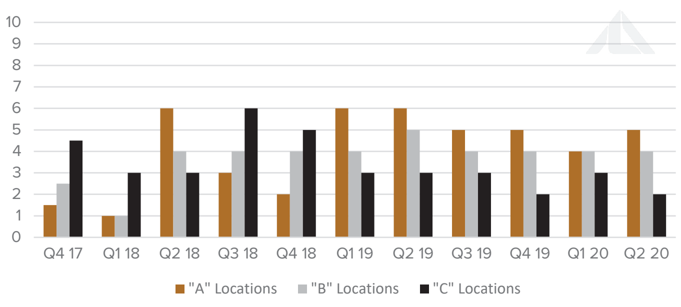
THE LAUNCH REPORT
2Q20 NEWSLETTER

LAUNCH
DEVELOPMENT FINANCE ADVISORS

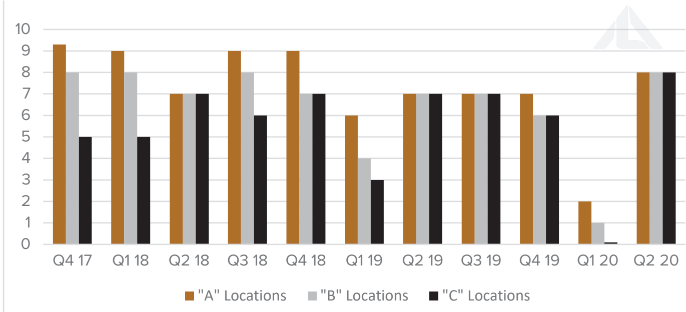
RESIDENTIAL LAND SURVEY - CA - SACRAMENTO, BAY AREA, LOS ANGELES (2Q20)

Sacramento Supply of Finished Lots



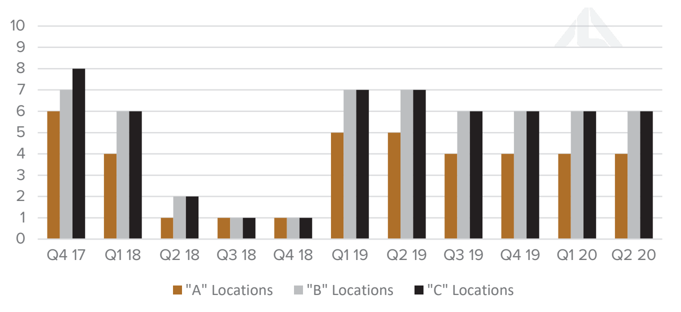
Source: Land Advisors Organization

Sacramento Demand of Finished Lots



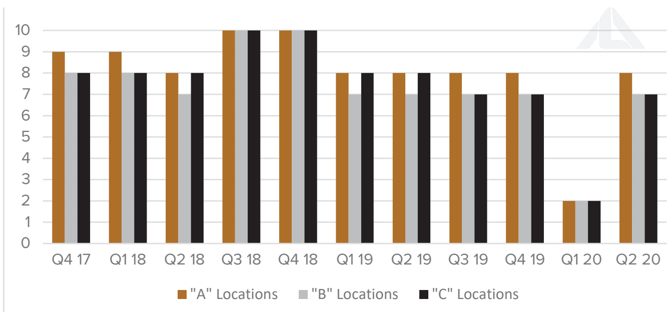
Source: Land Advisors Organization

Bay Area Supply of Finished Lots



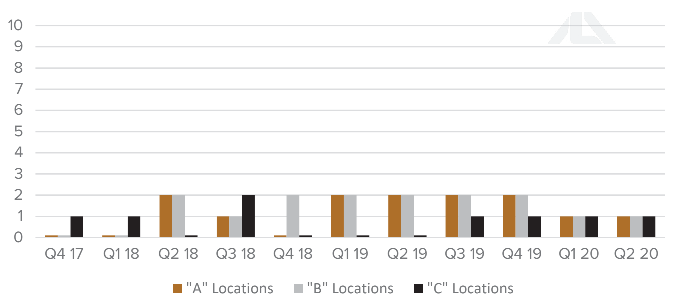
Source: Land Advisors Organization

Bay Area Demand of Finished Lots



Source: Land Advisors Organization

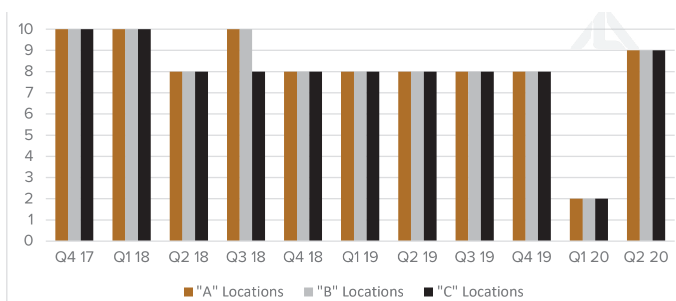
Los Angeles Supply of Finished Lots



Source: Land Advisors Organization

^^^Los Angeles Infill does not track FLVs

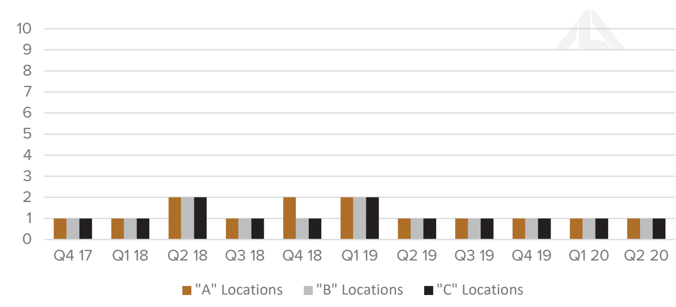
Los Angeles Demand of Finished Lots



Source: Land Advisors Organization

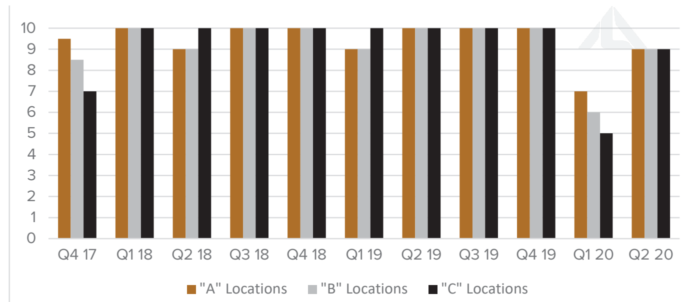
RESIDENTIAL LAND SURVEY - CA - ORANGE COUNTY, RIVERSIDE, SAN DIEGO (2Q20)

Orange County Supply of Finished Lots



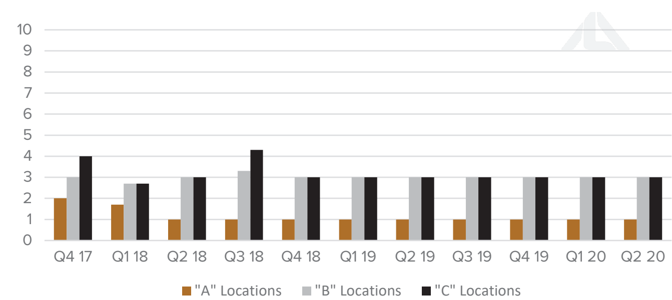
Source: Land Advisors Organization
^^^ OC has only started tracking FLV as of Q3 2019.

Orange County Demand of Finished Lots



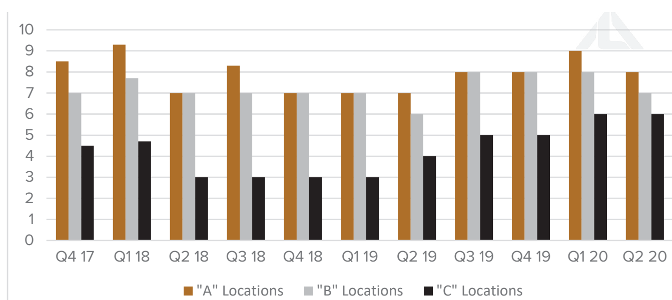
Source: Land Advisors Organization

Riverside Supply of Finished Lots



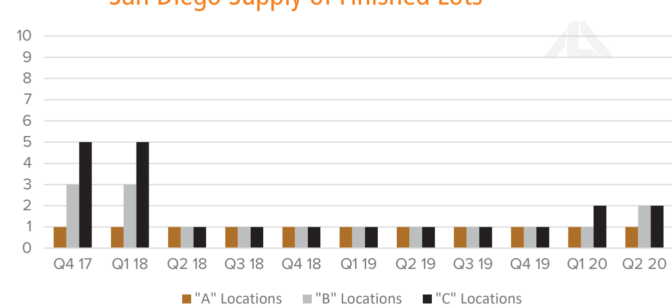
Source: Land Advisors Organization

Riverside Demand of Finished Lots



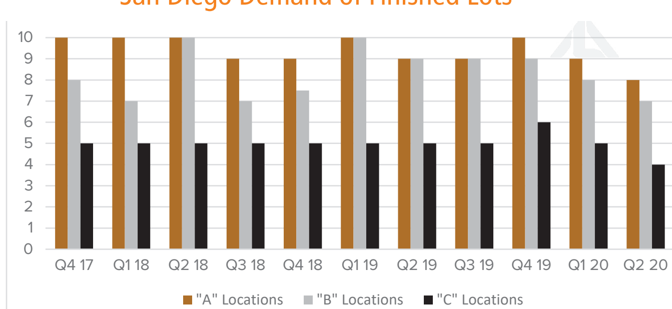
Source: Land Advisors Organization

San Diego Supply of Finished Lots



Source: Land Advisors Organization

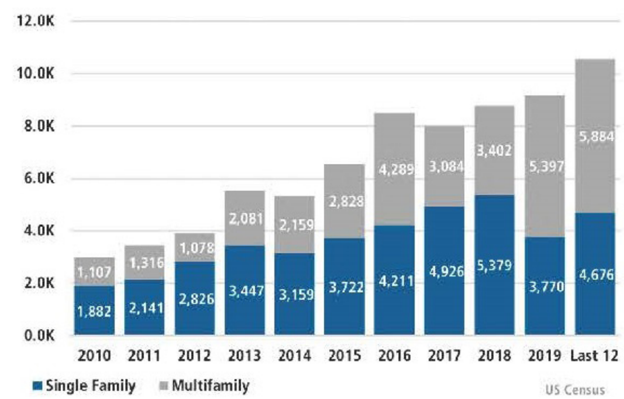
San Diego Demand of Finished Lots



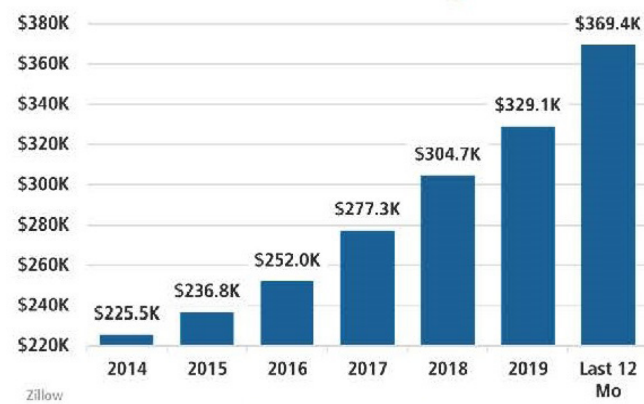
Source: Land Advisors Organization

MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (2Q20)

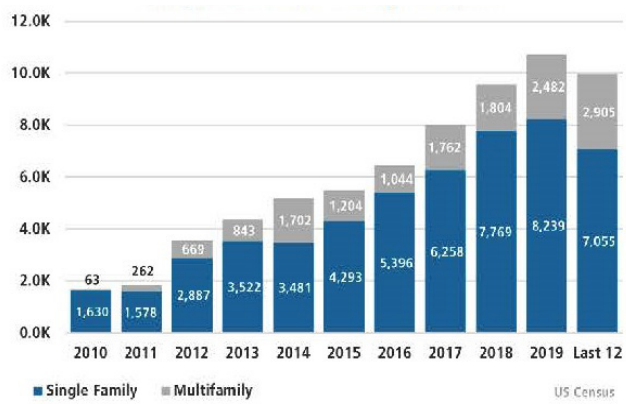
Utah Single Family & Multi-Family Permits



Utah Median Price New & Existing Homes

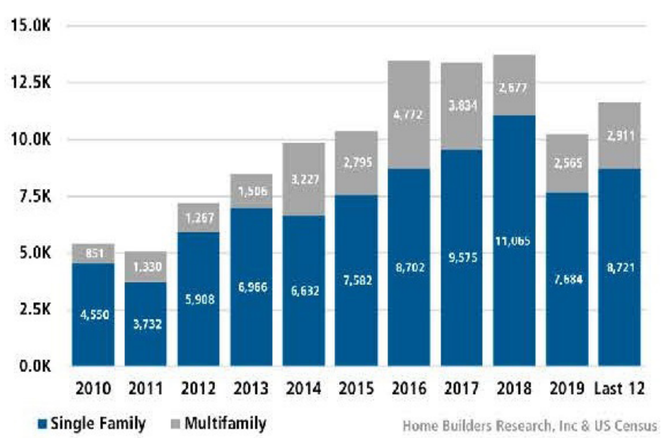


Boise Single Family & Multi-Family Permits

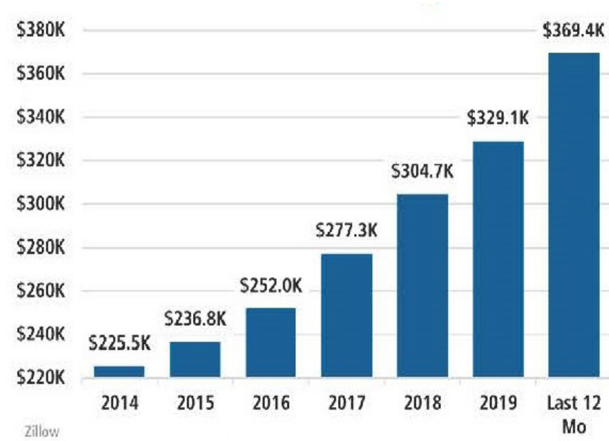


Boise Median Price New & Existing Homes

Las Vegas Single Family & Multi-Family Permits

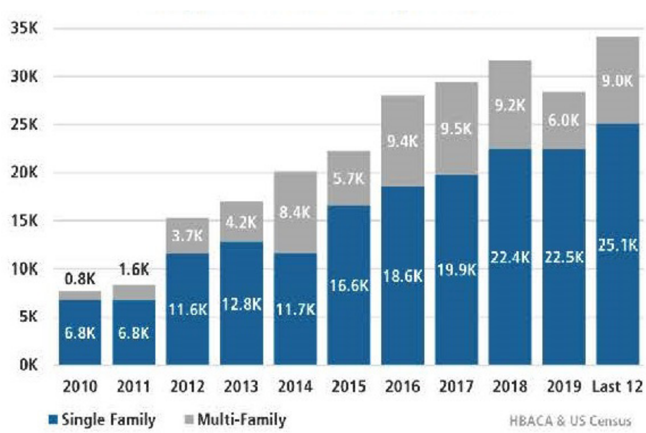


Las Vegas Median Price New & Existing Homes

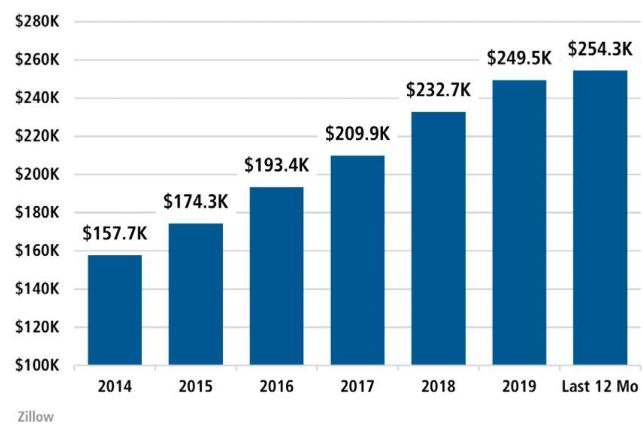


MARKETS AT A GLANCE - PHOENIX, RENO, TUCSON (2Q20)

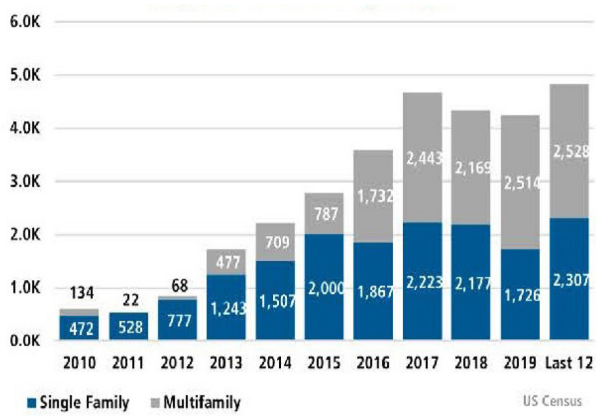
Phoenix Single Family & Multi-Family Permits



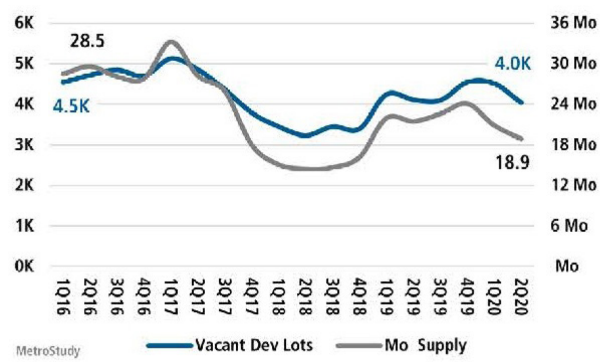
Phoenix Median Price New & Existing Homes



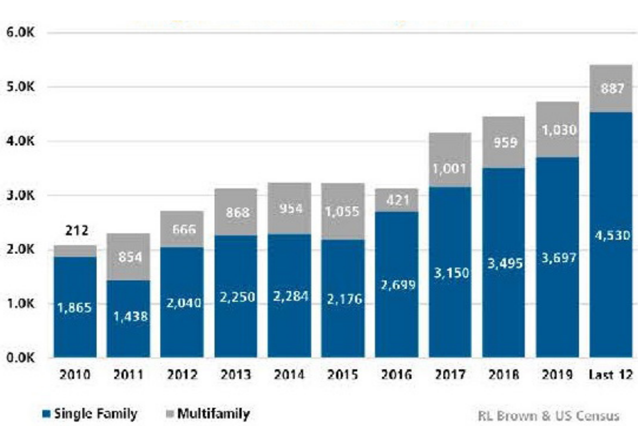
Reno Single Family & Multi-Family Permits



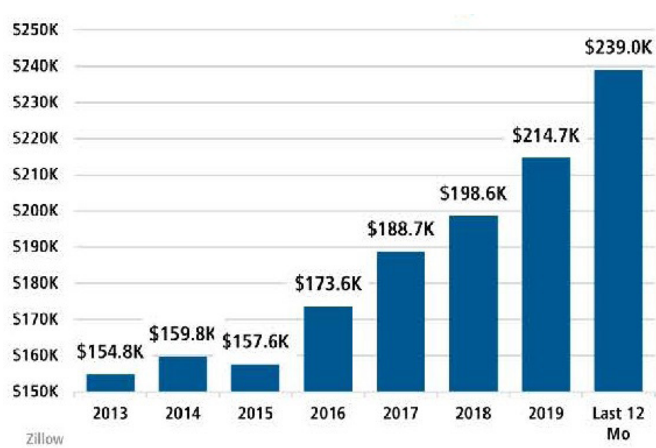
Reno New Vacant Developed Lots & Months Supply



Tucson Single Family & Multi-Family Permits

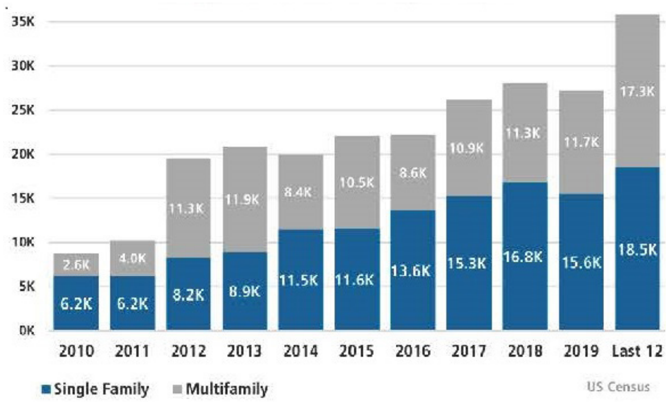


Tucson Median Price New & Existing Homes

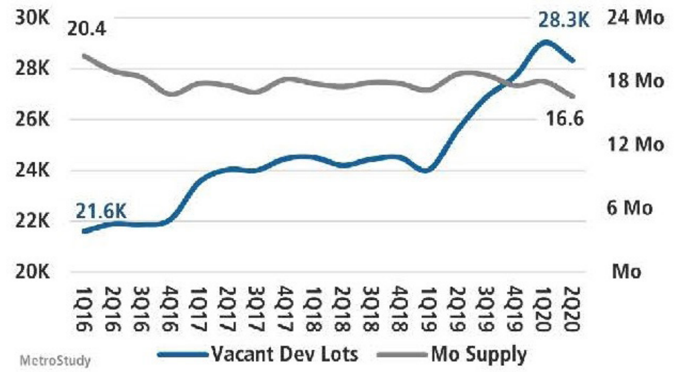


MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (2Q20)

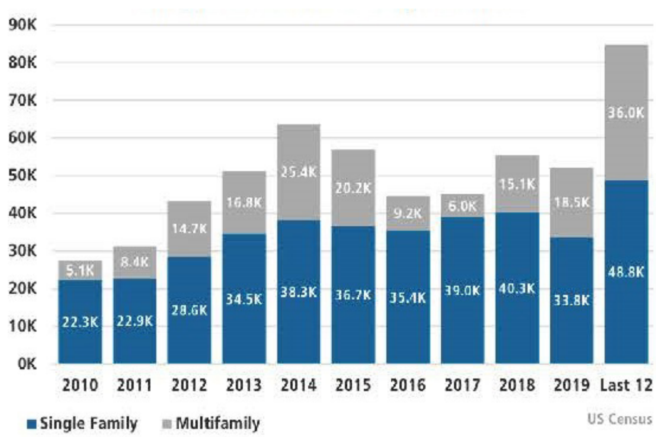
Austin Single Family & Multi-Family Permits



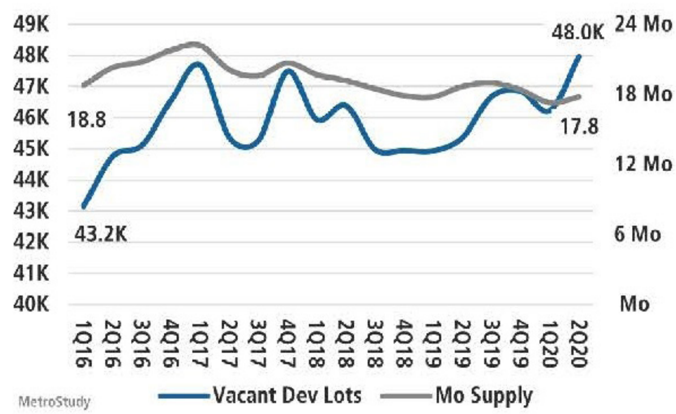
Austin Vacant Developed Lot Supply



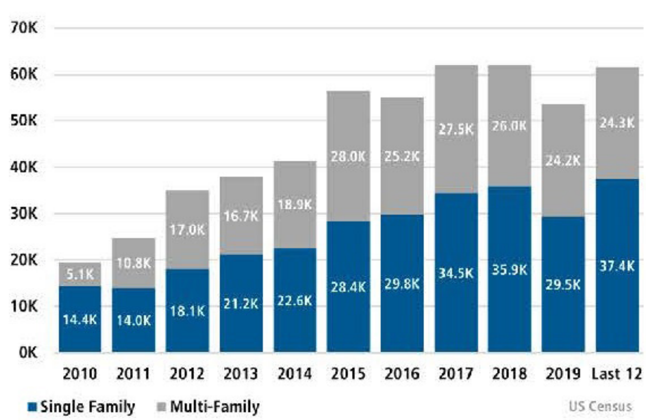
Houston Single Family & Multi-Family Permits



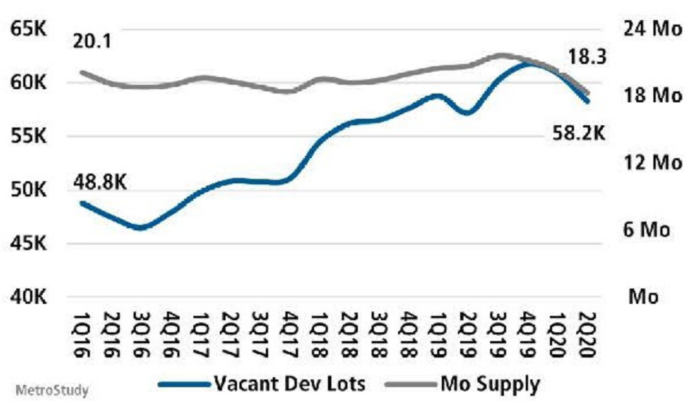
Houston Vacant Developed Lot Supply



Dallas Single Family & Multi-Family Permits

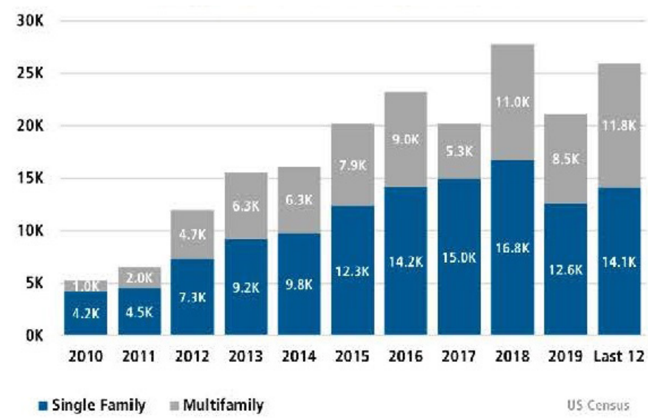


Dallas Vacant Developed Lot Supply

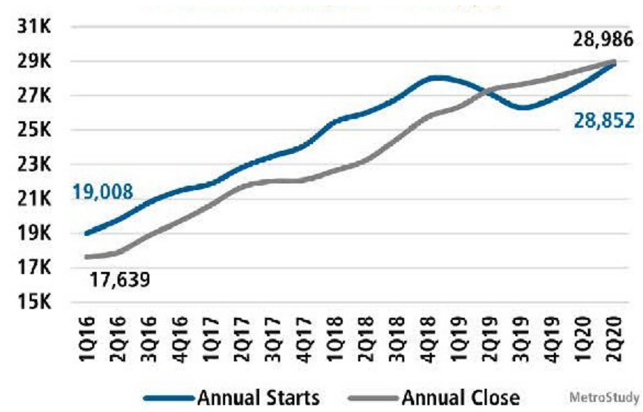


MARKETS AT A GLANCE - ORLANDO, TAMPA, CHARLOTTE (2Q20)

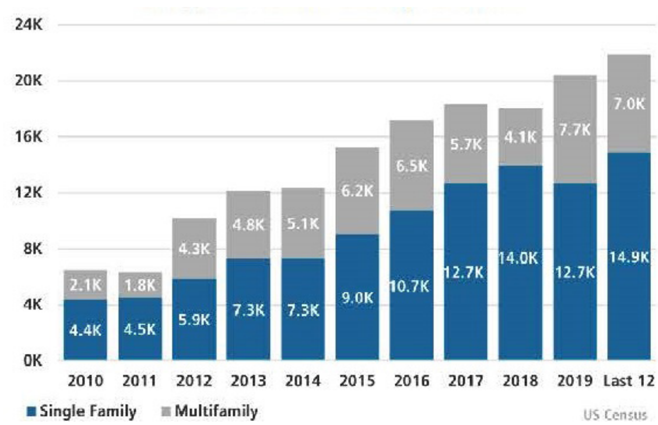
Orlando Single Family & Multi-Family Permits



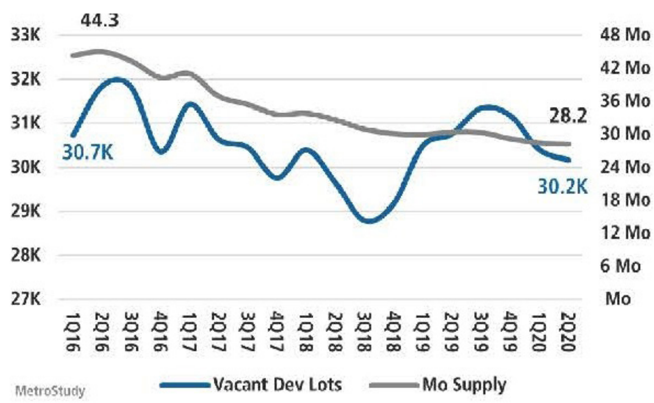
Orlando Vacant Developed Lot Supply



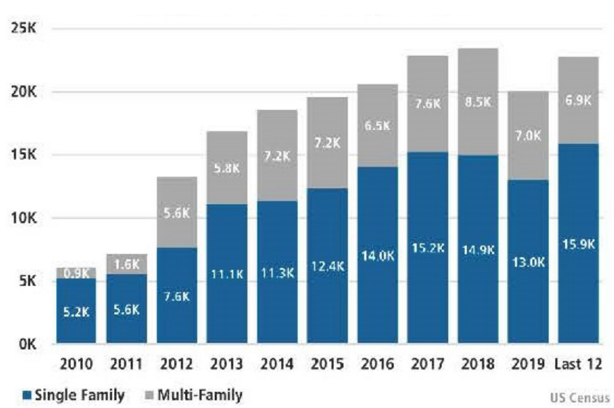
Tampa Single Family & Multi-Family Permits



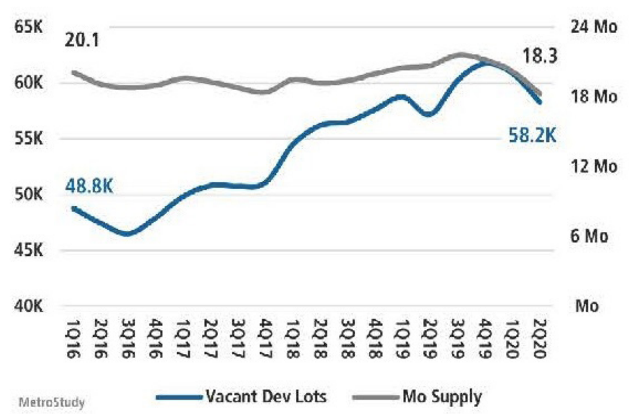
Tampa Vacant Developed Lot Supply



Charlotte Single Family & Multi-Family Permits



Charlotte Vacant Developed Lot Supply



The Guest Corner

In this issue of The Launch Report, we are privileged to be able to provide the insights of Randall Lewis, Executive Vice President of the Lewis Group of Companies, a large master planned community developer located in Southern California, into the key success factors of master planned community development.

Observations on Master Planned Community Development

By: Randall Lewis

I am often asked about the key factors in developing a successful master-planned community. While our company has learned enough lessons to publish a book on the subject, for purposes of this writing I have tried to limit the discussion to those items that I believe are the linchpins of a successful master-planned development.

Manage Your Up Front Costs

More than ever, real estate cycles have become unpredictable with quicker and more dramatic swings in the market, and as such, it is imperative to manage your up-front costs so that you can weather a downturn in the market. Key items to consider include:

- *Limiting the amount of debt placed on the acquisition of the property* - If purchasing the land with cash is not an option, consider joint venturing with a landowner who will contribute the land to the venture.

- *Only constructing the infrastructure which is necessary to achieve the first revenue event* - Consideration should be given to reducing, eliminating, and/or deferring those improvements that are not necessary. It is important to not carry the debt associated with constructing more infrastructure than that required to activate the project.

- *Phasing* - It is important to think critically about your phasing so that you bring to market a sufficient supply of lots to satisfy the guest builders' needs at a cost that allows you to minimize upfront infrastructure costs.

- *Amenities / Placemaking* - In relation to providing project amenities, it is necessary to construct sufficient amenities to activate the community and give the guest builders and home buyers a tangible understanding of the level and quality of amenities, however, not all amenities have to be constructed at once and made available for use on opening day. Community amenities may be phased overtime however, the home builders and home buyers should see and touch enough of the amenities to believe that the master developer will provide all the promised facilities over time.

Observations on Master Planned Community Development
Continued

Product Segmentation

More than ever, real estate cycles have become unpredictable with quicker and more dramatic swings in the market, and as such, it is imperative to manage your up-front costs so that you can weather a downturn in the market. Key items to consider include:

Protect the Guest Builders

Make sure that you protect the guest builder's via market segmentation and selection of appropriate builders for each marketing niche. While it is acceptable to have some similarities between product offerings and pricing, too much overlap will impact the guest builder sales. By protecting the guest builder's market segments, and thereby their sales, you will gain their confidence and have a stable of guest builders for the next phase of development.

Mix of National and Regional / Local Builders

While it is safest for a master developer to only sell lots to national builders, consideration should be given to allowing regional and local builders to build within the community. Regional and local builders sometimes can be more in tune with local architectural styles and practices and can provide differentiation to the offerings provided by the national builders.

Product Differentiation

While the MPC will have varying lot sizes, do not think of your product differentiation as 50, 60 and 70 foot wide lots. In my opinion, this type of thinking can be limiting.

To use a restaurant analogy, it is like thinking of your project in terms of only selling single, double, or triple cheeseburgers. Think about your products differently. Give the home buyers variety and choices. Keeping with the restaurant analogy, offer home buyers a build-a-burger, salad bar, and ramen noodles. This could include having an offering in which the builder includes everything as part of the home purchase price and a builder that offers a simple base home that can be specifically customized through a design center. This way you are selling convenience on one end of the spectrum and affordability and choice on the other.

Pay Attention to Floor Plans

It is always important to pay attention to floor plans but in the post-COVID-19 future it has greater importance. With parents working remotely and kids being home-schooled, the great room concept has fallen out of favor with some home shoppers, and many buyers are looking for floor plans with designated work and study areas. The point is to constantly communicate with guest builders about how homes are being utilized and adapt the floor plans to meet evolving living patterns and tastes.

Observations on Master Planned Community Development

Continued

Do not Forget the For Rent Market

While most developers think of their master plan as primarily a collection of suburban single-family home offerings with some multifamily and retail/commercial offerings, they should not neglect the potential benefits of rental products. The inclusion of a single-family for-rent home offering can help your project get out of the starting blocks and generate activity for the community. Multifamily offerings, whether standard garden apartment buildings and/or single-family for rent projects can also generate interest in the community that could turn renters into future home buyers.

Marketing

A segment of the home-buying public loves master plans and will always buy in a planned community. Another segment of the market dislikes the regulation of the homeowner's associations and will rarely buy in such a community. Another part of the market does not have a strong opinion in relation to master-planned communities, and it is to this group that the master developer should increase marketing efforts.

This segment of the market is unfamiliar with master-planned communities, and as a result they are unsure what they are buying. They may feel that they're buying a "home" or a "security gate" or a "recreation center", but what they are really purchasing is much more. They are buying a bundle of goods that could include fitness centers, sport courts, resort pools, walking trails, security, maintenance free living, organized social events, package receiving, farmers market, community gardens, golf, open spaces, parks, pocket parks, architectural controls, schools, integrated retail service and activities planning. Preferences for these items is always changing, and it is important to monitor home buyers' priorities. For instance, given the COVID-19 pandemic, buyers are currently more interested in open space, parks, and trail offerings, as opposed to fitness centers.

Mini-Master Plans

In the past, developers tended to think of master planned communities as 500+ acre projects on the periphery of metropolitan areas. They thought they could allocate the costs of the infrastructure against more land and lots thereby increasing project returns. The challenge in seeking entitlements on such large projects is that the jurisdictions ask you to solve all their infrastructure challenges, and the complexity of the project's entitlements increase, as do the costs. Sometimes it makes sense to pursue such projects, and sometimes developers should avoid concentrating so much capital and risk in one spot.

It may make sense to think in terms of "mini-master plans" ranging in size between 50 and 300 acres. In my experience with smaller projects, the jurisdictions typically do not ask you to solve all their infrastructure issues, thereby keeping entitlement issues and infrastructure costs manageable. Secondly, with smaller master plans you can get in and out of the project much quicker while using all the typical place-making techniques to create a sense of place, albeit on a smaller scale.

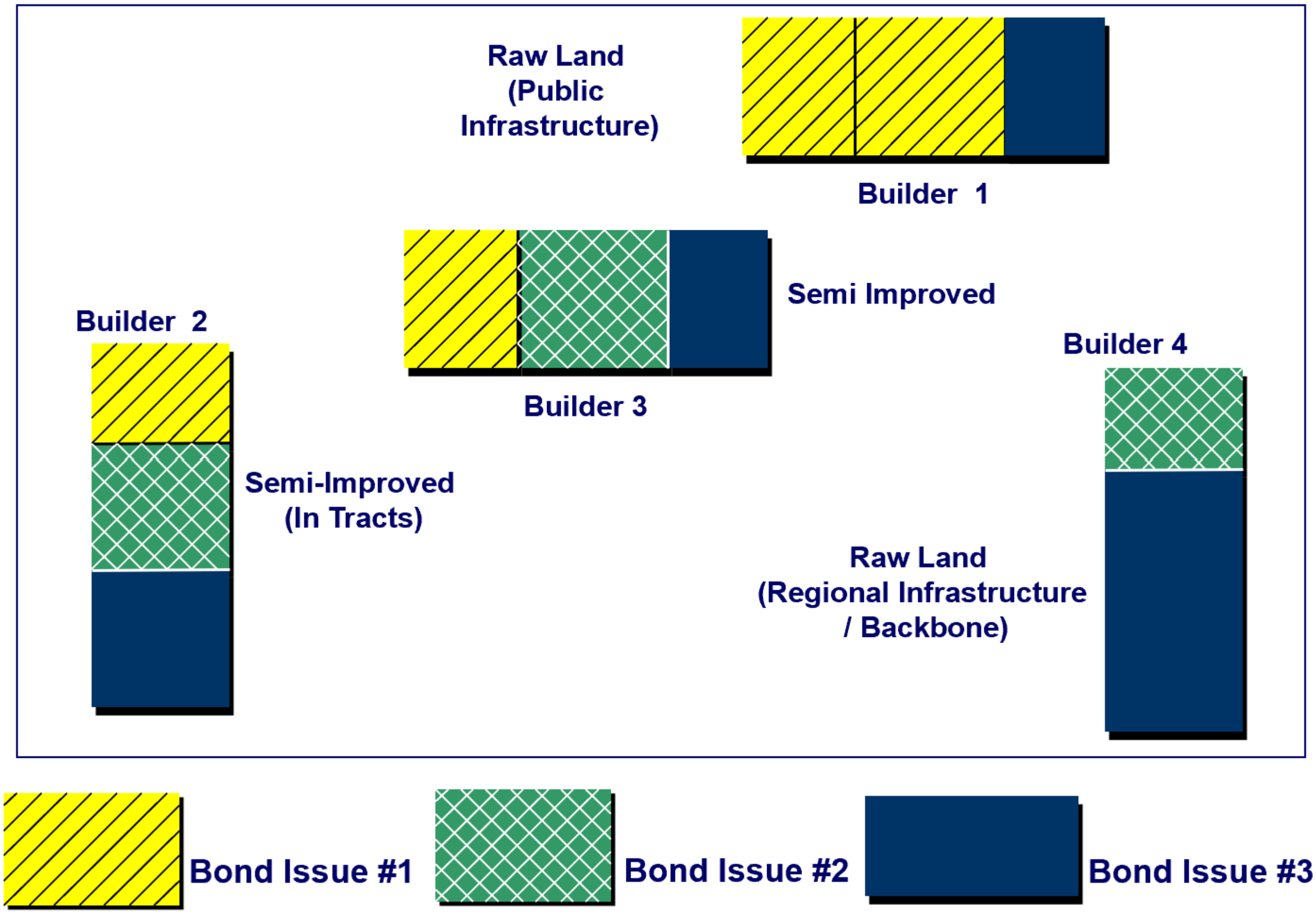
Randall Lewis is the Executive Vice President of the Lewis Group of Companies, which has over a dozen planned community developments throughout California and Nevada. The company has land for more than 30,000 future homes and apartments. The company also owns over 30 shopping centers and is a major developer of industrial projects.

Builder Districts™

By Pam Giss

Public finance tools have traditionally been used to construct or reimburse developers for public infrastructure projects that support large master-planned communities and mixed-use projects. With population growth pushing development further away from existing utilities and roads, infrastructure costs are getting costlier. Builders find themselves handicapped with smaller projects that cannot independently support the costs of a special taxing district while still needing to construct costly infrastructure to serve their project.

The Builder District Model™ ("Builder District(s)") solves many of these issues. Builder Districts allow homebuilders with smaller projects to finance public improvements related to raw or semi improved land holdings by pooling contiguous or non-contiguous projects located within the same jurisdiction to create one special taxing district. Projects can be developed by multiple builders and are not cross-collateralized. Builder District financing does not require identical construction phasing, and builders can pay for public infrastructure specifically related to their project. The following diagram provides a simplistic example of how Builder Districts operate.



Builder Districts™ may be created using the following financing vehicles; in Arizona, community facility districts or revitalization districts; in Idaho, community infrastructure districts or local improvement districts; in Utah, public improvement districts; Nevada, local improvement districts and in New Mexico public improvement districts.

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Builder Districts™

Continued

The diagram on the preceeding page assumes that each of the four builders are developing projects on non-contiguous tracts in the same jurisdiction. Collectively, the builders create one (1) Builder District over all their properties with the authority to issue special assessment bonds only and levy a special assessment lien on each benefiting parcel/lot within the phase being developed by that particular builder. The amount of the special assessment lien will correspond to the benefit the parcel / lot receives from the public infrastructure financed through the Builder District. The Builder District is established so that it has authority to issue special assessment bonds to fund the construction and/or acquisition of the public infrastructure related to each separate builder improvement area (e.g. project).

In the example above, in year one, Builder 1 is assumed to finance an offsite roadway; Builder 2 finances intract lot improvements and Builder 3 finances a lift station and related sewer lines. The Builder District issues special assessment bonds to pay for the public infrastructure necessary to support those project phases in year one (Bond Issue #1).

In year three (3), Builder 2 finances a detention pond and public park, Builder 3 finances a segment of arterial road and Builder 4 finances sewer lines. The Builder District could issue special assessment bonds (Bond Issue #2) to pay for the public infrastructure necessary to support these phases of development.

Each builder can decide when to levy the special assessments on their respective project. If Builder 1 levies the special assessment lien on all parcels / lots in its subdivision in year one (1) to pay for public infrastructure and then defaults, the Builder District can only foreclose on Builder 1's delinquent parcel / lot liens but not on any other builder that is not delinquent in making their respective payments.

The costs associated with Builder District formation, administration and bond issuance are shared by all builders participating, thus reducing the cost to each builder. The Builder District allows smaller projects to take advantage of the special tax districts which have typically be reserved for larger master planned communities and allows these smaller projects to participate in the financing advantages provided by the public debt markets to efficiently fund public infrastructure supporting each builder's respective community.

Pam Giss is a Principal in the Scottsdale, AZ office. Pam maybe reached at 480-874-4358 or email at pamelag@launch-dfa.com.

California Special Taxing District Options through Statewide JPAs – SCIP and BOLD

By Justin Rich

Developers and home builders (collectively "Developers") in California can use special taxing districts to finance public infrastructure and partially offset the cost of developing land and building homes. Through this mechanism, the cost of the improvements and/or development fees are passed on to the end user in the form of special tax levies or assessments used to repay bonds. Special taxing districts may be led by local agencies that serve a development project (e.g. County, City, School District, Water Authority) or they can be led by statewide joint powers authorities ("JPAs") that will lead and administer the districts.

Many California Developers are familiar with the Statewide Community Infrastructure Program ("SCIP"), which is administered by the California Statewide Communities Development Association ("CSCDA"). Recently, the Bond Opportunities for Land Developers ("BOLD") program was established by the California Municipal Finance Authority ("CMFA"). Both are statewide JPAs that may be used to finance eligible improvements. In the following paragraphs we compare and contrast these two programs.

Shared Characterisitics

First, both SCIP and BOLD are pooled financing programs that can be used to fund infrastructure. Pooled financings allow what would otherwise be smaller financings to be combined to achieve better pricing (interest rates) and lower costs (costs of issuance). Certain institutional buyers prefer larger transactions and pooled financings can attract buyers that may not be interested in small stand-alone transactions, thus creating more competition, and lowering interest rates. Additionally, larger financings can provide economies of scale by lowering the proportional costs of a transaction. Lower interest rates and lower issuance costs can increase the amount of net construction proceeds available for eligible improvements.

Second, both SCIP and BOLD allow local agencies to outsource the administration and liability for the special taxing district to the JPA. A local agency does not have to take on the administration of the district nor does it take on any financial responsibility or liability of the district. Additionally, both programs are structured such that they look similar from jurisdiction-to-jurisdiction.

Finally, both SCIP and BOLD have similar processes for establishing a district, which generally involves the local agency only have to pass two resolutions. For jurisdictions that do not have experience with community facilities districts ("CFDs") or assessment districts, and generally would not entertain such an option, using a JPA can be a palatable compromise. This is especially true when a jurisdiction is motivated to have the project move forward but does not want to administer the district.

Differentiating Factors

The main difference between the two programs is related to the type of special taxing district each represents. The SCIP program is a benefit assessment district (authorized by the Improvement Act of 1913) while the BOLD program is a CFD (authorized by the Mello Roos Act of 1982). It is important to note that CSCDA may also form CFDs as an alternative to their SCIP program, but generally require a minimum bond size of roughly $5 million.

California Special Taxing District Options through Statewide JPAs – SCIP and BOLD

Continued

Facilities Funded

The SCIP program can fund both impact fees and infrastructure that provide "special benefit," in accordance with the Improvement Act of 1913. While this covers a wide range of infrastructure projects and impact fees, it does not apply to improvements that are deemed to have a "general benefit," such as schools and/or school fees.

On the other hand, the BOLD program has greater flexibility because it involves CFDs. School fees and facilities are eligible improvements that can be funded through the BOLD program, which can be a substantial sum of money for California Developers.

Annual Escalation

In accordance with the law, annual assessments are generally fixed and not subject to annual increases. For the SCIP program, this feature requires bonds to be issued with roughly level annual debt service. Level debt service will generate less in bond proceeds compared with a bond structure with escalating debt service.

CFD special taxes, on the other hand, can escalate annually and generally have provisions to increase by 2 percent per year. For the BOLD program, this allows for escalating bond debt service, which will generate more proceeds to fund eligible improvements, all else being equal. For the sake of comparison, this could represent an increase of over 30 to 40 percent in proceeds for eligible improvements.

Once again, it is important to note that CSCDA can also form CFDs for certain projects, which would allow the annual special tax to escalate and, thus, generate more in proceeds than that create by the use of the SCIP assessment program.

Program History

Another major difference between the SCIP and BOLD programs involves their history. SCIP was established in 2003 and has issued nearly $700 million in bonds. They are also approved with 111 jurisdictions and are well known amongst industry participants.

BOLD, on the other hand, is a relatively new program that was created in 2018 and has one bond sale of $7.7 million to its credit. While the program is new, CMFA (the JPA responsible for the program) is not, and they have issued over $20 billion in bonds for programs such as the Property Assessed Clean Energy ("PACE") program. Currently, the BOLD program is approved by 17 local agencies statewide, however, they count over 300 local agencies as members of CMFA.

Conclusion

Both the SCIP and BOLD programs offer benefits to developers seeking to finance the development fees and/or public infrastructure required for their projects. Each program has unique benefits that may be suitable for one program over another. It is important to assess the project characteristics, the local agencies that serve the project and financing goals to determine what program may be most suitable. For questions about a specific project, contact Launch for a project assessment to understand the specific benefits related to your project.

Justin Rich is the Managing Principal of the Irvine, CA Office. Justin may be reached at justinr@launch-dfa.com or at 949-500-3432.

Idaho Growth Paying for Growth?

By Kent Rock

Does Idaho growth pay for itself? It depends.

One of the frequent complaints in growing Idaho communities is that existing residents have to pay for the impacts of newcomers. This doesn't have to be the case. If managed correctly, public entities can establish the means for the growth to pay for itself. Among the financing vehicles available to address this issue are development impact fees and special purpose taxing districts. Given these two available financing vehicles how do they stack up to one other?

Development Impact Fees:

Development impact fees ("DIFs" and/or "Fees") have been around for years. In Idaho, the enabling legislation allowing DIFs was passed in 1992. DIFs, fund streets, water, sewer, storm drain, police, fire, parks, and other public facilities. By definition, DIFs are a means for growth to pay for growth as they are only levied on new construction. A significant problem, however, is that as DIFs are paid at the time of building permit and as such, the funding comes too late to finance the infrastructure necessary to service growth in a timely manner. Thus, growth as already arrived; however, the infrastructure required by growth has not yet been financed causing additional stress on existing infrastructure.

Other challenges arise in the way the DIFs are estimated which lead to challenges with the development community. These challenges include but are not limited to: (i) overly aggressive land use or growth projections; (ii) inflated land and/or construction costs; (iii) funding levels of service in excess of those currently being provided; (iv) other infrastructure funding sources ignored or improperly applied; (v) using Fees to correct current levels of service deficiencies within the jurisdiction; (vi) DIF studies not compliant with the state's enabling legislation; (vii) lack of service areas; and (viii math and/or logic errors.

Local Improvement Districts and Community Infrastructure Districts:

Local Improvement Districts ("LIDs") and community infrastructure districts ("CIDs") (collectively "Districts") are special purpose taxing districts that can be established by a public entity to issue tax exempt bonds, to fund the construction of public infrastructure required for a specific development project.

District bonds allow infrastructure to be paid for at the time the infrastructure is constructed and are repaid through annual tax levies and/or special assessment payments spread over as many as 30 years. Districts are more efficient than DIFs because the financing and improvements can be delivered in advance of growth. The financings are secured by liens against the related properties.

LIDs are overseen by the governing body of the entity creating the District. Properties within the district are subject to a special assessment that is used to pay for the required infrastructure. Bonds are issued and the assessment is paid in annual assessments over the life of the bonds and used to pay the annual debt service of the bonds. Only properties within the LID boundaries are required to pay the assessments.

Idaho Growth Paying for Growth?

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CIDs are similar to LIDs but usually have a broader choice of financing options. While LIDs can only issue special assessment bonds, CIDs allow both general obligation and revenue bonds in addition to special assessment bonds.

CIDs are a special district separate and apart from the jurisdiction that created them and can be used in combination with other financing mechanisms, such as LIDs. The assessments and levies are only billed to the properties within the District but can pay for any approved costs inside or, if they have a nexus to the district, infrastructure projects outside the district. As with LIDs, the CID bonds can be issued prior to the construction of the related infrastructure.

In these days where communities are justifiably concerned about the impact of growth on their infrastructure and on their respective tax burdens, Districts are, in the truest sense, growth actually paying for growth in a timely and efficient manner and are a much better means to finance public infrastructure than DIFs.

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Reducing Land Development Costs by "Double-Barrelling" Public Improvement Districts

By Steven Saules

Developers establishing a Public Improvement District ("PID") in a jurisdiction should also consider requesting a Tax Increment Reinvestment Zone ("TIRZ"). A TIRZ allow developers to either: (i) paydown the debt service on the PID, or (ii) create another revenue stream to finance infrastructure. When the TIRZ is utilized to paydown the PID, we call this structure a "double-barrel" financing. In this article we explore the power of double-barrel financing.

A. PID Background

PIDs are special purpose taxing districts allowed under Chapter 372 of Texas Local Government Code ("Code"). PIDs allow the issuance of tax-exempt bonds to construct and/or acquire authorized infrastructure. PID bonds are secured by special assessment liens on benefiting property within the district. The associated annual bond assessment payments are initially the responsibility of the developer and/or builder; however, eventually pass down to the end users of the property (e.g. homeowners). PID assessments are not shown on a property tax bill as an ad valorem property tax rate. However, determining the PID's "equivalent" tax rate helps to compare "equivalent" tax rates ("Tax Rate" and/or "Property Tax") across competitive developments.

Assume a developer ("Developer") is constructing a 500-lot community ("Subject Site"). As shown in **Table 1**, the Subject Site is competing with four projects with an average total Tax Rate of $2.70 per (or applied to) each $100 of assessed property value ("AV")). In this example, the Developer will need to maintain the Subject Site's Tax Rate at or below $2.70 to remain competitive.

Reducing Land Development Costs by "Double-Barreling" Public Improvement Districts
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Table 1: Competitive Project Tax Rates

Tax Rates	Competitive Project #1	Competitive Project #2	Competitive Project #3	Competitive Project #4	Competitive Project Average
Taxing Authorities [1]					
City	$ 0.70	$ 0.60	$ 0.70	$ 0.70	$ 0.68
County	0.20	0.20	0.20	0.20	0.20
Community College	-	-	0.08	0.08	0.04
Independent School District	1.50	1.44	1.40	1.40	1.44
PID [2]	0.70	0.70	-	-	0.35
Total Tax Rate	**$ 3.10**	**$ 2.94**	**$ 2.38**	**$ 2.38**	**$ 2.70**

Footnotes:
(1) Taxing authorities and rates are examples created for demonstration purposes only.
(2) Figures are "equivalent" tax rates based on assessment liens.

Table 2 details that the Subject Site's current Tax Rate of $2.40 is $0.30 less than that of the average tax rate of the competitive projects. As a result, the Subject Site can support an additional Tax Rate or PID Tax Rate of $0.30.

Table 2: Subject Site Supportable PID Tax Rate

Tax Rates	Competitive Project Average	Subject Site (Current)	Subject Site Supportable PID
Taxing Authorities [1]			
City	$ 0.68	$ 0.70	$ -
County	0.20	0.20	-
Community College	0.04	-	-
Independent School District	1.44	1.50	-
PID [2]	0.35	-	-
Total Tax Rate	**$ 2.70**	**$ 2.40**	**$ 0.30**

Footnotes:
(1) Taxing authorities and rates are examples created for demonstration purposes only.
(2) Figures are "equivalent" tax rates based on assessment liens.

After establishing a PID on the Subject Site, the PID can issue tax-exempt bonds at favorable interest rates. These interest rates are well below those rates of traditional debt and equity. After assessment bonds are issued, the Developer will only be obligated to debt-service payments on those lots that have not yet been sold. The PID bond allows the Developer to achieve a lower weighted average cost of capital by replacing higher cost financing with lower cost financing. Continuing with our example, let's assume that the $0.30 Tax Rate is not sufficient to make the Subject Site financially feasible. Furthermore, any additional Tax Rate on the Subject Site above $0.30 will make it uncompetitive with the surrounding projects. In this instance, how can a TIRZ help to advance development?

B. TIRZ Background

TIRZ are areas designated within a city and/or county pursuant to Chapter 311 of Code to promote economic development. TIRZ allow taxing authorities that levy property taxes in a proposed TIRZ to contribute property tax increment to the Developer for infrastructure costs. This tax increment is based on the enhanced property value that occurs as a result of the new development. Many cities in Texas are incentivizing landowners to annex their property into the city's boundaries by offering the establishment of a PID and/or a TIRZ. This is more prevalent now after the passage of House Bill 347 in 2019, which ended city's ability to force annexations. Assume that the City in our scenario has also approved the establishment of a TIRZ and agrees to contribute 50% of City property tax increment, or $0.35 out of their $0.70 tax rate as shown in **Table 3**. As a result of the TIRZ subsidy, the Subject Site Tax Rate is effectively reduced from $2.40 to $2.05.

Table 3: Subject Site Tax Rate with TIRZ

Tax Rates	Subject Site (Current)	TRIZ Contribution	Subject Site (with TIRZ)
Taxing Authorities [1]			
City [3]	$ 0.70	$ (0.35)	$ 0.35
County	0.20	-	0.20
Community College	-	-	-
Independent School District	1.50	-	1.50
PID [2]	-	-	-
Total Tax Rate	**$ 2.40**	**$ (0.35)**	**$ 2.05**

Footnotes:

(1) Taxing authorities and rates are examples created for demonstration purposes only.

(2) Figures are "equivalent" tax rates based on assessment liens.

(3) Assumes City will contribution 50% of City Tax rate.

Table 4 below illustrates that the effective reduction of the Subject Site Tax Rate to $2.05, as a result of the TIRZ, allows the Developer to layer on $0.65 in a PID Tax Rate while still remaining competitive.

Table 4: Subject Site Supportable PID Tax Rate (with TIRZ)

Tax Rates	Competitive Project Average	Subject Site (with TIRZ)	Subject Site Supportable PID (with TIRZ)
Taxing Authorities [(1)]			
City	$ 0.68	$ 0.35	$ -
County	0.20	0.20	-
Community College	0.04	-	-
Independent School District	1.44	1.50	-
PID [(2)]	0.35	-	-
Total Tax Rate	**$ 2.70**	**$ 2.05**	**$ 0.65**

Footnotes:

(1) Taxing authorities and rates are examples created for demonstration purposes only.

(2) Figures are "equivalent" tax rates based on assessment liens.

Table 5, on the following page illustrates the financial impact to the Subject Site's Tax Rate across our previous three scenarios; (A) No PID; (B) PID; and (C) PID + TIRZ. Scenario B and C result in the same total Tax Rate of $2.70 and total annual Property Tax payment of $9,450 ($350,000 home). In Scenario C however, the $0.35 TIRZ subsidy allows the PID to issue assessment bonds with an equivalent PID Tax Rate of $0.65. The Subject Site assessment lien per lot increases to $32,600; estimated net PID bond proceeds increase to $13MM; and total net PID proceeds as a percentage of total development costs increase from 20% to 43%. While the Subject Site was not financially feasible under Scenarios A or B, the "double barrel" financing of the PID and TIRZ allows the project to move forward.

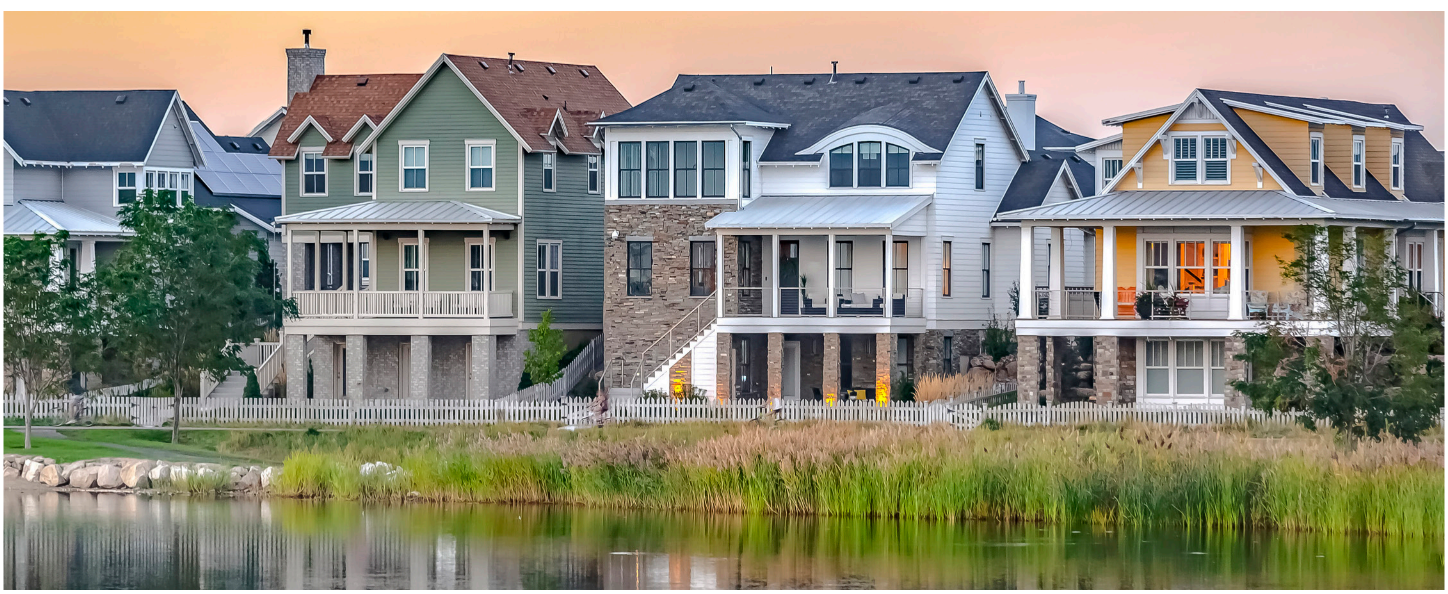

Table 5: Financial Impact

	(A)	(B)	(C)
Scenario	**No PID**	**PID**	**PID + TIRZ**
Home Owner Tax Rate [1]			
Base Ad Valorem	$ 2.40	$ 2.40	$ 2.40
PID Assessment Equivalent	-	0.30	0.65
TIRZ Ad Valorem Contribution	-	-	(0.35)
Total Equivalent Tax Rate	**$ 2.40**	**$ 2.70**	**$ 2.70**
Home Price	$ 350,000	$ 350,000	$ 350,000
Home Owner Annual Tax Payment [2]			
Base Ad Valorem	$ 8,400	$ 8,400	$ 8,400
PID Assessment Equivalent	-	1,050	2,275
TIRZ Ad Valorem Contribution	-	-	(1,225)
Total Home Owner Annual Tax Payment	**$ 8,400**	**$ 9,450**	**$ 9,450**
PID Bond			
Assessment Lien per Lot [3]	$ -	$ 15,050	$ 32,608
Lots	500	500	500
Net PID Bond Proceeds [4]	$ -	$ 6,019,902	$ 13,043,122
Total Land Development Cost [5]	$ 30,000,000	$ 30,000,000	$ 30,000,000
Net PID Proceeds as % of Land Development Cost	**0%**	**20%**	**43%**

Footnotes:

(1) Tax rate per $100 of assessed valuation ("AV").

(2) Calculated frobym (1/100th) of Home Price multiplied by Tax Rate.

(3) Estimated using 5.50% tax rate, 30 year term, 1 year capitalized interest, and annual PID assessment payment.

(4) Estimated at 80% of gross bond proceeds; equal to lots multiplied by 80% of Assessment Lien per Lot.

(5) In-tract plus off-sites estimated at $60,000 per lot across by 500 lots.

	(A)	(B)	(C)
Scenario	**No PID**	**PID**	**PID + TIRZ**
Net PID Proceeds as % of Land Development Cost	**0%**	**20%**	**43%**
Capital Stack @ Cost%	**% of Capital Stack**	**% of Capital Stack**	**% of Capital Stack**
Senior Debt @ 12%	75%	75%	52%
Preferred Equity @ 22% [1]	20%	0%	0%
Limited/General Partners Equity @ 20%	5%	5%	5%
PID @ 5.5% [2]	0%	20%	43%
Capital Stack Funding	**100.0%**	**100.0%**	**100.0%**
Weighted Average Cost of Capital.	**15%**	**11%**	**10%**

(1) Net PID Proceeds are used to offset Preferred Equity cost first then Mezzanine Debt secondly.

(2) PID Bond rate is shown as 5.5%; however, calculated as 0.0% since it is passed on to homeowners.

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