Lakeline Station TOD

Market Assessment & Analysis

Prepared for

Mr. Craig McColloch
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By

Capitol Market Research, Inc.
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On

August 6, 2013

CAPITOL
MARKET
RESEARCH

Real Estate Research, Land Development Economics & Market Analysis

August 6, 2013
Mr. Craig McColloch
HDR Engineering, Inc.
4401 West Gate Blvd.
Austin, TX 78745

Dear Mr. McColloch:
We have concluded the market assessment and analysis for approximately 20.74 acres located at the Capital Metro Lakeline Station, in Austin, Texas. This analysis will determine the absorption potential and estimate values for residential and commercial uses at the subject location.

The results of our analysis are provided in the report which follows. After you have reviewed the report, we invite you to call with any questions or comments that you may have.

Respectfully submitted,

CAPITOL MARKET RESEARCH

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Preface

Date of Study

The effective date of this study is August 6, 2013.

Purpose of Study

The purpose of this report is to analyze the subject TOD, and to determine of the absorption potential for the proposed mix of uses based on the competitive position of the subject and a demographic forecast of the growth potential in the Far Northwest Austin market area. This project is located at the Lakeline MetroRail Station, just east of US 183 in Austin, Texas.

Function of the Report

This report is to be utilized by Mr. Craig McColloch, HDR Engineering, CapMetro, and other interested parties to provide assistance in determining an appropriate mid of uses for 20.74 acres contained in the proposed mixed-use development in the Lakeline MetroRail Station TOD.

Property Identification

The subject is located at the southeast corner of Lyndhurst Street and Lakeline Boulevard, east of US Hwy 183 in Austin, Texas.

Assumptions

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

Methodology

A feasibility study is a general term, implying analysis aimed at discovering whether or not a specific project can be carried out successfully, with success usually indicating a sufficient return on capital required to attract investors to carry out the development. This requires two basic and interdependent analyses: a market study to determine supply, demand and potential absorption rates, and a financial analysis to determine whether or not the proposed project can be economically justified over a given period of time. This market study primarily addresses the market demand, obtainable rents and absorption issues and will be used in combination with more detailed financial feasibility studies conducted by the client to determine overall project feasibility.

GENERAL AREA ANALYSIS

Overview

The proposed development is located in the Far Northwest Austin market area. The area is primarily influenced by the economic base of Austin and Round Rock and the Austin Metropolitan Statistical Area (MSA). Travis County is generally bounded on the east by Bastrop County, on the north by Williamson County, on the south by Hays County, and on the west by Burnet County. The Austin MSA is comprised of Bastrop, Caldwell, Hays, Travis and Williamson counties. According to the U.S. Bureau of the Census, the Austin MSA was the 35th largest in the United States in 2010.

Austin is the Capital of Texas, the county seat of Travis County and one of the fastest-growing cities in the country. Anchored by employment in state government and the University of Texas at Austin, the community has recently experienced a surge of growth in high tech computer-related manufacturing and software development. Austin's government and education centers help stabilize the economy during difficult economic periods because these sectors are less affected by the cyclical nature of the economy. The University and the local, state and federal government offices have provided a solid employment foundation in Austin for more than one hundred years, and together employ more than 179,400 people, about 23.1% of Austin's wage and salary jobs. The University has also been a critical factor in diversifying Austin's economy. Research and development firms are attracted to Austin by the pool of young talented graduates from the University's programs in computer science, genetics, fusion energy, astronomy, neuroscience, electromechanics and geophysics.

Along with government and education, high-technology is a third vital sector of Austin's economy. In the 1980s and early 1990s, major high-tech firms including 3M and Applied Materials came to Austin and quickly expanded, and existing firms such as IBM and Motorola also grew. Austin's high-tech sector currently includes more than 1,500 firms. According to a 2012 Greater Austin Chamber of Commerce Survey, Dell Computer Corp. is the largest private company in the region with 16,000 employees, Seton Healthcare Network is second with 11,601 employees and HEB currently has 10,263, St. David's Healthcare Partnership (7,100), IBM Corp. (6,239), Freescale Semiconductor (5,000), AT&T (3,450), Apple Computer (3,356), Advanced Micro Devices (2,933), National Instruments (2,510) and Samsung Austin Semiconductor (2,400) follow.

Employment Growth

Employment growth in Austin has shown considerable volatility over the last fifteen years, primarily as a result of national and international trends which have an effect on the local economy. In 1996 the pace of employment growth seen in the early nineties slowed as a result of the worldwide glut of computer chips and concerns about the collapse of the Asian stock markets. The market regained momentum between 1998 and 2000, but the explosive growth experienced in 2000 evaporated with the national dot.com bust in 2001, and the Austin MSA actually experienced negative job growth in 2002 and 2003. Beginning at the end of 2003, the economy began to recover, and 14,400 jobs were added in 2004. The pace of growth steadily grew over the next four years, peaking at 34,100 jobs in 2007, a 4.72% annual increase. For a period of time in late 2007 and early 2008 it appeared that Austin might not be affected by the national

housing crisis, but eventually the lack of credit for new lot construction, retail chain expansions and business inventory additions resulted in a decrease in new job creation in the local economy, which diminished to (-16,683) in 2009. However, the economy began a modest recovery in 2010 with 10,458 jobs added and gained momentum in 2011, with 25,425 jobs added, and in 2012, with the addition of 28,550 jobs. The most recent (May 2013) employment forecast shows the economy continuing its positive trajectory in 2013 with an increase of 34,113 jobs and in 2014 with an increase of 33,833 jobs. Table (1) on the following page provides recent employment statistics and projections for the Austin MSA. Forecasted annual increases in the Austin MSA employment for 2013 through 2025 are expected to average 2.55%. The forecast shown is from Moody's, Economy.com, Austin MSA Employment Forecast, May 20, 2013.

Table (1)

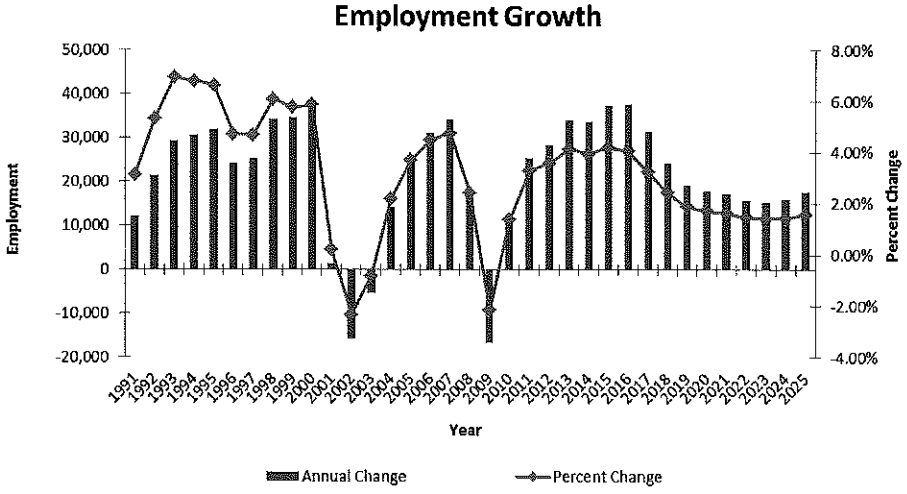
Historical & Projected Employment Growth

Austin MSA

Year	Total Wage & Salary Emp.	Annual Change	Percent Change
1990	390,600	...	...
1991	402,800	12,200	3.12%
1992	424,200	21,400	5.31%
1993	453,600	29,400	6.93%
1994	484,400	30,800	6.79%
1995	516,500	32,100	6.63%
1996	540,900	24,400	4.72%
1997	566,300	25,400	4.70%
1998	600,700	34,400	6.07%
1999	635,400	34,700	5.78%
2000	672,700	37,300	5.87%
2001	674,100	1,400	0.21%
2002	658,400	-15,700	-2.33%
2003	653,000	-5,400	-0.82%
2004	667,400	14,400	2.21%
2005	692,108	24,708	3.70%
2006	723,167	31,058	4.49%
2007	757,508	34,342	4.75%
2008	775,733	18,225	2.41%
2009	759,050	-16,683	-2.15%
2010	769,508	10,458	1.38%
2011	794,933	25,425	3.30%
2012	823,483	28,550	3.59%
2013	857,596	34,113	4.14%
2014	891,429	33,833	3.95%
2015	928,833	37,404	4.20%
2016	966,537	37,704	4.06%
2017	997,980	31,443	3.25%
2018	1,022,335	24,354	2.44%
2019	1,041,598	19,263	1.88%
2020	1,059,564	17,966	1.72%
2021	1,076,873	17,309	1.63%
2022	1,092,757	15,884	1.48%
2023	1,108,240	15,483	1.42%
2024	1,124,177	15,937	1.44%
2025	1,141,913	17,735	1.58%

Source: Texas Workforce Commission, Annual Average Wage & Salary Employment, Adjusted Annual Average, 1990-2011
Forecasted employment increase based upon forecast obtained from Economy.com May 20, 2013

emp_gro_2013.xls



MARKET AREA ANALYSIS

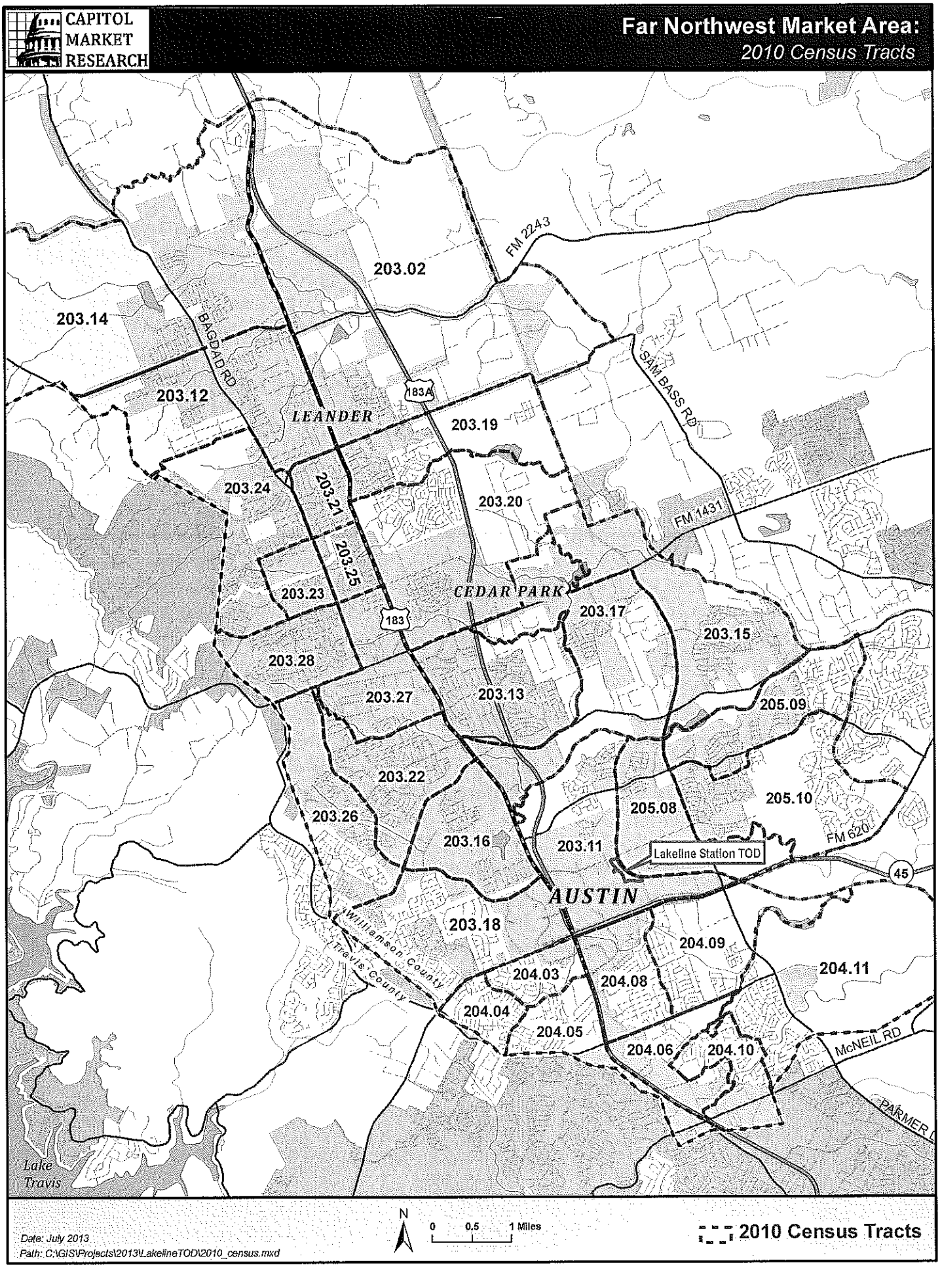
Far Northwest Market Area Definition

In order to accurately represent the demand for multi-family units at the subject site, regional demand must be disaggregated to the neighborhood or market area level. This process of disaggregation is often accomplished by segmenting a geographic region into small apartment market areas or neighborhoods. The market area for the subject property must be small enough to capture relevant local trends and product preferences, but it also must be large enough to capture all of the current and potentially competitive properties along with important employment and activity generators.

The subject property is located on the east side of US Highway 183, at the Lakeline MetroRail Station on Lakeline Boulevard and Lyndhurst Street. The market area defined for this project is most appropriately defined as the Far Northwest Austin market area, delineated generally by the San Gabriel River to the north, Parmer Lane on the east and the Williamson-Travis County Line to the west and south. Land uses in the area include Cedar Park Center, the Lakeline MetroRail Station, single-family residential, light industrial and commercial uses.

Another important consideration for defining the market is image and market perceptions. This is often quite difficult to accomplish because one market may phase quietly into another without a clear physical or psychological barrier. This is partially the case for this market area, due, in part, to the long linear nature of the defined market area. Duval separates this market area from the retail, commercial, industrial and multi-family neighborhoods to the east of Duval and County Road 272 provides a barrier from the ranch land to the west. Highway 183 and Highway 183A are the primary arterials that link the market area and all but five of the 52 apartment projects located in this area are within 2 miles of these two arterials.

Finally, the definition of the market area must take into consideration the availability of relevant information, particularly demographic area and data obtained from comparable and competitive projects. Census tract geography is most often used to delineate market areas because the data available from the census is critical to thorough and relevant analysis of the market. This area is made up of 2010 Census tracts 203.02, 203.11, 203.12, 203.13, 203.14, 203.15, 203.16, 203.17, 203.18, 203.19, 203.20, 203.21, 203.22, 203.23, 203.24, 203.25, 203.26, 203.27, 203.28, 204.03, 204.04, 204.05, 204.06, 204.08, 204.09, 204.10, 204.11, 205.08, 205.09 and 205.10 all of which are located in Williamson County.


CAPITOL MARKET RESEARCH
Far Northwest Market Area:
2010 Census Tracts
203.02
203.14
203.12
203.24
203.21
203.25
203.23
203.28
203.27
203.22
203.26
203.19
203.20
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205.09
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204.09
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204.03
204.08
204.04
204.05
204.06
204.10
LEANDER
CEDAR PARK
AUSTIN
FM 2243
BAGDAD RD
183A
183
SAM BASS RD
FM 1431
FM 620
45
Lakeline Station TOD
McNEIL RD
PARMER
Williamson County
Travis County
Lake Travis
N
0 0.5 1 Miles
Date: July 2013
Path: C:\GIS\Projects\2013\LakelineTOD\2010_census.mxd
2010 Census Tracts

Far Northwest Market Area Employment Profile

The Austin area has recently succeeded in capturing a number of high-tech and service oriented companies. The Far Northwest market area has captured a number of high-tech companies, manufacturers, distributors, and "call centers" because of the relatively low land cost and rental rates combined with excellent accessibility. Based on data obtained from the Greater Austin Area Chamber of Commerce Major Employers List, the Cedar Park Economic Development Corporation and the Leander Economic Development Corporation, the subject market area currently contains more than 17,041 jobs at 66 major employers. Some of these companies are rapidly growing high-tech firms but the area has a diverse base of high-tech manufacturing, warehouse and distribution, and retail employment.

The largest employer in the market area is the Leander ISD with approximately 3,984 employees, followed by State Farm Insurance with 2,000 employees, Activision Blizzard (Blizzard Entertainment) with 1,200 employees, URS Corp Engineering with 900 employees and J.C. Evans Construction Co. with 825 employees.

The Far Northwest market area is currently experiencing tremendous growth as evidenced by several major lease transactions. In April 2011, AT&T leased 72,000 square feet on Spectrum Drive for 150-200 employees. Ebay recently grew from 60,000 square feet to 100,000 square feet at 7700 Parmer Lane at the old Motorola/Freescale campus. Other new additions at 7700 Parmer Lane include Polycom with 120,000 square feet and eventually 500-600 employees (currently 216) and SunPower with 90,000 square feet and 120 employees. SunPower has plans to add 280 employees over the next 2 years. Boon Chapman also recently relocated 150 employees to Amber Oaks. As Cedar Park approaches build-out, it is expected that more employers will move to the City of Leander, especially with the new Leander MetroRail and the convenient expansion of Highway 183A, making commuting to and from Leander much easier. Currently, during "off-peak" travel times, the commute from Downtown Austin to Leander is approximately 20 minutes. In addition, the success of the 800,000 square foot 1890 Ranch Shopping Center on 183A, just minutes from the subject site, has demonstrated that there is a strong demand for retail services in the area.

According to Kirk Clennan, Economic Development Director for the City of Leander, an additional and substantial source of employment in the area is in the residential construction industry. While there is no one single "major" employer in residential construction in the area, over the last 10 years, the City of Leander has averaged 657 residential building permits per year. Therefore, it is clear that many jobs have been created as a result of the strong demand for housing in the area.

Table (2)

Major Employers

Far Northwest Austin Market Area

Company	2008	2010	2012	2008 - 2010 Change	2010 - 2012 Change	2008 - 2012 Change
3PS	48	48	50	0	2	2
Activision Blizzard (Blizzard Entertainment)	0	400	1,200	400	800	1,200
Aquatic Industries Whirlpool**	130	130	...	0	-130	-130
Austin Dynamics	20	20	24	0	4	4
Austin Wood Recycling	90	70	70	-20	0	-20
Austin Wood Works Custom	115	115	22	0	-93	-93
Baker Drywall	160	200	200	40	0	40
BMC West Millwork	125	140	275	15	135	150
Boon Chapman	...	...	150	...	...	150
Builder Homesite	100	100	115	0	15	15
Cabinets Deluxe	56	56	25	0	-31	-31
Cedar Park Regional Medical Center	300	350	387	50	37	87
Cen-Tex Plaster	100	100	101	0	1	1
City of Cedar Park***	370	370	370	0	0	0
City of Leander***	140	140	140	0	0	0
CompleteBook & Media Supply	18	22	25	4	3	7
Coreslab Structures	200	250	250	50	0	50
Crocker Crane Rentals***	22	22	22	0	0	0
D&W Painting	200	200	200	0	0	0
Dennis Steel	90	100	100	10	0	10
Design & Assembly Concepts	25	30	30	5	0	5
e-MDs	165	200	215	35	15	50
EA Sports	...	...	300	...	300	300
eBay	...	...	250	...	250	250
Eester	9	21	33	12	12	24
Environmental Systems Corp.	...	...	100	...	100	100
ETS-Lindgren (EMC Test Systems)	260	270	270	10	0	10
Excel Construction Services, LLC	35	35	30	0	-5	-5
Fallbrook Technologies	65	60	50	-5	-10	-15
FirstCare Health Plans Insurance	290	220	220	-70	0	-70
Flame Technology	72	78	80	6	2	8
G & R Electrical Construction, Inc.	200	150	130	-50	-20	-70
Grass Patch	50	128	128	78	0	78
H.L. Chapman Pipeline	261	261	300	0	39	39
Healthtronics/Endo Care*	0	250	125	250	-125	125
Indymac Bank**	300	300	...	0	-300	-300
Informatica	...	...	175	...	175	175
Innovative Aftermarket Systems	95	100	123	5	23	28
J.C. Evans Construction Co	800	825	825	25	0	25
Leander ISD	3,600	3,900	3,984	300	84	384
Lone Star Ready-Mix	45	32	30	-13	-2	-15
Luminex Corp. Biological	220	274	380	54	106	160
Martin-Decker Totco	300	375	375	75	0	75
Mystic Pharmaceuticals	24	24	24	0	0	0
National Oilwell Varco (MD Totco)	300	375	345	75	-30	45
Native Land Design	120	185	115	65	-70	-5
NVIDIA*	150	250	200	100	-50	50
Office Depot	...	...	150	...	150	150
One Source Manufacturing Technology	53	64	75	11	11	22
PayPal	100	200	300	100	100	200
P.D. Morrison Enterprises	32	32	32	0	0	0
Polycom	160	160	216	0	56	56
Rapidfire Inc.**	200	...	...	-200	...	-200
State Farm Insurance	1,200	1,250	2,000	50	750	800
Sullivan Welding, Inc.	16	22	22	6	0	6
Suncoast Post Tension, L.P.	12	35	42	23	7	30
SunPower	...	...	120	...	120	120
TDK RF Solutions	100	25	25	-75	0	-75
Texas Quarries	100	100	100	0	0	0
T.F.R. Enterprises, Inc.	22	25	30	3	5	8
The Grass Patch***	128	128	128	0	0	0
URS Corp. Engineering	705	900	930	195	30	225
Utz Environmental Services	140	140	140	0	0	0
Verena***	60	60	60	0	0	0
Whitetail Construction	50	65	67	15	2	17
Zacke***	41	41	41	0	0	0
Market Area Total	12,789	14,423	17,041	1,634	2,468	4,252

Source: Greater Austin Area Chamber of Commerce, Major Employers List, 2008, 2010, 2012
City of Leander, City of Cedar Park Economic Development Corp.

maj_empFNW.xls

**2011 Employment Number in the 2010 year: Healthtronics/Endo Care and NVIDIA*

***Businesses that have closed: Aquatic Industries Whirlpool, Indymac Bank, Rapidfire Inc.*

****When contacted, historical information unavailable so conservatively estimated to have stayed the same from 2008 to 2012: City of Cedar Park, City of Leander, Crocker Crane Rentals, The Grass Patch, Verena and Zacke*

Prepared by Capital Market Research, June 2013

Historical Demographic Trends

The defined Far Northwest market area has experienced significant population and household growth since 2000 when the area had 93,565 people living in 33,230 households. Total population in the subject area census tracts grew from 94,040 in 2000 to 151,762 in 2010, an increase of 61.38%. The 57,722 population increase during the 2000s was approximately 12.37% of total population growth the Austin MSA. See Table (3) below.

Table (3)

Population and Household Growth

Austin MSA and Far Northwest Market Area: 2000 & 2010

Area	Population		2000 to 2010
	2000	2010	% Change
Market Area	94,040	151,762	61.38%
Austin MSA	1,249,763	1,716,289	37.33%

Area	Total Households		2000 to 2010
	2000	2010	% Change
Market Area	33,230	56,890	71.20%
Austin MSA	471,855	650,459	37.85%

Area	Population in Households		2000 to 2010
	2000	2010	% Change
Market Area	93,565	151,594	62.02%
Austin MSA	1,212,806	1,675,416	38.14%

Area	Average Household Size		2000 to 2010
	2000	2010	% Change
Market Area	2.82	2.66	-5.36%
Austin MSA	2.57	2.58	0.21%

Source: US Bureau of the Census, 2000, 2010 census.xls
Prepared by Capitol Market Research, June 2013

Far Northwest Market Area Income Distribution

The Far Northwest market area income distribution differs somewhat from the rest of Austin. In 1999, 57.3% of the market area households reported income of more than 120% of MSA median family income, compared to 41.3% for the MSA as a whole. This percentage dropped through 2008 to 51.4%.

The income distribution change over time shown in Table (4) reflects the increasing number of renters in the market area from 2000 through 2010 (from 25.7% in 2000 to 35.6% in 2010, according to the US Census). Homeowners generally have higher incomes than those who rent. There are also relatively few students in this area to "depress" income statistics. The relatively slower growth in the highest income (more than 120% MHI) reflects the somewhat lower incomes of the large number of renters who moved into the area between 2000 and 2008.

Table (4)

Change in Income Distribution

Far Northwest Market Area, 1999-2008

Income Category	1999 Households	Share	2008 Households	Share	1999 - 2008 Increase	Share of Increase
Less than 50% MHI	3,033	9.1%	7,198	13.6%	4,165	21.3%
50-60% MHI	1,349	4.1%	2,416	4.6%	1,067	5.4%
60-80% MHI	3,008	9.0%	5,056	9.6%	2,048	10.5%
80-100% MHI	3,278	9.9%	5,422	10.3%	2,143	10.9%
100-120% MHI	3,535	10.6%	5,608	10.6%	2,073	10.6%
More than 120% MHI	19,079	57.3%	27,166	51.4%	8,088	41.3%
Total	33,282	100.0%	52,866	100.0%	19,584	100.0%
Far Northwest Market Area MHI	$65,905		$72,807		$6,902	
Austin MSA MHI	$48,950		$57,561		$8,611	

Source: US Bureau of the Census, 2000, American Community Survey, 2006-2010

Note: MHI is median household income. These numbers are from the Census, 2000 and American Community Survey, 2006-2010

Dem.ForecastCalc.xls

Far Northwest Market Area Multi-family Demand Forecast by Income Category

Table (5) below shows a forecast of new Far Northwest market area multi-family households by monthly housing cost. This figure includes rent and utilities, and is assumed to be 30% of income. This forecast is prepared by distributing the multi-family forecast prepared in Table (11) in the following Apartment Market Section across a forecast of income distributions (as a percent of MSA median family income) based on the change for the market area from 2000 to 2008. It is important to note that the demand estimate by housing cost shows what a household could afford to pay for housing, not what they actually pay. Many households, particularly those with higher incomes, will pay less than 30% on housing. Therefore, the table should be viewed more as a measure of affordability than as actual demand distributed across various cost segments.

Table (5)

Multi-Family Demand by Housing Cost

Far Northwest Market Area

Year	$949 or Less	$950 to $1,139	$1,140 to $1,518	$1,519 to $1,898	$1,899 to $2,277	More than $2,277	Total
2013	170	53	108	115	117	531	1,094
2014	178	55	112	119	120	545	1,129
2015	185	57	116	123	124	559	1,164
2016	221	68	137	146	147	659	1,378
2017	229	70	142	150	151	676	1,419

Prepared by: *Capitol Market Research, June 2013* Dem.ForecastCalc_forecast.xls

Source: *US Bureau of the Census, 2000, American Community Survey, 2006-2010*
US Dept. of Housing and Urban Development, 2012

Notes: *Monthly housing cost includes mortgage or rent and utilities. Housing Costs are assumed to be 30% of monthly income.*

APARTMENT MARKET

Apartment Market Trends in the Austin MSA

Traditionally, apartment projects in Austin have been clustered near activity centers, major employers and the university areas. Examples of this phenomenon include the cluster of apartments near IBM, Dell, Abbott Labs and Seton Hospital as well as the apartments surrounding the University of Texas, St. Edwards University, and the various Austin Community College campus locations. In the recent past, the Central Business District has had relatively few residential rental units. However, since 2009 and 2010, several new communities were developed within the area, with construction continuing into 2013.

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

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

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

Current Market Conditions

Beginning in late 2003, new construction activity began to diminish and regional apartment demand regained strength which resulted in the positive absorption trend through 2004, 2005, 2006 and 2007. However, in 2008 the market occupancy rate decreased 5.2 percentage points from 2007, with additional drops in 2009 occupancy (90.4%) and rental rates ($0.93). December 2010 and 2011 saw a rapid recovery, and by 2012, rental rates had increased again to $1.12, a $0.07 increase since December 2011, and occupancy also increased to reach an astonishing 97.4%. Recent (June 2013) rental rates have climbed to $1.17, and occupancy has remained very strong at 97.3%. Since the beginning of 2002, 49,717 apartment units in 202 complexes were completed. There were 2,906 net units added in 2010, 576 net units added in 2011 and 4,222 net units added in 2012. Since June 2013, there have been 3,475 net units added to the market, with 3,698 units added in new projects, 44 added in older projects, and 267 removed from inventory due to either a condo conversion or demolition.

Between 2000 and 2003, net unit completions exceeded unit demand (measured by absorption), but in 2004 and 2005, the situation reversed and unit demand exceeded net unit completions. The lack of new construction in these years allowed existing units to be absorbed by the market. This trend continued until 2008, when 8,404 net units were added but only 1,526 units were absorbed, and in 2009 unit demand began to recover with 9,025 units added and 6,750 absorbed. Over the last 3 1/2 years, absorption has been very strong, as net units added were consistently less than unit demand. The most recent CMR survey (June 2013) shows net units added at 3,475 and absorption for the first six months of the year at 2,943. Table (6), on the following page, provides apartment market conditions from December 1991 through June 2013. Historical data on occupancy, average rent, unit completions and absorption for 1991 through June 2013 is taken from CMR's Austin Apartment Survey, a semi-annual survey of all projects of more than 50 units in the Austin area.

Table (6)

Citywide Apartment Summary

December 1991 - June 2013

Date	Total Units	Occupied Units	Percent Occupied	Net Units Added	Calculated Absorption	Rent per Sq. Ft.
1991	61,113	57,266	93.7%	148	220	$0.57
1992	61,118	58,448	95.6%	348	1,160	$0.64
1993	63,074	61,174	97.0%	594	1,229	$0.71
1994	66,379	64,662	97.4%	2,178	2,212	$0.75
1995	69,324	67,101	96.8%	3,010	3,098	$0.79
1996	77,019	71,452	92.8%	7,384	3,882	$0.81
1997	81,382	77,270	94.9%	4,770	5,697	$0.82
1998	86,428	83,683	96.8%	4,778	5,929	$0.86
1999	89,699	87,531	97.6%	2,499	3,643	$0.91
2000	96,114	93,786	97.6%	5,923	5,773	$0.98
2001	105,162	94,651	90.0%	9,351	1,368	$0.94
2002	113,380	99,794	88.0%	8,432	4,925	$0.86
2003	120,169	107,290	89.3%	4,912	5,828	$0.81
2004	122,323	111,786	91.4%	2,262	4,133	$0.81
2005	124,325	117,389	94.4%	1,819	6,243	$0.85
2006	126,842	120,304	94.8%	2,993	2,356	$0.91
2007	128,900	124,558	96.6%	3,416	5,562	$0.96
2008	137,005	125,284	91.4%	8,404	1,526	$0.97
2009	145,734	131,686	90.4%	9,025	6,750	$0.93
2010	147,045	139,361	94.8%	2,906	8,773	$0.98
2011	147,648	141,614	95.9%	576	2,245	$1.05
2012	164,143	159,918	97.4%	4,222	6,441	$1.12
2013	167,618	163,131	97.3%	3,475	2,943	$1.17

Source: Capitol Market Research, December 1991 - June 2013 Apartment Market Survey
CMR estimates of new completions based on surveys of property managers and owners
The 2012 multi-family unit total now includes Georgetown and San Marcos

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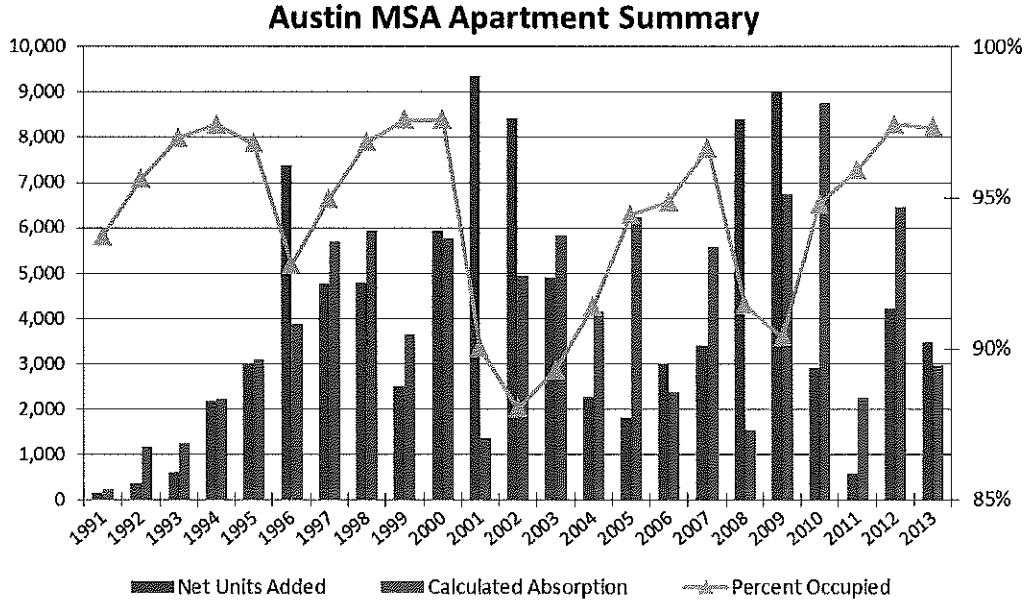


Far Northwest Market Area Apartment Market Conditions

Overview

In June 2013, Capitol Market Research surveyed the 54 apartment communities in the Far Northwest market area that altogether contain a total of 15,266 rentable units. Currently, the market area occupancy is 96.7% which is down only 0.8% since December 2012, and considering there are two new projects in lease-up at the moment (The Allure and Indigo), this occupancy shows the strength of the FNW market area. Net average rents (including concessions) are $1.03 per square foot, which is up (3.88%) since December 2012 when it was $0.99. A large percentage of the multi-family product in the Far Northwest market area is new, and of the 54 projects, 31 projects (57.4%) have been built (completed) since the beginning of 2000.

Market Area New Construction Trends

The Far Northwest market area is composed of one distinct structure type, the garden style walk-up apartment communities. Currently there are no higher density mid-rise apartments in the market area. New multi-family construction has remained steady in the market area since 1995, prior to which no new properties had been built since 1986. Since 2000, 9,790 units in 31 projects have been completed, with an additional 324 units to be delivered this year in two projects that are open but still under construction. The multi-family market in the Far Northwest market area has seen a substantial increase in interest from renters seeking easy access to employment, shopping, and entertainment opportunities in Far Northwest Austin and surrounding areas. The market has responded to renter needs, and currently there is an increasingly diverse variety of product appearance and levels of finish in the market area.

The projects in this market area are a more "suburban" style product, generally having multiple buildings, one to three stories tall, with surface parking. The newer projects in this area all have unit amenities like washer and dryer connections (or washers and dryers in the units), and nearly all have nine foot ceilings and either a patio or a balcony. All newer communities have at least one pool, and nearly all have clubhouses, fitness centers, and offer covered parking. Most also feature detached or attached garages.

Multi-family construction in the Far Northwest market area has continued to expand towards the northern edge of the City of Cedar Park and into the City of Leander. Most older projects, built in the 1980's were concentrated in the Austin portion of Williamson County, rather than in Cedar Park and Leander. Recent construction (after 2000) has begun to venture further north.

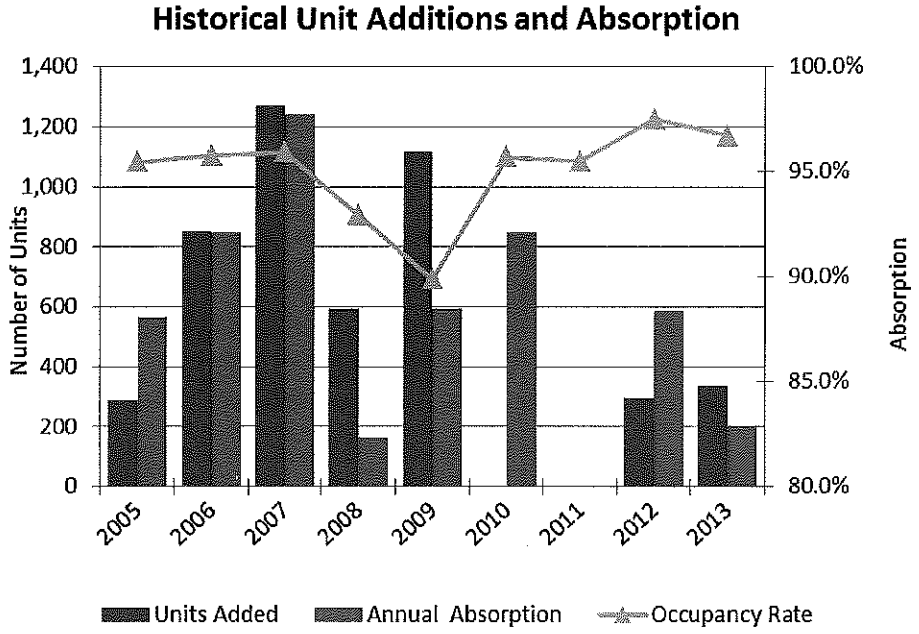
Table (7)

Historical Occupancy

Far Northwest Market Area

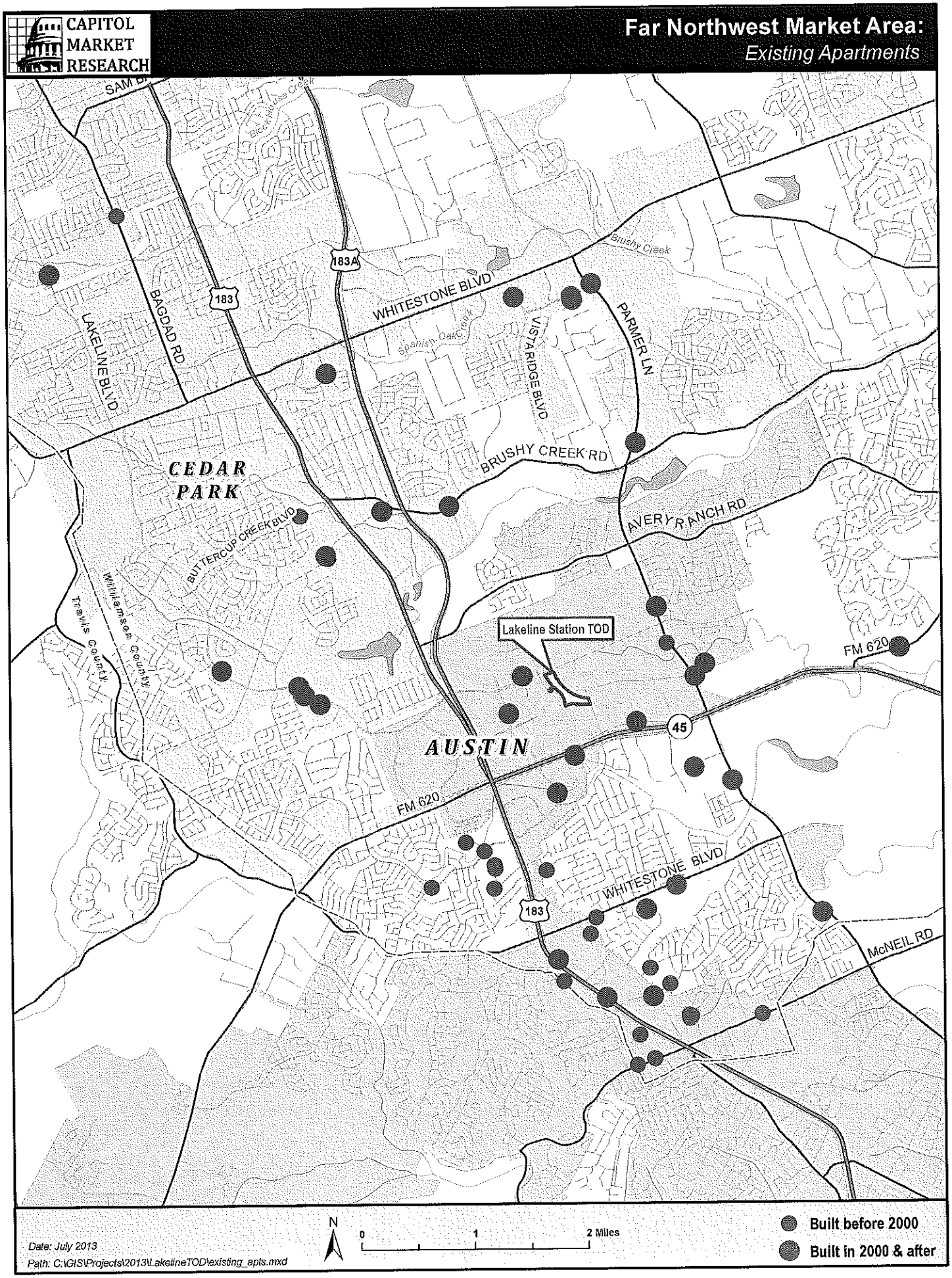
Year	Number of Units	Units Occupied	Occupancy Rate	Units Added	Rent per Sq. Ft.	Annual Absorption
2005	10,801	10,310	95.5%	287	$0.77	564
2006	11,652	11,158	95.8%	851	$0.80	848
2007	12,924	12,398	95.9%	1,272	$0.88	1,240
2008	13,519	12,561	92.9%	595	$0.88	163
2009	14,635	13,155	89.9%	1,116	$0.80	594
2010	14,635	14,004	95.7%	0	$0.87	849
2011	14,633	13,972	95.5%	0	$0.93	-32
2012	14,931	14,559	97.5%	298	$0.99	587
2013	15,266	14,762	96.7%	335	$1.03	203

Source: Capitol Market Research, December 2005 - May 2013 Apartment Market Survey hist_occ.xls



CAPITOL MARKET RESEARCH

Far Northwest Market Area:
Existing Apartments



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Far Northwest Market Area Occupancy & Recent Absorption

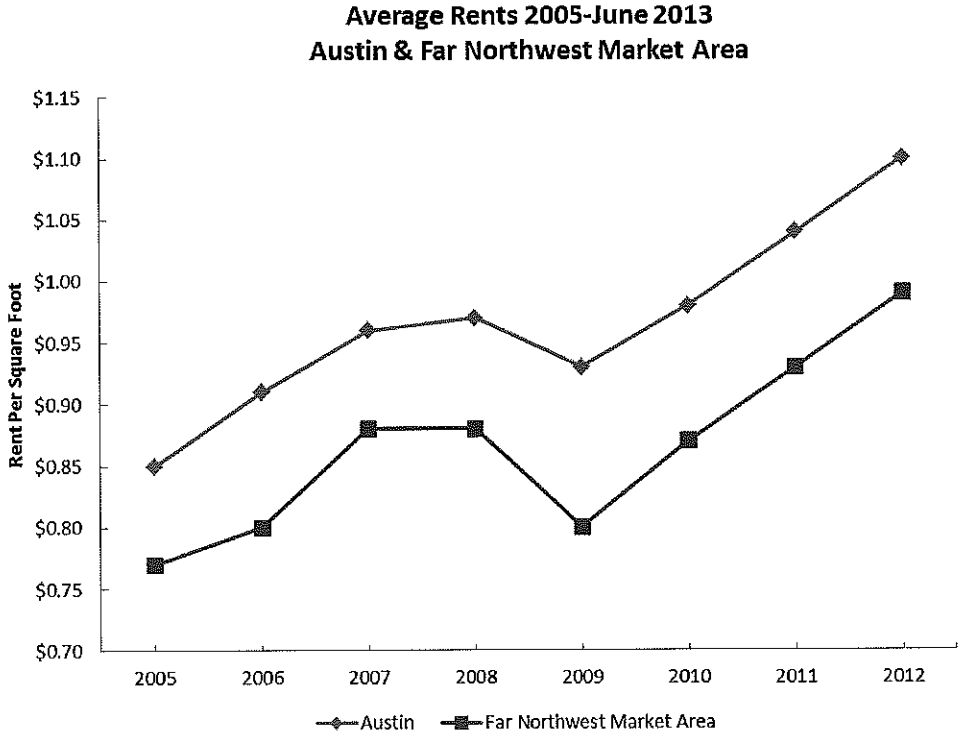
Occupancy rates in the market area stayed very stable between December 2005 and December 2007 increasing from 95.5% to 95.9% during that time. However, after December 2007, occupancy rates dropped from 95.9% to a low of 89.9% in December 2009 when 1,116 units were added to the market area. Occupancy rebounded back up to 95.7% by December 2010 and has remained stable since that time, and despite the addition of 335 units in the last six months in the market area, overall occupancy is currently 96.7% (June 2013).

There are currently two projects in the market area in lease-up. Over the last 8 1/2 years, the 54 surveyed projects have absorbed a total of 5,016 units, with a one year high point of 1,240 units in 2007. In two additional years, 2006 and 2010, the absorption level exceeded 800 units. Most recently (June 2013), with occupancy at 96.7%, the market area absorbed 203 units in the first six months of 2013.

Far Northwest Market Area Rental Rates

Average rents (net rents including concessions) in the Far Northwest market area steadily increased from $0.77 in December 2005 to $0.88 in December 2007, a 14.3% increase over a two-year period. Rents stayed constant at $0.88 between December 2007 and December 2008; however, they decreased to $0.80 in December 2009 as a consequence of the addition of 1,116 units to an already "soft" market. Since the end of 2009 rents have continued their upward trend, and the current average rent per square foot for the market area is $1.03 (June 2013), 3.88% higher than December 2012.

Since 2005, the Far Northwest market area has been consistently lower than the Austin market. From 2005 to 2007 average rental rates in both markets increased, between 2007 and 2008 the average rents generally plateaued with rents increasing by $0.01 in Austin and staying the same in the Far Northwest market area. Average rents then decreased between 2008 and 2009 in both markets, falling to $0.80 in the Far Northwest market area and $0.93 in Austin. In 2010, 2011 and 2012 the downward trend reversed and prices have been continually increasing. By the end of 2010, the Far Northwest market area was at $0.87 per square foot and the citywide rate was $0.98 per square foot. Between December 2010 and December 2011, the Far Northwest market area average rental rate increased to $0.93 (6.9%) while the citywide rate reached $1.05 (7.1%). In June 2013, the citywide rate reached $1.17 (11.4%) and the Far Northwest market area reached $1.03 (10.8%).



Market Outlook

Currently (June 2013), the overall occupancy rate in the Far Northwest market area is 96.7%, which is 0.82% lower than the market area occupancy in December 2012 (97.5%), despite the addition of 335 units in two projects so far in 2013. Therefore, the apartment units in the proposed project will be competing primarily with the undeveloped tracts in the market area that are zoned for multi-family use and that may be developed with apartments within the forecast time period. Recent interviews with the City of Austin, City of Cedar Park and City of Leander planning departments, and local brokers and apartment developers, revealed 14 competitive sites for multi-family construction, including the subject site. There also an additional 6 sites defined as being "available", meaning that the land is currently zoned appropriately for multi-family development and utilities are available. In order to be considered a "competitive" site, the identified site must either be held by or under contract to a developer with known intention to move forward with a multi-family project. In addition to the competitive sites, there are several sites that are available for purchase, for which there are no definitive plans for development.

The annual additions to the market area resulting from the development of this potential inventory of multi-family units may vary based on the capacity of the apartment developer to obtain the necessary construction financing and city approvals. It is also possible that other projects not currently in the planning stage could be quickly developed and brought to the market. Thus, the list of planned additions is both actual, because it represents current plans, and representative, because it presents a position that the subject project will be competing with other new apartment projects during the anticipated development horizon.

Table (8)

Competitive Multi-Family Sites

Far Northwest Market Area

Map No	Project	Address	Acres	Units	Developer	Status	Zoning
1	95twenty	9520 Spectrum Blvd	23.0	334	HPI Residential	under construction	MF-3
2	Allure Apartments	701 Vista Ridge North	17.0	325	NRP Group	u.c. / leasing	MF-2-B
3	Altis at Lakeline	12700 Ridgeline Blvd.	22.0	354	The Altman Companies	Site Plan Filed	GO-MU-CO
4	Cedar Park Town Center I	Big Bend Dr. at Cherry Creek	6.0	166	DR Horton	under contract	GR
5	Indigo Apt. (Northwoods)	10800 Lakeline Boulevard	18.2	325	HPI Residential	u.c. / leasing	PUD
6	Lakeline East Ph.I	2829 Lakeline Boulevard	26.4	348	No. American Properties	under construction	CH
7	Lakeline West Ph.II	Lakeline Blvd. at Ridgeline	19.6	344	No. American Properties	closed on land	CH
8	Mansions at Lakeline	10500 Lakeline Mall Drive	23.6	335	Western Rim	feasibility	PUD
9	Merritt Legacy Apt. (AH)	1350 Sonny Drive	11.0	208	Denison Development	under construction	MF
10	Muir Lake	12600 Avery Ranch Blvd.	19.0	332	Larry Peel Company	under construction	MF
11	Park at Lakeline	2800 Lakeline Boulevard	25.3	352	Gencap Partners	under construction	MF-3
12	The Presidio Ph.I	Lakeline Mall Dr. at Lynhurst	14.0	421	Street Lights Residential	under contract	PUD
13	The Village at Leander Station	Hero Way at Mel Mathis Blvd.	9.6	216	Leander Transit Investors	feasibility	PUD
14	Whitestone Apartments	9826 North Lake Creek Blvd.	19.5	340	LIV Development	under contract	PUD
			254.2	4,400			

Source: Capitol Market Research Developer/Broker Interviews, Q2 2013

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In addition to the thirteen competitive sites, there are six additional sites that may be developed with multi-family product over the next three years (See Table (9) below). In each case the site is available for purchase for multi-family development. Two of the sites, Cedar Park Town Center II, Lakeline Station (the subject), and The Presidio have additional uses contemplated that will create a multi-use development.

Table (9)

Available Multi-Family Sites

Far Northwest Market Area

Map No	Project	Address	Acres	Units	Developer	Status	Zoning
15	Buttercup Creek	Buttercup Creek Blvd.	10.0	116	Prosperity Realty	Available	MF
16	Cedar Park Town Center II	Hwy 183a at New Hope Rd.	42.9	300	DR Horton	Available	MU
17	Lakeline Station TOD	Lakeline Blvd. at Lyndhurst	20.0	748	Capital Metro	Available	PUD
18	The Presidio (Future Phases)	Lake Creek at FM 620	128.0	1,496	Diversified RE Group	Available	PUD
19	Village of Crystal Falls	Hwy 183a at Crystal Falls	20.0	400	GCA Consulting	Available	MF-2-B
20	Vista Ridge	Baghdad Rd. at Vista Ridge	17.8	252	SDC Austin Communities	Available	MF
			238.7	3,312			

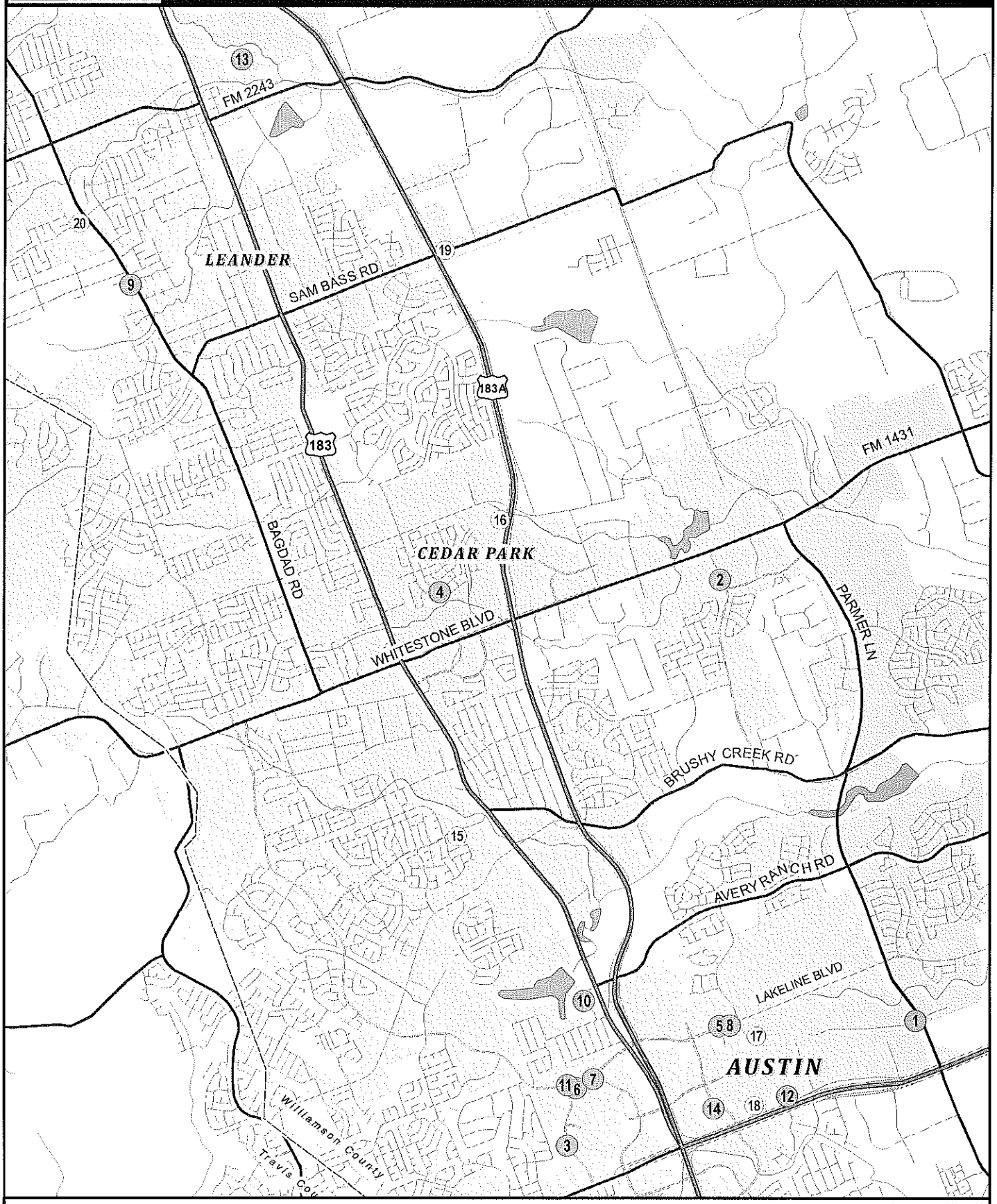
Source: Capitol Market Research Developer/Broker Interviews, May 2013

Comp_sites_apt_fnw.xls

CAPITOL MARKET RESEARCH

Far Northwest Market Area:

Planned Multi-Family Sites



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Competitive Site

Available Site

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Table (10)

Planned Multi-Family

Far Northwest Austin Market Area

Map No.	Project Name	Units Planned	2013	2014	2015	2016	2017	Future
1	95twenty	334	240	94	...	...	...	...
2	Allure Apartments	325	325	...	...	...	...	...
3	Altis at Lakeline	354	...	80	274	...	...	...
4	Cedar Park Town Center I	166	...	...	166	...	...	...
5	Indigo Apt. (Northwoods)	325	325	...	...	...	...	...
6	Lakeline East Ph.I	348	240	108	...	...	...	...
7	Lakeline West Ph.II	344	...	...	344	...	...	...
8	Mansions at Lakeline	335	...	335	...	...	...	...
9	Merritt Legacy Apt. (AH)	208	120	88	...	...	...	...
10	Muir Lake	332	80	252	...	...	...	...
11	Park at Lakeline	352	232	120	...	...	...	...
12	The Presidio Ph.I	421	...	...	...	421	...	...
13	The Village at Leander Station	216	...	216	...	...	...	...
14	Whitestone Apartments	340	...	...	340	...	...	...
	Lakeline Station TOD	**748**	**...**	**...**	**...**	**350**	**398**	...
	Total New Units	5,148	1,562	1,293	1,124	771	398	0
	Total Annual Demand		1,094	1,129	1,164	1,378	1,419	
	Demand minus Supply		(468)	(164)	40	607	1,021	

Source: Capitol Market Research Developer/Broker Interviews, June 2013

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Far Northwest Market Area and Subject Absorption Forecast

Between 2000 and 2010, according to the U.S. Census Bureau, the Far Northwest market area grew by 61.38% and captured 12.37% of the increase in population in the Austin MSA. CMR estimates that the tenure split will grow from 38.5% in 2013 to 42.5% in 2017, based on the increase in rental households from 2000 to 2010. By using these forecasts and assuming that the household size will continue to shrink as it did between 2000 and 2010, an estimated new multi-family housing demand that averages 1,237 units per year from 2013 through 2017 is indicated, as shown in Table (11) below. The planned 748 units at Lakeline Station TOD will be delivered in 2016 and 2017. The combination of the current stable market conditions with the indicated amount of new unit construction outlined in the previous section, results in a positive absorption forecast for the market area and the subject project after the current planned inventory is absorbed.

Table (11)

Multi-Family Unit Demand

Far Northwest Market Area

Year	Forecasted MSA Population Growth	Capture Rate	New Population	Household Size	New HH	% Renter	% Multi-Family	Multi-Family Demand
2013	66,167	12.37%	8,187	2.62	3,125	38.5%	90.9%	1,094
2014	66,167	12.37%	8,187	2.60	3,144	39.5%	90.9%	1,129
2015	66,167	12.37%	8,187	2.59	3,162	40.5%	90.9%	1,164
2016	76,025	12.37%	9,406	2.57	3,654	41.5%	90.9%	1,378
2017	76,025	12.37%	9,406	2.56	3,676	42.5%	90.9%	1,419

Prepared by: Capitol Market Research, June 2013 Dem.ForecastCalc.xls

Notes: MSA population forecast based on the population forecast obtained from Texas State Data Center, Scenario 2000-2010, November 2012. Capture rate based on average historical growth in the market area as a % of the MSA from 2000-2010. Household size based on the change in household size from the 2000 to 2010 Census. Percentage renter based on the change in percent renter from the 2000 to 2010 Census. Percent multi-family based on new building permits issued in the area over the last 10 years.

The absorption of the new units delivered in the Far Northwest market area was very strong in 2005 and 2009 largely due to the opening of new properties in the market area. Over the last three years, absorption has remained steady as new projects have been consistantly added to the market, and occupancy rates have continued to rise. The combination of the current stable market conditions and high occupancy rate should allow the market to maintain occupancy above 90% throughout the forecast period, even taking into consideration the large number of construction starts outlined in the previous section. The absorption forecast for Lakeline Station TOD is shown in Table (12) below.

Table (12)

Subject Absorption Forecast

Far Northwest Austin Market Area

Year	Multi-Family Demand	Units Added	Subject Units	Proportionate Market Share	Competitive Market Share	Average Market Share	Subject Absorption
2013	1,094	1,562	...	...	...	...	...
2014	1,129	1,293	...	...	...	...	...
2015	1,164	1,124	...	...	...	...	...
2016	1,378	771	350	25.4%	25.4%	25.4%	350
2017	1,419	398	398	28.0%	28.0%	28.0%	398
Total			748				748

Prepared by: Capitol Market Research, July 2013 Comp_Sites_apt_fnw.xls

Note: 2013 - 2017 calculated demand from Table (11) and projected supply from Table (8)

Conclusions for Apartment Use

The market conditions for new apartment construction in the Austin metropolitan area are increasingly optimistic. Job growth is on the rebound and, because the unemployment rate is currently lower than other cities in Texas and in the nation at 5.3% (March 2013) new employees and their families continue to move into the region to fill the current job vacancies or look for work. While a surge in new construction in 2007 and 2008 caused occupancy to fall from 96.6% in 2007 to 90.4% in 2009, the citywide occupancy rate rebounded 5.5 percentage points to 95.9% with the absorption of 2,245 units in 2011. Since the end of 2011, occupancy has increased to 97.3% and average rents are at an all-time high of $1.17 per square foot. Occupancy should continue to remain above 95% over the next two years due to continued job growth and population migration, coupled with a steady, but not excessive, flow of new unit deliveries.

Since June 2013, there have been 3,475 net units added to the market, with 3,698 units added in new projects, 44 added in older projects, and 267 removed from inventory due to either a condo conversion or demolition. It is anticipated that a total of 8,489 new units will be added in 2013, assuming that all projects currently under construction deliver units when anticipated.

The subject site is on Lakeline Boulevard at Lyndhurst Street, located in the Far Northwest market area in Austin, Texas. It is approximately 20.74 acres in size and is proposed to have 748 mid-rise multi-family units. The Far Northwest market area currently contains 15,266 rentable units in 54 complexes. Thirty – one of the 54 properties are of recent construction, built since the beginning of 2000. The newer projects in this area all have unit amenities like washer and dryer connections (or washers and dryers in the unit), nine foot ceilings, an upgraded appliance package with granite kitchen countertops, vinyl wood flooring, and either a patio or balcony. All of the communities have a pool, and nearly all have clubhouses, fitness centers, and a variety of parking options such as surface parking and attached and detached garages. The newest projects have also begun introducing amenities such as designer pendant and track lighting, personal "yards" with grass (geared toward dog owners), dog parks, ceramic or stone kitchen backsplashes and showers, larger outdoor pool barbeque and fire pit areas, as well as fitness areas offering T.V.'s. These amenities are congruent with what Cedar Park Town Center will offer.

Occupancy rates in the Far Northwest market area have remained at 90% and above since 2005, with the exception being in 2009, due to 1,116 new unit additions that year. However, occupancy only dipped to 89.9% in 2009 and then rose back up to 95.7% by the following year, and has remained above 95% occupancy since 2010. Occupancy rates for the market area are currently at 96.7%, despite the fact that there are two new projects under construction and in lease-up.

Based on the foregoing summary and data provided in the previous section of the report, the subject 748 market rate units are considered to be viable and feasible for construction commencing in 2015 with 350 units coming to market starting in January 2016. Based on supply vs. demand estimates and the lease-up rates achieved by comparable projects in the subject market area, the subject should achieve a lease-up rate of at least 25 units per month.

OFFICE MARKET

Overview

The office market in Austin has, over the last 20 years, evolved from a relatively small government-oriented market to a much larger and more diverse multi-tenant market. In 1980 the multi-tenant office market in Austin contained approximately 5.4 million square feet of space in 77 buildings. By 1987, the market had expanded fourfold to include more than 22 million square feet in 251 buildings and it now contains 39.7 million sq. ft. in 580 buildings.

Reflecting the historical focus on State government and the location of the Capitol Building, for most of the 20th century a majority of office space was concentrated in Downtown Austin. In recent years, however, suburban office development has dominated the market, since almost 100% of the space built during the nineties was constructed in the suburban market. From 1993 to 1999, a majority of leasing activity also took place in the suburbs, and until the first quarter of 2001, the suburban markets displayed remarkable strength, with almost every new building fully leased when it received a certificate of occupancy. Now, as a result of another boom in suburban office construction in 2007 and 2008 the suburban market occupancy rates have dropped dramatically and the market has become much more competitive.

Historical Market Trends

Austin, like many other cities in Texas, experienced an unprecedented boom in office space construction and absorption in the mid-eighties. Driven by a rapidly expanding economy and media attention associated with the formation of MCC (Microelectronics & Computer Technology Corporation, a consortium of high tech businesses, working together to create innovative technology), office absorption in 1984 surged to 2.56 million square feet. From 1983 to 1987 the inventory of general-purpose office space increased by 128%, a dramatic expansion caused by a massive construction boom. Unfortunately, the downturn in the Texas economy coupled with slow growth in the computer industry caused declines in office employment and absorption of the new space. In 1987, Austin had one of the lowest occupancy rates in the country at 62.6%.

With increasing occupancy and improving rental rates, 1990 was the turnaround year for the Austin office market. Government agencies led the market recovery as entities like the Austin Independent School District, Austin Community College and the State of Texas purchased vacant multi-tenant office buildings, removing them from the available inventory. This trend continued through 1991 and 1992, and in 1993 and 1994 private companies initiated a similar trend as they bought and occupied suburban office buildings. From 1995 through the end of 2000, the market expansion gained strength as rental rates increased and new buildings were completed and fully leased at completion. By the end of 2001, however, the market had taken a dramatic turn, which continued into 2002 and 2003. During the 2004 through 2007 time period market conditions gradually improved, which led to an increase in rental rates followed by a remarkable surge in new construction.

Current Market Conditions

The Capitol Market Research March 2013 Office Report covers 39,557,821 square feet of multi-tenant space, and approximately 78.3%, or 30.8 million square feet, are located in the nine suburban market areas and 8.5 million sq. ft. are located in downtown (21.7%).

Between January 2000 and December 2002, the Austin Office market deteriorated rapidly as many pre-profit dot.com companies went out of business and gave up their lease space. Over the same three-year period over 6.0 million square feet were completed in 77 new buildings. In 2003 only one building was completed with 83,843 sq. ft. Four buildings were completed in 2004 with a total of 671,634 sq. ft. and in 2005 and 2006 there were no (0) new buildings added to the inventory. The December 2006 office report showed a dramatic increase in occupancy to 87.8% (including sublease space) and 88.9% occupancy of owner-offered (direct) space. But in December 2007 the occupancy rate dropped to 85.2% due to the lack of leasing activity combined with the completion of 1,256,061 sq. ft. of new office space in 2007. Absorption for the year was an anemic 141,318 sq. ft., which was a dramatic slowdown from the positive trend of the prior three years. In December 2008 the office market conditions continue to decline as 2,373,710 square feet were added to the market and only 484,876 square feet were absorbed. Then, in 2009, the market experienced negative absorption of almost one million sq. ft. while 885,250 sq. ft. were added during the year. December 2010 occupancy, including sublease space, increased to 80.3% but the quoted rental rates dropped by $1.63 to $24.68. Throughout 2011, average rates continued their decline, but occupancy rates increased and in some areas, like the CBD and Southwest Austin, finding large blocks of contiguous space was increasingly difficult. At the end of 2011, average rates were down slightly from 2010 to $24.19, but occupancy including sublease space increased to 83.7%. Throughout 2012, the market steadily improved with strong leasing activity in the CBD, Northwest and Southwest market areas. The resulting increases in occupancy (to 86.1%) has led to rising rental rates in these areas, which has caused the citywide average rent to increase by 5.0% in 2012 to reach $25.41 in December. The citywide average rate increased again by 1.0% in March 2013 to reach $25.66.

Table (13)

Office Market Summary

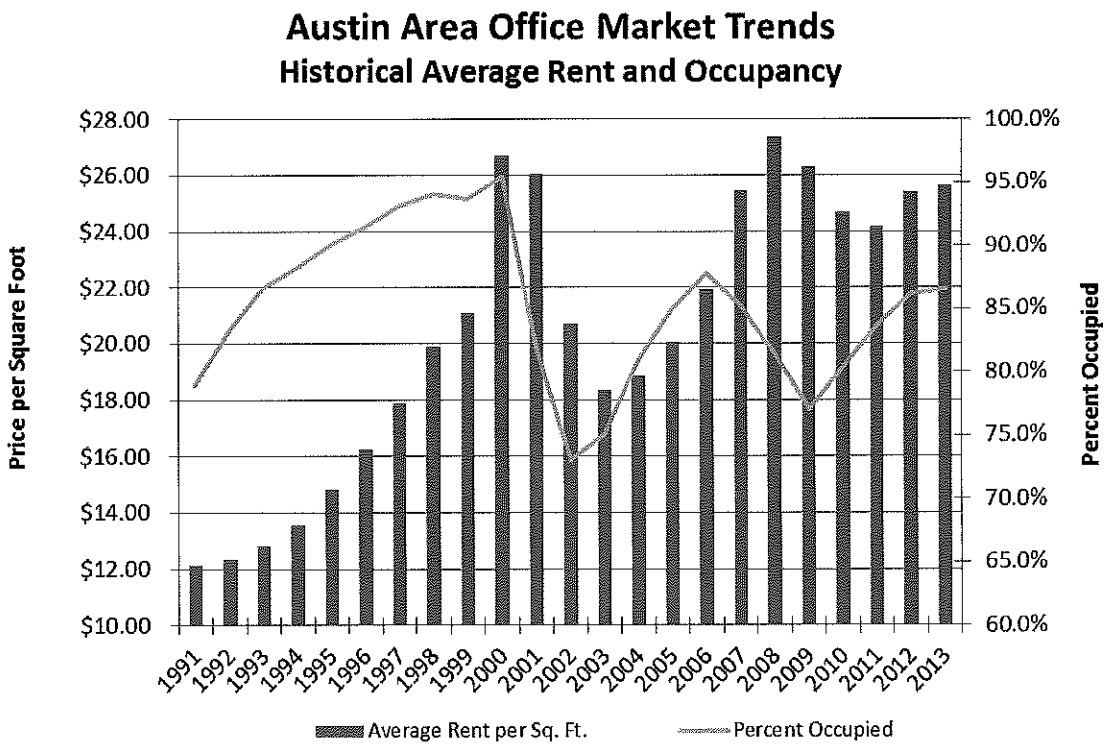
Austin: December 1991 - March 2013

Year	Net Rentable Area	Leased	Percent Occupied	SF Additions	Absorption in Net Sq.Ft.	Average Rent per Sq. Ft.
1991	21,010,788	16,592,251	79.0%	120,000	674,374	$12.12
1992	20,783,333	17,312,282	83.3%	0	917,967	$12.37
1993	20,979,552	18,174,152	86.6%	195,454	798,889	$12.84
1994	21,237,702	18,742,752	88.3%	0	695,813	$13.54
1995	21,343,917	19,230,407	90.1%	33,000	352,263	$14.85
1996	22,351,191	20,461,948	91.5%	448,875	588,677	$16.25
1997	23,564,021	21,952,889	93.2%	701,342	957,623	$17.89
1998	24,659,563	23,206,121	94.1%	1,077,000	1,190,829	$19.88
1999	26,841,892	25,161,595	93.7%	2,239,516	1,997,260	$21.11
2000	28,524,537	27,213,822	95.4%	1,764,244	1,867,353	$26.70
*2001**	31,162,686	25,531,590	81.9%	2,520,265	(1,680,818)	$26.05
*2002**	33,198,203	24,256,957	73.1%	1,617,984	(1,274,633)	$20.71
*2003**	33,125,064	24,840,794	75.0%	83,843	583,837	$18.35
*2004**	34,529,701	27,960,818	81.0%	605,686	1,572,164	$18.88
*2005**	34,607,839	29,402,802	85.0%	0	912,552	$20.08
*2006**	34,513,174	30,288,445	87.8%	0	965,954	$21.96
*2007**	35,630,721	30,365,399	85.2%	1,398,077	145,122	$25.47
*2008**	38,445,479	31,313,962	81.5%	2,373,710	484,876	$27.41
*2009**	39,677,836	30,584,102	77.1%	976,999	(971,414)	$26.31
*2010**	39,274,313	31,548,225	80.3%	88,694	964,123	$24.68
*2011**	39,358,387	32,959,646	83.7%	0	1,361,946	$24.19
*2012**	39,555,890	34,070,832	86.1%	62,192	1,072,575	$25.41
*2013**	39,557,821	34,237,933	86.6%	0	165,489	$25.66

Source: Capitol Market Research, Austin Area Office Survey, December 1991 - March 2013 off_sum_0313.xls

Average quoted rent for all available space on a "Gross" Lease basis

** Includes sublease space 2001 - 2013*



Office Space Demand

Total employment in the Austin area is expected to grow by more than 30.2% in the next 10 years with trade and service employment accounting for a majority of the increase. Due to the evolving nature of the industrial mix, in order to accurately reflect the number of office jobs created, it is important to examine the types of jobs being created by occupational category. Office type occupations are broadly defined as all white-collar occupations minus the category of sales workers. Included in this classification are most professional, managerial and clerical categories as defined by the US Bureau of Census. There are, however, a number of occupations that do not occupy office space and must therefore be deleted to accurately reflect the demand for office space. Among the deleted categories are artists, musicians, pharmacists and elementary school teachers. Other categories may be partially deleted based on empirical evidence and judgment based on local market knowledge.

Once the number of office jobs by industry group has been determined, it is then necessary to estimate the number of jobs that are located in office buildings rather than in industrial warehouse space or in an office attached to a manufacturing facility. This is accomplished by developing a matrix of office occupations by major industry group and including only those jobs that are likely to be located in freestanding office buildings.

The final step is determining the proportion of office demand that is likely to be absorbed in multi-tenant office buildings. In recent years a significant percentage of office demand has been accommodated in build-to-suit office buildings like State Farm Insurance (on RM 620), Austin Cable Vision and National Instruments (north MoPac) and GSD&M and Whole Foods (located downtown). It is likely that this trend will shift toward the multi-tenant market as a substantial amount of new office space is now available, and the desire to move rapidly into already completed and relatively affordable space drives the decision-making in many companies. Based on the Travis Central Appraisal District (TCAD) records, approximately 67% of all large office buildings are leased.

As a part of this office study, Capitol Market Research obtained from the Texas Workforce Commission an occupational breakdown of workers for each major industry group. CMR staff then reviewed each occupational category and assigned it an office percentage based on the likely location of the worker within each industry class. The results of this classification analysis indicate that currently 42.6% of all workers in the Austin area are located in office space, however, the estimates by industry group range from a low of 4% in Hospitality to 100% in Finance.

By using the employment forecast shown in Table (1) and calculating office employment through 2021, office employment is expected to increase by approximately 106,998 workers between 2012 and 2021. Assuming an average ratio of 225 sq. ft. per employee, this employment increase should result in a demand for 24.1 million sq. ft. of office space or an average of 2.4 million square feet annually from 2012 to 2021. After a majority of the existing vacant space is absorbed, (by 2014) absorption will occur in new buildings that will be a mix of private and public, owner occupied buildings and multi-tenant lease space, with the multi-tenant space accounting for approximately 67% of the total (see Table 5).

Table (14)

Office Employment Growth

Austin MSA

Year	Total Wage & Salary Emp.	Percent Office Employment	Office Employment	Annual Change	Office Space Absorption	Multi-Tenant Space Absorption
2013	857,596	42.2%	361,720	13,220	2,974,583	1,992,970
2014	891,429	42.2%	376,364	14,645	3,295,047	2,207,682
2015	928,833	42.2%	392,013	15,649	3,520,950	2,359,037
2016	966,537	42.2%	407,475	15,462	3,479,003	2,330,932
2017	997,980	42.1%	420,636	13,161	2,961,160	1,983,977
2018	1,022,335	42.2%	431,171	10,535	2,370,468	1,588,214
2019	1,041,598	42.2%	439,726	8,555	1,924,779	1,289,602
2020	1,059,564	42.3%	448,311	8,585	1,931,548	1,294,137
2021	1,076,873	42.4%	456,134	7,823	1,760,196	1,179,331
2022	1,092,757	42.4%	462,862	6,728	1,513,798	1,014,244
Total				**114,362**	**25,731,532**	**17,240,126**

Source: Office Employment is estimated to range from 42.1% to 42.7% of Total Employment
based on occupation survey conducted by Capitol Market Research
Employment to space ratio estimated to be 225 sq. ft. per person
Multi-tenant space estimated to be 67% of the total demand

emp_gro_2013.xls

Citywide Absorption and Occupancy Forecast

Prior to the development of a market area and project specific absorption forecast it is instructive to first provide a citywide context for the office market recovery. Job growth, as noted earlier, has begun to bounce back since 2010 and is expected to continue at a fairly rapid pace of 4.14% in 2013 and average 2.88% over the next ten years. This growth rate will, in turn, generate approximately 114,362 new office jobs and approximately 17,240,126 square feet of demand for multi-tenant office space. Since the end of 2010, there has only been one building (Echelon I), with 62,192 square feet, completed, which allowed the office market to continue the recovery from the overbuilding in 2008 and 2009, during the economic downturn. The steady increase in occupancy has just recently begun to generate upward pressure on rental rates, because tenants now have fewer lease options in desirable areas, and in buildings that they find attractive.

The total net rentable SF, planned additions, absorption and a citywide occupancy forecast are shown in Table (4) on the following page. This forecast is based on an average 4.14% job growth rate in 2013 and an average rate of 2.88% through 2022. On the supply side, the forecast assumes that there will be only two small office buildings completed in 2013, Hill Country Galleria Building "Q" (53,453 sq. ft.) and 2021 East Fifth Street (30,100 sq. ft.).

In 2014, two new suburban buildings in Northwest Austin at Champion Office Park (220,600 sq. ft.) will be delivered and two new CBD buildings, IBC Bank Plaza (195,000 sq. ft.) and Colorado Tower (371,000 sq. ft.) will be added to the downtown inventory.

Table (15)

Absorption and Occupancy Forecast

Austin MSA

Year	Total Sq.Ft. Net Rentable	Sq.Ft Added	Sq. Ft. Available	Occupancy Rate	Net Absorption
1990	21,592,116	0	5,333,253	75.3%	1,197,093
1991	21,010,788	120,000	4,412,265	79.0%	674,374
1992	20,783,333	0	3,470,817	83.3%	917,967
1993	20,979,552	195,454	2,811,260	86.6%	798,889
1994	21,237,702	0	2,484,811	88.3%	695,813
1995	21,343,917	33,000	2,113,048	90.1%	384,886
1996	22,351,191	448,875	1,899,851	91.5%	588,677
1997	23,564,021	701,342	1,602,353	93.2%	783,623
1998	24,659,563	1,077,000	1,454,914	94.1%	1,191,401
1999	26,841,892	2,239,516	1,691,039	93.7%	1,995,029
2000	28,524,537	1,764,244	1,310,715	95.4%	1,935,353
2001	31,162,686	2,520,265	5,631,096	81.9%	(1,680,818)
2002	33,198,203	1,617,984	8,941,246	73.1%	(1,274,633)
2003	33,125,064	83,843	8,284,270	75.0%	583,837
2004	34,529,701	605,686	6,568,883	81.0%	1,572,164
2005	34,607,839	0	5,205,037	85.0%	912,552
2006	34,513,174	0	4,224,729	87.8%	965,954
2007	35,630,721	1,398,077	5,265,322	85.2%	145,122
2008	38,445,479	2,373,710	7,131,517	81.5%	484,876
2009	39,677,836	976,999	9,093,734	77.1%	(971,414)
2010	39,274,313	88,694	7,960,351	79.7%	964,123
2011	39,358,387	0	6,398,741	83.7%	1,361,946
2012	39,555,890	0	5,485,058	86.1%	1,368,493
2013	39,639,443	83,553	3,575,641	91.0%	1,992,970
2014	40,538,043	898,600	2,266,559	94.4%	2,207,682
2015	42,538,043	2,000,000	1,907,522	95.5%	2,359,037
2016	44,538,043	2,000,000	1,576,590	96.5%	2,330,932
2017	46,538,043	2,000,000	1,592,613	96.6%	1,983,977
2018	48,288,043	1,750,000	1,754,399	96.4%	1,588,214
2019	49,788,043	1,500,000	1,964,797	96.1%	1,289,602
2020	51,288,043	1,500,000	2,170,660	95.8%	1,294,137
2021	52,538,043	1,250,000	2,241,329	95.7%	1,179,331
2022	53,788,043	1,250,000	2,477,085	95.4%	1,014,244

Source: Capitol Market Research, June 2013 emp_gro_2013.xls

Employment forecast from Moody's Economy.com May 20, 2013

Absorption forecast based on employment growth and office worker estimates

Future development, beyond 2015, is assumed to roughly match demand

Subject Market Area Conditions

The office market conditions in the Far Northwest Austin market area have mirrored the fluctuating conditions throughout the Austin metropolitan area. In 2001, a record amount of office space was completed; however, only about a third of that space was absorbed in 2001 and only 208,502 sq. ft. were absorbed in 2002. By year-end 2002, all of the new space was completed and ready for occupancy, but in 2003 absorption had dropped to a record low. Rental rates dropped precipitously as the owners of newer buildings competed with each other and attempted to entice tenants out of the older lease space. Competition among landlords led to rapid declines in effective rental rates in both existing and new space and the subject market area rapidly became a "tenant's" market.

Partially as a result of the attractive rental rates and availability of space, there was considerable movement among suburban office buildings, and in 2004 alone, there was a net positive absorption of approximately 610,626 square feet of space in the subject market area. Strong absorption continued through 2006, which precipitated a new wave of construction. In 2007 and 2008, a total of 1,429,496 square feet in 10 buildings were completed, while absorption in 2007 was negative (-211,811 sq. ft.) and in 2008 was a meager 183,598 square feet. In 2009, the office market continued to decline and the net absorption was negative -171,889 sq. ft., and the occupancy rate at year end was 71.4%. Then, in 2010 and 2011, the Far Northwest market area regained strength, rebounding to 81.5% occupancy at the end of 2011. By the end of 2012, the market absorbed another 182,063 sq. ft. and occupancy climbed to 83.6%. Table (5) on the following page presents the historical inventory, rental rates and absorption data along with a current (March 2013) inventory and rental rate for the Far Northwest market area.

Currently, the Far Northwest market area is the largest suburban market in Austin with more than 9.2 million square feet of rentable space. Rental rates in the Far Northwest market area average $27.04, and class "A" space averages $27.96 per square foot. The current occupancy rate is 84.0% and there is 1,484,447 square feet of "direct" space available. There is, in addition, 33,507 sq. ft. of sublease space available, which drops the Far Northwest market area occupancy rate to 83.6%. There are, however, significant variations in the vacancy rates in the market area, based upon building location and class.

As noted above, class "A" space is currently renting for $27.96 (gross) and there is 1,116,512 sq. ft. of direct space available in 38 of the 51 class "A" buildings. The current class "A" occupancy rate (excluding sublease space) is 79.9%, and there are eleven buildings with more than 30,000 sq. ft. direct space available for lease.

Table (16)

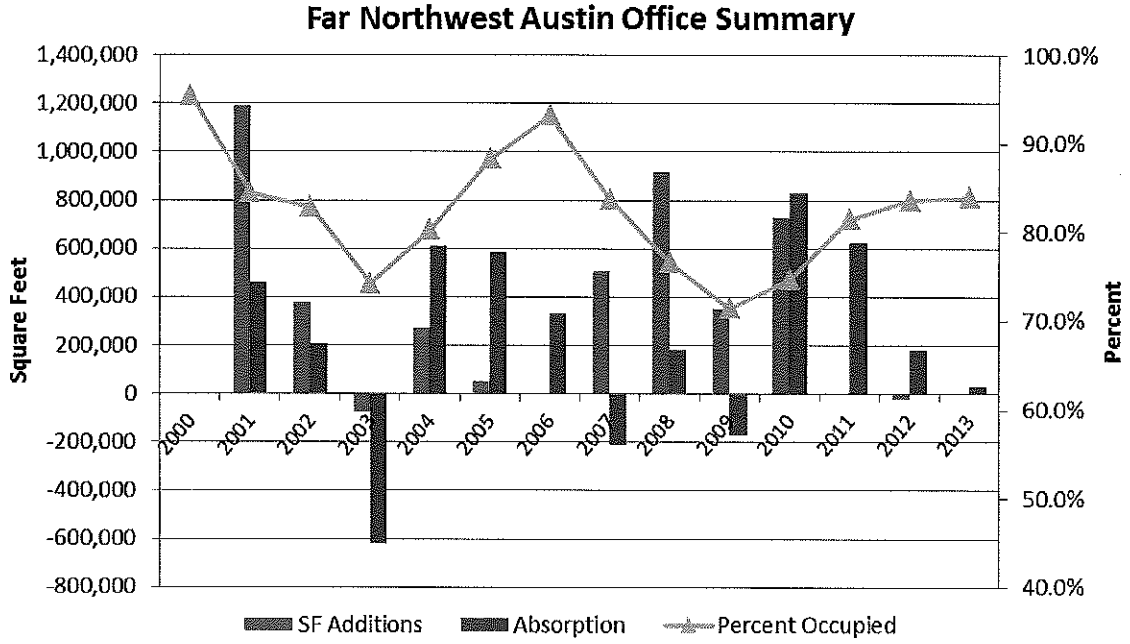
Office Market Summary

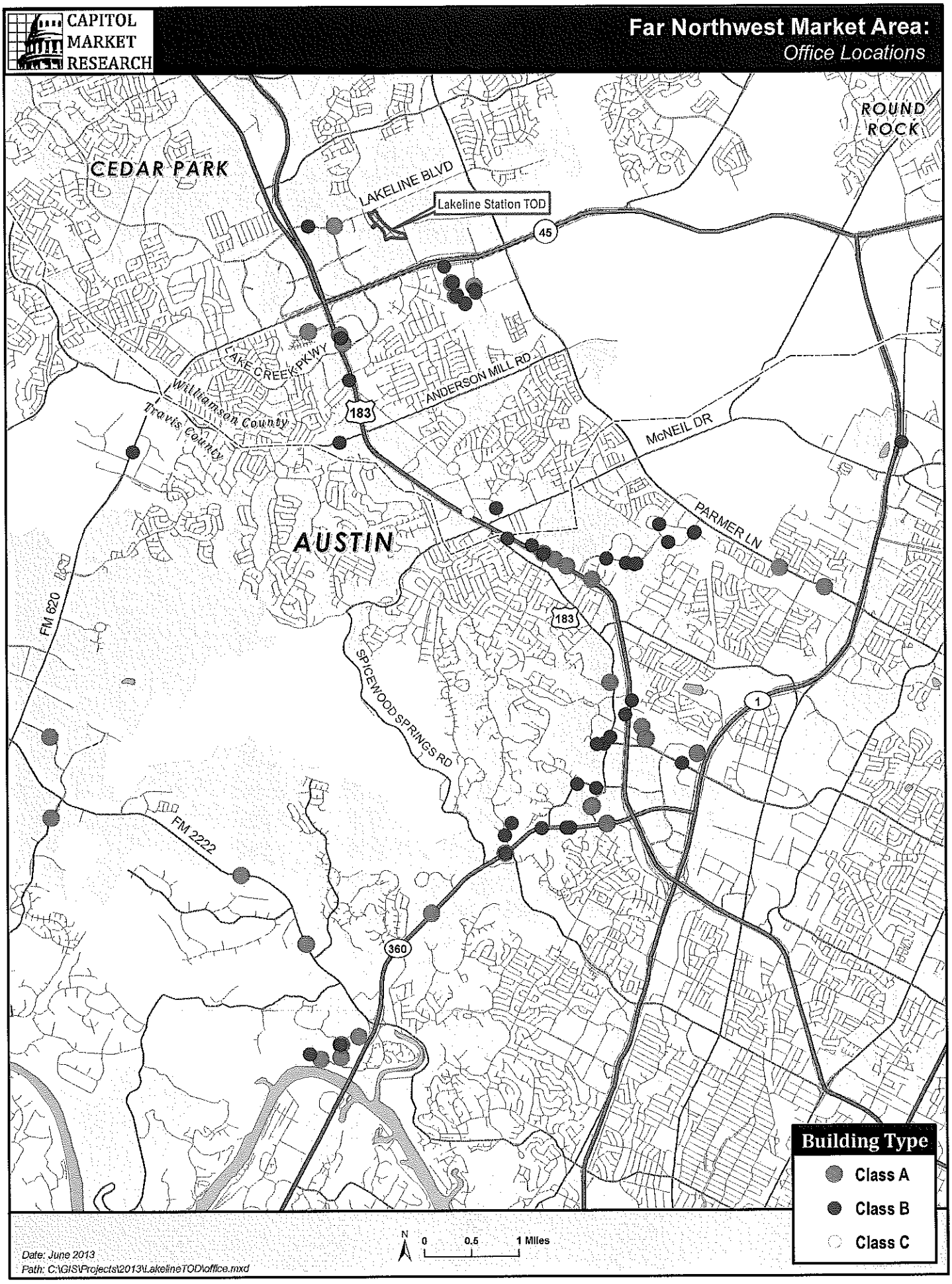
Far Northwest Market Area: December 2000-March 2013

Date	NRA	Occupied SF	Percent Occupied	SF Additions	Absorption	Average Rent
2000	4,957,948	4,730,326	95.4%	...	...	$26.43
2001	6,145,587	5,193,821	84.5%	1,187,639	463,495	$24.96
2002	6,522,395	5,402,322	82.8%	376,808	208,502	$20.51
2003	6,446,206	4,783,138	74.2%	(76,189)	(619,184)	$17.79
2004	6,718,416	5,393,764	80.3%	272,210	610,626	$19.31
2005	6,769,376	5,977,338	88.3%	50,960	583,573	$21.34
2006	6,771,068	6,308,682	93.2%	1,692	331,344	$23.39
2007	7,279,254	6,096,871	83.8%	508,186	(211,811)	$26.92
2008	8,200,564	6,280,469	76.6%	921,310	183,598	$28.78
2009	8,550,026	6,108,581	71.4%	349,462	(171,889)	$26.71
2010	9,282,475	6,936,244	74.7%	732,449	827,663	$25.46
2011	9,282,475	7,562,566	81.5%	0	626,322	$25.28
2012	9,260,820	7,744,629	83.6%	(21,655)	182,063	$26.52
2013	9,262,822	7,778,375	84.0%	2,002	33,746	$27.04

Source: Capitol Market Research, Austin Area Office Survey, December 2000 - March 2013

off_sum_fnw.xls




CAPITOL MARKET RESEARCH
Far Northwest Market Area:
Office Locations
CEDAR PARK
ROUND ROCK
AUSTIN
LAKELINE BLVD
Lakeline Station TOD
45
LAKE CREEK PKWY
ANDERSON MILL RD
183
Williamson County
Travis County
MCNEIL DR
PARMER LN
FM 620
SPICEWOOD SPRINGS RD
1
FM 2222
360
Building Type
Class A
Class B
Class C
N
0
0.5
1 Miles
Date: June 2013
Path: C:\GIS\Projects\2013\LakelineTOD\office.mxd

Inventory and Market Share

Over the last twelve and one fourth years, the Far Northwest Austin office market has grown from 4,957,948 sq. ft. in 54 buildings to 9,262,822 sq. ft. in 118 buildings. While construction of new buildings tends to come in "spurts", the annual increase to inventory averages 351,418 sq. ft. for the last 12 ¼ years. During this same period, the Far Northwest market area share of all multi-tenant space increased from 17.4% in 2000 to 23.4% in 2013.

Table (17)

Office Inventory & Market Share

Far Northwest Market Area

Year	Citywide Inventory	FNW Market Inventory	FNW Market Share	Change in Share
2000	28,524,537	4,957,948	17.4%	...
2001	29,264,801	6,145,587	21.0%	3.6%
2002	32,792,039	6,522,395	19.9%	-1.1%
2003	33,125,064	6,446,206	19.5%	-0.4%
2004	33,569,321	6,718,416	20.0%	0.6%
2005	34,607,839	6,769,376	19.6%	-0.5%
2006	34,513,174	6,771,068	19.6%	0.1%
2007	35,630,721	7,279,254	20.4%	0.8%
2008	38,445,479	8,200,564	21.3%	0.9%
2009	39,677,836	8,550,026	21.5%	0.2%
2010	39,274,313	9,282,475	23.6%	2.1%
2011	39,358,387	9,282,475	23.6%	-0.1%
2012	39,555,890	9,260,820	23.4%	-0.2%
2013	39,557,821	9,262,822	23.4%	0.0%

Source: Capitol Market Research, December 2000 - March 2013

inventory.xls

Historical Absorption

Absorption in the subject market area has fluctuated significantly over the years, but it has averaged 59.8% of the annual citywide office space absorption since 2000, equating to an average annual absorption of 298,989 square feet over the last 12 ¼ years. From 2000 through December of 2002, absorption in the Far Northwest market area was very strong, in spite of the declines experienced elsewhere in Austin. Then in 2003, absorption was negative (619,184 sq. ft.) as many e-commerce, start-up companies gave up their space. Then from 2004 through 2006, absorption picked up as the economy improved, and companies began to expand and needed more space. Then the world-wide financial crisis brought an end to corporate relocations and expansion, and the office market suffered through the end of 2009. In 2010 and 2011, the availability of new office space at affordable rental rates made the Far Northwest market area very attractive, and leasing activity was very strong. This activity continued through 2012 and the first quarter of 2013.

Without new product, the lack of available vacant space will tend to curtail absorption because much of the space remaining to be leased is less desirable or limited in configuration and suitability. When there is a substantial amount of new space available, absorption tends to increase because of the flexibility afforded by the amount of space available, which can be configured to the exact specifications of the prospective tenant, without the added cost and delays associated with demolition and reuse.

Table (18)

Office Absorption

Far Northwest Market Area

Year	Citywide Absorption	Market Area Absorption	Market Share
2000	1,867,353	677,556	36.3%
2001	(1,680,818)	463,495	-27.6%
2002	(1,274,633)	208,502	-16.4%
2003	583,837	(619,184)	-106.1%
2004	1,572,164	610,626	38.8%
2005	912,552	583,573	63.9%
2006	965,954	331,344	34.3%
2007	145,122	(211,811)	-146.0%
2008	484,876	183,598	37.9%
2009	(971,414)	(171,889)	17.7%
2010	964,123	827,663	85.8%
2011	1,361,946	626,322	46.0%
2012	1,072,575	182,063	17.0%
2013	165,489	33,746	20.4%
Total	6,169,126	3,691,859	59.8%

Source: Capitol Market Research, June 2013
Office market Surveys, December 2000 - March 2013
** includes sublease space* inventory.xls

Competitive Sites

Because there is a quickly diminishing amount of high quality suburban space available, the subject, Lakeline Station office site, will be competing with other planned office buildings and office development sites over the next few years. The potential additions to the defined market, resulting from the development of other planned office sites, will be based on the capacity of office developers to obtain the necessary construction financing and city approvals. Currently, there are a number of competitive sites owned or controlled by investors and developers, thus indicating the potential for competitive development within the proposed project development horizon. Currently there are no new office buildings under construction in the subject market area, but there are a number of new buildings planned for development when financing becomes available.

The July 2013 office site survey conducted by Capitol Market Research, revealed a total of 14-zoned sites that might be developed with competitive office space. These sites include several where construction was planned in 2007, and then halted due to deteriorating market conditions, and others that have been "entitled" in the last couple of years.

Altogether there is the potential for development of approximately two million square feet of office space in the market area over the next several years. After interviewing developers and leasing agents, we have prepared a "pipeline" report, Table (19), for the subject market area that represents the best information available to us in July 2013. Currently there are two projects that seem "poised" to start, Champion Office Park and one of the buildings in Paloma Ridge. There is a general recognition among the developers and brokers interviewed that the market is getting "tighter" and it should be capable of absorbing new office product over the next two years.

Table (19)

Planned Office Building Projects in Austin Texas

Far Northwest Market Area

Map No.	Office Building Name	Address	Developer Name	Size	Class	Start	Completed
1	1890 Ranch	1890 RR 1431/ Cedar Park	Endeavor	40,000	A-	tbd	tbd
2	Aspen Lakes II & III	13785 Research Blvd.	Crimson	240,000	A	tbd	tbd
3	Champion Office Park I	6500 N. Capital of Tx. Hwy.	Endeavor	116,800	A	Sep-13	Nov-14
...	Champion Office Park II	6500 N. Capital of Tx. Hwy.	Endeavor	103,800	A	Sep-13	Nov-14
4	Crossings at Lakeline III	Lakeline Blvd. at Lakecreek	Simmons Vedder	117,500	A-	tbd	tbd
...	Crossings at Lakeline IV	Lakeline Blvd. at Lakecreek	Simmons Vedder	117,500	A-	tbd	tbd
5	Davis Springs Corp. Park	9825 Spectrum Drive	HPI	169,000	A-	tbd	tbd
6	Four Points Centre 3	11040 Four Points Drive	Thomas Properties	80,000	A	tbd	tbd
7	Paloma Ridge Office A	State Highway 45 at Parmer	Stream Realty	106,200	A-	Mar-14	Mar-15
...	Paloma Ridge Office B	State Highway 45 at Parmer	Stream Realty	106,200	A-	tbd	tbd
...	Paloma Ridge Office C	State Highway 45 at Parmer	Stream Realty	112,100	A-	tbd	tbd
8	Quarry Oaks Atrium II	Braker Ln. at Stonelake Blvd.	Riverside Resources	120,000	A	tbd	tbd
9	Research Park	Research Blvd. at Riata Trace	HPI	117,000	A	tbd	tbd
10	Research Park Plaza V	12300 Research Blvd.	Cousins Properties	175,000	A	tbd	tbd
11	Riata Corporate Park I	12301-A Riata Vista	HPI	63,000	A-	tbd	tbd
12	Riata Crossing VI	12554 Riata Vista Cir.	HPI	49,716	A-	tbd	tbd
13	Ribelin Ranch	FM 2222 at McNeil	Forestar	332,000	A	tbd	tbd
14	River Place Corp. Park	6500 Riverplace Blvd.	Aspen Properties	132,000	A	tbd	tbd
Planned Projects			Total	2,297,816			

Source: Capitol Market Research, Developer interviews, July 2013

office planned_fnw.xls

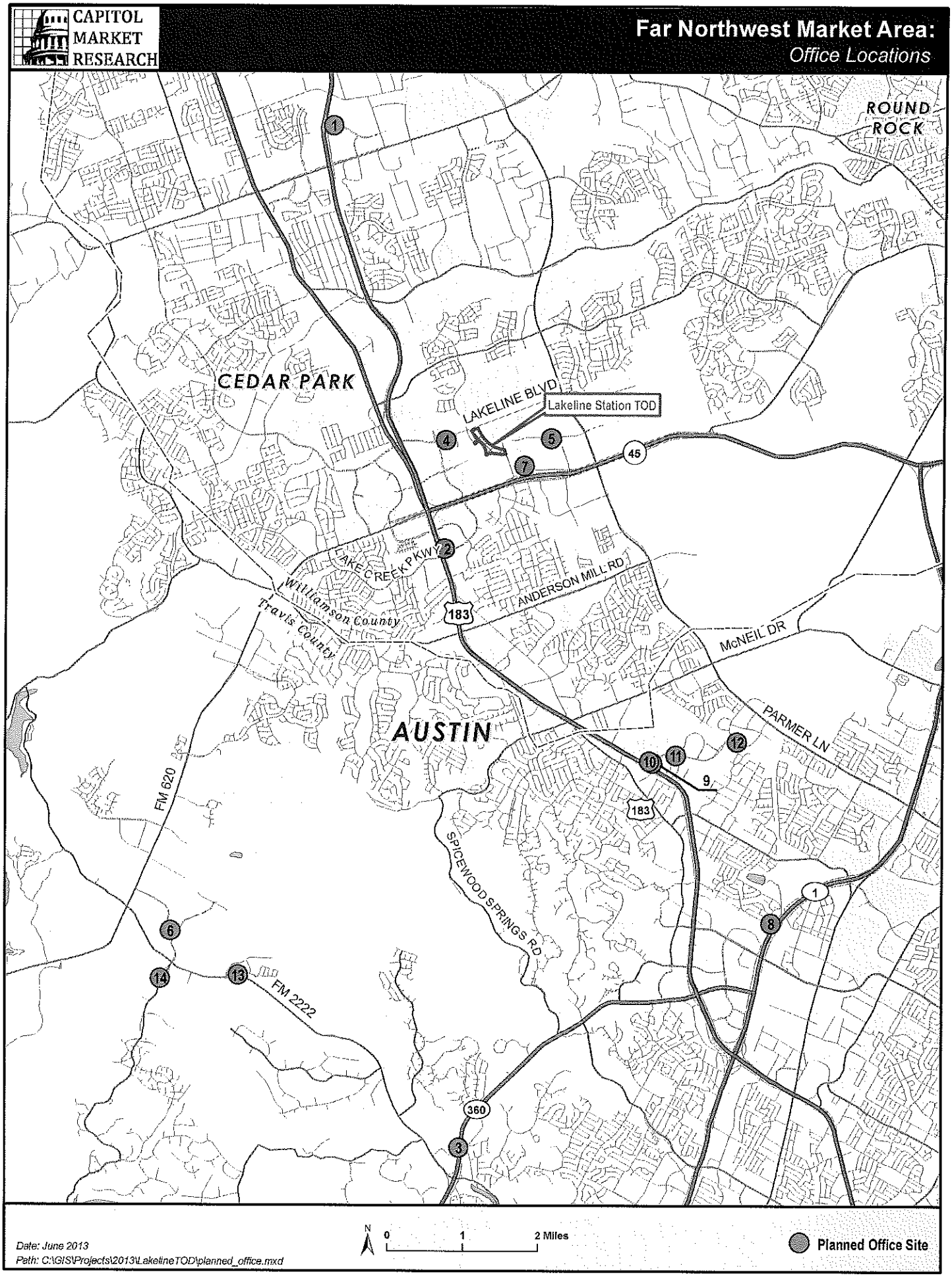

CAPITOL MARKET RESEARCH
Far Northwest Market Area:
Office Locations
ROUND ROCK
CEDAR PARK
LAKELINE BLVD
Lakeline Station TOD
45
LAKE CREEK PKWY
ANDERSON MILL RD
Williamson County
Travis County
183
McNEIL DR
PARMER LN
AUSTIN
FM 620
SPICEWOOD SPRINGS RD
FM 2222
360
1
2 Miles
Planned Office Site
Date: June 2013
Path: C:\GIS\Projects\2013\LakelineTOD\planned_office.mxd

Table (20)

Planned Office Building Project Timing

Far Northwest Market Area

Map No.	Office Site	Square Footage	2013	2014	2015	2016	2017	Future
1	1890 Ranch	40,000	.....	.....	.....	.....	.....	40,000
2	Aspen Lakes II & III	240,000	.....	.....	.....	.....	.....	240,000
3	Champion Office Park I	116,800	.....	116,800	.....	.....	.....	.....
...	Champion Office Park II	103,800	.....	103,800	.....	.....	.....	.....
4	Crossings at Lakeline III	117,500	.....	.....	.....	.....	.....	117,500
...	Crossings at Lakeline IV	117,500	.....	.....	.....	.....	.....	117,500
5	Davis Springs Corp. Park	169,000	.....	.....	.....	.....	.....	169,000
6	Four Points Centre 3	80,000	.....	.....	.....	.....	.....	80,000
7	Paloma Ridge Office A	106,200	.....	.....	106,200	.....	.....	.....
...	Paloma Ridge Office B	106,200	.....	.....	.....	.....	.....	106,200
...	Paloma Ridge Office C	112,100	.....	.....	.....	.....	.....	112,100
8	Quarry Oaks Atrium II	120,000	.....	.....	.....	.....	.....	120,000
9	Research Park	117,000	.....	.....	.....	.....	.....	117,000
10	Research Park Plaza V	175,000	.....	.....	.....	.....	.....	175,000
11	Riata Corporate Park I	63,000	.....	.....	.....	.....	.....	63,000
12	Riata Crossing VI	49,716	.....	.....	.....	.....	.....	49,716
13	Ribelin Ranch	332,000	.....	.....	.....	.....	.....	332,000
14	River Place Corp. Park	132,000	.....	.....	.....	.....	.....	132,000
	Total	2,297,816	0	220,600	106,200	0	0	1,971,016

Source: Capitol Market Research, City Building Permit Reviews, Field Survey and Developer Interviews, July 2013

office planned_fnw.xls

Market Area and Subject Absorption Forecast

During the last two years, the office market in Austin and in the Far Northwest market area has experienced a dramatic improvement from the negative absorption and rent deflation experienced in 2009 and 2010. Falling rates in 2009 through 2011 and negative absorption in 2009 curtailed any plans for new development in 2011 and 2012, but the market now appears ripe for a rapid turn-around. Table (21) presents an absorption estimate for the Far Northwest market area, based on the site inventory previously presented and an estimate of future construction. Only one building, Champion Office Park, has announced a construction start date in September 2013. It is assumed that construction of one or more buildings will commence on an annual basis starting in 2013, and that new construction will roughly match the absorption forecast shown on the following page.

The Far Northwest market area currently is at 84.0% occupancy, which leaves relatively few large blocks of Class "A" space. Consequently, most of the future absorption will take place in buildings that are planned for completion over the next few years. CMR has estimated that a proportionate share of absorption will take place in the Far Northwest market area from 2013 to 2021 based on the historical average capture rate on of 37.5% from December 2008 through March 2013. Based these assumptions, the Far Northwest market area absorption forecast was developed and is shown in Table (21) on the following page.

Table (21)

Office Market Absorption

Far Northwest Market Area: 2000 - 2021

Date	Net Rentable Area	Sq.Ft. Added	Sq.Ft. Available	Occupancy Rate	Net Absorption
2000	4,957,948	...	227,622	95.4%	...
2001	6,145,587	1,187,639	951,766	84.5%	21,107
2002	6,522,395	376,808	1,120,073	82.8%	(156,279)
2003	6,446,206	(76,189)	1,663,068	74.2%	330,950
2004	6,718,416	272,210	1,324,652	80.3%	236,148
2005	6,769,376	50,960	792,038	88.3%	512,825
2006	6,771,068	1,692	462,386	93.2%	123,368
2007	7,279,254	508,186	1,182,383	83.8%	(204,545)
2008	8,200,564	921,310	1,920,095	76.6%	339,114
2009	8,550,026	349,462	2,441,445	71.4%	(181,583)
2010	9,282,475	732,449	2,346,231	74.7%	776,854
2011	9,282,475	0	1,719,909	81.5%	248,685
2012	9,260,820	(21,655)	1,516,191	83.6%	306,876
2013	9,262,822	0	1,484,447	84.0%	317,821
2014	9,483,422	220,600	933,072	90.2%	771,975
2015	9,983,422	500,000	536,141	94.6%	896,930
2016	10,783,422	800,000	510,948	95.3%	825,193
2017	11,483,422	700,000	573,922	95.0%	637,026
2018	11,983,422	500,000	582,430	95.1%	491,492
2019	12,483,422	500,000	651,322	94.8%	431,108
2020	12,883,422	400,000	606,974	95.3%	444,348
2021	13,283,422	400,000	582,922	95.6%	424,052

Source: *Capitol Market Research, July 2013*
Employment forecast from Moody's Economy.com, May 2013
Absorption forecast 2013 based on FNW capture rate of 20.4%
Absorption forecast 2014 - 2021 based on Historical Average absorption rate of 37.5%
Future development is assumed to roughly match demand

emp_gro_2013.xls

By using the market area absorption forecast from Table (21) and the building construction schedule from Table (19) an absorption estimate for the subject can be prepared and is shown in Table (22) below. This absorption estimate assumes that approximately 100,000 sq. ft. of Class "A" office space at Lakeline Station will break ground in 2016 and that building will capture a proportionate share of the leasing that occurs in 2017 when the building is completed. The absorption forecast further assumes that Champions Crossing is started in the fall of 2013 and is completed in 2014.

The capture rate for the subject is calculated from the average of the "proportional" market share and the "competitive" market share. The proportional capture rate is a mathematical calculation based on the total square footage assumed to be delivered in the Far Northwest market area, and the square footage delivered at Lakeline Station. The competitive market share is based on a CMR analysis of the subject site and product, in comparison with the other projects that will be delivered at the same time. The average capture rate is the average of the two forecasts, one based only on the square footage and the other, based on a more subjective evaluation of the competitive position of Lakeline Station.

Table (22)

Office Space Absorption Forecast 2013-2021

Far Northwest Market Area & Lakeline Station

Year	Subject Market Absorption	Subject Market Additions	Subject Office Additions	Proportional Capture Rate	Competitive Capture Rate	Subject Capture Rate	Lakeline Station Absorption
2013	317,821	0	.....	.....	.....	.....	.....
2014	771,975	220,600	.....	.....	.....	.....	.....
2015	896,930	500,000	.....	.....	.....	.....	.....
2016	825,193	800,000	.....	.....	.....	.....	.....
2017	637,026	700,000	100,000	14.3%	17.1%	15.7%	100,000
2018	491,492	500,000	.....	.....	.....	.....	.....
2019	431,108	500,000	.....	.....	.....	.....	.....
2020	444,348	400,000	.....	.....	.....	.....	.....
2021	424,052	400,000	.....	.....	.....	.....	.....
Total			100,000				100,000

Source:Capitol Market Research, July 2013 emp_gro_2013.xls

Conclusions for Office Use

The office market in Austin has experienced a gradual recovery since the world-wide financial crisis which caused citywide absorption to decline rapidly, beginning in 2007 and lasting through 2009. Citywide, the office occupancy rate has made a dramatic recovery from 77.1% in 2009, rising to 80.3% in 2010, and continuing that trend through the end of 2012, reaching 86.1%. Recently, rental rates also experienced a decline, from a high of $27.41 in 2008 to $24.19 at the end of 2011. Over the last 12 months, the average rents have steadily increased to $25.41 at the end of 2012. The available class "A" space is currently averaging $29.41 (gross) per square foot. The "sublease" market, which at one point contained over 3.3 million sq. ft. of space, has diminished to only 314,427 sq. ft. in December 2012.

As a result of the recent renewed strength in leasing activity, there is growing interest among developers to build new office space to accommodate the improving demand. But, only a few will be able to meet the equity requirements needed to build speculative space. The CBD has recovered faster, and currently there are two new office buildings under construction in the CBD and only one about to start construction in the Far Northwest market area. There are, in addition, a number of buildings planned for development when financing becomes available.

The Far Northwest market area has over 9.2 million sq. ft. of existing space at 84.0% occupancy in March 2013, and rental rates that average $27.04 per square foot. Class "A"' space in existing buildings average $27.96 per square foot (gross). This rental rate is up $1.76 since December 2011, when the average for class "A" space was $26.20, a 6.72% increase.

It is possible that one or more new suburban office buildings will start construction in 2013, and to maintain a "conservative" view of leasing prospects for the subject, we have included a construction start for the Champion Office Park and one building in the Paloma Ridge Office Park. Absorption estimates for the Far Northwest market area are over 500,000 square feet in 2016, a rate which will be strong enough to absorb the 100,000 square feet planned at the Lakeline Station.

The market risks to be considered in moving forward with this project include the possibility that several planned buildings are started in the Far Northwest market area in the next 24 months, or that absorption of the existing and planned office space does not occur as rapidly as anticipated. Never the less, Capitol Market Research is confident that the market demand will remain strong in Far Northwest Austin and that several of the planned projects will be delayed because of difficulty in obtaining financing.

RETAIL MARKET

Overview

The Austin multi-tenant retail market has shifted away from the traditional location and concentration of retail space in neighborhood shopping centers and large regional malls to a more diverse base that includes "power centers," "lifestyle centers," and off-price shopping. Approximately 14.9 million square feet of multi-tenant space have been added to the citywide inventory since 1995, an increase of 75.1%, and much of that space has been located near Lakeline Mall, in the MoPac corridor, at La Frontera in Round Rock and in Sunset Valley. As the city grows and expands outward, new retail nodes have developed at Hwy 183 at FM 1431, at Slaughter Lane and IH-35 South, in Bee Cave at Highway 71 and RM 620, and most recently at SH 45 and FM 685 in Pflugerville.

During the decade of the 1990s, gross retail sales for the Austin MSA increased dramatically, growing an average of 10.9% per year from 1991 to 2000. With the "dot.com" bust in 2001, gross retail sales dropped and more recently the growth rate has been a more modest 4.6% per year (2001-2006). However, with employment and population growth forecasted to be between 2% and 3% per year, the future prospects for retail development in Austin are encouraging.

The combination of rapid population growth and increases in disposable income has created a healthy demand for retail space in the Austin area. In addition, the national trend toward replacement of neighborhood retail stores and malls with "big box" outlet stores and "lifestyle centers" has generated a demand for new construction, even during the late eighties, and in 2001 and 2002 when the Austin economy was stagnant and there was little population growth.

Over the past decade, the practice of e-commerce—or online shopping—has grown at an astounding rate. Total sales across the United States increased 419% between 2000 and 2009, and are projected to steadily increase through at least 2017. E-commerce continues to outpace traditional retail growth, which has had ramifications for the "brick and mortar" retail market nationwide. While many cities have struggled to support their retail markets in light of both the economic downturn and the growing popularity of online shopping, Austin's retail market has remained strong. Austin's population growth of 37.3% between 2000 and 2010, and 6.9% between 2010 and 2012 alone, coupled with strong job growth that exceeds the state average, has resulted in the continued demand for new retail centers. The demand for downtown and suburban retail growth as a result of the population increase in the Austin MSA has offset the national trend toward online shopping. Austin's retail occupancy rates have consistently remained above 90%, and annual absorption has routinely exceeded 1 million square feet.

Current Market Conditions

Citywide occupancy increased slightly from December 2012, from 89.8% to 90.8% in June 2013. Average rents increased by $0.37 per square foot from $20.17 to $20.54 per square foot. Since 2008, there has been a stabilization of occupancy at or around 90%, while rental rates have continued to rise since 2010.

The June 2013 inventory of multi-tenant retail space in the Austin area included 40.8 million square feet evenly distributed among the four major types of retail centers. The regional malls, which include Lakeline, Barton Creek Square, Highland and Northcross Malls, Capital Plaza and The Domain, a 621,000 sq. ft. lifestyle center opened in the first half of 2007, account for almost 9.2 million square feet of retail space. Community and power centers (by definition) include at least one junior department or discount store and are concentrated on Highway 183, MoPac and IH-35. Neighborhood centers, usually anchored by a grocery store/drugstore combination, are distributed throughout the city among the various residential subdivisions. Strip centers, which by definition, have no "anchor" tenant, are found along every major thoroughfare in the city and surrounding suburban residential market.

Table (23)

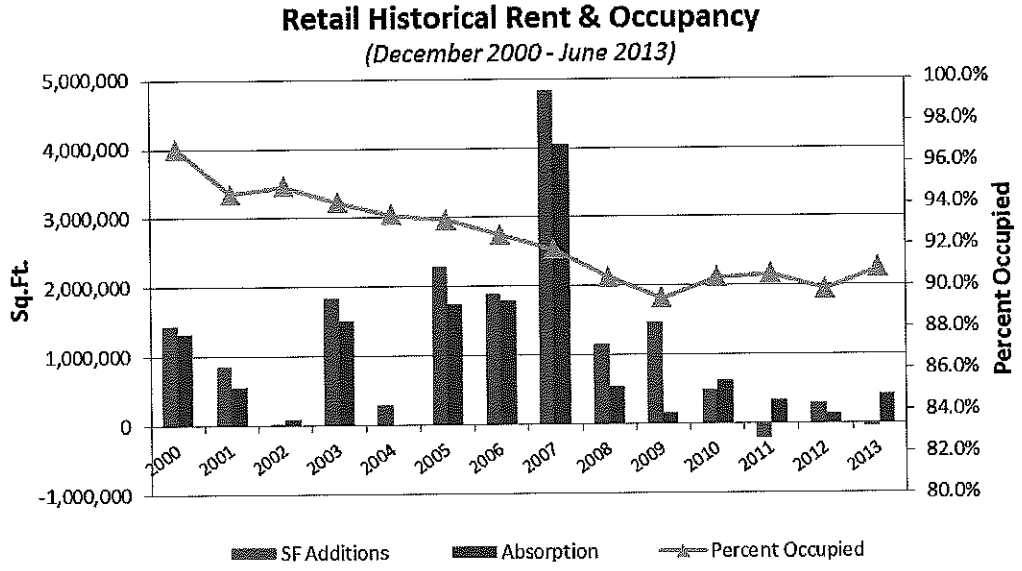
Retail Market Summary

Austin (December 2000 - June 2013)

Year	Total SF	Occupied SF	Percent Occupied	SF Additions	Absorption	Average Rent
2000	25,615,824	24,757,048	96.6%	1,454,209	1,324,776	$16.85
2001	26,476,299	25,014,511	94.5%	860,475	557,628	$16.00
2002	26,584,952	25,212,128	94.8%	21,000	94,045	$15.96
2003	28,536,372	26,847,571	94.1%	1,844,992	1,522,224	$16.22
2004	28,583,179	26,712,487	93.5%	301,804	2,937	$15.85
2005	30,874,435	28,773,109	93.2%	2,291,256	1,743,590	$17.87
2006	32,771,340	30,310,047	92.5%	1,896,905	1,795,741	$20.06
2007	37,611,194	34,520,864	91.8%	4,839,854	4,047,740	$22.41
2008	38,779,569	35,062,096	90.4%	1,168,375	542,351	$22.81
2009	40,258,726	35,984,670	89.4%	1,479,157	166,397	$19.75
2010	40,754,222	36,839,716	90.4%	495,496	628,544	$19.43
2011	40,550,682	36,722,398	90.6%	-203,540	342,990	$19.44
2012	40,839,470	36,675,163	89.8%	288,788	137,424	$20.17
2013	40,796,531	37,060,727	90.8%	-42,939	425,093	$20.54

Source: Capitol Market Research, Austin Area Retail Survey, December 2000 - June 2013

retail_sum_0613.xls



Far Northwest Retail Market Conditions

Overview

In July 2013, Capitol Market Research surveyed 62 multi-tenant retail centers in the Far Northwest retail trade area with a total of 7,043,408 square feet of net rentable area. Currently, the market area occupancy is 88.7%, which is up from December 2012 (85.3%). Average triple net rents are $19.06 per square foot, which is a 9.4% decrease from December 2012 when the rate was $21.04 per square foot.

New Construction

Out of the 62 retail center surveyed, 28 were built after 1999. Of the 7,043,408 total rentable square feet, 2,660,846 sq. ft. (37.8%) have been built (completed) since the beginning of 2000. There has been a great deal of new construction in this market area due to the growing population in Cedar Park and Leander and the rapid increase in traffic counts along Highway 183A (toll road) and the Texas 45 Toll Road. Over the last ten years, the area has seen many large "community" centers arrive, including (most recently) 1890 Ranch with 800,000 sq. ft. of retail space at the intersection of the 183A Toll Road and Ranch Rd. 1431. Two new projects, Lakeline Market and Cedar Park Retail, brought an additional 269,125 square feet to the market in 2012.

Occupancy

The market area occupancy in June 2013 was 88.7%, up 4.0% from December 2012 when it was 85.3% occupied. Currently there is approximately 796,479 sq. ft. of leasable space available among the 62 surveyed properties. Market area absorption for all of 2012 was a negative 100,649 square feet. However, the first six months of 2013 has seen a much higher positive absorption rate of 240,832 square feet. The occupancy increase in 2013 was largely a result of the "lease-up" and stabilization of the two projects that opened in 2012.

Average Rents

Average rents in the Far Northwest market area are currently $19.06 per sq. ft., which is a 9.4% decrease from December 2012. Market rents peaked in December 2012 at $21.04 per square feet. Overall, rents have remained relatively stable over the past decade. In general, new space is commanding higher than average rents while maintaining relatively high occupancy.

Market Outlook

The retail market in the Far Northwest has undergone significant expansion since 2000, with the addition of more than 2.6 million square feet. Newer shopping centers along major highways like 183A and SH-45 have created a significant regional "node" of retail activities which fosters very high occupancies and higher than average rents. There is currently 318,700 square feet under construction in the market area, Cedar Park Town Center Ph.I and the Wal-Mart Center Cedar Park, both due to open in 2014.

Table (24)

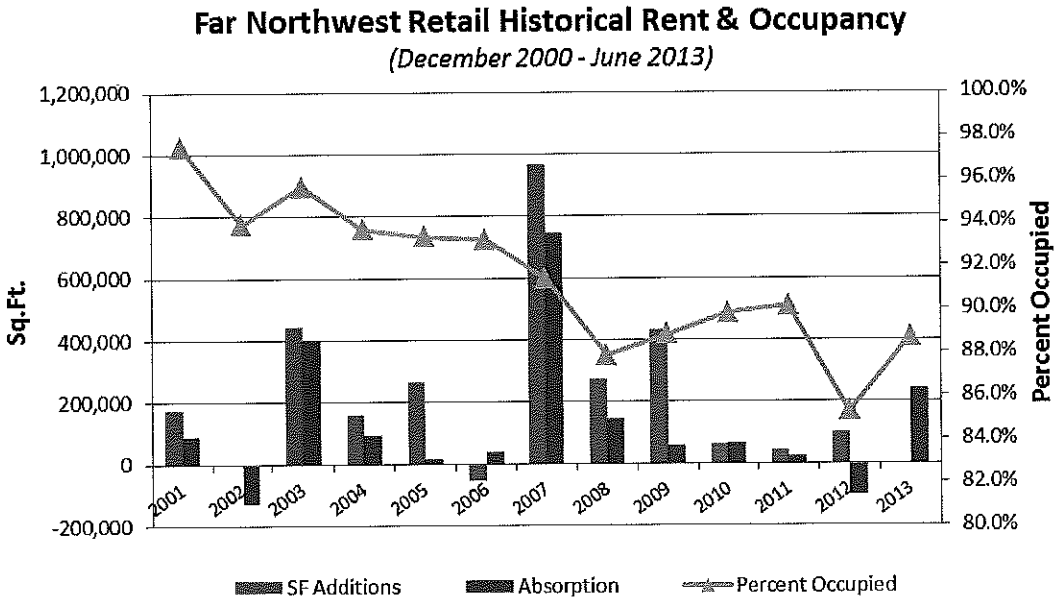
Retail Market Summary

Far Northwest Austin (December 2000 - June 2013)

Year	Total SF	Occupied SF	Percent Occupied	SF Additions	Absorption	Average Rent
2000	4,167,767	4,080,421	97.9%	...	...	$21.15
2001	4,342,029	4,231,978	97.5%	174,262	92,049	$16.64
2002	4,341,067	4,076,395	93.9%	-962	-129,529	$17.94
2003	4,786,660	4,578,716	95.7%	445,593	400,586	$19.34
2004	4,948,390	4,635,482	93.7%	161,730	93,448	$20.23
2005	5,216,032	4,868,372	93.3%	267,642	17,118	$17.71
2006	5,163,344	4,811,952	93.2%	-52,688	39,044	$19.88
2007	6,131,463	5,606,291	91.4%	968,119	743,908	$20.71
2008	6,403,736	5,626,639	87.9%	272,273	145,186	$20.79
2009	6,835,967	6,073,279	88.8%	432,231	60,558	$20.71
2010	6,897,369	6,195,465	89.8%	61,402	67,635	$18.43
2011	6,940,360	6,256,456	90.1%	42,991	22,365	$18.61
2012	7,043,408	6,006,097	85.3%	103,048	-100,647	$21.04
2013	7,043,408	6,246,929	88.7%	0	240,832	$19.06

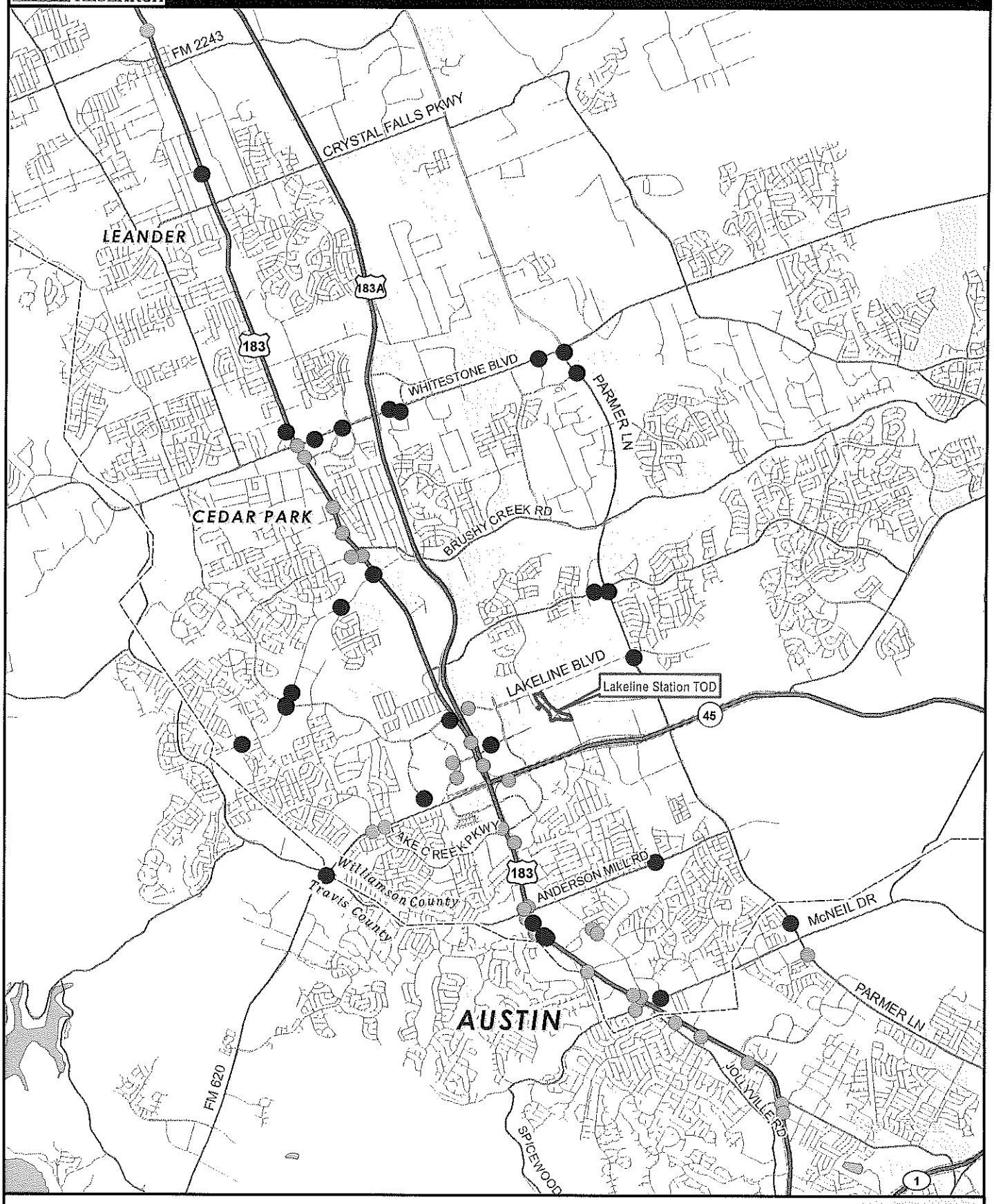
Source: Capitol Market Research, Austin Area Retail Survey, December 2000 - June 2013

retail_sum_0613.xls



CAPITOL MARKET RESEARCH

Far Northwest Market Area:
Retail Locations



Date: July 2013
Path: C:\GIS\Projects\2013\LakelineTOD\retail.mxd

N

0 0.5 1 Miles

Built before 2000

Built in 2000 & after

Retail Demand Projection Based on Market Area Growth

The demand for retail ***space*** is a function of the demand for retail goods and services, and growth in this demand is fundamentally based upon population increase and growth in disposable income. Thus, the two most important demographic components of demand are population growth and changes in the income of the market area households.

Given the location of the Lakeline Station in the Far Northwest Market Area and the anticipated increase in housing stock in the market area, it seems reasonable to expect more neighborhood serving restaurants and "specialty" retail to be developed near the station as apartments and office space is developed and leased in the area. The regional (MSA) growth in the inventory and relatively high occupancy rates for retail space noted earlier demonstrates a continuing and substantial need for more retail within the region, and with the current build-out of the Lakeline Mall employment "node" just beginning, it is likely that the Far Northwest Market Area (Lakeline Station) will capture a reasonable share of the projected growth.

Using a market demand and construction schedule established by the apartment demand forecasts, the station area "sub-market" households are expected to increase from 3,305 in 2010 to 5,134 in 2022, adding approximately 1,829 households. CMR estimates that total disposable income in the area will increase from $226 million in 2010 to $434 million in 2022 while individual household income in the area increases 23.6%. In addition, gross sales per square foot are expected to increase by 12.7% during the same period resulting in a net demand for new space in the sub-market of 227,256 sq. ft. over a 10-year period.

It is important to note that the calculations of retail demand shown above have isolated the local/neighborhood demand derived from household growth in the station area, from "regional" demand for retail at this location which results from the proximity to the interstate highway system (IH-35, Highway 183 and SH 45). It is not likely that all of this demand could be absorbed by the retail contemplated for the station, but the strong growth in aggregate demand indicates a positive prospect for leasing the ground floor retail space in the proposed TOD (currently contemplated to be 38,880 square feet).

Table (25)

Demand for Retail Space

Far Northwest Austin (Lakeline Station Area)

Year	Households	Average HH Income	Disposable Income	Consumer Expenditures	Gross Sales per Sq. Ft.	Demand for Retail Space	Annual Change
2010	3,305	$92,328	$226,112,297	$104,011,657	$322	323,018	...
2011	3,305	$93,971	$230,136,010	$105,862,565	$325	325,511	2,493
2012	3,305	$95,643	$234,231,327	$107,746,410	$328	328,023	2,512
2013	3,305	$97,345	$238,399,520	$109,663,779	$332	330,555	2,532
2014	3,630	$99,078	$266,502,284	$122,591,051	$335	365,862	35,307
2015	3,965	$100,841	$296,276,975	$136,287,408	$338	402,711	36,848
2016	3,965	$102,635	$301,549,283	$138,712,670	$342	405,819	3,108
2017	4,736	$104,462	$366,595,559	$168,633,957	$345	488,472	82,653
2018	5,134	$106,321	$404,475,079	$186,058,537	$349	533,608	45,137
2019	5,134	$108,213	$411,672,794	$189,369,485	$352	537,727	4,118
2020	5,134	$110,138	$418,998,594	$192,739,353	$356	541,877	4,150
2021	5,134	$112,098	$426,454,758	$196,169,189	$359	546,059	4,182
2022	5,134	$114,093	$434,043,606	$199,660,059	$363	550,274	4,214
Total							227,256

Source: Capitol Market Research, August 2013 New Retail Demand_lakeline.xls

(1) 2013 Households based on new construction of the Indigo Apartments (325 units)

(2) 2014 Households based on new construction of the Mansions at Lakeline (335 units)

(3) 2016 - 2017 based on construction of Presidio I and Lakeline TOD, a total of 1,169 units

(4) Average HH income increase based on HUD annual increases in Median HH Income for the Austin MSA 2000-2013 (1.78%)

(5) Disposable income is assumed to be 74.1% of total, based on 2008 Consumer Expenditure Survey

(6) Retail purchases are estimated to be 46.0% of disposable income

(7) Average retail purchases in 2010 based on retail mix of center types for Austin and ULI sales per SF from 2010

CONCLUSIONS AND RECOMMENDATIONS

Conclusions and Recommendations

The previous sections have established the market conditions in Austin and the Far Northwest market area, and provided an absorption estimate for the 20.74 acres at Lakeline Station. The uses contemplated for the proposed mixed-use development at the Lakeline MetroRail station include multi-family rental units, general purpose office space and ground floor retail. It is anticipated that Capital Metro would retain ownership of the land and enter into a joint venture partnership agreement or ground lease with a private sector development company who would build the vertical improvements.

Capital Metro has prepared a TOD conceptual plan for the land that it owns at the Lakeline Sataion. This concept plan shows the possibility of a very dense development that would include 748 apartment units, 38,880 square feet of retail and 32,400 square feet of office space in 15 buildings, most of which are 5 to 8 stories in height. The market analysis purposed by CMR shows a high level of demand for the contemplated uses and the potential to absorb more space than is planned for the TOD. However, it is also clear that this is a price sensitive market area and the TOD product type contemplated would be too expensive to build and lease at current market rates. In other words, the proposed TOD plan is not market justified at the present time.

Capitol Market Research suggests an alternative plan that will meet the market where it is today, while preserving the possibility of more dense development in the future. The concept propsed is to build a transitional use "urban lite" apartment product on a portion of the property, which could then be "folded" into a more dense mid-rise wrap or podium product as the market matures and rents rise. This "urban lite" product would be similar in appearance to the Lakeshore Pearl project recently completed on Shoreline Drive in Southeast Austin. The buildings would all be four or five story wood frame construction built above ground floor retail space with some tuck-under parking. The balance of the parking would be accommodated by surface parking lots. Within the next three to four years, the average rents in the market area will have increased to the point where a mid-rise product could be justified. A parking garage could then be built on a portion of the surface lot, thus releasing additional land for a more dense apartment community.

In a similar manner, a two-story, tilt wall office building could be constructed at the southern edge of the property served by a surface parking lot. In several years the lot could be converted to a parking garage and a larger, multi-story Class "A" office built on the lot where the tilt wall office would be built.

In summary, it is clear from the CMR market analysis that there is strong demand for multi-family, office, and retail development in the market area, at the subject site. It is also clear that the high density development envisioned for the TOD is not currently viable, but may be achieved through careful planning that initially allows for lower density development, followed by more intense land uses as the market matures.

APPENDIX

Certificate

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

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

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

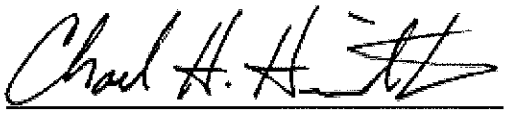
To the best of our knowledge and belief the statements of fact contained in this report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct.

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

Recognition is hereby given to Lindsey Fivecoat, Erin Roberts, Harris Hoover, Zane Collins and Emily Bachman for their assistance in the preparation of this report.
No one other than the undersigned prepared the analyses, conclusions and opinions concerning the real estate that are set forth in this report.

Respectfully submitted,

CAPITOL MARKET RESEARCH, INC.



Charles H. Heimsath, AICP
President

CHARLES H. HEIMSATH: QUALIFICATIONS

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

Since moving to Austin in February 1984, Mr. Heimsath has conducted or managed over 500 market research and feasibility projects covering a range of property types from residential and mixed-use subdivisions through office/warehouse and service center space to downtown office buildings. His work has also included population forecasting for several cities, consultation to the General Land Office, The University of Texas System, UT Austin, Texas State University and St. Edward's University.

EDUCATION

B.S. in Economics, University of Vermont, Burlington, Vermont; June 1972
M.S. in Community and Regional Planning, The University of Texas, Austin, Texas; August 1976
Post Graduate Studies, Rice University, Houston, Texas; 1980, 1981

PROFESSIONAL MEMBERSHIPS & CERTIFICATIONS

American Institute of Certified Planners, AICP
American Planning Association
Austin Real Estate Council, Former Boardmember
Texas Real Estate Broker #188355-13
Urban Land Institute, Austin Advisory Board Member
Downtown Austin Alliance, Boardmember, Policy Committee Chair

PROFESSIONAL EXPERIENCE

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

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

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

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

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