The professional and business services segment expanded 3.3% with 1,000 new workers, bolstered by hiring at payroll services company ADP. The trade, transportation and utilities industry grew 3.3% as 2,100 jobs were created. The sector was supported by the Fountains at Farah regional lifestyle-shopping center which opened in November 2013 and continued to fill out through 2014 with hundreds of new hires. Developers accommodated this job growth with an increase in new inventory in 2014. Completions totaled 600 rentals, the greatest annual deliveries since 2011.

Leasing activity was negative in the first quarter of 2014. During the next three quarters, apartment demand was positive, resulting in full-year absorption of 420 units. Leasing activity from 2009 to 2013 averaged 470 rentals per year.

Multifamily builders added 600 apartments to inventory in 2014, 18.6% greater than the combined deliveries in the prior two years. Approximately 160 units were completed in the 263-unit Santi Dwellings at Montecillo apartment community in northwest El Paso. The remainder of completions came online in the eastern portion of the metro area. In the Eastside Crossings community, approximately three-quarters of the development's 188 units were finished. Development was completed at three additional projects in eastern El Paso: the 154-unit Casitas del Este, the 102-unit Ardent Quest and the 26-unit La Hacienda at Villa Victoria II.

- Seeking to curb a temporary increase in vacancy, multifamily developers scaled back permits for 2014.
- Apartment completions outpaced leasing activity last year. Consequently, metrowide vacancy edged up 30 basis points, reaching 7.6% in December 2014.
- Asking rents advanced 1% to \$800 per month in 2014, following a 2.1% decline the prior year. Concessions were 1.1% of asking rents in December, the same as year-end 2013.

## El Paso Apartment Industry 2015

Apartment fundamentals were expected to continue to improve alongside continued economic expansion in the El Paso area for 2015 and 2016. As previously mentioned, the construction industry, in particular, will benefit from ongoing development of the Union Pacific Rail Hub in nearby Santa Teresa employing an estimated 1,000 workers. In addition, 1,000 specialty trade and general labor positions will be filled through 2016 at the William Beaumont Army Medical Center at Fort Bliss.

In 2015, multifamily developers responded to the sustained economic growth with an 8.4% year over year increase in apartment planning, requesting permits for 850 units. Builders completed 300 rentals in 2015, with the majority coming online among the Santi Dwellings at Montecillo and The Quest at Edgemere apartment communities.

Absorption, however, fell short of deliveries. Consequently, metrowide vacancy rose 50 basis points to 8.1%. The increase in vacancy limited rent appreciation to .75%, as asking rents reached \$806 per month.

Multifamily property sales activity, particularly among institutional-sized properties, has been limited in the last several years. This modest sales volume is expected to continue during the forecast period. Sales of assets with more than 200 units are primarily being targeted by out-of-state investors, while local and Texas-based buyers are usually concentrating on smaller properties, most of which are selling for under \$10 million.

These smaller assets often range in price from \$25,000 to \$45,000 per unit, depending on location and condition. Newer properties can command as much as \$90,000 to \$100,000 per unit.

- It was estimated that 300 rentals were completed in 2015, with the majority coming online among the Santi Dwelling at Montecillo and the Quest at Edgemere.
- Deliveries did outpace absorption in 2015, consequently increasing vacancy by 50 basis point reaching 8.1%.
- Increase in vacancy limited rent appreciation to .75%. as average asking rents reached \$806 per month.

## **2016 Forecast**

The finance, construction and retail sectors are expected to create new jobs, by the expansion at Fred Loya Insurance, construction at Cielo Vista Mall, the opening of Dave and Busters, Alamo Draft House and Whole Foods, respectively.

In northwest El Paso, another hospital will open in late 2016, supporting additional construction workers until completion.

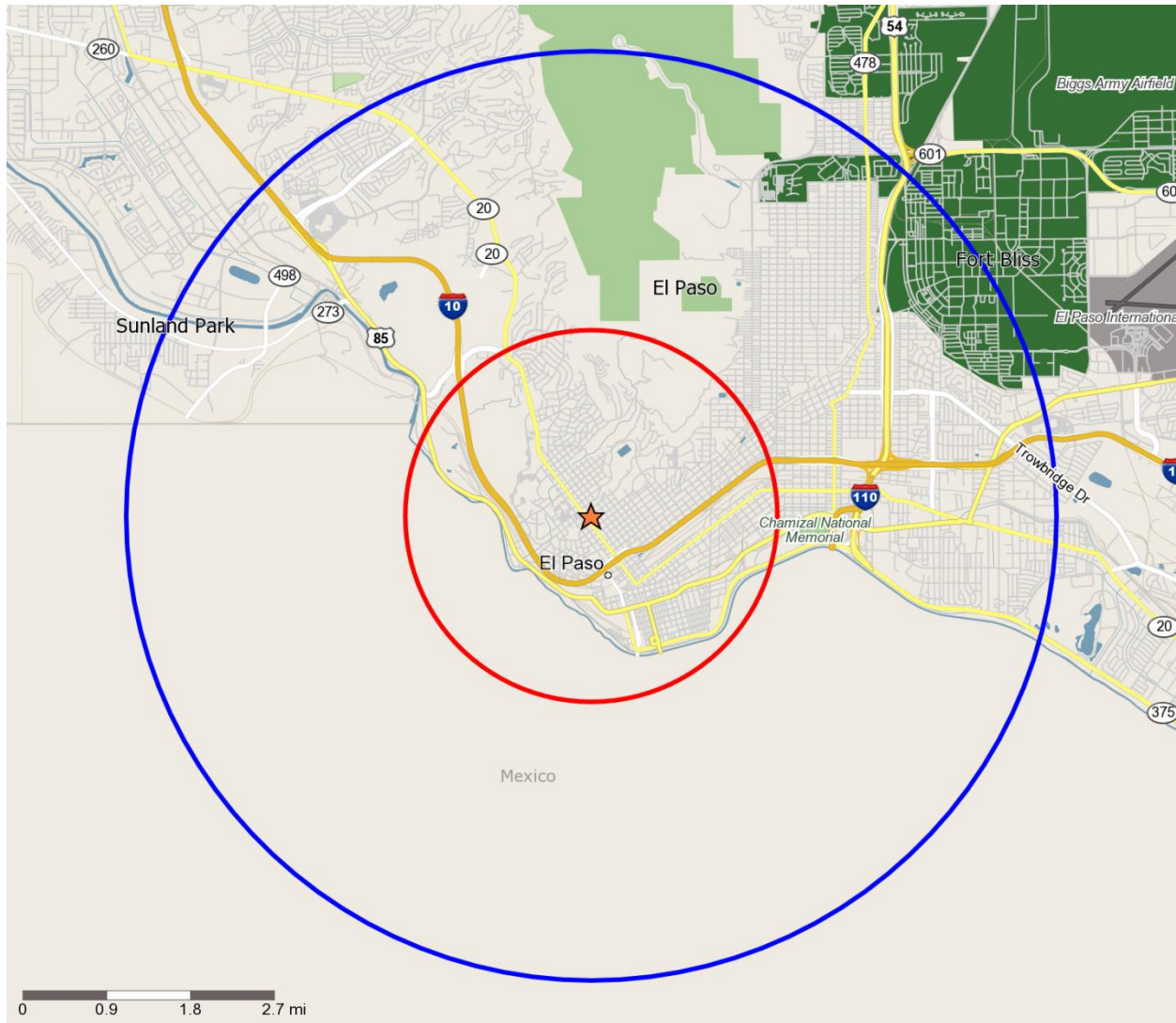
Once open, this teaching facility, owned by Tenet Hospitals, will hire 300 medical workers. The construction and medical jobs will be significant contributors to 5,900 new hires this year throughout the metro area, a 2% annual increase.

For 2016, it is expected that 6,300 new jobs will be created, a gain of 2.1%. The sustained employment expansion is expected to spur apartment demand, as renters will occupy 1,200 additional apartments through 2016, driving vacancy down..

It is estimated that multifamily development will yield at least 150 new apartments in 2016. Of those completions, approximately 60 units will come online from various properties downtown. All 87 units at the Campbell Apartments near downtown El Paso are slated for delivery at approximately the same time. Despite an increase in leasing activity this year, absorption is expected to trail deliveries, resulting in a 10-basis-point increase in vacancy to 8.2%. Meanwhile, asking rents are projected to rise 1.4% to \$817 per month.

## 8. Target Market Area (TMA)

Overview map showing the requested trade area(s) around My Site, 1601 N Oak St. St, El Paso, TX, 79902:



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**N** Trade Areas (in miles) - 2

**N** Trade Areas (in miles) - 5

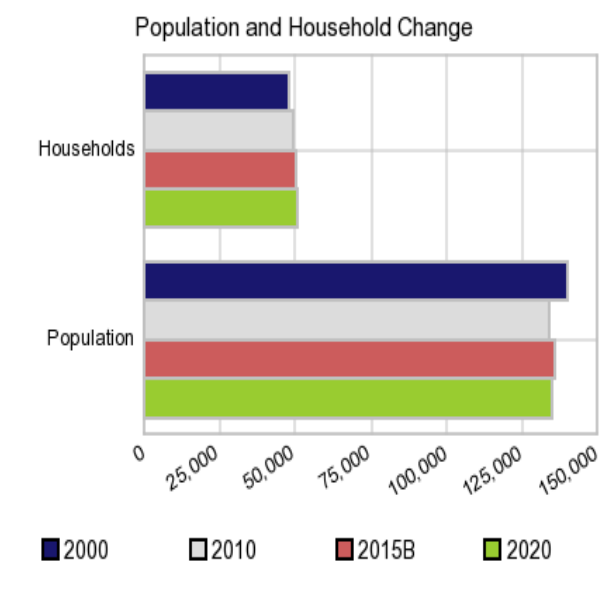
## Population

The 2015 population estimate in this selected geography is 135,948. The 2010 Census revealed a population of 134,123, and in 2000 it was 140,125 representing a -4.3% change. It is projected the population in this area will be 135,116 in 2020, representing a change of -0.6% from 2015. The current population is 48.8% male and 51.2% female. In 2015B, the median age of the population in this area was 33.1, compared to the Entire US median age which was 37.6. The population density in this area is 1,731.5 people per square mile.

	2000		2010		2015B		2020		Percent Change	
	Census	%	Census	%	Estimate	%	Projection	%	2000 to 2010	2015 to 2020
Total Population	140,125		134,123		135,948		135,116		-4.3%	-0.6%
Total Households	47,851		49,256		50,364		50,693		2.9%	0.7%
Employed Civilian Population 16+	45,617		49,232		48,099		47,985		7.9%	-0.2%
Blue Collar	19,424	42.6%	23,817	48.4%	23,173	48.2%	22,966	47.9%	22.6%	-0.9%
White Collar	26,193	57.4%	25,416	51.6%	24,926	51.8%	25,019	52.1%	-3.0%	0.4%

## Households

There are currently 50,364 estimated households in this selected geography. The Census revealed household counts of 49,256 in 2010 and 47,851 in 2000, representing a change of 2.9%. It is projected the number of households in this area will be 50,693 in 2020, representing a change of 0.7% from the current year. In 2010, the average number of years in residence in this geography's population is 14.1. The average household size in this geography was 2.7 people. The average number of vehicles per household in this geography was 1.7.



## Income

In 2015, the median household income for the TMA was \$50,805, compared to median income for El Paso MSA of \$40,157 according to the Census Bureau as of 2013. The Census revealed median household incomes of \$46,902 in 2010. It is projected the median household income in this area will be \$59,305 in 2020, which would represent a change of 16.7% from the current year.

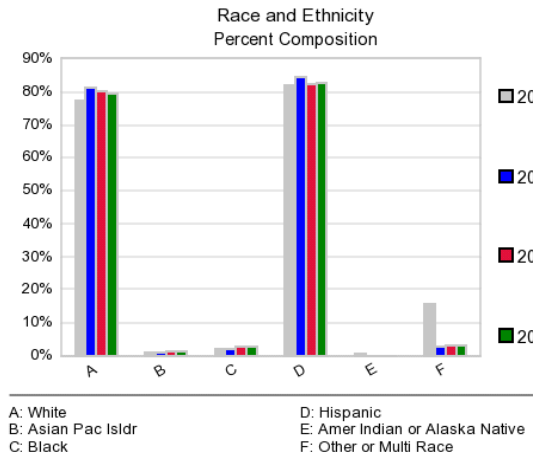
Households By Income									
	2000 Census		2010 Census		2015B Estimate		2020 Projection		Percent Change
\$0 - \$9,999	10,731	22.4%	8,652	17.6%	8,459	16.8%	6,245	12.3%	-19.4%
\$10,000 - \$14,999	5,895	12.3%	6,332	12.9%	6,058	12.0%	5,739	11.3%	7.4%
\$15,000 - \$19,999	4,956	10.4%	4,789	9.7%	4,745	9.4%	4,417	8.7%	-3.4%
\$20,000 - \$24,999	4,652	9.7%	4,357	8.8%	4,209	8.4%	3,831	7.6%	-6.3%
\$25,000 - \$29,999	3,434	7.2%	3,362	6.8%	3,106	6.2%	2,944	5.8%	-2.1%
\$30,000 - \$34,999	3,036	6.3%	3,273	6.6%	3,157	6.3%	2,841	5.6%	7.8%
\$35,000 - \$39,999	2,316	4.8%	2,599	5.3%	2,487	4.9%	2,356	4.6%	12.2%
\$40,000 - \$49,999	3,818	8.0%	4,385	8.9%	4,907	9.7%	4,471	8.8%	14.8%
\$50,000 - \$59,999	2,488	5.2%	2,625	5.3%	2,944	5.8%	3,667	7.2%	5.5%
\$60,000 - \$74,999	2,382	5.0%	2,573	5.2%	2,964	5.9%	3,837	7.6%	8.0%
\$75,000 - \$99,999	1,750	3.7%	2,716	5.5%	3,132	6.2%	4,011	7.9%	55.2%
\$100,000 - \$124,999	924	1.9%	1,399	2.8%	1,574	3.1%	2,386	4.7%	51.3%
\$125,000 - \$149,999	527	1.1%	709	1.4%	742	1.5%	1,208	2.4%	34.7%
\$150,000 +	1,053	2.2%	1,485	3.0%	1,879	3.7%	2,741	5.4%	41.0%
Average Hhld Income	\$35,171		\$42,226		\$45,779		\$56,833		20.1%
Median Hhld Income	\$22,474		\$25,680		\$27,660		\$33,762		14.3%
Per Capita Income	\$12,011		\$15,844		\$17,294		\$21,660		31.9%

## Race & Ethnicity

In 2015B, the racial makeup of this selected area was as follows: 80.2% White; 2.8% Black; 0.8% Native American; 1.3% Asian/Pacific Islander; and 14.9% Other. Compare these to the Entire US racial makeup which was: 71.0% White, 12.8% Black, 1.0% Native American, 5.4% Asian/Pacific Islander and 9.8% Other.

People of Hispanic ethnicity are counted independently of race. People of Hispanic origin make up 82.2% of the current year population in this selected area. Compare this to the entire US makeup of 17.5%.

### Population in this selected area.



The predominant race/ethnicity category in this study area is Hispanic. The race & ethnicity category least represented in this geography is American Indian, Alaska Native.

### Housing

The median housing value in this area was \$63,496 in 2000; compare this to the Entire US median of \$110,813 for the same year. The estimated median housing value in 2015 in this area is \$96,036; compare this to the Entire US median of \$185,104 for the same year.

In 2010 there were 93.2% owner occupied housing units in this area vs. 93.2% estimated in 2015. Also in 2010, there were 6.8% renter occupied housing units in this area vs. 6.8% estimated in 2015. The average rent in 2015B was \$517.

Housing Units									
	2000 Census	%	2010 Census	%	2015B Estimate	%	2020 Projection	%	Percent Change 2000 to 2010    2015 to 2020
Total Housing Units	53,060		52,911		54,023		54,205		-0.3%    0.3%
Occupied	47,851	90.2%	49,256	93.1%	50,364	93.2%	50,693	93.5%	2.9%    0.7%
Owner-Occupied	20,703	39.0%	20,237	38.2%	20,543	38.0%	20,758	38.3%	-2.2%    1.0%
Renter-Occupied	27,148	51.2%	29,019	54.8%	29,821	55.2%	29,934	55.2%	6.9%    0.4%
Vacant	5,209	9.8%	3,654	6.9%	3,660	6.8%	3,512	6.5%	-29.8%    -4.0%

## Employment

In 2015, there were 104,649 people over the age of 16 in the labor force in your geography. Of these 87.6% were employed, 6.4% were unemployed, and 6.0% were in the Armed Forces. Out of the unemployed, 47.5% were not in the labor force in 2015.

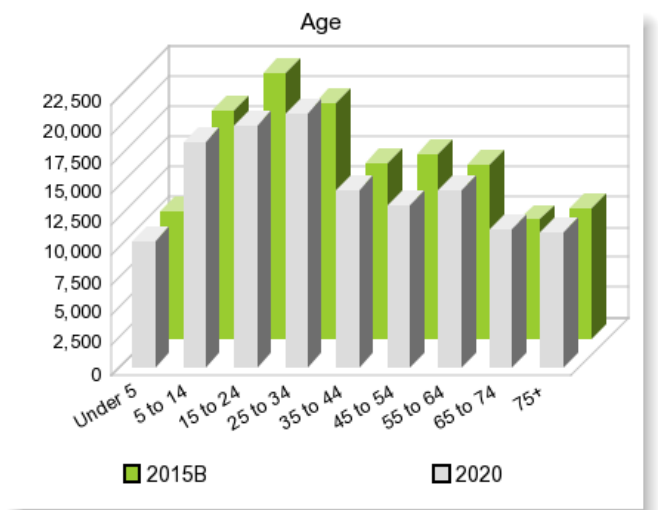
In 2015, there were 97,218 employees in this selected area (daytime population) and there were 6,842 establishments. For this area in 2015B, white collar workers made up 51.8% of the population, and those employed in blue collar occupations made up 23.9%. Service and other workers made up 24.3% of the population.

In 2010, the average time traveled to work was 22 minutes.

## Age

In 2000, the median age of the total population in the study area was 32.0, and in 2010, it was 33.6. The median age in 2015B is 33.1 and it is predicted to change in five years to 33.8 years. In 2015B, females represented 51.2% of the population with a median age of 35.7 and males represented 48.8% of the population with a median age of 30.9 years. In 2015B, the most prominent age group in this geography is Age 25 to 34 years.

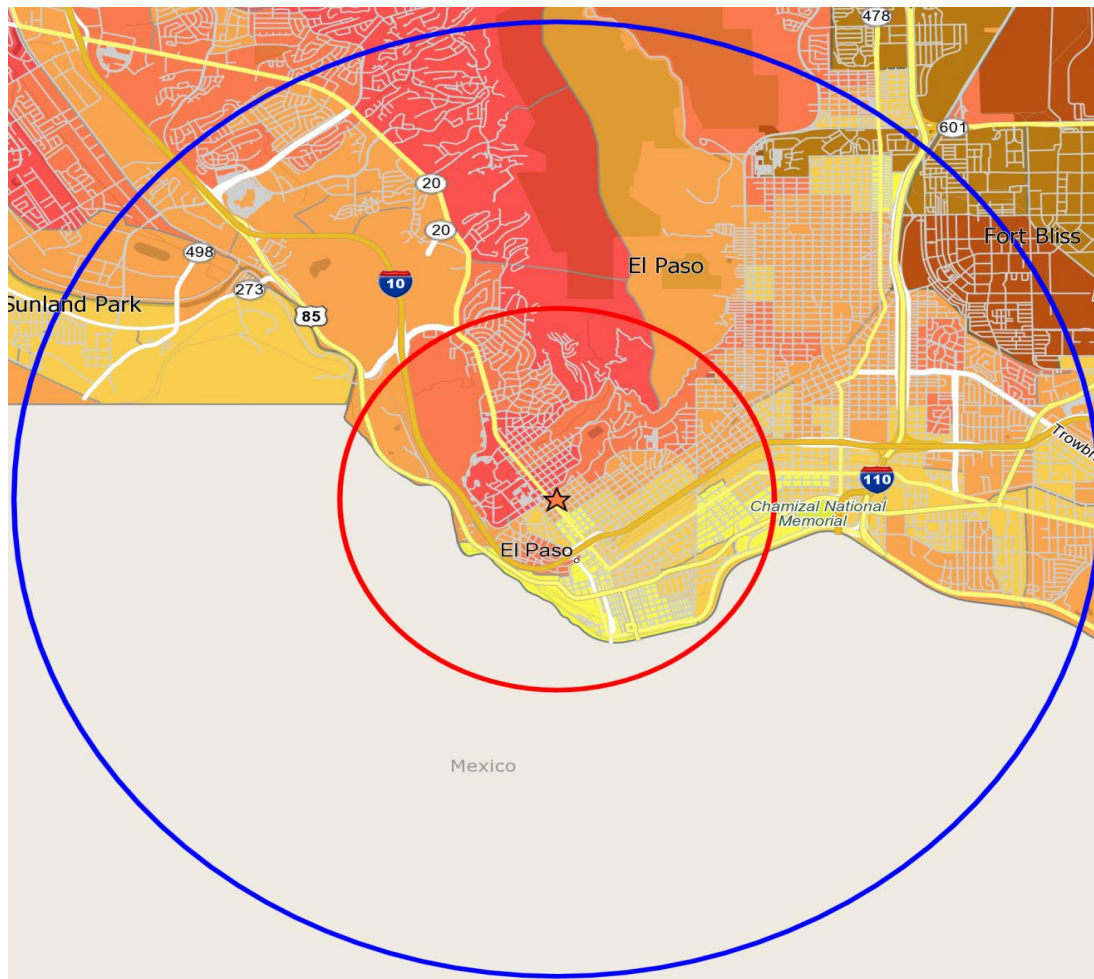
The age group least represented in this geography is Age 15 to 19 years.



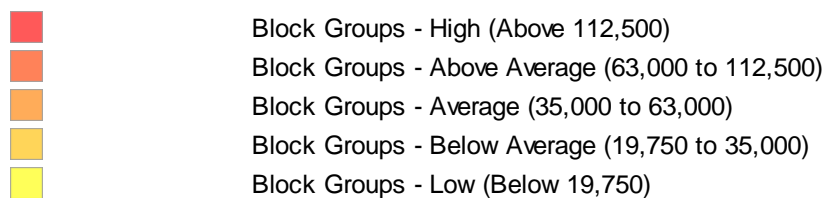


Age Groups									Percent Change	
	2000 Census	%	2010 Census	%	2015A Estimate	%	2020 Projection	%	2000 to 2010	2015 to 2020
0 to 4	10,666	9.5%	14,277	8.2%	16,162	8.6%	17,679	8.4%	33.9%	9.4%
5 to 14	22,971	20.4%	31,533	18.1%	32,022	16.9%	33,868	16.1%	37.3%	5.8%
15 to 19	9,542	8.5%	15,997	9.2%	16,188	8.6%	17,122	8.1%	67.6%	5.8%
20 to 24	7,405	6.6%	12,553	7.2%	15,771	8.3%	16,879	8.0%	69.5%	7.0%
25 to 34	18,386	16.3%	25,293	14.5%	28,095	14.9%	32,820	15.6%	37.6%	16.8%
35 to 44	19,768	17.5%	26,470	15.2%	27,941	14.8%	31,204	14.8%	33.9%	11.7%
45 to 54	13,212	11.7%	22,954	13.2%	23,691	12.5%	24,318	11.6%	73.7%	2.6%
55 to 64	5,555	4.9%	14,339	8.2%	16,590	8.8%	19,709	9.4%	158.1%	18.8%
65 to 74	3,268	2.9%	6,372	3.7%	7,900	4.2%	10,897	5.2%	95.0%	37.9%
75 +	2,087	1.8%	4,244	2.4%	4,764	2.5%	5,855	2.8%	103.4%	22.9%

## Households by Income



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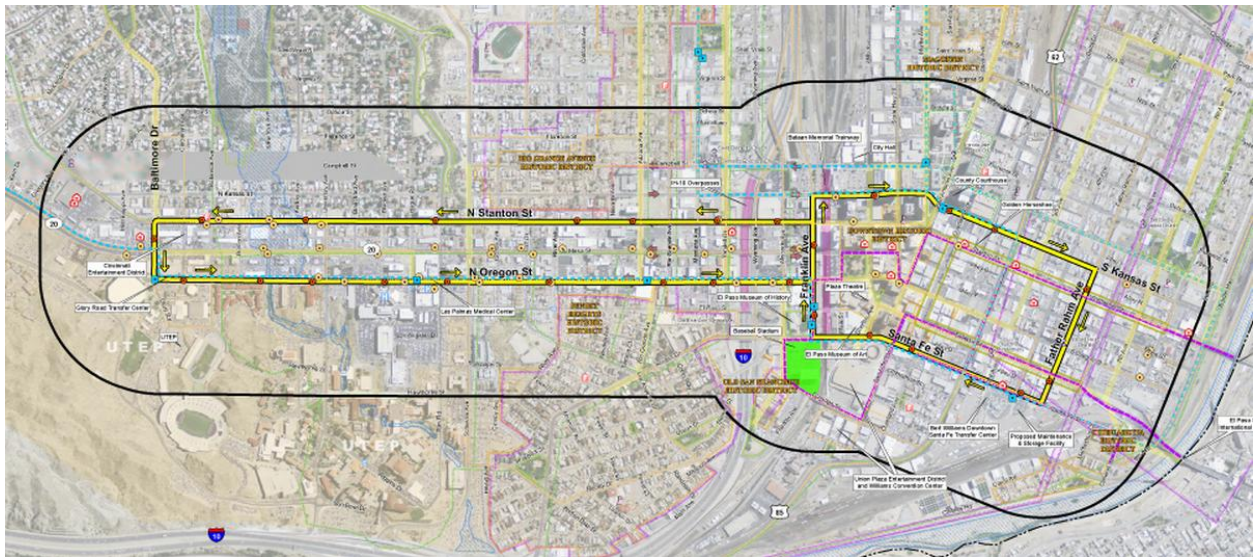
In 2015, the median household income in this selected geography was \$27,660, compared to the Entire US median which was \$54,148. The Census revealed median household incomes of \$25,680 in 2010. It is projected the median household income in this area will be \$33,762 in 2020, which would represent a change of 22.1% from the current year.

HH Income Categories									Percent Change	
	2000 Census	%	2010 Census	%	2015B Estimate	%	2020 Projection	%	2000 to 2010	2015 to 2020
\$0 - \$15,000	16,626	34.7%	14,984	30.4%	14,518	28.8%	11,984	23.6%	-9.9%	-17.5%
\$15,000 - \$24,999	9,608	20.1%	9,145	18.6%	8,953	17.8%	8,247	16.3%	-4.8%	-7.9%
\$25,000 - \$34,999	6,470	13.5%	6,635	13.5%	6,263	12.4%	5,785	11.4%	2.6%	-7.6%
\$35,000 - \$49,999	6,134	12.8%	6,984	14.2%	7,395	14.7%	6,827	13.5%	13.9%	-7.7%
\$50,000 - \$74,999	4,870	10.2%	5,198	10.6%	5,908	11.7%	7,504	14.8%	6.7%	27.0%
\$75,000 - \$99,999	1,750	3.7%	2,716	5.5%	3,132	6.2%	4,011	7.9%	55.2%	28.1%
\$100,000 - \$149,999	1,451	3.0%	2,108	4.3%	2,316	4.6%	3,594	7.1%	45.3%	55.2%
\$150,000 +	1,053	2.2%	1,485	3.0%	1,879	3.7%	2,741	5.4%	41.0%	45.9%
Average Hhld Income	\$35,171		\$42,226		\$45,779		\$56,833		20.1%	24.1%
Median Hhld Income	\$22,474		\$25,680		\$27,660		\$33,762		14.3%	22.1%
Per Capita Income	\$12,011		\$15,844		\$17,294		\$21,660		31.9%	25.2%

## Transportation

The Subject Property is located in the heart of El Paso less than 1 mile from I-10 Freeway.

## Streetcars



The property is on the proposed streetcar route.

In 2015 it was approved the \$97-million project to restore streetcar service to Downtown El Paso. The trolleys would run north from Oak St. Street near Downtown to the University of Texas at El Paso, loop the campus and run back south on Oregon Street. It will make 27 stops along the way. The first two vehicles are slated to be ready for testing in late 2017 or mid 2018, and the

remaining four are to be delivered mid to late 2018. Anticipated ridership of the new trolley system is anticipated to be 1,480 riders per day.

**Streetcars Tucson**

Downtown Tucson invested \$196-million Sun Link Streetcar 3.9 mile route that began service in Downtown Tucson in July 2014. The average monthly ridership has grown to 102,000 passengers and it has spurred \$1.5 billion in private and public development along the route, to include housing, offices, hotels, restaurants, bars and boutiques.

## 9. Adjoining Neighborhoods - TMA

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### **Kern Place**

Kern Place is located northwest of the Subject Property. According to Neighborhoodscout, the median real estate price for Kern Place is \$203,234, which is 41% more expensive compared to the median real estate price in El Paso of \$143,700.

The Kern is a suburban neighborhood (based on population density).

The Kern real estate is primarily made up of medium sized (three or four bedroom) to small (studio to two bedroom) single-family homes. Most of the residential real estate is occupied by a mixture of owners and renters. Many of the residences in The Kern neighborhood are older, well-established, built between 1940 and 1969. A number of residences were also built before 1940.

Demand for real estate in The Kern is above average for the U.S., and may signal some demand for price increases since it is a mature neighborhood and new construction of residential product in the neighborhood is not possible due to the lack of available lots.

Kern neighborhood has a greater concentration of residents currently enrolled in college than 97.6% of the neighborhoods in the U.S. With 21.0% of the population here attending college, this is very much a college-focused neighborhood.

This neighborhood is also a very good choice for college students and highly educated executives.

### **Notable & Unique: Modes of Transportation**

About that 12.6% of residents worked from home in the Kern neighborhood, which is significantly higher than the norm in El Paso.

The neighbors in the Kern neighborhood in El Paso are upper-middle income, making it an above average income neighborhood. NeighborhoodScout's exclusive analysis reveals that this neighborhood has a higher income than 71.7% of the neighborhoods in America.

## **The Neighbors: Occupations**

Kern neighborhood, 57.0% of the working population is employed in executive, management, and professional occupations. The second most important occupational group in this neighborhood is sales and service jobs, from major sales accounts, to working in fast food restaurants, with 26.5% of the residents employed. Other residents here are employed in clerical, assistant, and tech support occupations (11.5%), and 5.1% in manufacturing and laborer occupations.

## **Central / Downtown El Paso**

Central El Paso can be described as being bounded, by the Franklin Mountains and the Fort Bliss Military Reservation on the north, Paisano Drive on the West, Mexico to the South and Geronimo Drive to the East.

Central/ Downtown El Paso area has indicated more stagnant permanent population in the immediate subject area. There are a total of 29,723 housing units in the market area as of 2014 and the mix is 37 owner occupied to 63% renter occupied. The subject market area comprised 11.6% of the total city population or approximately 80,661 by the end of 2014 according to Site to do Business.

While there are estimates of population growth of about 1%, these projections do not take into account several recent developments in the downtown area. Recently there have been several new housing units constructed and several more under construction in the area that will impact the growth rate positively for the downtown El Paso area.

The southwestern section of the market area is known as the Central Business District. This downtown market area can be divided into four sections: the major high-rise office area generally bounded by Kansas Street, San Antonio, Oregon and Missouri, which is about a fifteen block area; the County and Federal office area on San Antonio at Campbell; the City and Convention Center area on Santa Fe (northwest of the major office area) and the concentrated retail area in the south along the border which is heavily patronized by foreign national citizens. Outside the define Market area boundaries, improvements are typically old brick warehouse buildings. The Southern Pacific Railroad Yard is adjacent to the downtown area on the east along interstate 10. The subject area reflects an older central business district that is currently in a state of revitalization. Over the long-term revitalization is anticipated to continue.

The City of El Paso adopted a Downtown Plan on October 31, 2006. This redevelopment plan called for the creation of incentive programs and the



establishment of a Tax Increment Reinvestment Zone (TIRZ) district for part of the DOWNTOWN plan area. Incentives include adopting more flexible building codes, new zoning districts and direct grants. Several projects were completed in 2009-2010 to include the Doubletree Hotel, a new Federal Courthouse, restoration of the Mills Building and the Mills Plaza redevelopment project. There is also a Face Improvement Grant program and at least 13 buildings have taken advantage of it so far.

Indigo Hotel was completed as of February 2016, which offers an upscale and trendy option for travelers visiting El Paso. As shown in this report, there are many residential and mixed-use developments, a sign of redevelopment in the Central Business District that has not been seen in many years. The projects are yet to be completed, but they anticipate downtown living.

El Paso has emerged as being one of the fifteen U.S. cities with up and coming revitalized downtowns. Located in the heart of downtown El Paso, The Southwest University Park opened in 2014 winning Ballpark of the Year Award for the same year. The El Paso Chihuahuas, the ballpark's official team, have drawn more than 500,000 fans during its first season, becoming just the fourth team in the Pacific Coast League to accomplish the feat.

There are additional amenities slated to come to the downtown area. One such amenity will be the bus rapid transit (BRT) system. When completed, it will provide transportation choices to connect residents to downtown El Paso. Another step in the right direction is the redevelopment of all public owned parking lots around the Union Depot, plus the development of an expanded mix of restaurants, shops, and high quality condominiums fronting a formal plaza. These developments should jointly help to improve economic conditions in this portion of the City.

### **Quality of Life Bonds**

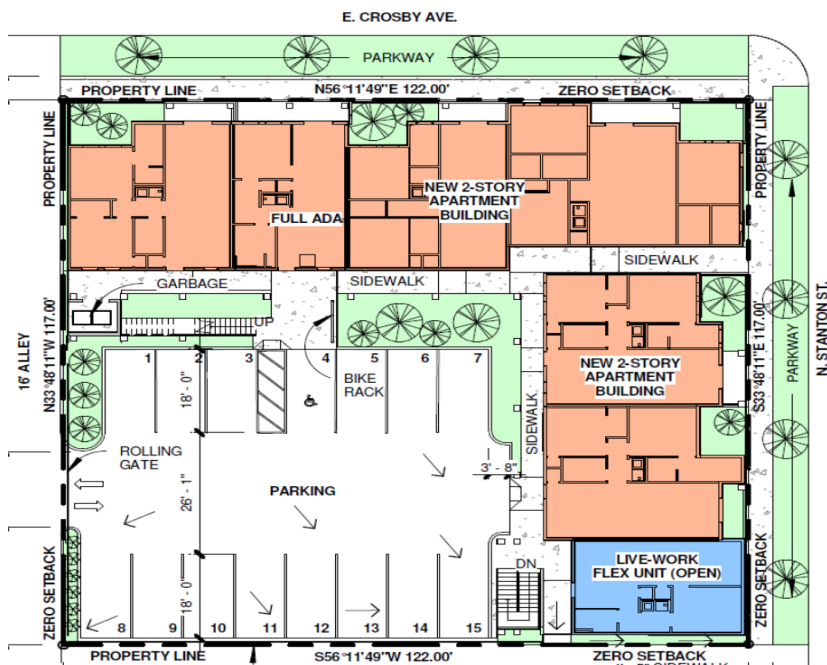
In 2012, the City of El Paso voted and approved the issuance of \$473 million worth of bonds for quality of life improvements to be implemented over the next 7 years, in addition to an estimated \$500 million in regular repair and maintenance to be spent in the upcoming years. As of 2013 the City of El Paso's debt had ratings of double-A from Standard & Poor's and Fitch Ratings. There are three aquatic facility projects that will come out of the quality of life bonds, the first would be a competitive swimming facility in the Westside of El Paso, the second would be improvements at the Pavo Real facility, and third a natatorium in the Eastside of El Paso. Projects are scheduled to begin 2016.

# 10. Upcoming Significant Developments - TMA

## 1) Oak St. and Crosby



Right across from the Subject Site at the intersection of Oak St. and Crosby there are plans to build a two-story structure that will hold a total of fourteen apartment units, that consist of two three-bedroom, eight two-bedroom, three one-bedroom apartments and a live-work unit. See plans below:





## **2) Savoy Apartments**



Formally the Savoy Hotel and Located on the corner of N. Oak St. and E. Overland, this five story historic building built in 1915 will be converted into 27 affordable loft living units and will maintain its first story retail space. The project is being built for the El Paso Housing Finance Corporation, it is currently under construction with completion scheduled for mid 2016.

### 3) Martin Lofts



The Martin Lofts apartments are located in the heart of downtown El Paso at the Intersection of Oak St. and Mills. The project consist of 44 units in the renovated, 98-year-old Martin Building. The apartments will combine unique, modern design elements with the buildings classic architecture. The project will include large windows, advance security, top of the line appliances, high speed internet and valet parking. The project is slated to be completed by April 2016.

#### **4) Campbell Apartments**



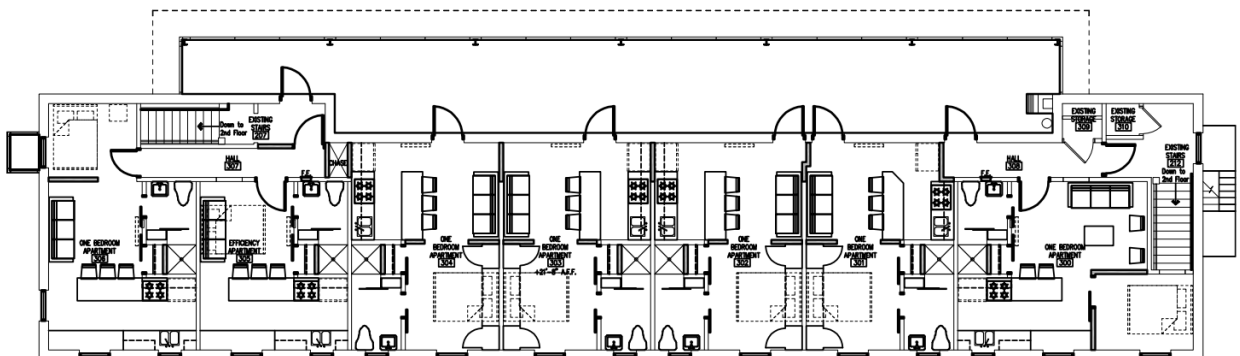
Located at Campbell and Third Street, in South El Paso and on the edge of Downtown, The \$4.75 million, 87-unit Campbell Apartments are expected to be completed in early March. The project consist of an ultra-modern, five story complex, which includes 3,654 square feet of ground-floor retail space. The complex will be located on the fringe of Segundo barrio in South El Paso. Development cost was report at \$4.5M. El Paso Times in January 2016.



## 5) Essex Alley



Located at 513 W San Antonio in the Union Plaza district on the western edge of Downtown is the Essex Alley building. The building was originally built in the 1900s has been converted into 13 unit mix-use complex with 6,000 Sq Ft of retail space. The building was renovated maintaining the historic character of the facade, brickwork and only a “Texas canopy” along the retail spaces on the street level. The project was completed in February of 2016 and 10 of the 13 units were leased during that month. Units range from 300 to 600 Sq FT with rents from \$595 to \$795. See Plans below:



## **6) Franklin Avenue Apartments**



Located at 617 Franklin Avenue about one block from the Southwest University baseball stadium, there are plans for a \$1.2-million high-end multifamily project that will include two one-bedroom, 10 two-bedroom, and one three-bedroom. . The building also will have a 1,200 square-foot meeting room on the second floor that Johnson plans to rent for company meetings and for company social mixers before baseball games.

The owner of the building has 40-year ground lease with the city on the 15,000 square-foot lot where the two-story apartment building will be built, he said. He also has an economic development agreement with the city that will give the project property tax abatements during the next 10 years if all agreement requirements are met. Construction began on February 2016 and it estimated from 9 to 12 months.

### **NOTE:**

It is to be note that while there are no publically slated condominium communities in the Target Market Area, there is no differentiation in terms of city permits from apartment complexes. This means that the projects referenced in this section have the potentiality to become condominium communities.

# 11.Competition - TMA

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## **Competition/ Market**

There are currently 3 condominium communities within a 5 mile radius of the property that could be considered competition:

### **1) Proposed Site:**

The Subject Property is located at the intersection of Mesa / Oak St. and Crosby, El Paso TX 79902 in Alexander Addition Subdivision. The Subject property is approximately 3 mile from the heart of Downtown El Paso and is delimited by Rim and Kern Place subdivision to the North, Sunset Heights to West, Pierce Finley to the East and Downtown El Paso to the South. As mentioned before the developer's intent is to construct an upscale mixed use condominium community.

## 2) The Fairmont



The Fairmont Community is located at 1800 N Oak St., El Paso TX 79902, less than 2 mile from the subject property. The community was built in 1964 and offers the following amenities:

- Swimming Pool
- Party Room
- Exercise Room
- Gated Community
- Recently Renovated Common Areas
- Guest Rooms
- Proximity to Hospitals and I-1

The Fairmont					
Bedrooms	Bathrooms	Sq Ft	Price	Price per Sq Ft	Monthly HOA
2 Br	1 Bath	1,100	\$ 165,000	\$ 150.00	\$ 460.00
2 Br	1 Bath	1,100	\$ 170,000	\$ 154.55	\$ 460.00
3 Br	2 Bath	1,900	\$ 249,000	\$ 131.05	\$ 700.00
Average		1,367	194,667	145	540



### 3) 1<sup>st</sup> Avenue Lofts



The 1<sup>st</sup> Avenue Lofts are located at 300 S. Florence El Paso TX 79901, 2 mile from the subject property. The property was built in 1925 and renovated in 2012 offers the following amenities:

- Rooftop Access
- Private Parking
- Retail Space on bottom floor.

1st Avenue Lofts					
Bedrooms	Bathrooms	Sq Ft	Price	Price per Sq	Monthly HOA
1	1	1,438	\$ 249,000	\$ 173.16	\$ 161.00



4) 4433 N. Oak St.



The 4433 N. Oak St. is located at 4433 N Oak St., El Paso TX 79902, 3 mile from the subject property. The community was built in 1970 and offers the following amenities:

- Swimming Pool
- Party Room
- Exercise Room
- Gated Community
- Recently Renovated Common Areas

4433 N. Stanton					
Bedrooms	Bathrooms	Sq Ft	Price	Price per Sq	Monthly HOA
2	2	1,272	\$ 89,000	\$ 69.97	\$ 303.00
2	2	1,090	\$ 93,000	\$ 85.32	\$ 269.00
2	2	1,150	\$ 69,800	\$ 60.70	\$ 269.00
2	2	1,090	\$ 72,800	\$ 66.79	\$ 269.00
2	2.5	1,190	\$ 79,900	\$ 67.14	\$ 219.00
2	1	992	\$ 83,900	\$ 84.58	\$ 219.00
3	2	1,425	\$ 116,500	\$ 81.75	\$ 269.00
3	2.5	2,020	\$ 110,900	\$ 54.90	\$ 219.00
3	3.5	1,948	\$ 149,990	\$ 77.00	\$ 219.00
Average		1,353	\$ 96,199	\$ 72.02	\$ 250.56

## 5) Camelot



The Camelot Community is located at 4800 N Oak St., El Paso TX 79902, 4 mile from the subject property. The community was built in 1970 and offers the following amenities:

- Swimming Pool
- Tennis Courts
- Exercise Room
- Gated Community

Camelot						
Bedrooms	Bathrooms	Sq Ft	Price	Price per Sq	Monthly HOA	
2	1	1,002	\$ 84,900	\$ 84.73	\$ 355.00	
2	1	1,072	\$ 85,000	\$ 79.29	\$ 345.00	
1	1	741	\$ 79,500	\$ 107.29	\$ 355.00	
1	1	710	\$ 54,000	\$ 76.06	\$ 355.00	
2	1	1,072	\$ 89,900	\$ 83.86	\$ 355.00	
2	1	1,072	\$ 72,000	\$ 67.16	\$ 335.00	
1	1	719	\$ 67,000	\$ 93.18	\$ 355.00	
1	1	710	\$ 64,900	\$ 91.41	\$ 355.00	
2	1	1,072	\$ 115,000	\$ 107.28	\$ 365.00	
2	1	1,072	\$ 93,000	\$ 86.75	\$ 365.00	
Average		924	\$ 80,520.00	\$ 87.70	\$ 354.00	

## 6) Scenic Crest



The Scenic Crest Condominiums are located at 2500 Scenic Crest, El Paso TX 79930, 4 mile from the subject property. The condominiums were built in 1976 offers the following amenities:

- Swimming Pool
- Exercise Room
- Gated Access
- Panoramic Views
- Covered Parking
- Storage

2500 Scenic Crest					
Bedrooms	Bathrooms	Sq Ft	Price	Price per Sq	Monthly HOA
2	2	2,100	\$ 249,000	\$ 118.57	\$ 485.00

### Market Average

Competition					
		Sq FT	Price	Price per Sq Ft	Monthly HOA
Average		1,454	168,680	\$ 112.86	\$ 312.64

## 12. High End Apartment Market

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As requested by client, below is a list of high end apartment complexes in El Paso. The list was limited to the high end living communities with luxurious amenities and that have been built in recent years.

### **Montecillo**

The Montecillo Development, located on El Paso's West side is El Paso's first, full-fledged Smart Growth, or New Urbanism, development. The Master Plan, done by California architect Stefanos Polyzoides, the founding father of New Urbanism, combines pedestrian-friendly developments with a high density of residential housing mixed with commercial and open-space components. The Venue at Montecillo, a 290 unit mixed use apartment complex with approximately 16,000 square feet of retail is now open. It expected for home sites ranging in size from 6,000 square feet to over 12,000 square feet to be developed in the area in the next couple of years. In addition to commercial, residential and mixed use space, a new school and park are designed for this new development. New arterials addressing traffic flow are also being implemented.

Montecillo is the first development in El Paso to implement Smart Growth, and in keeping with the Smart Growth spirit in a pedestrian-friendly, open-air lifestyle.



## 1) The Venue – Montecillo



The property is located at 5001 N Mesa, El Paso TX 79912, 3 miles from the subject property. The complex was built in 2013 and offers the following amenities:

- Award Winning Designs
- Wood Floors
- 2 pools / 2 spas
- Outdoor Kitchens and Grills
- Balconies
- Retail / Restaurants on Lower Level
- 9' and 12' Ceilings
- Club House
- Business Center

Santi Dwellings				
		Sq Ft	Price	Price / Sq FT
A1	1 BR / 1 BA	596	\$ 963	\$ 1.61
A2	1 BR / 1 BA	670	\$ 1,038	\$ 1.55
B1	2 BR / 1 BA	883	\$ 1,230	\$ 1.39
B2	2 BR / 2 BA	1208	\$ 1,573	\$ 1.30

## 2) Santi – Montecillo



The property is located at 150 W Castellano, El Paso TX 79912, 3 miles from the subject property. The complex was built in 2014 and offers the following amenities:

- Large rooftop terraces
- Theatre
- Resort Style Infinity Pool
- Large Private Balconies
- Business Center
- Fitness Center

Santi Dwellings				
		Sq Ft	Price	Price / Sq FT
A1	1 BR / 1 BA	596	\$ 963	\$ 1.61
A2	1 BR / 1 BA	670	\$ 1,038	\$ 1.55
B1	2 BR / 1 BA	883	\$ 1,230	\$ 1.39
B2	2 BR / 2 BA	1208	\$ 1,573	\$ 1.30

## 2. The Reserve at Sandstone Ranch



The Reserves at Sandstone are located at 112000 Sean Haggerty Dr, El Paso TX 79934, is 15 miles from the subject property. The Complex is a class A garden style community still currently under construction and it offers the following amenities:

- Swimming Pool
- Award Winning Design Floorplans
- HD Theatre
- Attached 1 & 2 Car Garage
- Covered Parking
- Gated Community
- Social Lounge
- Professional Business Center
- Conference Rooms
- Pet Park
- Resort Style Pool
- Jacuzzi
- Playground
- Sand Volleyball Court
- Four Hole Putting Green
- Outdoor Fireplace
- State of the Art 24 hour Fitness Center
- Social Activities
- Playground
- Picnic Area

The Reserves at Sandstone Ranch				
		Sq Ft	Price	Price / Sq Ft
A1	1 BR / 1 BA	677	\$ 841	\$ 1.24
A2	1 BR / 1 BA	745	\$ 834	\$ 1.12
A3	1 BR / 1 BA	827	\$ 936	\$ 1.13
B1	2 BR / 2.5 BA	996	\$ 1,025	\$ 1.03
B2	2 BR / 2 BA	1210	\$ 1,210	\$ 1.00
C1	3 BR / 2 BA	1450	\$ 1,400	\$ 0.97



3. *Bella Estancias.*



Bella Estancias (The “Complex”) is a class A multifamily gated residential community made up of various San Diego Courtyard Style apartment buildings and townhomes located at 10800 McCombs, El Paso TX 79924. The Complex is approximately 16 miles from the Subject Property. The complex is still under construction and offers the following amenities:

- Gated Community
- Landscaped Courtyards
- Resort Style Pool and Spa
- Fitness Center
- Two Car Garage\*
- Playground
- Business Center
- Granite Countertops
- Crown Molding
- Stainless Steel Appliances

Bella Estancias				
		Sq Ft	Price	Price / Sq Ft
A1	1 BR / 1 BA	640	\$ 712	\$ 1.11
A2	1 BR / 1 BA	675	\$ 752	\$ 1.11
A3	1 BR / 1 BA	676	\$ 772	\$ 1.14
A4	1 BR / 1 BA	796	\$ 883	\$ 1.11
B1	2 BR / 2 BA	1129	\$ 1,242	\$ 1.10
B2	2 BR / 2 BA	1188	\$ 1,272	\$ 1.07
C3	3 BR / 2.5 BA	1450	\$ 1,500	\$ 1.03

4. *The Quest.*



The Quest Apartments are located at 11400 Edgemere, El Paso, TX 79936, 15 miles from the subject property. The Complex is a class A garden style community built in 2014 and it offers the following amenities:

- Stainless Steel, Energy efficient appliances
- Washer and Dryer in each unit
- Granite countertops
- 9' and 13' ceilings with crown molding
- Private patios and balconies
- Pet Friendly community
- Gaming Pavilion
- Internet Cafe
- 24 hour fitness center
- Resort style pool and Jacuzzi
- Playground
- Wood Inspired Flooring

The Quest on Edgemere				
		Sq Ft	Price	Price / Sq FT
A1	1BR / 1 BA	719	\$ 835	\$ 1.16
A2	1BR / 1 BA	752	\$ 855	\$ 1.14
A3	1BR / 1 BA	781	\$ 885	\$ 1.13
B1	2BR / 2.5 BA	1016	\$ 1,055	\$ 1.04
B2	2BR / 2 BA	1142	\$ 1,142	\$ 1.00

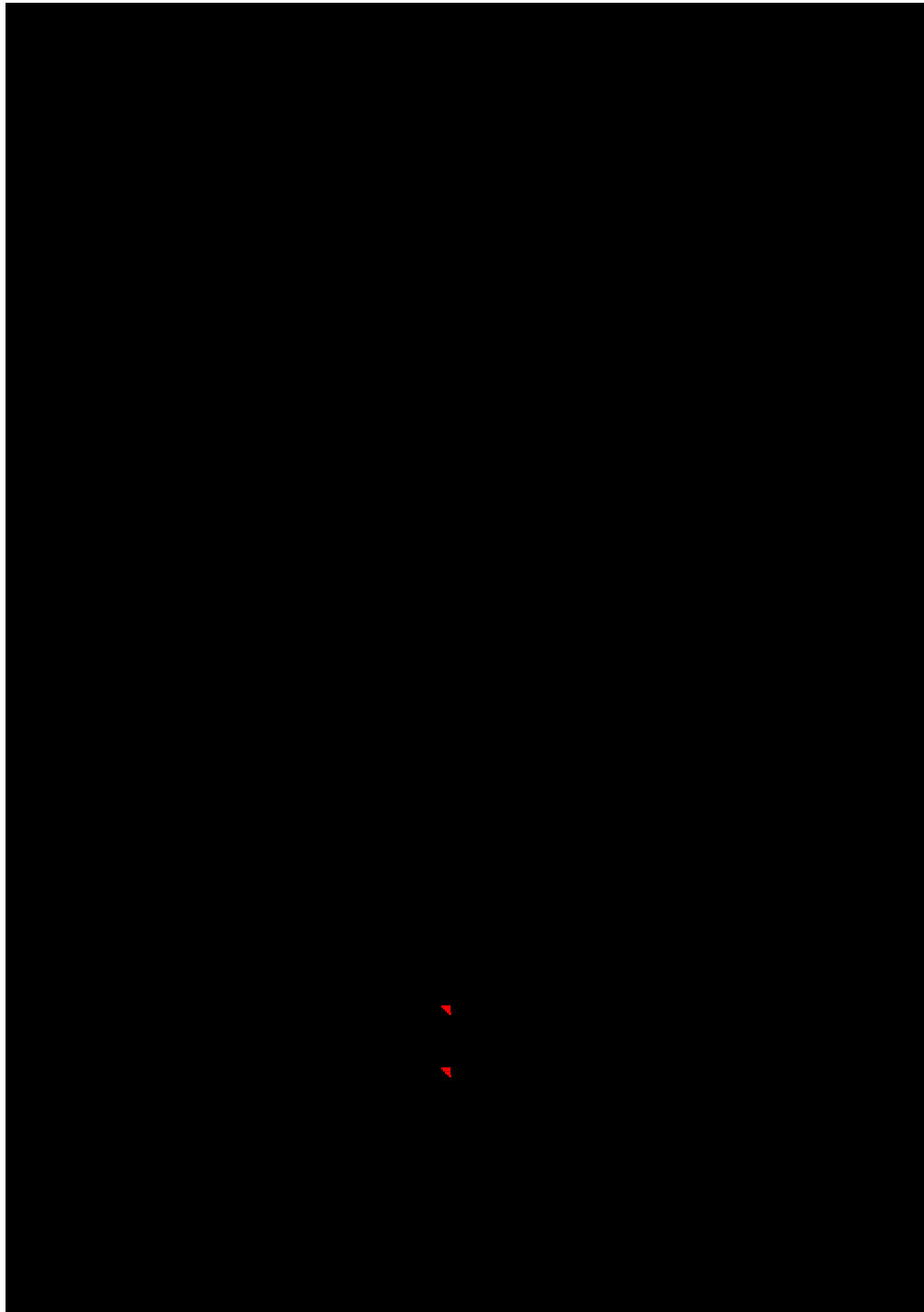
**High End Apartment Sample Average**

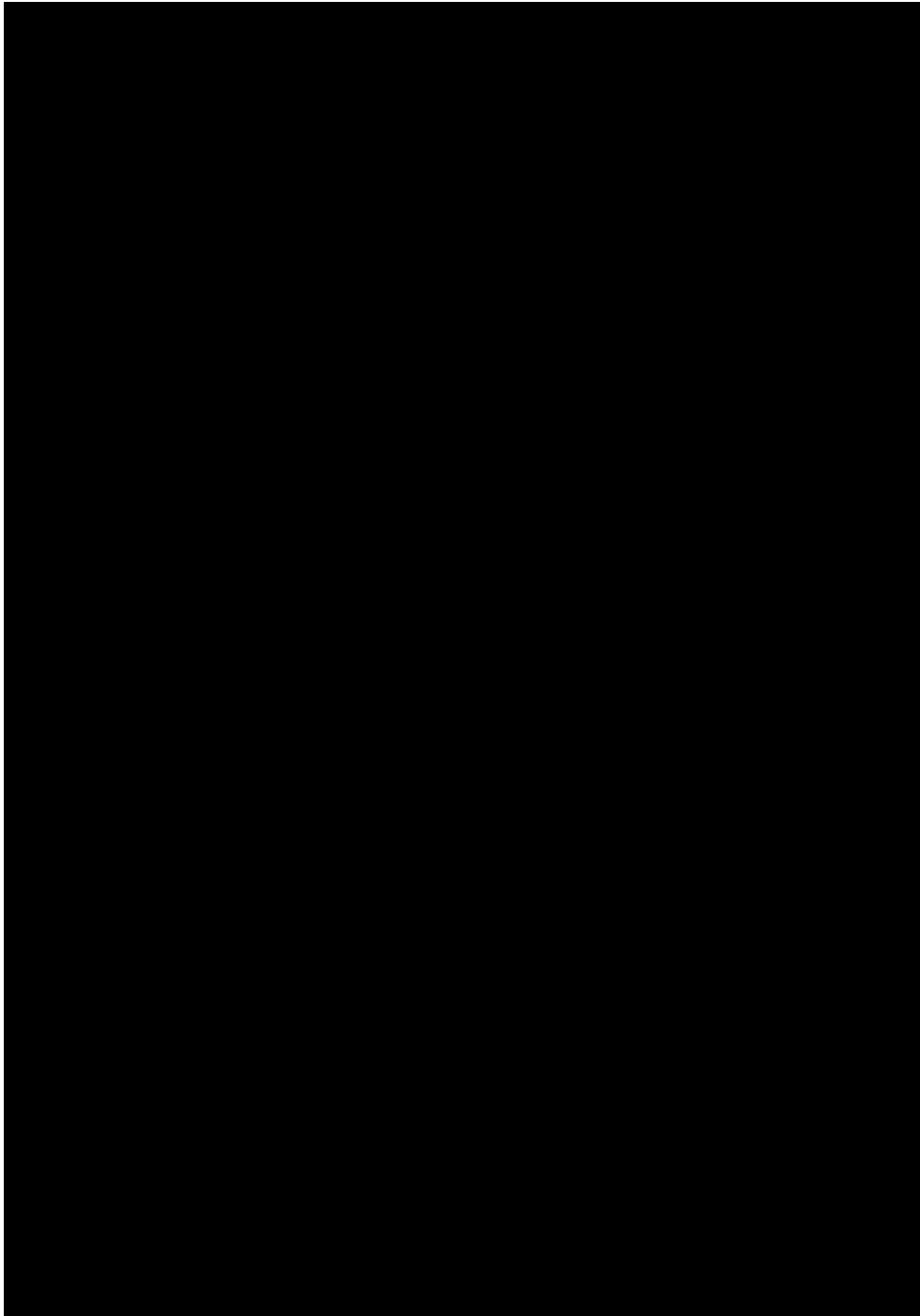
Average High End Market				
		Sq Ft	Price	Price / Sq FT
A	1 BR / 1 BA	709	\$ 881.45	\$ 1.27
B	2 BR / 2 BA	1,085	\$ 1,267.56	\$ 1.17
C1	3 BR / 2 BR	1450	\$ 1,448.00	\$ 1.00

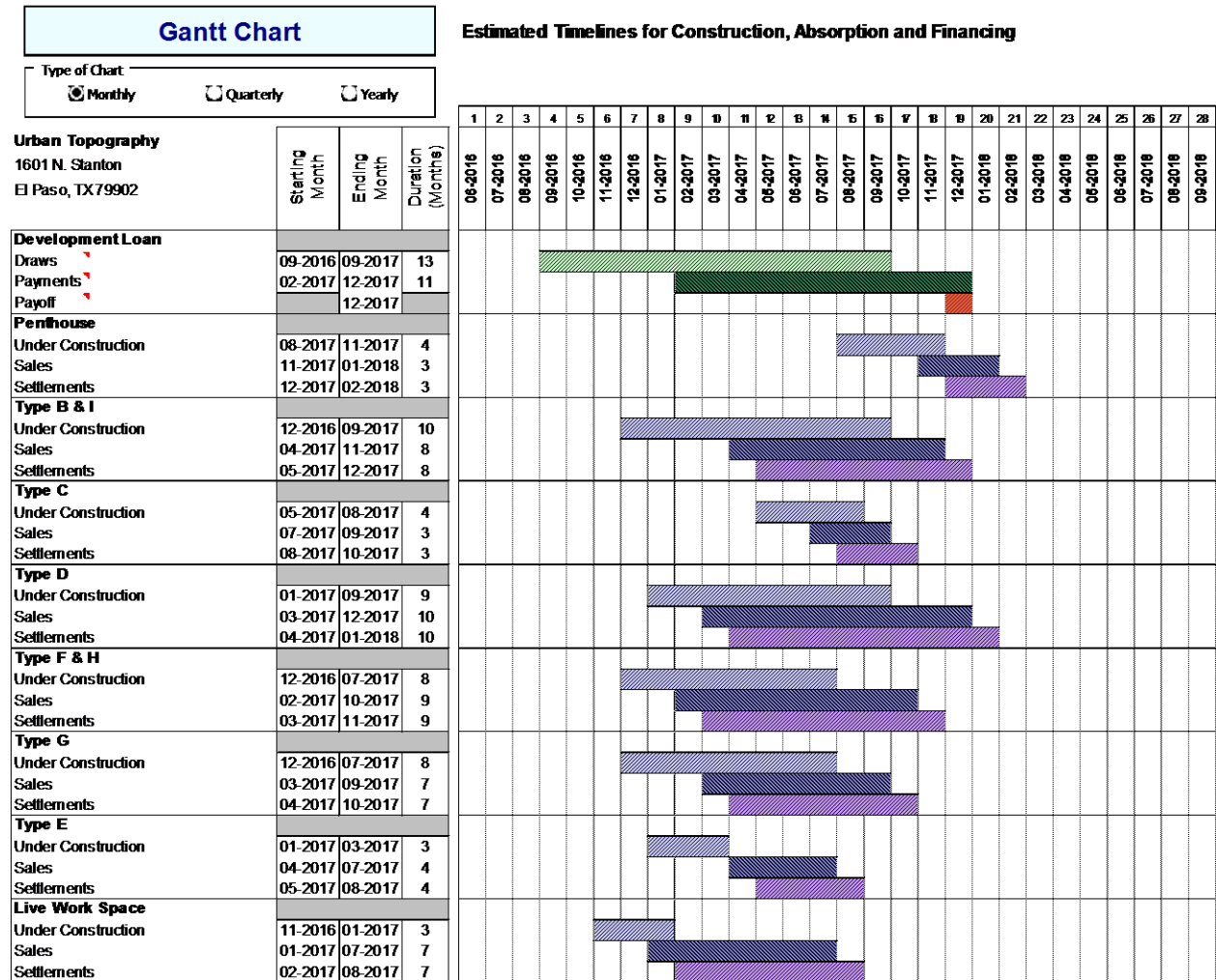
## 13. Pro Formas

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The following pro forma is based on a total project cost of \$30,000,000 as provided by the Client. It is customary for a 10% margin to be applied over total costs; the following pro-forma was based on that criteria. Other assumptions are outlined below.





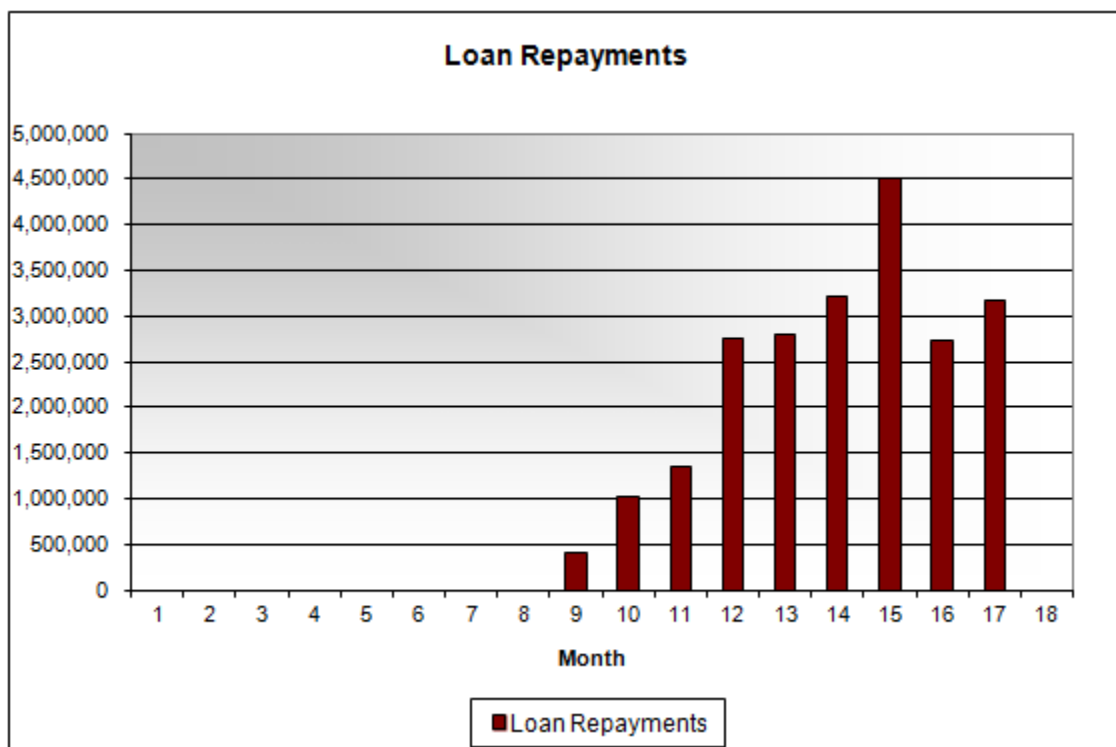
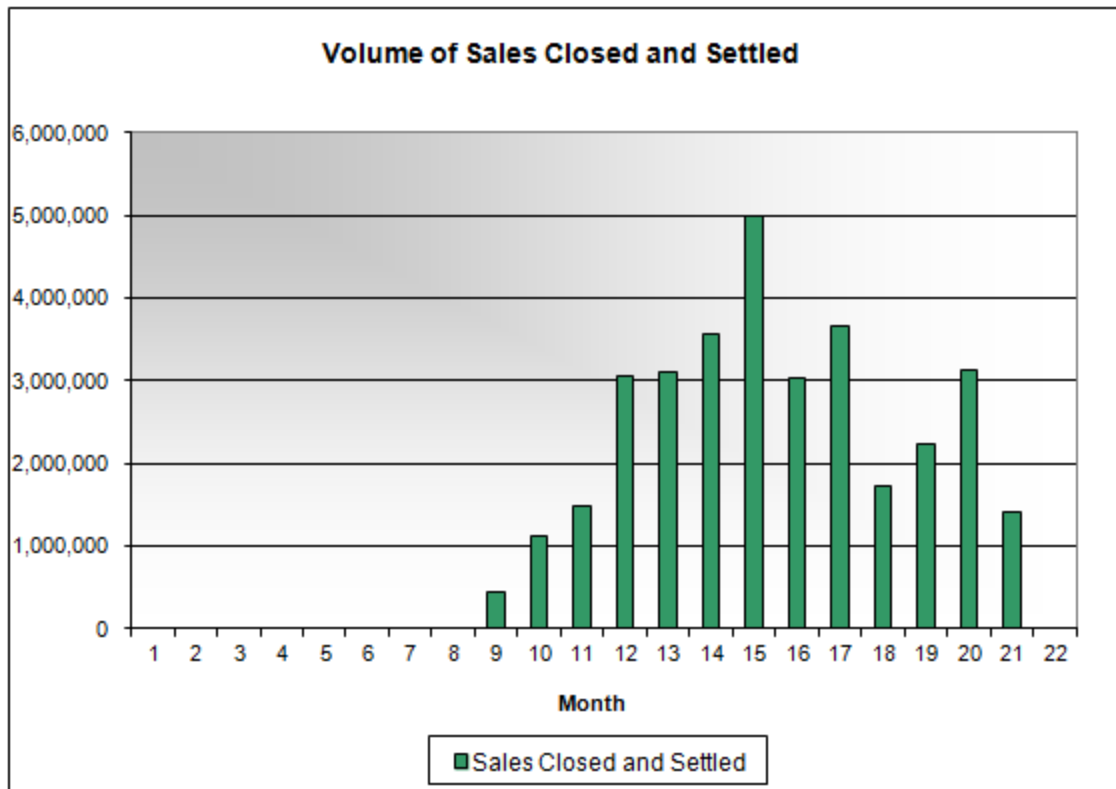


The Pro Forma is based on a total construction time of 16 months. It is estimated 1 month per floor with the construction and 2 months construction time for all units, with exception of Penthouses with estimated 3 months of construction.

Sales are projected starting at 25% of the available units for the first 6 months, and increasing 5% per month until reaching stabilization at 60% sales of available units.

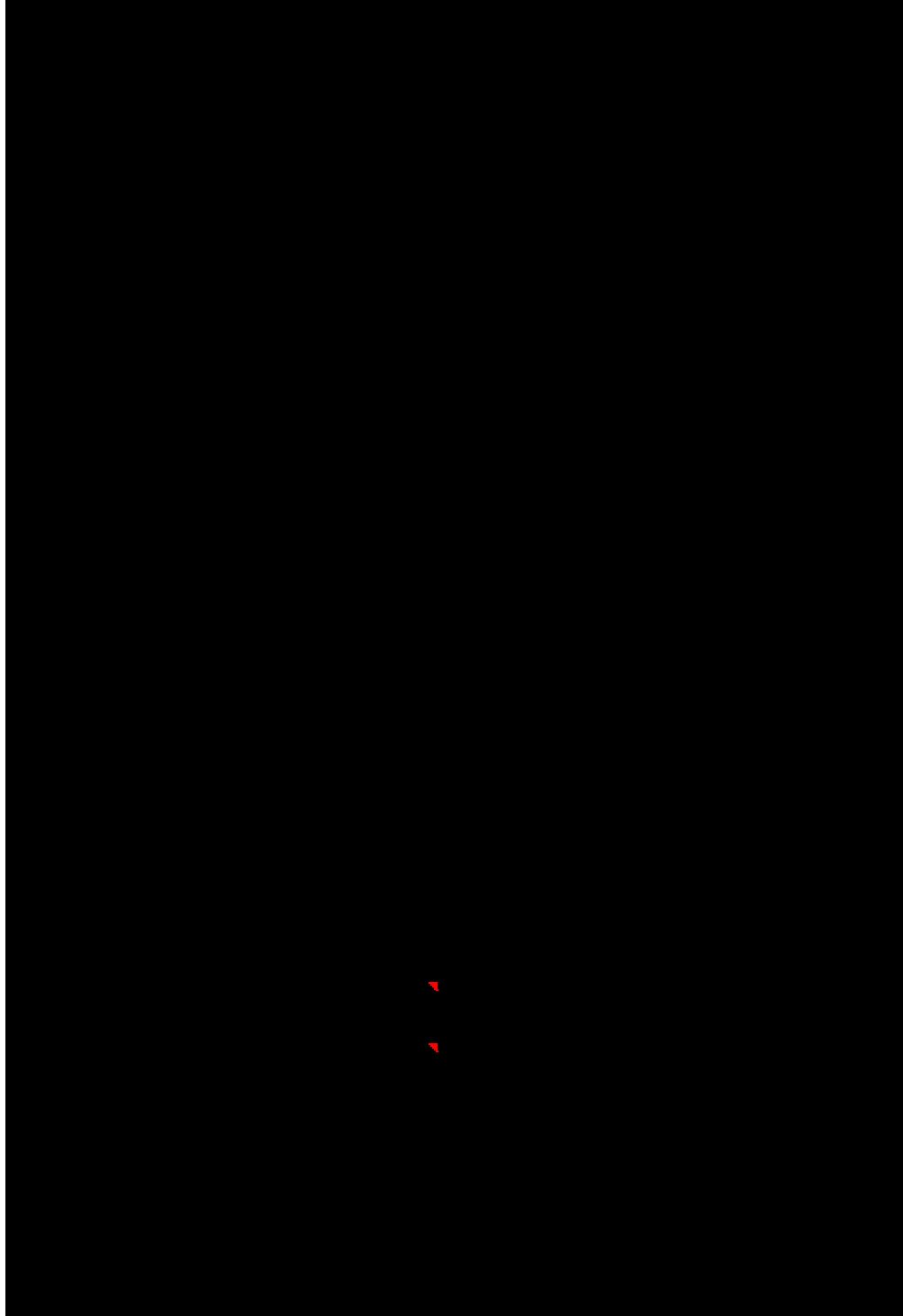
It is assumed that 90% of proceeds from sales are applied towards loan outstanding until debt is paid off.

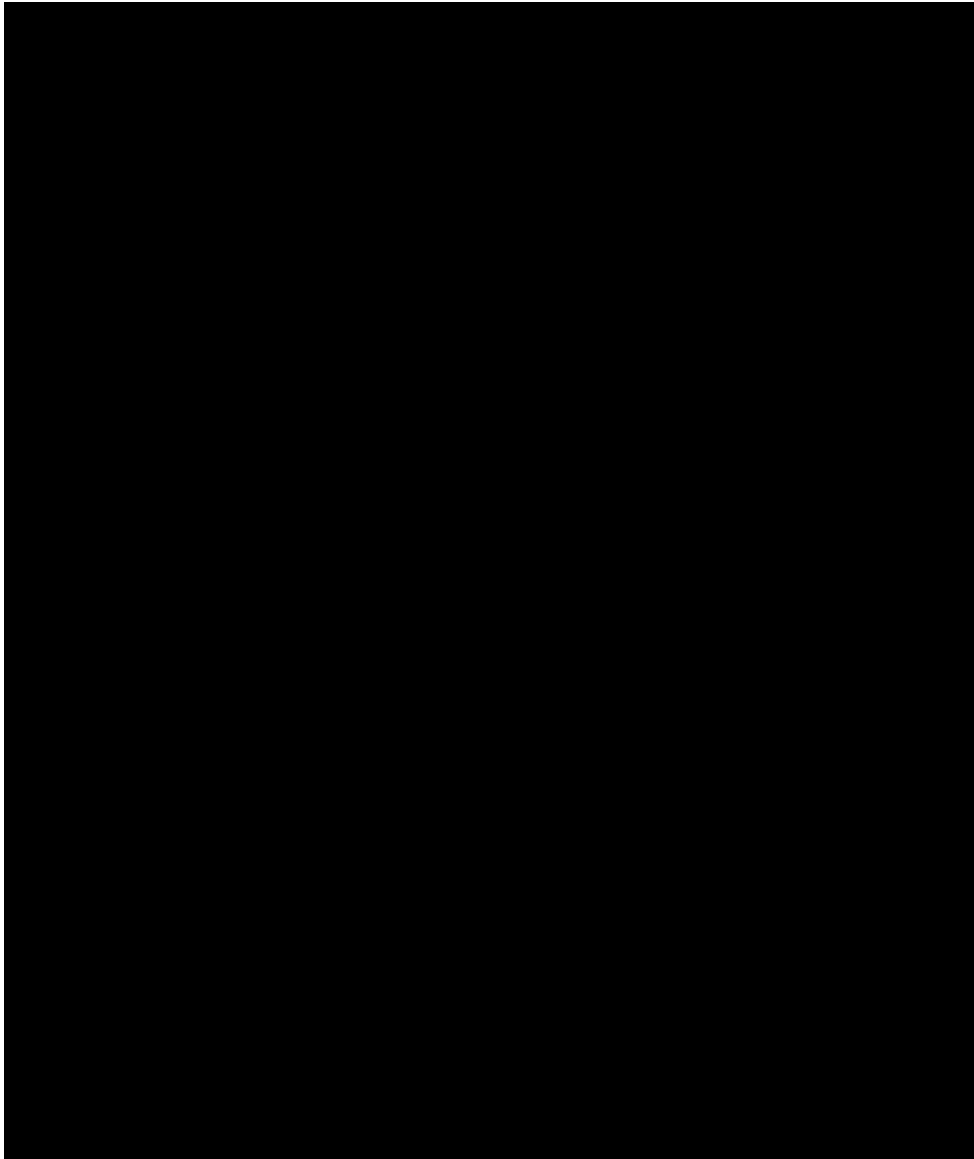
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16
Percentage	1	1	2	2	4	4	8	8	10	10	12	10	8	8	8	4





The following pro forma is based on a conservative market assumptions and the required construction price per square foot to reach an IRR of 9% for investors. Projected soft costs and other expenses where provided by the customer and used for demonstrative purposes. Actual expenses will differ.





Urban Topography  
1601 N. Stanton  
El Paso, TX 79902

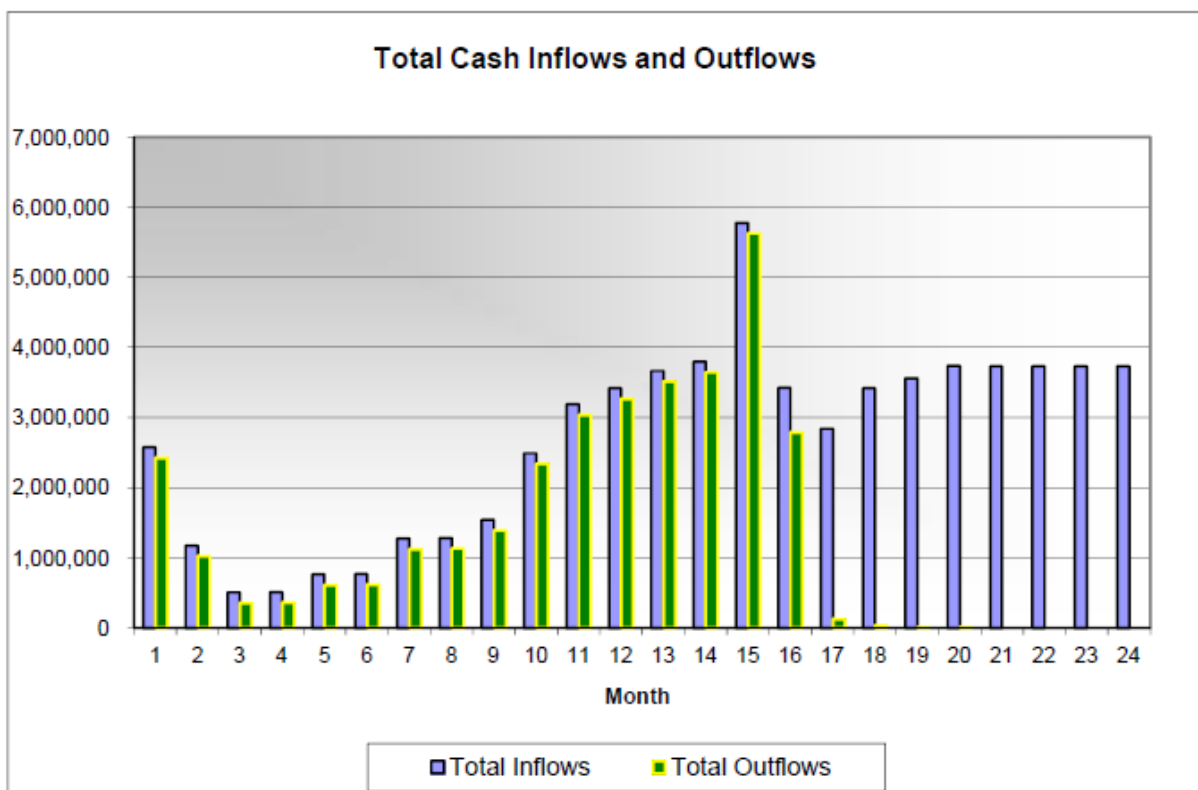
	Starting Month	Ending Month	Duration (Months)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
<b>Development Loan</b>																								
Draws	01-2017	03-2018	15																					
Payments	10-2017	04-2018	7																					
Payoff		04-2018																						
<b>1 Bedroom</b>																								
Under Construction	09-2017	02-2018	6																					
Sales	12-2017	05-2018	6																					
Settlements	01-2018	06-2018	6																					
<b>2 Bedroom</b>																								
Under Construction	08-2017	03-2018	8																					
Sales	11-2017	07-2018	9																					
Settlements	12-2017	08-2018	9																					
<b>3 Bedroom</b>																								
Under Construction	07-2017	12-2017	6																					
Sales	09-2017	04-2018	8																					
Settlements	10-2017	05-2018	8																					
<b>Live Work Space</b>																								
Under Construction	12-2017	01-2018	2																					
Sales	02-2018	04-2018	3																					
Settlements	03-2018	05-2018	3																					
<b>Loft</b>																								
Under Construction	12-2017	01-2018	2																					
Sales	02-2018	03-2018	2																					
Settlements	03-2018	04-2018	2																					
<b>Penthouse</b>																								
Under Construction	07-2017	08-2017	2																					
Sales	09-2017	02-2018	6																					
Settlements	10-2017	03-2018	6																					

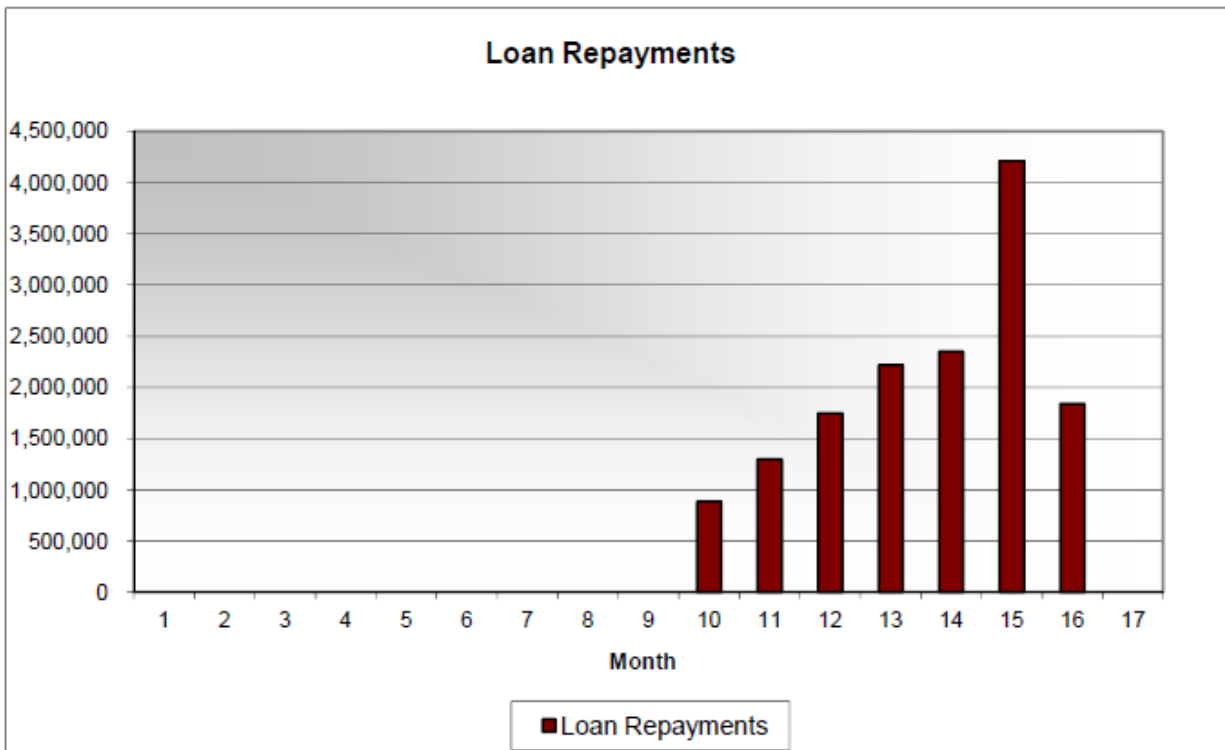
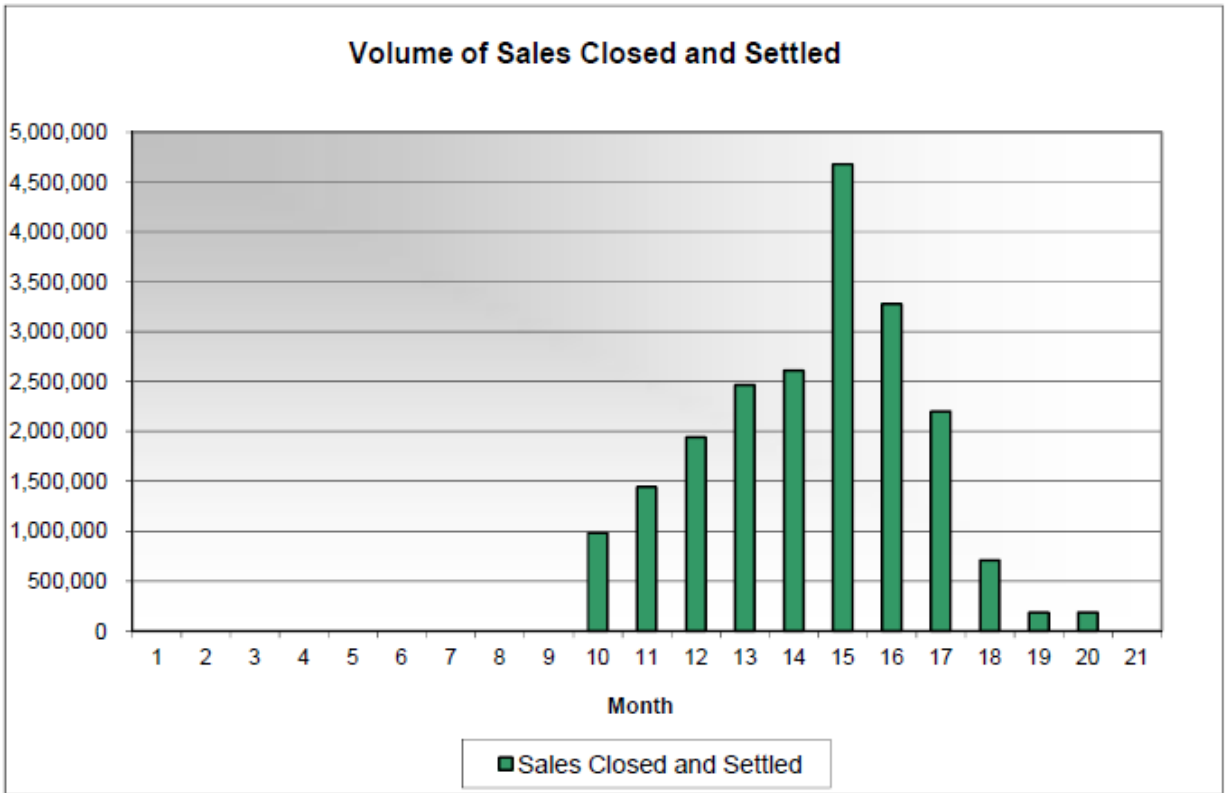
The Pro Forma above is based on a total construction time of 16 months. Construction of units is spread out through the construction period as shown above.

Sales are projected starting at 25% of the available units for the first 6 months, and increasing 5% per month until reaching stabilization at 60% sales of available units.

It is assumed that 90% of proceeds from sales are applied towards loan outstanding until debt is paid off.

Model assumes that all units are sold by month 20.





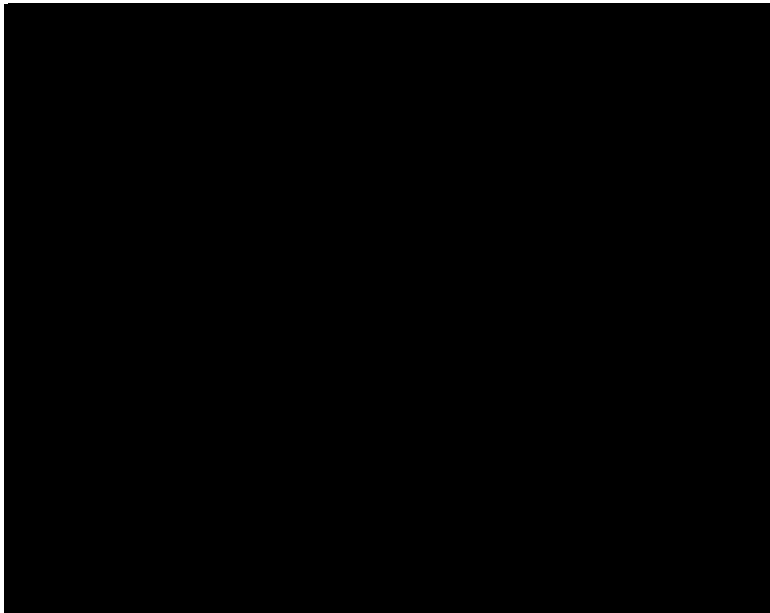
## 14. Target Market Based on Projected Sales Price

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The following analysis is geared towards arriving a target market demographic based on the average cost per unit of \$366,666.67 (\$33M divided by 90 units) and an average housing expense to income ratio of 28%. Assuming the following:

Terms	
Interest Rate	4.00%
Term	30 years
Down Payment	10%
NO PMI Payment	

For HOA Association the following assumptions were used:



Property taxes are estimated at 2.2% the value of the property.

Based on these criteria above we can estimate the required household income as follows:


Total Monthly Housing Expense	\$ 2,520.71
Housing to Income Ratio	28%
Required Household Income Per Month	\$ 9,002.53
<b>Required Household Income Per Year</b>	<b>\$108,030.35</b>

In El Paso County there was a population estimated at 847,000 as of 2015. Out of which 12.5 percent of the households had yearly income above \$100K. It is estimated that this segment of the population will have the highest growth in comparison with its counterparts and will make up 17.5 percent of the population by 2020.

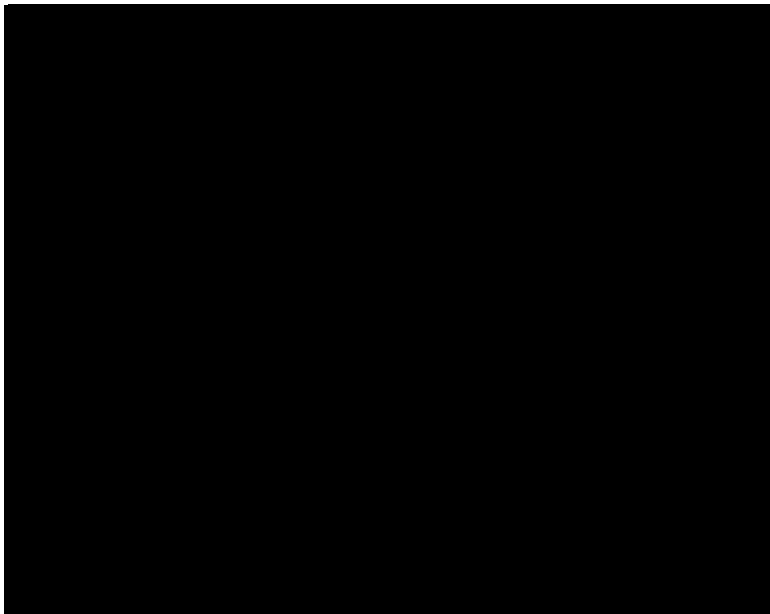
Households by Income										
	2000		2010		2015B		2020		Percent Change	
	Census	%	Census	%	Estimates	%	Projections	%	2000 to 2010	2015 to 2020
\$0 - \$15,000	48,158	22.9%	49,420	19.3%	48,092	17.6%	39,514	13.6%	2.6%	-17.8%
\$15,000 - \$24,999	36,779	17.5%	38,299	14.9%	37,593	13.8%	33,884	11.7%	4.1%	-9.9%
\$25,000 - \$34,999	31,432	15.0%	33,654	13.1%	32,728	12.0%	29,792	10.3%	7.1%	-9.0%
\$35,000 - \$49,999	34,574	16.5%	42,959	16.7%	45,696	16.8%	41,881	14.4%	24.3%	-8.3%
\$50,000 - \$74,999	32,135	15.3%	42,382	16.5%	48,509	17.8%	60,784	20.9%	31.9%	25.3%
\$75,000 - \$99,999	13,634	6.5%	22,247	8.7%	25,848	9.5%	33,649	11.6%	63.2%	30.2%
\$100,000 - \$149,999	8,628	4.1%	18,497	7.2%	22,167	8.1%	33,113	11.4%	114.4%	49.4%
\$150,000 +	4,648	2.2%	9,099	3.5%	11,958	4.4%	17,621	6.1%	95.8%	47.4%
Average Hhld Income	\$42,516		\$52,518		\$56,448		\$67,380		23.5%	19.4%
Median Hhld Income	\$31,130		\$37,256		\$41,088		\$50,017		19.7%	21.7%
Per Capita Income	\$13,139		\$17,067		\$18,380		\$21,952		29.9%	19.4%



The following analysis is geared towards arriving a target market demographic based on the average cost per unit of \$156,232. Assuming the following:

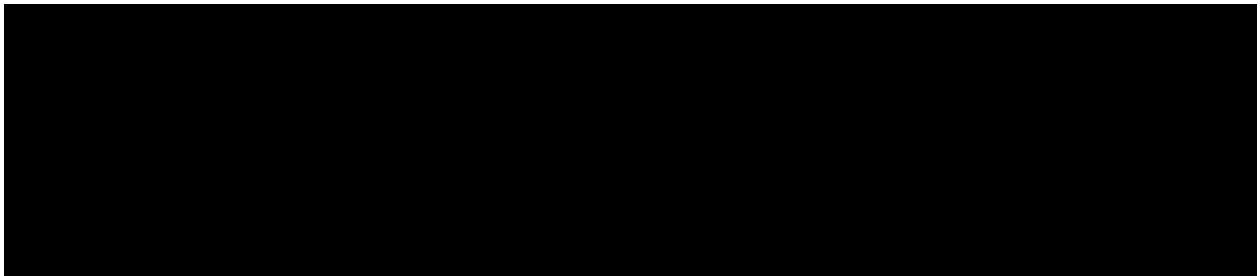
Terms	
Interest Rate	4.75%
Term	30 years
Down Payment	5%
PMI Payment	
Included in Rate	

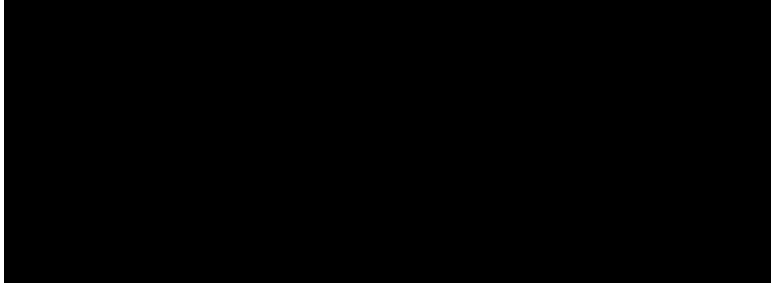
For HOA Association the following assumptions were used:



Property taxes are estimated at 2.2% the value of the property.

Based on these criteria above we can estimate the required household income as follows:





## 15. Estimated Value for Adjacent Property

Income Capitalization Analysis					
Unit/Space Type	Income	Method	Units/SF	Annual	% of PGI
1 BR	\$600.00	\$/SF/Month	9	\$64,800	79.4%
2 BR	\$700.00	\$/SF/Month	2	\$16,800	20.6%
Potential Gross Income:				\$81,600	100.0%
Vacancy & Collection Loss				10.00%	\$8,160
Other Income:				\$0	
Effective Gross Income (EGI):				\$73,440	90.0%
Expense	Amount	Method	Annual	\$ /Unit	
Taxes	10%	% of EGI	\$7,344	\$668	
Insurance	3%	% of EGI	\$2,203	\$200	
Utilities	5%	% of EGI	\$3,672	\$334	
Repairs/Maintenance	4%	% of EGI	\$2,938	\$267	
Misc./Other	4%	% of EGI	\$2,938	\$267	
Management	4%	% of EGI	\$2,938	\$267	
Reserves	2%	% of EGI	\$1,469	\$134	
Total Expenses:			\$23,501	\$2,136	
Expense Ratio (Expenses/EGI):			32.00%		
Expense Reimbursements:			\$0		
Net Expense Ratio			32.00%		
Net Operating Income (NOI):			\$49,939	\$4,540	
Capitalization Rate:			9.50%		
Value (NOI/Cap Rate):			\$525,676	\$47,789	
Rounded:			\$525,000	\$47,727	

**This is not an official appraisal. No member of Talavera Consulting is a certified appraiser.** The estimate of value for the adjacent property was done based on rent information collected from tenants, and estimated expenses based on similar properties.

## 16. Photographs of Subject Property

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Subject Property February 2016

# 17. Disclaimer

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**The preceding report is subject to the following assumptions and limiting conditions:**

- Talavera Consulting was hired by the Client to aid in the preparation of a market study for the proposed project. Talavera Consulting scope of work was to provide industry information demographic information, economic data, and other pertinent data and as well as to perform calculations related to the proposed project. The projected cost was provided by the Client, and the projected sales price is based on a hypothetical number in order to show investment performance based on the assumptions used. Talavera Consulting, nor its staff, make representations guaranteeing neither the costs of the project nor the sales price of the units.
- The analyses set forth in this report are subject to the following assumptions and limiting conditions, all of which, for purposes of this report, have been accepted as true and correct without verification or investigation by Talavera Consulting, which assumes no responsibility whatsoever therefore. None of the following particulars should be read to limit the generality of the foregoing qualification.
- We assume no responsibility for any conditions, not readily observable from our customary research, which might affect the analyses. We reserve the right to change the analyses if so warranted, when supplied with further information, if that information dictates.
- No conclusions are intended to be expressed regarding matters that require legal expertise or specialized investigations or knowledge beyond that customarily employed by financial professionals.
- Neither Talavera Consulting nor any of its present or former personnel, including, without limitation, the signatories hereto, shall be required to give further consultation or testimony, or appear in court or at any public hearing with reference to the property valued, unless satisfactory prior arrangements have been made.
- Neither all nor any part of this report shall be disseminated to the general public by the user through advertising media, public relations media, news media, sales media or other media for public communication without the prior written consent, which will not be unreasonably withheld, of Talavera Consulting, particularly as to conclusions.
- No liability is assumed for matters which are legal in nature.

- Development and ownership are assumed to be in competent and responsible hands.
- The report was prepared for the purpose stated and should not be used for any other purpose.
- All direct and indirect written information supplied by the client, its agents and assigns, concerning the properties is assumed to be true, accurate and complete; additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.
- This report is intended to be read and used as a whole and not in parts.
- Our analyses are based on currently available information, estimates and assumptions about based on information we believe to be reliable. We do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the estimated results.
- It is assumed that all necessary licenses and agreements remain in full force and effect in order to continue the operations of the properties.
- With respect to our analyses, our work did not include an analysis of the potential impact of any unexpected sharp rise or decline in local or general markets or economic conditions or technological changes.
- Our report is dated August 14, 2016 (the “Report Date”). We cannot be held responsible for changes in the market conditions or properties which would have a material impact on the value(s) reported herein subsequent to our Report Date.
- Talavera Consulting liability regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warranties, failure of essential purpose or otherwise, under this Agreement or with respect to the services shall be limited to the amount actually paid to Talavera Consulting for this scope of work
- Support for conclusions contained in this report is retained within a corresponding work paper file retained in our offices.