APPRAISAL OF REAL PROPERTY
Appraised as vacant developed land
4.09 gross acre site

Referred to as 0 Flagship Boulevard
Montgomery, Montgomery County, Texas 77356
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4.09 gross acre site

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Montgomery, Montgomery County, Texas 77356

PREPARED FOR
Texas Department of Housing & Community Affairs
and
Nantucket Housing, LLC
4001 W. Sam Houston Parkway, N., Suite 100
Houston, Texas 77043
281-850-4502

AS OF
February 25, 2018

PREPARED BY
The Murphy Appraisal Group, LLC
Real Estate Appraisers and Consultants
6219 Katy Freeway, Suite 195
Houston, Texas 77024
713-468-6819
Fax 713-463-9885
Email wmurphy@murphyappraisalgroup.com
www.murphyappraisalgroup.com
February 27, 2018

Texas Department of Housing & Community Affairs
and
Nantucket Housing, LLC
4001 W. Sam Houston Parkway, N., Suite 100
Houston, Texas 77043
281-850-4502

RE: Appraisal of 4.09 gross acres of land located at 0 Flagship Boulevard in Montgomery, Texas.

Dear Gentlemen:

At the request of Matt Fuqua with Blazer Building Texas, LLC, we completed an investigation and analysis of the above referenced property for the purpose of estimating the Market Value of the Fee Simple Estate of the 4.09+- gross acre subject property. The subject property is considered to be effectively vacant developed land for the purpose of this appraisal. The effective date of the appraisal is February 25, 2018 the day of the most recent site visit. It is our understanding that this appraisal will be used in a possible loan underwriting decision relative to the subject property. This appraisal report is for the use of Texas Department of Housing & Community Affairs (TDHCA) and Nantucket Housing, LLC.

As referenced herein, Market Value is defined as:

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

A) buyer and seller are typically motivated;
B) both parties are well informed or well advised, and each acting in what he considers his own best interest;
C) a reasonable time is allowed for exposure in the open market;
D) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
E) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
The value conclusion of this report is expressed in terms of cash.

Per prior agreement with the client, this is an Appraisal Report that is intended to comply with the reporting requirements of Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP) for an Appraisal Report. As such, it includes summary discussions of the data, reasoning, and analyses that were used in the appraisal process including supporting documentation concerning the data, reasoning, and analyses. The information contained in this report is specified to the needs of the client and is for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

The according to MCAD tax records, account 5768-00-00200-R459738, the subject property is a part of a larger land tract that contains a total of 8.336 +- acres or 363,159 SF. The subject property is approximately half of the total property or 4.09 acres or 178,335 +- square feet based on the information provided by the owner of record. On the date of appraisal, the subject property consisted of 4.09 gross acres of land and is referred to as 0 Flagship Boulevard, in the Montgomery County Appraisal District (MCAD) records. The subject site is an effectively vacant site with utilities. The subject property is located south of Flagship Boulevard just east of FM 149 and just south of SH 105. The subject fronts on and has access from Flagship Boulevard. Additional descriptions of the property, together with the sources of information and the support for our estimates, are included in the associated sections of this report.

The subject property represents a total site area of approximately 4.09 gross acres or approximately 178,335 square feet. This property has a highest and best use for continued investment purposes or future multifamily residential use development purposes when supply and demand factors indicate the that improving the site is feasible.

We relied upon information provided by the owner, MCAD records and the site visit. This appraisal is based on the assumption that the data relative to the property is an accurate representation of the physical characterizes of the site. The subject site size was based upon the survey provided by the client. The subject property consists of a 4.09 +- gross acres or 178,335 square feet of land located at 0 Flagship Boulevard, Montgomery, Texas 77356. The subject property is currently vacant land with utilities and for the purpose of this appraisal we are appraising the property as effectively vacant land with utilities on site. The property is located approximately 55+- miles north of the Houston CBD in the Montgomery and Conroe area of the Houston Metropolitan Area.

Assuming adequate exposure and normal marketing efforts, it is our opinion that the estimated exposure time (i.e., the length of time the subject property would have been exposed for sale in the market value conclusion in this analysis as of the date of this valuation) would be 12 months; the estimated marketing time (i.e., the amount of time it would probably take to sell the subject property if exposed in the market beginning on the date of this valuation) is estimated to be 12 months, which is consistent with current market conditions.
These estimates were based on local and national surveys, conversations with property owners and real estate brokers active in the local market. They were also based on the relative supply and demand of comparable properties in the subject’s market area. It is important to note that these estimates are applicable to the subject property at the market value stated herein.

The above opinion of value in this appraisal is qualified and limited by the Assumptions and Limiting Conditions contained herein. Please read them carefully to totally understand the basis of our value estimate. To the best of the appraiser’s knowledge, this report had been prepared in accordance with: The Uniform Standards of Professional Appraisal Practice (USPSP) as approved by the Appraisal Standards Board of the Appraisal Foundation; the requirements of Title XI of the Financial Institution Reform, Recovery and Enforcement Act of 1989 (FIRREA); the Uniform Standards of Professional Appraisal Practice and the Code of Professional Ethics of the Appraisal Institute, and all applicable state licensing requirements. William R. Murphy, MAI, SRA, conducted a the most recent site visit of this property on February 25, 2018. The effective date of the appraisal is February 25, 2018. The date of this report is February 27, 2018. Mr. Murphy has read and understands the requirements of Section 10.304 of TDHCA Appraisal Rules and Guidelines. Mr. Murphy is a disinterested party and will not materially benefit from the Development in any other way than receiving a fee for performing the appraisal and that fee is in no way contingent upon the outcome of the appraisal.

The existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraisers become aware of such during the appraiser’s site visit. The appraisers have no knowledge of the existence of such materials on or near the property, unless otherwise stated. We have no reason to suspect the presence of hazardous substances and we valued the subject assuming that none are present. The appraisers, however, are not qualified to test such substances or conditions. If the presence of substances, such as asbestos, urea formaldehyde, foam insulation, or other hazardous substances or environmental conditions are determined to exist, it may affect the value of property. The value estimate is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. We are not qualified to detect or identify hazardous substances that may, or may not, be present on, in, or near the subject property. The presence of hazardous materials may negatively affect Market Value. No responsibility is assumed for any such conditions, or for any expertise or engineering required to detect or discover them. We urge the user of this report to obtain the services of specialists for the purpose of conducting an environmental audit.
We were provided with a recent land survey that was used for legal description and illustrative purposes. The subject property is the southern part of the 8.336+- acre parent site. Additional MCAD information and site information are in the addenda. The future estimated costs associated with any future development of any proposed improvements, including the infrastructure costs related to road constructions, wastewater, sewer, site preparation, detention and other costs for development of the subject site was not provided and was not considered or included in this analysis. Surveys and other data relative to the physical aspects of the property were provided. Information regarding projected sales or projected, leases, income and expense figures, financial statements, or other written or verbal representations and/or communications and information provided to us were reasonably relied upon in good faith but have not been analyzed for their legal implications. We urge and caution the user of this report to obtain legal counsel of his own choice to review the legal and factual matters, and to verify and analyze the underlying facts and merits of any investment decision in a reasonably prudent manner.

The appraisers have no known knowledge and no representations are intended as to the subject’s location in or out of an area determined to be endangered species habitat. We are not qualified to make such determinations and we advise the user of this report to obtain an opinion of wetlands experts to make a conclusion. No endangered species or endangered habitat was observed by the appraisers during inspection. If the subject is determined to be located within an area designated as endangered species habitat, it may affect the value of the property and the value estimated is predicated on the assumption that the subject site is not located in an area determined to be endangered species habitat. To the best of the appraiser’s knowledge, the subject property has no governmentally protected significant natural, cultural, recreational, or scientific value.

In the accompanying report, the results of our investigations, together with the details of the methods used in deriving the final value estimate, can be found. The scope and narrative content of this appraisal conforms to the Uniform Standards of Professional Appraisal Practice (USPAP), as set forth by the Appraisal Institute and Appraisal Foundation, as well as TDHCA reporting guidelines and FIRREA. This is a narrative appraisal report.
Please refer to the assumptions and limiting conditions, which are contained in the body of this report, for a more thorough understanding of the conditions upon which the value and conclusions contained herein were based.

We are not qualified to detect or identify hazardous substances that may, or may not, be present on, in, or near this property. The presence of hazardous materials may affect value. We were not provided with an environmental audit. The user of this report should rely on such audits and or studies and seek and interpretation of any earnest money contract terms and conditions by a qualified attorney. As a result of our investigation and analysis, a value opinion for the subject property was concluded. This value opinion is based on a reasonable marketing and exposure period of 12 months or less and upon the assumption that the subject would sell with market financing.

After completing an analysis of the subject property, as well as the market area, it is our opinion that the as is Market Value of the Fee Simple interest in the subject property “As vacant developed land” as of the current effective date of value, and subject to the General and Special Assumptions and Limiting Conditions as delineated herein, is:

**ESTIMATE OF MARKET VALUE OF FEE SIMPLE ESTATE**
*(As of February 25, 2018, the date of the site visit)*

**NINE HUNDRED THIRTY THOUSAND DOLLARS**  
$930,000 or $5.21 psf

Property is currently not under contract or listed to our knowledge.

Your attention is directed to the following Appraisal Report, which contains the market data and describes our investigation and analysis leading to our final value conclusion, together with Certification, Assumptions and Limiting Conditions, upon which we based our opinion of the current *Market Value* of the *Fee Simple Estate* of the subject property. If you have any questions, please feel free to call.

Sincerely,

THE MURPHY APPRAISAL GROUP, LLC

William R. Murphy, MAI, SRA, CCIM  
Texas State Certification Number: TX-1320435-G
<table>
<thead>
<tr>
<th>Property Appraised:</th>
<th>4.09 gross acres of vacant land with utilities located south of Flagship Boulevard just east of FM 149 and just south of SH 105 and referred to as 4.09 gross acres and located at 0 Flagship Boulevard, Montgomery County 77356, KM: 123T</th>
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</thead>
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<tr>
<td>Location:</td>
<td>The subject property is located at 0 Flagship Boulevard, Montgomery, Texas 77356 and is located just east of FM 149 and just south of SH 105.</td>
</tr>
<tr>
<td>Effective Date of Appraisal/Site visit:</td>
<td>February 25, 2018</td>
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<td>Date of Report:</td>
<td>February 27, 2018</td>
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<td>Property Rights Appraised:</td>
<td>Fee Simple Estate</td>
</tr>
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<td>Purpose of the Appraisal:</td>
<td>Estimate the market value as is of the Fee Simple interest of the subject property as of the effective date of the appraisal.</td>
</tr>
<tr>
<td>Land Area:</td>
<td>4.09 acres or 178,335 +- square feet-per owner.</td>
</tr>
<tr>
<td>Improvements:</td>
<td>For the purposes of this appraisal report, the site was considered to be effectively vacant developed land with utilities.</td>
</tr>
<tr>
<td>Zoning:</td>
<td>The city of Montgomery, Texas does have zoning. The zoning currently for the subject site is District R-2, Multifamily Residential. The subject is in the city of Montgomery, Texas and is subject to zoning. Holding the property as an investment property or holding for future multifamily development is the highest and best use of the site and is or will be a conforming use of the land.</td>
</tr>
<tr>
<td>Deferred Maintenance:</td>
<td>Not applicable.</td>
</tr>
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SUMMARY OF SALIENT FACTS AND CONCLUSIONS-CONTINUED

Flood Plain: According to the published Federal Emergency Management Agency Flood Insurance Rate Map, Community-Panel Number 48339C0200G, dated August 18, 2014, the subject site is located in “X”. X indicated all of the subject property is outside the 100 year flood plain (shaded) per the Interflood Map dated August 18, 2014. Third party individual flood verification is required.

Highest and Best Use: As Vacant: Hold as a land investment for future development to its highest and best use. Development with a use to be determined based on supply and demand and future development trends. Most likely highest and best use is for future multifamily residential development. Land values are increasing in the market area.

Highest and Best Use: As Improved: Hold for investment purposes for future multifamily residential development. Land values are increasing in the area.

MARKET VALUE INDICATIONS

Direct Sale Comparison: $930,000 (Rounded) or $5.21 PSF

Market Value “As vacant developed land”: $930,000 (Rounded)

Conclusion of Market Value: $930,000 (Rounded) or $5.21 PSF

The subject property is 4.09 gross acres and for the purpose of this appraisal is being appraised on a gross acre basis as a whole property without subdivision into developed sites or user tracts. The highest and best use of the site is to hold as an investment or hold for future multifamily residential development purposes. No land was netted of the subject site out for the purpose of this appraisal and the incurred site development costs were provided and were considered for the purpose of this appraisal.
CERTIFICATION OF APPRAISAL

We certify that, to the best of our knowledge and belief:

(1) The statements of fact contained in this report are true and correct.

(2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is yet personal, impartial, and unbiased professional analyses, opinions, and conclusions.

(3) We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved. The appraisal was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

(4) We have no bias with respect to the property that is the subject of this report or the parties involved with this assignment.

(5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

(6) Our compensation for completing this assignment is not contingent upon development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

(7) My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

(8) I have performed an appraisal service, as an appraiser but no service in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

(9) William R. Murphy has made a personal inspection of the property that is the subject of this report.

(10) No one provided significant real property appraisal assistance to the person signing this certification.

(11) The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

(12) As of the date of this appraisal, William R. Murphy, MAI, SRA, has completed the continuing education program for Designated Members of the Appraisal Institute.

(13) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

W. R. Murphy
William R. Murphy, MAI SRA CCIM
State Certified General Appraiser,
TX-1320435-G
ASSUMPTIONS AND LIMITING CONDITIONS

1.) As defined by the Uniform Standards of Professional Appraisal Practice (USPAP) this is an “Appraisal Report”. The scope of this appraisal has not been limited by either the request of our client or the nature of the assignment. This appraisal involves the use of all applicable approaches to value, concludes in an estimate of Market Value based on an unconditioned definition, and is transmitted in a narrative report. It has been our intention to prepare this report in conformity with the USPAP of the Appraisal Foundation, and the Supplemental Standards and Regulations of the Appraisal Institute.

2.) No survey of the subject property was undertaken, and the appraisers assume no responsibility associated with such matters.

3.) The value estimate assumes responsible ownership and competent management. The subject property is assumed to be free and clear of all liens, except as may be otherwise herein described. No responsibility is assumed by the appraisers for matters legal in character, nor is any opinion of title rendered, which is presumed to be good and marketable.

4.) The information contained herein has been gathered from sources deemed to be reliable but no responsibility is assumed for its accuracy. Correctness of estimates, opinions, dimensions, sketches and other exhibits which have been furnished and have been used in this report are not guaranteed.

5.) The value estimate rendered herein is considered reliable and valid only as of the date of the appraisal, due to rapid changes in the external factors that can significantly affect the property value. The final estimate of market value is expressed in terms of the current purchasing power of the dollar.

6.) Any leases, agreements or other written or verbal representations and/or communications and information received by the appraisers have been reasonably relied upon in good faith but have not been analyzed for their legal implications. We urge and caution the user of this report to obtain legal counsel of his own choice to review the legal and factual matters, and to verify and analyze the underlying facts and merits of any investment decision in a reasonably prudent manner.

7.) We assume no responsibility for any hidden agreements known as “side letters”, which may, or may not, exist relative to this property, which have not been made known to us, unless specifically acknowledged within this report.

8.) This report is to be used in whole and not in part. Any separate valuation for land and improvements shall not be used in conjunction with any appraisal and is invalid if so used. Possession of this report or any copy thereof does not carry with it the right of publication nor may the same be used for any purpose by anyone but the client without the previous written consent of the appraisers, and in any event, only in its entirety.
9.) The appraisers here, by reason of this report, are not required to give testimony in court with reference to the property appraised unless notice and proper arrangements have been previously made therefore.

10.) Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without prior written consent and approval of the author, particularly but not exclusively as to the firm with which he is connected, or any reference to the Appraisal Institute, the Member Appraisal Institute (MAI), or Senior Residential Appraiser (SRA) designations.

11.) No subsoil data or analysis based on engineering core borings or other tests were furnished us. We have assumed that there are no subsoil defects present that would impair development of the land to its maximum permitted use, or would render it more or less valuable. No responsibility is assumed for engineering which might be required to discover such factors.

12.) The construction and physical condition of the improvements described herein are based on visual inspection. It is assumed that there are no structural defects hidden by floor or wall coverings or any other hidden or unapparent conditions of the property; that mechanical equipment and electrical components are adequate and in good working condition; and that the roofing is in good condition. No liability is assumed by the appraisers for the soundness of structural members since no engineering tests were conducted. No liability is assumed for the condition or adequacy of mechanical equipment, plumbing, or electrical components. If the user of this report has any questions regarding these items, it is the user’s responsibility to order the appropriate inspections. The appraiser does not have the skill or expertise needed to make such inspections. The appraiser assumes no responsibility for these items.

13.) Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on, in or near the property, or other environmental conditions, were not called to the attention of, nor did the appraiser become aware of such during the appraiser’s inspection. The appraiser has no knowledge of the existence of such materials on, in or near the property unless otherwise stated. The appraiser, however, is not qualified to test such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to detect or discover them. We urge the user of this report to retain an expert in this field.

14.) We have no knowledge of termite infestation, past or present. The appraisers are not qualified to detect the presence of such insects or damage, and unless otherwise stated in
this report, this appraisal assumes that the improvements are free of insects and or damage from insects. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to detect or discover them. We urge the user of this report to retain an expert in this field.

15.) The projections of income, expenses, terminal values or future sale prices are not predictions of the future. Rather, they are the best estimate of current market thinking of what future trends will be. No warranty or representation is made that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the task of the appraiser to estimate the conditions of a future real estate market, but rather to reflect what the investment community envisions for the future, and upon what assumptions of the future investment decisions are based.

16.) The client or user agrees to notify the appraiser of any error, omission, or inaccurate data within 15 days of receipt, and return the report and all copies of the report to the appraiser for corrections prior to any use. The acceptance and use by the client or any other party in any manner whatsoever or for any purpose, is acknowledgment by the user that the report has been read, and that the data and analysis, to their knowledge, are correct and acceptable.

17.) The Americans with Disabilities ACT (“ADA”) became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible non-compliance with the requirements of ADA in estimating the value of the property.
ENVIRONMENTAL DISCLAIMER

The value estimated in this report is based on the assumption that the property is not negatively affected by the existence of any hazardous substances. The appraiser is not an expert in the identification of hazardous substances or detrimental environmental conditions. The appraiser’s inspection of the property did not reveal any information that indicated any environmental hazards existed that would negatively impact this property.

The value estimated is based on the following assumptions.

1. The value estimate in this appraisal is based on the assumption that there is an adequate supply of safe, lead free water.

2. The value estimate in this appraisal is based on the assumption that the Sanitary Waste is disposed of by a municipal sewer or an adequate property permitted alternate treatment system in good condition.

3. The value estimate in this appraisal is based on the assumption that the subject property is free of soil contaminants.

4. The value estimate in this appraisal is based on the assumption that there is no contained friable asbestos or other hazardous asbestos material on the property.

5. The value estimate in this appraisal is based on the assumption that there is no uncontained PCB’s on or nearby the property.

6. The value estimated in this appraisal is based on the assumption that the Radon level is at or below EPA recommended levels.
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### ADDENDA

- Authorization Letter
- Legal Description
- Miscellaneous
- Qualifications of the Appraisers
SUBJECT PROPERTY PHOTOGRAPHS

Typical view of subject property, at the rear of the photograph, photo was taken from Flagship looking south

Typical view of subject property, at the rear of the photograph, photo was taken from Flagship looking south
SUBJECT PROPERTY PHOTOGRAPHS

Typical view of property, photo was taken from adjacent apartment property

Typical view of subject property, photo was taken from adjacent apartment property
SUBJECT PROPERTY PHOTOGRAPHS

Typical view of property, photo was taken from adjacent apartment property

Typical view of detention pond serving the subject property
SUBJECT PROPERTY PHOTOGRAPHS

Typical view of property, photo taken from the adjacent apartment property

Typical view of property, photo taken from the adjacent apartment property
 SUBJECT PROPERTY PHOTOGRAPHS

Street scene looking south on Flagship, subject site frontage is at the center and right of photo

Typical view the looking south on Flagship from SH 105 showing the back portion of the shopping center located across Flagship from the subject property. Subject property is in the center of photograph.
SUBJECT PROPERTY PHOTOGRAPHS

Typical view of the new Heritage apartment property adjacent to the west of the subject property

Typical view of the shared detention area
SUBJECT PROPERTY PHOTOGRAPHS

Typical view looking east along Flagship Boulevard the subject property is on the right

Typical view looking west along Flagship Boulevard
IDENTIFICATION OF PROPERTY

On the date of the appraisal, the property was an effectively vacant site with utilities. The site contained 4.09 acres or 178,335+- square feet of land, more or less, and was located at 0 Flagship Boulevard which is south of Flagship Boulevard just east of FM 149 and just south of SH 105, in Montgomery, Texas. The property is just east of FM 149. For the purpose of this report the land is considered as an effectively vacant site with utilities. The property was appraised in fee simple interest as an effectively vacant site with utilities. The common address of the subject property is 0 Flagship Boulevard, Montgomery, Texas. Key map page and map grid is 123T.

LEGAL DESCRIPTION

4.09 acres more or less situated in S576800-Heritage Plaza 01, Reserve B, Acres 8.337, Montgomery County Texas. The site is an effectively vacant site with utilities, per the information provided by the owner and supported by the descriptions included in the addenda and MCAD records as recorded in the Official Public Records of Real Property of Montgomery County, Texas. The legal description and land size of the subject property was from the Montgomery County Appraisal District (MCAD) records, owner information and survey. A copy of the survey and the Montgomery County Appraisal District records is included in the addenda.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the Market Value of the Fee Simple Estate of the property "As an effectively vacant site with utilities", with consideration given to the any existing site improvements on the subject site.

INTEREST APPRAISED

The interest appraised is the Fee Simple Estate of the property "As an effectively vacant site with utilities", with consideration given to any site improvements on the subject site.

CLIENT, INTENDED USE AND USERS OF THE APPRAISAL

This report is for the sole and exclusive use of our client TDHCA (the Department). The Department is granted full authority to rely on the findings of the report. The report was authorized by Matt Fuqua with Blazer Building Texas, LLC, 4001 W. Sam Houston Parkway, N., Suite 100, Houston, Texas 77043. The intended use of this appraisal is for loan underwriting and-or credit decision by TDHCA. The intended users of this appraisal are TDHCA, Blazer Building Texas, LLC, and Nantucket Housing, LLC.
DATE OF VALUE ESTIMATE

The effective date of the estimated Market Value is, February 25, 2018, which is also the date of the site visit. The appraisal is of the fee simple interest of the estimated market value as an effectively vacant site with utilities. The date of the report is February 27, 2018.

SALES HISTORY OF THE SUBJECT PROPERTY

In accordance with standard rule 1-5 (b), of the “Uniform Standards of Professional Practice” of the Appraisal Institute, a three-year sales history for the subject property shall be included for all properties.

According to the MCAD (Montgomery County Appraisal District) records and the site visit the site is an effectively vacant site with utilities. Based on the MCAD records the subject property has not been sold within the last three years. The last sale date was for the larger 17.04 acre parent tract purchase on October 23, 2013 per MCAD. The owner of record is Nantucket Housing, LLC and the last sale date was October 23, 2013 per MCAD. The MCAD records show the seller of record was Montgomery Flagship Properties Ltd.. A sales price or loan amount was not recorded per MCAD. The subject property is not reported to be under contract to be purchased. This parent tract was purchased to construct low income apartments if tax credits are received. The parent site has room for several phases. The parent property also had a large pond/detention on it, effectively removing that portion from potential usage (about 20%).

It is zoned commercial/professional, which allows multifamily or apartment development. An apartment property has been constructed as a Phase I part of the original parent tract. The subject MCAD tax ID number is 5768-00-0200-R459738 and this is for the entire remaining 8.336 acres that includes the 4.09 acre subject property remaining property per MCAD records. The subject site was originally a part of a larger 17.04 acre parent tract purchase in 2013 based on the MCAD records. No sales or loan information noted per MCAD records. However, a sales price of $1,955,000 was reported or confirmed for the 17.04-acre parent property. Approximately 20% of the property was a detention pond at the time of the purchase therefore the useable portion of the site is approximately 13.6 acres. The purchase price per SF for the useable area was approximately $3.29 psf. After the purchase the buyer spent approximately $1,257,897 +/− or $2.12 psf of the useable area on expanding the detention/pond area, installing storm sewers, stabilization, cut and fill site, grading, engineering, and other costs associated with various site improvements items in order to improve the developable area of the entire site. The total cost psf for the purchase and the site improvements completed after the purchase is reported to be approximately $5.41 psf. This figure does not include additional site work performed on the subject site in 2017 which included roughly 1,500 cubic yards of additional fill material that was brought to the property to raise the site at a cost of $52,000+/− or $0.29 psf. Also, the owner stated that by platting the property they have secured the water and sewer impact fees for the property, the water impact fee is $1,252 per unit and the sewer impact fee is $2,793 per unit. Based on the 80 units planned for the property the cost of the impact fees would be approximately $323,600 or $1.81 psf of land area for the 80 unit proposed multifamily development have been secured for the property and will be applied at the time a building permit is issued. Also, according to the owner if the property is sold the secured impact fees would transfer with the property. Therefore, these improvements to the site have added value to the site and will be considered in this appraisal. In summary, there have been substantial additional site improvement costs to both the original 13.6 usable acre parent site and to the 4.09-acre subject site. These costs were necessary in order to develop the site to its highest and best use or to sell the site as an improved and enhanced site for someone else to build upon or develop. No other sales in the last three years were disclosed. The current vacant improved land use is typical for the area but is not the long term highest and best use of the site. The vacant improved land use is considered to be an investment use or the interim highest and best use of the site at this time. To the best of our knowledge, no other sale or transfer of ownership has occurred, as of the effective date of this appraisal. The property is vacant improved land and was an average site for the area at the time of the site visit. The total remaining site from the original 17.04 acre parent site is an 8.34 acre site (that includes the
4.09 acre subject property) as currently described on the MCAD records and has an assessed land value of $1,089,480 or $3.00 psf for year 2017. The subject property is a 4.09 acre or 178,335 SF site that is included in the 8.34 acre tax record property. The prorated assessed value for the subject property is $535,005 or $3.00 psf. The property is vacant improved land and does not have excess land based on the current or proposed use of the property. The property is not reported to be under contract based on information provided to the appraiser. At the time of this appraisal the property was not listed for sale. A copy of the property tax records is included in the addenda. Matt Fuqua was the property contact for the owner. The subject property is a potential multifamily residential use development site when the market supply, demand and activity indicate a feasible use. Development of multifamily residential, commercial and SFR housing is occurring in the market area as land values continue to increase in the north Houston Metro, Conroe and Montgomery market area as growth continues. The recently completed section of the SH 99 (The Grand Parkway) section from US 290 northward to IH 45 along with the developing Exxon/Mobile complex is promoting further activity in the north Houston Metro area and Conroe/Montgomery area and is contributing to continued growth and development of the area. We are unaware of any other conveyances of title for the land at this time. A copy of the MCAD tax records and owner provided information is in the addenda.

METHODOLOGY AND PROCEDURES USED IN THE APPRAISAL PROCESS

An appraisal is defined as “the act or process of developing and opinion of value.” (Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute). Real estate appraisal involves selective research into appropriate market areas; the assemblage of pertinent data; the use of appropriate analytical techniques; and the application of knowledge, experience, and professional judgment to develop an appropriate solution to an appraisal problem. The appraiser provides the client with an opinion of real property value that reflects all pertinent market evidence.

The underlying principles in the appraisal process are supply/demand, anticipation, change, competition, substitution, opportunity cost, balance, contribution, surplus productivity, conformity, and externalities.

In arriving at a final value conclusion for real property and arduous and systematic process is undertaken. This process, as detailed in The Appraisal of Real Estate, Thirteenth Edition, is set forth below.

“The valuation process begins when an appraiser identifies the appraisal problem and ends when the conclusions of the appraisal are reported to the client.

“Each real property is unique and opinions of many different types of value can be developed for a single property. The most common appraisal assignment is performed to render an opinion of market value; the valuation process contains all the steps appropriate to this type of assignment. The model also provides the framework for developing an opinion of other defined values.

“The valuation process is accomplished through specific steps; the number of steps followed depends on the nature of the appraisal assignment and the available data. The model provides a pattern that can be used in any appraisal assignment to perform market research and data analysis, to apply appraisal techniques, and to integrate the results of these activities into an opinion of defined value.
“Research begins after the appraisal problem has been defined and the scope of work required to solve the problem has been identified. The analysis of data relevant to the problem starts with an investigation of trends observed at the market level – international, national, regional, or neighborhood. This examination helps the appraiser understand the interrelationships among the principles, forces, and factors that affect real property value in the specific market area. Research also provides raw data from which the appraiser can extract quantitative information and other evidence of market trends. Such trends may include positive or negative percentage changes in property value over a number of years, the population movement into an area, and the number of employment opportunities available and their effect on the purchasing power of potential property users.

“In assignments to develop an opinion of market value, the ultimate goal of the valuation process is a well-supported value conclusion that reflects all of the pertinent factors that influence the market value of the property being appraised. To achieve this goal, an appraiser studies a property from three different viewpoints, which are referred to as the approaches to value. The three approaches are described below.

In the Cost Approach, the value is indicated as the current cost of reproducing or replacing the improvements (including an appropriate entrepreneurial incentive or profit) minus the loss in value from depreciation plus land or site value.

The Sales Comparison method is also applied in the valuation of the individual tracts or lots utilized in the discounted cash flow in the subdivision analysis. In order to value the subject improved tracts or lots, a subdivision analysis was performed using sales data on comparable nearby tracts or lots, as well as information about the subject property. From the conclusion in the subdivision analysis, a discounted cash flow analysis was performed to determine the discount present value of the subject tracts or lots. The discounted cash flow accounted for operating costs related to the disposition of the improved tracts or lots, as well as the time value of money. This analysis indicated a present value or market value for the property.

In the Income Capitalization Approach, value is indicated by a property’s earning power, based on the capitalization of the income stream.

“One or more approaches to value may be used depending on their applicability to the particular appraisal assignment, the nature of the property, the needs of the client, or the available data. The three approaches are interrelated; each requires the gathering and analysis of data that pertain to the property being appraised. From the approaches applied, the appraiser derives separate indications of value for the property being appraised. In some cases at the appraiser’s determination an approach is not developed for reasons given in the appraisal report.

“To complete the valuation process, the appraiser integrates the information drawn from market research, data analysis, and the application of the approaches to form a value conclusion. This conclusion may be presented as a single point conclusion of value or as a range within which the value may fall. An effective integration of all the elements in the process depends on an appraiser’s skill, experience, and judgment.”
An outline of the valuation process is presented below.

I. Definition of the Problem
   A. Identification of real estate
   B. Identification of property rights to be valued
   C. Use of appraisal
   D. Definition of Value
   E. Date of Value Conclusion
   F. Other limiting conditions

II. Preliminary Analysis and Data Selection and Collection
   A. General
      1. Social
      2. Economic
      3. Government
      4. Environmental
   B. Specific (Subject and Comparables)
      1. Site and improvements
      2. Cost and Depreciation
      3. Income/expense and capitalization rate
      4. History of ownership and use of property

III. Highest and Best Use Analysis
   A. Land as though vacant
   B. Property as improved

IV. Land Value

V. Application of the Three Approaches
   A. Cost
   B. Sales Comparison
   C. Income Capitalization

VI. Reconciliation of Value Indications and Final Value Conclusion

VII. Report of Defined Value

Approaches Applicable to this Appraisal
In the following pages, the report will be segregated into four major categories. The first section covers general considerations, such as Region, City, and Neighborhood Data. The Second Section will deal with the site, improvements and taxes. Next is an analysis from the developed approaches to value with an estimate of market value from each developed approach. In the final section, the value is discussed and reconciled in the Final Reconciliation Section, just preceding the Final Value Conclusion.
This report has been prepared in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), the Standards of Professional Appraisal Practice of the Appraisal Institute, the Code of Professional Ethics of the Appraisal Institute, and FIRREA. At our client’s request, the scope of this assignment is to perform an Appraisal in a narrative Appraisal Report. The development of this appraisal entailed the use of the appraisal process, as defined by the Uniform Standards of Appraisal Practice (USPAP).

**SCOPE OF THE APPRAISAL**

The scope of this appraisal involved the systematic research and analysis necessary to reach a value conclusion for the subject. The initial step was a site visit to the subject and the surrounding area. After analyzing the macro environment, research was conducted relevant to the valuation process, including gathering comparable land sales and listings, real estate tax data, zoning, and other pertinent information. Finally, we analyzed and applied the resulting information to the approach to value deemed relevant. Since the property is being appraised as effectively an effectively vacant site with utilities the Direct Sales Approach was applicable. No building improvements on the property were considered and the value is based on an effectively vacant site with utilities value basis. Therefore, the scope of this assignment is to develop the Direct Sales Approaches to value. This Appraisal Report is the written result of our findings and analysis. We have appraised properties similar to the subject before and have satisfied the competency provision of USPAP. As defined by the Uniform Standards of Appraisal Practice, (USPAP), this is an "Appraisal Report." The data and the analysis of the data are discussed in the report. Any analysis not described in the report is retained in the appraiser’s file. The request of the client or the nature of the assignment has not limited the scope of this appraisal. This appraisal involves the use of all applicable approaches to value, concludes in an estimate of Market Value based on an unconditioned definition, and is transmitted in a narrative report format. It has been the intention of the appraiser to prepare this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, FIRREA and the Supplemental Standards and regulations of the Appraisal Institute. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

Information was gathered concerning sales of comparable sites for the appraisal. The search for sales concentrated on the immediate market area but included other Houston metro area markets. The data was analyzed, and adjustments were made for differences between the subject and the market data if applicable. The adjusted conclusion of the approach was considered and correlated to a final market value conclusion. The description of extent of the process of collecting, confirming, and reporting data may be contained within this report or retained in the appraisers file.

Engineering studies, ADA determinations, and environmental audits are **beyond** the scope of this appraisal. The appraiser is not qualified to detect or identify structural or mechanical deficiencies present in the improvements, nor hazardous substances that may, or may not, be present on, in, or near the subject property.

Information regarding other written or verbal representations and/or communications and information provided to us were reasonably relied upon in good faith but have not been analyzed.
for their legal implications. We urge and caution the user of this report to obtain legal counsel of his own choice to review the legal and factual matters, and to verify and analyze the underlying facts and merits of any investment decision in a reasonably prudent manner.

The appraiser was provided with a recent reduced survey but was provided limited information regarding the physical aspects of the subject property.

**DEFINITIONS OF VALUE AND INTEREST APPRAISED**

**Market Value**

According to USPAP, *Market Value* means: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financing arrangements comparable thereto; and,
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with sale.

(Dictionary; 12 C.F.R. Part 34.42(g); 55 Federal Register 34696, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal Register 29499, June 7, 1994)

**Fee Simple Interest**

According to *The Dictionary of Real Estate Appraisal*, Third Edition published by the Appraisal Institute, *Fee Simple Interest* means: Absolute ownership unencumbered by any other interest or estate; subject only to the limitations imposed by the governmental powers of eminent domain, escheat, police power, and taxation.

**Leased Fee Estate**

According to *The Dictionary of Real Estate Appraisal*, Third Edition, published by the Appraisal Institute, *Leased Fee Estate* means: An ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease; usually consists of the right to receive rent and the right to repossession at the termination of the lease. It is also known as the Lessor's Marketable Interest.

**Extraordinary Assumption**

An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or
about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may be used in an assignment only if:

- It is required to properly develop credible opinions and conclusions;
- The appraiser has a reasonable basis for the extraordinary assumption;
- Use of the extraordinary assumption results in a credible analysis; and
- The appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

Hypothetical Condition
That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. A hypothetical condition may be used in an assignment only if:

- Use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- Use of the hypothetical condition results in a credible analysis; and
- The appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

Appraisal Report
As defined by the Appraisal Standards Board of the Appraisal Foundation, an Appraisal Report is defined as follows:

“A written report prepared under standards Rule 2-2(b) of an Appraisal performed under Standard 1.”

Property Rights Appraised
The property rights appraised in this assignment are the Fee Simple Estate in the subject property.

Value As Is
The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning.

Effective Date
The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service apply. (USPAP, 2014 ed.)

MARKETING AND EXPOSURE TIME

USPAP requires that an appraiser be specific as to the estimate of exposure time linked to the value estimate (SR 1-2 (b)). Our estimate of Market Value implicitly considered the concept of reasonable exposure time (presumed to occur prior to the effective date of appraisal) and was NOT linked to a SPECIFIED marketing time (which is presumed to occur during the period immediately after the effective date of appraisal). Our estimate of marketing time was reflective of our estimate
of the marketing period for this type of property, in this market area considering the current market conditions.

According to the Fourth Quarter 2017 issue of the PWC Real Estate Investor Survey, average marketing times for the national apartment market had a range from 0 to 9 months with an average marketing time of 3.80 months and an average overall cap rate of 5.32%. The Houston office market times range from 3.00 to 12.00 months this current quarter and average of 9.00 months of marketing time and an average cap rate of 7.26%. Based on the PWC Real Estate Investor Survey the average marketing time for all property types was 5.91 months and average cap rate for all properties of 6.51% for the last reporting period. Based on our investigation of the market, which included discussions with market participants, and a review of national surveys, it is our opinion that this property would have a reasonable exposure time, as well as marketing time, of less than 12 months, professionally marketed at the value estimated in this report. We based our estimate of marketing period on conversations with sellers, developers, and brokers of similar properties, which may have been the subject of previous appraisals. Our value conclusion is based on the concept of reasonable exposure to the market of 12 months, which coincides with our estimate of reasonable marketing time of 12 months.

<table>
<thead>
<tr>
<th>AVERAGE MARKETING TIME IN MONTHS</th>
<th>CAP RATE</th>
<th>4th Quarter 2017 PWC Average</th>
<th>Year Ago Average</th>
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<tr>
<td>National Apartment Market</td>
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<tr>
<td>National Net Lease Market</td>
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<td>National Regional Mall</td>
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<td>National Office (Suburban)</td>
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<td>National Secondary Office</td>
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<td>National Medical Office Building</td>
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<td>Houston Office Market</td>
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<td>Domestic Self-Storage Market</td>
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<td>All Markets-Average</td>
<td>5.91</td>
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COMPETENCY PROVISIONS

USPAP contains a requirement that an appraiser have the knowledge and experience to complete an assignment competently. William R. Murphy, MAI SRA CCIM is a 1970 graduate of the University of Texas-Austin. He has been a real estate appraiser since 1974 and received the MAI designation in 1980 and has been a state certified real estate appraiser since 1990. He is competent to appraise the subject property, having appraised similar properties over his 44 plus years as an appraiser in the Houston market area. The continuing educational program followed by the appraiser is developed by the Appraisal Institute and the Texas License and Certification Board in order to remain abreast of current and future trends in the real estate market and the appraisal profession. Mr. Murphy has met the continuing education requirements of the Appraisal Institute period thru December 31, 2022. Also Mr. Murphy is a state certified real estate appraiser and has completed the continuing education requirements by the Texas License and Certification Board. This experience, together with knowledge gained through Appraisal Institute courses and the Appraisal Institute recertification program, complies with the USPAP Competency Provision.
According to The Appraisal of Real Estate Appraisal, a regional analysis or economic base analysis is a survey of the industries and businesses that generate employment and income in a community as well as the rate of population growth and levels of income, both of which are functions of employment. Economic base analysis is used to forecast the level and composition of future economic activity. Specifically, the relationship between basic employment (which brings income into a community) and nonbasic employment (which provides services for workers in the basic employment sector) is studied to predict population, income, or other variables that affect real estate values or land utilization.

The subject neighborhood is located in the Conroe and the city of Montgomery area in Montgomery County, Texas, which is a part of the Houston Metro area. The subject neighborhood includes Conroe and extends westerly along Highway 105 to the city of Montgomery and beyond.

Houston-Sugar Land-Baytown is the sixth-largest metropolitan area in the United States with a population of 5.6 million as of the 2007 U.S. Census estimate. The population of the metropolitan area is centered in the city of Houston, the largest economic and cultural center of Texas with a population of 2.14 million.

Houston is the fourth-largest city in the United States of America and the largest city within the state of Texas. As of the 2006 U.S. Census estimate, the city has a population of 2.2 million within an area of 600 square miles. Houston is the seat of Harris County and the economic center of the Houston-Sugar Land-Baytown metropolitan area the sixth-largest metropolitan area in the U.S. with a population of around 5.6 million.

Houston is among the nation’s fastest-growing metropolitan areas. The area grew 25.2 percent between the 1990 and 2000 censuses-adding more than 950,000 people-while the nation's population increased 13.2 percent over the same period. From 2000-2007, the area grew by 912,994 people. Houston was founded on August 30, 1836 by brothers Augustus Chapman Allen and John
Kirby Allen on land near the banks of Buffalo Bayou. The city was incorporated on June 5, 1837 and named after then-President of the Republic of Texas-former General Sam Houston—who had commanded at the Battle of San Jacinto, which took place 25 miles east of where the city was established. The burgeoning port and railroad industry, combined with oil discovery in 1901, has induced continual surges in the city's population. In the mid-twentieth century, Houston became the home of the Texas Medical Center—the world's largest concentration of healthcare and research institutions and NASA's Johnson Space Center, where Mission Control Center is located.

Houston's economy has a broad industrial base in the energy, manufacturing, aeronautics, transportation, and health care sectors; only New York City is home to more Fortune 500 headquarters. Commercially, Houston is ranked as a gamma world city, and the area is a leading center for building oilfield equipment. The Port of Houston ranks first in the United States in international waterborne tonnage handled and second in total cargo tonnage handled. The city has a multicultural population with a large and growing international community. It is home to many cultural institutions and exhibits—attracting more than 7 million visitors a year to the Houston Museum District. Houston has an active visual and performing arts scene in the Theater District and is one of few U.S. cities that offer year-round resident companies in all major performing arts.

Refineries and chemical plants sprawl for miles along the Houston Ship Channel, from Houston to Pasadena, Deer Park and La Porte. Dozens more plants lie north and south of where the channel meets Galveston Bay to the north at Mont Belvieu and Baytown, and to the south at Seabrook, Texas City and Freeport. This scene is repeated up and down the Gulf Coast at Corpus Christi, Victoria, Beaumont, Port Arthur, Orange, Lake Charles, New Orleans and Baton Rouge. This Texas and Louisiana refining and petrochemical complex is the largest in the world and the dominant economic feature of the Gulf Coast. Houston’s first refineries were built after completion of the ship channel and World War I. By 1931, Humble Oil (later a Standard Oil subsidiary) had expanded its Baytown refinery to become the largest on the Gulf Coast, a distinction it would exchange over the decades with Standard’s Baton Rouge plant. By 1941, Houston had displaced Beaumont/Port Arthur as the largest refining center on the Gulf Coast. Galveston Bay is a large estuary located along Texas's upper coast. The bay is fed by the Trinity River and the San Jacinto River, numerous local bayous and incoming tides from the Gulf of Mexico. The bay covers approximately 600 square miles and is 30 miles long and 17 miles wide. Galveston Bay is on average 7-9 feet deep. The bay has three inlets at the Gulf of Mexico: Bolivar Roads (the exit of the Houston Ship Channel) between Galveston Island and the Bolivar Peninsula, San Luis Pass to the West, and Rollover Pass to the East.

The Houston Ship Channel, connecting the Port of Houston to the Gulf, passes through Galveston Bay. Houston is the largest city on the bay, while smaller ones include Galveston, Pasadena, Baytown, and Texas City. The bay provides nursery and spawning grounds for large amounts of marine life and is important for both commercial and recreational fishing.

Downtown
Downtown Houston is the seventh largest downtown business district in the United States and has the third most concentrated skyline after New York City and Chicago. Many downtown buildings are connected by an underground pedestrian tunnel system, which also houses restaurants and shops. Houston’s Downtown Theater District is the second largest in the nation, behind New York
City. Downtown is also home to Minute Maid Park and the Toyota Center, homes of the Houston Astros and Houston Rockets, respectively.

The Heights
The Heights was founded in 1891 as one of Houston’s first suburbs. The area is known for its tree-lined streets, beautiful parks and assortment of new homes, Victorian-era houses and Craftsman bungalows. Also known as the Historical Heights, many original early-1900s shops, homes and offices remain standing in this area, and many new buildings mimic the style of the older construction, creating the feel of an old-time neighborhood.

Montrose
Also known as Neartown, the Montrose area is considered one of Houston’s most eccentric areas, and hosts a diverse community of young adults, punk rockers and artist, as well as a vibrant thrift, vintage and second-hand shopping area. It is an area made for pedestrians where people can walk and cycle easily. Montrose is home to the Menil Collection modern art museum, Rothko Chapel and the University of St. Thomas, as well as Chinese and Norwegian consulates.

Texas Medical Center
The Texas Medical Center (“TMC”), ranked as the world’s largest medical complex by several criteria including total acreage (1,000+), patient visits (5.5 million in 2008) and its impact on its local economy. The TMC’s 47-member institutions directly employ more than 75,000 people and indirectly support another 80,000 jobs outside its borders. Proving one of the largest economic engines powering Houston’s financial health, the TMC is responsible for the direct and indirect expenditure of $3.86 billion for the immediate area, allowing immediate and regional businesses to gain from its synergy. Moreover, $9.2 billion in cumulative capital has been invested in the TMC, creating jobs in several fields including construction, research and development, treatment and diagnostics. Houston has the largest concentration of researchers, physicians and medical professionals in the world. The medical center is home to seven general care hospitals, six specialty hospitals, two medical schools, four nursing schools, a dental school, a public health school, two colleges of pharmacy, various health science programs, and a magnet high school.

Rice University
Across Main Street from the Medical Center is the 285-acre, tree-lined campus of Rice University. Also, adjacent to the Medical Center is Hermann Park, which contains the Houston Zoo, Houston Garden Center, Miller Outdoor Theatre, Houston Museum of Natural Science and Hermann Park Golf Course, which was the first desegregated public golf course in the United States.

The Galleria
The Galleria area, also known as Uptown, is the Houston’s best-known shopping district and second-largest business district. The Galleria area landmarks include the Galleria Mall, featuring 2.5 million square feet of retail space, and Williams Tower, a 64-story skyscraper topped by a rotating beacon light that can be seen 40 miles away. Stainless steel gateways, arches, and halos over major intersections give Uptown a sleek, modern look that fits well with the area’s status as the center of Houston’s fashion scene.
Memorial Park

Opened in 1924 and covering 1,466 acres, Memorial Park is one of the largest urban parks in the United States. From 1917-1923, the land on which the park is located was the site of Camp Logan, a World War I training facility for the U.S. Army. Known as Houston’s “Running Mecca,” Memorial Park’s Three-mile Seymour Lieberman Exercise Trail is Houston’s most popular running trail, attracting thousands of runners every day.

CoStar 4th Quarter 2017 Houston Retail Market

The Houston retail market did not experience much change in market conditions in the fourth quarter 2017. The vacancy rate went from 5.4% in the previous quarter to 5.3%. Net absorption was positive 1,744,394 square feet, and vacant sublease space decreased by 36,473 square feet. Quoted rental rates increased from third quarter 2017 levels, ending at $16.86 per square foot per year. A total of 78 retail buildings with 1,336,149 square feet of retail space were delivered to the market in the quarter, with 3,365,184 square feet still under construction at the end of the quarter.

Houston’s Vacancy

Houston's retail vacancy rate decreased in the fourth quarter 2017, ending the quarter at 5.3%. Over the past four quarters, the market has seen an overall increase in the vacancy rate, with the rate going from 4.9% in the first quarter 2017, to 5.2% at the end of the second quarter 2017, 5.4% at the end of the third quarter 2017, to 5.3% in the current quarter.

The amount of vacant sublease space in the Houston market has trended up the past four quarters. At the end of the first quarter 2017, there were 216,795 square feet of vacant sublease space. Currently, there are 238,500 square feet vacant in the market.

Absorption

Retail net absorption was strong in Houston fourth quarter 2017, with positive 1,744,394 square feet absorbed in the quarter. In third quarter 2017, net absorption was positive 509,278 square feet, while in second quarter 2017; absorption came in at positive 874,411 square feet. In first quarter 2017, positive 745,702 square feet was absorbed in the market.

Rental Rates

Average quoted asking rental rates in the Houston retail market are up over previous quarter levels, and up from their levels four quarters ago. Quoted rents ended the fourth quarter 2017 at $16.86 per square foot per year. That compares to $16.53 per square foot in the third quarter 2017, and $16.39 per square foot at the end of the first quarter 2017. This represents a 2.0% increase in rental rates in the current quarter and a 2.79% increase from four quarters ago.

Inventory & Construction

During the fourth quarter 2017, 78 buildings totaling 1,336,149 square feet were completed in the Houston retail market. Over the past four quarters, a total of 5,794,281 square feet of retail space has been built in Houston. In addition to the current quarter, 58 buildings with 1,201,999 square feet were completed in third quarter 2017, 86 buildings totaling 1,650,501 square feet completed in second quarter 2017, and 1,605,632 square feet in 82 buildings completed in first quarter 2017.
CoStar 3rd Quarter 2017 Houston Retail Market

The Houston retail market experienced a slight decline market conditions in the third quarter 2017. The vacancy rate went from 5.2% in the previous quarter to 5.4%. Net absorption was positive 172,733 square feet, and vacant sublease space increased by 27,246 square feet. Quoted rental rates decreased from second quarter 2017 levels, ending at $16.43 per square foot per year. A total of 59 retail buildings with 1,117,478 square feet of retail space were delivered to the market in the quarter, with 3,939,401 square feet still under construction at the end of the quarter.

Houston’s Vacancy
Houston’s retail vacancy rate increased in the third quarter 2017, ending the quarter at 5.4%. Over the past four quarters, the market has seen an overall increase in the vacancy rate, with the rate going from 4.8% in the fourth quarter 2016, to 5.0% at the end of the first quarter 2017, 5.2% at the end of the second quarter 2017, to 5.4% in the current quarter.

The amount of vacant sublease space in the Houston market has trended up the past four quarters. At the end of the fourth quarter 2016, there were 251,440 square feet of vacant sublease space. Currently, there are 274,973 square feet was absorbed in the market.

Absorption
Retail net absorption was basically flat in Houston third quarter 2017, with positive 172,733 square feet absorbed in the quarter. In second quarter 2017, net absorption was positive 871,866 square feet, while in first quarter 2017; absorption came in at positive 722,920 square feet. In fourth quarter 2016, positive 1,556,794 square feet was absorbed in the market.

Rental Rates
Average quoted asking rental rates in the Houston retail market are down over previous quarter levels, and up from their levels four quarters ago. Quoted rents ended the third quarter 2017 at $16.43 per square foot per year. That compares to $16.49 per square foot in the second quarter 2017, and $15.84 per square foot at the end of the fourth quarter 2016. This represents a 0.4% decrease in rental rates in the current quarter and a 3.59% increase from four quarters ago.

Inventory & Construction
During the third quarter 2017, 59 buildings totaling 1,117,478 square feet were completed in the Houston retail market. Over the past four quarters, a total of 6,164,560 square feet of retail space has been built in Houston. In addition to the current quarter, 89 buildings with 1,704,578 square feet were completed in second quarter 2017, 77 buildings totaling 1,569,333 square feet completed in first quarter 2017, and 1,773,171 square feet in 52 buildings completed in fourth quarter 2016.

CoStar 4th Quarter 2017 Houston Office Market

The Houston office market ended the fourth quarter 2017 with a vacancy rate of 16.3%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 769,331 square feet in the fourth quarter. Vacant sublease space decreased in the quarter ending the quarter at 5,165,446 square feet. Rental rates ended the fourth quarter at $27.76, a increase over the previous quarter. A total of 16 buildings delivered to the market in the quarter totaling 636,600 square feet, with 2,479,402 square feet still under construction at the end of the quarter.
Houston’s Vacancy
The vacancy rate in the Houston office market decreased to 16.3% at the end of the fourth quarter 2017. The vacancy rate was 16.4% at the end of the third quarter 2017, 16.2% at the end of the second quarter 2017, and 15.9% at the end of the first quarter 2017.

Absorption
Net absorption for the overall Houston office market was positive 769,331 square feet in the fourth quarter 2017. That compares to negative 564,833 square feet in the third quarter 2017, negative 555,511 square feet in the second quarter 2017, and negative 1,403,483 square feet in the first quarter 2017.

Rental Rates
The average quoted asking rental rate for available office space, all classes, was $27.76 per square foot per year at the end of the fourth quarter 2017 in the Houston market area. This represented a 0.7% increase in quoted rental rates from the end of the third quarter 2017, when rents were reported at $27.58 per square foot.

Deliveries & Construction
During the fourth quarter 2017, 16 buildings totaling 636,600 square feet were completed in the Houston market area. This compares to 12 buildings totaling 318,327 square feet that were completed in the third quarter 2017, 18 buildings totaling 349,284 square feet completed in the second quarter 2017, and 1,940,205 square feet in 20 buildings completed in the first quarter 2017.

Inventory
Total office inventory in the Houston market area amounted to 306,857,949 square feet in 7,434 buildings as of the end of the fourth quarter 2017. The Class-A office sector consisted of 143,324,339 square feet in 484 projects. There were 3,167 Class-B buildings totaling 124,654,245 square feet, and the Class-C sector consisted of 38,879,365 square feet in 3,783 buildings. Within the Office market there were 594 owner-occupied buildings accounting for 44,559,659 square feet of office space.

Sales Activity
Tallying office building sales of 15,000 square feet or larger, Houston office sales fell during the third quarter 2017 in terms of dollar volume compared to the second quarter of 2017. In the third quarter, 4 office transactions closed with a total volume of $33,600,000. The 4 buildings totaled 216,232 square feet and the average price per square foot equated to $155.39 per square foot. That compares to 12 transactions totaling $730,630,414 in the second quarter 2017. The total square footage in the second quarter was 3,448,663 square feet for an average price per square foot of $211.86. Total office building sales activity in 2017 was up compared to 2016. In the first 9 months of 2017, the market saw 25 office sales transactions with a total volume of $1,717,697,444. The price per square foot averaged $202.32. In the same 9 months of 2016, the market posted 13 transactions with a total volume of $275,090,000. The price per square foot averaged $191.41. Cap rates have been higher in 2017, averaging 6.78% compared to the same period in 2016 when they averaged 6.35%.

CoStar 3rd Quarter 2017 Houston Office Market
The Houston office market ended the third quarter 2017 with a vacancy rate of 16.4%. The vacancy rate was up over the previous quarter, with net absorption totaling negative 758,963 square feet in the third quarter. Vacant sublease space increased in the quarter ending the quarter at 5,652,114 square feet. Rental rates ended the third quarter at $27.60, a decrease over the previous quarter. A total of 11 buildings delivered to the market in the quarter totaling 209,846 square feet, with 3,139,455 square feet still under construction at the end of the quarter.
Houston’s Vacancy
The vacancy rate in the Houston office market increased to 16.1% at the end of the second quarter 2017. The vacancy rate was 15.9% at the end of the first quarter 2017, 15.0% at the end of the fourth quarter 2016, and 14.7% at the end of the third quarter 2016.

Absorption
Net absorption for the overall Houston office market was negative 758,963 square feet in the third quarter 2017. That compares to negative 648,652 square feet in the second quarter 2017, negative 1,360,565 square feet in the first quarter 2017, and negative 898,322 square feet in the fourth quarter 2016.

Rental Rates
The average quoted asking rental rate for available office space, all classes, was $27.60 per square foot per year at the end of the third quarter 2017 in the Houston market area. This represented a 0.3% decrease in quoted rental rates from the end of the second quarter 2017, when rents were reported at $27.67 per square foot.

Deliveries & Construction
During the third quarter 2017, 11 buildings totaling 209,846 square feet were completed in the Houston market area. This compares to 19 buildings totaling 350,424 square feet that were completed in the second quarter 2017, 20 buildings totaling 1,944,623 square feet completed in the first quarter 2017, and 89,065 square feet in 12 buildings completed in the fourth quarter 2016.

Inventory
Total office inventory in the Houston market area amounted to 209,846 square feet in 7,269 buildings as of the end of the second quarter 2017. The Class-A office sector consisted of 142,237,382 square feet in 477 projects. There were 3,080 Class-B buildings totaling 124,000,753 square feet, and the Class-C sector consisted of 38,953,000 square feet in 3,712 buildings. Within the Office market there were 587 owner-occupied buildings accounting for 44,837,250 square feet of office space.

Sales Activity
Tallying office building sales of 15,000 square feet or larger, Houston office sales rose during the second quarter 2017 in terms of dollar volume compared to the first quarter of 2017. In the second quarter, 11 office transactions closed with a total volume of $742,919,354. The 11 buildings totaled 3,353,480 square feet and the average price per square foot equated to $221.54 per square foot. That compares to 9 transactions totaling $407,466,630 in the first quarter 2017. The total square footage in the first quarter was 2,126,428 square feet for an average price per square foot of $191.62. Total office building sales activity in 2017 was up compared to 2016. In the first 6 months of 2017, the market saw 20 office sales transactions with a total volume of $1,150,385,984. The price per square foot averaged $209.93. In the same 6 months of 2016, the market posted 8 transactions with a total volume of $88,465,000. The price per square foot averaged $125.92. Cap rates have been higher in 2017, averaging 7.17% compared to the same period in 2016 when they averaged 6.32%.

CoStar 4th Quarter 2017 Houston Industrial Market

The Houston Industrial market ended the fourth quarter 2017 with a vacancy rate of 5.5%. The vacancy rate was up over the previous quarter, with net absorption totaling positive 186,349 square feet in the fourth quarter. Vacant sublease space increased in the quarter, ending the quarter at 1,716,580 square feet. Rental rates ended the fourth quarter at $7.01, an increase over the previous quarter. A total of 16 buildings delivered to the market in the quarter totaling 667,181 square feet, with 6,276,897 square feet still under construction at the end of the quarter.
Absorption
Net absorption for the overall Houston Industrial market was positive 186,349 square feet in the fourth quarter 2017. That compares to positive 3,476,375 square feet in the third quarter 2017, positive 34,565 square feet in the second quarter 2017, and positive 3,057,163 square feet in the first quarter 2017.

Vacancy
The Industrial vacancy rate in the Houston market area increased to 5.5% at the end of the fourth quarter 2017. The vacancy rate was 5.4% at the end of the third quarter 2017, 5.6% at the end of the second quarter 2017, and 5.3% at the end of the first quarter 2017. Flex projects reported a vacancy rate of 9.7% at the end of the fourth quarter 2017, 9.9% at the end of the third quarter 2017, 9.5% at the end of the second quarter 2017, and 8.6% at the end of the first quarter 2017. Warehouse projects reported a vacancy rate of 5.1% at the end of the fourth quarter 2017, 5.0% at the end of the third quarter 2017, 5.2% at the end of the second quarter 2017, and 5.0% at the end of the first quarter 2017.

Rental Rates
The average quoted asking rental rate for available Industrial space was $7.01 per square foot per year at the end of the fourth quarter 2017 in the Houston market area. The average quoted rate within the Flex sector was $9.80 per square foot at the end of the fourth quarter 2017, while Warehouse rates stood at $6.71. At the end of the third quarter 2017, Flex rates were $9.33 per square foot, and Warehouse rates were $6.45.

Deliveries and Construction
During the fourth quarter 2017, 16 buildings totaling 667,181 square feet were completed in the Houston market area. This compares to 26 buildings totaling 2,225,020 square feet that were completed in the third quarter 2017, 45 buildings totaling 1,531,131 square feet completed in the second quarter 2017, and 3,781,023 square feet in 64 buildings completed in the first quarter 2017. There were 6,276,897 square feet of Industrial space under construction at the end of the fourth quarter 2017. Some of the notable 2017 deliveries include: 10550 Ella Blvd., a total of 855,000-square foot facility that delivered in third quarter 2017 and is now 100% occupied, and 8787 W Grand Parkway N, a 800,000-square foot building that delivered in third quarter 2017 and is now 100% occupied. The largest projects underway at the end of fourth quarter 2017 were 525 Cane Island Pkwy, a 673,785-square-foot building with 0% of its space pre-leased, and Port Crossing Commerce Center- Building B2, a 600,360-square-foot facility that is 0% pre-leased.

Inventory
Total Industrial inventory in the Houston market area amounted to 592,789,071 square feet in 19,302 buildings as of the end of the fourth quarter 2017. The Flex sector consisted of 51,778,554 square feet in 2,060 projects. The Warehouse sector consisted of 541,010,517 square feet in 17,242 buildings. Within the Industrial market there were 3,550 owner-occupied buildings accounting for 158,131,765 square feet of Industrial space.

Sales Activity
Tallying industrial building sales of 15,000 square feet or larger, Houston industrial sales figures fell during the third quarter 2017 in terms of dollar volume compared to the second quarter of 2017. Total year-to-date industrial building sales activity in 2017 is up compared to the previous year. In the first 9 months of 2017, the market saw 57 industrial sales transactions with a total volume of $599,923,078. The price per square foot has averaged $77.65 this year. In the first 9 months of 2016, the market posted 37 transactions with a total volume of $279,651,900. The price per square foot averaged $67.55. Cap rates have been higher in 2017, averaging 7.66%, compared to the first 9 months of last year when they averaged 7.08%.
CoStar 3rd Quarter 2017 Houston Industrial Market

The Houston Industrial market ended the third quarter 2017 with a vacancy rate of 5.5%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 2,932,994 square feet in the third quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1,393,730 square feet. Rental rates ended the third quarter at $6.74, no change over the previous quarter. A total of 27 buildings delivered to the market in the quarter totaling 2,606,999 square feet, with 5,009,213 square feet still under construction at the end of the quarter.

Absorption
Net absorption for the overall Houston Industrial market was positive 2,932,994 square feet in the third quarter 2017. That compares to negative 84,077 square feet in the second quarter 2017, positive 3,018,987 square feet in the first quarter 2017, and positive 2,191,839 square feet in the fourth quarter 2016.

Vacancy
The Industrial vacancy rate in the Houston market area decreased to 5.5% at the end of the third quarter 2017. The vacancy rate was 5.6% at the end of the second quarter 2017, 5.4% at the end of the first quarter 2017, and 5.2% at the end of the fourth quarter 2016. Flex projects reported a vacancy rate of 10.1% at the end of the third quarter 2017, 9.6% at the end of the second quarter 2017, 8.7% at the end of the first quarter 2017, and 7.2% at the end of the fourth quarter 2016. Warehouse projects reported a vacancy rate of 5.1% at the end of the third quarter 2017, 5.2% at the end of second quarter 2017, 5.0% at the end of the first quarter 2017, and 5.0% at the end of the fourth quarter 2016.

Rental Rates
The average quoted asking rental rate for available Industrial space was $6.74 per square foot per year at the end of the third quarter 2017 in the Houston market area. The average quoted rate within the Flex sector was $9.41 per square foot at the end of the third quarter 2017, while Warehouse rates stood at $6.46. At the end of the second quarter 2017, Flex rates were $9.64 per square foot, and Warehouse rates were $6.43.

Deliveries and Construction
During the third quarter 2017, 27 buildings totaling 2,606,999 square feet were completed in the Houston market area. This compares to 49 buildings totaling 1,618,061 square feet that were completed in the second quarter 2017, 61 buildings totaling 3,742,412 square feet completed in the first quarter 2017, and 2,281,008 square feet in 36 buildings completed in the fourth quarter 2016. There were 5,009,213 square feet of Industrial space under construction at the end of the third quarter 2017. Some of the notable 2017 deliveries include: 10550 Ella Blvd., a total of 855,000-square foot facility that delivered in third quarter 2017 and is now 100% occupied, and 8787 W Grand Parkway N, a 800,000-square foot building that delivered in third quarter 2017 and is now 100% occupied. The largest projects underway at the end of third quarter 2017 were an 600,000-square foot building within the Pinto Business Park with 100% of its space pre-leased and a 500,006-square-foot facility on Sutton Rd. in Baytown that is 100% pre-leased.

Inventory
Total Industrial inventory in the Houston market area amounted to 591,019,076 square feet in 19,194 buildings as of the end of the third quarter 2017. The Flex sector consisted of 51,765,635 square feet in 2,038 projects. The Warehouse sector consisted of 539,253,441 square feet in 17,156 buildings. Within the Industrial market there were 3,555 owner-occupied buildings accounting for 158,086,905 square feet of Industrial space.

Sales Activity
Tallying industrial building sales of 15,000 square feet or larger, Houston industrial sales figures fell during the second quarter 2017 in terms of dollar volume compared to the first quarter of 2017. Total year-to-date
industrial building sales activity in 2017 is up compared to the previous year. In the first 6 months of 2017, the market saw 36 industrial sales transactions with a total volume of $458,362,654. The price per square foot has averaged $73.42 this year. In the first 6 months of 2016, the market posted 28 transactions with a total volume of $173,444,400. The price per square foot averaged $66.40. Cap rates have been higher in 2017, averaging 7.22%, compared to the first 6 months of last year when they averaged 6.38%.

Marcus and Millichap Multifamily Market Report

Diverse Employment Growth Stirs Demand for Class B/C Apartments

Strong absorption trends persist through remainder of the year. Diverse job creation is stirring steady demand for apartments in Houston this year, with healthy net absorption in the second and third quarters keeping overall market vacancy tight. Hiring in consumer-driven sectors such as leisure and hospitality, and retail trade, as well as other service sectors are leading employment gains. Growth in these segments typically supports demand for Class B/C apartments, which hovered near 6 percent in the third quarter. A boom in the energy industry following the recession led to enthusiastic economic expectations, prompting builders to move forward with a significant number of new units slated for delivery over the next several months. Demand for these apartments has fallen as declining oil prices over the last two years resulted in large losses in upstream oil and gas and related industries in recent quarters, weighing on economic growth. The impact is localized primarily in the western half of the metro where builders have focused their efforts for the past few years. As a result, softening vacancy in this area will push up the overall rate, though limited new supply and job gains in the eastern and southern portions of the metro will keep vacancy tight in these areas.

Optimistic investors positioning portfolios for healthy long-term gains. A positive long-term economic outlook is encouraged investment activity in the Houston apartment market this year. Job growth in downstream oil and gas operations, as well as consumer- and service-related industries, has many investors expanding portfolios with purchases of assets in eastern and southern areas of the metro. Properties here can trade at first-year returns in the mid-7 percent or lower range as investors seek to capitalize on upside potential or the opportunity to add value. Apartment complexes inside the loop remain attractive, selling at initial yields in the low- to mid-5 percent area, with suburban assets trading up to 50 basis points higher. Southeast Houston assets, located outside of Loop 610, are especially attractive as growth in the petrochemical industry supports healthy operations. Private local buyers are targeting Class B/C properties in this area, with cap rates averaging near 8 percent.

Multifamily

Employment: Employers are on track to create 12,500 jobs this year, expanding headcounts 0.4 percent. Last year, 20,700 workers were added.

Construction: Developers will bring 27,400 apartments online during 2016, comprising a mix of conventional, affordable, student and seniors housing units. Last year, apartment stock expanded by nearly 16,500 rentals.

Vacancy: The delivery of thousands of luxury units to inventory will raise vacancy in some submarkets and contribute to an increase of 40 basis points this year to 6.6 percent in December. Absorption will reach its strongest level since 2005 as nearly 23,100 units are leased during the year.
**Rents:** Apartment rent will reach $1,030 per month by year-end, rising 1.6 percent year over year. Rent growth will slow when compared with the 5.5 percent annual advance realized during 2015.

Marcus and Millichap 2017 Multifamily Market Report

Houston Multifamily Investment Forecast-Houston Metro Area, 2017 Outlook

Diverse Job Gains, Positive Long-Term Economic Outlook Encourage Houston Investors. Service-sector employment growth creates demand for Class B/C apartments. Renter household formation will remain robust this year as hiring in service-related segments such as healthcare, retail trade, and leisure and hospitality lead job gains. Employment growth in these industries will support healthy absorption for Class B/C properties, keeping vacancy tight and spurring positive rent gains in 2017. Class A stock has expanded substantially in recent years as a development boom spiked to support the thriving energy industry following the previous recession. Large job losses in the energy segment and related fields as a result of falling oil prices over the last two years have weighed on demand for luxury units now coming online. Should the price of oil return to $65 per barrel this year, the threshold many say is needed to resume hiring, the employment outlook will brighten and increase demand for recently completed apartments.

Despite the oil downturn we have not had negative job growth. In Houston CBD there is strong growth of the high end residential market based on a Texas A&M market report.

Houston/Gulf Coast CCIM Chapter

The US economy nearing full employment, having grown slowly but strongly under previous administration from 2007-2008 financial recessions can expect higher interest rates in our future, though they will come slowly. Economy strengthening which has taken place over the past eight years will lead to labor shortages, wage increases, and some inflation.

**Multi-Family:**
- Rental rates down a bit but investors are confident they will return and even surpass previous high, especially as inner-city sites become more expensive
- Second half of this year should start to see slowly falling vacancies as new product coming on market slows
- 4.75-6.25 Cap rates on investments sales of MF

**Land:**
- Houston has had twenty consecutive years of over 18,000 annual new home starts, surpassing by far any other market in U.S.
- Land transactions will improve moving forward but not to the same level as when oil was selling at $100 bbl.
- Master-planned community development moves forward regardless of availability of financing since the big players work with all equity- they will have lots available for homebuilders when they are needed down the road.

Houston housing market starts year with measured boost
Houstonians last month closed on 4,080 homes in this region, up to 1.7 percent from the same month last year, according to the monthly data released by the Houston Association of Realtors. Overall, housing availability has not kept up with demand. Homebuilding is down, and would be buyers who couldn’t find or afford houses during the boom have been buying, propping up the market through the oil downturn. Rising interest rates are part of the reason for the market’s continued resiliency, experts say. The 30-year mortgage rate averaged 4.19 percent at the beginning of February, according to a survey from Freddie Mac. That’s up from 3.72 percent a year earlier.

Greater Houston Partnership-January 2018-Summary

- The Partnership’s employment forecast for this year calls for the region to create approximately 45,500 jobs. Growth will be driven primarily by the strength of the U.S. and global economies and Houston’s links to them.
- Global trade is important to Houston because the region’s international ties are as strong as its domestic ties.
  - Metro Houston ranks second only to New York in value of exports.
  - Nearly 5,000 Houston-area companies are engaged in global commerce.
  - Global trade supports nearly 450,000 jobs in the region.
  - The Port of Houston ranks first in the U.S. in foreign tonnage.
  - Many of Houston’s public companies derive a significant portion of their revenues from their overseas operations.
- The Partnership’s forecast calls for job growth in 14 sectors: oil field services, manufacturing, wholesale trade, retail trade, finance and insurance, real estate, business, professional and technical services, educational services, health care, administrative services, arts and entertainment, accommodation and food services, other services, and government. Job losses will continue in two sectors: construction and information. Employment growth will be flat in upstream energy.
- Houston’s office market finished ’17 with 2.0 million square feet of negative absorption.
- Office construction remains subdued, with only 1.6 million to 2.2 million square feet under construction.
- The industrial market fared better, absorbing 7.0 million square feet of space.
- The retail sector absorbed 2.0 million square feet of space in ’17, well below the 4.0 million absorbed in ’16 but above the 10-year average.
- The market currently has a 3.9-month supply of resale homes, meaning the number of months it would take to deplete current active inventory for the single-family market based on the prior 12 months’ sales activity. The typical home is on the market 55 days before closing, notes the firm. The 10-year average is 47 days. Currently, about 12 percent of all closings are above list price. The 10-year average is 15 percent.
• Oil prices continue to trend upward. West Texas Intermediate, the U.S. benchmark for light, sweet crude, averaged $55.26 per barrel in Q4/17, up 12.4 percent from $49.14 in Q4/16.

• Baker Hughes reports 924 drilling rigs were working in the U.S. during the first week of January. That’s up 259 rigs, or 38.9 percent, from the 665 in early January last year. The rig count peaked at 958 in late July, then briefly declined, but has trended upward since early November.

Home sales and new home construction strengthened over the past few months, with nearly every housing indicator ending 2017 on a positive note. The recently enacted Tax Cuts and Jobs Act should support continued improvement in the broader economy and will benefit the housing market. On net, we have slightly raised our 2018 forecast.

Conclusion

Houston ranked among the top-performing U.S. metros in 2016 and continues to be among the top 10 metros lead the nation in population and job growth in 2014. Houston is once again making headlines as having one of the healthiest economies in the U.S. In July 2014, Forbes published its list of “Best Cities for Job Growth”, and Houston was in the top 10. Further, Texas dominated the top 10 with five metros, which are expected to have annual job growth of at least 3.5% in 2014. As expected, a large majority of the jobs Houston gained are related to the energy sector; however, Houston is also a top 10 city for STEM occupations, jobs requiring a degree in science, technology, engineering and math related subjects. In June 2014, Forbes ranked Houston in the top 10 for companies with the greatest number of STEM positions currently open with 10,278 positions listed. Houston also made Forbes list of “The Top 10 Cities for Relocation”, with the highest gains in Engineering and Operations jobs.

The Houston Metro Area historically has been among the fastest-growing metropolitan areas in the United States. The area grew 25.2 percent between the 1990 and 2000 censuses adding more than 950,000 people while the nation's population increased 13.2 percent over the same period. From 2000 to 2007, the area grew by 912,994 people. From 2000 to 2030, the metropolitan area is projected by Woods & Poole Economics to rank fifth in the nation in population growth adding 2.66 million people. The Milken Institute/Greenstreet Real Estate Partners ranked Houston-Sugar Land-Baytown as the fifth-best performing metropolitan area; the Houston area had moved up 11 spaces from the previous year's ranking. The Houston Metro Area continues to grow and has positive job growth and increasing population. The real estate market continues to improve, and development and new construction is continuing even as the local and national economy recovers. The positive growth and development of Houston Metro is expected to continue as the national and local economics improve. Lower oil prices have affected the energy sector of the Houston Economy, but the other sectors appear to be picking up some of the slack caused by the loss of jobs in the energy sector and the price per barrel has steadily increased and is currently around $60 per barrel.

Therefore, the long-term future of the Houston-Sugar Land-Baytown Metro Area is believed to be positive. The subject neighborhood is mixed use in nature and includes all types of land uses. The subject neighborhood is imbedded within the Houston Metro area and is included in the Houston MSA. The subject neighborhood is generally located in the Montgomery and Conroe area which
is a part of the north and northwest Houston Metro area. This area is considered to be close in and has convenient freeway access. There are no apparent detrimental factors to prevent future development. Property values should continue to be stable to increasing. Therefore, the long-term future of the Houston-Sugar Land-Baytown Metro Area is believed to be positive.

For more detailed Market Overviews for the Greater Houston CMSA area please refer to the website http://recenter.tamu.edu/mdata/Houston-Sugar-Land-Baytown.asp.

Additional Regional and neighborhood area and market information is in the addenda.
NEIGHBORHOOD AREA ANALYSIS SUMMARY

NEIGHBORHOOD ANALYSIS

According to The Appraisal of Real Estate Appraisal, a neighborhood or district is "a grouping of complementary land uses affected by similar operation of the four forces that affect property value." A neighborhood is relatively uniform, within physical boundaries. The four forces, which influence property values within a neighborhood, include social forces, economic forces, governmental forces, and environmental forces.

Location
The subject neighborhood is located in north and northwest Houston Metro area in and around the cities of Montgomery and Conroe, Texas. The subject neighborhood includes the Flagship Boulevard and State Highway 105 area. The subject neighborhood is approximately 55+- miles northwest of the Houston Central Business District. The subject property is just east of FM 149 and is south of Flagship Boulevard just east of FM 149 and just south of SH 105.

Neighborhood:
The subject neighborhood is considered to be the area located in and around the cities of Houston CBD in the north Houston Metro area of an effectively vacant site with utilities. The subject property is approximately 55+- miles north of the Houston Central Business District. More specifically, the subject property is located at 0 Flagship Boulevard, Montgomery.

Neighborhood Boundaries
The neighborhood boundaries can be defined generally as the cities of Montgomery and Conroe in the Conroe/Woodlands Submarket. The boundaries for the purpose of this appraisal are considered to be FM 1486 to the west, IH 45 to the east, FM 1488 to the south, and the FM 1097 to the north. Primary access into the subject neighborhood is available via the various major thoroughfares bounding the neighborhood, such as IH 45, State Highway 105, FM 149, FM 1097, FM 2854, FM 2978, FM 1488, FM 242, FM 1774 and SH 249. The Montgomery, Texas and an effectively vacant site with utilities area and this area is one of the fastest growing areas of Texas.
and the Houston Metro area and continues to be a strong economic and demographic force in the state and nation.

Character of the Neighborhood

The neighborhood can be characterized as being a combination of commercial and residential, typical of many other parts of the Houston Metro area. The neighborhood is approximately 60+% built up with a variety of commercial and residential uses, principally medical buildings, office/warehouse buildings, fast food, multiple family apartments, and single-family homes. The frontage along major streets or freeways is developed with commercial, retail and business use. The frontages along surrounding neighborhood streets are approximately 60% built up with multi-family, single family, and small office, retail or commercial uses. There are several other gas/convenience buildings along similar streets in the general area of the subject neighborhood.

Location

Conroe is conveniently located on Interstate 45, approximately 40+- miles north of Houston. Interstate 10 and an array of state highways and US highways serve this area. Dallas is 200 miles to the north, The Woodlands is only 10 minutes to the south, and Austin and San Antonio are both comfortable drives to the west. Plus, many of our local companies simply find a Central Time Zone location to be an advantage.

Quality of Life

Conroe, Texas - The Community Conroe was once a sleepy agricultural town with oil and lumber the economic mainstays. This is not true today. Conroe, with a population of more than 50,000, is the largest city, county seat and power center of Montgomery County with a total population of over 411,000.

Here you'll find a business-oriented atmosphere. The mayor, the five city council members and the city administrator have committed time and effort to eliminating roadblocks to new businesses and local expansion. Community members passed a half-cent economic development sales tax for improved infrastructure and incentives. We have developed Conroe Park North, a fully-platted, 1045-acre industrial park, governed by covenants and restrictions with all utilities, signage, and roads. In Conroe, existing businesses and financial institutions are looking for ways to help the economy grow. During the past twenty years, the Conroe/Montgomery County economy has greatly diversified. No longer dependent on a handful of industries, Conroe has attracted a wealth of manufacturing, retail, health care, construction and tourism companies. To support this economic expansion, Conroe has developed a highly skilled, educated workforce. There are more than 700,000 potential employees within a 30-mile radius of Conroe and more than two million workers available in Houston's Harris County directly to the south. Finding skilled employees in Conroe will never be an issue for your business.

Conroe is a great place for your business and your employees. A very livable community, Conroe has a low crime rate, excellent health care and education and a friendly, small-town atmosphere. There are more than 100 churches and synagogues in the area covering a wide variety of denominations and faiths. Plus, there is always something fun to do! Conroe boasts numerous
cultural activities, festivals and special events, while beautiful Lake Conroe and the adjacent Sam Houston National Forest offer a wide range of exciting recreational opportunities.

Community Service
Conroe is a caring community. Thousands of Conroe residents regularly volunteer their time and efforts to a number of organizations. The Friends of Conroe, as an example, is a nonprofit organization committed to the enhancement and quality of life in Conroe and Montgomery County through civic and cultural improvements. Here, the United Way funds over 60 different programs that provides assistance to more than 133,000 residents in Montgomery County. Program offerings range from providing shelter for those in need, to services for families in crisis, to foster home care and counseling. The United Way also funds programs for the Boy and Girl Scouts of America and the YMCA. Members of the many denominations of churches throughout the city participate in a variety of service projects, as do the Jaycees, Kiwanis Club, Lions Clubs and other service organizations.

Safety
Safety is of prime importance in Conroe. All fire, emergency and police calls are handled through a central dispatch office. A 15,000 square foot, $11.6 million 911 dispatch facility features the most up-to-date mapping, call routing and tracking equipment available. Your employees and their families will be safe in Conroe.

Utilities
Entergy provides Conroe with electricity and Centerpoint Energy provides natural gas. To provide dependable service at the lowest cost possible, Entergy has diversified its fuel mix. Natural gas, fuel oil, coal and nuclear power are utilized as fuel sources. Entergy's Texas commercial and industrial rates are very competitive when compared to other companies' electric rates in the State. Centerpoint Energy also offers competitive rates throughout the area. Water is an ample resource in Conroe, coming from deep underground wells. In addition, the economic development sales tax provided funds for major infrastructure improvements, totaling more than $37 million for industrial development in the area.

Communication
Consolidated Communications maintains a regional office in Conroe with a digital Central Office and fiber optic rings throughout the Greater Conroe area including Conroe Park North. Several points of presence are located in the area and specialized data lines are available to handle today's high-tech communications demands. Sudden link has a high penetration rate within the city with all major networks, premium and other channels available as well as digital cable service and high-speed internet. One radio station broadcasts from Conroe and the city is served by The Courier, the local daily newspaper.

Labor Force
During the past twenty years, the Conroe/Montgomery County economy has greatly diversified. No longer dependent on a handful of industries, Conroe has recently attracted a wealth of manufacturing, retail, health care, biotechnology, construction and tourism companies.
To support this economic expansion, Conroe has developed a highly skilled, educated workforce. There are more than 700,000 potential employees within a 30-mile radius of Conroe and more than two million workers available in Houston's Harris County directly to the south. Finding skilled employees in Conroe will never be an issue for your business.

Economic Incentives
The people of Conroe, Montgomery County and the State of Texas all want your business to be located in their area! Incentives have been developed on every level to help you cut costs as you settle in this new location. For example, the half-cent sales tax for economic development is used, in part, for customized financial packages to qualifying businesses. In addition, Conroe bankers have formed a banking consortium to support economic development. People involved in moving a business to Conroe, as well as those representing existing Conroe industries, may call upon this consortium for loans and banking assistance.

The Montgomery County Commissioners Court and the City of Conroe offer ad valorem tax abatements for up to a ten-year period. The Montgomery County Industrial Development Corporation can issue industrial development revenue bonds. These tax-exempt instruments achieve good interest rates and have extended terms for eligible projects. For businesses that serve national or international markets, the Montgomery County, City of Conroe, Conroe Independent School District and Montgomery County Hospital District Freeport Exemption allows certain types of personal property to be free of taxation.

Foreign Trade Zone #265 serves the Greater Montgomery County and surrounding areas. A number of tax and tariff savings can be obtained by companies located in the zone that have international business activity.

The Skills Development funds are money saving business incentives programs through the state of Texas that assist businesses in workforce training for jobs that lead to opportunities for advancement.

The Texas Enterprise Fund, passed by the 78th Texas Legislature, can be used to attract new business to the state or assist with the substantial expansion of an existing business as part of a competitive recruitment situation. And, if this isn't incentive enough to move to Conroe, the State of Texas has no personal or corporate income tax!

Conroe Park North
Creating Investment & Jobs in Conroe

If you haven’t been out to Conroe Park North lately, get ready for a big surprise. Just as the landscape has been transformed at the intersection of FM 3083 and I-45 with planned 1,000,000 square foot of retail shopping, restaurants, and residential home construction, the business park is underway with construction and expansion activity at a pace never seen before. Below is a list of activity:

- 375 acres were acquired to expand the business park to 1045 acres.
Road construction is underway to extend Pollok Drive and Conroe Park West into the newly acquired land.

The reroute of FM 1484 is underway and will replace what is now TXDOT road. A signal light will be placed at FM 1484 and FM 3083. The road will continue across FM 3083 and dead end into Loop 336.

Street lighting is scheduled to be added to existing poles in the business park.

Royal Equipment has moved into a 19,000 square foot facility, 8 new employees.

Conroe Machine is underway with construction of a 52,000 square foot facility, 41 new employees.

Multi-Shot is underway with construction of a 75,000 square foot facility, 163 new employees.

Professional Directional is underway with construction of a 35,000 square foot facility, 26 new employees.

Bauer is underway with construction of a 210,000 square foot facility, 300 new employees.

The announcement by the City of Conroe that Plantation Drive and Drennan Road have been approved and that street construction will start this summer is a major positive factor for the sellout of the parent tract parcels. Buyers/investors have been reluctant to purchase tracts until they are sure that these proposed streets would in fact be constructed. These streets are a significant enhancement to the subject property and should open up the parent tract to benefit from the sustained and continuous growth of Conroe and connect the tract to the significant development that has taken place adjacent to and south of the subject property. Also, IH45 is currently being expanded and reportedly the FM 3083 exit ramp is being relocated to the most southern line of the subject tract. This exit ramp change will provide better and more convenient access and exposure to the subject property and is an improvement over the current exit ramp location that is at the northern edge of the subject just before FM 3083. The overall effect of these freeway and road projects is a positive effect on the subject property.

**Transportation**

Private and corporate pilots flying into Conroe will find a 6,000-foot by 150-foot primary runway with a full instrument approach system at the Lone Star Executive Airport located northeast of town and just 35 miles north of George Bush Intercontinental Airport. Three full services FBO's providing AvGas and Jet A fuel services along with aircraft maintenance, flight training and aircraft charter and sales are located at the airport. Short term development plans for the airport include extending the primary runway to 7,000-feet and the installation of an Air Traffic Control Tower to be completed first quarter 2009.

Commercial air travel is available only 30 miles to the south at the George Bush Intercontinental Airport Houston. Extensive domestic and international flights, provided by 20 passenger airlines, give access to approximately 185 destinations worldwide. All leading air-cargo and package-express carriers also are available.

Rail service is provided by the Burlington Northern Santa Fe for east/west shipping and by the Union Pacific Railway for materials going north or south.

Shipping by sea is another possibility in Conroe. Conroe is located 45 miles north of the tenth largest tonnage port in the world, the Port of Houston. The Port of Houston is ranked first in the
United States in foreign waterborne commerce and second in total tonnage. International trade is brought closer to home through Conroe's proximity to this world-class port.

City of Montgomery

As one of the oldest towns in Texas, Montgomery began as a trading post in 1826 and was charted in 1837. Montgomery was the first county seat of Montgomery County and was the third county formed under the Republic of Texas. It is also recognized as the birthplace of the Texas Lone Star Flag. Montgomery is a city located in Montgomery County, Texas, a part of the Houston–The Woodlands–Sugar Land metropolitan area. The City of Montgomery is governed locally by a City Council consisting of a mayor and 5 council members. The current mayor is Kirk Jones. Current council members are Jon Bickford, John Champagne, T.J. Wilkerson, Rebecca Huss, and Dave McCorquodale. There are 237 households out of which 32.1% have children under the age of 18 living with them, 46.4% are married couples living together, 14.3% have a female householder with no husband present, and 29.5% are non-families. 25.3% of all households are made up of individuals. The average household size is 2.62 and the average family size is 3.13. In the city, the population is spread out with 26.7% under the age of 18, 7.9% from 18 to 24, 24.6% from 25 to 44, 27.5% from 45 to 64, and 13.0% who are 65 years of age or older. The median age is 38.6 years. For every 100 females there are 95.3 males. For every 100 females age 18 and over, there are 95.7 males.

Exxon Mobil Construction

The Exxon Mobil campus north of Houston is taking shape, with multiple buildings and parking garages being framed on the 386-acre site west of Interstate 45 near the Hardy Toll Road. It's like a small downtown being built from scratch. There are about 20 structures under construction by a workforce of 3,000, company spokesman Patrick McGinn said. When it's completed in mid-2015, the development will house 10,000 people. Employees are expected to start moving in early next year, McGinn said. The project is having a tremendous impact on the area surrounding it. Vacant office space is hard to find, and home prices are springing up amid insatiable housing demand. Exxon Mobil Corp. is transferring about 2,000 workers from out of state. Most of those employees will come from the company's offices in Fairfax, Va. About 8,000 are being consolidated from Houston-area buildings. As it prepares to move, Exxon Mobil has started disposing of the real estate it will no longer need. This Exxon Mobil relocation is expected to have positive and long-term impact on the area.

State Highway 99, also known as the Grand Parkway, is a Texas highway which opened its first section in 1994. When State Highway 99 is complete, it will be the longest beltway in the U.S., and the third loop within Houston–The Woodlands–Sugar Land metropolitan area, with Interstate 610 being the inner loop, and Beltway 8 (Sam Houston Tollway) being the middle loop. The proposed 170-mile loop has been divided into 11 separate segments for construction and funding purposes. Only two of the 11 segments are complete. As of December 25, 2011, all segments except A have been fully funded.

The Woodlands is a master-planned community and a Census-designated place (CDP) within the Houston-Sugar Land-Baytown metropolitan area. The population of the CDP was 55,649 at the 2000 census—a 90 percent increase over its 1990 population. According to the 2010 census, The Woodlands' population rose by 68.6% to 93,847 in 2010. Much of The Woodlands is located in the
city of Houston's extraterritorial jurisdiction (ETJ), but small portions of the development extent into the ETJ of Shenandoah and Conroe.

The Woodlands is located approximately 30+- miles north of Houston along Interstate 45. Though it began as a suburban development and a bedroom community, it also has attracted corporations to the area. As a result, the area features several corporate campuses, most notably Chevron Phillips, Anadarko Petroleum Corporation, Baker Hughes, CB&I, US Oncology and Hewitt Associates. The development won a Special Award for Excellence in 1994 from the Urban Land Institute.

The Woodlands began as a suburban development and a bedroom community, it also has attracted corporations to the area. As a result, the area features several corporate campuses, most notably Chevron Phillips, Anadarko Petroleum Corporation, Woodforest National Bank, Baker Hughes, CB&I, McKesson Corporation, Hewitt Associates, Maersk Line, and Safmarine. The development won a Special Award for Excellence in 1994 from the Urban Land Institute.

The Woodlands continues to grow residentially and commercially as many companies are moving to The Woodlands. In addition to Chevron Phillips, Huntsman, Anadarko, Hewitt Associates, Lexicon Pharmaceuticals, Maersk Sealand, Chicago Bridge & Iron, and Woodforest National Bank have set up operations in the development. The Woodlands Town Center area includes shopping and eating facilities, plus a waterway resembling the San Antonio River Walk, yet unique in its design and Riverboats that are enclosed for added comfort.

As of the census of 2000, there were 55,649 people, 19,881 households, and 15,546 families residing in the CDP. The racial makeup of the CDP was 92.36% White, 1.75% Black, 0.29% Native American, 2.80% Asian, 0.05% Pacific Islander, 1.43% from other races, and 1.32% from two or more races. Hispanic or Latino of any race were 28% of the population.

The median income for a household in the CDP was $85,253, and the median income for a family was $98,675. Males have a median income of $78,642 versus $38,505 for females. The Per capita income for the CDP was $37,724. About 3.0% of families and 4.2% of the population were below the poverty line, including 4.0% of those under age 18 and 10.6% of those age 65 or over.

The Woodlands offers many entertainment venues including two movie theaters, over 150 restaurants, a publicly accessible waterway, and dancing waterfalls with music. Also featured is the Cynthia Woods Mitchell Pavilion, summer home of the Houston Symphony and catering to many large acts (rock bands to classical). The Woodlands Waterway will eventually be more than 1/2-mile-long, reaching from The Woodlands Mall around to Lake Woodlands and featuring wide, lighted sidewalks along both sides and Waterway Taxis. Additional attractions include Market Street, an old style "Main Street" pedestrian shopping district, home to a movie theater and a variety of shops and restaurants. The Woodlands Mall borders the waterway and is adjacent to Market Street, thus forming a large pedestrian friendly shopping district. In addition, each of the "villages" in The Woodlands has its own shopping center with a core grocery store and various shops, banks, gas, restaurants, etc.
**Interstate 45 (I-45)** is an intrastate Interstate Highway located entirely within the U.S. state of Texas. It connects the cities of Dallas and Houston, continuing southeast from Houston to Galveston over the Galveston Causeway to the Gulf of Mexico. Interstate 45 is the only intrastate primary Interstate Highway ending in 5, and the 2nd longest intrastate Interstate Highway after I-87, and it is also the shortest primary Interstate highway ending in 5 or 0. I-45 replaced US 75 over its entire length, although portions of US 75 remained parallel to I-45 until its elimination south of downtown Dallas in 1987. At the south end of I-45, State Highway 87 (formerly part of US 75) continues into downtown Galveston. The north end is at Interstate 30 in downtown Dallas, where US 75 used the Good-Latimer Expressway. A short continuation, known by traffic reporters as the I-45 overhead, signed as part of US 75, and officially Interstate 45, continues north to the merge with the current end of US 75. Traffic can use Spur 366 to connect to Interstate 35E at the north end of I-45. The portion of I-45 between downtown Houston and Galveston is known to Houston residents as the Gulf Freeway. The short-elevated section of I-45 which forms the southern boundary of downtown Houston is known as the Pierce Elevated, after the surface street next to which the freeway runs, while north of Interstate 45 it is known as the North Freeway. I-45 and I-45 in the Dallas area, north of the interchanges with Interstate 20 and State Highway 310 (old US 75), is the Julius Schepps Freeway. The Gulf Freeway and North Freeway both include reversible high-occupancy vehicle lanes for buses and other high-occupancy vehicles to and from downtown Houston.

**Springwoods Village** is a new 1,800-acre mixed-use community in north Harris County anchored by the planned Exxon Mobil corporate campus. Designed for sustainability, the community will serve a population of up to 50,000 workers and residents while providing diverse housing options and amenities such as shopping, dining, schools, civic facilities and outdoor recreation within close proximity.

Springwoods Village is located approximately 30 miles north of downtown Houston. The site will be connected to the Spring Creek Greenway and is a short drive to The Woodlands and Bush International Airport. Bordering the east side of the property, I-45 provides convenient access to The Woodlands and downtown Houston.

The majority of land usage in this neighborhood consists of commercial uses including retail, office, and light industrial along the highway frontages, and multiple family apartments and single-family houses in the areas off the highways. Land uses within the neighborhood cover a wide spectrum of property uses including residential and commercial, with the following approximate mix: 30% vacant land, 40% residential, 10% commercial and retail, and 20% other.

**Life Cycle**

The neighborhood is generally in the stable stage of its life cycle, but new development is occurring with some commercial uses principally along the major thoroughfare frontages. The Exxon Mobil Campus construction is having a tremendous impact on the area. Land values in the area are stable to increasing and older structures are still in use and being converted or rehabbed. These commercial uses include restaurants, office buildings, warehouse, and multifamily. Development has increased in the last few months due to the announced Exxon Mobil Campus and the increased economic activity and the economic recovery nationally and in the Texas economy.
Utilities and Services
Police protection services are provided by Montgomery Police Department. Fire protection is provided by Montgomery Fire Department. Public water and sanitary sewer services for the area are provided by the city of Montgomery, as well as MUD districts or private systems in the unincorporated areas. Electricity is provided by numerous providers including Reliant Energy, natural gas by Centerpoint Energy, and telephone service by or through AT&T. The neighborhood is served by the Montgomery and Conroe Independent School District with schools of all levels located throughout the area. Hospital facilities are located nearby in Conroe, The Woodlands, or in Houston.

Conclusion
The neighborhood is located in an area, approximately 55+ miles north and northwest of the Houston Central Business District in the cities of Montgomery and Conroe, and this area has seen commercial growth (office, retail, medical, health care, multiple and single family) in the past. Real estate of all types in the area is stable with supply and demand generally in balance. Several sectors of the market, especially single family, are experiencing continued growth and development. Other sectors, including medical, medical office, retail and commercial development continue to show significant signs of growth in the area. The neighborhood is located in the Montgomery and Conroe area of Montgomery County, which will be the focus of continued development. The growth that is presently occurring in Montgomery and Conroe area is including smaller neighboring communities. Property values appear to have been stable to increasing over the past three years, and we believe that these values should continue to be stable to increasing if the currently prevailing economic trends continue.

The neighborhood is located in an area, north and northwest of the Houston Central Business District in the Conroe/Woodlands/Montgomery area, which has seen commercial growth (office, retail, multiple and single family) in the past. The subject neighborhood appears to provide an appropriate setting for mixed-use commercial and residential purposes. The neighborhood benefits from average to good accessibility afforded by the IH 45 Freeway, FM 249, FM 149, State Highway 105 and the recently completed SH 99 or the Grand Parkway that extends from US 59 south in a loop around the Houston CBD and connected to US 59 north, and provides access to all major freeway and amenities in the general area, along with easy access to the Texas Medical Center, Galleria, Museum District and the Houston Central Business District. The Houston Tollway system also serves the area, connecting the area of the subject property to the freeway system to the above-mentioned areas and downtown Houston. New development has increased in the last few years due to the economic upturn in the nation and the Texas market area. Older building may have to sustain as interim uses until the expanding economic activity in the area dictates a more productive highest and best use.

For more detailed Market Overviews for the Greater Houston CMSA area please refer to the website http://recenter.tamu.edu/mdata/Houston-Sugar-Land-Baytown.asp. Additional Regional and neighborhood area and market information is in the addenda.
SITE DESCRIPTION

The subject parent site is comprised of an 8.34+--acre site or 363,159+- SF tract of land. The subject site is comprised of a 4.09 acre tract of land or 178,335+- SF tract of land that is the southern part of the 8.34 acre parent site. The subject site is just east of FM 149 and has frontage and access from the south line of Flagship Boulevard. The subject site is south of Flagship Boulevard just east of FM 149 and just south of SH 105 the site is referred to as 0 Flagship Boulevard, Montgomery, Texas, Texas 77356. The subject site is irregular in shape; the dimensions of the subject property come from the survey and MCAD tax records. Key map page and map grid is 123T. Please see attached survey, MCAD records and FACET Maps for the legal and for site dimensions. Following is a brief description of the site characteristics according to the legal and field notes and information based on a physical inspection of the property:

Location: The site is located with frontage and access from Flagship Boulevard and is south of Flagship Boulevard just east of FM 149 and just south of SH 105 and is referred to as 0 Flagship Boulevard, Montgomery, Texas 77356.

Street Frontage: The site fronts for approximately 196.84 feet on the south line of Flagship Boulevard. This frontage is considered adequate amount frontage on the south line of Flagship Boulevard for the intended use of the subject site. Flagship Boulevard intersects with SH 105 to the north and FM 149 to the west. FM 149 and SH 105 are the primary streets in the immediate subject area and both streets connect to other street and or freeways in the area. Please refer to the reduced property survey, MCAD plat map and MCAD records.

Access: The primary access and exposure to the site is from Flagship Boulevard via either FM 149 or SH 105.

Size: 4.09 acres; (Approximately 178,335 SF).

Shape: Irregular. See the property map in the addenda.

Topography/Drainage: The site is level at street grade. The drainage appears to be adequate. Drainage is from open ditch drainage along FM 149 and curb and gutter along Flagship Boulevard and drainage appears to be adequate. Also, a property detention pond is located just west of the subject site.

Flood Plain: According to the published Federal Emergency Management Agency Flood Insurance Rate Map, Community-Panel Number 48339C0200G, dated August 18, 2014, the subject site is located in “X”. X” is an area that is not in the 100-year flood plain. Please refer to the Inter Flood Map in the addenda. Third party flood
verification is recommended, and flood insurance should be purchased if necessary.

**Utilities:**
- **Water & Sewer:** Available from the city of Montgomery, Texas
- **Electricity:** Centerpoint Energy and others
- **Gas:** Centerpoint Energy and others
- **Telephone:** AT & T and others

**Easements/Encroachments:** A reduced November 2014 survey was provided to the appraisers. The subject does not appear to be encumbered by any adverse easements or encroachments.

**Zoning:** Montgomery, Texas does have zoning by use of city ordinance. The site is zoned District R-2, Multifamily Residential. The subject is in the city and is subject to zoning to our knowledge. Holding the property as an investment or holding for future residential type use development is highest and best use and is a conforming use of the land. We are aware of no deed restrictions (public or private) that limit the use of the subject property. However, this statement should not be taken as a guarantee that no such restrictions exist. Deed restrictions and zoning are a legal matter, and we advise the user of this report to have an attorney or title company research any existing or proposed zoning or deed restrictions of record.

**Soil Conditions:** Based on our site visit of the property, the subject’s soil conditions appear to be typical for the area and capable of supporting future properly engineered improvements. The soil is typical to other improved sites in the vicinity that appear to support improvements with similar area soil conditions. Third party verification is recommended.

**Hazardous Substances:** There were no observed hazardous substances noted on the site or on land adjacent to the site. The appraiser is not qualified to detect or determine if hazardous substances do in fact exist other than by casual observance. The reader of this report is advised to rely upon environmental site assessments for this information. Care should be taken to ensure that all environmental issues are addressed so in the future the property can be developed to the highest and best use of the site.

**Streets:** Flagship Boulevard is a concrete paved street that extends in an east to west direction from SH 105 at the north to FM 149 to the west. At the subject property Flagship Boulevard is a concrete paved street with one lane of traffic in each direction at the subject property. FM 149 is an asphalt paved street that extends in a north and south
direction and intersects with Flagship Boulevard, SH 105 and extends to FM 1488 and other primary street or roads in the area. SH 105 extends to IH 45 to the east and then on to US 59. All of these roads/streets are primary roads/streets in the subject property area. Flagship Boulevard is considered to be a primary street in the immediate subject area for north and south traffic from SH 105 or east to west traffic from FM 149. State Highway 105 is major highway in the Montgomery and Conroe area for west and east traffic.

Adjacent Properties:
- North: Shopping center and retail uses.
- South: Vacant land for potential commercial or residential uses.
- East: Vacant land for potential commercial or residential uses.
- West: New apartments are adjacent to the subject site to the west. Across FM 149 from the subject is retail and gas convenience store use and other commercial uses along FM 149.

Comments:
As stated in the sales history of the property both the parent site and the 4.09-acre subject have had substantial site improvements completed since the original purchase of the parent property. The improvements include detention/pond area, installing storm sewers, stabilization, cut and fill site, grading, engineering, and other costs associated with various site improvements items in order to improve the developable area of the entire site, including the subject site. and other costs associated with various site improvements items in order to improve the property. The cost to original parent site does not include additional site work performed on the 4.09-acre subject site in 2017 which included roughly 1,500 cubic yards of additional fill material that was brought to the property to raise the site at a cost of $52,000+- or $0.29 psf. Also, the owner stated that by platting the property they have secured the water and sewer impact fees for the property, the water impact fee is $1,252 per unit and the sewer impact fee is $2,793 per unit. Based on the 80 units planned for the property the cost of the impact fees would be approximately $323,600 or $1.81 psf of land area for the 80 unit proposed multifamily development have been secured for the property and will be applied at the time a building permit is issued. Also, according to the owner if the property is sold the secured impact fees would transfer with the property. Therefore, these improvements to the site have added value to the site and will be considered in this appraisal.

All references to location, size, configuration and frontage made by the appraisers are based on data obtained from the client and on information obtained from the site inspection and MCAD. A reduced survey was provided by the property owner.

Conclusions
The site is zoned District R-2, Multifamily Residential and the highest and best use is for multifamily residential use. The size and shape of the subject property are adequate so as to result a functional utilization of the site. No adverse easements or encroachments were noted as of the date of the appraisal. Surrounding land uses are not considered to adversely affect the site. In summary, the subject site is a typical site for the area, is functionally adequate, and adequately situated for future multifamily residential use.
REAL PROPERTY TAXES AND ASSESSMENTS

The subject property is within the taxing jurisdictions of Montgomery ISD, Montgomery County, and the city of Montgomery. The subject property has been assessed by MCAD (Montgomery County Appraisal District) as vacant land. The MCAD tax ID number for the subject property is 5768-00-00200-R459738. The according to MCAD tax records, the subject property is a part of a land tract that contains a total of 8.336983 +- acres or 363,159 SF. The subject property is approximately half of the total property or 4.09 acres or 178,335 +- square feet based on the information provided by the owner of record. The list of the tax rates and ratios for the aforementioned jurisdictions is presented below.

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<th>TAX RATES 2017</th>
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<td>County Education</td>
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</table>

The according to MCAD tax records, the subject property is a part of a land tract that contains a total of 8.336983 +- acres or 363,159 SF. The subject property is approximately half of the total property or 4.09 acres or 178,335 +- square feet based on the information provided by the owner of record. The prorated taxes for the subject property are based upon the prorated assessed value recorded in MCAD records is $535,005 or $3.00 psf and the prorated estimated taxes are $12,940 for 2017. The prorated 2016 assessed land value was $535,005 or $3.00 psf and the prorated estimated taxes are $12,865 for 2016. The improvements were assessed per the MCAD records at $0 for 2017 and 2016 as of the effective date of the appraisal. In 2017 the land was assessed at $535,005 or $3.00 psf and improvements are assessed at $0 annually. The estimated taxes for 2017 without the any exemption for the subject site were $12,940. The assessed value for 2017 is the same as the assessed value for in 2016 property. In 2015 the subject prorated vacant land was assessed $232,809 or $1.31 psf. The tax burden is considered to be typical for the area and is in line with other properties in the area.

<table>
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<th>TAX CALCULATION</th>
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<td>2017 Assessed Value</td>
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<tr>
<td>Times 2017 Millage Rate</td>
<td>2.4186</td>
</tr>
<tr>
<td>Equals the estimated 2017 Taxes</td>
<td>$12,940</td>
</tr>
</tbody>
</table>

* Land and improvement size, age, assessment and other information for taxation purposes are based on CAD records.
HIGHEST AND BEST USE ANALYSIS

According to The Dictionary of Real Estate Appraisal, Third Edition, published by the Appraisal Institute, *Highest and Best Use* means: The reasonably probable use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

According to The Dictionary of Real Estate Appraisal, Third Edition, published by the Appraisal Institute, *Highest and Best Use of vacant land or a site as though vacant* means: Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.

According to The Dictionary of Real Estate Appraisal, Third Edition, published by the Appraisal Institute, *Highest and Best Use of a property as improved* means: The use that should be made of a property as it exists. An existing property should be renovated or retained so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing improvements and construction a new one.

In light of the above definition, consideration has been given to the various factors affecting the Highest and Best Use of the subject property including; location, market demand, neighboring property influences, physical and economic factors. The subject property will be analyzed as though vacant land.

**Highest and Best Use of the Site “As Vacant”**

Physically Possible:  
The subject site contains a total of 4.09 acres or 178,335 SF. The site is generally irregular in shape and its topography is level at street grade. Soil conditions appear adequate to support improvements, as evidenced by surrounding land uses. The subject has ample frontage, access, and visibility. The site in its entirety is configured in such a way that a variety of land uses would be physically possible. All public utilities are reported to be currently available to the subject site including electricity, water, sewer, and natural gas. Also, MUD utilities are also available in the area and can be provided to the site with appropriate application and acceptance by a local MUD district. Based on the site’s physical characteristics, shape, and topography, as well as the availability of utilities, a wide range of uses are physically possible. These physically possible uses most like would include a high density residential or commercial use development that could include a residential type use or similar use that is planned for the site.
Legally Permissible:
City of Montgomery does have zoning ordinances that affect the site. The site is within the city of Montgomery, Texas jurisdiction and does have zoning ordinances that describe the subject land use. The highest and best use of the site helps determine the planning and dictates construction. City, county or deed restrictions usually address the safety and health issues. There are also ordinances that limit use to non-offensive uses. The zoning currently for the subject site is District R-2, Multifamily Residential. Therefore, the most likely highest and best use is a residential type use that would include a multifamily residential development such as the use intended by the current owner of record. Any physically possible use that is approved by the zone authority is the likely legally permissible use of the site.

Financially Feasible:
In order to be economically feasible, the improvements should be compatible with the surrounding land uses. The immediate area is improved with mostly commercial uses and large residential developments are existing and more are planned and are being developed in the Conroe and Montgomery, Texas area. The Conroe and Montgomery, Texas area is experiencing significant growth and this growth is expected to continue and future residential & commercial development is expected to continue in the area. In order to be financially feasible, the use must have a positive rate of return. Most residential and commercial uses or developments in the Houston Metro and the Conroe and Montgomery, Texas market areas currently do generate sufficient cash flow to make new development feasible.

Maximally Productive:
As concluded in the previous paragraph, the financially feasible use of the subject site would be for a multifamily residential use development. An analysis of the market in the area of the subject indicates that the cost for multifamily and residential development is at cost feasible levels. Local real estate professionals further supported this. Given the existing and proposed activity of the land use and subdivision development and within the subject general market, it is our opinion that as of the date of the appraisal, the maximally productive use of the subject property would be for continued investment purposes until supply and demand indicate that the property is feasible for some type of multifamily high density use development that would include a multifamily residential use or similar type use.

Conclusion:
It is our opinion that the site is functionally adequate for the several uses. It is our opinion that the Highest and Best Use of the subject site, is for some type of high density multifamily use development that would include a multifamily residential or similar type use when supply and demand indicate positive feasibility. Since land values in the area are increasing and new development is taking place in the market area, any use should be monitored in the future to determine if this use is the highest and best use. Future high density development is considered to be the potential highest and best use, based on today’s supply and demand with the active construction in the Conroe and Montgomery, Texas area and the Houston Metro market area that is taking place. The current investment use of the property is the interim highest and best use of the site until a feasible future use is determined for the subject site. Other residential developments are under construction in the market area and this further supports that the highest and best use of the site is for future residential development when the time is feasible.
VALUATION PROCESS

Appraisal methodology applied to any specific property or property type must emulate the thinking of the most probable class of purchaser. The basic tenet of the three classical approaches is the principle of substitution, which holds that a prudent purchaser has three alternative courses of action available:

1) To acquire a vacant site and build a similar property - the Cost Approach, in which the value of the site as though vacant is estimated, to which is added the estimated cost of the improvements. The Cost Approach to value is most meaningful when two conditions are present: a) The improvements are new or suffer from little or no accrued depreciation, and b) the improvements represent the Highest and Best Use of the site. It can also be viewed as a measure of investment cost in a cost/benefit analysis of the feasibility of the continued operation of a given property in its existing or proposed use pattern. The Cost Approach was not necessary for a credible assignment result and was not developed.

2) To acquire an existing property offering comparable utility - the Direct Sales Comparison Approach, in which sales of comparable improved properties are investigated and analyzed, and units of comparison are developed, and the differences and similarities of the properties are directly compared to the subject property to reach an estimate of value. In this case, the Direct Sales Approach was necessary for a credible assignment result and was developed.

3) To acquire a substitute income stream of comparable quantity, quality, and durability - the Income Approach, in which the anticipated net income imputable to the property is estimated and then processed into value, using the appropriate capitalization or discounting methods considered representative of the marketplace. The effect of the timing and magnitude of variable cash flows can be measured in the income approach to value, and in particular a discounted cash flow (DCF) model. The Income Approach was not necessary for a credible assignment result and was not developed.

The experience of the appraiser, coupled with objective and sound judgment, plays a major role in arriving at the conclusion of indicated value. The quantity and quality of available data and the applicability of each approach relative to the type of value sought are important factors in comparing the various indications and reconciling them into a final estimate of value. To estimate the market value only the direct sales approach was developed for the purpose of this appraisal.

The results of the investigation and analysis using the appropriate approaches follow:
DIRECT SALES COMPARISON APPROACH

The Direct Sales Comparison Approach results in an estimate of value through the comparison of recent sales of similar properties in the surrounding or competing area to the subject property. Inherent in this approach is the principle of substitution which states that "when a property is replaceable in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming that no costly delay is encountered in making the substitution."

By analyzing sales that qualify as arms-length transactions between willing knowledgeable buyers and sellers with reasonable market exposure, we can identify price trends by which value parameters may be extracted. Comparability in physical, location, and economic characteristics is an important criterion in evaluating the sales in relation to the subject property. The basic steps involved in the application of this approach are as follows:

1. Researching recent relevant property sales and current offerings throughout the competitive area.
2. A selection process to focus on the properties considered most similar to the subject, and hence, most meaningful. We analyzed the selected comparable properties concerning time of sale and any change in economic conditions which may have occurred to the date of value. Factors considered were location factors such as ease of access and proximity to public transportation and highways; physical, functional and economic characteristics and any other relative factors of comparison.
3. Reducing sales price to common units of comparison (i.e., price per square foot or price per acre).
4. Adjusting the comparable sale properties for differences with the subject.
5. Utilizing proper judgment in interpreting the adjusted sales data, weighing the most meaningful so that with a thorough review of the entire process, judging the strengths, and weaknesses, a value conclusion may be reached.

Land Valuation

The Direct Sales Comparison Approach was used to estimate value of the land as though vacant and available to be put to its Highest and Best Use. The methodology includes an analysis of what buyers in the area are paying for similar vacant sites. The value of the subject is derived from sales and offerings of comparable properties. It is necessary to evaluate factors at time of sale, location, size, shape, frontage, access, plottage, availability of utilities, and other factors when making the comparison. A brief summary of these sales follows:
VACANT LAND SALE NUMBER 1

Date of Sale: October 23, 2013, DOM-Not known

Location: SEC Flagship/Liberty, Montgomery, Texas 77354

Key Map: 123T

Grantor: Montgomery Flagship Properties Ltd.

Grantee: Nantucket Housing LLC

Consideration: $1,955,000

Confirmation: CAD-R459737, R459738, Doc # 115964, MCAD #R459737

Sales Price Per SF: $3.29 PSF (Calculated)

Terms: Cash to the Grantor

Cash Equivalency: $1,955,000

Topography: Level

Flood Zone: Zones AE and X

Zoning: Multifamily residential

Corner: SEC of Flagship and Liberty (FM 149), located on FM 149 and Flagship Blvd. just south of State Highway 105. 248 feet on Liberty (FM 149) and 1,314 feet on Flagship Blvd.

Configuration: Irregular

Size: 13.63 AC (593,809 SF)

Comments: This is the purchased on or about October 23, 2013. The site was purchased land with offsite utilities available per CoStar. The property has or will have utilities available by obtaining access to public utilities from the city or a MUD for this property. The property was purchased for investment purposes and to construct low income apartments. This is the purchase of the original parent property. This property has been divided and the eastern portion has been developed with an apartment property. A 5% adjustment for Shape/Corner/ Frontage was made to this sale as compared to the subject. No corner/frontage adjustment was applied in this case. Approximately 5% of property was in the flood zone AE and X and this was used in conjunction with the dentation area. No other adjustments were made to this sale. This sale was adjusted for time at 2% per year, rounded. This sale had an adjusted sale price per square foot of $5.10. Please refer to the sales history of the subject property for additional information regarding site improvements made to this sale.
This was the 2013 purchase of the original 17-acre parent tract. The owner brought subdivided the site, completed public utilities to the site, land fill and stabilization, detention pond, erosion control, engineering services and other site improvements. Also, the Heritage Apartments have been completed on the western 8+- acres of the site since the original purchase. The western 8+-acres of this site has been developed with The Heritage Apartments and the remaining 8.33+- acres includes the 4.09-acre subject property at the rear of the remaining site and a 4.24+-acre property at the front of the remaining site. Please refer to the sales history of the subject property for additional information regarding site improvements made to this sale.
VACANT LAND SALE NUMBER 2

Date of Sale: January 7, 2016-DOM 220
Location: 0 N Frazier Street, Conroe, Texas 77303
Key Map: 157G
Grantor: Frazier St. Development LLC
Grantee: HHHA Frazier LLC
Consideration: $1,500,000
Confirmation: CAD-R337707, Costar-3482582
Sales Price Per SF: $4.26 PSF (Calculated)
Terms: All Cash to grantor, Cash sale.
Cash Equivalency: $1,500,000
Topography: Level
Flood Zone: No
Zoning: None, Conroe does not have zoning.
Corner: This site was a corner site and had frontage on three streets. The frontage was adequate, but the exact footage was not known. This site is a commercial site, but the future use has not been determined. This property is larger than the subject. No sales in the prior 3 years per MCAD. Public utilities were available per CoStar. This sale is in the subject market area.
Configuration: Irregular
Size: 8.09 Acres, or 352,313 Square Feet
Comment: The site was purchased land with public utilities available per CoStar. Public utilities are available to the site based on the county tax records but were not in place at the time of the sale. The site has a similar location compared to the subject. The site was purchase as an investment but is suitable for future commercial development purposes. This property is in a market area similar to the subject. Sale was adjusted for size and corner/frontage differences in this case. This sale was adjusted 2% per year (rounded) for time. This sale had an adjusted sale price of $4.65 psf.
### VACANT LAND SALE NUMBER 3

**Date of Sale:** October 30, 2017-DOM-218  
**Location:** 14565 Old Houston Road, Conroe, Texas 77302  
**Key Map:** 221A  
**Grantor:** Sgigm Family LP  
**Grantee:** Clifton S. Jackson  
**Consideration:** $487,500  
**Confirmation:** MCAD-7943-00-01600, MLS-49106197  

**Sales Price Per SF:** $5.60 PSF (Calculated)  
**Terms:** All Cash to grantor, Cash sale  
**Cash Equivalency:** $487,500  
**Topography:** Level  
**Flood Zone:** No  
**Zoning:** No zoning and no restrictions  
**Corner:** Corner location at the SEC of FM 1485 and Old Houston Road. Site fronted FM 1485 for 295 feet and Old Houston Road for 295 feet.  
**Configuration:** Regular  
**Size:** 2.00+- Acres, or 87,120 Square Feet.  
**Comment:** The site was a signaled corner site. Property is in the unincorporated area of the city of Conroe and public utilities were not in place at the time of the sale. The property had a well and septic system and high-density development is currently not possible for this site. Public utilities are not available to the site based on the county tax records, but MUD utilities may be available in the area. The site is suitable for mobile home, multifamily or SFR use. Property is in a similar growth submarket as compared to the subject submarket. An adjustment of -10% was made for its smaller size as compared to the subject. Corner frontage features were superior to subject and a -5% adjustment was applied, and the sale was adjusted 15% for lack of public utilities as compared to the subject. This sale had an adjusted sale price of $5.60 per square foot. No time adjustment was applied to this sale. This sale was the most recent sale used in the appraisal.
COMPARABLE VACANT LAND SALE-3

LOCATION MAP
The value of the subject property was based on consideration of the previously mentioned comparable land sales and supported by additional sales in the metro area. This value was based on an analysis of the sales in relation to the subject site after adjustments were applied for conditions of sale, availability of utilities, frontage ratio, location, size, corner influenced and shape. The following is a summary of the sales used in our analysis. We will compare the sales on the basis of sales price per square foot, which is the most common unit of comparison for commercial land sites.

<table>
<thead>
<tr>
<th>LAND SALES SUMMARY</th>
<th>0 Flagship Boulevard</th>
<th>Sale One</th>
<th>Sale Two</th>
<th>Sale Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montgomery, Texas 77356</td>
<td>SEC Flagship/Liberty Montgomery, Texas 77354</td>
<td>0 N Frazier Street Conroe, Texas 77303</td>
<td>14565 Old Houston Road Conroe, Texas 77302</td>
<td></td>
</tr>
<tr>
<td>Date of Sale</td>
<td>Oct-13</td>
<td>Jan-16</td>
<td>Oct-17</td>
<td></td>
</tr>
<tr>
<td>Map Location</td>
<td>123T</td>
<td>123T</td>
<td>157G</td>
<td>221A</td>
</tr>
<tr>
<td>Sales Price</td>
<td>$1,955,000</td>
<td>$1,500,000</td>
<td>$487,500</td>
<td></td>
</tr>
<tr>
<td>Size in Acres</td>
<td>4.094</td>
<td>13.632</td>
<td>8.088</td>
<td>2.000</td>
</tr>
<tr>
<td>Size in Square Feet</td>
<td>178,335</td>
<td>593,809</td>
<td>352,313</td>
<td>87,120</td>
</tr>
<tr>
<td>Unadjusted Sales PSF</td>
<td>$5.20</td>
<td>$3.29</td>
<td>$4.26</td>
<td>$5.60</td>
</tr>
<tr>
<td>Adjusted Price PSF</td>
<td>$5.10</td>
<td>$4.65</td>
<td>$5.60</td>
<td></td>
</tr>
</tbody>
</table>

Factors to be considered and summary of adjustments
Based on analysis of this data and other pertinent information obtained in our research, the following is a discussion of the factors that were found to exhibit some or significant influence on the property values in this market. These sales are considered to be reliable land sales that were considered for this analysis that could be confirmed as of the effective date of this appraisal.

Paired Sales Analysis
Ideally, pairing of the comparable sales in order to isolate value contribution of the various differences can support adjustments. We were unable to pair sales in order to extract other adjustments. The adjustments for size and shape were based on observations in the field, experience, and similar pairing from previously appraised properties. As a result, these adjustments were subjective in nature.

Conditions of Sale
Real Property Rights Conveyed - A transaction price is predicated on the real property interest conveyed. Once the real property interest is determined, the market data relating to similar interests can be analyzed. The real property rights conveyed in each comparable transaction selected for analysis must be identified. In general, most land transactions are based on the conveyance of the Fee Simple Estate. Since the value of the subject site was estimated in Fee Simple Estate, and the rights conveyed in all of the sales were also Fee Simple, no adjustment for property rights conveyed was necessary.
Financing Terms - The transaction price of one property may differ from that of a similar property due to different financing arrangements. This is sometimes due to favorable financing, which might include a low-down payment or below market interest rates. All transactions must be converted to a cash equivalent price, if necessary. In this case, the comparable sales were either all cash transactions, or resulted in cash to the grantor through third party debt. No cash equivalency adjustments were necessary.

Conditions of Sale - This usually reflects the motivations of the buyer and the seller, and in turn, affects the transaction price. When non-market conditions of sale are detected in a transaction, the sale can be used as a comparable, but with great care. The circumstances of the sale must be thoroughly researched before an adjustment is made, and the conditions must be adequately disclosed and analyzed. We are unaware of any undue or atypical motivation of the parties involved in the comparable sales considered in this report. Therefore, no adjustment was made for conditions of sale to the sales.

Age of Sales - These were recent confirmed land sales in the general market area. There has been a reasonable interest in vacant land sales activity in this area.

Market Conditions (Time) - A common adjustment for market conditions is made for differences occurring since the date of sale. Since the time the comparable sales were transacted, general values may have appreciated or depreciated due to inflation or deflation and investors' perceptions of market conditions may have changed. Market conditions which shift over time create the need for an adjustment, not time itself. All sales occurred between October-13 and October-17, under market conditions similar to the current market. A time adjustment was applied to Sales 1 and 2 in this case. In this case a time adjustment of 2% a year rounded was applied to Sales 1 and 2.

Location Adjustment - Location adjustments occur when the comparable sale is located in an area that is either more or less desirable than the subject, in relationship to visibility, accessibility, and supply and demand factors in the market. If the sales are superior in location, then a negative adjustment is required. Conversely, if the sales are inferior in location, then a positive adjustment is required. All sales were in the similar market areas in this case. All sales were in the general market area and all sales were in areas with similar market activity and growth relative to the subject area and no sales were adjusted for location. All sales were market areas with similar market activity and growth relative to the subject area and no sale was adjusted for location. All sales were in the Conroe, Montgomery & Woodlands market area and in similar growth market areas and were considered similar in location relative to the subject.

Size Adjustment - The market typically recognizes that smaller sites sell for more per square foot than equally desirable larger tracts. Therefore, if a sale is smaller than the subject property, a downward adjustment to the unit sale price is required. The inverse is true when comparing larger tracts to smaller tracts. In our experience, we have found that sale prices per square foot typically change at a rate of approximately 5%-15% for every doubling, or halving, in size. In this case size adjustments were made at approximately 10% per doubling and were rounded for size in this case. Sale 3 was the smallest sale in terms of size and was adjusted -10% for size in this case. Sales 1 and 2 were larger in size and were adjusted 15% and 10% respectively for size.
**Shape Adjustment** - The market typically recognizes generally that rectangular shaped sites sell for more per unit, than irregular shaped tracts. Negative adjustments are made to the sales that are superior in shape to the subject property, and positive adjustments are made to the sales that are inferior in shape. The subject property is irregular in shape; however, no adjustments were made to the sales for shape since there was no loss in functional utility due to shape.

**Utilities Adjustment** - The market typically recognizes that land that has access to public utilities sell for more per square foot than those sites, which do not have public utilities. The reflection of the difference between the sales prices per square foot for the lack of utilities is a direct result of the cost that need be incurred to supply those necessary utilities to those sites. Sales 2 had access to utilities at the time of sale per CoStar information and was not adjusted for utilities. Sale 1 had public utilities available but not in place at the time of the purchase. The owner incurred the cost to put the utilities in place as well as other site improvements to enhance the property. The subject property was originally included as part of Sale 1 but was subdivided out of the original property when the western 8+- acres was developed with the Heritage Apartments. Sale 3 had a well and septic system at the time of purchase and public utilities were not available to the sale 3 site at this time. These sales were adjusted 33.5% and 15% respectively in this case.

**Access Adjustment** - The market typically recognizes that tracts that have better access than other tracts sell at higher sales price per square foot. Negative adjustments are made to the sales that are superior as far as access to the subject property, and positive adjustments are made to the sales that are inferior in access. All sales were considered similar to the subject property in this feature and no adjustment was applied in this case.

**Corner, Access and Frontage Adjustment** - The market typically recognizes that sites located on commercial corners sell for more per unit, than interior tracts. Negative adjustments are made to the sales that are superior in commercial corner features compared to the subject property, and positive adjustments are made to the sales that are inferior in commercial corner features. The subject property does not have a corner location. Sale one was the purchase of the original parent tract and this was a corner location. At the time of purchase FM 149 offered the primary frontage and corner features. Flagship was in place but there was low commercial traffic on Flagship in 2013 at the time of purchase. Sale 1 was adjusted -5% for corner/frontage influence as compared to the subject property. Sale 2 had frontage on N. Frazier Street and was a corner location and was adjusted -5% for superior corner/frontage features as compared to the subject at the time of the sale. Sale 3 was a corner location at the SWC of Old Houston Road and FM 3083 and is considered to have superior corner/frontage features as compared to the subject property and a -5% corner/frontage adjustment was applied to Sale 3 in this case.

**LAND SALE ADJUSTMENTS**

**Land Sale Number 1** occurred on or about October 23, 2013, and sold for an indicated price of $1,955,000, or $3.29 per square foot, cash to grantor. This site was larger than the subject site was the original parent site for the subject property and contained approximately 17 gross acres and 13.63 net acres, which did support a 15% size adjustment in this case. This sale was superior in corner/frontage/access compared to the subject and
was adjusted -5% for corner/frontage factors as compared to the subject property. This sale was considered inferior as far as utilities and other site improvements that the subject enjoys and was adjusted 33.5% for site and utility improvements since the 2013 purchase. This sale was considered similar as far as location. This sale was similar in other characterizes and no other adjustments were necessary. The adjusted sales price was $5.10 per square foot. Please refer to the sales history of the subject property for additional information regarding site improvements made to this sale.

**Land Sale Number 2** occurred on or about January 7, 2016, and sold for an indicated price of $1,500,000, or $4.26 per square foot, cash to grantor. This tract was larger than the subject and contains approximately 8.09 acres, which did require a 10% size adjustment in this case. This sale was superior in corner/frontage/access compared to the subject and a -5% adjustment was applied. This sale was considered similar as far as location. No adjustments for utilities were made, this sale was similar in other characterizes and no other adjustments were necessary. This sale was not adjusted for any other differences in this case. The adjusted sales price was $4.65 per square foot.

**Land Sale Number 3** occurred on October 30, 2017, and sold for an indicated price of $487,500, or $5.60 per square foot, cash to grantor. This tract was smaller in size and contains approximately 2.00 acres, which did require a size adjustment of -10% in this case. This sale was considered inferior as far as public utilities and was adjusted 15% for utilities. This sale was similar in location and was not adjusted. Sale 3 was a corner location and has frontage on Old Houston Road and FM 3083. This sale was superior in corner/frontage features as compared to the subject and a -5% adjustment was applied for superior corner/frontage features. This sale was similar in other characterizes and no other adjustments were necessary. The adjusted sales price was $5.60 per square foot.

**Conclusion**

The sales considered in this report ranged in size from 2.00 to 13.632 acres, and the time adjusted sales price ranged from $3.56 per square foot to $5.60 per square foot with an average of $4.53 psf and a median of $4.43 per square foot. The adjusted sales price ranged from $4.65 psf to $5.60 psf with an average of $5.12 psf, and a median sales price of $5.10 psf.

A summary of the comparable sales with an adjustment grid is following in the report. All sales were considered similar land sites and generally located in similar market areas compared to the subject. The adjustment to the sales was considered for location, size, utilities and corner/frontage factors. The appraiser believed that all sales were generally comparable to the subject property and overall, with the exception of Sale 1, they had low percent of adjustments. Sale 1 was adjacent to the subject and was the closest sale to the subject. This sale was larger than the subject and was considered to have superior corner/frontage aspects and this is the parent site to the subject property. This sale was adjusted for these factors and this sale was considered to be a reliable indicator of market value in the market area. Also, please refer to the sales history of the subject property for additional information regarding site improvements made to this sale. Sale 2 was east of the subject and this comparable was superior in commercial frontage features as compared to the subject with similar overall development potential as compared to the subject site. Sale 3 was the most recent sale was a smaller property and was similar in location aspects as
compared to the subject. Sale 3 was superior in corner/frontage aspects as compared to the subject and was inferior in public utilities and future development potential as compared to the subject site. Overall this sale did not have public utilities and was not as good of a site for high density development purposes as compared to the subject site.

The subject is not under contract or listed to our knowledge.

The unadjusted sales and the adjusted sales both bracketed the indicated psf value of the subject property. The unadjusted gross sales price of the comparables also brackets the subject estimated value. In conclusion, we based our estimate of Market Value of the subject site, as is, at $5.20 per square foot, as shown below.

Based on the Direct Sales Comparison Approach, it is our opinion that the Market Value of the Fee Simple Estate, “As Is”, of the subject site as of February 25, 2018, is estimated to be:

**NINE HUNDRED THIRTY THOUSAND DOLLARS**

$930,000

<table>
<thead>
<tr>
<th>Conclusion PSF</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation - Adjusted Sales Price SF</td>
<td>$5.20</td>
</tr>
<tr>
<td>Times SF Area</td>
<td>X</td>
</tr>
<tr>
<td>Indicated Market Value Site &quot;As Though&quot; Vacant</td>
<td>178,335</td>
</tr>
<tr>
<td></td>
<td>$927,340</td>
</tr>
<tr>
<td></td>
<td>$930,000</td>
</tr>
</tbody>
</table>

The subject is not under contract to our knowledge. This estimated market value is a reasonable estimated price psf and is supported by the primary unadjusted and adjusted sales and also by the additional sales included in this appraisal.
### Adjustments

<table>
<thead>
<tr>
<th>Location</th>
<th>Date</th>
<th>Sale Price</th>
<th>$/PSF</th>
<th>Physical Adjustments</th>
<th>Total Adjustments</th>
<th>Adjusted Price Per SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montgomery, Texas 77354</td>
<td>Oct-13</td>
<td>$1,955,000</td>
<td>$3.29</td>
<td>0%</td>
<td>-5.0% 0% 0% 33.5% 43.5%</td>
<td>$5.10</td>
</tr>
<tr>
<td>Conroe, Texas 77303</td>
<td>Jan-16</td>
<td>$1,500,000</td>
<td>$4.26</td>
<td>0%</td>
<td>-5.0% 0% 0% 33.5% 43.5%</td>
<td>$5.65</td>
</tr>
<tr>
<td>Conroe, Texas 77302</td>
<td>Oct-17</td>
<td>$487,500</td>
<td>$5.60</td>
<td>0%</td>
<td>-5.0% 0% 0% 33.5% 43.5%</td>
<td>$5.60</td>
</tr>
</tbody>
</table>

No sales were adjusted for location. Sales 1 and 3 were adjusted for site improvements or utilities as compared to the subject. Frontage/corner adjustment of -5% was made to all sales compared to subject. Sale 1 was adjusted +30% for site/detention/utility improvements. Sales 1, 2 & 3 were adjusted for size at 10% per doubling. No sales were adjusted for flood issues compared to subject. No other adjustments were made in the sales.

### Conclusion

<table>
<thead>
<tr>
<th>Unadjusted</th>
<th>Adjusted</th>
<th>Range</th>
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<tbody>
<tr>
<td>$5.20</td>
<td>$3.29</td>
<td>$8.40</td>
</tr>
<tr>
<td>$4.38</td>
<td>$5.12</td>
<td>$9.50</td>
</tr>
<tr>
<td>$5.60</td>
<td>$5.60</td>
<td>$11.20</td>
</tr>
</tbody>
</table>

Reconciled Sales Price per PSF: $5.20
Times: SF 178,335: $927,340

Market Value "As Effectively Vacant Land": $930,000

---

### Subject Property

- Land Area: 178,335 SF
- Land Subject unit count: 1
- Acres: 4.09

---

### Primary Analysis - Adjustment Grid

<table>
<thead>
<tr>
<th>Sale No.</th>
<th>Location</th>
<th>Date</th>
<th>Sale Price</th>
<th>$/PSF</th>
<th>Location</th>
<th>Exposure/Access</th>
<th>Size &amp; Acre</th>
<th>Utilities</th>
<th>Adjusted Price Per SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SEC Flagship/Liberty</td>
<td>Oct-13</td>
<td>$1,955,000</td>
<td>$3.29</td>
<td>Location</td>
<td>Frontage/corner</td>
<td>PSF &amp; Acre</td>
<td>Physical</td>
<td>$5.10</td>
</tr>
<tr>
<td>2</td>
<td>0 N Frazier Street</td>
<td>Jan-16</td>
<td>$1,500,000</td>
<td>$4.26</td>
<td>Location</td>
<td>Frontage/corner</td>
<td>PSF &amp; Acre</td>
<td>Physical</td>
<td>$5.65</td>
</tr>
<tr>
<td>3</td>
<td>14565 Old Houston Road</td>
<td>Oct-17</td>
<td>$487,500</td>
<td>$5.60</td>
<td>Location</td>
<td>Frontage/corner</td>
<td>PSF &amp; Acre</td>
<td>Physical</td>
<td>$5.60</td>
</tr>
</tbody>
</table>

---

**Say**: $930,000
# LAND SALES SUMMARY OF ADJUSTMENT GRID

<table>
<thead>
<tr>
<th></th>
<th>Sale One</th>
<th>Sale Two</th>
<th>Sale Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Flagship Boulevard</td>
<td>SEC Flagship.Liberty</td>
<td>0 N Frazier Street</td>
<td>14565 Old Houston Road</td>
</tr>
<tr>
<td>Montgomery, Texas 77356</td>
<td>Montgomery, Texas 77354</td>
<td>Conroe, Texas 77303</td>
<td>Conroe, Texas 77302</td>
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<tr>
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<td>Oct-13</td>
<td>Jan-16</td>
<td>Oct-17</td>
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<tr>
<td>Map Location</td>
<td>123T</td>
<td>123T</td>
<td>221A</td>
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<td>Sales Price</td>
<td>$1,955,000</td>
<td>$1,500,000</td>
<td>$487,500</td>
</tr>
<tr>
<td>Size in Acres</td>
<td>4.09</td>
<td>13.63</td>
<td>8.09</td>
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<tr>
<td>Size in Square Feet</td>
<td>178,335</td>
<td>593,809</td>
<td>352,313</td>
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<tr>
<td>Sales Price per SF</td>
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<td>$4.26</td>
<td>$5.60</td>
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<td>Information Source</td>
<td>R459737, R459738</td>
<td>R337707</td>
<td>7943-00-01600</td>
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<tr>
<td>Rights Conveyed</td>
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<td>0%</td>
<td>0%</td>
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<tr>
<td>Adjusted Sales Price</td>
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<td>$4.26</td>
<td>$5.60</td>
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<tr>
<td>Conditions of Sale</td>
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<td>$4.26</td>
<td>$5.60</td>
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<tr>
<td>Financing Terms</td>
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<tr>
<td>Adjusted Sales Price</td>
<td>$3.56</td>
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<tr>
<td>Size</td>
<td>15%</td>
<td>10%</td>
<td>-10%</td>
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<tr>
<td>Utilities/Improvements</td>
<td>33.5%</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Utilities/Improvements</td>
<td>site improvements after purchase</td>
<td>Similar</td>
<td>Inferior-well &amp; septic</td>
</tr>
<tr>
<td>Shape/Corner/Access/Frontage</td>
<td>-5%</td>
<td>-5%</td>
<td>-5%</td>
</tr>
<tr>
<td>Subject is not a corner location</td>
<td>Superior</td>
<td>Superior</td>
<td>Superior</td>
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<tr>
<td>Flood Plain</td>
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<tr>
<td>Zoning</td>
<td>0%</td>
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<td>0%</td>
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<tr>
<td>Total Adjustment</td>
<td>43.5%</td>
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<tr>
<td>Adjusted Sales Price per square foot</td>
<td>$5.10</td>
<td>$4.65</td>
<td>$5.60</td>
</tr>
</tbody>
</table>

**Conclusion PSF**

| Correlation - Adjusted Sales Price SF | $5.20 |
| Times SF Area                      | X     | 178,335 |
| Indicated Market Value Site "As Though" Vacant | $927,340 | $930,000 |
RECONCILIATION AND VALUE CONCLUSIONS

The direct sales comparison approach produced the following indications of Market Value:

Direct Sales Comparison Approach: Land Only $930,000

The direct sales comparison approach was considered meaningful in estimating the value of the subject property, as there were comparable sales of similar vacant sites within the general market area. It is rare that two properties have the same investment quality and amenities and that some purchase considerations are intangible qualities and difficult to compare. The strength of this approach is that it measures and represents the willing buyer/willing seller concept and the marketability of the properties.

For the reasons discussed above, we placed all emphasis on the Direct Sales Comparison Approach to value. Based on our investigation and analysis, it is our opinion that the Market Value of the Fee Simple Estate, “As Is”, of the subject site, as of February 25, 2018, is estimated to be:

ESTIMATE OF MARKET VALUE OF FEE SIMPLE ESTATE
(As of February 25, 2018, the date of the site visit)

NINE HUNDRED THIRTY THOUSAND DOLLARS
$930,000
The sales price of the additional sales ranged from $3.00 psf to $10.13 psf with an average of $5.79 psf, and a median sales price of $5.17 psf. The subject property estimated price per square was $5.21 psf rounded.

LOCATION MAP PRIMARY SALES AND ADDITIONAL SALES
Cost Summary
See costs below for Heritage in Montgomery, sorry for the delay in sending to you, let me know if you need anything further?

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas, Fuel</td>
<td>43,000</td>
</tr>
<tr>
<td>Equipment Rental</td>
<td>40,000</td>
</tr>
<tr>
<td>Engineering</td>
<td>86,358</td>
</tr>
<tr>
<td>Survey</td>
<td>21,272</td>
</tr>
<tr>
<td>Staking</td>
<td>19,800</td>
</tr>
<tr>
<td>Assistant Superintendent</td>
<td>30,000</td>
</tr>
<tr>
<td>Det Pond Labor</td>
<td>70,000</td>
</tr>
<tr>
<td>Hauling</td>
<td>58,938</td>
</tr>
<tr>
<td>Equipment Rental</td>
<td>32,000</td>
</tr>
<tr>
<td>Stabilization</td>
<td>57,481</td>
</tr>
<tr>
<td>Cut &amp; Fill</td>
<td>593,683</td>
</tr>
<tr>
<td>Storm Sewer</td>
<td>149,362</td>
</tr>
<tr>
<td>Perimeter Fence</td>
<td>33,003</td>
</tr>
<tr>
<td>Erosion control</td>
<td>3,000</td>
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<tr>
<td>FINISH GRADE</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>$1,257,897</td>
</tr>
</tbody>
</table>

Thank you,

Matt Fuqua

Blazer Building Texas, LLC
Nantucket Housing, LLC
713.914.9200 (O)
281.850.4502 (M)
Bill Murphy

From: Matt Fuqua <mfuqua@blazerbuilding.com>
Sent: Friday, February 23, 2018 12:39 PM
To: Bill Murphy
Subject: Flagship Memo
Attachments: 2016-21 Impact Fees.pdf

Bill,

Please allow this email to serve as technical memo that on January 2017 we graded the Phase II site and raised the elevation in the rear of the property.

Additinally, by platting the property we have secured our impact fees for the property which now run water impact fee of $1,252 per service unit and a sewer impact fee of $2,793 per service unit on new development at the time a building permit is issued. Based on our 80 unit development this would be a cost of $323,600.

Let me know if you need any further information?

Thank you,

Matt Fuqua

Blazer Building Texas, LLC
Nantucket Housing, LLC.
713.914.9200 (O)
281.850.4502 (M)
mfuqua@blazerbuilding.com
www.blazerbuilding.com

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Bill Murphy

From: Matt Fuqua <mfuqua@blazerbuilding.com>
Sent: Tuesday, February 27, 2018 12:19 PM
To: Bill Murphy
Subject: RE: Flagship Memo

Bill,

In addition to the information provided for the impact fee of $323,600. Additionally, I sent you a breakdown in 2016 of the site work improvements performed in 2016 in the amount of 1.3 million. Based on the prorated amount of site work for the site attributed for Phase II (4.09 of 17.04 acres) acres would bring the site value to 1,104,191. This does not include additional site work performed on site in 2017 which included roughly 1500 cubic yards of additional fill material to be brought into the property to raise the site at a cost of $52,000.

Please let me know if you need anything further?

Breakdown of my notes from above:

Purchase Price: $1,955,000 / 17.04 acres = $2.633 psf. X 4.09 acres = $468,561

Site work and infrastructure improvements 1,300,000 / 17.04 acres = $312,030

Impact Fees = $323,600

Additional site work performed in 2017 $52,000

Thank you,

Matt Fuqua

Blazer Building Texas, LLC
Nantucket Housing, LLC.
713.914.9200 (O)
281.850.4502 (M)
mfuqua@blazerbuilding.com
www.blazerbuilding.com
<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Maximum Flow (GPM)</th>
<th>Equivalent Single Family Connection (ESFC)</th>
<th>Maximum Assessable Water Fee ($/ESFC)</th>
<th>Maximum Assessable Wastewater Fee ($/ESFC)</th>
<th>Maximum Assessable Fee ($/ESFC)</th>
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<tr>
<td>5/8&quot;</td>
<td>15</td>
<td>1.00</td>
<td>$1,252</td>
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<td>$4,045</td>
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<td>40.00</td>
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<td>6&quot;</td>
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<td>80.00</td>
<td>$100,176</td>
<td>$223,445</td>
<td>$323,621</td>
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<tr>
<td>8&quot;</td>
<td>1,800</td>
<td>120.00</td>
<td>$150,264</td>
<td>$335,168</td>
<td>$485,432</td>
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</table>
City Ordinance
ORDINANCE

(Motion was made by Dave McCorquodale, seconded by Kirk Jones, and passed by a vote of 4 to 0, that the following ordinance be passed.)

ORDINANCE NO. 2014-08

AN ORDINANCE OF THE CITY OF MONTGOMERY AMENDING THE CITY OF MONTGOMERY ZONING ORDINANCE, AS HERETOFORE AMENDED, SO AS TO REZONE CERTAIN TRACTS OF LAND OUT OF RESTRICTED COMMERCIAL RESERVES "G", "H", AND "I" OF MONTGOMERY TRACE CENTER, SECTION 1, AND RESTRICTED COMMERCIAL RESERVE "J" OF REPLAT, MONTGOMERY RESERVE, SECTION 1, IN THE CITY OF MONTGOMERY, MONTGOMERY COUNTY, TEXAS, FROM DISTRICT B, COMMERCIAL, TO DISTRICT R-2, MULTIFAMILY RESIDENTIAL; DIRECTING A CHANGE ACCORDINGLY IN THE OFFICIAL ZONING MAP OF THE CITY PROVIDING FOR THE REPEAL OF ALL ORDINANCES IN CONFLICT HEREWITH; PROVIDING FOR SEVERABILITY; AND EFFECTIVE DATE.

WHEREAS, the City of Montgomery has received an application for zoning change from Nantucket Housing, LLC, a Texas limited liability company, the owner of the hereinbelow referenced real property; and

WHEREAS, the matter was referred to the City of Montgomery Planning and Zoning Commission for consideration and recommendation, and the Planning and Zoning Commission, after due notice and public hearing, did consider and make a recommendation on the request for zoning change; and

WHEREAS, the City Secretary caused to be issued and published the notices of public hearing required by the City of Montgomery Zoning Ordinance (the "Zoning Ordinance") and laws of the State of Texas applicable thereto; and

WHEREAS, the City Council, pursuant to such notices, held its public hearing and heard all persons wishing to be heard both for and against the proposed change in the Zoning Ordinance, on the 15th day of July, 2014; and

WHEREAS, the City Council, after determining that all legal requirements of notice and hearing have been met, is of the opinion and finds that such change would not be detrimental to the public health, safety, or general welfare, and will promote the best and most orderly development of the properties affected thereby, and to be affected thereby, in the City of Montgomery, Texas, and as well, the owners and occupants thereof, and the City generally;
NOW THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF MONTGOMERY, TEXAS, THAT:

SECTION 1. The Zoning Ordinance as the same has been heretofore amended, and as codified as Chapter 98 of the Code of Ordinances of the City of Montgomery, Texas, is hereby further amended so as to rezone the tracts of land described below from District B, Commercial, to District R-2, Multifamily Residential:

TRACT ONE (1):

A tract of land containing 5.3219 acres, more or less, out of Restricted Commercial Reserve “G,” Restricted Commercial Reserve “H” of MONTGOMERY TRACE CENTER, SECTION 1, a subdivision of record according to the map thereof recorded in Cabinet Q, Sheets 82 and 83 of the Map Records of Montgomery County, Texas, and out of Restricted Commercial Reserve “I” of REPLAT, MONTGOMERY RESERVE, SECTION 1, according to the map or plat thereof recorded in Plat Cabinet Z, Sheet 1896 of the said Map Records of Montgomery County, Texas, and being more particularly described in Exhibit “A” attached hereto.

TRACT TWO (2):

A tract of land containing 2.6726 acres, more or less, out of Restricted Commercial Reserve “G” of MONTGOMERY TRACE CENTER, SECTION 1, a subdivision of record according to the map thereof recorded in Cabinet Q, Sheets 82 and 83 of the Map Records of Montgomery County, Texas, and being more particularly described in Exhibit “A” attached hereto.

TRACT THREE (3):

Being 2.123 acres of land more or less, being all of Restricted Commercial Reserve “J” of REPLAT, MONTGOMERY RESERVE, SECTION 1, a subdivision of record according to the map or plat thereof recorded in Plat Cabinet Z, Sheet 1896 of the said Map Records of Montgomery County, Texas.

TRACT FOUR (4):

A tract of land containing 6.9242 acres, more or less, out of Restricted Commercial Reserve “H” of MONTGOMERY TRACE CENTER, SECTION 1, a subdivision of record according to the map or plat thereof recorded in Cabinet Q, Sheets 82 and 83 of the Map Records, and out of Restricted Commercial Reserve “I” of REPLAT, MONTGOMERY RESERVE, SECTION 1, according to the map or plat thereof recorded in Plat Cabinet Z, Sheet 1896 of the said Map Records of Montgomery County, Texas, and being more particularly described in Exhibit “A” attached hereto.
SECTION 2. It is directed that the official zoning map of the City of Montgomery be changed to reflect the zoning classification established by this Ordinance.

SECTION 3. All provisions of the ordinances of the City of Montgomery in conflict with the provisions of the Ordinance are hereby repealed, and all other provisions of the Ordinances of the City of Montgomery, not in conflict with the provisions of this Ordinance, shall remain in full force and effect.

SECTION 4. The repeal of any ordinance or part of ordinances effectuated by the enactment of this Ordinance shall not be construed as abandoning any action now pending under or by virtue of such ordinance or as discontinuing, abating, modifying or altering any penalty accruing or to accrue, or as affecting any rights of the municipality under any section or provisions of any ordinance at the time of passage of this Ordinance.

SECTION 5. It is the intention of the City Council that this Ordinance, and every provision thereof, shall be considered severable and the invalidity of any section, clause or provision or part or portion of any section, clause, or provision of this Ordinance shall not affect the validity of any other portion of this Ordinance.

SECTION 6. This Ordinance shall become effective immediately upon its passage and publication as required by law.

PASSED AND APPROVED this 15th day of July, 2014.

CITY OF MONTGOMERY, TEXAS

By: [Signature]

John Fox, Mayor

ATTEST:

By: [Signature]

Carol Langley, City Secretary
Tax Statements
2018 GENERAL INFORMATION

Property Status: Active
Property Type: Real
Legal Description: 5576800 - Heritage Plaza 01, RES B, ACRES 8.337
Neighborhood: SMO-CMO
Account: 5768-00-00200
Map Number: 123T

2018 OWNER INFORMATION

Owner Name: NANTUCKET HOUSING LLC
Owner ID: 00458132

Percent Ownership: 100%
Mailing Address: 18729 FM 1887 RD HEMPSTEAD, TX 77445-3493

2017 ENTITIES & EXEMPTIONS

<table>
<thead>
<tr>
<th>TAXING ENTITY</th>
<th>EXEMPTIONS</th>
<th>EXEMPTIONS AMOUNT</th>
<th>TAXABLE VALUE</th>
<th>TAX RATE PER 100</th>
<th>TAX CEILING</th>
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<td>CAD- Appraisal District</td>
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<tr>
<td>CMO- City of Montgomery</td>
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TOTALS: 2.4186

2017 LAND SEGMENTS

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<tr>
<th>LAND SEGMENT TYPE</th>
<th>STATE CODE</th>
<th>HOMESITE</th>
<th>MARKET VALUE</th>
<th>AG USE LOSS</th>
<th>LAND SIZE</th>
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<tbody>
<tr>
<td>1 - Primary Site</td>
<td>B1 - Residential Multi-family</td>
<td>No</td>
<td>$1,089,480</td>
<td>$0</td>
<td>363,159 Sq. ft</td>
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TOTALS: 363,159 Sq. ft / 8.336983 acres

VALUE HISTORY

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<tr>
<th>YEAR</th>
<th>IMPROVEMENT</th>
<th>LAND</th>
<th>MARKET</th>
<th>AG MARKET</th>
<th>AG LOSS</th>
<th>APPRAISED</th>
<th>HS CAP LOSS</th>
<th>ASSESSED</th>
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<td>$0</td>
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<td>$1,089,480</td>
</tr>
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DISCLAIMER

Every effort has been made to offer the most current and correct information possible on these pages. The information included on these pages has been compiled by County staff from a variety of sources, and is subject to change without notice. The Montgomery Central Appraisal District makes no warranties or representations whatsoever regarding the quality, content, completeness, accuracy or adequacy of such information and data. The Montgomery Central Appraisal District reserves the right to make changes or additions to any time without notice. Original records may differ from the information on these pages. Verification of information on source documents is recommended. By using this application, you assume all risks arising out of or associated with access to these pages, including but not limited to risks of damage to your computer, peripherals, software and data from any virus, software, file or other value associated with access to this application. The Montgomery Central Appraisal District shall not be liable for any damages whatsoever arising out of any cause relating to use of this application, including but not limited to mistakes, omissions, deletions, errors, or defects in any information contained in these pages, or any failure to receive or delay in receiving information.
## Owner Information

<table>
<thead>
<tr>
<th>Owner Name:</th>
<th>Nantucket Housing LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner Occupied:</td>
<td>No</td>
</tr>
<tr>
<td>Carrier Route:</td>
<td>R003</td>
</tr>
<tr>
<td>Tax Billing Address:</td>
<td>18729 Fm 1887 Rd</td>
</tr>
<tr>
<td>Tax Billing City &amp; State:</td>
<td>Hempstead, TX</td>
</tr>
<tr>
<td>Tax Billing Zip:</td>
<td>77445</td>
</tr>
<tr>
<td>Tax Billing Zip+4:</td>
<td>3493</td>
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## Location Information

<table>
<thead>
<tr>
<th>Subdivision:</th>
<th>Heritage Plaza 01</th>
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<tbody>
<tr>
<td>School District Name:</td>
<td>Montgomery ISD</td>
</tr>
<tr>
<td>Neighborhood Code:</td>
<td>Smo Cmo-1100.c</td>
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<tr>
<td>Township:</td>
<td>Montgomery</td>
</tr>
<tr>
<td>MLS Area:</td>
<td>39</td>
</tr>
<tr>
<td>Market Area:</td>
<td>MONTGOMERY COUN</td>
</tr>
<tr>
<td>Census Tract:</td>
<td>6945.00</td>
</tr>
<tr>
<td>Map Facet:</td>
<td>123T</td>
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## Tax Information

<table>
<thead>
<tr>
<th>Parcel ID:</th>
<th>5768-00-00200</th>
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</thead>
<tbody>
<tr>
<td>Parcel ID:</td>
<td>57680000200</td>
</tr>
<tr>
<td>Legal Description:</td>
<td>S576800 - HERITAGE PLAZA 01, RES B, ACRES 8.337</td>
</tr>
<tr>
<td>Tax Area:</td>
<td>GMO</td>
</tr>
<tr>
<td>Fire Dept Tax Dist:</td>
<td>F02</td>
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</table>

## Assessment & Tax

<table>
<thead>
<tr>
<th>Assessment Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessed Value - Total</td>
<td>$1,089,480</td>
<td>$1,089,480</td>
<td>$474,090</td>
</tr>
<tr>
<td>Assessed Value - Land</td>
<td>$1,089,480</td>
<td>$1,089,480</td>
<td>$474,090</td>
</tr>
<tr>
<td>YOY Assessed Change ($)</td>
<td>$0</td>
<td>$615,390</td>
<td>129.8%</td>
</tr>
<tr>
<td>Market Value - Total</td>
<td>$1,089,480</td>
<td>$1,089,480</td>
<td>$474,090</td>
</tr>
<tr>
<td>Market Value - Land</td>
<td>$1,089,480</td>
<td>$1,089,480</td>
<td>$474,090</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Total Tax</th>
<th>Change ($)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$13,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$26,384</td>
<td>$14,984</td>
<td>131.43%</td>
</tr>
<tr>
<td>2017</td>
<td>$26,350</td>
<td>-$34</td>
<td>-0.13%</td>
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### Jurisdiction

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Tax Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montgomery</td>
<td>$4,526.79</td>
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<tr>
<td>Emergency Svc Dist 2</td>
<td>$1,089.46</td>
</tr>
<tr>
<td>Montgomery County</td>
<td>$5,084.60</td>
</tr>
<tr>
<td>Montgomery Co Hospital</td>
<td>$723.41</td>
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<td>Montgomery ISD</td>
<td>$14,925.88</td>
</tr>
<tr>
<td>Total Estimated Tax Rate</td>
<td>2.4186</td>
</tr>
</tbody>
</table>

## Characteristics

- **Land Use - CoreLogic:** Multi Family Dwelling
- **Lot Sq Ft:** 363,159
- **Land Use - County:** Multi-Family Residential
- **# of Buildings:** 1
- **Land Use - State:** Multi-Family Residential
- **Total Units:** 81
- **Lot Acres:** 8.337

---

**Property Detail**

Generated on 06/24/2018

Page 1 of 2
Property Map

*Lot Dimensions are Estimated

Courtesy of William Murphy, The Murphy Appraisal Group., Houston Association of REALTORS

The data within this report is compiled by CoreLogic from public and private sources. If desired, the accuracy of the data contained herein can be independently verified by the recipient of this report with the applicable county or municipality.

Property Detail

Generated on 03/04/2018
Survey
Market Analysis
Economic data for ’17 continue to stream in. Oil prices and the rig count finished the year ahead of where they started. Significantly more drilling permits were issued in ’17 than the year before. Home sales set a record, but vehicle sales slumped. Construction trailed off through most of the year, then rebounded post-Harvey. The region’s ports saw a surge in activity. Manufacturing ticked up. Inflation remained in check. And the metro area experienced modest job growth. Bottom line—the region moved closer to full recovery in ’17.

This issue of Glance focuses on how 10 economic indicators—employment, unemployment, air traffic, building permits, energy, foreign trade, home sales, inflation, manufacturing and vehicle sales—fared in ’17.

EMPLOYMENT

The nine-county Houston metro area created 46,000 jobs in ’17. In a normal economy, one not overstimulated by high oil prices or restrained by low oil prices, the region would create 50,000 to 60,000 jobs per year. Last year’s growth, though below trend, reflects a considerable improvement over ‘16, when the region created 18,700 jobs, and ’15, when the region created only 200 jobs.

Even with a weak economy, ’17 ended with payroll employment at 3,082,000, a new peak for the region. Barring a collapse in oil prices, a reversal in U.S. and global economic growth, or a black swan event, employment in Houston should surpass 3.1 million jobs the end of this year.

Source: Texas Workforce Commission

A CAVEAT

The Texas Workforce Commission is currently reviewing employment records for the past 21 months and in March will release its annual benchmark revisions to the data. Those revisions will capture gains and losses not included in the initial monthly reports. Those reports derive from surveys of employers chosen because they are representative of industries across Texas. As with any survey, the results are subject to error. The March revisions will be based on unemployment insurance records and cover 96 percent of all workers in Texas. The records will more accurately reflect what happened. Given that caveat, here’s what the preliminary jobs data say about Houston in ’17.

Mining and Logging

Mining and logging, which in Houston is primarily oil and gas, finished the year with a net loss of 400 jobs. The jump in the rig count, up 271 rigs over the year, spurred hiring in
oil field services. But weak oil prices, which averaged $50.80 for the year, continued to weigh on exploration firms’ balance sheets. The E&P sector continued to cut payroll while oilfield service firms hired additional workers to handle the upsurge in drilling activity. Unfortunately, the hiring couldn’t offset the job losses and Houston’s energy sector finished the year with fewer workers than when it started.

Construction

Through September, the construction sector had cut 7,200 jobs and was on track to lose more than 10,000 for the year. But then Hurricane Harvey hit, damaging more than 160,000 homes in the metro area. The City of Houston approved $949 million in residential construction permits in the last four months of ’17, up 76.1 percent over the comparable period in ’16. Construction hiring resumed and the sector finished the year with a net loss of only 800 jobs.

Manufacturing

Manufacturing added 8,800 jobs, but what actually happened is hard to decipher. TWC reports that fabricated metal products added 5,400 jobs while machinery manufacturing lost 4,100, nearly canceling out the gains. Those two sectors account for 38 percent of all manufacturing jobs in the region, so it’s not clear where the job growth came from. The gains did not come from nondurables (e.g., chemicals, refined products, food processing), where TWC shows a loss of 1,500. The March revisions should provide clarity.

Wholesale and Retail Trade

Wholesale trade lost 2,000 jobs, the bulk of the losses occurring in nondurable goods, e.g., groceries, clothing, pharmaceuticals.

Retail added 2,800 jobs, the sector’s weakest performance since ’09, marking the second consecutive year of subpar growth. Retail added only 2,900 jobs in ’16. In a non-recession year, retail would be expected to add 5,000 to 6,000 jobs. While the increase in online sales accounts for some weakness, the collapse in local wages and salaries likely has a greater impact. Data from the Federal Reserve Bank of Dallas indicate that as of Q2/17, Houston-area wages adjusted for inflation remain $4.8 billion below their Q4/14 peak.

Transportation, Warehousing, Utilities

The sector lost 1,400 jobs in ‘17. Again, the reason for the losses remains unclear. The Houston-Galveston Customs District recorded growth in bulk cargo. Port Houston set a record for container traffic. The Houston Airport System was fully operational a few days after Harvey passed through. And several large distribution facilities opened during the year.

Finance

Finance, which includes banking, insurance and real estate, added 3,800 jobs, the bulk in the real estate subsector. Causes for the increase include a record number of home sales in ’17, a surge in apartment leasing immediately after Hurricane Harvey, and commercial leasing activity picking up in Q4.

Professional, Scientific and Technical Services

Professional, scientific and technical services—sectors often identified with white-collar employment—added 7,500 jobs in ’17. That 3.5 percent growth was more than twice the rate for total payroll employment. Accounting, legal and IT services had nominal growth. Architectural and engineering services, which had been losing jobs since March ’15, added a handful of jobs in Q4 and finished the year with a gain of 1,600 jobs.

Employment Services

This sector often serves as a bellwether for broader trends in the economy. Contract workers are often the first laid off in a recession. As the economy improves, firms often rely on contract workers before hiring permanent full-time staff. Such appears to have been the case again. Employment services added 10,700 jobs in ’17, nearly a quarter of the region’s net gain in jobs last year.

Health Care

The local health care sector endured the resignation of several hospital CEOs, uncertainty over the fate of the Affordable Care Act, and continued pressure from insurance companies and patients to control costs. The sector added 6,400 jobs, the second weakest performance of the past 10 years.

Accommodation and Food Services

The sector, also known as hotels, restaurants and bars, failed to perform at the level of recent years, adding only 2,600 jobs in ’17. Over the past 20 years, job growth has averaged 6,900 per year.

Government

The public sector added 8,000 jobs, of which 5,400 were in local education. Houston’s ever-expanding population continues to drive growth in this sector.

February 2018 Economy at a Glance

©2018, Greater Houston Partnership
UNEMPLOYMENT

More Houstonians found jobs in ‘17 than the year before. The estimated number of unemployed shrank from 174,603 in December ‘16 to 143,787 in December ‘17. Over the same period, the civilian workforce grew from 3,299,559 to 3,328,011. The year finished with a local unemployment rate of 4.3 percent, down from 5.3 percent at the end of ‘16. That level remains slightly higher than 3.7 percent for the state and 3.9 percent for the nation.

AIR TRAFFIC

The Houston Airport System handled 54.1 million passengers in ‘17, a slight dip from the year before. Hurricane Harvey forced airlines to cancel a significant number of flights in August and September, resulting in nearly one million fewer passengers passing through the city’s airports in those two months. If not for the disruptions caused by Harvey, HAS would have finished the year with a gain in excess of 500,000 passengers, about a 1.0 percent increase over ‘16. Instead, traffic slipped at Bush Intercontinental (IAH), inched up at Houston Hobby (HOU), and finished ‘17 with a small loss in overall traffic.

<table>
<thead>
<tr>
<th>HOUSTON AIRPORT SYSTEM – CY ‘17 vs. ‘16</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAH</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>International</td>
</tr>
<tr>
<td>‘17</td>
</tr>
<tr>
<td>‘16</td>
</tr>
<tr>
<td>Change</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Domestic</td>
</tr>
<tr>
<td>‘17</td>
</tr>
<tr>
<td>Change</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>‘17</td>
</tr>
<tr>
<td>‘16</td>
</tr>
<tr>
<td>Change</td>
</tr>
<tr>
<td>%</td>
</tr>
</tbody>
</table>

Source: Houston Airport System

HAS handled 434.9 metric tons of air freight in ‘17, up 3.7 percent from 419.4 million the year before. More than half of the freight handled at Houston’s airports originates from or is destined to an overseas market.

BUILDING PERMITS

City of Houston building permits totaled $6.1 billion in ‘17, down 7.5 percent from $6.6 billion in ‘16. Commercial permit values fell 17.0 percent to $3.7 billion while residential permit values rose 12.5 percent to $2.4 billion.

Houston’s residential sector absorbed most of the Harvey-related damage. Through August, residential and commercial permit values were trending lower than ‘16. However, residential permit values surged after the storm, primarily in “additions, alterations and conversions,” the category that captures home repairs. Permitted work in this category totaled $270.0 million in the last four months of ‘17, a 170 percent increase from the previous year. During this same period, the value of new home construction permits jumped 54.7 percent while commercial permits fell 6.5 percent.

Houston metro area construction activity in ‘18 is expected to fall below ‘17. Although moderate growth in industrial and new home construction is anticipated, it is unlikely to offset the slowdown in office and multi-family construction.

Approximately 8.5 million square feet of industrial space was under construction as of Q4/17, according to CBRE, up from 6.6 million square feet at the end of ‘16 and on par with the 8.6 million square feet at the end of ‘15.

New home construction is also expected to post a modest uptick, with MetroStudy forecasting 28,000 single-family starts in ‘18, up from 27,307 in ‘17.

CBRE reports 2.2 million square feet of office space under construction in Q4/17, unchanged from Q4/16 but down from 7.4 million square feet in Q4/15 and far lower than the peak of the building cycle, when 17.3 million square feet was under construction at the end of ‘14. In multi-family, Apartment Data Services reports around 9,600 units are under construction. By comparison, 13,719 new units were delivered in ‘17 and 21,291 in ‘16.

ENERGY

The outlook for the energy industry improved in ‘17. Though oil prices slumped a bit mid-summer, they never fell below $42 per barrel. The rig count remained above 900 through the second half of the year. The industry drilled more wells in ‘17 than ‘16. Production continued to expand. And although E&P companies continued to lay off workers, oil field services and engineering firms added to their payrolls.
West Texas Intermediate, the U.S. benchmark for light sweet crude, opened ‘17 at $52.36 per barrel on January 3. In June and July, WTI slipped into the mid-$40s. But as U.S. growth continued, global economies expanded, crude inventories were being drawn down, and OPEC signaled it would extend its production cuts into ‘17, crude prices rebounded. WTI finished the year at $60.46 per barrel.

<table>
<thead>
<tr>
<th>ENERGY INDUSTRY SUMMARY</th>
<th>Peak</th>
<th>Trough</th>
<th>Recent</th>
</tr>
</thead>
<tbody>
<tr>
<td>WTI, $/barrel, spot price</td>
<td>$107.95</td>
<td>$26.19</td>
<td>$60.46</td>
</tr>
<tr>
<td></td>
<td>Jun ’14</td>
<td>Feb ’16</td>
<td>Dec ’17</td>
</tr>
<tr>
<td>U.S. Rig Count</td>
<td>1,931</td>
<td>404</td>
<td>937</td>
</tr>
<tr>
<td></td>
<td>Sep ’14</td>
<td>May ’16</td>
<td>Jan ’18</td>
</tr>
<tr>
<td>Permits</td>
<td>74,512</td>
<td>27,602</td>
<td>44,156</td>
</tr>
<tr>
<td>U.S. Onshore</td>
<td>CY ‘14</td>
<td>CY ‘16</td>
<td>CY ‘17</td>
</tr>
<tr>
<td>U.S. Production Mil. barrels/day</td>
<td>9.6</td>
<td>5.0</td>
<td>9.3</td>
</tr>
<tr>
<td></td>
<td>CY ‘70</td>
<td>CY ‘08</td>
<td>CY ‘17</td>
</tr>
<tr>
<td>Local Energy Employment*</td>
<td>301,700</td>
<td>220,100</td>
<td>229,100</td>
</tr>
<tr>
<td></td>
<td>Dec ’14</td>
<td>Jan ’17</td>
<td>Dec ’17</td>
</tr>
</tbody>
</table>

* Includes exploration and production, oil field services, machinery manufacturing, fabricated metal products, and engineering services.

Sources: U.S. Energy Information Administration, Baker Hughes, S&P Global Platts, Texas Workforce Commission

The North American rig count opened ‘17 at 665. Rising oil prices and the expectation that OPEC members would abide by their November ‘16 agreement to cut production boosted the count to 958 by mid-July. (Drilling activity always lags price signals.) Drilling activity adjusted to market signals and the year finished with 928 active rigs.

The industry continues to find ways to boost output without boosting employment. EIA’s latest Drilling Productivity Report shows that in December, initial production per rig working in the Eagle Ford has nearly doubled and in the Permian and Bakken has nearly tripled since December ‘14.

EIA estimates U.S. crude production averaged 9.3 million barrels per day (b/d) in ‘17, up from 8.8 million in ‘16. EIA projects U.S. output to average 10.6 million b/d in ‘18, surpassing the previous peak of 9.6 million set in ‘70. Bar- ring a substantial drop in prices, production should continue to grow. EIA forecasts output to average 11.2 million b/d in ‘19.

‘18 has started strong, with 975 rigs working in the second week of February. RigData reports 3,872 U.S. onshore drilling permits were issued in January, up from 2,537 the same month last year. WTI briefly traded above $66 per barrel in late January before being caught up in the volatility on Wall Street. As of this writing, crude traded just below $60. EIA forecasts WTI to average $58.28 this year.

FOREIGN TRADE

More than 266 million metric tons in manufactured products and commodities passed through the Houston-Galveston Customs District in ‘17. That figure represents a 10.0 percent increase over the previous year. Those shipments were at valued at more than $192 billion, a 19.1 percent increase in over ‘16.

<table>
<thead>
<tr>
<th>HOUSTON-GALVESTON CUSTOMS DISTRICT</th>
<th>Value - $ Billions</th>
<th>Metric Tons - Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Imports</td>
</tr>
<tr>
<td>‘17</td>
<td>109.2</td>
<td>83.0</td>
</tr>
<tr>
<td>‘16</td>
<td>91.6</td>
<td>69.8</td>
</tr>
<tr>
<td>Δ value</td>
<td>+17.6</td>
<td>+13.2</td>
</tr>
<tr>
<td>Δ %</td>
<td>+19.2</td>
<td>+18.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Value</th>
<th>Total Tonnage</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘17</td>
<td>192.2</td>
</tr>
<tr>
<td>‘16</td>
<td>161.4</td>
</tr>
<tr>
<td>Δ value</td>
<td>+30.8</td>
</tr>
<tr>
<td>Δ %</td>
<td>+19.1</td>
</tr>
</tbody>
</table>

Source: WISERTrade from US Census Bureau data

Several factors have contributed to the growth in traffic.

- The global economy continues to expand, driving the demand for crude, refined products, chemicals, and industrial and electrical machinery that Houston produces and exports.
- Commodity prices have improved over the past few years, increasing the value of Houston exports.
- In December ‘15, Washington eliminated restrictions on exports of U.S. crude, and much of that crude now passes through Houston on its way to global markets.
- The deepening and widening of the Panama Canal has improved access of U.S. exporters to Asian markets and vice versa.

Houston ranked second in tonnage and seventh in value among U.S. customs districts.
BUSIEST U.S. CUSTOMS DISTRICTS – CY ‘17

<table>
<thead>
<tr>
<th>Rank</th>
<th>District</th>
<th>Value $ Billions</th>
<th>Metric Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Los Angeles</td>
<td>431.4</td>
<td>270.6</td>
</tr>
<tr>
<td>2</td>
<td>New York</td>
<td>364.7</td>
<td>Houston</td>
</tr>
<tr>
<td>3</td>
<td>Laredo</td>
<td>303.4</td>
<td>266.2</td>
</tr>
<tr>
<td>4</td>
<td>Detroit</td>
<td>263.7</td>
<td>Los Angeles</td>
</tr>
<tr>
<td>5</td>
<td>Chicago</td>
<td>223.8</td>
<td>Port Arthur</td>
</tr>
<tr>
<td>6</td>
<td>New Orleans</td>
<td>216.6</td>
<td>New York</td>
</tr>
<tr>
<td>7</td>
<td>Houston</td>
<td>192.2</td>
<td>San Francisco</td>
</tr>
<tr>
<td></td>
<td>Philadelphia</td>
<td>57.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: WISERTrade from US Census Bureau data

The region exported to 208 countries last year and received shipments from 181. Mexico remains the region’s top trading partner, followed by China, Brazil, Germany and the Netherlands. Even Fiji and the Cook Islands received cargoes shipped from Houston.

TOP TRADING PARTNERS – CY ‘17*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>$ Billions</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mexico</td>
<td>20.1</td>
<td>10.4%</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>18.8</td>
<td>9.8</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>12.6</td>
<td>6.6</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>9.6</td>
<td>5.0</td>
</tr>
<tr>
<td>5</td>
<td>The Netherlands</td>
<td>8.6</td>
<td>4.5</td>
</tr>
<tr>
<td>6</td>
<td>South Korea</td>
<td>6.8</td>
<td>3.5</td>
</tr>
<tr>
<td>7</td>
<td>Japan</td>
<td>6.4</td>
<td>3.4</td>
</tr>
<tr>
<td>8</td>
<td>Saudi Arabia</td>
<td>5.7</td>
<td>2.9</td>
</tr>
<tr>
<td>9</td>
<td>United Kingóom</td>
<td>5.6</td>
<td>2.9</td>
</tr>
<tr>
<td>10</td>
<td>Colombia</td>
<td>5.1</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Total Top 10: 99.3 51.7%
All Others: 92.9 48.3%
Total Trade: 192.2 100.0%

* Combined imports and exports
Source: WISERTrade from US Census Bureau data

The district handled goods and commodities from 95 different broad categories—everything from gasoline to live animals to cork. Five commodity groups account for 77 percent of the values of all exports: crude and refined products, chemicals, industrial machinery, plastics and electrical machinery. And five account for 63 percent of the values of all imports: crude and refined products, industrial machinery, iron and steel, vehicles and parts, and electrical machinery. The region’s top 10 trading partners and top five commodities traded were unchanged from the previous year.

HOME SALES

Houston home sales set a record in ‘17, reaching 94,726 closings on properties of all types and 79,117 closings on single-family homes. Both increased 3.5 percent from the previous year.

Total dollar volume of homes sold reached $23.1 billion in ‘17, a gain of 6.5 percent from $21.6 billion in ‘16. The year ended strong, with 8,125 total property sales in December ‘17, up 3.5 percent from December ‘16. The median price of a single-family home was $226,050 in December ‘17, a 1.7 percent increase from a year earlier.

Constrained housing inventory will continue to be a concern in ’18. Housing inventory dropped from 3.4 months of supply in December ‘16 to 3.2 months of supply in December ‘17. A balanced housing market typically has 6.0 months of supply. Houston’s inventory has fluctuated between three and four months of supply for nearly the past three years.

INFLATION

Consumer prices in the Houston-Galveston-Brazoria metro area (Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller counties) grew 1.7 percent from December ‘16 to December ‘17. Core inflation rose 0.9 percent.

In the 12 months ending December ‘17, the energy index rose 11.1 percent. All three components posted gains, with natural gas prices jumping 9.7 percent, electricity prices growing 12.7 percent and motor fuel prices rising 9.9 percent.

Food and beverage prices rose 2.1 percent during the previous 12 months. The cost of dining out increased 2.9 percent in Houston, while grocery prices grew 2.0 percent. The cost of shelter rose 1.2 percent.

PURCHASING MANAGERS INDEX

The Houston Purchasing Managers Index (PMI), a short-term leading indicator for regional production, pointed to expansion throughout all of ‘17 except for the three months most impacted by Hurricane Harvey. Prior to the storm, Houston’s PMI registered above 50 for 10 consecutive months. This period of expansion followed 21 consecutive months in which the PMI signaled contraction due to the energy industry downturn, the longest span of readings below 50 since the Houston PMI was first reported in January ‘95.
HOUSTON PURCHASING MANAGERS INDEX
Above 50 = Expansion, Below 50 = Contraction

Source: Institute for Supply Management-Houston

Houston kicked off ‘18 with the PMI registering 54.8 in January, the highest since October ‘14. Although the survey covers several non-energy industries (e.g., health care, electronics, finance), a larger share of its respondents represent the energy sector and energy-related manufacturing. As a result, the movement in the Houston PMI has historically followed oil prices and the rig count. The number of active U.S. rigs reached 975 in mid-February, the highest since April ‘15. Additionally, West Texas Intermediate, the benchmark for light, sweet crude, has hovered around $60 since the beginning of ‘18. A stronger energy outlook for ‘18 suggests continued positive readings for the PMI through the year.

VEHICLE SALES

Houston-area auto dealers sold 290,354 vehicles in ‘17, down 3.0 percent from ‘16. Harvey replacements accounted for an estimated 30,000 of the year’s new vehicles sales, about 10.3 percent. Replacement-related sales pushed the fourth quarter of ‘17 to be the best in new vehicle sales activity since ‘01. However, demand for replacement vehicles from Harvey appears to be exhausted. Used vehicle sales have also slowed, falling 35.0 percent from 83,000 in October, the height of replacement buying, to 53,965 in December.

The DMV counted 232,429 flood damaged vehicles through the end of ‘17, fewer than InfoNation’s estimate of 300,000. The disparity suggests that many owners never reported damage to the DMV and their vehicles could have been sold out of state or salvaged without reporting a flood damage change to the vehicle title.

InfoNation forecasts Houston’s vehicle sales to total 306,000 in ‘18, a 5.0 percent increase from the prior year. The accuracy of the forecast is tied to the continuing strength of the local and national economies as well as robust stock market performance, thereby reassuring consumers of their job security and financial future and positioning them to be able to make a new vehicle purchase.

The trend for consumers to favor bigger cars will most likely continue into ’18. Trucks and SUVs accounted for 71.4 percent of Houston’s new vehicle sales in December, the highest share on record for this category. The average retail price for the truck/SUV segment was $40,803 while the car segment averaged $32,289. A record share of truck and SUV sales and fewer clearance sales of lower-priced ‘17 models pushed the average retail sales price for a new vehicle to $38,320 in December, a record for the region.

SAVE THE DATE

Join us on Friday, May 18 for the fourth annual Houston's Global Economy luncheon. This year, Scott Kirby, President of United Airlines, will deliver the keynote address. As part of the Greater Houston Partnership's new Economy Series, Houston’s Global Economy provides an analysis of global business and economic trends and their impact on our local market. To register for the event or for more information, click here or visit “Events” on houston.org.

Patrick Jankowski and Jenny Philip contributed to this issue of Houston: The Economy at a Glance.
## Houston Economic Indicators

### Monthly Data vs. Year-to-Date Total or YTD Average

<table>
<thead>
<tr>
<th>Monthly Data</th>
<th>Year-to-Date Total or YTD Average*</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Active Rotary Rigs</td>
<td>Jan '18 937 683 37.2 937 683 37.2</td>
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<tr>
<td>Spot Crude Oil Price ($/bbl, West Texas Intermediate)</td>
<td>Dec '17 57.88 51.97 11.4 50.88 43.14 17.9</td>
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<tr>
<td>Spot Natural Gas ($/MMBtu, Henry Hub)</td>
<td>Dec '17 2.81 3.59 -21.7 2.98 2.52 -18.3</td>
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### Utilities and Production

|Houston Purchasing Managers Index| Dec '17 54.5 50.7 7.5 51.9 46.7 11.1|
|Nonresidential Electric Current Sales (MWh, CNP Service Area)| Dec '17 4,703,274 4,397,346 7.0 58,832,107 57,142,841 3.0|

### Construction

|Total Building Contracts ($, Houston MSA)| Nov '17 1,158,225,000 912,987,000 26.9 16,827,828,000 15,282,096,000 10.1|
|Nonresidential | Nov '17 528,305,000 283,111,000 86.6 8,524,241,000 6,768,432,000 25.9|
|Residential | Nov '17 629,920,000 629,876,000 0.0 8,303,587,000 8,513,664,000 -2.5|
|Building Permits ($, City of Houston)| Dec '17 546,008,331 401,315,338 36.1 6,115,245,478 6,612,473,714 -7.5|
|Nonresidential | Dec '17 286,200,981 267,606,227 6.9 3,715,470,131 4,478,509,719 -17.0|
|New Nonresidential | Dec '17 71,508,503 38,085,139 87.8 1,342,984,017 1,723,127,162 -22.1|
|Nonresidential Additions/Alterations/Conversions | Dec '17 214,692,478 229,521,088 -6.5 2,377,486,114 2,755,382,557 -13.9|
|Residential | Dec '17 259,807,350 133,709,111 94.3 2,399,775,347 2,133,963,995 12.5|
|New Residential | Dec '17 216,572,912 112,540,288 92.4 1,899,502,840 1,649,603,786 15.1|
|Residential Additions/Alterations/Conversions | Dec '17 43,234,438 21,168,823 104.2 500,272,507 484,360,209 3.3|

### Multiple Listing Service (MLS) Activity

|Property Sales | Dec '17 8,125 7,850 3.5 94,726 91,530 3.5|
|Median Sales Price - SF Detached | Dec '17 230,000 226,050 1.7 228,061 0 220,211 3.6|
|Active Listings | Dec '17 33,432 34,199 -2.2 39,178 35,753 9.6|

### Employment (Houston-The Woodlands-Sugar Land MSA)

|Nonfarm Payroll Employment | Dec '17 3,082,000 3,036,000 1.5 3,040,159 3,000,600 1.3|
|Goods Producing (Natural Resources/Mining/Const/Hfg) | Dec '17 530,900 523,300 1.5 530,492 0 530,317 0.0|
|Service Providing | Dec '17 2,551,100 2,532,700 1.5 2,509,667 0 2,470,283 1.6|
|Unemployment Rate (%) - Not Seasonally Adjusted | Houston-Sugar Land-Baytown MSA | Dec '17 4.3 5.3 5.1 5.2|
|Texas | Dec '17 3.7 4.5 4.5 4.6|
|U.S. | Dec '17 3.9 4.5 4.6 4.9|

### Transportation

|Port of Houston Authority Shipments (Short Tons) | Jan '18 3,419,808 3,579,186 -4.5 3,419,808 3,579,186 -4.5|
|Air Passengers (Houston Airport System) | Dec '17 4,887,405 4,746,001 3.0 54,131,890 54,601,871 -0.9|
|Domestic Passengers | Dec '17 3,899,848 3,720,041 4.8 42,932,343 42,965,323 -0.1|
|International Passengers | Dec '17 987,557 1,025,960 -3.7 11,199,547 11,636,494 -3.8|
|Air Freight (metric tons) | Dec '17 40,596 40,316 0.7 434,943 419,370 3.7|

### Consumer's

|New Car and Truck Sales (Units, Houston MSA) | Dec '17 20,806 24,066 -13.5 290,354 299,461 -3.0|
|Cars | Dec '17 5,947 8,311 -28.4 96,251 107,943 -10.8|
|Trucks, SUVs and Commercial | Dec '17 14,859 15,755 -7.5 194,103 191,518 1.3|
|Total Retail Sales ($500,000, Houston MSA, NAICS Basis) | Q2 '17 28,599 28,088 1.8 55,780 55,121 1.2|
|Consumer Price Index for All Urban Consumers (’82-’84=100) | Houston-Galveston-Brazoria CMSA | Dec '17 221,568 217,758 1.7 220,800 216,400 2.0|
|United States | Dec '17 246,524 241,432 2.1 245,100 240,000 2.1|

### Hotel Performance (Houston MSA)

|Occupancy (%) | Q1 '17 63.7 65.8 61.8 67.1|
|Average Room Rate ($) | Q1 '17 116.12 109.83 5.7 106.06 108.16 -1.9|
|Revenue Per Available Room ($) | Q1 '17 74.00 72.28 2.4 65.79 72.62 -9.4|

### Sources

- Aviation: City of Houston Department of Aviation
- Building Construction Contracts: Dodge Data & Analytics
- Car and Truck Sales: Texas Auto Facts Report, InfoNation, Inc., Sugar Land TX
- Consumer Price Index: Public Works & Engineering Planning & Development, City of Houston
- Employment, Unemployment: CenterPoint Energy
- Hotels: Texas Workforce Commission
- Houston Purchasing Managers Index: CBRE
- MLS Data: Institute for Supply Management-Houston
- Port Shipments: Houston Association of Realtors®
- Retail Sales: Port of Houston Authority
- Rig Count: Baker Hughes Incorporated

February 2018 Economy at a Glance

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<th>Service Provided</th>
<th>17-Dec</th>
<th>17-Nov</th>
<th>16-Dec</th>
<th>Change from 17-Nov</th>
<th>Change from 16-Dec</th>
<th>% Change from 17-Nov</th>
<th>% Change from 16-Dec</th>
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</table>

SOURCE: Texas Workforce Commission
Assumptions & Limiting Conditions
This appraisal report has been made with the following general assumptions:

1. Any legal description or plats reported herein are assumed to be accurate. Any sketches, surveys plats, photographs, drawings or other exhibits are included only to assist the intended user to better understand and visualize the subject property, the environs, and the competitive data. We have made no survey of the property and assume no responsibility in connection with such matters.

2. The appraiser has not conducted any engineering or architectural surveys in connection with this appraisal assignment. Information reported pertaining to dimensions, sizes, and areas is either based on measurements taken by the appraiser or the appraisers staff or was obtained or taken from referenced sources and is considered reliable. No responsibility is assumed for the costs of preparation or for arranging geotechnical engineering, architectural, or other types of studies, surveys, or inspections that require the expertise of a qualified professional.

3. No responsibility is assumed for matter legal in nature. Title is assumed to be good and marketable in fee simple unless otherwise stated in the report. The property is considered to be free and clear of existing liens, easements, restrictions, encumbrances, except as stated.

4. Unless otherwise stated herein, it is assumed there are no encroachments or violations of any zoning or other regulations affecting the subject property and the utilization of the land and improvements is within the boundaries or property lines of the property described and that there are no trespasses or encroachments.

5. The Murphy Appraisal Group, LLC assumes there are no private deed restrictions affecting the property which would limit the uses of the subject property in any way.

6. It is assumed the subject property is not adversely affected by the potential of floods; unless otherwise stated herein.

7. It is assumed all water and sewer facilities (existing and proposed) are or will be in good working order and are or will be of sufficient size to adequately serve any proposed buildings.

8. Unless otherwise stated within the report, the depiction of the physical condition of the improvements described herein is based on visual inspection. No liability is assumed for the condition of mechanical equipment, plumbing, or electrical components, as complete tests were not made. No responsibility is assumed for hidden, unapparent or masked property conditions or characteristics that were not clearly apparent during our inspection.

9. If building improvements are present on the site, no significant evidence of termite damage or infestation was observed during our physical inspection, unless so stated in the report. No termite inspection report was available, unless so stated in the report. No responsibility is assumed for hidden damages or infestation.

10. Any proposed or incomplete improvements included in this report are assumed to be satisfactorily completed in a workmanlike manner or will be thus completed within a reasonable length of time according to plans and specifications submitted.
11. No responsibility is assumed for hidden defects of for conformity to specific governmental requirements, such as fire, building, safety, earthquake, or occupancy codes, except where specific professional or governmental inspections have been completed and reported in the appraisal report.

12. Responsible ownership and competent property management is assumed.

13. The appraisers assume no responsibility for any changes in economic or physical conditions which occur following the effective date of value within this report that would influence or potentially affect the analyses, opinion, or conclusions in the report. Any subsequent changes are beyond the scope of the report.

14. The value estimates reported herein apply to the entire property. Any proration or division of the total into fractional interests will invalidate the value estimates, unless such proration or division of interests is set forth in the report.

15. Any division of the land and improvement values estimated herein is applicable only under the program of utilization shown. These separate valuations are invalidated by any other application.

16. Unless otherwise stated in the report, only the real property is considered, so no consideration is given to the value of personal property or equipment located on the premises or the costs of moving or relocating such personal property or equipment.

17. Unless otherwise stated, it is assumed that there is no subsurface oil, gas or other mineral deposits or subsurface rights of value involved in the appraisal, whether they are gas, liquid, or solid. Nor are the rights associated with extraction or exploration of such elements considered; unless otherwise stated. Unless otherwise stated it is also assumed that there are no air or development rights of value that may be transferred.

18. Any projections of income and expenses, including the reversion at time of resale, are not predictions of the future. Rather, they are our best estimate of current market thinking of what future trends will be. No warranty or representation is made that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the task of an appraiser to estimate the conditions of a future real estate market, but rather to reflect what the investment community envisions for the future in terms of expectations of growth in rental rates, expenses, and supply and demand. The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes with future conditions.

19. Unless subsoil opinions based upon engineering core borings were furnished, it is assumed there are no subsoil defects present, which would impair development of the land to its maximum permitted use or would render it more or less valuable. No responsibility is assumed for such conditions of for engineering which may be required to discover them.

20. The Murphy Appraisal Group, LLC representatives are not experts in determining the presence or absence of hazardous substances, defined as all hazardous or toxic material, wastes, pollutants, or contaminants (including, but not limited to, asbestos, PCB, UFFI, or other raw materials or chemicals) used in construction or otherwise present on the property. We assume no responsibility for the studies or analyses which would be required to determine the presence or absence of such substances of for loss as a result of the presence of such substances. Appraisers are not qualified to detect such substances. The client is urged to retain an expert in this field.

21. We are not experts in determining the habitat for protected or endangered species, including, but not limited to, animal or plant life (such as bald eagles, gophers, tortoises, etc.) that may be present on the property. We assume no responsibility for the studies or analyses which would be required to determine the presence or absence of such species or for loss as a result of the presence of such species. The appraiser hereby reserves the right to alter,
amend, revises, or rescind any of the value opinions based upon any subsequent endangered species impact studies, research, and investigation that may be provided.

22. No environmental impact studies were either requested or made in conjunction with this analysis. The appraiser hereby reserves the right to alter, amend, revise, or rescind any of the value opinions based upon any subsequent environmental impact studies, research, and investigation that may be provided.

23. The appraisal is based on the premise that there is full compliance with the applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can obtained or renewed for any use considered in the value estimate.

24. Neither all nor part of the contents of this report or copy thereof, shall be conveyed to the public through advertising, public relation, news, sales, or any other media, without the prior written consent and approval of the appraiser. This limitation pertains to any valuation conclusions, the identity of the analyst or the firm and any reference to the professional organization of which the appraiser is affiliated or to the designations thereof.

25. Although the appraiser has made, insofar as is practical, every effort to verify as factual and true all information and data set forth in this report, no responsibility is assumed for the accuracy of any information furnished the appraiser either by the client or others. If for any reason, future investigations should prove any data to be in substantial variance with that presented in this report, the appraiser reserves the right to alter or change any or all analyses, opinions, or conclusions, and/or estimates of value.

26. If this report has been prepared in a so-called “public non-disclosure” state, real estate sales prices and other data, such as rents, prices, and financing, are not a matter of public record. If this such a “non-disclosure” state, although extensive effort has been expended to verify pertinent data with buyers, seller, brokers, lenders, lessors, lessees, and other source considered reliable, it has not always been possible to independently verify all significant facts. In these instances, the appraiser may have relied on verification obtained and reported by appraisers outside of our office. Also, as necessary, assumptions and adjustments have been made based on comparisons and analyses using data in the report and on interviews with market participants. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

27. The American Disability Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey or analysis of the property to determine whether or not it is in conformity with the various detailed requirements of ADA. It is possible that a compliance survey of the property and a detailed analysis of the requirements of the ADA would reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative impact upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible noncompliance with the requirements of ADA was not considered in estimating the value of the property.

28. This appraisal report has been prepared for the exclusive benefit of the client. It may not be used or relied upon by any other party. Any other party who is not the identified client within this report who uses of relies upon any information in this report does so at their own risk.

29. The dollar amount of any value opinion herein rendered is based upon the purchasing power and price of the United States Dollar as of the effective date of value. This appraisal is based on market conditions existing as of the date of this appraisal.

30. The right is reserved by the appraiser to make adjustments to the analyses, opinions, and conclusions set forth in this report as may be required by consideration of additional or more reliable data that may become available. No
The Murphy Appraisal Group, LLC

change of this report shall be made by anyone other than the appraiser or appraisers. The appraiser(s) shall have
no responsibility for any unauthorized change(s) to the report.

31. If the client instructions to the appraiser were to inspect only the exterior of the improvement in the appraisal
process, the physical attributes of the property were observed from the street(s) as of the inspection date of the
appraisal. Physical characteristics of the property were obtained from tax assessment records, available plans, if
any, descriptive information and interviewing the client and other knowledgeable persons. It is assumed the
interior of the subject property is consistent with the exterior conditions observed and that other information
relied upon is accurate.

32. The submission of this report constitutes completion of the services authorized. It is submitted on the condition
the client will provide reasonable notice and customary compensation, including expert witness fees, relating to
any subsequent required attendance at conferences, depositions and judicial or administrative proceedings. In the
ever the appraiser is subpoenaed for either an appearance or a request to produce documents, a best effort will
be made to notify the client immediately. The client has the sole responsibility for obtaining a protective order,
providing legal instruction not to appear with the appraisal report and related work files and will answer all
questions pertaining to the assignment, the preparation of the report, and the reasoning used to formulate the
estimate of value. Unless paid in whole or in part by the party issuing the subpoena or by another party of interest
in the matter, the client is responsible for all unpaid fees resulting from the appearance or production of
documents regardless of who orders the work.

33. Use of this appraisal report constitutes acknowledgement and acceptance of the general assumptions and limiting
conditions, special assumptions (if any), extraordinary assumptions (if any), and hypothetical conditions (if any)
on which this estimate of market value is based.

34. If provided, the estimated insurable value is included at the request of the client and has not been performed by a
qualified insurance agent or risk management underwriter. This cost estimate should not be solely relied upon for
insurable value purposes. The appraisers are not familiar with the definition of insurable value from the insurance
provider, the local governmental underwriting regulations, or the types of insurance coverage available. These
factors can impact cost estimates and are beyond the scope of the intended use of this appraisal. The appraisers
are not cost experts in cost estimating for insurance purposes.
**Assessed Value**: The value of a property according to the tax rolls in ad valorem taxation; may be higher or lower than market value, or based on an assessment ratio that is a percentage of market value.

**Asset**:
1. Generally, something that can be converted to cash or other economic equivalent
2. Any owned property that has economic value, including financial assets (cash or bonds), business interests, intangible assets (copyrights and trademarks), and physical assets (real and personal property)
3. In general business usage, something owned by a business and reflected in the owner’s balance sheet.

**Asset**: A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

**Capital Expenditure**: Investments of cash (or the creation of liability) to acquire or improve an asset, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for expense items that are normally considered part of the current period’s operations.

**Cash Equivalency**: An analytical process in which the sale price of a transaction with nonmarket financing or financing with unusual conditions or incentives is converted into a price expressed in terms of cash.

**Client**: The party or parties who engage an appraiser (by employment or contract) in a specific assignment (USPAP)

**Cost Approach**: A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

**Credible**: Worthy of belief. Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use. (USPAP, 2010-2011 1ed.)

**Deferred Maintenance**: Needed repairs or replacement of items that should have taken place during the course of normal maintenance.

**Disposition Value**: The most probably price that a specified interest in real property should bring under the following conditions: 1) Consummation of a sale within a future exposure time specified by the client. 2) The property is subjected to market conditions prevailing as of the date of valuation. 3) Both the buyer and seller are acting prudently and knowledgeably. 4) The seller is under compulsion to sell. 5) The buyer is typically motivated. 6) Both parties are acting in what they consider to be their best interests. 7) An adequate marketing effort will be made during the exposure time specified by the client. 8) Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto. 9) The price represents the normal consideration of the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. The definition can also be modified to provide for valuation with specified financing terms.

**Economic Life**: The period over which improvements to real property contribute to property value.

**Effective Date**: 10 The date on which the analyses, opinions, and advice in the appraisal, review, or consulting service apply. 2) In a lease document, the date upon which the lease fees into effect.

**Effective Gross Income Multiplier (EGIM)**: The ratio between the sale price (or value) of a property and its effective gross income.

**Effective Rent**: The rental rate net of financial concessions such as periods of no rent during the lease term and above-or-below-market tenant improvements (TIs)

**Exposure Time**: 1) The time a property remains on the market. 2) The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on the analysis of past events assuming a competitive and open market.

**Extraordinary Assumptions**: An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; in conditions external to the property such as market conditions or trends’ or about the integrity of data used in all analysis. (USPAP 2010-2011 1ed.)

**Fair Share**: That portion of total market supply accounted for by a subject property. For example, a 100-key hotel in a 1,000-key market has a fair share of 10%.

**Fair Value**: The price that would be received to sell an asset of paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fee Simple Estate**: Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

**Floor Area Ration (FAR)**: The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 0.2 indicates that the permissible floor area of a building is twice the total land area; also called land-to-building ratio.

**Going-Concern Value**: 1) The market value of all tangible and intangible assets of an established and operating business with an indefinite life, as if sold to aggregate; more accurately termed the market value of the going concern. 2) The value of an operating business enterprise. Goodwill may be separately measured but is an integral component of going-concern value when it exists and is recognizable.

**Gross Building Area (GBA)**: The total floor area of a building excluding unenclosed areas, measured from the exterior of the wall of the above-grade area. This includes mezzanines and basements if and when typically included in the region.

**Highest and Best Use**: The reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property-specific with respect to the user and timing of the use ‒ that is adequately supported and results in the highest present value.

**Hypothetical Condition**: That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property, such as market conditions or trends; or about the integrity of data used in an analysis (USPAP, 2010-2011 1ed.)

**Income Capitalization Approach**: A set of procedures through which an appraiser derives a value indication for an income-producing property by converting in anticipated benefits (cash flows and reversion) into property value. The conversion can be accomplished in two ways. One year’s income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

**Inspection**: Personal observation of the exterior and/or interior of the real property that is the subject of an assignment. The purpose of an appraiser’s inspection is to identify the property characteristics that are relevant to the assignment such as amenities, general physical condition, and functional utility.
Insurable Value: A type of value for insurance purposes.

Intangible Assets: Assets that manifest themselves by their economic properties; they do not have physical substance; they grant rights and privileges to their owner, and usually generate income for their owner. Intangible assets can be categorized as arising from: Rights; Relationships; Grouped Intangibles; or Intellectual Property. In general, the accounting profession limits recognition of individual intangible assets to those that are: commonly recognizable; have a statutory or contractual remaining life; and/or must be individually transferable and separable from the business. And identifiable non-monetary asset without physical substance.

Intangible Property: Nonphysical assets, including but not limited to franchises, trademarks, patents, copy-rights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment. (USPAP, 2010-2011 ed.)

Intended Use: The manner in which the intended user expects to employ the information contained in the report.

Intended User: 1) The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment. (USPAP, 2010-2011 ed.) 2) A party who the appraiser intends will employ the information contained in a report.

Internal Rate of Return (IRR): The annualized yield rate or rate of return on capital that is generated or capable of being generalized within an investment of portfolio over a period of ownership. Alternatively, the indicated return of capital associated with a projected or pro forma income stream. The discount rate that equates the present value of the net cash flows of a project with the present value of the capital investment. It is the rate at which the Net Present Value (NPV) equals zero. The IRR reflects both the return on invested capital and the return of the original investment, which are basic considerations of potential investors. Therefore, deriving the IRR from analysis of market transactions of similar properties having comparable income patterns is a proper method for developing market discount rates for use in valuations to arrive at probably realistic values.

Investment Value: The value of a property interest to a particular investor or class of investor’s based on the investor’s specific requirements. Investment value may be different from market value because it depends on a set of investment criteria that are not necessarily typical of the market.

Leasehold Interest: The tenant’s possessory interest created by a lease. See also negative leasehold, positive leasehold.

Leased Fee Interest: A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord relationship (i.e., a lease).

Liquidation Value: The most probably price that a specified interest in real property should bring under the following conditions: 1) Consumption of a sale within a short time period; 2) The property is subjected to market conditions prevailing as of the date of valuation; 3) Both the buyer and the seller are acting prudently and knowledgeably; 4) The seller is under extreme compulsion to sell; 5) The buyer typically motivated; 6) Both parties are acting in what they consider to be their best interests; 7) A normal marketing effort is not possible due to the brief exposure time; 8) Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; 9) The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (12 C.F.R. Part 34.42(g); 55 Federal Register 34609, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal Register 29499, June 1994)

Load Factor: A measure of the relationship of common area to usable area and therefore the quality and efficiency of building area layout, with higher load factors indicating a higher percentage of common area to overall rentable space than lower load factors; calculated by subtracting the amount of usable area from the rentable area and then dividing the difference by the usable area.

Market Value: The major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined.

1. The most widely accepted components of market value are incorporated in the following definition: The most probably price that the specified property interest should sell for in a competitive market after a reasonable exposure time, as of a specified date, in cash, or in terms equivalent to cash, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, for self-interest, and assuming that neither is under duress.

2. Market Value is described in the Uniform Standards of Professional Appraisal Practice (USPAP) as and/or must be described or transacted within the meaning of the terms as applied in an appraisal. (USPAP, 2010-2011 ed.) USPAP also requires that certain items be included in every appraisal report. Among these items, the following are directly related to the definition of market value:

- Identification of the specific property rights to be appraised.
- Statement of the effective date of the value opinion.
- Specification as to whether cash, terms equivalent to cash, or other precisely described financing terms are assumed as the basis of the appraisal.
- If the appraisal is conditioned upon financing or other terms, specification as to whether the financing or terms are at, below, or above market interest rates and/or other special incentives must be clearly set forth; their contribution to, or negative influence on, value must be described and estimated; and the market data supporting the opinion of value must be described and explained.

3. The following definition of market value is used by agencies that regulate federally insured financial institutions in the United States: The most probably price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buy and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consumption of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Bother parties are well informed or well advised, and acting in what they consider their best interests
- A reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The prices represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (International Valuation Standards, 8th ed., 2007)

4. The International Valuation Standards Council defines market value for the purpose of international standards as follows: The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. (International Valuation Standards, 8th ed., 2007)

5. Market Value is the amount in cash, or in terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving the consideration to all available economic uses of the property at the time of the appraisal (Uniform Standards for Federal Land Acquisitions)

Market Value “As if Complete” On the Appraisal Date: Market values as if complete on the effective date of the appraisal is an estimate of the market value of a property with all construction, conversion, or rehabilitation hypothetically completed, or under specified hypothetical
Retrospective Cost: A value opinion effective as of a specified historical date, using modern material and current standards, design, and layout. The estimated cost to construct, at current prices as of the effective appraisal date, a substitute of the building being appraised, is not likely as of the date of completion, this estimate of value should reflect the market value of the property as if complete and prepared for occupancy by tenants.

Market Value “As Is” On the Appraisal Date: Value As Is: The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning. See also effective date; prospective value opinion.

Market Value of the Total Assets of the Business: The market value of the total assets of the business is the market value of all the tangible and intangible assets of a business as if sold in aggregate as a going concern. This assumes that the business is expected to continue operations well into the future.

Marketing Time: An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards No. 6, “Reasonable Exposure Time in Real Property Market Value Opinions” addresses the determination of reasonable exposure and marketing time.)

Net Lease: A lease in which the landlord passes on all expenses to the tenant. Also called the modified gross lease. See also: lease.

Net Rentable Area (NRA): 1) The area on which rent is computed. 2) The rentable area of a floor shall be computed by measuring to the inside finished surface of the dominant portion of the permanent outer building walls, excluding any major vertical penetrations of the floor. No deductions shall be made for columns and projections necessary to the building. Include space such as mechanical room, janitorial room, restrooms, and lobby of the floor.

Penetration Ratio (Rate): The rate at which stores obtain scales from within a trade area or sector relative to the number of potential sales generated; usually applied to existing facilities. Also called: penetration factor.

Prospective opinion of value: A value opinion effective as of a specified future date. The term does not define a type of value. Instead it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy.

Reconciliation: The process of reducing a range of value indications into an appropriate conclusion for that analysis, e.g., the derivation of a value indication from the adjusted prices of two or more comparable sales in the sales comparison.

Reliable Measurement: [the IAS/FRS framework requires that] neither an asset nor a liability is recognized in the financial statements unless it has a cost or value that can be measured reliably.

Remaining Economic Life: The estimated period during which improvements will continue to represent the highest and best use of the property; an estimate of the number of years remaining in the economic life of the structure or structural components as the date of the appraisal; used in the economic age-life method of estimating depreciation.

Replacement Cost: The estimated cost to construct, at current prices as of the effective appraisal date, a substitute of the building being appraised, using modern material and current standards, design, and layout.

Retrospective Cost: A value opinion effective as of a specified historical date. The term does not define a type of value. Instead it identifies a value opinion as being effective at some specific prior date. Values as of a historical date are frequently sought in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g. “retrospective market value opinion”.

Sales Comparison Approach: The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making quantitative comparisons with or quantitative adjustments to the sales price (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.

Scope of Work: The type and extent of research and analysis in an assignment. (USPAP, 2010-2011 1 ed.)

Self-Contained Appraisal Report: A written appraisal report prepared under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP 2010-2011 1 ed.) A self-contained appraisal report sets forth the data considered, the appraisal procedures followed, and the reasoning employed in the appraisal, addressing each item in the depth and detail requires by it significance to the appraisal and providing the sufficient information s that the client and the users of the report will understand the appraisal and not be misled or confused.

Stabilized Value: A value opinion that excludes the consideration any abnormal relationship between supply and demand such as is experienced in boom periods when cost and sale price may exceed the long-term value, or during periods of depression, when cost and sale price may fall short of long-term value. It is also a value opinion that excludes from consideration any transitory condition that may cause excessive construction costs, e.g., a premium paid due to a temporary shortage of supply.

Substitution: The principle of substitution states that when several similar or commensurate commodities, good, services are available, the one with the lowest price will attract the greatest demand and widest distribution. This is the primary principle upon which the cost and sales comparison approaches are base.

Total Assets of a Business: Total assets of a business is defined by the Appraisal Institute as “the tangible property (real property and personal property, including inventory and furniture, fixtures and equipment) and intangible property (cash, workforce, contracts, name, patents, copyrights, and other residual intangible assets, to include capitalized economic profit).”

Use Value: In real estate appraisal, the value a specific property has for a specific use; may be the highest and best use of the property or some other use specified as a condition of the appraisal,

(a) General Provision. An appraisal prepared for the Department must conform to the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Standards Board of the Appraisal Foundation. The appraisal must include a statement that the report preparer has read and understood the requirements of this section. The appraisal must include a statement that the person or company preparing the appraisal is a disinterested party and will not materially benefit from the Development in any other way than receiving a fee for performing the appraisal and that the fee is in no way contingent upon the outcome of the appraisal.

(b) Self-Contained. An appraisal prepared for the Department must describe sufficient and adequate data and analyses to support the final opinion of value. The final value(s) must be reasonable, based on the information included. Any Third Party reports relied upon by the appraiser must be verified by the appraiser as to the validity of the data and the conclusions.

(c) Appraiser Qualifications. The qualifications of each appraiser are determined on a case-by-case basis by the Director of Real Estate Analysis or review appraiser, based upon the quality of the report itself and the experience and educational background of the appraiser. At minimum, a qualified appraiser must be appropriately certified or licensed by the Texas Appraiser Licensing and Certification Board.

(d) Appraisal Contents. An appraisal prepared for the Department must be organized in a format that follows a logical progression. In addition to the contents described in USPAP Standards Rule 2, the appraisal must include items addressed in paragraphs (1) - (12) of this subsection.

(1) Title Page. Include a statement identifying the Department as the client, acknowledging that the Department is granted full authority to rely on the findings of the report, and name and address of person authorizing report.

(2) Letter of Transmittal. Include reference to accompanying appraisal report, reference to all person(s) that provided significant assistance in the preparation of the report, date of report, effective date of appraisal, date of property inspection, name of person(s) inspecting the property, tax assessor's parcel number(s) of the site, estimate of marketing period, and signatures of all appraisers authorized to work on the assignment including the appraiser who inspected the property. Include a statement indicating the report preparer has read and understood the requirements of this section.

(3) Table of Contents. Number the exhibits included with the report for easy reference.
(4) Disclosure of Competency. Include appraiser's qualifications, detailing education and experience.

(5) Statement of Ownership of the Subject Property. Discuss all prior sales of the subject Property which occurred within the past three (3) years. Any pending agreements of sale, options to buy, or listing of the subject Property must be disclosed in the appraisal report.

(6) Property Rights Appraised. Include a statement as to the property rights (e.g., fee simple interest, leased fee interest, leasehold, etc.) being considered. The appropriate interest must be defined in terms of current appraisal terminology with the source cited.

(7) Site/Improvement Description. Discuss the site characteristics including subparagraphs (A) - (E) of this paragraph.

(A) Physical Site Characteristics. Describe dimensions, size (square footage, acreage, etc.), shape, topography, corner influence, frontage, access, ingress-egress, etc. associated with the Development Site. Include a plat map and/or survey.

(B) Floodplain. Discuss floodplain (including flood map panel number) and include a floodplain map with the subject Property clearly identified.

(C) Zoning. Report the current zoning and description of the zoning restrictions and/or deed restrictions, where applicable, and type of Development permitted. Any probability of change in zoning should be discussed. A statement as to whether or not the improvements conform to the current zoning should be included. A statement addressing whether or not the improvements could be rebuilt if damaged or destroyed, should be included. If current zoning is not consistent with the highest and best use, and zoning changes are reasonable to expect, time and expense associated with the proposed zoning change should be considered and documented. A zoning map should be included.

(D) Description of Improvements. Provide a thorough description and analysis of the improvements including size (Net Rentable Area, gross building area, etc.), number of stories, number of buildings, type/quality of construction, condition, actual age, effective age, exterior and interior amenities, items of deferred maintenance, energy efficiency measures, etc. All applicable forms of depreciation should be addressed along with the remaining economic life.

(E) Environmental Hazards. It is recognized appraisers are not experts in such matters and the impact of such deficiencies may not be quantified; however, the report should
disclose any potential environmental hazards (such as discolored vegetation, oil residue, asbestos-containing materials, lead-based paint etc.) noted during the inspection.

(8) **Highest and Best Use.** Market Analysis and feasibility study is required as part of the highest and best use. The highest and best use analysis should consider paragraph (7)(A) - (E) of this subsection as well as a supply and demand analysis.

(A) The appraisal must inform the reader of any positive or negative market trends which could influence the value of the appraised Property. Detailed data must be included to support the appraiser's estimate of stabilized income, absorption, and occupancy.

(B) The highest and best use section must contain a separate analysis "as if vacant" and "as improved" (or "as proposed to be improved/renovated"). All four elements (legally permissible, physically possible, feasible, and maximally productive) must be considered.

(9) **Appraisal Process.** It is mandatory that all three approaches, Cost Approach, Sales Comparison Approach and Income Approach, are considered in valuing the Property. If an approach is not applicable to a particular property an adequate explanation must be provided. A land value estimate must be provided if the Cost Approach is not applicable.

(A) **Cost Approach.** This approach should give a clear and concise estimate of the cost to construct the subject improvements. The source(s) of the cost data should be reported.

(i) Cost comparables are desirable; however, alternative cost information may be obtained from Marshall & Swift Valuation Service or similar publications. The section, class, page, etc. should be referenced. All soft costs and entrepreneurial profit must be addressed and documented.

(ii) All applicable forms of depreciation must be discussed and analyzed. Such discussion must be consistent with the description of the improvements.

(iii) The land value estimate should include a sufficient number of sales which are current, comparable, and similar to the subject in terms of highest and best use. Comparable sales information should include address, legal description, tax assessor's parcel number(s), sales price, date of sale, grantor, grantee, three (3) year sales history, and adequate description of property transferred. The final value estimate should fall within the adjusted and unadjusted value ranges. Consideration and appropriate cash equivalent adjustments to the comparable sales price for subclauses (I) - (VII) of this clause should be made when applicable.
(I) Property rights conveyed.

(II) Financing terms.

(III) Conditions of sale.

(IV) Location.

(V) Highest and best use.

(VI) Physical characteristics (e.g., topography, size, shape, etc.).

(VII) Other characteristics (e.g., existing/proposed entitlements, special assessments, etc.).

(B) Sales Comparison Approach. This section should contain an adequate number of sales to provide the reader with a description of the current market conditions concerning this property type. Sales data should be recent and specific for the property type being appraised. The sales must be confirmed with buyer, seller, or an individual knowledgeable of the transaction.

(i) Sales information should include address, legal description, tax assessor's parcel number(s), sales price, financing considerations and adjustment for cash equivalency, date of sale, recordation of the instrument, parties to the transaction, three (3) year sale history, complete description of the Property and property rights conveyed, and discussion of marketing time. A scaled distance map clearly identifying the subject and the comparable sales must be included.

(ii) The method(s) used in the Sales Comparison Approach must be reflective of actual market activity and market participants.

(I) Sale Price/Unit of Comparison. The analysis of the sale comparables must identify, relate, and evaluate the individual adjustments applicable for property rights, terms of sale, conditions of sale, market conditions, and physical features. Sufficient narrative must be included to permit the reader to understand the direction and magnitude of the individual adjustments, as well as a unit of comparison value indicator for each comparable.

(II) Net Operating Income/Unit of Comparison. The Net Operating Income statistics or the comparables must be calculated in the same manner. It should be disclosed if reserves for replacement have been included in this method of analysis. At least one other method should accompany this method of analysis.
(C) Income Approach. This section must contain an analysis of both the actual historical and projected income and expense aspects of the subject Property.

(i) Market Rent Estimate/Comparable Rental Analysis. This section of the report should include an adequate number of actual market transactions to inform the reader of current market conditions concerning rental Units. The comparables must indicate current research for this specific property type. The comparables must be confirmed with the landlord, tenant or agent and individual data sheets must be included. The individual data sheets should include property address, lease terms, description of the property (e.g., Unit Type, unit size, unit mix, interior amenities, exterior amenities, etc.), physical characteristics of the property, and location of the comparables. Analysis of the Market Rents should be sufficiently detailed to permit the reader to understand the appraiser's logic and rationale. Adjustment for lease rights, condition of the lease, location, physical characteristics of the property, etc. must be considered.

(ii) Comparison of Market Rent to Contract Rent. Actual income for the subject along with the owner's current budget projections must be reported, summarized, and analyzed. If such data is unavailable, a statement to this effect is required and appropriate assumptions and limiting conditions should be made. The Contract Rents should be compared to the market-derived rents. A determination should be made as to whether the Contract Rents are below, equal to, or in excess of market rates. If there is a difference, its impact on value must be qualified.

(iii) Vacancy/Collection Loss. Historical occupancy data and current occupancy level for the subject should be reported and compared to occupancy data from the rental comparables and overall occupancy data for the subject's Primary Market.

(iv) Expense Analysis. Actual expenses for the subject, along with the owner's projected budget, must be reported, summarized, and analyzed. If such data is unavailable, a statement to this effect is required and appropriate assumptions and limiting conditions should be made. Historical expenses should be compared to comparables expenses of similar property types or published survey data (such as IREM, BOMA, etc.). Any expense differences should be reconciled. Include historical data regarding the subject's assessment and tax rates and a statement as to whether or not any delinquent taxes exist.

(v) Capitalization. The appraiser should present the capitalization method(s) reflective of the subject market and explain the omission of any method not considered in the report.
(I) Direct Capitalization. The primary method of deriving an overall rate is through market extraction. If a band of investment or mortgage equity technique is utilized, the assumptions must be fully disclosed and discussed.

(II) Yield Capitalization (Discounted Cash Flow Analysis). This method of analysis should include a detailed and supportive discussion of the projected holding/investment period, income and income growth projections, occupancy projections, expense and expense growth projections, reversionary value and support for the discount rate.

(10) Value Estimates. Reconciliation of final value estimates is required. The Underwriter may request additional valuation information based on unique existing circumstances that are relevant for deriving the market value of the Property.

(A) All appraisals shall contain a separate estimate of the "as vacant" market value of the underlying land, based upon current sales comparables. The "as vacant" value assumes that there are no improvements on the property and therefore demolition costs should not be considered. The appraiser should consider the fee simple or leased fee interest as appropriate.

(B) For existing Developments with any project-based rental assistance that will remain with the property after the acquisition, the appraisal must include an "as-is as-currently-restricted value". For public housing converting to project-based rental assistance, the appraiser must provide a value based on the future restricted rents. The value used in the analysis may be based on the unrestricted market rents if supported by an appraisal. The Department may require that the appraisal be reviewed by a third-party appraiser acceptable to the Department but selected by the Applicant. Use of the restricted rents by the appraiser will not require an appraisal review. Regardless of the rents used in the valuation, the appraiser must consider any other on-going restrictions that will remain in place even if not affecting rents. If the rental assistance has an impact on the value, such as use of a lower capitalization rate due to the lower risk associated with rental rates and/or occupancy rates on project-based developments, this must be fully explained and supported to the satisfaction of the Underwriter.

(C) For existing Developments with rent restrictions, the appraisal must include the "as-is as-restricted" value. In particular, the value must be based on the proposed restricted rents when deriving the value based on the income approach.

(D) For all other existing Developments, the appraisal must include the "as-is" value.
(E) For any Development with favorable financing (generally below market debt) that will remain in place and transfer to the new owner, the appraisal must include a separate value for the existing favorable financing with supporting information.

(F) If required the appraiser must include a separate assessment of personal property, furniture, fixtures, and equipment ("FF&E") and/or intangible items. If personal property, FF&E, or intangible items are not part of the transaction or value estimate, a statement to such effect should be included.

(11) Marketing Time. Given property characteristics and current market conditions, the appraiser(s) should employ a reasonable marketing period. The report should detail existing market conditions and assumptions considered relevant.

(12) Photographs. Provide good quality color photographs of the subject Property (front, rear, and side elevations, on-site amenities, interior of typical Units if available). Photographs should be properly labeled. Photographs of the neighborhood, street scenes, and comparables should be included. An aerial photograph is desirable but not mandatory.

(e) Additional Appraisal Concerns. The appraiser(s) must be aware of the Department program rules and guidelines and the appraisal must include analysis of any impact to the subject's value.

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Texas Appraiser Licensing and Certification Board
P.O. Box 12188 Austin, Texas 78711-2188
Certified General Real Estate Appraiser

Number: TX 1320435 G
Issued: 04/21/2017  Expires: 04/30/2019
Appraiser: WILLIAM ROCHE MURPHY

Having provided satisfactory evidence of the qualifications required by the
Texas Appraiser Licensing and Certification Act, Texas Occupations Code,
Chapter 1103, is authorized to use this title, Certified General Real Estate
Appraiser.

[Signature]
Douglas E. Oldmixon
Commissioner