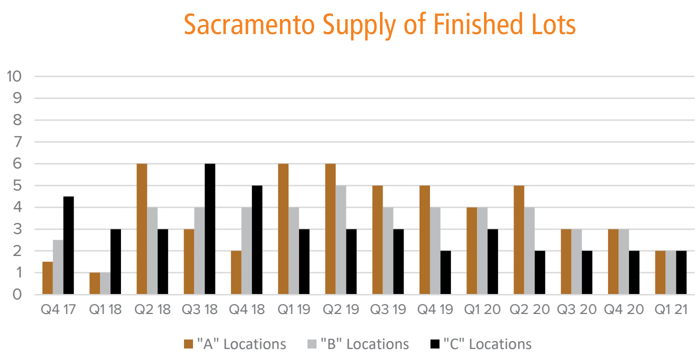
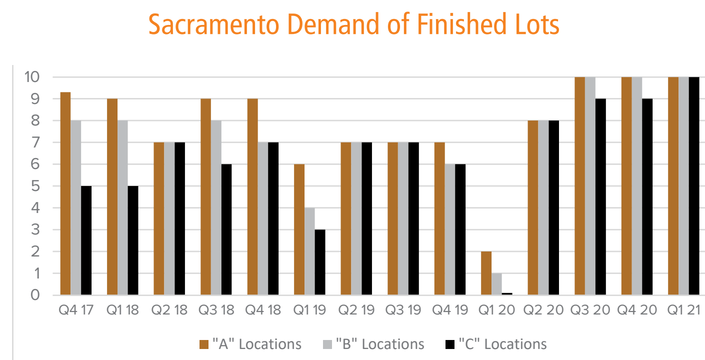
THE LAUNCH REPORT
1Q21 NEWSLETTER

LAUNCH
DEVELOPMENT FINANCE ADVISORS

RESIDENTIAL LAND SURVEY - CA - SACRAMENTO, BAY AREA, LOS ANGELES (1Q21)



Source: Land Advisors Organization



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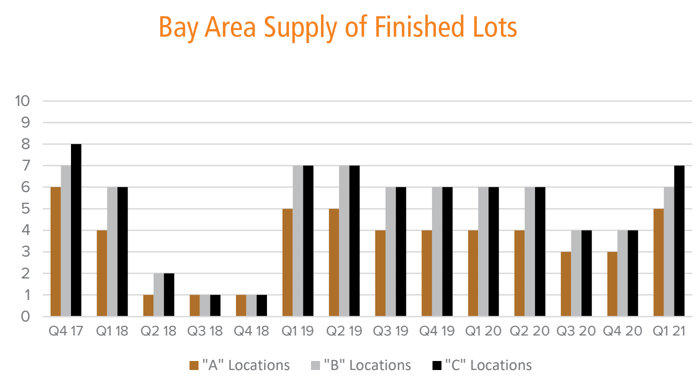

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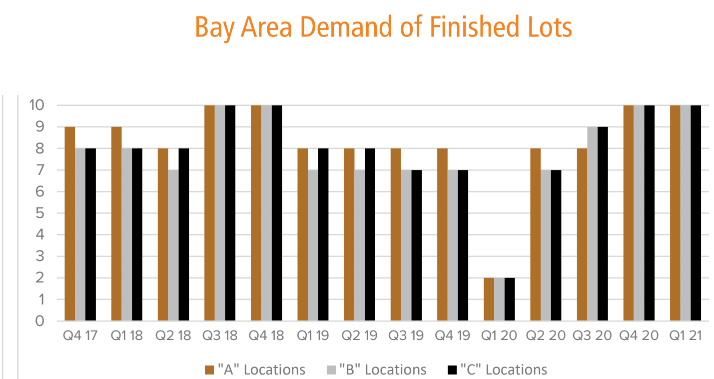

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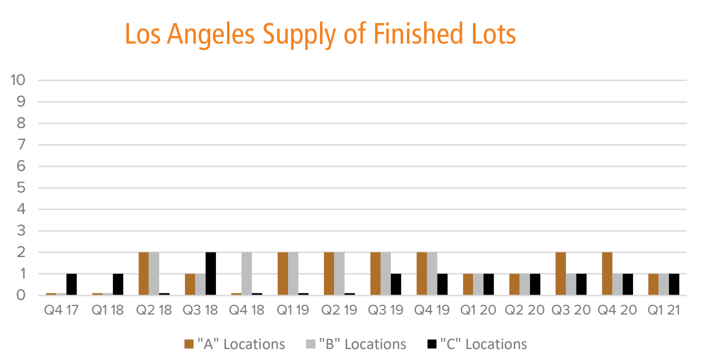
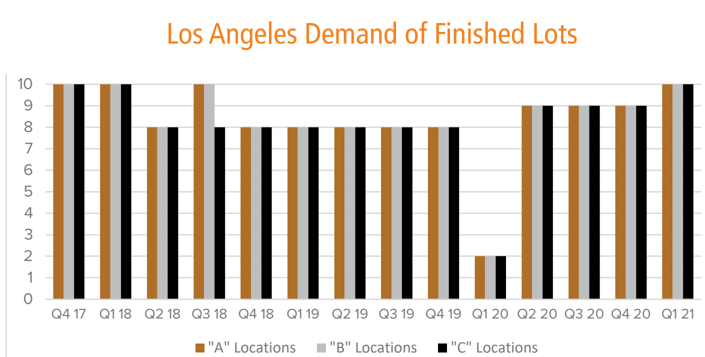


Source: Land Advisors Organization

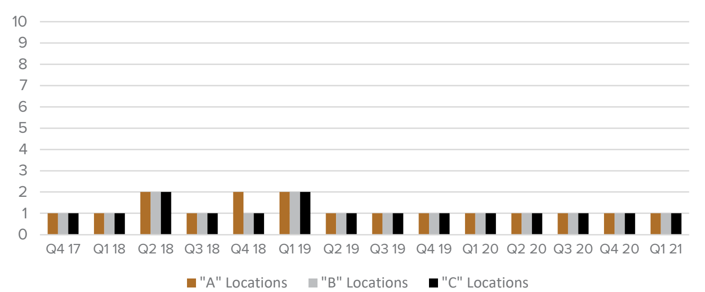
^^^Los Angeles Infill does not track FLVs



Source: Land Advisors Organization

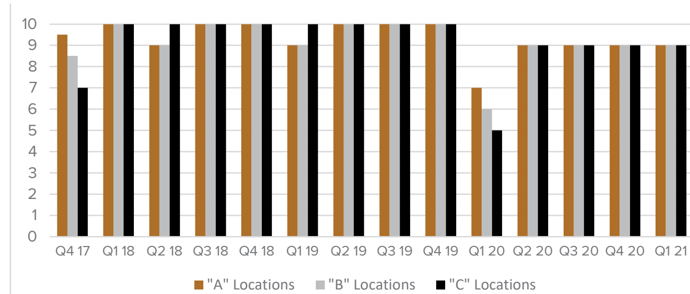
RESIDENTIAL LAND SURVEY - CA - ORANGE COUNTY, RIVERSIDE, SAN DIEGO (1Q21)

Orange County Supply of Finished Lots



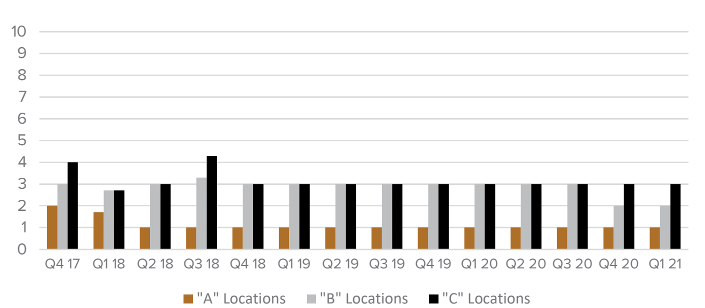
Source: Land Advisors Organization
^^^ OC has only started tracking FLV as of Q3 2019.

Orange County Demand of Finished Lots



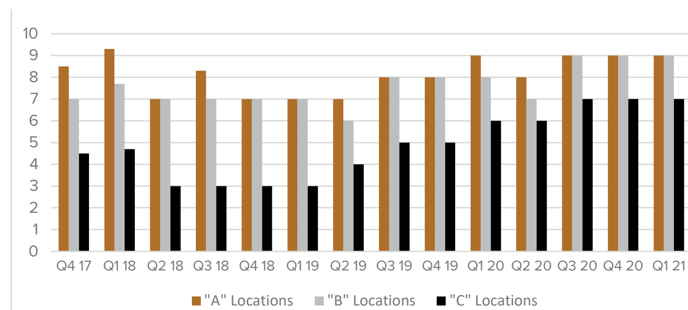
Source: Land Advisors Organization

Riverside Supply of Finished Lots



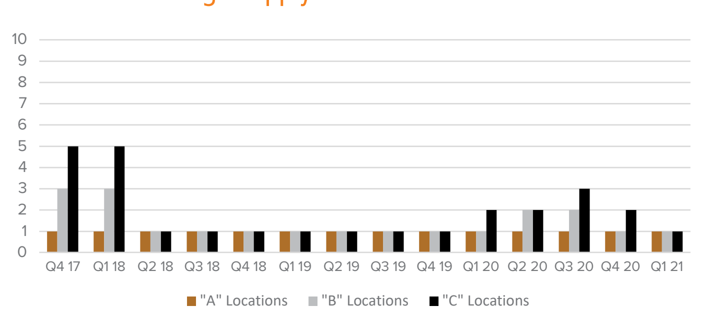
Source: Land Advisors Organization

Riverside Demand of Finished Lots



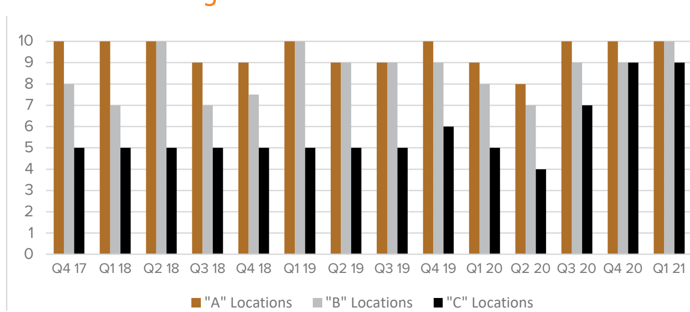
Source: Land Advisors Organization

San Diego Supply of Finished Lots



Source: Land Advisors Organization

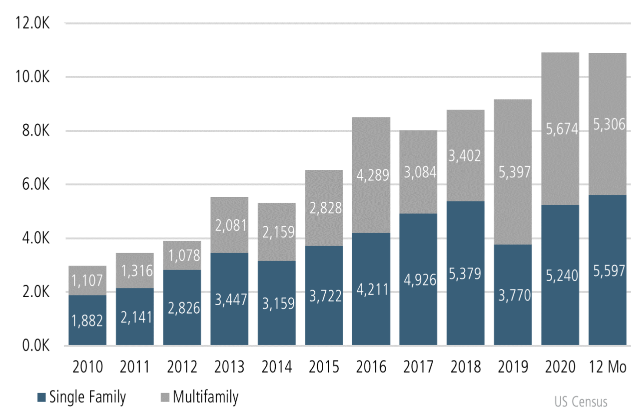
San Diego Demand of Finished Lots



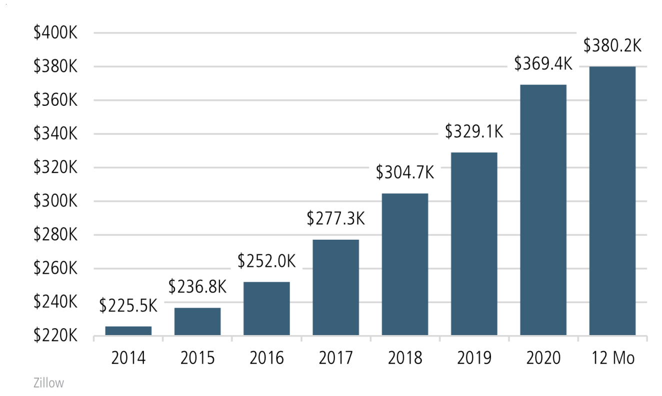
Source: Land Advisors Organization

MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (1Q21)

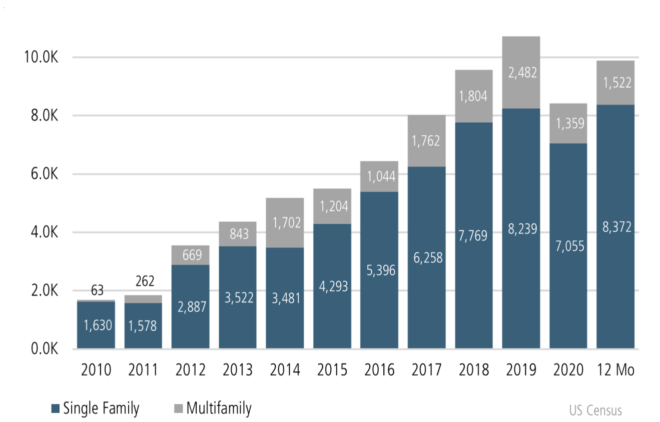
Utah Single Family & Multi-Family Permits



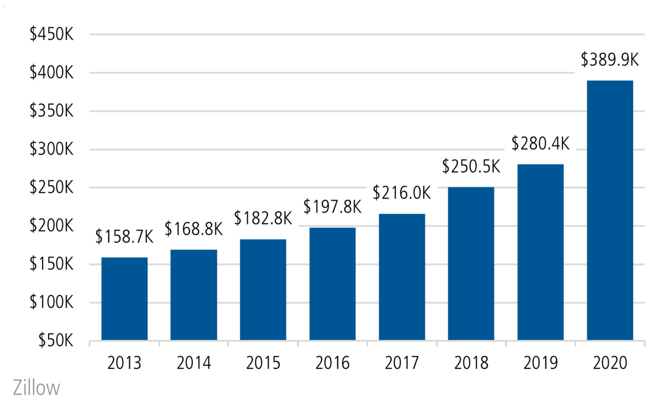
Utah Median Price New & Existing Homes



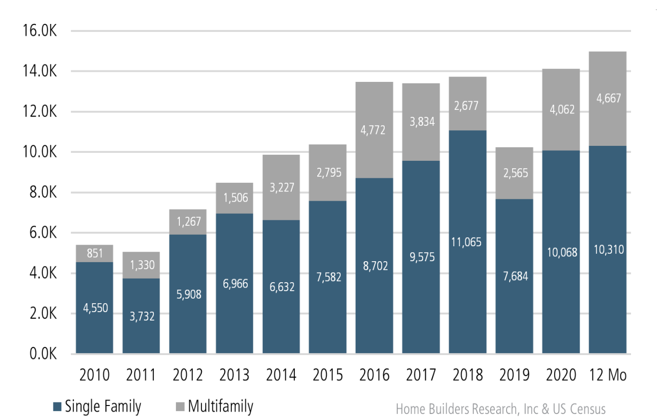
Boise Single Family & Multi-Family Permits



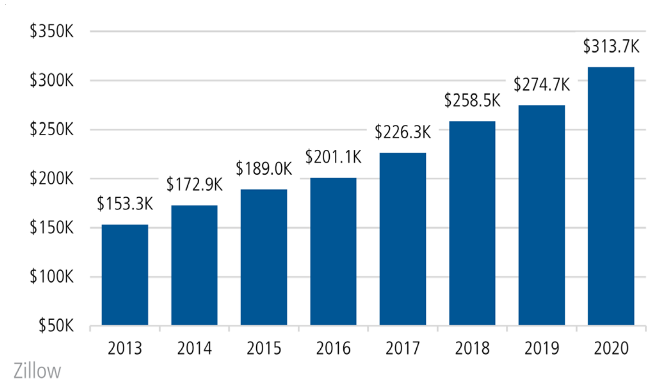
Boise Median Price New & Existing Homes



Las Vegas Single Family & Multi-Family Permits

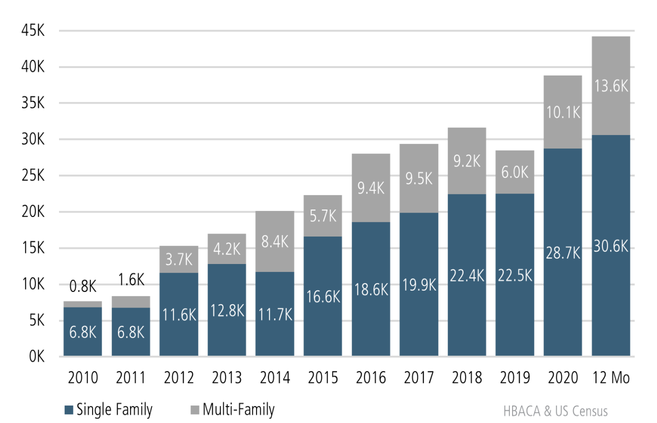


Las Vegas Median Price New & Existing Homes

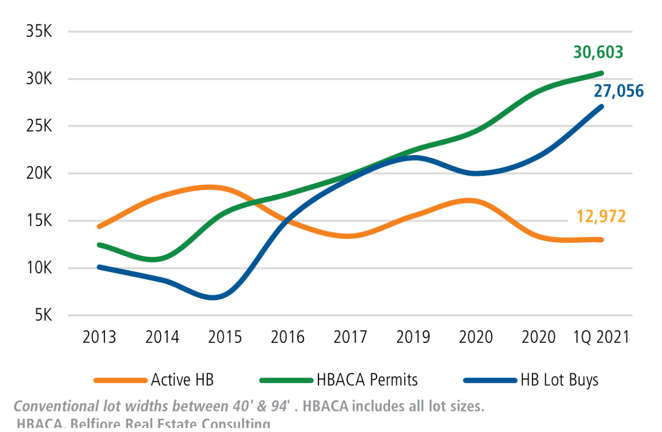


MARKETS AT A GLANCE - PHOENIX, RENO, TUCSON (1Q21)

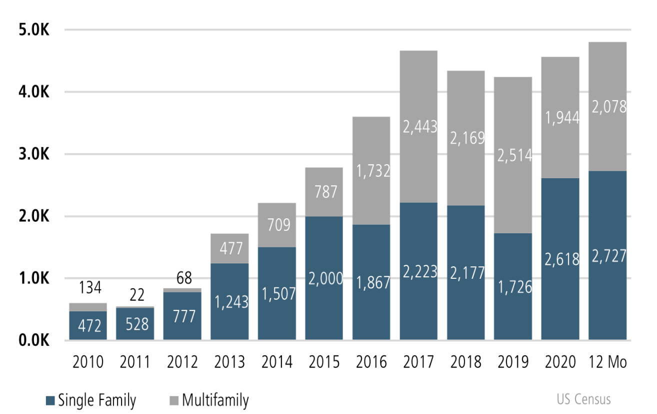
Phoenix Single Family & Multi-Family Permits



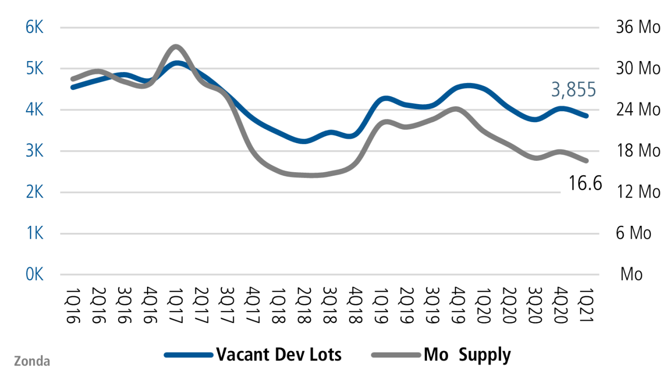
Phoenix Finished Lot Inventory vs. Permits



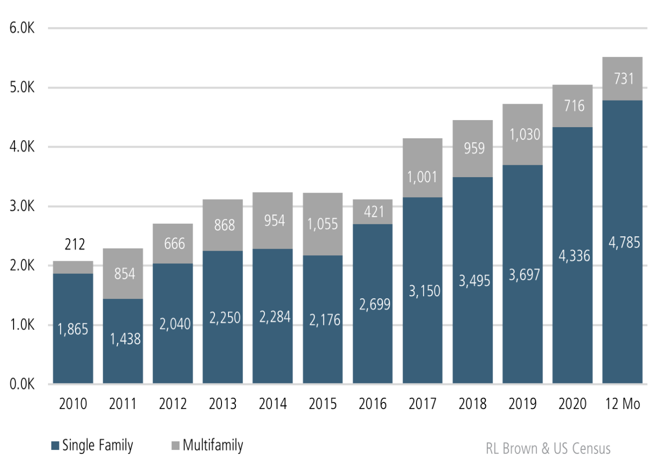
Reno Single Family & Multi-Family Permits



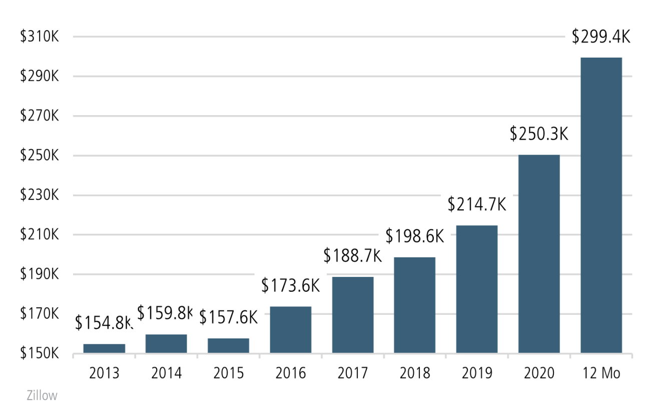
Reno New Vacant Developed Lots & Months Supply



Tucson Single Family & Multi-Family Permits

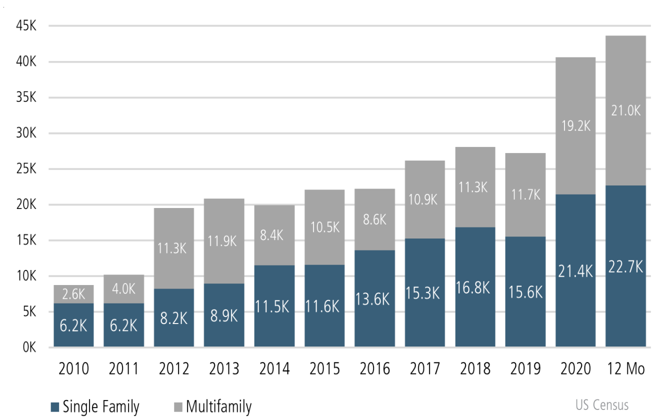


Tucson Median Price New & Existing Homes

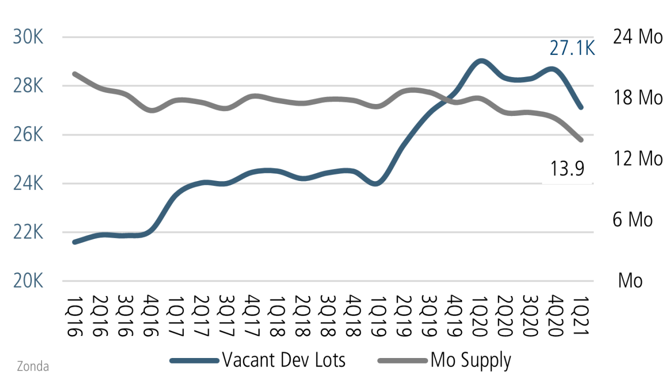


MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (1Q21)

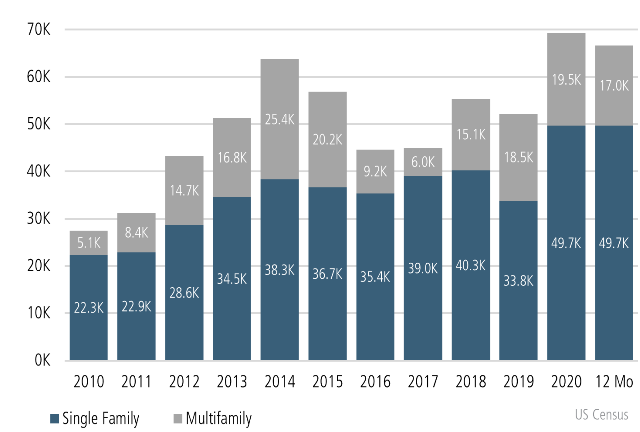
Austin Single Family & Multi-Family Permits



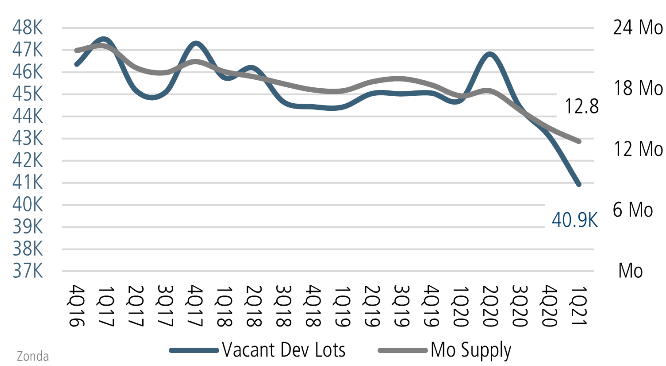
Austin Vacant Developed Lot Supply



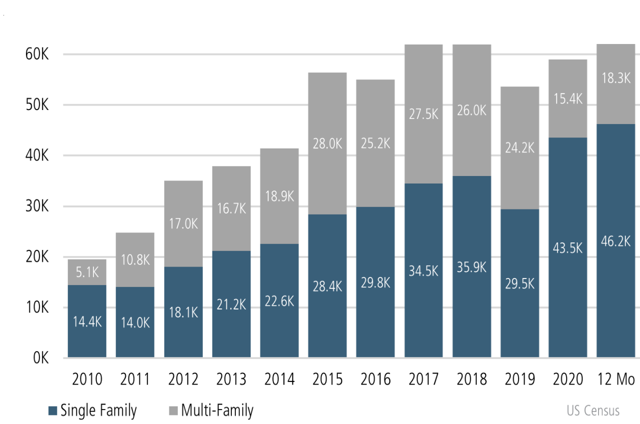
Houston Single Family & Multi-Family Permits



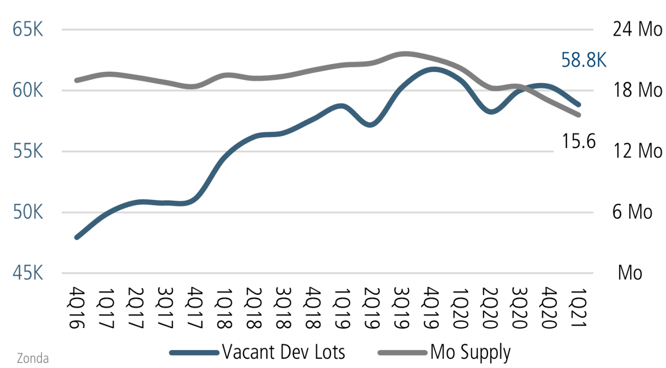
Houston Vacant Developed Lot Supply



Dallas Single Family & Multi-Family Permits

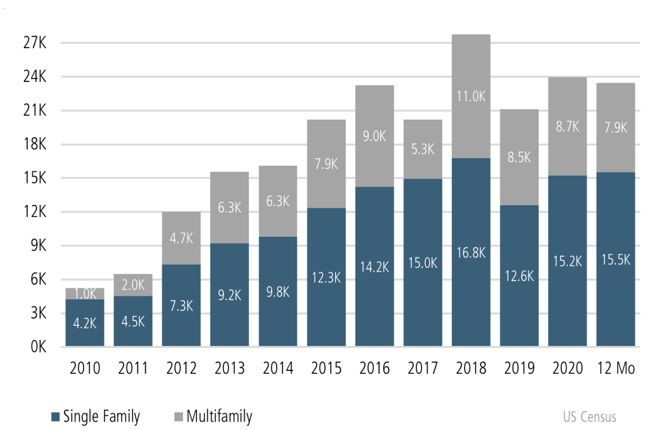


Dallas Vacant Developed Lot Supply

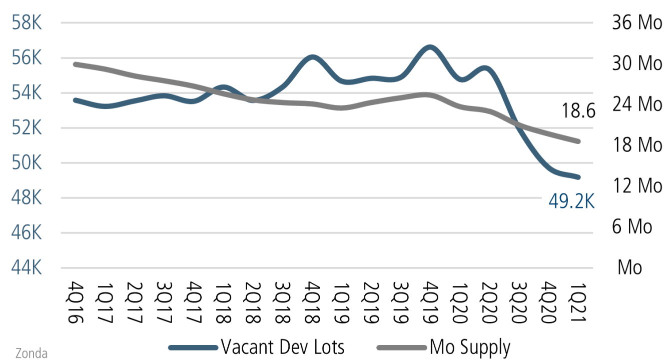


MARKETS AT A GLANCE - ORLANDO, TAMPA, CHARLOTTE (1Q21)

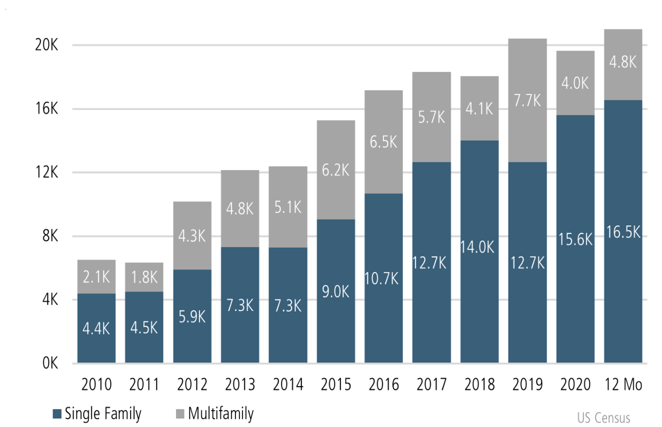
Orlando Single Family & Multi-Family Permits



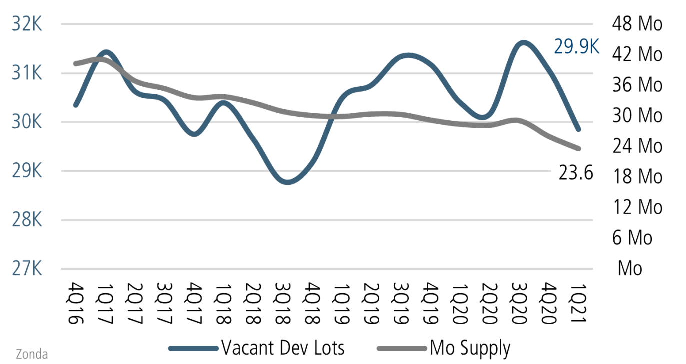
Orlando Vacant Developed Lot Supply



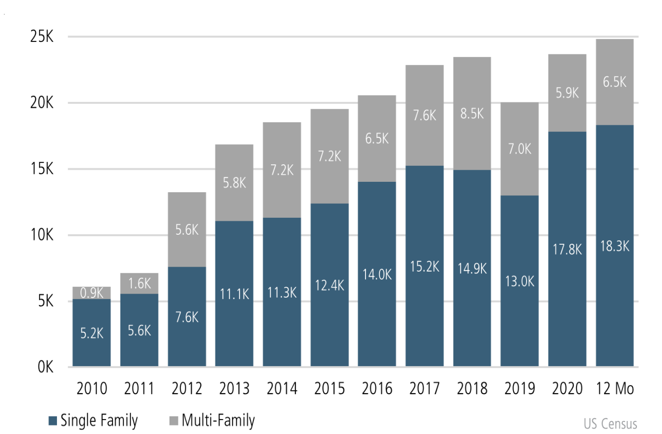
Tampa Single Family & Multi-Family Permits



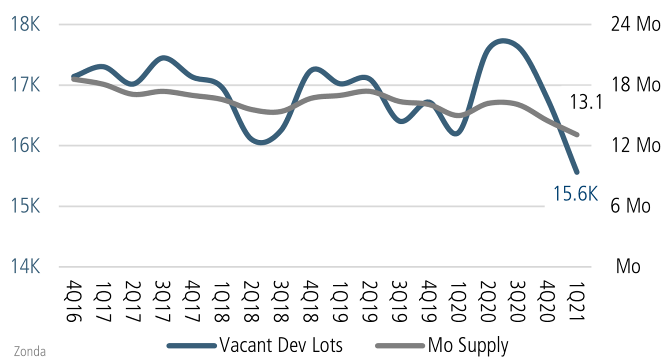
Tampa Vacant Developed Lot Supply



Charlotte Single Family & Multi-Family Permits



Charlotte Vacant Developed Lot Supply



A List of Lessons Learned - To Be Reviewed When Times Are Good

By Carter Froelich

Over the last 35 years I've had the great honor to work with the best and most successful developers in the country. During the same period, the United States has experienced five recessions and I've witnessed some my clients make fortunes and lose fortunes. Throughout the years, I've maintained a list of "lessons learned" and I have added to the list with every new mistake I've witnessed or experienced.

With the frothy residential real estate market it's easy to put the challenges, memories and learning experiences of the past far in rearview mirror. Therefore, when things are good, I like to bring out my list and go through the list with our clients (and myself) to see if we are making some of the same mistakes. If we are, we explore changes, rules and disciplines that can be employed to protect from repeating the same mistakes.

What follows is a portion of my lessons learned list (in no particular order). I hope that you find the list thought provoking.

1. Emotion and greed combined with easy access to capital produce economic disasters.
2. Financial engineering doesn't make a bad deal a good deal.
3. Raw land financed with debt eats 24 hours a day, seven days a week.
4. Facts and reality don't cease to exist just because you ignore them.
5. This week's market study has no bearing with where the economy and market is heading or what demand will be next year.
6. Never delay corrective actions to address a problem once it's been recognized. Procrastination will only magnify the problem.
7. A bad economy doesn't create financial challenges, it reveals them.
8. Don't finance long term assets with short term debt.
9. Fudging the numbers in an excel spreadsheet to make the deal "work" is never a good idea.
10. Don't rely on future price increases to make a transaction pencil.
11. Just because prices have gone up over the last several years doesn't mean that they can't go down 25% next year.
12. When you're out of cash your out of business.
13. Every deal takes longer and will be more expensive than originally budgeted. Always plan for delays and cost overruns.
14. Don't follow the market into the ground. Cut quickly.
15. True wealth is cash flow, assets and minimal debt.
16. Owners must be hands on in relation to every aspect of their business.
17. The best way to avoid losses is to sell "too soon".
18. Don't believe that you can sell assets for more in the future.
19. The euphoria of a super-hot market usually results in ignoring marketplace fundamentals.

A List of Lessons Learned - To Be Reviewed When Times Are Good (Continued)

By Carter Froelich

20. Questions to ask before getting into a transaction:
    a. If we pursue the opportunity how much time, resources and capital are required?
    b. Will the transaction allow us to apply our core competencies and strengths?
    c. What are we not seeing?
        i. What could go wrong?
    d. What are the financial returns if we are right?
    e. What are the estimated losses if we are wrong?
        i. Can we live with the worst case scenario?
21. Doing deals to keep employees busy is stupid. Don't do marginal deals.
22. It's better to miss an opportunity that to lose money.
23. Prior success doesn't make you bullet proof. It makes you egotistical and complacent.
24. Always stay financially lean. Keep overhead low and contract out as much work as possible. Keep costs and expenses variable not fixed.
25. Conserve cash especially when times are good.

Carter Froelich is the Managing Principal of Launch Development Finance Advisors and can be reached at carter@launch-dfa.com.

Unraveling the Golden State's Housing Crisis

By Clarissa Paik, Irvine Office

It’s something anyone who has endured sitting through a California public hearing for a new development project knows: our supply pipeline is broken, strangled by anti-growth interest groups and the various well intentioned regulatory tools they weaponize. Whether it’s concerns about rents going up, or homes losing value, the only way to please Not-In-My-Backyard-ers is to stop building and put up a neon “No Vacancy” sign at the California border. So, when Governor Newsom claimed that he would add 3.5 million homes to the state’s housing stock in his first seven years in office, many in the real estate community could be excused for emitting a cynical chuckle.

Unsurprisingly, California remains far off the 500,000 new homes needed per year to hit that mark; in 2020, the U.S. Census Bureau estimates that 106,075 new home permits were issued in California, or 21% of the annual target. Since Newsom took office in early 2019, approximately 245,123 homes have been built (as of March 2021).

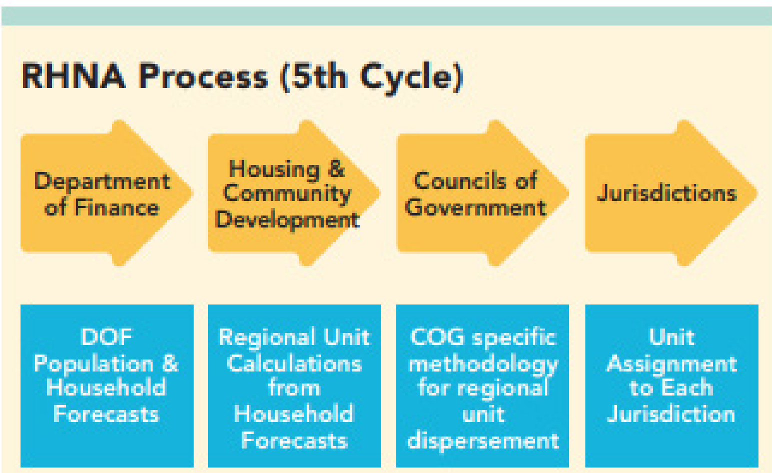


Figure 1. RHNA Process (5th Cycle)

Source: Next 10, "Missing the Mark: Examining the Shortcomings of California’s Housing Goals”, Next10.org, Apr. 2019.

A still fairly controversial, but more modest goal would be the enforcement of state-mandated Regional Housing Needs Assessments (“RHNA”), planning documents that mete out housing development targets at specified income categories relative to area median income (“AMI”): Very Low Income (<50% AMI), Low Income (50-80% AMI), Moderate Income (80-120% AMI), and Above Moderate Income (>120% AMI). These distill Department of Finance demographic forecasts into a determination of jurisdictional housing needs over the next 5 – 8 years. For context, the current planning cycle ending in March 31, 2024 calls for 1,154,772 new homes, or 33% of Newsom’s seven year target.

The RHNA planning goals, while considerably less ambitious, still face significant pushback from local governments and interest groups. While typically, local jurisdictions will amend their housing elements to accommodate RHNA targets, for many jurisdictions, the assessments have represented little more than an academic planning exercise since their institution in 1980’s. Based on our review of the Housing & Community Development (“HCD”’) annual progress report data for the 2019, only 31 of 498 jurisdictions reporting progress towards RHNA goals for that year are on track to hit their building targets at all income categories. Given the intense political challenges to building high density, low-to-moderate income housing in areas that need it most, the majority (92%) of jurisdictions meeting or exceeding above median income housing targets are not keeping pace with very low income and low income housing targets. Hence, even though a total of 635,993 permits were reported in 2019 for the current planning cycle (55% of the total RHNA target), an additional 735,457 permits would need to be issued for all tracked jurisdictions to meet their income category targets.

Unraveling the Golden State's Housing Crisis (Continued)

By Clarissa Paik

	Remaining Units to Reach RHNA Targets						
Region	**Very Low Income (<50% AMI)**	**Low Income (50-18% AMI)**	**Moderate Income (80-120% AMI)**	**Above Moderate Income (>120% AMI)**	**Total**	**RHNA Target**	**Progress towards Goal**
Bay Area	39,127	22,404	24,469	10,975	96,975	193,228	49.8%
Central Coast	4,278	2,528	2,547	3,310	12,663	22,507	43.7%
Central Sierra Region	674	364	217	619	1,874	3,260	42.5%
Greater Sacramento	23,076	15,631	7,863	15,969	62,539	104,970	40.4%
Northern California Region	1,806	746	768	1,793	5,113	9,430	45.8%
Northern Sacramento Valley Region	2,927	1,771	1,423	2,939	9,060	12,735	28.9%
San Joaquin Valley Region	55,103	34,521	26,689	66,568	182,881	236,708	22.7%
Southern Border Region	36,545	24,782	29,729	21,120	112,176	178,531	37.2%
Southern California Region	84,437	54,441	55,101	58,197	252,176	395,403	36.2%
Total	**247,973**	**157,188**	**148,806**	**181,490**	**735,457**	**1,156,772**	**36.4%**

Figure 2: Regional Progress Towards 5th Cycle RHNA Targets (2019)
Source: California Department of Housing & Community Development, Launch Development Finance Advisors, LLC.

More recently, the state has been cracking down on non-compliant jurisdictions. The City of Huntington Beach made headlines early this year for losing a court battle against the State that was filed in response to demands to update the City's housing element to be consistent with RHNA housing goals. In their suit, the City claimed that recently passed housing law "creates unconstitutional authority for the state to 'rezone' local land use in a city for its (ill-conceived) political purposes." As of the time of writing, the City Council has indicated that they will not appeal the ruling.

Newsom has also proposed to withhold SB 1 Local Streets and Roads tax proceeds from jurisdictions that haven't updated their housing elements and zoning to meet RHNA housing goals. Given a critical bipartisan response and significant voter furor surrounding the gas tax hikes, this proposal has been largely abandoned; however, the recently introduced AB 215 may resurrect plans to give RHNA housing targets teeth in a form more palatable to lawmakers.

AB 215, introduced by Assembly member David Chiu (D-CA) in January, is in committee review and on track for consideration by the House in early June. The bill proposes to require the HCD to determine each reporting jurisdiction's progress towards their RHNA targets, and prescribes procedures for jurisdictions falling more than 10 percentage points behind their region's relative progress levels. Jurisdictions complying with HCD's recommendations would attain a "pro-housing" designation, which gives them an edge when applying for state level grants. Notably, this bill would also add the Housing Crisis Act of 2019 to the list of housing laws that the Attorney General is empowered to enforce, which requires the courts to impose fines at a rate of at least $10,000 per very-low to middle income housing unit on local agencies that block housing projects which are compliant with general plan and zoning standards.

Naturally, this has not sat well with anti-growth groups like Livable California, who wrote Chiu in opposition to the bill stating vague concerns about the RHNA methodology. Be sure, they are not alone in their issues with AB 215, and were joined by the League of California Cities, California Association of Counties, Urban Counties of California, and Rural County Representatives of California in protesting the bill. The latter group represents a powerful group of opponents, but lawmakers generally and Newsom specifically must recall that their constituents are voters, 61% of whom "favor changing California's environmental regulations and local permitting process to make housing more affordable", not bureaucrats in thrall to small and vocal interest groups. As much as the latter group may speak of the value of local sovereignty, the status quo is both costly and undemocratic at its core.

Unraveling the Golden State's Housing Crisis (Continued)

By Clarissa Paik

Looking ahead, we expect to see local agencies scrambling for infrastructure funding in response to the looming threat of greater state intervention in the housing pipeline. California's infrastructure is not built for density—which will be necessary to provide the low and middle income housing we so direly need. Expect to see higher, more aggressive impact fees and related exactions imposed by local jurisdictions scrambling to accommodate more growth.

Where does Launch fit into this picture?

- Land-secured financing districts: Agencies are likely to become more willing to facilitate financing through Mello-Roos Districts and similar financing vehicles. We plan, implement and administer handcrafted land secured public financings to help our clients achieve their goals.

- Impact fee reviews: Local agencies will increasingly rely on AB 1600 and related fees to ensure new growth pays for increased demands on infrastructure. Our professionals are experienced in preparing impact fee reviews, where we evaluate the appropriateness of impact fees imposed by the public sector in terms of fairness and equity and the legal principals of rational nexus and rough proportionality.

- Private Infrastructure Financing: Launch has worked with the finance community and developed the Infrastructure Construction Bond which has the ability to tap into the public debt markets to facilitate the financing of both private and public infrastructure without requiring California jurisdictional approval. (See Related Article, Infrastructure Construction Bond)

Launch is available to discuss strategic and/or financial issues related to your project. For additional information, please contact either Clarissa Paik at ClarissaP@Launch-DFA.com or Carter Froelich at Carter@Launch-DFA.com.

Source:
https://www.ppic.org/publication/californians-and-housing-affordability/
https://www.latimes.com/socal/daily-pilot/news/story/2021-02-02/huntington-beach-loses-housing-case-with-state-of-california

Infrastructure Construction Bond - No Jurisdictional Approval Required

By Carter Froelich, CPA

Over the last two years the professionals at Launch have worked to develop the Infrastructure Construction Bond ("ICB"). At this point, we are happy to announce that we can now begin to work with qualified developers to use the ICB to fund the construction of public and private infrastructure using tax exempt and taxable bonds, respectively.

Additional features of the ICB include:

- No jurisdictional approval required;
- No geographic limitations (we can use anywhere in the United States);
- 30 year bond term;
- Anticipated Interest Rates* – Tax Exempt 4.5% to 5% / Taxable 5.75% to 6.25%
- Non-recourse to developer;
- Secured by first deed of trust on land only;
- Value to Lien Requirement – 3 to 1 assuming infrastructure to be financed by the ICB and infrastructure for which completion guarantees have been received are in place as of the date of valuation;
- Eligible Infrastructure – Any cost typically associated with master planned community, residential, mixed use and/or commercial development.
- No prepayment penalty;
- Municipal CUSIP numbers allow access to municipal bond market;
- Preferred Bond Size - $20MM+;
- Timing to Bond Issuance – 3 -5 months.

The ICB works well to "launch" the construction of infrastructure related to any type of development project and can be used to fund the construction of special district eligible public infrastructure while waiting for home sales or the increase in assessed valuations for the issuance of special district bond proceeds. This is especially true for Arizona and California Community Facilities Districts as well as Texas Municipal Utility Districts.

For more information on the ICB contact Carter Froelich, CPA at carter@launch-dfa.com or call 1-855-970-003 ext. 4355.

** Estimate Only. Final interest rates are depended upon credit quality of the developer, the project and current market conditions.*

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INTRODUCING THE INFRASTRUCTURE CONSTRUCTION BOND™

LAND SECURED BOND FINANCING FOR THE CONSTRUCTION OF INFRASTRUCTURE

The professionals at Launch Development Finance Advisors ("Launch") have developed a financing vehicle which allows developers and home builders to access the municipal bond market without having to seek jurisdictional approval to issue both tax exempt and taxable bonds for the construction of off-site and on-site public and private infrastructure as well as other development costs (collectively "Infrastructure"). **We call this financing vehicle the Infrastructure Construction Bond™ or "ICB".**

FEATURES OF THE INFRASTRUCTURE CONSTRUCTION BOND™

- **Security –** First Deed of Trust
- **Guarantees Required –** None
- **Value to Lien Requirement –** 3 to 1 (Assuming Infrastructure to be financed by the ICB and Infrastructure for which completion guarantees have been obtain are in place as of the date of valuation).
- **Bond Term –** Thirty (30) Years
- **Repayment Source –** Lot Release Payment
- **Ability to Build with Bond Proceeds –** Yes
- **Prepayment Penalty –** None
- **Preferred Deal Size –** $20MM to $100+MM
- **Timing –** 3 to 5 Months
- **Geographically Limitations –** None

TAX EXEMPT INFRASTRUCTURE*

- Water
- Sewer
- Storm Drain

TAXABLE INFRASTRUCTURE*

- Land
- Roads
- Streetlights
- Traffic Signals
- Grading
- Retention Walls
- Entrance Monuments
- Other Related Developer/Builder Infrastructure

For More Information on How an Infrastructure Construction Bond™ May Benefit Your Project, Contact Carter T. Froelich, CPA at:
carter@launch-dfa.com or call at 1.855.970.0003 ext. 4355

4900 North Scottsdale Road, Suite 3000 I Scottsdale, AZ 85251 | 480.941.2800 I www.launch-dfa.com

**To be determined upon by bond counsel based upon the facts and circumstance specific to the transaction.*
**This is not an offer to sell bonds.*

Launch Development Finance Advisors, LLC is a member of the Land Advisors group of companies.

Land Advisors® ORGANIZATION