SAN ANTONIO DOWNTOWN HOUSING MARKET AND DEMAND ANALYSIS

SAN ANTONIO, TEXAS

PREPARED FOR:
THE DOWNTOWN ALLIANCE/
SAN ANTONIO

APRIL 2007

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Consulting

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April 16, 2007

Mr. Ben E. Brewer III
President
The Downtown Alliance - San Antonio
515 E. Houston Street, Suite 100
San Antonio, Texas 78205

Dear Mr. Brewer:

In accordance with our engagement letter dated June 13, 2006, we have completed our study of market rate housing in Downtown San Antonio, Texas.

The conclusions reached are based upon our present knowledge of the subject market resulting from our fieldwork completed November 10, 2006.

As in all studies of this type, estimated market potential presumes no significant change in the economic, demographic and market trends as set forth in this report. The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the subject residential supply and demand.

Our estimates of market rate residential demand potential are based upon an evaluation of the past, present and expected near term future level of the area's economy and make no provision for the effect of any sharp rise or decline in local or general economic conditions.

Although conscientiously prepared on the basis of information obtained during the course of this study and our experience in the industry, our estimates of residential market potential are based upon estimates and assumptions which are subject to uncertainty and variation and we do not present them as results that will actually be achieved.

This report is subject to the statement of assumptions and limiting conditions presented in the Addenda.
In addition, it is subject to the assumption that no natural disasters or acts of terrorism will have a material adverse effect on the national or local economy during the years projected in this report.

It is expressly understood that the scope of this study and report does not include the possible impact of local regulations, licensing, or other restrictions concerning residential development. It is expected that the developers of residential projects will plan and operate within the purview of all such legislative or other restrictions.

This report has been prepared primarily for your use and guidance in determining strategies for future downtown residential growth. As is customary in assignments of this nature, neither our name nor the material submitted may be included in any security prospectus or as part of any printed advertising material; or used in offerings or representations in connection with the sale of securities or participation interests to the general public.

We would be pleased to hear from you if we may be of further assistance in the interpretation and application of our findings and conclusions. We express our appreciation to you and your associates for the cooperation extended to us during the course of this assignment.

Sincerely,

PKF Consulting

Gregory C. Crown
Vice President

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MARKET AND DEMAND ANALYSIS

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SECTION I

EXECUTIVE SUMMARY

SCOPE

PKF Consulting was engaged to determine: (a) the expected level of growth for the San Antonio market area and what portion of this growth the Downtown area could reasonably be expected to capture; (b) what amenities and features are necessary to allow Downtown to capture a higher portion of demand and/or incrementally higher prices (value) than would otherwise be possible; and (c) the current economics of residential development in this market.

In preparing this study we completed the research and analysis listed below:

- Toured Downtown San Antonio and viewed its major residential developments.
- Interviewed key public and private sector contacts knowledgeable about the Downtown San Antonio residential market.
- Reviewed San Antonio economic and demographic data and that of selected other major Texas cities, including factors affecting the Downtown San Antonio residential market.
- Collected and analyzed data on supply of and demand for market rate residential development in San Antonio, selected major Texas cities, and other relevant US cities.
- Identified key issues affecting market rate residential development in Downtown San Antonio.
- Estimated Downtown market rate residential demand potential in San Antonio over the period 2007-2015.
- Analyzed the investment economics of such development.
- Quantified the investment impact and identified other impacts of such development.
- Identified government incentives/assistance that has been effectively used in other markets to spur private sector Downtown market rate residential development.
- Estimated development goals, including the critical mass necessary to support sought after retail in the Downtown area.

Several sources were used in compiling the data and preparing the analysis contained in this report. These sources included the following:

- Interviews of local residential developers, brokers, and government sources familiar with the downtown San Antonio residential market.

- Review of various market and statistical data provided by The Downtown Alliance.
- Review of case studies and other materials prepared by the Urban Land Institute and The Brookings Institution.
- Interviews with and review of data provided by public and private sector sources familiar with downtown residential development in Dallas, Fort Worth, Austin, and Houston.

CONCLUSIONS

- The San Antonio market is one of the five major metropolitan areas within the state of Texas. Among these five markets, San Antonio can be described as follows:
    - It has the lowest population density per square mile of the five major cities, is fourth in total MSA population and is most comparable in demographic parameters to Ft. Worth.
    - San Antonio has the lowest average and the third lowest median household income of the five cities.
    - Among its top ten employers, it has the largest concentration of public sector employment of the five cities, with 54% military, 6% government, 16% education and 5% medical.
    - It is fourth in total employment, third in available labor force over 16 years of age and fifth in percentage of residents with bachelor degree or higher education.
    - It has the second lowest unemployment rate and is third in total downtown employees.
    - It is fifth in available downtown office space and third in available downtown retail square footage.
    - It is third in total existing downtown apartment units and fourth in existing downtown condominiums.
    - It has the third lowest Cost-of-Living Index of the five cites.
- After demonstrating significant growth over the period 1990-2006, near term future economic/demographic growth is expected to be in the 2% to 3% per year range. Downtown San Antonio is the hub of area activity. Though diverse in terms of development, its major focus is its strong tourism and visitor market.

- To-date, both the Downtown San Antonio market rate apartment and condominium markets are relatively small in size and limited in product offerings.
- Historic levels of realized demand for both apartment and condominium units in Downtown San Antonio have been limited. We believe that among the significant factors limiting such realized demand has been the shortage of available quality supply in the marketplace, the large number of downtown buildings with historic designation, relatively low market rents, the relatively high cost of Downtown core real estate, and the size and nature of Downtown employment.
- Both the apartment and condominium markets in Downtown San Antonio are comparatively undeveloped versus those of other major Texas cities.
- The future addition of residential development in Downtown San Antonio is supportable by several concepts/trends in urban development and certain local market attributes. At the same time, several issues have limited the growth of such development to-date and may act to do so in the near term future.
- Estimates of the demand potential for market rate residential in Downtown San Antonio are presented in the following table:

Downtown San Antonio Market Rate Residential Demand 2007 - 2015		
	Rental	**Purchase**
Units	1,600 - 2,000	1,000 - 1,200
Typical Project Size	100 - 250	50 - 150
Efficiency	10 -15%	0
One Bedroom	50 - 60%	30 - 40%
Two Bedroom	25 - 35%	50 - 60%
Three Bedroom	0	5 - 10%
Pricing/SF (2007$)	$1.25 - $1.45	$250 - $400

These estimates represent Downtown market rate residential demand potential. They do not include demand potential realized at nearby locations, such as the Pearl Brewery project. The goals for development should exceed these levels, with the acknowledgement that actual development could likewise exceed these estimates.

- The shortfall that exists between the rental rates required to yield an acceptable return on investment and the rental rates currently being achieved in the Downtown marketplace is approximately $0.24 to $0.65 per square foot per month. For example, given market rental rates of $1.10/SF per month, a typical project of 150 units, 800 square feet per unit, and a low-rise development cost of ($125/SF), this shortfall can be quantified as approximately $302,000 per year in required additional revenue:

($0.21 rent shortfall x 800sf x 150 units x 12 months = $302,400)

Alternatively, if front end development cost were reduced by $3,600,000 the investment in the project could be justified at current market rent levels. In fact, we expect the potential gap will be bridged by a combination of higher rents (owing to better quality product in a marketplace with more critical mass and resultant demand) and certain incentives provided by the public sector that reduce effective development costs.

- Enhancement of a community's quality of life translates into both economic competitiveness and sustained growth. A contemporary definition of community quality of life has among its key elements quality housing and lifestyle choices within the context of a healthy mixed-use central city context. A pedestrian urban environment enhances the quality of life which translates into enhanced commerce in the Downtown trade area and a produces a more attractive business environment for office and other commercial development.
- The participation of the public sector in providing incentives and support to the private sector in the development of Downtown residential projects has been occurring in earnest for 5-15 years in many cities. The City of San Antonio, Bexar County and other taxing authorities have participated in such efforts on a number of occasions in the past and will need to continue their participation through additional public improvement projects and assistance for private projects in order to maximize the growth of the Downtown residential community. Continued public sector involvement through the provision of incentives is both necessary and prudent in order to insure significant additional market rate residential development – an important component of the desired ongoing revitalization of Downtown.
- Public sector commitment is critical from both an economic standpoint and to create a positive perception – so that developers, lenders, and residents will continue to expand their commitment to market rate housing in the Downtown area versus the suburbs.
- Within the defined San Antonio Downtown market context, we would expect that a residential population of 10,000 (implying approximately 7,000 residential units) would be necessary to justify the development and profitable operation of sought after retail such as a grocery store in the Downtown market.

SECTION II

MARKET OVERVIEW

Economic and demographic data and various attributes of an area's market are important determinants of residential demand. A comparison of certain San Antonio economic and demographic data with that of other major Texas cities provides perspective in understanding the San Antonio marketplace.

POPULATION

A comparison of population data among five major Texas metropolitan areas is presented in the following table:

MSA Population (000's)					
City	**1990**	**2000**	**2005**	**2006**	**2010**
San Antonio					
MSA	1,327	1,719	1,890	1,932	2,092
% Growth		29.54%	9.95%	2.22%	8.28%
Fort Worth					
MSA	1,368	1,721	1,923	1,965	2,135
% Growth		25.80%	11.74%	2.18%	8.65%
Austin					
MSA	851	1,264	1,451	1,496	1,675
% Growth		48.53%	14.79%	3.10%	11.97%
Dallas					
MSA	2,690	3,475	3,885	3,974	4,309
% Growth		29.18%	11.80%	2.29%	8.43%
Houston					
MSA	3,342	4,741	5,280	5,406	5,829
% Growth		41.86%	11.37%	2.39%	7.82%
Source: Moody's Economy.com					

- San Antonio is currently the fourth largest among these metropolitan areas, most comparable in population to Ft. Worth.
- The MSA populations of Dallas and Houston are currently 2.1 and 2.8 times that of the San Antonio MSA, respectively.
- Annual future population growth is expected to average in the 1.9 – 2.8 range in all five Texas cities.
- Prior to 2006 Dallas and Fort Worth were the fasted growing cities of the five studied. Looking forward Austin's growth is projected to outpace the other four cities in the near term.
- Near term population growth is expected to be down from levels experienced in the 2000 – 2005 period.

City Only Total Population*		
	2000	2005
San Antonio	1,144,646	1,202,223
Fort Worth	534,694	604,538
Austin	656,562	678,457
Dallas	1,188,580	1,144,946
Houston	1,953,631	1,941,430
*Only City residents		
Source:U.S Census		

- In City-Only population San Antonio is ranked number two behind Houston – followed by Dallas, Austin and Fort Worth.
- In the 2000 - 2005 period both Houston and Dallas lost population (1% and 4%, respectively) as people continued to move to the suburbs. Austin, San Antonio and Fort Worth city-only population grew as people returned to the core areas (3%, 5% and 13% growth, respectively).

Persons over 65 Years of Age*		
City	Population	Percentage of Total Pop
San Antonio	118,112	9.8%
Fort Worth	51,274	8.5%
Austin	45,114	6.6%
Dallas	99,447	8.7%
Houston	162,219	8.4%
*Only City residents		
Source:U.S Census		

- San Antonio is a very popular area for retirees. San Antonio population over 65 represents 9.8% of the total, ranking first by percentage of total population among the five selected Texas cities and second by total number.

HOUSEHOLD INCOME

A comparison of average household income among the five selected major Texas metropolitan areas is presented in the following table:

Average Household Income*		
City	2000	2005
San Antonio	$49,357	$58,274
Austin	$61,039	$68,191
DFW	$62,783	$67,356
Houston	$60,499	$65,803
*MSA		
Source:U.S Census		

- The San Antonio MSA Average Household Income is the lowest among these metropolitan areas, approximately 11% lower than Houston, 13% lower than Dallas/Ft. Worth and 15% lower that Austin.
- San Antonio MSA average income growth 2000 v. 2005 showed the largest growth of the four MSA's at 18%, followed by Austin at 12%, Houston at 9% and Dallas/Ft. Worth at 7%.

Average Household Income*		
City	**2000**	**2005**
San Antonio	$46,760	$52,589
Fort Worth	$49,235	$55,574
Austin	$55,754	$60,700
Dallas	$56,647	$58,059
Houston	$53,217	$56,026
*Only City residents		
Source:U.S Census		

- The City-Only Average Household Income of San Antonio ranked fourth, behind Fort Worth by approximately 5%, Houston by 6%, Dallas by 9% and Austin by 13%.
- Comparing MSA to City-Only Average Household Income. San Antonio had an approximate 10% drop due to the amount of population living in the more affluent suburbs. Reductions in the other cities were 11% in Austin, 14% in Dallas, 15% in Houston, and 17% in Fort Worth.

Median Household Income*		
City	**2000**	**2005**
San Antonio	$36,214	$40,186
Austin	$42,689	$43,731
Ft. Worth	$37,074	$40,663
Dallas	$37,628	$36,403
Houston	$36,616	$36,894
*City Only		
Source:U.S Census		

- San Antonio's City-Only Median Household Income ranked third highest of the five cities, followed by Houston and Dallas. Austin ranked first and Fort Worth ranked second.
- Median City-Only Household Income in San Antonio is 10% higher than Dallas, 9% higher than Houston, 1% lower than Fort Worth and 8% lower than Austin.

EMPLOYMENT

Major employers in each of the five selected major Texas metropolitan areas are presented in the following tables:

San Antonio - Top Ten Employers		
Employer	**Sector**	**# of Employees**
Lackland Air Force Base 12-31-05	Military	45,358
Fort Sam Houston 9-13-06	Military	25,018
Randolph Air Force Base 9-13-06	Military	15,492
USAA	Insurance	14,955
H-E-B Food Stores	Grocery	14,600
Northside I.S.D.	Education	10,000
City of San Antonio	Government	9,813
San Antonio I.S.D.	Education	8,000
North East I.S.D.	Education	7,847
Methodist Healthcare System	Medical	7,200
	Total	**158,283**
Source: San Antonio Economic Development Foundation, June 2005		

- 54% military, 6% government, 16% education, 5% medical and 19% other private sector

Austin - Top Ten Employers		
Employer	**Sector**	**# of Employees**
State of Texas 2004	Government	66,600
Dell Computer Corporation	Manufacturing	24,600
University of Texas at Austin	Education	13,577
Austin I.S.D.	Education	10,714
Federal Government 2004	Government	10,200
City of Austin	Government	10,000
Seton Healthcare Network	Medical	7,393
IBM Corporation	Manufacturing	6,200
Freescale Semiconductor	Manufacturing	5,600
St. David's Healthcare Partnership	Medical	5,048
	Total	**159,932**
Source: Greater Austin Chamber of Commerce 2005		

- 54% government, 15% education, 8% medical and 23% other private sector

Fort Worth - Top Ten Employers		
Employer	**Sector**	**# of Employees**
American Airlines	Airline	28,492
Lockheed Martin Aeronautics Co.	Aircraft	15,000
Fort Worth ISD	Education	10,389
Bell Helicopter - Textron, Inc.	Aircraft	6,000
City of Fort Worth	Government	5,750
Tarrant County	Government	4,050
Chase	Finacial Services	4,000
Cook Children's Medical Center	Medical	3,800
Harris Methodist Hospital	Medical	3,789
BNSF Railway	Transportation	3,500
	Total	**84,770**
Source: Fort Worth Chamber of Commerce, February 2006		

- 12% government, 12% education, 9% medical and 67% other private sector

Dallas - Top Ten Employers		
Employer	**Sector**	**# of Employees**
Dallas I.S.D.	Education	19,359
Texas Instruments Inc	Technology	12,350
City of Dallas	Government	9,364
UT Southwestern Med Systems	Medical	9,000
TXU Corporation	Energy	7,615
Parkland Memorial Hospital	Medical	6,857
United Parcel Service, Inc.	Shipping	6,100
Southwest Airlines	Transportation	5,452
Presbyterian Hospital - Dallas	Medical	5,360
U. S. Postal Service	Government	5,315
	Total	**86,772**
Source: City of Dallas Economic Development, November 2006		

- 17% government, 22% education, 25% medical and 36% other private sector

Houston - Top Ten Employers		
Employer	**Sector**	**# of Employees**
Houston I.S.D.	Education	29,505
Wal-Mart Stores, Inc.	Retail	25,450
City of Houston	Government	21,837
Continental Airlines	Airline	19,627
Adminstaff	Employer Services	16,668
Memorial Hermann Healthcare	Medical	16,445
Exxon Mobil Corp	Energy Services	16,321
University of Texas M.D. Anderson Cancer	Medical	14,437
Halliburton	Oil and Gas	12,395
Kroger	Grocery	12,287
	Total	**184,972**
Source: Houston Chronicle May 2005 and individual employers		

- 12% government, 16% education, 17% medical and 55% other private sector
- San Antonio and Austin have the lowest percentages of other private sector employers of the five cities due to the large amount of military and government employment located within the city limits.
- San Antonio has the smallest amount of other private sector employment of the five cites at 19%, followed by Austin at 23%, Dallas at 55%, Houston at 56% and Fort Worth at 68%. This high concentration of public castor employment has advantages in stability, but creates challenges in appropriating funds for public projects without raising tax burdens.

Total employment in the five selected metro areas is presented in the following table.

Total Employment (000's)					
City	**1990**	**2000**	**2005**	**2006**	**2010**
San Antonio					
MSA	689	745	780	795	886
% Growth		8.13%	4.70%	1.92%	11.45%
Fort Worth					
MSA	743	796	813	839	924
% Growth		7.13%	2.14%	3.20%	10.13%
Austin					
MSA	507	673	693	720	836
% Growth		32.74%	2.97%	3.90%	16.11%
Dallas					
MSA	1,773	1,967	1,951	2,020	2,224
% Growth		10.94%	-0.81%	3.45%	10.10%
Houston					
MSA	1,981	2,255	2,350	2,408	2,615
% Growth		13.83%	4.21%	2.47%	8.60%
Source: Moody's Economy.com					

- 2006 MSA employment shows Houston has the largest base of employed persons, followed by Dallas, Fort Worth, San Antonio and Austin.
- San Antonio has the lowest percentage of its total MSA population employed at 41%, followed by Fort Worth at 43%, Houston at 45%, Austin at 48%, and Dallas at 51%.

Labor Force over 16 yrs*		
City	2000	2005
San Antonio	534,558	584,082
Fort Worth	256,942	307,120
Austin	376,704	390,775
Dallas	588,623	599,665
Houston	931,236	991,540
*Only City residents		
Source:U.S Census		

- Considering the City-Only, San Antonio has the lowest percentage of potential work force over 16 years of age at 49%, while Fort Worth and Houston have 51%, Dallas has 52% and Austin has 58%.
- City-Only, San Antonio has the third largest potential work force of the five cities. Houston's work force is 70% larger; Dallas' work force is 3% larger; while Austin is 33% smaller and Fort Worth is 47% smaller.
- The City-Only workforce of San Antonio has grown 9% in the last five years, while Dallas has grown 2%, Austin 4%, Houston 6% and Fort Worth 20%.

Bachelor Degrees or Higher*		
City	2000	2005
San Antonio	21.6%	23.4%
Fort Worth	22.3%	25.2%
Austin	40.4%	44.5%
Dallas	27.7%	28.3%
Houston	27.0%	27.8%
*Only City residents		
Source:U.S Census		

- Austin has the highest number of residents with bachelor degree or higher education, followed by Dallas, Houston, Fort Worth and San Antonio.
- The biggest growth in degreed residents between 2000 and 2005 was Fort Worth at 13%, followed by Austin at 10%, San Antonio at 8%, Houston at 3% and Dallas at 2%.

Unemployment Rate				
San Antonio	2000	2005	2006	2010
MSA	4.0%	4.9%	4.7%	4.3%
Fort Worth				
MSA	3.6%	5.1%	4.8%	4.4%
Austin				
MSA	3.1%	4.4%	4.2%	3.6%
Dallas				
MSA	3.6%	5.3%	4.9%	4.5%
Houston				
MSA	11.5%	7.8%	8.2%	7.1%
Source: Moody's Economy.com				

- Austin has the lowest 2006 unemployment rate at 4.2%, followed by San Antonio at 4.7%, Fort Worth at 4.8%, Dallas at 4.9% and Houston at 8.2%. Projections for 2010 indicate the unemployment rates in all five cities are expected to decrease.

DOWNTOWN SAN ANTONIO

Downtown San Antonio is the geographic, economic, tourism, government and cultural center of the San Antonio metropolitan area. The Downtown market can be further characterized by its estimated employment, shown in the following table.

Downtown Employment					
	San Antonio	**Austin**	**Fort Worth**	**Dallas**	**Houston**
2005	70,000	67,000	47,563	135,000	145,318
Source: Downtown Associations					

- Houston has the largest number of downtown employees, followed by Dallas, San Antonio, Austin and Fort Worth.
- 12% of San Antonio’s City-Only work force works downtown, compared to 15% in Houston, 16% in Fort Worth, 17% in Austin, and 23% in Dallas.
- Relative to the MSA, 9% of the MSA work force in San Antonio and Austin work downtown, compared to 6% in Fort Worth and Houston and 7% in Dallas.

Total Employment from Center of Downtown in One, Two and Three Mile Radius															
	San Antonio			Austin			Fort Worth			Dallas			Houston		
Business Descriptions	**One Mile**	**Two Miles**	**Three Miles**	**One Mile**	**Two Miles**	**Three Miles**	**One Mile**	**Two Miles**	**Three Miles**	**One Mile**	**Two Miles**	**Three Miles**	**One Mile**	**Two Miles**	**Three Miles**
All Industries	**71,777**	**107,801**	**135,109**	**89,109**	**123,188**	**172,128**	**48,264**	**99,817**	**128,971**	**105,657**	**191,130**	**255,157**	**152,524**	**204,880**	**266,983**
Private Sector	53,107	78,932	98,490	47,820	72,199	113,605	38,306	85,624	109,920	92,775	171,651	227,534	125,107	171,177	212,544
Government and Non-Profit	18,670	28,869	36,619	41,199	50,989	58,523	9,958	14,193	19,501	12,882	19,479	27,623	27,417	33,703	54,439
Agriculture	105	256	720	157	381	951	112	285	431	189	705	914	130	616	860
Mining	48	70	92	112	135	247	1,992	2,149	2,271	1,328	1,778	2,066	13,574	14,167	14,311
Construction	803	2,523	3,624	1,366	2,136	3,478	1,112	2,335	4,629	3,525	5,373	6,790	5,985	10,295	12,947
Manufacturing	2,600	6,604	1,662	2,188	3,655	5,731	4,524	9,085	12,734	2,215	10,957	17,367	9,766	15,624	19,939
Transp, Comm, Public Utilities	2,285	4,305	6,495	1,503	3,072	5,842	1,238	2,919	3,605	11,654	16,953	20,751	19,495	21,854	24,082
Wholesale Trade	1,272	3,534	5,019	891	1,414	2,867	755	2,526	4,296	1,763	5,554	10,669	6,657	9,812	12,697
Retail	12,696	19,079	22,882	10,592	17,363	28,214	7,279	12,382	18,911	8,566	18,739	31,915	15,840	24,058	34,021
Finance	5,162	6,493	7,546	5,502	7,791	12,327	7,490	10,010	11,550	17,555	24,134	29,007	15,939	20,695	23,268
Services	38,971	54,033	68,155	36,343	55,468	79,276	16,960	50,542	61,965	49,786	96,488	122,972	45,560	67,307	103,297
Public Administration	7,835	11,904	12,914	30,365	31,773	33,195	6,802	7,584	8,579	9,076	10,449	12,706	19,578	20,452	21,561
Population	**8,305**	**57,538**	**143,694**	**9,462**	**65,260**	**146,309**	**9,047**	**26,705**	**79,464**	**15,712**	**45,098**	**146,389**	**18,506**	**67,261**	**160,897**
Residential Pop per Business	3	10	18	2	8	12	3	5	10	3	5	10	3	8	12
Households	3,530	19,273	47,110	3,729	26,258	62,470	2,423	8,285	27,046	3,029	16,180	52,994	4,002	23,207	61,387
Households per Business	1	3	6	1	3	5	1	2	3	1	2	3	1	3	5
Source: Claritas, Inc.															

- San Antonio ranks fourth in total employment within one mile of the center point of downtown. Houston is first with 152,524, followed by Dallas with 105,657, Austin 89,109, San Antonio 71,777 and Fort Worth 48,264.
- San Antonio ranks third in private sector employment within one mile of the center point of downtown. Houston is first with 125,107, followed by Dallas 92,775, San Antonio 53,107, Austin 47,820 and Fort Worth 38,306.
- San Antonio ranks fifth in population within one mile of the center point of downtown. Houston is first with 18,506, followed by Dallas 15,712, Austin 9,462, Fort Worth 9,047 and San Antonio 8,305.
- San Antonio ranks third in households within one mile of the center point of downtown. Houston is first with 4,002, followed by Austin 3,729, San Antonio 3,530, Dallas 3,029 and Fort Worth 2,423.
- San Antonio ranks fourth in total employment within three miles of the center point of downtown. Houston is first with 266,983, followed by Dallas with 255,157, Austin 172,128, San Antonio 135,109 and Fort Worth 128,971.
- San Antonio ranks fifth in private sector employment within three miles of the center point of downtown. Dallas is first with 227,534, followed by Houston 212,544, Austin 113,605, Fort Worth 109,920 and San Antonio 98,490.
- San Antonio ranks fourth in population within three miles of the center point of downtown. Houston is first with 160,897, followed by Dallas 146,389, Austin 146,309, San Antonio 143,694 and Fort Worth 79,464.

- San Antonio ranks fourth in households within one mile of the center point of downtown. Austin is first with 62,470, followed by Houston 61,387, Dallas 52,994, San Antonio 47,110 and Fort Worth 27,046.

Downtown Office Space					
	San Antonio 3rd Qtr 2006	**Austin** 3rd QTR 2006	**Fort Worth** 3rd QTR 2006	**Dallas** 3rd OTR 2006	**Houston** 3rd QTR 2006
All Classes					
Inventory	5,167,791	8,710,699	10,365,604	30,838,771	42,300,628
Available	1,003,774	1,824,862	369,994	6,324,371	7,235,766
% Vacant	19.4%	18.8%	4.1%	22.0%	17.1%
Average Rent	$18.39	$24.20	16.15	$18.33	$21.29
YTD Absorption	38,778	130,621	(36,443)	(58,000)	407,880
Class A					
Inventory	1,990,010	5,554,984	5,558,440	21,656,171	28,823,263
Available	340,536	1,061,002	59,058	4,005,864	4,698,192
% Vacant	17.1%	19.1%	1.1%	18.5%	16.3%
Average Rent	$21.29	$27.91	$20.85	$20.39	$22.69
YTD Absorption	31,466		0	(187,378)	475,075
Class B					
Inventory	2,424,670	2,741,385	3,345,982	5,196,213	11,093,708
Available	429,789	689,861	259,150	1,789,910	1,307,045
% Vacant	17.7%	25.2%	7.8%	34.5%	11.8%
Average Rent	$16.40	$19.60	$15.75	$16.02	$18.21
YTD Absorption	10,599		(29,654)	(25,719)	(93,483)
Class C					
Inventory	753,111	414,330	1,461,182	3,986,387	2,383,657
Available	233,449	73,999	51,786	528,597	1,230,529
% Vacant	31.00%	17.90%	3.54%	13.26%	51.62%
Average Rent	$17.12	$15.80	$12.55	$15.40	$13.74
YTD Absorption	(3,287)		(6,789)	(14,768)	26,288
Source: REOC Partners/Capital Markets Research/CB Richard Ellis					

- Available office space in downtown San Antonio totals 5.17 million square feet – ranking San Antonio the fifth largest office market of the five cities, with the second highest vacancy rate.
- San Antonio ranked third in average rental rate at $18.39, due to the large amount of Class B and C office space. Total mix is 38.5% Class A, 47% Class B and 14.5% Class C.
- Austin ranked first with an average rental rate of $24.20, with at total mix of 64% Class A, 31% Class B and 5% Class C.
- Houston ranked second in average rental rate, with a total mix of 68% Class A, 26% Class B and 6% Class C.
- Dallas ranked fourth in average rental rate, with a total mix of 70% Class A, 17% Class B and 13% Class C.

- Fort Worth ranked fifth in average rental rate, with a total mix of 54% Class A, 32% Class B and 14% Class C.

RETAIL

City-wide Retail Market					
	San Antonio	**Austin**	**Fort Worth**	**Dallas**	**Houston**
Net Rentable Area	36,741,317	18,763,591	47,977,540	108,108,045	139,380,596
Vacant Sq. Ft.	4,082,373	151,985	5,421,462	10,270,264	20,349,567
Occupancy	88.9%	92.9%	8870.0%	90.5%	85.4%
Average Lease Rate	$15.98	$19.38	$13.32	$15.29	$20.68
Absorption	384,419	(76,498)	108,034	2,081,956	323,168
Source: REOC Partners, Ltd./ Real Estate Center at Texas A&M University, Overview 2006					

- San Antonio ranks fourth in City-Wide net rentable retail. Austin has approximately one-half the retail of San Antonio, while Fort Worth has 30% more, Dallas has 2.9 times as much and Houston has 3.8 times as much.

Downtown Retail Market					
	San Antonio	**Austin**	**Fort Worth**	**Dallas**	**Houston**
Net Rentable Area	1,234,535	593,563	765,247	1,300,922	2,454,387
Vacant Sq. Ft.	77,952	11,278	26,955	82,631	866,257
Occupancy	93.7%	98.1%	96.5%	93.6%	64.7%
Average Lease Rate	$25.51	$20.40	$25.76	$15.90	$25.16
Absorption	15,766	(3,000)	2,029	(7,372)	(40,502)
Source: REOC Partners, Ltd./ Real Estate Center at Texas A&M University, Overview 2006					

- In Downtown net rentable retail San Antonio ranks third. Austin has half as much, while Forth Worth has 60% as much. Dallas has 5% more and Houston has almost twice as much.

HOTELS

- City-wide there are approximately 30,000 hotel rooms in San Antonio, with another 850 rooms planned to open by the end of 2006 or in the first quarter of 2007.
- Another 450 rooms are expected to open sometime in 2007 and 1,200 rooms are planned to open in 2008. There are approximately 11,300 rooms currently in the Downtown market. Almost 1,800 additional rooms will be added to the Downtown market by 2008, including the 1,000 room Convention Center hotel, scheduled to open in 2008.

- Downtown San Antonio offers a major convention and tourism market, achieving among the highest occupancy and average daily rate parameters of any urban market in the state.
- Other significant attributes of the Downtown market include the following:
    - Riverwalk & San Antonio River Improvements Project
    - Convention Center
    - City, County and Federal offices
    - Retail
    - Restaurants
    - Hospitals
    - UTSA
    - Several public and private schools
    - Alamodome and Sunset Station
    - Cultural Attractions (Alamo, Museums, Theaters)

A relatively small residential community is also present in Downtown San Antonio, including market rate, income eligible and subsidized elements.

CONCLUSION

A summary of selected economic factors is presented below.

Economic Factors - Comparison by City

	San Antonio	Austin	Fort Worth	Dallas	Houston
Land Area	7,340.45 sq. miles	4,224 sq. miles	2,917.96 sq. miles	6,185.83 sq. miles	8,926.23 sq. miles
Population Density (2000) (1)	233.2 persons/sq. mile	295.9 persons/sq. mile	583 persons/sq. mile	568.9 persons/sq. mile	528.3 persons/sq. mile
Population Change 1995 thru 2005 (1)	20.40%	40.80%	29.3% DFW MSA		0.2
Average Household Size (2000) (1)	2.78	2.57	2.68	2.7	2.82
Population Younger than 18 (1)	28.30%	25.40%	28.00%	28.00%	29.20%
Population over 65 (1)	10.70%	7.30%	8.80%	7.70%	7.40%
2005 Median-Price Home	$131,100	$161,300	$112,100	$154,900	$141,200
Median Family Income (1)	$50,500	$67,300	$62,700	$65,100	$61,000
Housing Affordability Index	1.63	1.80	2.43	1.83	1.87

1. Numbers are based on MSA totals for City. 2.The HAI is the ratio of the median family income to the income required to buy the median-priced house using standard mortgage financing at the current interest rate. Current financing is a fixed 30-year loan covering 80 percent of the cost of the home. A HAI of 1.00 indicates that the median family income is exactly equal to the required income to quailify for the standard loan purchase on a median-priced house.

Source: Real Estate Center at Texas A&M University and ACCRA

The San Antonio market is one of the five major metropolitan areas in the state. Within Texas, it is most comparable in economic/demographic parameters to Ft. Worth. Near term economic/demographic growth is expected to be somewhat lower than in the period 2002 - 2006.

The core area of Downtown San Antonio has historically seen the focus of development efforts in the convention/tourism market, which is expected to continue in the future. At the same time, however, other commercial and residential development opportunities deserve emphasis, particularly in the areas around the core.

Increased employment, retail and residential opportunities will stimulate growth and diversity in walking-oriented urban lifestyle communities throughout the Downtown area.

SECTION III

DOWNTOWN MARKET RATE

RESIDENTIAL SUPPLY

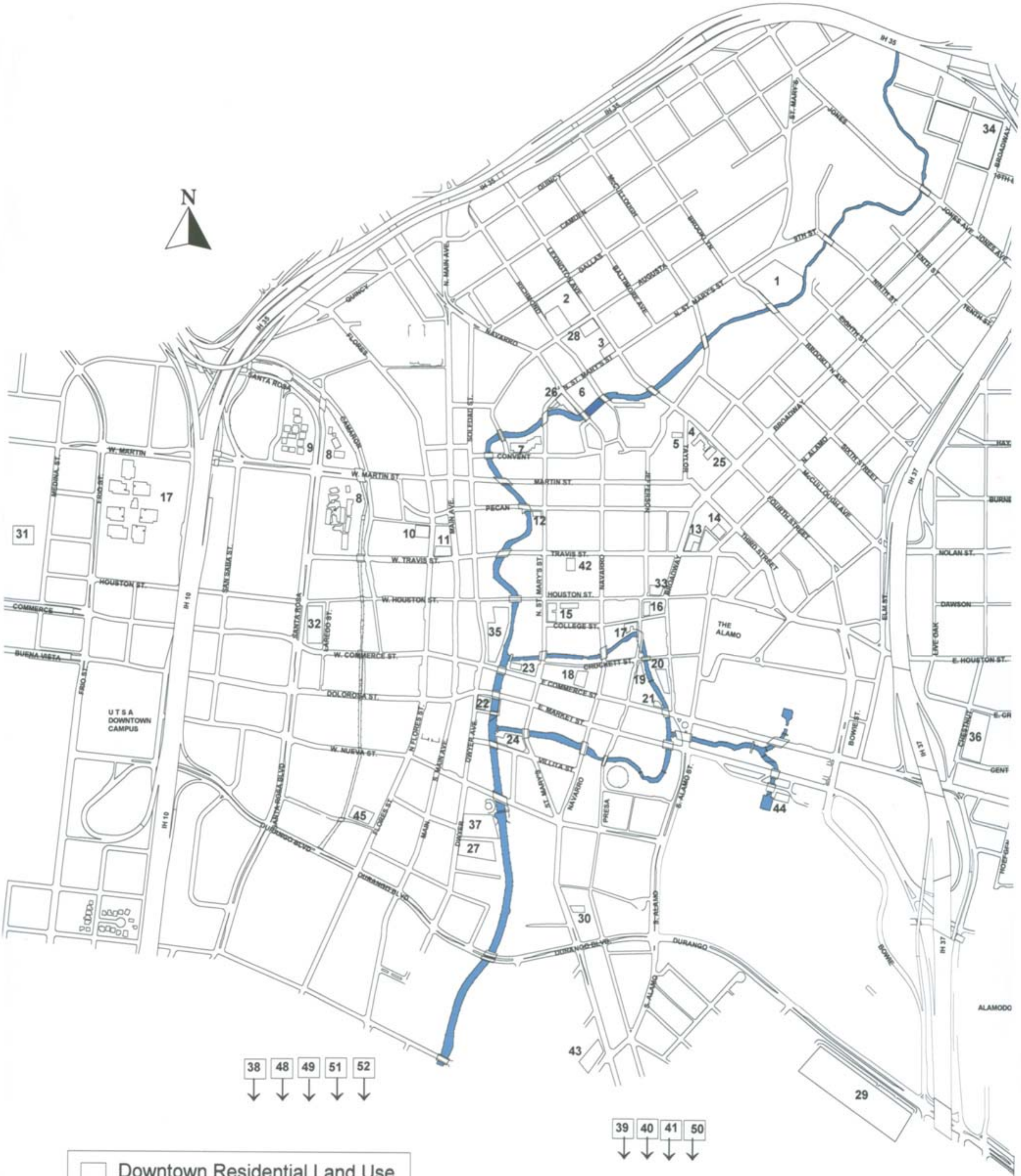
PKF Consulting

For the purposes of this analysis the borders of the Downtown market area have been defined as follows:

North – IH 35
East – East Walnut Street right-of-way east of IH 37
South – S. Alamo / Probandt
West – Frio Street west of IH 10/IH 35

RENTAL MARKET

The current and proposed Downtown San Antonio apartment supply is presented in the following table:



Downtown Residential Land Use
The Downtown Alliance

Downtown San Antonio Residential Rental Properties				
Map Code	Name	#of Units	Yr. Built	Comments
	Existing			
2	Cadillac Lofts	153	1999	Adapted use & new
3	Oakland Arms	18	1968	First floor retail
4	Metro House	41	1968	Transitional housing
5	Toltec Apartments	14	2000	Remodeled
8	Soap Works Apartments	261	1978/82	Suburban design
9	Towne Center Apartments	120	1976	Suburban design
10	Villa Hermosa	63	1971	Elderly/income criteria
11	Robert E. Lee Apartments	70	1997	Elderly/income criteria
12	Exchange Building	40	1994	Historic building
13	Calcasieu Building Apartments	64	1998	All income criteria
14	Marie McGuire Apartments	65	1980	Elderly/income criteria
15	Majestic Towers/Brady Bldg. Apts.	98	1994	Mixed-use
16	Maverick Apartments	90	1999	83% w/income criteria
17	Palacio del Sol	90	2005	Elderly/income criteria
18	235 E. Commerce Apartments	5	1979	Remodeled
19	Casino Club Building Apartments	39	1979	Along River
20	Loyosa Building	1	1979	1 unit w/ 7 condos on river
21	Clifford Building	4	1893	Along River/retail
22	Morris Apartments	52	1919	Apartment hotel
23	Witte Building Apartments	8	1965	
24	Granada Apartments	249	1967	Elderly/income criteria
25	Morning Glory Apartments	18	1960	First Baptist Church
26	720-724 N. St. Mary's Apts.	5	2002	Along River
30	628 S. St. Mary's Apartments	4	1997	
29	Victoria Commons - Refugio Place	210	2005	Mixed Income
40	Blue Star Residences	48	1994	Rehab Rail Warehouses
40	Blue Star Lofts	16	2005	New Construction
45	Milmo Apartments	13	2006	Market Rate - Leasing @ $1.25/sf
	Sub-Total	**1,859**		
	Sub-Total Market Rent	1,019		
	Sub-Total Income Criteria/Elderly	840		
	Under Construction			
34	Villaje del Rio	250		Mixed Use w/Lofts & Apartments
17	Palacio del Sol	110		Sec. 8 & Mkt Rate Elderly Restrict.
	Sub-Total	**360**		
	Sub-Total Market Rent	250		
	Sub-Total Income Criteria/Elderly	110		
	Proposed			
1	Rex Apartments	200	Proposed	Income criteria
29	Victoria Commons - Phase II & III	240	Proposed	Mixed Income
47	NRP Apartments	250	Proposed	Across from SE Lofts on S. Alamo
32	Vistana	246	Proposed	Market Rate - new construction
39	Big Tex - Phase I	130	Proposed	Mixed use
	Sub-Total	**1,066**		
	Sub-Total Market Rent	744		
	Sub-Total Income Criteria/Elderly	322		
	TOTAL	**3,285**		
	Total Market Rent	2,013		
	Total Income Criteria/Elderly	1,272		

Source: San Antonio Downtown Alliance 9/2006

The current Downtown apartment supply totals 1,859 units in 28 projects – representing the smallest residential rental market sector in the city. These projects are generally small in size, ranging from 1 to 261 units, with an average size of 66 units. **Of this total, 20 projects containing approximately 1,019 units are market rate rentals**. As the map indicates, locations are rather diverse, with properties in several areas of the Downtown market. Most offerings are efficiencies and one bedroom units. Much of the inventory is made up of older, outdated units. Recreation facilities and amenities beyond limited parking are generally not offered. The projects have been developed by local developers and the City Housing Authority rather than one of the major national residential developers. There are two projects currently under construction totaling 360 units and five proposed projects totaling 1,071 units. It is likely that approximately 70% (744 units) of these under construction and proposed units will be offered at market rates.

CONDOMINIUM MARKET

The following table presents the current and proposed supply of Downtown San Antonio condominium properties:

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Downtown San Antonio Condominium Properties

Map Code		Name	#of Units		Comments
		Existing			
6		Riverview	19		3-story
7		Left Bank	24		4-story
20		Losoya	7		7 condo units & 1 rental
43		King William Lofts	11		All sold @$150 - $195/sf
28		Andalusia	20		All sold @$145 - $160/sf
41		King William Townhomes	17		Priced @ $128 - $160/sf (unfinished)
27		La Cascada	45		Priced @ $225 - $300/sf
42		Travis Lofts	17		Priced @ $200 /sf
38		Camp Street Lofts	20		Priced @ $95 - $120/sf (unfinished)
		Sub-Total	180		
		Under Construction			
37		La Cascada Tower II	100		Time-Share Units
50		St. Benedicts Condos	65		Average 1200sf in building rehab
44		Conv Cntr Hotel Condos	140		On top ten floors of proposed hotel
51		Whiddon Townhomes	6		New Const. (Flores & S. Alamo)
52		South End Lofts (S. Flores)	55		2 Re-hab Warehouses
29		Artisan Park @ Victoria Commons	120		Mixed IncomeTownhomes
		Sub-Total	486		
		Proposed			
23		Witte/Fish Market Bldg.	20		Rehab on the River
36		Vidorra (Sunset Station) - Phase I	155		Tower(149) & Townhomes(6)
36		Vidorra (Sunset Station) - Phase II	154		Tower(125) & Townhomes(29)
33		Neisner Building	35		Rehab in existing department store
35		Piazza San Lorenzo Condos	26		High-end
35		Piazza San Lorenzo Fractionals	41		1/10th Ownership Interests (410 total)
48		Whiddon Condos	46		Flores @ Guenther
49		McDaniel Condos	40		Loft-style (adjacent to SE Lofts)
39		Big Tex Grain	20		Mixed Use Development
		Sub-Total	537		
		TOTAL	**1203**		

Source: San Antonio Downtown Alliance 9/2006

The current Downtown condominium market consists of nine projects containing 180 units. Six other projects totaling 486 units are under construction and nine projects with 537 units are proposed. Market supply is currently small, but growing, in both number of projects and project size.

CONCLUSION

The Downtown apartment and condominium markets are currently relatively small in size, with much of the inventory outdated and providing product with few or no amenities. The projects currently under construction and proposed will offer a decided improvement in the overall product offering.

SECTION IV

DOWNTOWN MARKET RATE

RESIDENTIAL DEMAND

PKF Consulting

RENTAL MARKET

The 19 complete projects that make up the Downtown market rate apartment market can be described as follows:

- Project size ranges from 1 unit to 261 units, with an average size of 50 units
- Only the Soap Works, Toltec and Towne Center were built originally as apartments.
- The average unit size is 650 square feet.
- Monthly rent per unit averages approximately $695 – low by industry standards, but typical in comparison with suburban San Antonio markets.
- Average monthly rent per square foot is in the $1.07 to $1.25 range – high compared with suburban San Antonio markets, but still low relative to levels necessary to stimulate substantial development.
- The unit mix is weighted heavily toward one bedroom units. There is also a significant mix of efficiency, studio, and two bedroom units, generally typical of a downtown area.
- Overall Second Quarter 2006 occupancy is estimated at approximately 99%.

Other comments of note relative to this rental market include the following:

- Rental rates have increased slowly over time, in part due to the downward pressure brought by relatively low suburban rental rates, however the two projects that are currently under construction are expected to achieve new rental rate highs in excess of $1.25.
- Historically, minimum rent concessions have been offered Downtown, likely a result of the limited available Downtown supply.
- Due to lack of available historic data, accurate overall market absorption parameters cannot be calculated. However, the most recent addition of significant size (Cadillac Lofts – 2002) was reportedly absorbed in approximately 9 months (a pace of 17 units per month).
- The true depth of unmet demand has not yet been tested, as significant quality and quantity of new supply are just starting to enter the market.

From a city-wide perspective:

- Class A rental rates are $0.98, Class B $0.83, Class C $0.74, and Class D $0.67 – with an overall rental rate of $0.82 for the Second Quarter of 2006.

- The city-wide occupancy for Class A is 90%, Class B 92%, Class C 90%, Class D 92%, with and overall occupancy rate of 91% for the Second Quarter 2006.
- City-wide absorption was 4,263 units from the Second Quarter of 2004 through the Second Quarter 2006. (270 as of 2Qtr 2004, 628 as of 2nd Qtr 2005 and 3,365 as of 2nd Qtr 2006).
- There are currently 128,020 total units available in San Antonio in 693 properties. Approximately 48% of the existing units are Class A, 25% are Class B, 18% Class C and 9% Class D.
- There are currently 7,828 units under construction in San Antonio, contained in 35 projects. For the units under construction 56% are Class A and 44% are Class B.

CONDOMINUM MARKET

The residential condominium market in Downtown San Antonio has been extremely small to-date.

- Currently there are 180 condominium units that make up the Downtown San Antonio market.
- Units with unfinished interiors generally sold in the $95 to $160 per square foot range and units with finished interiors sold in the $145 to $300 per square foot range.
- Six new projects with 486 units are under construction and nine projects with 522 units are in the planning stages. The asking prices are expected to be across a wide range – from $200 to $450 per square foot. These projects will test both the width and depth of the upper-end Downtown condominium market.
- Historically the majority of the units sold were priced in the $125,000 to $175,000 range.
- Some of the new units will have asking prices in the $500,000 to $950,000 range, while the majority of the new units will be priced in the $220,000 to $300,000 range.
- Prices of $250,000 to $500,000 per unit are considered to be acceptable in other Texas markets and represent the pricing required to stimulate development.

By any measure, the demonstrated condominium market is small, with the depth of demand as yet untested. The development of a given condominium market often follows after that of the local rental market. However, the number of new projects currently under construction or on the drawing boards is encouraging.

TARGET MARKETS

Target markets for these residential projects can be described as follows:

- Downtown workers – including those at private sector offices, public sector offices, hotels, restaurants, retail, tourist attractions, schools, hospitals, convention center, Alamodome
- Reverse commuters
- Military personnel – Fort Sam Houston
- Retirees
- Students (UTSA, hospitals)
- Corporations
- Mexican nationals

As to demographic/life cycle profiles, primary target markets can be further defined as follows:

- Single young professionals
- Married professionals, with no children or very young children
- Empty nesters
- Somewhat more males than females
- Those with incomes above $40,000 (rental)
- Those with incomes above $100,000 and/or net worth above $250,000 (condominium)
- Those with prior downtown living experience

CONCLUSION

Historic levels of realized demand for both market rate apartments and condominium units in Downtown San Antonio have been limited. We believe that one of the significant factors limiting such captured demand has been the shortage of available quality supply in the marketplace. In the next two years the depth of the demand for Downtown living will be tested as a number of projects start marketing their units. Some units, such as the condominium units on top of the new convention hotel, will test the upper limits of the price range in this market.

The Grand Hyatt Hotel and Alteza Condominiums

SECTION V

SELECTED MAJOR TEXAS

DOWNTOWN RESIDENTIAL MARKETS

Selected Major Texas Cities Downtown Apartment Markets Third Quarter 2006					
	San Antonio	**Austin**	**Fort Worth**	**Dallas**	**Houston**
Office Space - SF	5,168,000	8,710,000	10,366,000	30,839,000	42,300,000
Employment	70,000	67,000	47,600	135,000	145,000
No. Units - Core	1,859	707	1,695	2,313	2,357
Employment / # of Units	37.6	94.8	28.1	58.4	61.5
Total No. Projects	28	9	7	15	14
Occupancy Level	99%	mid-90s	96%	95%	87%
Rental Rates/SF	$1.07 to $1.25	$1.60 to $1.78	$0.97 to $2.00	$1.09 to1.84	$1.00 to $2.00
DT Apt. Residents	2,603	990	2,373	3,238	3,299
Units U/C or Proposed	1,426	1,887	1,335	2,648	347
Unique Offerings	Riverwalk Alamodome UTSA Hospitals	Capitol UT Sixth Street	Sundance Sq. Cultural District Bass Hall	Arenas Arts District West End Victory	Ballpark Arena Arts District
Source: Downtown Associations					

Selected Major Texas Cities Downtown Condominium Markets Third Quarter 2006					
	San Antonio	**Austin**	**Fort Worth**	**Dallas**	**Houston**
Office Space - SF	5,076,000	8,710,000	10,366,000	30,839,000	42,300,000
Employment	70,000	67,000	47,600	135,000	145,000
No. Units - Core	180	1,367	751	145	900
Employment / # of Units	388.9	49.0	63.4	931.0	161.1
Total No. Projects	9	16	6	5	13
Occupancy Level	mid-90s	90%	mid-90s	mid-90s	87%
Sales Rates/SF	$150 to $300	$292 to $429	$175 to $400	$300 to $600	$200 to $450
DTN Condo Residents	252	1,914	1,051	203	1,260
Units U/C or Proposed	908	315	1,154	178	295
Unique Offerings	Riverwalk Alamodome UTSA Hospitals	Capitol UT Sixth Street	Sundance Sq. Cultural District Bass Hall	Arenas Arts District West End Victory	Ballpark Arena Arts District
Source: Downtown Associations					

RENTAL MARKETS

An analysis of the Downtown apartment markets in the five major Texas cities is presented below:

Apartment Projects in the Five Texas Cities					
Property Type	**San Antonio**	**Austin**	**Fort Worth**	**Dallas**	**Houston**
Apartments					
Total Units	1,859	707	1,695	2,313	2,357
Occupancy	99%	Mid-90's	96%	95%	87%
Residents	2,603	990	2,373	3,238	3,299
Rental Rate per Sq. Ft.	$1.07 to $1.25	$1.60 to $1.78	$0.97 to $2.00	$1.09 to $1.84	$1.00 to $2.00
Planned or Under Construction	1,426 Units	1,887 Units	1,335 Units	2,648 Units	347 Units
Total Units by 2009	**3,285**	**2,594**	**3,030**	**5,886**	**2,704**

Source: The Downtown Associations

- Downtown employment is perhaps the major driver of demand for Downtown apartments. San Antonio, Austin and Ft. Worth have levels of Downtown employment that are only 33-52% that of Dallas or Houston.
- Downtown office space typically drives Downtown employment. San Antonio is by far the smallest of the five Downtown office markets. Both Dallas and Houston have many multiples of the Downtown office space offered in San Antonio, Austin and Fort Worth. However, the tourism industry in San Antonio, the state government in Austin and the nearby Cultural District in Fort Worth provide impetus for Downtown living, helping to bridge the gap in office space.
- The total number of apartment units by city varies from 707 to 2,357, with a mean of 1,786 and a median of 1,859. Austin has the least, while Houston has the most. It should be noted that Austin, Houston and Dallas contain significantly larger numbers of units in peripheral areas surrounding the true Downtown core.
- Most of the newer purpose-built apartment projects and conversions offer 75-150 units.
- Occupancy levels are considered to be high in four of the five markets with occupancy rates in the mid to high-90s range. These occupancy levels signal strong demand and the potential for additional units and (potentially) higher rental rates.
- Monthly rental rates per square foot are lowest in Fort Worth and highest in Houston. Rental rates between cities vary by $0.10/SF to $0.88/SF.
- Substantial increases in unit counts are expected in all five Downtown markets. Houston has the smallest current development pipeline with 347 units, while Dallas has the largest with 2,539 units. San Antonio has 1,426 new units either under construction or planned in the near term.

- All of these cities have unique offerings that help support the demand for downtown residential development.
- Most new development in the core Downtown areas has been adaptive reuse of former office or warehouse space.
- By 2009 San Antonio, Austin, Fort Worth and Houston will have comparable amounts of Downtown units. Dallas will exceed the unit counts of the other cities by approximately 1,900 units.

CONDOMINIUM MARKETS

An analysis of the Downtown condominium markets in the five major Texas cities is presented below:

Condominium Projects in the Five Texas Cities

Property Type	San Antonio	Austin	Fort Worth	Dallas	Houston
Condominiums					
Total Units	180	1,367	751	145	900
Occupancy	Mid-90s range	90%	Mid-90s range	Mid-90s range	87%
Residents	252	1,914	1,051	203	1,260
Price per Sq. Ft.	$150 to $300	$292 to $429	$175 to $400	$300 to $700	$200 to $450
Planned or Under Construction	908 Units	315 Units	1,154 Units	178 Units	295 Units
Total Units by 2009	**1,088**	**1,682**	**1,905**	**323**	**1,195**

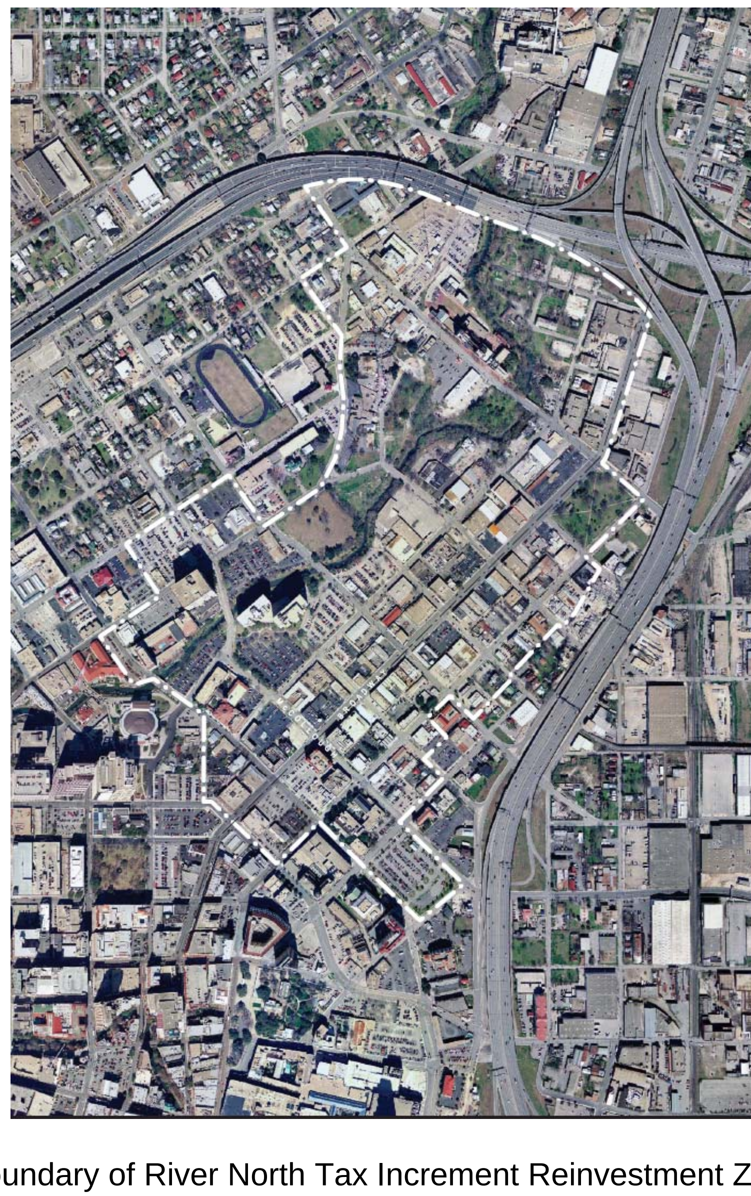
Source: The Downtown Associations

- The Downtown condominium markets in Dallas, San Antonio and Fort Worth are limited in available unit count, with Austin and Houston much larger in size.
- Total condominium units in the subject markets number approximately one-third the number of apartment units.
- In Dallas the majority of the residential condominium units are located outside the CBD. Within one mile of the center point of Downtown there are 19,241 condominium units.
- Typical average prices per square foot are moderate in San Antonio and Ft. Worth for the low to mid-rise units. New high-rise units have more comparable pricing per square foot in all five markets.
- Both San Antonio and Fort Worth have a large number of units in the planning or under construction stage and by 2009 should have total unit counts approaching Houston and Austin, respectively.

CONCLUSION

The five markets studied are in various stages of residential development. By 2009, if all the proposed projects are completed as planned, all markets should be much more comparable in unit counts in their Downtowns. The Dallas numbers (in particular) should be judged in the light that the majority of the apartments and condominium units in the central part of the city are outside the boundaries of the CBD. Our study focused on only the units contained within the CBD boundaries of the five markets.

Rental rates and condominium pricing are starting to equalize among the five cities as are construction costs and land pricing. This leveling of the playing field will likely help Downtown San Antonio reach its development potential in areas such as River North, where a Tax Increment Reinvestment Zone was established by the City on December 14, 2006.



Boundary of River North Tax Increment Reinvestment Zone

SECTION VI

PERSPECTIVES ON DOWNTOWN

RESIDENTIAL DEVELOPMENT

PKF Consulting

The evaluation of residential market demand potential is based upon both qualitative and quantitative considerations. In the former category are various concepts/trends, observations and issues that impact residential market demand potential.

CONCEPTS/TRENDS

Overview

Certain concepts are at the heart of Downtown residential development. Several of these concepts are presented in the research paper titled *Turning Around Downtown: Twelve Steps to Revitalization*, prepared by The Brookings Institution. Following are various relevant thoughts from that source:

Since the rise of cities 8,000 years ago, humans have only wanted to walk about 1,500 feet until they begin looking for alternative means of transport: a horse, a trolley, a bicycle, or a car. This distance translates into about 160 acres – about the size of a super regional mall, including its parking. But willingness to walk isn't about the distance. People will walk 1,500 feet or more only if they have an interesting and safe streetscape and people to watch along the way – a mix of sights and sounds are required. Depending on the time of day, the day of the week, or the season of the year, the experience of walking downtown should be different. Fostering such walkable urbanity is the key to revival of any downtown. A "critical mass" of pedestrian-scale uses must be established as quickly as possible, before the initial revitalization efforts stall for lack of support.

The divergent models of urban and suburban development have very different financial structures. Conventional suburban development is based upon standardized national formulas, car-friendly access and parking. Suburban developments financially perform well in the short-term but peak in years seven through ten. Downtown development exhibits an opposite pattern. Among many factors that limit early profits are constrained sites, street closing and underground work causing the construction budgets for downtown development to be generally much higher then suburban development. These increased development costs create reduced front-end profits in the early years but normally provide better returns in the mid- to long-term, thereby extending the developer's profit curve period.

A good starting point is to engage in a "visioning" process, which leads to a strategic plan, followed by a forging of a healthy private/public partnership. This partnership plus the establishment of Business Improvement Districts are the catalyst that establishes urban entertainment districts and rental housing, and stimulates retail and commercial uses. Once this process is completed a downtown has reached "critical mass" and will be self-perpetuating. Critical mass makes certain that visitors can find enough to do for four to six hours; that residents' daily needs can be comfortably met; and that rents and sales prices continue to justify new construction or continued renovation.

Other Thoughts

Among general urban concepts/trends worthy of note are the following:

- Recognition that residential development is supportive of a healthy Downtown business environment and often a critical part of revitalization efforts, including 24-hour activity and enhanced security.
- Local transportation costs, measured in time, money and environmental impact, can often be greatly reduced with more Downtown living.
- The demographics of Downtown residential populations often translate into lower public sector costs – including public works, education and services – than those of suburban populations.
- Media portrayal of the urban lifestyle as attractive and the presence of a “new urbanism” that supports the redevelopment of the urban landscape as an alternative to suburban sprawl.
- The recycling of older buildings presents both aesthetic and financial rewards to the community.
- The creation of neighborhoods depends upon significant residential components, which are supportive of local business growth in these neighborhoods.
- These same neighborhoods are an attractive part of the Downtown product offering relative to capturing visitors (conventions/tourists), new citizens, and new Downtown office tenants.
- Diversity in both development product types and populations is an attractive by - product of Downtown residential development.
- The higher level of education and income associated with market rate Downtown residential populations is often a stimulus to the economic, cultural and educational aspects of the community.

OBSERVATIONS

Several observations supportive of residential development in Downtown San Antonio follow:

- Downtown San Antonio offers some existing buildings that present potential for adaptive reuse as residential.
- Likewise, the Downtown area has a number of vacant or underutilized sites suitable for residential development.

- There are several areas on the periphery of Downtown that offer the potential for attractive neighborhoods – especially River North, Sunset Station, South Flores and the Hospital District..
- The Riverwalk and several existing parks present Downtown San Antonio with residential – friendly environs.
- The presence of many restaurants, attractions, cultural centers and retail alternatives offer additional support for Downtown residential.
- Safety and security are generally considered strong points in the Downtown area and would be further enhanced by additional Downtown residential.
- San Antonio building costs are somewhat below those of other major Texas cities.

ISSUES

While many aspects of Downtown San Antonio are supportive of residential development, there are a number of issues that may act to limit the potential for such development in Downtown San Antonio, as follows:

- San Antonio is generally a city of moderate income levels and the rental rates required to provide developers with a reasonable return on their investment are normally in the upper-end of the price range, unless incentive programs are utilized to lower the overall project development cost.
- By comparison, area suburban development costs, rental rates and housing prices are relatively low.
- The Downtown office market is relatively small and growth has been minimal.
- Downtown employment is moderate in size and significantly weighted in lower compensation service jobs.
- Projects built to-date have been few in number and achieved limited financial success.
- Although land suitable for development is available, land prices in the prime areas of the central core and along the River are relatively high, especially considering current rental rates and sales prices.
- Changes are being employed in the City Development Services Department to streamline the development process to correct previously reported slow response times from the City. This proactive stance is being adopted to expedite the development process and increase staff commitments to support timely Downtown residential development.

- The large number of buildings with historical designations acts to limit redevelopment, especially in the Downtown core.
- Alternative hotel uses offer significant competition for both sites and buildings.

CONCLUSION

The addition of more residential development in Downtown San Antonio is supported by several concepts/trends relative to urban development and certain local market attributes. At the same time, several issues have limited growth in such development to-date and may act to do so in the near term future. Actions such as the following would enhance the prospects for Downtown residential development in San Antonio:

- The consolidation of the over-site for Downtown redevelopment programs or projects within the Development Services Department or City Manager’s Office.

- Programs by the City to provide financial assistance to Downtown housing programs, such as gap-financing.

- A comprehensive master plan with pre-negotiated incentives from the various taxing authorities.

SECTION VII

DOWNTOWN SAN ANTONIO

RESIDENTIAL DEMAND POTENTIAL

We have estimated Downtown San Antonio market rate residential demand potential over the period 2007-2015.

RATIONALE

Our estimates of market rate residential demand potential are based upon consideration of several key determinants of such potential, as follows:

- Total available Downtown office space
- Total Downtown employment and its sources
- Historic San Antonio Downtown residential market experience
- Historic residential market experience in selected other major Texas cities
- Suburban San Antonio supply and demand characteristics, especially with respect to available product, rental rates, purchase prices, and commute times
- San Antonio economic/demographic parameters v. other Texas cities
- Expected economic growth over the period 2007 – 2015.

We considered both quantitative and qualitative aspects of these determinants. Given that one of the primary drivers of Downtown residential demand is Downtown employment, we computed such parameters as residential units per Downtown employee and residential units per square foot of Downtown office space. These considerations are applied against historic residential market performance in Downtown San Antonio and relative performance in selected major Texas cities as presented in Section V.

DEMAND POTENTIAL

We estimate the subject demand potential as follows:

Downtown San Antonio
Market Rate Residential
Estimated Demand Potential
2007 - 2015

	Rental	Purchase	Total
Units	1,600 - 2,000	1,000 - 1,200	2,600 - 3,200

These estimates represent Downtown market rate residential demand potential. They do not include demand potential realized at nearby locations, such as the Pearl Brewery project. The goals for development should exceed these levels, with the acknowledgement that actual development could likewise exceed these estimates.

Rental Market
The estimated apartment demand parameter represents a potential of 178-222 market rate units per year over the subject nine year period. By comparison, the subject market achieved a level of 34 market rate units per year over the period 2002 – 2006. Given projects currently under construction, this parameter is likely to grow to 64 units per year when considering the 2002 – 2008 period. Key drivers of the expected future increase in demand potential are factors such as the following:

- Improved economic conditions from those prevalent during the first half of the recent four year period – both nationally and locally
  - Job growth owing to the new Toyota plant and its suppliers
  - Job growth at nearby Fort Sam Houston
  - A strong tourist economy
- Expansion of the Riverwalk as a result of the San Antonio Improvements Project
- A current market rate development pipeline of 994 units (which would drive the annual average to 141 market rate units over the period 2002 – 2010).
- Improved quality of product offerings.
- Continued maturing of the baby boomer population, with its extended life spans, higher disposable income, and an inclination to relocate in urban settings.

Based upon the aforementioned estimates and the nature of Downtown sites, typical rental projects are likely to range from 100 to 250 units in size, with adaptive reuse projects likely to be much smaller than new construction. Typical unit mix for rental projects is likely to be 10-15% efficiency, 50-60% one bedroom, and 25-35% two bedroom units.

Purchase Market
The purchase market is generally smaller than the rental market in Downtown areas, and most often comes after the rental market has been established to a significant degree. The estimated condominium demand parameter represents a potential of 111-133 units per year over the subject nine-year period. By comparison, the subject market achieved a level of 29 units per year over the period 2002 – 2006. Given projects currently under construction, this parameter is likely to grow to 72 units per year when considering the 2002 – 2009 period. Key drivers of the expected future increase in demand potential are factors similar to those listed above:

- Improved economic conditions from those prevalent during the first half of the recent four year period – both nationally and locally
  - Job growth owing to the new Toyota plant and its suppliers
  - Job growth at nearby Fort Sam Houston
  - A strong tourist economy
- Expansion of the Riverwalk as a result of the San Antonio Improvements Project

- Pairing of condominium projects with hotels
- Increases in the current development pipeline to a total of 908 units
- Improved quality of product offerings.
- Continued maturing of the baby boomer population, with its extended life spans, higher disposable income, and an inclination to relocate in urban settings.

Sizing for typical purchase projects will be targeted significantly smaller than the rental market, at 50-150 units each, with adaptive reuse projects likely to be smaller still. Typical unit mix for purchase projects is likely to be 30-40% one bedroom, 50-60% two bedroom and 5-10% three bedroom units.

OTHER PROJECT ATTRIBUTES

Amenities for both new rental and purchase projects are expected to be somewhat expanded from those provided in existing projects. On-site amenities will vary depending on land/building constraints, land cost, price point and target markets. On the rental side, on-premise parking (1 space per tenant), security code/card access, on-premise laundry, and exercise facilities are likely. A swimming pool or whirlpool and sundeck are possible depending on site/building constraints and price point. Additions such as a business center, public room and concierge service are possible in higher end projects. For purchase projects, on-premise parking, security systems, recreation facilities, and a pool or whirlpool and sundeck are likely if the site/building constraints and price point allow.

External support amenities such as retail, restaurants, public transportation, and parks will be sought and a part of both development and rental/purchase decisions.

Locations for development will be opportunistic and driven largely by economics. Sites with true neighborhood attributes, proximity to the Riverwalk, and insulation from tourist concentrations are likely to be most sought after.

PRICING

Based upon demonstrated current market behavior in Downtown San Antonio, area demographics, the nature of projects currently under construction and the nature and pricing of suburban competition, we estimate pricing as follows:

Downtown San Antonio Market Rate Residential Pricing 2007 Dollars		
	Rental	**Purchase**
Per Square Foot	$1.25 - $1.45 per month	$250 - $400

Various projects currently under construction will contribute to the critical mass necessary to spur demand and increase pricing. Success over the period to 2009 will also act as an impetus to growth over the period 2009 – 2015.

DEVELOPMENT GOALS

The establishment of goals for residential development will hinge on a variety of factors – social, civic and economic. One of these factors will be the critical mass necessary to justify the development and profitable operation of sought after support retail such as a grocery store. In our experience, the residential population necessary to justify such retail development is 10,000 – implying approximately 7,000 total residential units.

SECTION VIII

DEVELOPMENT ECONOMICS

PKF Consulting

Project development economics will vary greatly depending upon location, new construction v. adaptive reuse, number of units, rental v. purchase, unit sizes, building height and density, unit types, and target markets.

DEVELOPABLE LAND

Land prices vary greatly between the Core/Riverwalk area, the surrounding portion of downtown inside the boundaries of the Downtown and the areas outside the highway ring:

- Land in the Core/Riverwalk area is most often devoted to the tourist/convention market. Land sales in this area average $150 to $170 per square foot for typical sized lots, before accounting for the cost to renovate or remove any existing structures.
- Land surrounding the Core/Riverwalk area tends to be higher priced closest to the core and drops as one moves away from the center towards the Downtown outer boundaries. Prices average in the $35 to $70 per square foot range in these areas, before accounting for the removal of the existing structures.
- Land outside the Downtown boundaries tends to fall within the $8 to $15 per square foot range depending on use, location and access, before accounting for the cost to renovate or remove any existing structures.

Large differences in land prices create large differences in project development costs and influence the location of future projects:

- Developers are acquiring properties for conversion in the South Flores area for prices ranging from $30 to $70 per square foot.
- Similar redevelopment projects on the edges around the Core/Riverwalk area are priced in the range of $90 to $120 per square foot.
- In the Core/Riverwalk area these projects will be in the range of $150 to $200 per square foot.

PROJECT COSTS

The cost of new construction is generally the same throughout the Downtown market. The only variables that are factored into the pricing are design, materials and elevation. Low-rise to mid-rise frame hard construction costs average $75 per square foot and mid- to high-rise cast concrete and steel average $150 per square foot.

Rehabbing existing structures has vastly different costs related to condition, materials, intended use and building code and historical issues. Such hard construction costs currently appear to be running $80 - $90 per square foot for low- to mid-rise structures and up to $150 - $200 per square foot for high-rise buildings, depending on location, condition and historic significance.

The following examples of project economics were developed to present a Cost Feasible Analysis under three alternative development cost scenarios for rental properties.

RENTAL PROPERTY DEVELOPMENT

Cost Feasible Rent Analysis			
	Low	Middle	High
Total San Antonio Development Costs/SF	$125.00	$175.00	$225.00
Overall Capitalization Rate RERC 3rd Qtr	8.0%	7.5%	7.0%
Cost Feasible NOI:	$10.00	$13.13	$15.75
Total Operating Expenses/SF	$4.95	$5.65	$5.90
Cost Feasible Effective Gross Revenue (EGR)	$14.95	$18.78	$21.65
Stabilized Occupancy Level	95%	95%	95%
Cost Feasible Rent/SF (Annual)	$15.74	$19.77	$22.79
Cost Feasible Rent/SF (Monthly)	$1.31	$1.65	$1.90
*Expenses from IREM Conventional Apartments I & E Analysis, 2005			

Following are comments relative to each category:

- Total Development Costs/SF range from $125 to $225, implying an upper mid range of values.
- The Capitalization Rate chosen was 8.0% for low-rise properties, 7.5% for mid-rise and 7.0% for high-rise to reflect increased risk factors in the different qualities of construction inherent in the three categories.
- Cost Feasible NOI (Net Operating Income) reflects the required annual NOI necessary to achieve the desired return on Total Development Costs.
- Total Operating Expenses typically range from $4.95 to $5.90/SF annually in the area market.
- Cost Feasible Effective Gross Revenue (EGR) equates to that annual gross revenue necessary to achieve the desired return after covering operating expenses.
- Stabilized Occupancy was estimated at 95%, a typical long term parameter.

- Annual Cost Feasible Rent/SF is derived by dividing the EGR by the occupancy.
- Monthly Cost Feasible Rent/SF is derived by dividing the annual figure by 12.

The Monthly Cost Feasible Rent/SF ranges from a low of $1.31 to a high of $1.90. This compares to average San Antonio Class A market rent parameters of $0.98 and parameters of $1.07-$1.25 in the better Downtown properties.

The shortfall that exists between the rental rates required to provide an acceptable return on investment and the rental rate currently being achieved in the Downtown marketplace is $0.24 to $0.65 per square foot per month. For example, given market rental rates of $1.10/SF per month, a typical project of 150 units, 800 square feet per unit, and a low-rise development cost of ($125/SF), this shortfall can be quantified as approximately $302,000 per year in required additional revenue:

($0.21 rent shortfall x 800sf x 150 units x 12 months = $302,400)

Alternatively, if front end development cost were reduced by $3,600,000 the investment in the project could be justified at current market rent levels. In fact, we expect that the potential gap will be bridged by a combination of higher rents (owing to better quality projects in a marketplace with more critical mass and resultant demand) and certain incentives provided by the public sector that reduce effective development costs. The number and quality of the projects currently under construction or in planning in the Downtown San Antonio market suggests a belief in the potential in both of these factors.

CONDOMINIUM DEVELOPMENT

The depth, breadth and pricing of the condominium market in San Antonio has not been tested to-date, with small offerings in renovated Downtown buildings and only one new construction on the edge of the Downtown core. Consequently, very little information is available to utilize in a development feasibility analysis. Our research indicated that the projects in the South Flores market are demonstrating the feasibility of condominium projects priced in the $150 to $200 per-square-foot range utilizing converted warehouse and manufacturing buildings. Other projects in the Downtown market have obtained a limited number of sales in the $300 plus range. The units atop the new Convention Center hotel will test the upper end of the price range once completed. These units are expected to be marketed at prices above $425 per square foot, in part owing to available hotel services such as housekeeping, room service and concierge.

The Vistana Apartment Project

The Vidorra Condominium Project

SECTION IX

IMPACTS

PKF Consulting

IMPACTS

The market rate residential demand potential for Downtown San Antonio has been estimated at 1,600-2,000 rental units and 1,000-1,200 purchase units over the period 2007 - 2015. Assuming an average 800 square feet per unit and a total development cost of $150 per square foot (excluding land), total investment for the rental units is estimated at $192 - $240 million. Assuming an average of 1,100 square feet per unit and a total development cost of $175 per square foot (excluding land), total investment for the for purchase units is estimated at $193 - $231 million. Total investment in both types of units is thus estimated at $385 - $471 million. Though difficult to quantify, it is likely that this residential investment will also act as a catalyst to spur a number of additional new investments in employment, retail and service businesses. This new investment will serve the growing Downtown residential population, as well as visitors to the area, and will help to create a walkable urban community in the Downtown area.

There are also a number of qualitative impacts related to such Downtown residential development, including the following:

- The creation of residential neighborhoods enhances the City's appeal and the overall visitor experience (as portrayed in such cities as Boston, New York, Chicago and San Francisco).
- At the same time, the fostering of non-tourist activity lends diversity and balance to both the local life experience and the local economy.
- The adaptive reuse of existing buildings enhances the element of community and helps preserve San Antonio's architecture and cultural heritage.
- Such adaptive reuse and the development of now vacant parcels also enhance the urban landscape and the day to day life experience of Downtown workers and visitors.
- Being more dense and located in an existing service area, Downtown residential development leverages city infrastructure (streets, utilities) and services (police, fire, EMS) more so than does suburban development.
- Downtown residential development requires less parking per square foot than office and commercial development, thereby balancing out the demand for new Downtown parking structures.
- While suburban housing often converts green space into pavement and rooftops, Downtown housing development can provide some measure of balance, as it often returns some of the existing pavement or roof areas to landscaping.
- Downtown housing will be a seed for "growth from within", which will spur the redevelopment of existing older neighborhoods around Downtown, and connect already thriving older neighborhoods to the city's center.

- To the extent that the identified development potential is realized, it will provide a critical mass that will spur additional residential development, which ultimately will spur the development of support retail (such as grocery stores, cleaners, drug stores, etc.) in the longer term.
- Downtown residential populations will enhance 24/7 activity and the general level of security.
- Such development will have a small but positive effect on local transportation systems and auto emission levels as residents live near where they work or travel in a reverse commute mode.
- Downtown residential lends support to the attractiveness of Downtown San Antonio as a corporate/personal relocation target, especially for those decision makers/individuals relocating from cities with a history of downtown living.
- Downtown residential development will increase area property values, expand the property tax base and help offset the continuation of suburban sprawl.

CONCLUSION

Enhancements to community quality of life translate into both economic competitiveness and rewards. A contemporary definition of community quality of life has among its key elements quality housing and lifestyle choices within the context of a healthy city center. The realization of the identified demand potential will likely spur additional residential development in the long term.

SECTION X

GOVERNMENT INCENTIVE PROGRAMS

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As identified in Section VIII, potential shortfalls currently exist between the cost to develop Downtown market rate residential rental units and the cost justified by current achievable rent levels. For development to take place, ongoing revenue must be increased or initial investment decreased – to yield returns that are attractive, risks that are manageable and markets that are proven. Downtown San Antonio must compete for investment capital with other markets, both within and outside of San Antonio. If such development is to take place, the identified investment/revenue shortfall must be bridged. Some of this gap will, no doubt, be bridged by market-driven improvements in rental rates. However, additional assistance will be needed. A portion of this support must come from the public sector – the City, County and other taxing authorities. The other major Texas cities mentioned previously in this report (Dallas, Houston, Austin, Fort Worth) have all implemented various strategies to encourage Downtown residential development and help bridge such shortfalls. Among the strategies employed are the following:

LAND/EXISTING BUILDINGS

- Assist in the assembly and acquisition of land/buildings through the use of powers of condemnation and eminent domain (where legal).
- Sell excess public sector land at below market value.
- Contribute public sector land.

TAX ABATEMENT

- Provide 10-15 year abatement of City/County property taxes.

INFRASTRUCTURE

- Create Public Improvement Districts that provide funds for the improvement of streetscapes, security patrols, cleaning crews, utilities, and parking.
- Create Tax Increment Reinvestment Zones that improve public rights of way and provide developer assistance with public improvements around their projects.
- Create Tax Increment Financing Districts that provide funds for façade renovation, environmental abatement, demolition and retail creation assistance. Note: These vehicles can also assist in the creation of low income housing.
- Provide subsidies/rebates for the cost of utility service connections.

FINANCING

- Provide grants and low cost gap loans, funded from TIF/UDAG/other sources (at favorable terms that could include below market interest rates, deferred principal payments, government guarantees and/or longer amortization schedules/terms).
- Provide low cost facade loans to help underwrite the adaptive reuse of older buildings with facades worthy of keeping.
- Provide certain limited levels of loan guarantees, backed by liens on equity positions.

DEVELOPMENT/ IMPACT FEES

- Reduce or waive all/some city development and impact fees.

EQUITY INVESTMENT

- Provide equity investment in public/private partnerships, preferably with low to moderate expected returns and/or an extended period before returns are expected.
- Provide monetary grants to encourage development in locations targeted for improvement.

OTHER PROGRAMS

- Reinvestment Zone tax abatements for business that create or prevent loss of permanent full-time employment for at least 25 people.
- Creation of 501(c)(4) non-profit organizations that assess members of the district to obtain funds for the promotion of the Downtown lifestyle and assist in it's redevelopment.
- Texas Enterprise Zone programs to encourage job creation and capital investment in areas of economic distress by removing governmental regulatory barriers to economic growth and providing tax incentives and economic development benefits.
- Municipal Management Districts that have the power to levy taxes and assess property owners for a variety of improvements and services. The primary purpose is to promote employment, commerce, economic development and public welfare in commercial areas.

- The Neighborhood Empowerment Zone program is a state program that uses both the property tax increment and the sales tax increment as fund sources for a 10 year period.

PROCESS

Continue efforts to create a developer-friendly process where such development is prioritized and any existing disincentives are removed. Ideas in this vein include:

- Active promotion of the City's interest in new Downtown residential development, as evidenced by the presence of specific programs and designated advocates.
- Creation of a central Master Plan for the entire downtown and sub plans for the various districts that will control development and provide a common theme to the districts.
- Continued enhancement of the River improvement projects, the Riverwalk and Downtown greenspaces
- Continued enhancement of Downtown bus transportation - with service to new residential locations as completed.
- Strict code enforcement to insure the upkeep of all commercial property.
- Continued improvement in Downtown public safety and cleanup crew programs.
- Continued enhancement of a user-friendly formal development approval process with clear written guidelines and policies, together with speedy review and permitting controlled by one department or agency.
- Provision of in-kind development assistance by city development professionals at no additional cost to private developers
- Institute a process or program to expedite title review, zoning changes and variances relative to well-conceived mixed-use, high-density projects.

SELECTED EXAMPLES

Austin
Austin has implemented a Development Matrix which specifies incentives to be given based upon project type, location, size, investment and various other factors. As part of the 1997 Downtown initiative to guide the revitalization of the Downtown, a set of design guidelines was developed to coordinate and orchestrate the overall development of the CBD. This initiative created the East Sixth Street Public Improvement District which extends some seven blocks along East Sixth Street from Congress to Interstate Highway 35 to create a mixed-use district, maintain the districts unique historical characteristics and promote safety. Additionally a $5 million bond was used to start the Great Streets Program.

This program's purpose is to improve the quality of downtown streets and sidewalks, and create accessible streetscapes. The latest project to be developed in the Downtown area is the 2nd Street Retail District. This district contains 225,000 square feet of retail, restaurants and entertainment venues. Utilizing the city-owned properties contained within this district, the City has teamed up with area developers to co-develop the City's holdings through various forms of incentives, including revenue sharing and tenant improvement cost sharing to promote the redevelopment of the district.

Dallas

In 1993 Dallas adopted an Intown Housing Program to encourage the development of Downtown housing. The City borrowed $25 million in Section 108 funds to lend to developers as second lien gap financing (construction and permanent). The City lent the funds to residential developers for longer terms, at reduced interest rates, and with more favorable principal repayment terms than those received from the Federal government. The proceeds were used to support 8 new residential projects.

Dallas also offered an $8 million Preservation Incentives Program featuring tax abatements for restoring dilapidated landmarks. These funds helped restore over 90 historic properties, on which $50 million in private sector restoration funds were spent.

Dallas has also provided public funds directly or indirectly through tax abatements, development fee rebates, infrastructure cost participation, and ROW abandonment rebates/credits. The definition of appropriate infrastructure has included façade renovation, parking, landscaping, walkways, environmental abatement, and utilities. The City has created seven Tax Increment Financing (TIF) Districts and three Public Improvement Districts in and around the Downtown area to support such development.

In the first quarter of 2005, the current $90 million TIF for the City Center was exhausted. Consequently, the City created a new $189 million TIF to provide additional funds for promote Downtown development. Part of the funding will be earmarked to complete the new Inside "The Loop" comprehensive plan for downtown. The master plan provides for transportation, parks, jogging trails, bike paths and more CBD redevelopment.

Fort Worth

Fort Worth offers a tax abatement programs, Tax Increment Financing, and Enterprise Zone programs. Programs such as the Brownstone Site Assessment, City-Owned Surplus property program, Historical property tax exemptions, model block, neighborhood empowerment zones, public improvement districts and municipal setting designations programs have been utilized to re-craft the Downtown. Downtown Design Guidelines were adopted, which created the Urban Design Standards and the Downtown Design Review Board.

TIF programs were used to redevelop five public parking garages, Bass Hall and a host of streetscapes. TIF's were used to develop the entire 48-acre Radio Shack campus, redevelop the T&P Terminal on Lancaster Avenue and generate $96 million of the $360 million required to implement the Trinity River Vision plan. Downtown Fort Worth, Inc. put together a 501(c)(3) entity which included six major private sector corporations to develop and own the 172-unit Hillside Apartments. The $15 million project included both private sector investment and a block grant from the City.

Houston

Houston has offered tax abatements on historic structures, grants for infrastructure development in the Downtown District, and below market rate mortgages through HUD Section 108 loans. Since 1995 several Redevelopment Authority projects have been developed with a 30 year ad valorem tax freeze of assessments in the district. Currently the Downtown Redevelopment District has created $650 million of new appraised property values that have allowed the Authority to issue bonds based on the current and anticipated increases in value. Additionally, 19 TIF programs in Downtown were coupled with Section 108 loans, development fee rebates and historic tax abatements to create $338 million in new appraised value using $54 million in TIF funds, $6 million in tax abatements, $17 million in Charter 380 loans/Grants, $12 million in Section 108 loans and $290,000 in development fee abatements.

San Antonio

San Antonio has several incentive programs available to stimulate growth in targeted areas of the city, including the Downtown area. The City has designed and utilized some of these incentive programs to stimulate Downtown growth, particularly market rate housing. The City approved the use of $130 million in Empowerment Zone bonds for construction of the new Hyatt Hotel adjacent to the Convention Center. Although EZ bonds are only being used to finance the hotel portion of this project, the City's financing support facilitated the construction of 144 market rate condominiums on the upper 10 floors of the new hotel. The City also adopted an Incentive Scorecard System (ISS) that assigns scores to projects resulting in the waiver or reduction of development services fees and sewer/water impact fees. Since the inception of the ISS in 2003, 83 projects have been scored through the system, including three high-rise Downtown residential projects (La Cascada, Vistana, and Vidorra), which received fee reductions and waivers totaling over $800,000. In early 2007 the City created the River North TIRZ and will fund a master plan to create a 194-acre mid-rise mixed-use neighborhood with a planned scope of 6,000 residential units, 150 hotel rooms, 700,000 square feet of new office space, 250,000 square feet of new retail space and 7,250 new parking spaces. The TIRZ financing plan projects new revenue of $67 million that could fund infrastructure over the next 25 years related to this project. The City also approved a 7-year economic development grant totaling almost $3.1 million for the Vidorra high-rise condominium project on the East side and a tax abatement valued at $1.7 million along with a $1.8 million low interest loan to help support the Vistana mixed-use project on the near West side of Downtown. The Houston Street TIRZ was also established in 1999 and will provide funding for infrastructure improvements along this key Downtown commercial corridor, to include mixed-use projects.

CONCLUSION

The participation of the public sector in providing incentives/support to the private sector in the development of Downtown market rate residential projects has been occurring in earnest for the last 5-15 years. Such public sector involvement through the provision of incentives is both necessary and prudent in achieving public sector aims of Downtown revitalization. It is critical from both an economic standpoint and to provide the positive perception so necessary for developers, lenders and residents to enter these markets.

ADDENDUM A

MARKET STUDY CERTIFICATION

CERTIFICATION

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

- The statements of fact contained in this report are true and correct.

- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and our personal, unbiased professional analyses, opinions and conclusions.

- We have no present or prospective interest in the subject of this report, and we have no personal interest or bias with respect to the parties involved.

- Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

- G. Gary Schnellbacher provided significant professional assistance to the person signing this report.

GCCrown

Gregory C. Crown
Vice President

ADDENDUM B

STATEMENT OF ASSUMPTIONS

AND LIMITING CONDITIONS

PKF Consulting

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

Achievability of Projections – Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore actual results achieved during the period under study will vary from our estimates and the variations may be material.

Allocation Between Land and Improvements - The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

Archaeological Significance **-** No investigation has been made by the appraiser and no information has been provided to the appraiser regarding potential archaeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archaeological significance.

Asbestos **-** The appraiser is not aware of the existence of asbestos in any improvements on the subject property. However, the appraiser is not trained to discover the presence of asbestos and assumes no responsibility should asbestos be found in or at the subject property. For the purposes of this report, the appraiser assumes the subject property is free of asbestos and that the subject property meets all federal, state and local laws regarding asbestos abatement.

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

Date of Value - The conclusions and opinions expressed in this report apply to the date of value set forth in the letter of transmittal accompanying this report. The dollar amount of any value opinion or conclusion rendered or expressed in this report is based upon the purchasing power of the United States dollar existing on the date of value.

Definitions and Assumptions **-** The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Dissemination of Material - Use and disclosure of the contents of this report is governed by the bylaws and regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially the conclusions as to value, the identity of the appraiser or PKF Consulting, or any reference to the Appraisal Institute or to the MAI or RM designations) shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of PKF Consulting.

Distribution and Liability to Third Parties - The party for whom this appraisal report was prepared may distribute copies of this appraisal report only in its entirety to such third parties as may be selected by the party for whom this appraisal report was prepared; however, portions of this appraisal report shall not be given to third parties without the written consent of PKF Consulting. Liability to third parties will not be accepted.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

Economic and Social Trends - The appraiser assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical, or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The appraiser is not obligated to predict future political, economic or social trends.

Encroachments - It is assumed that the utilization of the land and/or improvements is within the boundaries or property described herein and that there is no encroachment or trespass.

Engineering Survey - No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Hazardous Materials - The appraiser has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the appraiser did not become aware of the presence of any such material or substance during the appraiser's inspection of the subject property. However, the appraiser is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substance may adversely affect the value of the subject property. The value estimated in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a loss in value. The Appraiser assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Hidden Conditions - The appraiser assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Income Data Provided by Third Party - Income and expense data related to the property being appraised was provided by the client and is assumed, but not warranted, to be accurate.

Information Furnished by Others - In preparing the report, the appraiser was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the appraiser for the accuracy of such information and the appraiser assumes no responsibility for information relied upon later found to have been inaccurate. The appraiser reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

Licenses and Permits - Unless otherwise stated, the property is appraised assuming that all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

Limits of Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

Obligation to Update the Appraisal - The appraisal will be dated to coincide with our last day of fieldwork. The terms of this engagement are such that we have no obligation to update our estimates to reflect events or conditions which occur subsequent to the last day of our fieldwork. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the subject property.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of PKF Consulting, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Structural Deficiencies - The appraiser has personally inspected the subject property, and except as noted in this report, finds no obvious evidence of structural deficiencies in any improvements located on the subject property. However, the appraiser assumes no responsibility for hidden defects or non-conformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professionals or governmental agencies were provided to the appraiser. Further, the appraiser is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the appraiser at the time of this inspection.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as it expressly stated.

Termite/Pest Infestation - No termite or pest infestation report was made available to the appraiser. It is assumed that there is no significant termite or pest damage or infestation, unless otherwise stated.

Testimony in Court - Testimony or attendance in court or at any other hearing is not required by reason of rendering this appraisal, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the appraiser's time to prepare for and attend any such hearing.

Title - No opinion as to the title of the subject property is rendered. Data related to ownership and legal description was obtained from the attached title report records and is considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is appraised assuming it to be under responsible ownership and competent management, and available for its highest and best use.

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Use in Offering Materials - This appraisal report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting in any sales offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Zoning and Land Use - Unless otherwise stated, the subject property is appraised assuming it to be in full compliance with all applicable zoning and land use regulations and restrictions.