



City of Bastrop

Multi-Family Feasibility Report

Prepared for

Mr. Steve Mills
Chairman
Bastrop Economic Development Corporation
903 Main Street
Bastrop, TX 78302

By

Capitol Market Research, Inc.
1102 West Avenue, Suite 100
Austin, Texas 78701

On

July 20, 2015



**CAPITOL
MARKET
RESEARCH**

Real Estate Research, Land Development Economics & Market Analysis

July 20, 2015

Mr. Steve Mills
Chairman
Bastrop Economic Development Corporation
903 Main Street
Bastrop, TX 78302

Re: Market Demand Analysis for multi-family rental housing in Bastrop, Texas.

Dear Mr. Mills:

We have concluded the market feasibility analysis for a proposed market rate multi-family project to be located in Bastrop, Texas. The results of our analysis are provided in the report which follows. After you have reviewed the report, we invite you to call with any questions or comments that you may have.

Respectfully submitted,

CAPITOL MARKET RESEARCH

Charles H. Heimsath
President

CHH/ebr

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Preface

Date of Study

The effective date of this study is July 20, 2015.

Purpose of Study

The purpose of this report is to analyze the City of Bastrop, evaluate its position with respect to current and anticipated market trends and conclude with an analysis of market feasibility for future multi-family apartment development in the City of Bastrop. This analysis is intended to explore the feasibility of new apartment construction on several possible sites in the City of Bastrop.

Function of the Report

This report is to be utilized by Mr. Steve Mills, the Bastrop Economic Development Corporation and other interested parties to provide information on the market feasibility of building new multi-family apartment units in Bastrop, Texas.

Property Identification

There are multiple identified sites for the planned multi-family units that will be located in the City of Bastrop, Texas.

Assumptions

1. The consultant assumes that all information and data provided by the client, the City of Bastrop and Bastrop County are correct with respect to the availability of utilities, zoning and conformance with city building codes.
2. All statements of fact in the report that are used as the basis of consultant's analyses, opinions and conclusions are true and correct to the best of consultant's knowledge and belief. Consultant shall not have responsibility for legal matters, questions of survey, opinion of title, soil or subsoil conditions, engineering or other technical matters. Any sketches prepared by the consultant and contained in the report will be included solely to aid the user of the report in visualizing the property and its location.
3. Each finding, projection, assumption or conclusion contained in the market study will be the consultant's personal opinion and will not be an assurance that such an event will or will not occur. Consultant may assume that there are no "hidden" conditions relating to the real estate that would affect consultant's analyses, opinions or conclusions.
4. The data gathered in the market study and value estimates provided in the analysis do not constitute an appraisal as defined by the Appraisal Institute. With respect to the data provided by client, consultant shall not violate the confidential information furnished to consultant.

Methodology

A feasibility study is a general term, implying analysis aimed at discovering whether or not a specific project can be carried out successfully, with success usually indicating a sufficient return on capital

required to attract investors to carry out the development. This requires two basic and interdependent analyses: a market study to determine supply, demand and potential absorption rates, and a financial analysis to determine whether or not the proposed project can be economically justified over a given period of time. This market study primarily addresses the market demand, obtainable rents and absorption issues and will be used in combination with more detailed financial feasibility studies conducted by the client to determine overall project feasibility.

GENERAL AREA ANALYSIS

Employment Growth for Austin MSA

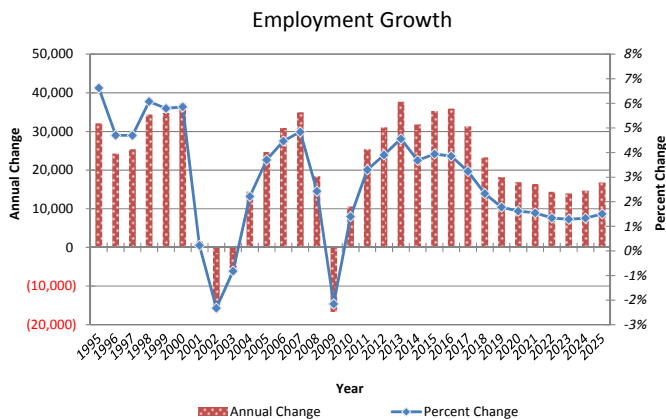
Historically, employment growth in Austin has shown considerable volatility, primarily as a result of national and international trends which have had a pronounced effect on the local economy. In 1996 the pace of employment growth seen in the early nineties slowed as a result of the worldwide glut of computer chips and concerns about the collapse of the Asian stock markets. The market regained momentum between 1998 and 2000, but the explosive growth experienced in 2000 evaporated with the national dot.com bust in 2001, and the Austin MSA actually experienced negative job growth in 2002 and 2003. As the economy began its recovery in 2003 job loss was minimal, and 14,500 jobs were added in 2004. The pace of growth picked up over the next three years, peaking at 35,000 jobs added in 2007, a 4.84% annual increase. For a period of time in late 2007 and early 2008 it appeared that Austin might not be affected by the national housing crisis, but eventually the lack of credit for new lot construction, retail chain expansions and business inventory additions resulted in a decrease in new job creation in the local economy, which diminished to (-16,700) in 2009. However, the economy began a modest recovery in 2010 with 10,600 jobs added and gained momentum in 2011, with 25,400 jobs added. This job growth was sustained through 2012 with the addition of 31,100 jobs, as well as in 2013 and 2014 in which job growth averaged 4.12%. The most recent (April 2015) employment forecast shows the economy continuing its positive trajectory in 2015 and 2016 with an average increase of 35,600 jobs a year, with job growth continuing at a slightly slower rate into 2017 and 2018. Table (1) on the following page provides recent employment statistics and projections for the Austin MSA. Forecasted annual increases in the Austin MSA employment for 2015 through 2025 are expected to average 2.16%. The forecast shown is from Moody's, Economy.com, Austin MSA Employment Forecast, April 20, 2015.

Table (1)
Historical & Projected Employment Growth
 Austin MSA

Year	Total Wage & Salary Emp.	Annual Change	Percent Change
1990	389,000	...	...
1991	402,800	13,800	3.55%
1992	424,200	21,400	5.31%
1993	453,600	29,400	6.93%
1994	484,400	30,800	6.79%
1995	516,500	32,100	6.63%
1996	540,800	24,300	4.70%
1997	566,200	25,400	4.70%
1998	600,600	34,400	6.08%
1999	635,400	34,800	5.79%
2000	672,600	37,200	5.85%
2001	674,100	1,500	0.22%
2002	658,400	(15,700)	-2.33%
2003	653,000	(5,400)	-0.82%
2004	667,500	14,500	2.22%
2005	692,200	24,700	3.70%
2006	723,100	30,900	4.46%
2007	758,100	35,000	4.84%
2008	776,500	18,400	2.43%
2009	759,800	(16,700)	-2.15%
2010	770,400	10,600	1.40%
2011	795,800	25,400	3.30%
2012	826,900	31,100	3.91%
2013	864,600	37,700	4.56%
2014	896,400	31,800	3.68%
2015	931,700	35,300	3.94%
2016	967,600	35,900	3.85%
2017	998,900	31,300	3.23%
2018	1,022,200	23,300	2.33%
2019	1,040,400	18,200	1.78%
2020	1,057,300	16,900	1.62%
2021	1,073,700	16,400	1.55%
2022	1,088,100	14,400	1.34%
2023	1,102,100	14,000	1.29%
2024	1,116,800	14,700	1.33%
2025	1,133,600	16,800	1.50%

Source: Texas Workforce Commission, Annual Average Wage & Non-Farm Salary Employment (1990-2013)
 Forecasted employment increase based upon forecast obtained from Economy.com April 20, 2015

emp_gro_2015.xls



MSA Apartment Demand

Rapid population growth in Austin and other U.S. cities is almost always attributable to the immigration of people from other areas, often because of job opportunities. The demonstrable growth in employment and an unemployment rate of 3.0% for the Austin MSA (April 2015) means that as new jobs are created, people will move into the region to take those jobs.

The table below provides an estimate of new rental units needed as a result of the job increases anticipated over the next ten years. Based on recent building permit data, we have estimated multi-family unit demand to be 92.11% of the total rental unit demand and will average 6,816 units per year

Table (2)
Housing Demand
Austin MSA

Year	MSA Employment Increase	Population Increase	Household Size	New Households	New Renter Households	Multi-Family Demand
2015	35,300	71,169	2.58	27,585	11,451	10,733
2016	35,900	72,379	2.58	28,054	11,645	10,915
2017	31,300	63,105	2.58	24,459	10,153	9,517
2018	23,300	46,976	2.58	18,208	7,558	7,084
2019	18,200	36,694	2.58	14,222	5,904	5,534
2020	16,900	34,073	2.58	13,206	5,482	5,138
2021	16,400	33,065	2.58	12,816	5,320	4,986
2022	14,400	29,032	2.58	11,253	4,671	4,378
2023	14,000	28,226	2.58	10,940	4,541	4,257
2024	14,700	29,637	2.58	11,487	4,768	4,469
2025	16,800	33,871	2.58	13,128	5,450	5,108

Source: Employment Forecast from Table (1)

emp_gro_2015.xls

Note: Population to employment ratio held constant (0.496)

Household size (2.58) and Percent Renter (41.51%) based on 2010 Census

Multi-family demand based on building permits issued in the MSA over the past 10 years (93.73%)

from 2015 through 2025.

Bastrop General Area Analysis

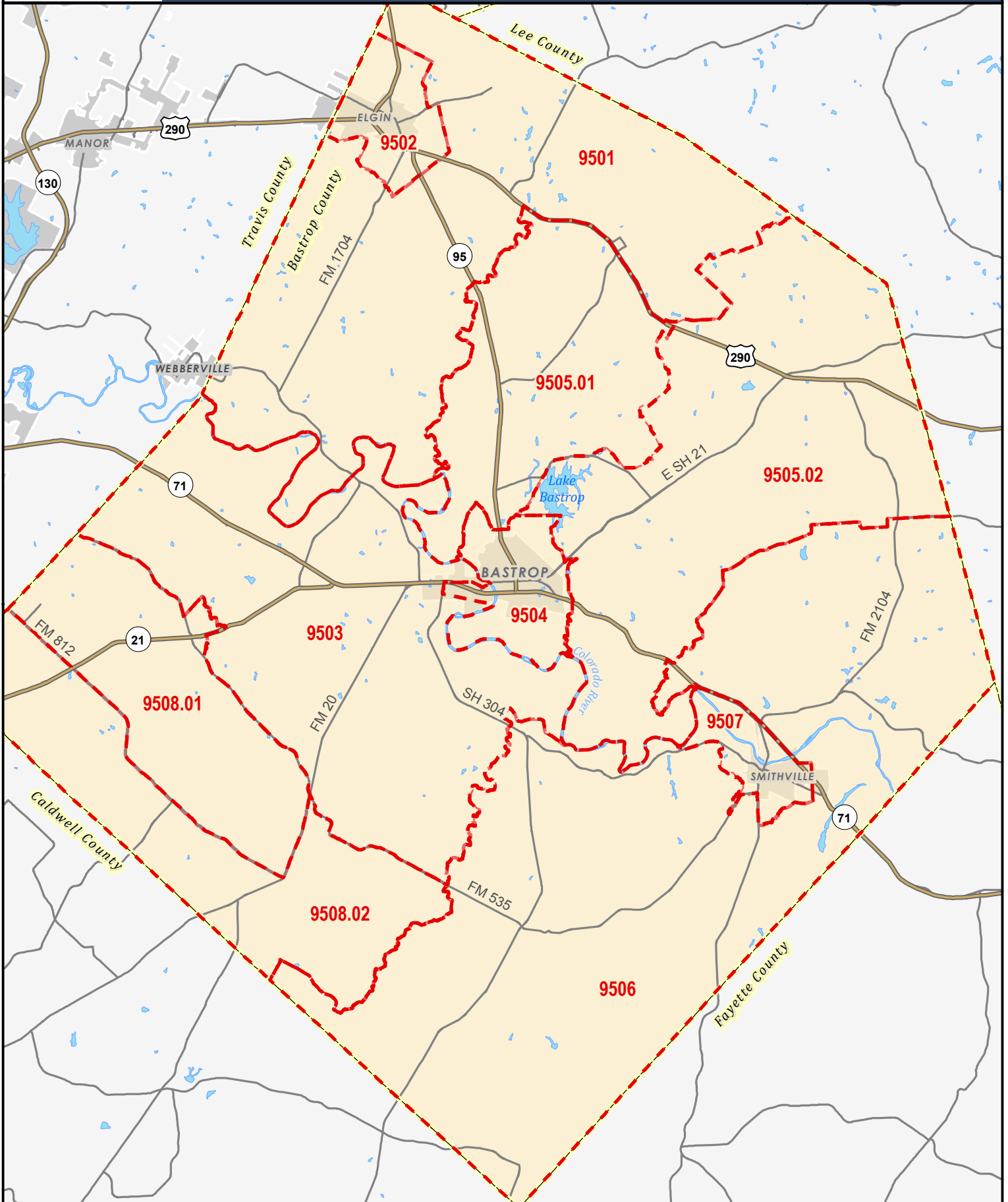
Bastrop, Texas is the county seat of Bastrop County, located just 30 miles southeast of downtown Austin where State Highways 71, 21, and 95 merge. Its surrounding landscape is characterized by rolling hills and prairie land, and the County is bisected by the Colorado River, which flows from northwest to southeast. Bastrop County is one of five counties included in the Austin Metropolitan Statistical Area (MSA), and the city of Bastrop is significantly influenced by the MSA's rapid growth.

In 1804, Spanish Governor Manuel Antonio Cordero y Bustamante established a fort along the Colorado River, where Bastrop is now located. The German Baron de Bastrop began planning a community at this site, although it was not until 1830—after significant Native American resistance was overcome and a land grant was received from the Mexican government—that the town of Bastrop was officially founded. Although Stephen F. Austin is credited with obtaining the land grant, the city was named for the Baron.

A fire in downtown Bastrop destroyed a majority of the city's structures in 1862, including the County Courthouse. Therefore, most of the city's buildings date after the Civil War. In 1979, the National Register of Historic Places included 131 Bastrop buildings and sites in its listing—earning Bastrop the designation of “Most Historic Small Town in Texas.” Today, its downtown is characterized by locally owned antique shops and boutiques, art galleries, and a wide array of dining opportunities.

In 1913, oil was discovered in the areas surrounding Bastrop, followed by years of testing and drilling throughout the County. Although a handful of oil reserves were developed, the land around Bastrop remained primarily agricultural, and later, the County experienced significant increases in cattle production. The city's population stagnated and then declined between 1920 and 1940, and while Bastrop saw a brief economic renaissance during the World War II years, the continuing shift from crop production to beef-cattle caused the population to reach a low in 1960. However, the strategic location of the City on State Highway 71 and State Highway 95 and the economic benefits of being the County seat of government caused both population and employment to gradually increase. As of the 2010 U.S. Census, the population in the City of Bastrop has more than doubled since the 1960s, growing to 7,218 people.

In 2011, Bastrop County suffered the most destructive wildfire epidemic in Texas history, with nearly 1,700 homes lost and more than 34,000 acres of land charred, including the area's signature Loblolly pine forests. However, extensive recovery and rebuilding efforts have allowed Bastrop's economy to grow quickly following the fire. A majority of citizens affected by the fire have chosen to rebuild within Bastrop, and the city has initiated efforts to protect its historic and residential areas from future fires.



Bastrop Employment Profile

The Austin Region has been very successful in competing for and capturing a number of high-tech and service oriented companies. Eastern Travis County has been especially attractive for high-tech, manufacturing and distribution companies because of the relatively low land cost and accessibility offered by the extensive highway network. Bastrop County has also shown strong employment growth in a diversity of companies that include “primary industry” employers in addition to a growing retail and medical services component. Based on data (2015) provided by the Bastrop Economic Development Corporation and employer surveys, the City of Bastrop and the surrounding market area currently contains approximately 6,638 jobs at 45 major employers. The Bastrop market area’s largest employer is Bastrop ISD, which employs approximately 1,383, followed by Hyatt Regency Lost Pines Resort with 749, Bastrop County with 446, the University of Texas Science Parks with 420 and Wal-Mart with 356.

Just west of Bastrop is the Hyatt Regency Lost Pines Resort and Spa. This hotel has 500 rooms and employs approximately 762 people, many of whom would likely move to the market area if more rental housing were available. Also of note is the recent opening of Buc-ee’s (with 195 employees) and several national “chain” stores including Academy, Best Buy, Lowe’s, Ross, Staples and TJ Maxx, further establishing the City of Bastrop as the regional retail center for the eastern part of the Austin MSA. As many new retailers continue to work towards full staffing levels, the new Burleson Crossing shopping center continues to expand, adding additional major retailers such as Hobby Lobby, Ulta, and Five Below, as well as two new restaurants. In addition, the HEB recently expanded to an HEB Plus, increasing square footage and employees.

In late 2014, JAMCO (Johnson Architectural Metal Co.), a Georgia based Construction Company, opened their Texas regional headquarters facility in the Bastrop Industrial Park, and a 30,100 square foot manufacturing facility. JAMCO currently employs 89 people in the market area. The Coghlan Group is currently expanding their presence in the Industrial Park, with a new 60,000 facility. Two new additions to the Bastrop Industrial Park, Good Soul Brewing Company and Elliott Electric Supply, are finalizing building plans and will be breaking ground in the near future, adding between ten to twenty five employees to the area. Another major employer that entered the market in 2014 is Elgin based Southside Market & Barbeque, which employs 86 people in their newly constructed restaurant and meat market.

According to the US Census’s 2011 LODES (Origin - Destination Employment Statistics) data, Bastrop County has a total of 11,874 primary jobs, mainly concentrated around the City of Bastrop and the City of Elgin. A table of Major Employers (Table (3)) as well as a map of job concentration are shown on the following pages.

Table (3)
Major Employers
 Bastrop County Market Area

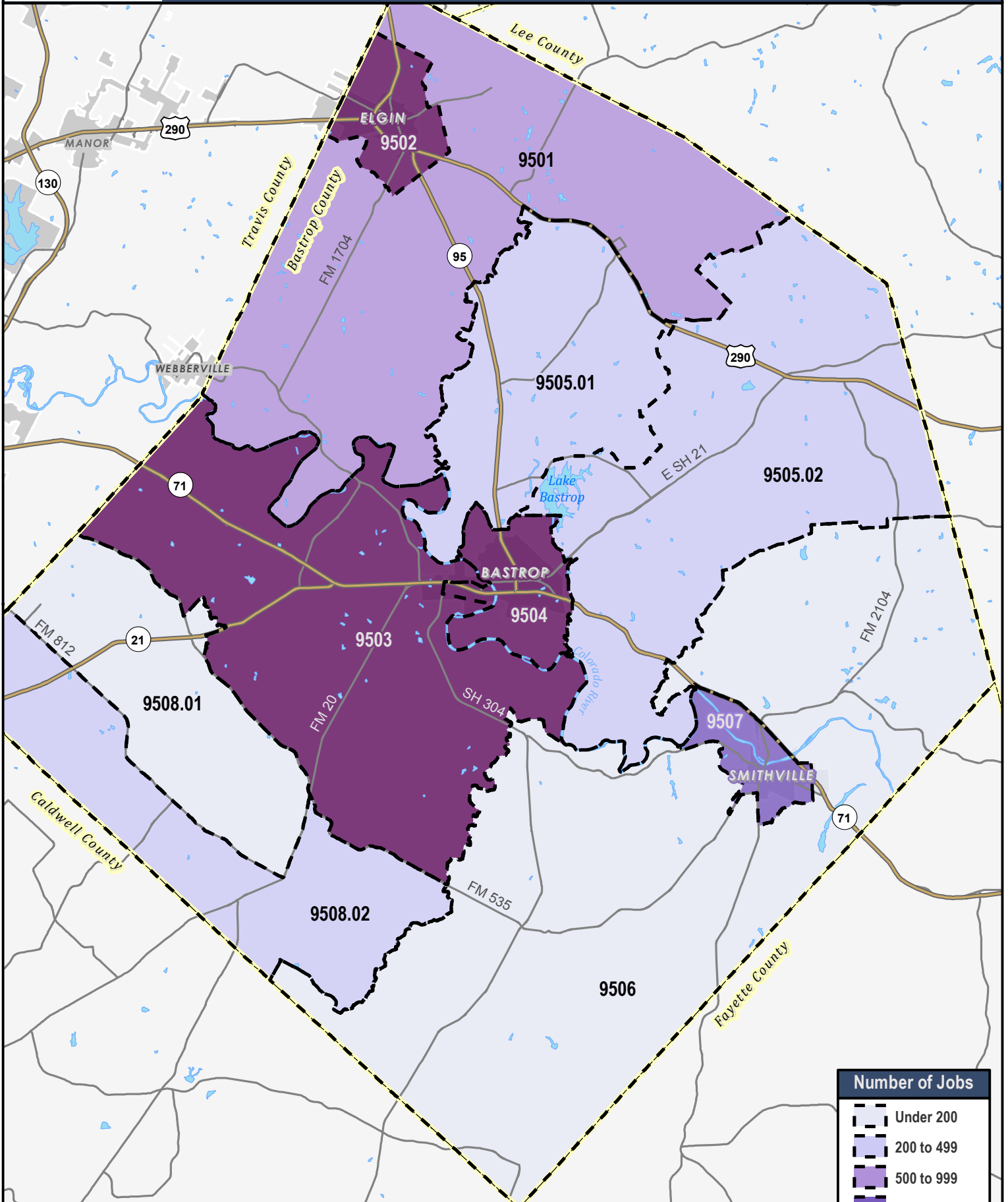
Company	2005	2011	2015	Product/Service
Swiftex*	20	8	5	Furniture Manufacturing
Staples*	...	12	12	Office Supplies
Kroll Advisory Solutions*	36	14	14	Building Security Engineering
Coghlan Group*	11	20	20	Medical Clinical Trial Materials
McCoy's Building Supply *	21	21	21	Home Improvement Store
Garments To Go*	33	22	22	Clothing & Apparel Mfg.
Deep in the Heart Art Foundry*	53	25	25	Foundry
ColoVista	60	...	30	Golf Course
Designed Security, Inc.*	28	33	33	Security Hardware/Circuit Boards
Argent Court *	35	35	31	Assisted Living Facility
Ross*	...	35	35	Clothing & Apparel
St. David's Emergency Center	...	38	38	Hospital, Urgent Care
Best Buy	...	42	42	Consumer Electronics
Benny Boyd*	...	43	43	Automobile Dealership
Lost Pines Toyota*	...	43	64	Automobile Dealership
TJ Maxx	...	...	40	Clothing & Apparel
Bluebonnet Trails Community Svcs	62	50	51	Social Services
Silver Pines Nursing & Rehab Center *	50	50	50	Assisted Living Facility
Chili's	70	70	55	Restaurant
Family Crisis Center	51	55	55	Charity
Aqua Water Corp.	50	63	64	Water Distribution
Dig & Line Tech	...	62	45	Utilities Installation
Bastrop Nursing Center *	70	70	70	Assisted Living Facility
Southside Market & Barbeque	...	...	87	Retail/Restaurant
Camp Swift National Guard*	80	80	80	Military
Johnson Architectural Metal Co.	...	...	85	Construction Manufacturing
Covert Chevrolet	126	97	97	Automobile Dealership
Lost Pines Nursing & Rehab Center*	...	100	100	Nursing Home
Home Depot	110	110	113	Building Supplies
City of Bastrop	85	106	112	Government
First National Bank	118	130	124	Financial Services
Lower Colorado River Authority	78	135	120	Wholesale Electricity/Water
Academy Sports & Outdoors	...	...	120	Retail
Lowe's*	...	138	138	Building Supply
Bluebonnet Electric Co-op	50	86	145	Utility Cooperative
Agilent/Stratagene	133	120	149	Biotechnology (DNA)
Buc-ee's*	...	195	195	Convenience
Griffin Industries	62	118	200	Rendering
HEB Food Store	...	268	270	Retail Grocery
Bastrop FCI	270	284	284	Federal Corrections Institute
Wal-Mart	415	434	356	Retail Store
University of Texas Science Parks	380	420	420	Cancer Research Center
Bastrop County	409	469	446	Government
Hyatt Regency Lost Pines Resort	...	600	749	Hotel/Resort
Bastrop ISD	1,130	1162	1,383	School District
	4,096	5,863	6,638	

Source: Capitol Market Research Employer Survey, June 2015






maj_emps.xls

Bastrop Economic Development Corp., Major Area Employers 2005, 2011, 2015

* 2005-2011 employment numbers unavailable. Conservatively estimated to have remained unchanged from 2005-2013.



Number of Jobs

-  Under 200
-  200 to 499
-  500 to 999
-  1,000 to 1,499
-  1,500 +



Population Trends and Projections

Table (4) presents historical population growth and five and ten year projections for the Austin MSA, Bastrop County and the City of Bastrop. The historical statistics come from the US Census; projections are based on the Texas State Data Center, (Scenario 2000-2010), June 2015. The historical data shows a substantial growth in the area between 2000 and 2010 with the Austin MSA growing 37.33%, Bastrop County growing 28.47% and the City of Bastrop growing 35.17%. Between 2000 and 2010, the Austin MSA added 466,526 people, Bastrop County added 16,438 people, and the City added 1,878 people, accounting for 11.4% of the growth in Bastrop County. According to the State Data Center Scenario 1.0, the Austin MSA is forecasted to grow to 2,653,615 by 2025 and Bastrop County is expected to grow to 118,785.

Table (4)
Population Growth
 Austin MSA, Bastrop County and City of Bastrop

Area	Total Population		<i>2000 to 2010 % Change</i>	SDC Projected Population	
	2000	2010		2020	2025
Austin MSA	1,249,763	1,716,289	37.33%	2,306,857	2,653,615
Bastrop County	57,733	74,171	28.47%	100,746	118,785
City of Bastrop	5,340	7,218	35.17%	n/a	n/a

Source: US Bureau of the Census, 2000, 2010. Projections bases on Texas State Data Center Scenario 1.0
 Prepared by Capitol Market Research, June 2015

poptrend.xls

Household Size Trends

Household size trends from the 2000 Census through the 2010 US Census are found in Table (5) below. The average household size in the Austin MSA increased very slightly 0.3% from 2.57 to 2.58. Bastrop County increased very slightly as well from 2000 through 2010 by 0.3%, from 2.77 to 2.78. In the City of Bastrop, the household size was slightly lower, at 2.46 in 2000, but has increased 0.8% through the 2010 Census to reach 2.48. The lower household size in the City of Bastrop is most likely due to the higher percentage of renter households than the county as a whole, which generally have fewer people per household. This increase in household size reflects a decrease in the number of single occupant households, and an increase in the average family size among households that have more than one family member.

Table (5)
Household Size Trends
Austin MSA, Bastrop County and City of Bastrop

Area	Total households		2000 to 2010 % Change
	2000	2010	
<i>Austin MSA</i>	471,855	650,459	37.85%
<i>Bastrop County</i>	20,097	25,840	28.58%
<i>City of Bastrop</i>	2,034	2,695	32.50%

Area	Population in Households		2000 to 2010 % Change
	2000	2010	
<i>Austin MSA</i>	1,212,806	1,675,416	38.14%
<i>Bastrop County</i>	55,728	71,834	28.90%
<i>City of Bastrop</i>	4,996	6,691	33.93%

Area	Average Household Size		2000 to 2010 % Change
	2000	2010	
<i>Austin MSA</i>	2.57	2.58	0.21%
<i>Bastrop County</i>	2.77	2.78	0.25%
<i>City of Bastrop</i>	2.46	2.48	1.08%

Source: US Bureau of the Census 2000, 2010

poptrend.xls

Prepared by Capitol Market Research, June 2015

Housing Tenure

Table (6) presents trends in household tenure from the 2000 through the 2010 US Census. The number of renters in Bastrop County increased by 50.39% from 2000 through 2010 and increased by 55.02% in the City of Bastrop. The percentage of renters in Bastrop County increased in the 2000s by 16.97%. The percentage of renters in the City of Bastrop increased by 17.0% between 2000 and 2010, with renter households comprising 45.3% of the total households in 2010. The increase in renter households in Bastrop is partially due to the completion of 360 multi-family units in the City of Bastrop between 2000 and 2010.

Table (6)
Household Tenure Trends
Bastrop County and City of Bastrop

Area	Total Households		2000 to 2010 % Change
	2000	2010	
<i>Bastrop County</i>	20,097	25,840	28.58%
<i>City of Bastrop</i>	2,034	2,695	32.50%

Area	Renter Households		2000 to 2010 % Change
	2000	2010	
<i>Bastrop County</i>	3,939	5,924	50.39%
<i>City of Bastrop</i>	787	1,220	55.02%

Area	Owner Households		2000 to 2010 % Change
	2000	2010	
<i>Bastrop County</i>	16,158	19,916	23.26%
<i>City of Bastrop</i>	1,247	1,475	18.28%

Area	% Owner Households		2000 to 2010 % Change
	2000	2010	
<i>Bastrop County</i>	80.40%	77.07%	-4.14%
<i>City of Bastrop</i>	61.31%	54.73%	-10.73%

Area	% Renter Households		2000 to 2010 % Change
	2000	2010	
<i>Bastrop County</i>	19.60%	22.93%	16.97%
<i>City of Bastrop</i>	38.69%	45.27%	17.00%

Source: US Bureau of the Census 2000, & 2010

poptrend.xls

Prepared by Capitol Market Research, June 2015

Bastrop County Market Area Multi-Family Housing Demand

Table (7) below shows a multi-family demand forecast for the market area based on population forecasts generated by the Texas State Data Center (Scenario 1.0) based upon historic migration rates for the market area. The Bastrop County Market Area captured 3.52% of the growth in the Austin MSA from 2000 – 2010, which was used to generate the population forecast for the market area. The proportion of renter households is based on the change in tenure split for the market area from 2000 to 2010. The proportion of multi-family units is based upon historical building permit data in the Austin MSA for the past 10 years. The resulting forecast yields an average demand of 191 units per year from 2015 through 2020.

Table (7)
Multi-Family Unit Demand
 Bastrop County Market Area

Year	Forecasted MSA Population Growth	MARKET AREA FORECAST						
		Capture Rate	New Population	Household Size	New HH	% Renter	% Multi- Family	Multi-Family Demand
2015	58,007	3.52%	2,044	2.78	758	24.6%	93.6%	175
2016	60,282	3.52%	2,124	2.78	773	24.9%	93.6%	180
2017	61,453	3.52%	2,165	2.78	801	25.3%	93.6%	189
2018	63,675	3.52%	2,244	2.78	816	25.6%	93.6%	195
2019	64,869	3.52%	2,286	2.78	832	25.9%	93.6%	202
2020	66,141	3.52%	2,330	2.78	840	26.3%	93.6%	207

Prepared by: Capitol Market Research, June 2015

Dem.ForecastCalc.xls

Notes: MSA population forecast based on the population forecast obtained from Texas State Data Center, Scenario 1.0, 2010 Census. Capture rate based on average historical growth in the market area as a % of the MSA from 2000-2010. Household size & Percent renter based on growth from 2000-2010 Census. Percent multi-family based on new building permits issued in the MSA over the last 10 years.

APARTMENT MARKET ANALYSIS

Apartment Market Trends in the Austin MSA

Traditionally, apartment projects in Austin have been clustered near activity centers, major employers and the university areas. Examples of this phenomenon include the cluster of apartments near IBM, Dell, Abbott Labs and Seton Hospital as well as the apartments surrounding the University of Texas, St. Edwards University, and the various Austin Community College campus locations. In the recent past, the Central Business District has had relatively few residential rental units. However, since 2009 and 2010, several new communities were developed within the area, with construction continuing into 2014.

Market conditions in the Austin area multi-family market were volatile in the eighties, when an apartment construction boom caused dramatic overbuilding in 1985 and 1986, followed by several years of inactivity. After dropping to 80% occupancy in the mid-eighties, occupancy rates steadily increased, and by 1990, rapid rent escalation was underway. However it was not until 1993 that overall market rental rates were high enough to support widespread construction activity.

As Austin's economy experienced robust growth in the early nineties, the resurgence of multi-family construction began in 1991 when 148 units were constructed and 220 units were absorbed. At that time citywide occupancy was at 93.7% and apartments leased for an average \$0.57 per square foot. From that period through mid-1996, average rent per square foot and absorption accelerated dramatically. Occupancy first peaked in December 1994 at 97.4%, and then again in June 2000 (at 98.2%), while new unit completions peaked in 1996 at 6,405 units and then again at 8,472 in 2001. Since 1996, the pace of new construction fluctuated from year to year but both occupancy and average rental rates increased steadily through the end of 2000.

In 2001, for the first time in many years, new unit completions dramatically exceeded absorption and the market plunged from 97.6% in January to 90.0% by the end of the year. Rents dropped precipitously, but the building continued into 2002, in spite of the softness in the market, and by 2003 the construction boom was tapering off.

Current Market Conditions

Beginning in late 2003, new construction activity began to diminish and regional apartment demand regained strength which resulted in the positive absorption trend through 2004, 2005, 2006 and 2007. However, in 2008 the market occupancy rate decreased 5.2 percentage points from 2007, with additional drops in 2009 occupancy (90.4%) and rental rates (\$0.93). December 2010 and 2011 saw a rapid recovery, and by 2012, rental rates had increased again to \$1.12, a \$0.07 increase since December 2011, and occupancy also increased to reach an astonishing 97.4%. Current (December 2014) rental rates have climbed to \$1.26, and occupancy has dropped slightly to 94.0%. Since the beginning of 2002, 72,194 apartment units in 288 complexes were completed. There were 7,704 net units added between 2010 and 2012, including new units, renovations added back into inventory, and those units removed from inventory due to either a condo conversion or demolition. In 2013, developers added 6,087 net units, and in 2014, 10,123 new units were added, the highest number of units added in a calendar year since 1987.

Between 2000 and 2003, net unit completions exceeded unit demand (measured by absorption), but in 2004 and 2005, the situation reversed and unit demand exceeded net unit completions. The lack of new construction in these years allowed existing units to be absorbed by the market. This trend continued until 2008, when 8,404 net units were added but only 1,526 units were absorbed, and in 2009 unit demand began to recover with 9,025 units added and 6,750 absorbed.

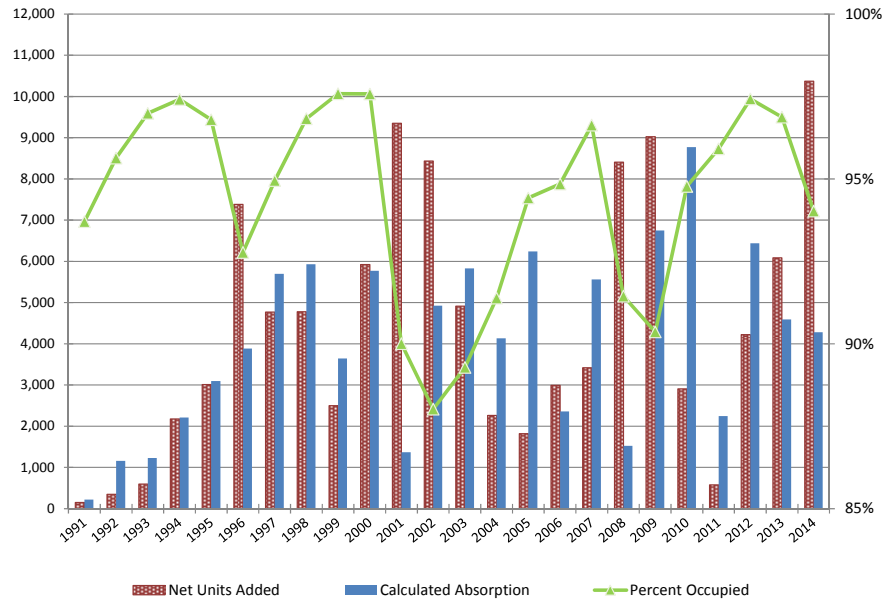
From 2010 through 2013, absorption was very strong as net units added were consistently less than unit demand. However, the most recent CMR survey (December 2014) shows 10,371 net units added in 2014, the most new units added in the area in a calendar year for over 20 years. This increased rate of construction, cumulating with the opening of nine new projects in November and December (when leasing activity is traditionally lower because of the holiday season), resulted in a lower than expected net absorption rate of 4,279 units and a decline in occupancy to 94.0%. Further analysis of the data revealed a disproportionate strength of demand for new units added. Among those new (2014) units, 8,980 units were leased (85.2%), while the existing (older) inventory lost 4,659 units of occupancy, revealing a tenant preference for the new product, in spite of the higher rental rates. Table (6), on the following page, provides apartment market conditions from December 1991 through December 2014. Historical data on occupancy, average rent, unit completions and absorption for 1991 through 2014 is taken from CMR's Austin Apartment Survey, a semi-annual survey of all projects of more than 50 units in the Austin area.

Table (8)
Austin Citywide Apartment Summary
 December 1991 - December 2014

Year	Total Units	Occupied Units	Percent Occupied	Net Units Added	Calculated Absorption	Rent per Sq.Ft.
1991	61,113	57,266	93.7%	148	220	\$0.57
1992	61,118	58,448	95.6%	348	1,160	\$0.64
1993	63,074	61,174	97.0%	594	1,229	\$0.71
1994	66,379	64,662	97.4%	2,178	2,212	\$0.75
1995	69,324	67,101	96.8%	3,010	3,098	\$0.79
1996	77,019	71,452	92.8%	7,384	3,882	\$0.81
1997	81,382	77,270	94.9%	4,770	5,697	\$0.82
1998	86,428	83,683	96.8%	4,778	5,929	\$0.86
1999	89,699	87,531	97.6%	2,499	3,643	\$0.91
2000	96,114	93,786	97.6%	5,923	5,773	\$0.98
2001	105,162	94,651	90.0%	9,351	1,368	\$0.94
2002	113,380	99,794	88.0%	8,432	4,925	\$0.86
2003	120,169	107,290	89.3%	4,912	5,828	\$0.81
2004	122,323	111,786	91.4%	2,262	4,133	\$0.81
2005	124,325	117,389	94.4%	1,819	6,243	\$0.85
2006	126,842	120,304	94.8%	2,993	2,356	\$0.91
2007	128,900	124,558	96.6%	3,416	5,562	\$0.96
2008	137,005	125,284	91.4%	8,404	1,526	\$0.97
2009	145,734	131,686	90.4%	9,025	6,750	\$0.93
2010	147,045	139,361	94.8%	2,906	8,773	\$0.98
2011	147,648	141,614	95.9%	576	2,245	\$1.05
2012	164,143	159,918	97.4%	4,222	6,441	\$1.12
2013	170,234	164,917	96.9%	6,087	4,589	\$1.21
2014	180,519	169,732	94.0%	10,371	4,279	\$1.26

Source: Capital Market Research, December 1991 - December 2014 Apartment Market Survey
 CMR estimates of new completions based on surveys of property managers and owners
 The 2012 multi-family unit total now includes Georgetown and San Marcos

\\Data Sets\AUSTIN MSA\apt_sum_1214.xlsx



Bastrop Market Area Apartment Market Conditions

Overview

In July 2015, CMR surveyed the 6 apartment communities in Bastrop that have a total of 604 units. Currently, the average rental rate is at \$1.02 per square foot, which is 13.3% higher than the average in December 2013 when it was \$0.90 per square foot. Occupancy rates average 98.2%, down slightly from 2013, when occupancy was 98.8%. There has been no new construction in the market area since 2012; the additional units added in 2015 are attributed to an older property that was added to the current inventory.

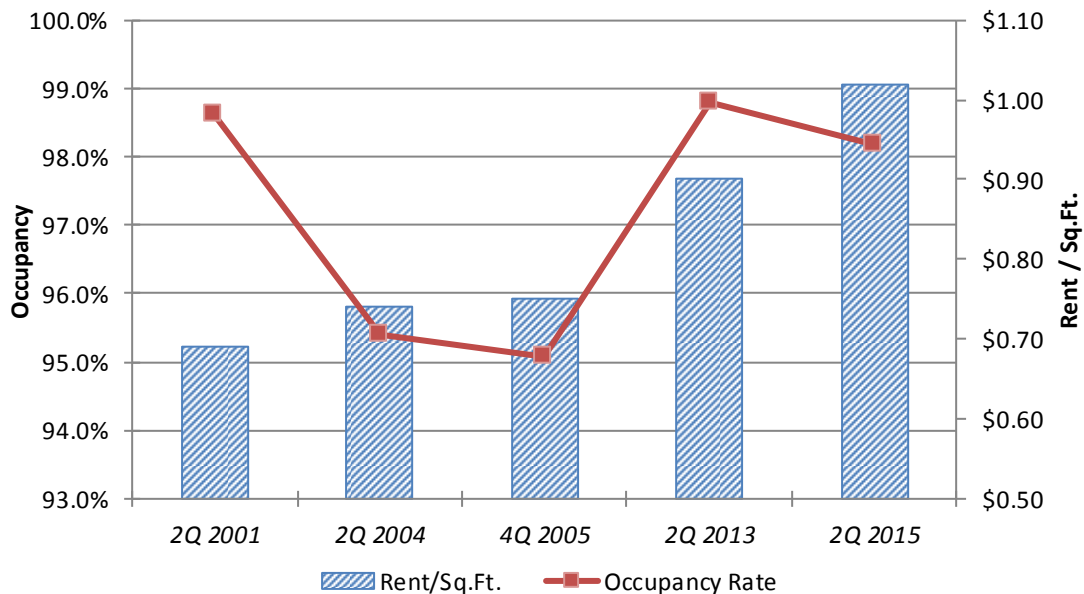
Table (9)
Bastrop Market Area
2001-2015

Year	Number of Units	Units Occupied	Occupancy Rate	Rent/Sq. Ft.	Units Added	Absorption
2Q 2001	144	142	98.6%	\$0.69	...	...
2Q 2004	304	290	95.4%	\$0.74	160	148
4Q 2005	304	289	95.1%	\$0.75	0	(1)
2Q 2013	574	567	98.8%	\$0.90	270	278
2Q 2015	604	593	98.2%	\$1.02	30	26

Source: Capitol Market Research, Apartment Market Survey, 2001, 2004, 2005, 2013, 2015

hist_occ.xls

Note: Piney Creek North added to inventory in 2015, originally built in 1978



New Construction

New construction in the Bastrop market area has been very slow, with units being delivered in only 2 of the last 15 years. The newer completions in the market area are two market rate projects, Lodge at Lost Pines (2002) and Walnut Ridge Apartments (2009). In 2002, 160 units were completed at the Lodge at Lost Pines, which is currently achieving an average rental rate of \$1.11 per square foot, while maintaining an average occupancy of 99.4%. Walnut Ridge, the 200-unit project completed in 2009, is currently achieving an average rental rate of \$1.14 per square foot with a 95.0% occupancy rate.

Occupancy

Currently, the occupancy rate in Bastrop is 98.2%, with the four older apartments, including two affordable, 100% occupied. The high occupancy rate reflects the strength of demand for rental units in Bastrop which is generated by a growing local economy and the location of the City within an easy (20 minute) commute to SH-130 on the east side of Austin. The appeal of small town living and lower rental rates than Austin, combined with the ease of commuting west towards major employers, has made Bastrop an ideal place to rent.

Average Rents

Average rental rates (net rents including concessions) in the Bastrop market area have increased in the past two years by 13.3%, currently reaching \$1.02. However, when you take into account that the majority of the market area is dominated by older and income restricted properties, with limited amenities, it becomes clear that the market area averages do not accurately reflect the potential for a new higher quality project. The two market rate properties, completed in 2002 and 2009, are currently achieving an average gross rental rate of \$1,035 and \$1.13 per square foot.

Market Outlook

The Bastrop market area is currently served by older, smaller apartment complexes with limited amenities and (some) income restrictions. This has caused the market area average rent per square foot to remain low. In contrast, the newer communities, which have more amenities, are able to demand higher rental rates. The steady pace of new employment expansion in Bastrop attests to the pro-growth attitude of the community and reflects the significance of the retail and service sectors as well as a growing complement of basic industries. As the retail offerings expand, and the employment base continues to grow, the demand for new rental housing in the market area will continue to increase.

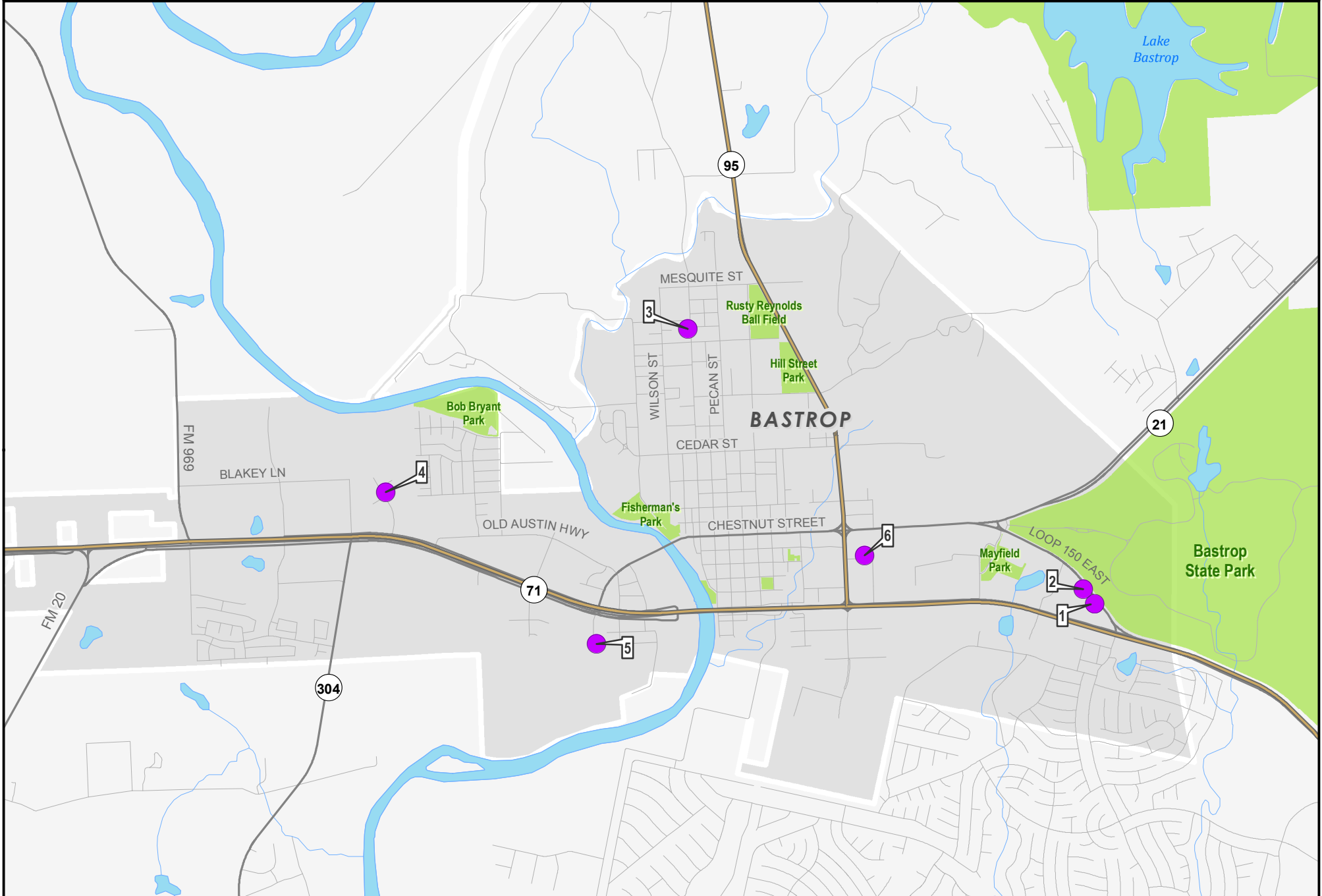
Table (10)
Existing Apartments
Bastrop Market Area

Map No	Name	Address	YOC	Total Units	Occupancy	Average Rent	Average Rent/SqFt
1	Lodge at Lost Pines	3950 E Hwy 71	2002	160	99.4%	\$968	\$1.11
2	Pine Point Apartments	1 Pine Point Dr	1987	56	100.0%	\$719	\$0.73
3	Piney Creek North (AH)	2110 Main St	1978	30	100.0%	\$557	\$0.72
4	Settlement Estates (AH)	149 Settlement Dr	1999	70	100.0%	\$583	\$0.78
5	The Arbors	202 Childers Dr	1985	88	100.0%	\$766	\$0.98
6	Walnut Ridge	1900 Walnut St	2009	200	95.0%	\$1,089	\$1.14
Total/Average				604	98.2%	\$890	\$1.02

Capitol Market Research, July 2015

hist_occ.xls

Note: (AH) = Affordable Housing



Potential Sites for Development

Currently (July 2015), the overall occupancy rate in the Bastrop market area is 98.2%. Given the high occupancy rate and absence of new units, under construction or planned, there is room in the market area to develop a new apartment project at an appropriate site. Recent interviews with the City of Bastrop Economic Development Corporation and the Planning & Development departments revealed several sites that may be suitable for apartment development.

Table (11) lists the potential sites, their location, size and zoning. The map and text on the following pages further characterize each potential site. Table (11)

Potential Multi-Family Development Sites Bastrop Market Area

Map No	Location	Acres	Owner	Zoning
1	Bastrop Grove	52.68	71 Retail Partners, LP	C-1
2	Hunter's Crossing	9.35	Schain, Howard	HX-PD-C
3	Hwy 71 / Burleson	12.91	Erhard Legacy Partners LTD	AG EXEMPT
4	Hwy 71 / Duff	54.13	Erhard Legacy Partners LTD	AG EXEMPT
5	Hwy 71 / Settlement Dr	23.04	Rosanky, Charles	A/OS
6	Pecan Park	64.48	Pecan Park Associates LTD	C-1
		216.59		

Capitol Market Research, July 2015 potential_sites.xls

Data from Bastrop County Appraisal District, City of Bastrop

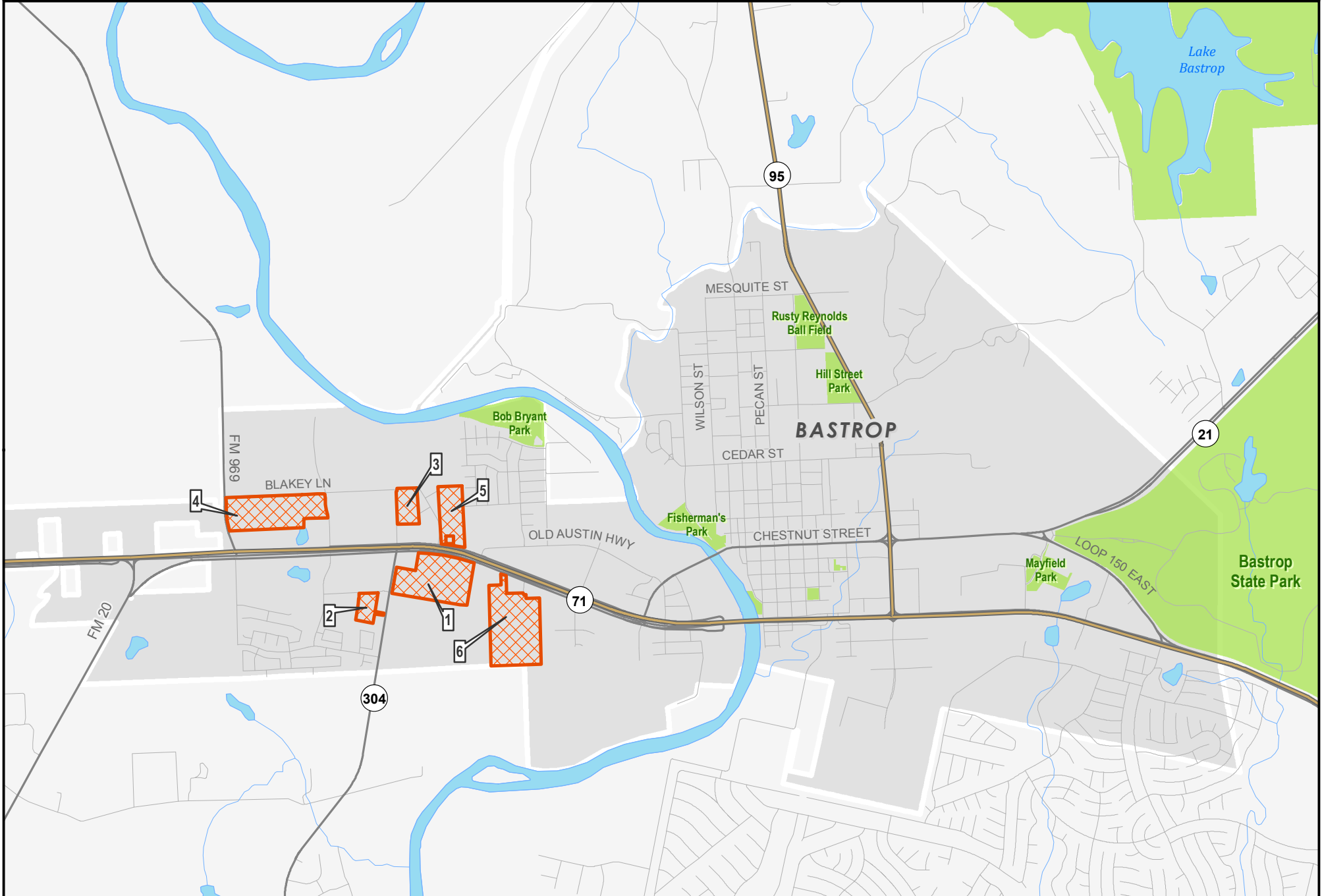
Bastrop Grove is located south of State Highway 71 and just east of Texas 304. The 52.68 acre tract has frontage on SH 71, with additional pad sites available.

A 9.35 acre site, part of the Hunter's Crossing PID, was recently purchased by the developer of the Lodge at Lost Pines Apartment for future apartment development. This purchase then negates the opportunity for the site due west to also be developed into apartments, due to the restriction on this site which was a contingent condition for the first sale. Further information about the development timeline and project details are not known at this time.

Erhard Legacy Partners LTD owns two sites north of State Highway 71, a 12.91 acre site east of the Burleson Crossing Shopping center, and another larger 52.68 acre tract between McCoy's Building supply and Edward Burleson Lane.

One additional site north of State Highway 71 identified by Capitol Market Research is located just east of the existing Settlement Estates apartment project. The parcel, 23.04 acres, is currently privately owned with a single family home close to the Highway.

Pecan Park is a 64.48 acre site under development as a single family home subdivision, owned by Duke McDowell of Sterling Custom Homes. However, a portion of the site could be considered for multi-family use if it were subdivided appropriately and zoned for multi-family use.



SUMMARY AND CONCLUSIONS

Summary and Conclusion

The City of Bastrop currently contains 604 apartment units in 6 apartment communities, of which four are market rate and two are “income restricted” communities. The overall average rent per square foot for the Bastrop market area as of July 2015 is \$1.02 with an average total rent of \$890. The market area occupancy among the six projects was 98.2%, with four of the six properties being 100% occupied. The average unit size is 876 square feet, which is comparable to the 880 square foot average in the City of Austin, and reflects the lower density character of the existing inventory and a unit mix that has a higher percentage of one and two bedroom units.

New construction in the Bastrop market area has been very slow, with new units being delivered in only 2 of the last 15 years. The newer completions in the market area are two market rate projects, Lodge at Lost Pines (2002) and Walnut Ridge Apartments (2009). In 2002, 160 units were completed at the Lodge at Lost Pines, which is currently achieving an average rental rate of \$1.11 per square foot, while maintaining an average occupancy of 99.4%. Walnut Ridge, the 200-unit project completed in 2009, is currently achieving an average rental rate of \$1.14 per square foot with a 95.0% occupancy rate.

Using a population forecast obtained from the Texas State Data Center for the Austin MSA (Scenario 1.0), CMR established that Bastrop County captures 3.52% of growth in the Austin MSA. In addition the 2000 and 2010 U.S. Census revealed that the percentage of renters as a proportion of the new households has been growing steadily, increasing at an average rate of 0.33% per year. Using the proportion of total rental units in apartment communities of 93.6% yields an average annual demand of 191 units from 2015 through 2020, enough to support one new 200-unit apartment community per year.

Currently there are no concrete plans for new apartment development in Bastrop. While the apartment occupancy rate and employment growth indicate a need for new apartment units, the historical low average rents would not support the cost of new construction; however, the recent increases in average rent seen in the two new market rate projects has re-kindled interest in new construction. After conversations with the City of Bastrop Economic Development Corporation and Planning and Development departments, CMR has identified and mapped six potential sites for new apartment development. Two of these sites, Hunter’s Crossing and a site off of Hwy 71/Burleson Road, are currently under initial evaluation for apartment development. The additional sites, all much larger, would need to be subdivided and rezoned in order to accommodate new apartment construction. All six sites are west of the Colorado River Bridge and the Highway 71 construction that is slated to start in the near future, which would avoid the traffic congestion for those who commute from East Bastrop to work in areas west of the city, such as Austin.

Based on the foregoing data and analysis provided in this report, it seems reasonable to assume that a smaller market rate apartment community, west of the Colorado River Bridge, would perform well with residents who live and work in Bastrop, or who prefer living in a small town within easy commuting distance to the major employers in Austin. Given the recent rental rates obtained by the new market

rate projects in Bastrop, it is possible that a new apartment community in Bastrop could achieve rental rates at or above \$1.15 per square foot.

APPENDIX

Certificate

The undersigned do hereby certify that, except as otherwise noted in this market/feasibility report:

We certify that we have personally inspected the aforementioned subject property, and that our fee is in no way contingent upon the determination of feasibility reported herein.

We have no present or contemplated future interest in the real estate that is the subject of this report.

To the best of our knowledge and belief the statements of fact contained in this report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct.


This report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.

Recognition is hereby given to Erin Roberts, Joey Valenzuela, Whitney Head, and Kyle Brewer for their assistance in the preparation of this report.

No one other than the undersigned prepared the analyses, conclusions and opinions concerning the real estate that are set forth in this report.

Respectfully submitted,

CAPITOL MARKET RESEARCH, INC.

A handwritten signature in black ink, reading "Charles H. Heimsath". The signature is written in a cursive style with a horizontal line underneath it.

Charles H. Heimsath
President

CHARLES H. HEIMSATH QUALIFICATIONS

Charles H. Heimsath graduated from The University of Texas in 1976 with a Master of Science degree in City Planning. He has been active in the real estate market since 1976 in the areas of commercial and residential brokerage, market and feasibility studies, and real estate research. Prior to his association with Capitol Market Research, Mr. Heimsath was a senior project manager in charge of feasibility/market research with an appraisal firm, R. Robinson & Associates, Inc., Austin, Texas. Between 1980 and 1983 he was responsible for managing the real estate research division at the Rice Center in Houston.

Since moving to Austin in February 1984, Mr. Heimsath has conducted or managed over 500 market research and feasibility projects covering a range of property types from residential and mixed-use subdivisions through office/warehouse and service center space to downtown office buildings. His work has also included population forecasting for several cities, consultation to the General Land Office, The University of Texas System, and economic impact studies for proposed commuter and light rail systems in Austin and San Antonio.

EDUCATION

B.S. in Economics, University of Vermont, Burlington, Vermont; June 1972

M.S. in Community and Regional Planning, The University of Texas, Austin, Texas; August 1976

Post Graduate Studies, Rice University, Houston, Texas; 1980, 1981

PROFESSIONAL MEMBERSHIPS & CERTIFICATIONS

American Planning Association

Real Estate Council of Austin, Former Board Member

Texas Real Estate Broker #188355-13

Urban Land Institute, Austin Advisory Board Member

Downtown Austin Alliance, Board Member, Policy Committee Chair

Texas Regional Mobility Authority, Board Member

PROFESSIONAL EXPERIENCE

Capitol Market Research, Inc., President: June 1986 - Present

R. Robinson & Associates, Project Manager: Real estate research, market and demographic studies, land-use forecasting: February 1984 - June 1986

South Main Center Assoc., Associate Director: Construction management, office administration, policy development, community outreach: February 1983 - February 1984

Rice Center, Senior Associate: Senior project manager responsible for real estate research, urban development and economic forecasting: October 1978 - February 1983

Mayor's Office, City of Houston, Urban Economist: Responsible for preparing the Overall Economic Development Plan (OEDP) for Houston: October 1976 - October 1978