

THE LAUNCH REPORT

3Q21 NEWSLETTER

IN THIS ISSUE:
AN INTERVIEW WITH HEATH MELTON ON HOWARD HUGHES' ACQUISITION
OF THE 37,000 ACRE DOUGLAS RANCH MPC



BRIDGELAND COMMUNITY



Guest Corner - Heath Melton

In this issue of the Launch Report™, we are privileged to provide an interview with Heath Melton, President of Howard Hughes Phoenix Region in relation to the company's plans related to their recent acquisition of Douglas Ranch, a 37,000 acre master planned community in Phoenix's West Valley.



The Douglas Ranch Acquisition An interview with Heath Melton, President, Howard Hughes Phoenix Region

1) Howard Hughes has a huge physical and logistical presence in Houston with Bridgeland and The Woodlands as well as in Las Vegas, Nevada with Summerlin; what led Howard Hughes to Douglas Ranch and the Phoenix Metro Area?

JDM Partners and El Dorado Holdings sought out The Howard Hughes Corporation (HHC) for our expertise and track record in building award-winning master planned communities, looking for a partner who could implement proven best-in-class practices at significant scale. We immediately recognized the exciting and unique opportunity to develop Douglas Ranch—a 37,000-acre community in the fastest growing metro region in the country.

Douglas Ranch is a perfect complement to our national portfolio of MPCs and shares the key characteristics of our existing communities. Phoenix is a business-friendly environment with a thriving job market and strong demographics. It is ideally positioned to meet today's consumer demand while retaining an affordability that we are not seeing in many other cities—making this a rare opportunity to create a large-scale master planned community from scratch.

2) Given the huge infrastructure lift needed to launch large scale master planned communities (MPC) and given the long-term development commitment to build out these communities, we have seen many MPC developers downsizing their land purchases so that they can get in and out of a community in 5 to 7 years. With Douglas Ranch's 37,000 acres, Howard Hughes is bucking this trend; could you provide more insight into the decision to move forward with this huge development opportunity?

The Howard Hughes Corporation is not a typical developer, we are a multi-disciplined real estate company that focuses on long-term value creation. Douglas Ranch is exceptionally well situated in the fastest growing metro region—with strong demographics, a favorable business environment and thriving job market—in one of the most affordable areas to live in the country. This acquisition is accretive to HHC's cash flow and NOI growth, which will accelerate our model of perpetual value creation. The success of our communities and our company are inextricably linked. We stay committed to our communities as long-term partners with the local residents and businesses, working together as our success continues to grow over generations. Douglas Ranch offers limitless potential to spur growth, business expansion, economic opportunity, and innovation in the decades to come.



The Douglas Ranch Acquisition (continued) **An interview with Heath Melton, President, Howard Hughes Phoenix Region**

3) What do you anticipate your biggest opportunity and challenge will be related to the development of Douglas Ranch?

Douglas Ranch presents an exceptional opportunity to transform the Phoenix West Valley—and the Western region of the United States. Douglas Ranch is a fully entitled, "shovel-ready" master planned community, which provides us the opportunity to bring more commercial development to the market sooner than is typical with MPC development. Given the outsized demand in the region as Phoenix continues to experience rapid growth, we have the opportunity to develop new product types including single-family for rent and industrial assets. With its location in Phoenix's West Valley, Douglas Ranch is approximately five hours to the coast—which is going to make the community especially attractive for business and industrial tenants as they look to make the community their home.

In addition to being strategically positioned in the direct pathway of Phoenix's growth and with direct access to I-10 through the Sun Valley Parkway, Douglas Ranch is located off the future home of the I-11 interstate which is projected to create \$30 to \$60 billion of economic impact in the region. I-11 will connect Phoenix, Las Vegas, and Southern California, and eventually establish a new trade route between Canada and Mexico by way of Idaho, Arizona and Nevada.

When it comes to the complex issues involved with such large-scale development, we have the track record of getting the tough jobs done and collaborating closely with local officials and organizations to address the various needs and concerns of the communities in which we build. As a master planner, we integrate innovative infrastructure and the principles of expert placemaking into the nascent stages of the development—which will allow us to deliver on the promise of Douglas Ranch as our country's next great master planned community.



The Woodlands



The Douglas Ranch Acquisition *(continued)* **An interview with Heath Melton, President, Howard Hughes Phoenix Region**

4) Given Howard Hughes' breadth of experience in developing large scale master planned communities; what are some of the best practices or lessons learned that you will be bring to Douglas Ranch?

Successful development emerges from a thoughtful process of community engagement.

We believe that masterful planning and great design can shape how people live—not just within the four walls of an individual building but within the larger public realm. We dedicate vast numbers of acres of open green space for public use throughout our communities and help develop programming designed to enhance community connectivity, support health and wellness, and strengthen an authentic cultural identity—all important elements that define a vibrant community.

Through our HHCares corporate social responsibility program, we support the local charities and organizations whose critical work helps our communities thrive.





The Douglas Ranch Acquisition (continued) **An interview with Heath Melton, President, Howard Hughes Phoenix Region**

5) A recent press release said that Douglas Ranch will become “an industry-leading community focuses on sustainable development and technological advancement.” Could you elaborate on this statement as to some of the technological and sustainable elements that Howard Hughes is considering for Douglas Ranch?

The communities in our portfolio are built on the visions of James Rouse and George Mitchell who were at the forefront of creating sustainable, self-sustaining cities and we are committed to carrying on that legacy.

At Douglas Ranch, we anticipate implementing many of the same sustainable elements that we have implemented in our Summerlin community in the desert of Las Vegas. Summerlin was Nevada’s first community to implement WaterSmart conservation guidelines and was one of the Las Vegas valley’s earliest adopters of desert landscaping. Today, Summerlin goes beyond the restrictions for new construction, utilizing of low-water-use/drought-tolerant landscaping that saves millions of gallons of water each year.

Our Bridgeland community in Texas has been celebrated for its integration of local ecology and its low-impact, sustainable design. We look forward to continuing to embrace technology that will help us support a more sustainable environment and preserve as much of the national resources as we can as we establish Douglas Ranch as a LEED-certified resilient community, using UN sustainable development goals.

6) What are the immediate plans for 2022 as it relates to the development of Douglas Ranch/Trillium?

We are launching our development of Douglas Ranch with the sale of 1,000+ lot sales at Trillium—the first village of Douglas Ranch—beginning in first half of 2022. This will be the initial phase of what we ultimately plan to create—100,000 homes, equating to over 300k residents, and 55 million SF of commercial development, transforming Douglas Ranch into a regional hub where people, businesses and commercial development will grow together and thrive.



Summerlin - Las Vegas

Heath Melton is the President of Howard Hughes Phoenix Division.



The Importance of Fees & Financing when Performing Land Due Diligence

By Carter Froelich, CPA and Nick Kral

I remember in 1987 while attending the University of Southern California's Master of Real Estate Development program, our developer in residence was Mr. Ralph Lewis, the founder of what is now known as Lewis Communities, one of the premier land developers in Southern California. During one of our sit downs with Mr. Lewis he went through Lewis' Land Buying Checklist that at the time had over three hundred (300) questions and/or informational inputs that were required prior to the Lewis management committee deciding on whether to purchase a property. I recently spoke with representatives of Lewis, and they indicated that this Lewis Land Buying Check list had grown to over six hundred (600) questions and/or informational inputs.

The important take away from the discussion with Mr. Lewis was that he told us that the checklist was a compilation of "mistakes" that either he had made himself or ones that he had seen others make and that "in the past, losses have occurred because someone forgot to check something." Mr. Lewis' comment was one of the most profound statements I had ever heard, and it sticks with me today as we assist our clients in one small part of the due diligence process; that of utilizing our client's project specific information to estimate builder fees, including permit fees, City Impact Fees, County Impact Fees, Local Utility Fees, School Fees, Impact Fee credits, and Final Map Fees (collectively, the "Fees"), estimating public infrastructure costs and Fees eligible for financing through community facilities district ("CFD") or assessment districts ("AD") along with preparing market driven CFD or AD bond analysis related to the project.

In the state of California where Fees can run over \$100,000 per unit, land buyers cannot afford to make a mistake about what Fees are going to be required by the jurisdiction / agency or what they can reasonably anticipate to receive once the CFD or AD bond proceeds ("Bond Proceeds") are received. A mistake in this area can be the difference between a profitable project or a money loser. Over the years, we at Launch have seen an ever-growing list of Conditions of Approval ("COA"), an increasing list of municipal, agency, and county fees and maintenance requirements as well as an overall growing complexity of the fees and charges being assessed. Unless a developer or builder is dealing with Fees on an on-going basis, it is easy to omit fees and/or charges that can cause an increase in a project's Fee burden or decrease its anticipated Bond Proceeds; all of which will damage the financial performance of the project.

The more common errors we see when reviewing Fee schedules and CFD/AD bond schedules prepared by developer, builders or others include:

1. Fees / Eligible Costs

- a) Not fully identifying all financial obligations outlined in the project's COA.
- b) Using outdated Fee schedules.
- c) Not anticipating scheduled increases in Fees during the development timeline of the project.
- d) Using Fees from the wrong water / sewer providing agency.
- e) Missed County or regional fees.
- f) Not factoring in premiums related to the financing of School Fees through a CFD or AD.
- g) Public infrastructure cost estimates that are not reflective of prevailing wage.
- h) Lack of an engineer's opinion of probable costs ("OPC").
- i) Math errors.



The Importance of Fees & Financing when Performing Land Due Diligence (continued)

By Carter Froelich, CPA and Nick Kral

2. Special Districts (CFD/AD)

- a) Non-performance of a competitive property tax rate analysis related to surrounding competitive developments.
- b) Incorrect assumptions related to the lead agency and what they are willing to finance through the CFD / AD.
- c) Lack of detailed estimated product / unit mixes with respective livable square footages and home pricing.
- d) Not obtaining realistic landscaping and maintenance budgets.
- e) Exclusion of the monetary impact of landscaping and maintenance districts that the project is conditioned to annex and the corresponding impact on CFD / AD bonding capacity.
- f) Utilizing outdated property tax / assessment information.
- g) Use of over optimistic interest rates.
- h) Math errors.

In order to provide developers and home builders with comfort related to Fees and estimated CFD / AD bond proceeds we have developed the [Fee & Financing Summary™](#) which was specifically developed to assist investors and provide information to home builders in relation to the estimated Fees required, a review of the project's COA, and the potential bonding capacity of the project given the use of CFD or AD. The Fee & Financing Summary™ can also be prepared in relation to a developer and/or home builders purchase of a parcel and provides a second level of due diligence related to the project's anticipated Fees and Bond Proceeds. An example of the Fee & Financing Summary™ is available by clicking the link below.

[Fee & Financing Summary™](#)

For more information on having Launch prepare a Fee & Financing Summary for your project, contact Nick Kral at 1-855-970-0003 ext. 4366 or email at nickk@launch-dfa.com or Carter Froelich, CPA at 1-855-970-0003 ext. 4355 or email at carter@launch-dfa.com

CA Assembly Bill 602 and Senate Bill 319 (Development Impact Fees)

By Carter Froelich, CPA

In September 2021, California Governor Newsom signed [Assembly Bill 602](#) ("AB 602") and [Senate Bill 319](#) ("SB 319") providing new requirement for local jurisdiction seeking to impose impact fees on development projects.

Background

California's Mitigation Fee Act (Section 66000 et seq., the "Act"), commonly known as AB1600, requires that jurisdictions prepare a "nexus" study to demonstrate that the impact fees bear a "reasonable relationship" to between the fees being charged and the facilities being funded by the fees. In short, the fees should be reasonable in comparison to the benefit being received by new growth and the fee being charged.

Over the years, however, the nexus studies have been governed by, as the AB 602 Senate Floor Analysis outlines, "an opaque and informal patchwork of guidelines and common practices". As such, AB 602 and SB 319 attempt to create more transparency in the impact fee process and encourage smaller more affordable housing units.



CA Assembly Bill 602 and Senate Bill 319 (Development Impact Fees) Continued

By Carter Froelich, CPA

AB 602

Established basic accountability and transparency standard including:

- Requires the nexus study to identify existing and proposed levels of service ("LOS") for each public facility and explain why this LOS is appropriate.
- Requires that the California Department of Housing and Community Development create a template for nexus studies by 2024. Jurisdictions may use the template but are not required to do so.
- For nexus studies adopted after July 1, 2022, the fees must be based upon the square footage of the proposed units of the project unless the jurisdiction demonstrates that another metric is sufficient. This is done to encourage the construction of smaller units and to ensure that units are not charged a disproportionate fee.
- Counties with populations of 250,000 or more or any city located within therein (regardless of population) must adopted a capital improvement program ("CIP") as part of their nexus study.
- All nexus studies are subject to a public hearing with 30-day notice and any member of the public may provide evidence that the local agency's findings are insufficient if they do not comply with the required procedures for adopting fees.
- All nexus studies must be updated every eight (8) years.
- Agencies must request the fees upon the certificate of occupancy or final inspection whichever occurs last.
- Does not apply to water / sewer connection and capacity charges; school fees and Mello-Roos or other taxes.
- All fees must be posted on the jurisdiction's web site.

SB 319

Clarifies and expands the scope of audit that local agency must perform if they fail to comply with reporting obligations under the Act. Currently jurisdictions must produce an annual impact fee report each fiscal year and a more in depth report every five (5) years. Anyone can request an audit of development fees to ensure that they are reasonable or meet statutory requirements. SB 319 clarifies that to the extent the jurisdiction was non-compliant with its reporting requirements; the local jurisdiction must conduct and pay for the audit to cover each consecutive year the agency was out of compliance.

Impact fees are a major component of housing costs in California adding, depended upon location, from six (6) to eighteen (18) percent to home prices.

It has been our experience that California's impact fee process is much more "black box" than other states in which Launch provides impact fee consulting services. Changes to the impact fee are a step in the right direction of ensuring fairness and equity in the impact fee process.

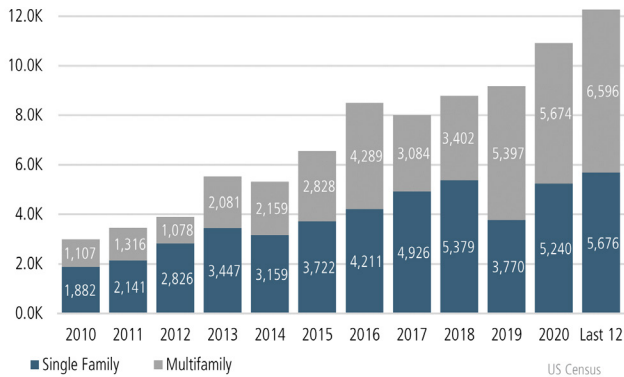
Since the early 1990's the professionals at Launch have been reviewing impact fee studies on behalf of their private sector clients and have been averaging an approximate 23% reduction in impact fee studies reviewed. Additionally, Carter Froelich has assisted the home building industry in legislative revisions to impact fee statutes in Arizona, Idaho, New Mexico and North Carolina. Carter also updated the National Association of Home Builders [Impact Fee Handbook](#) in 2008 and 2016.

For more information on impact fees, AB 602 or SB 319 contact Carter Froelich, CPA at 1-855-970-0003 ext. 4355 or email at carter@launch-dfa.com or Nick Kral at 1-855-970-0003 ext. 4366 or email at nickk@launch-dfa.com

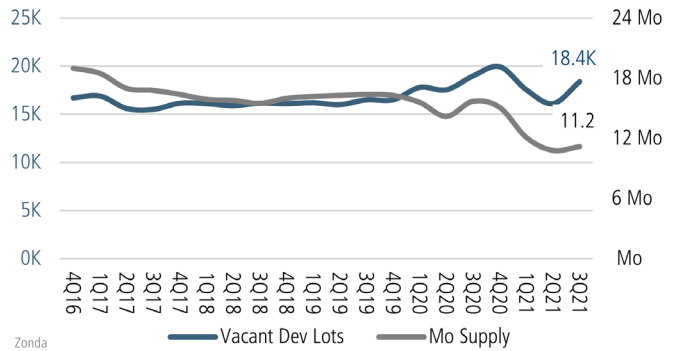


MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (3Q21)

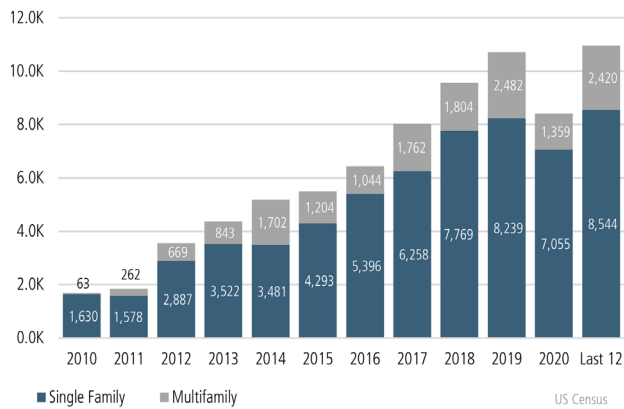
Utah Single Family & Multi-Family Permits



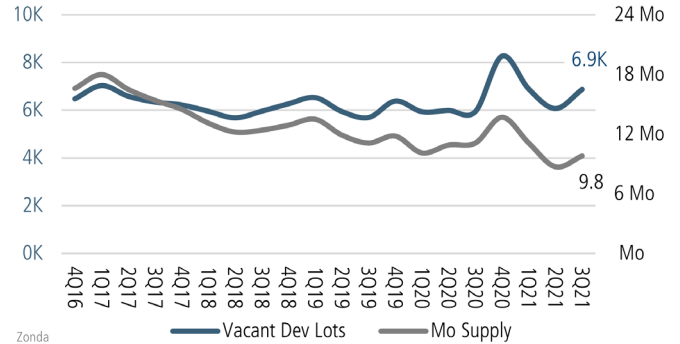
Utah Vacant Development Lot Supply



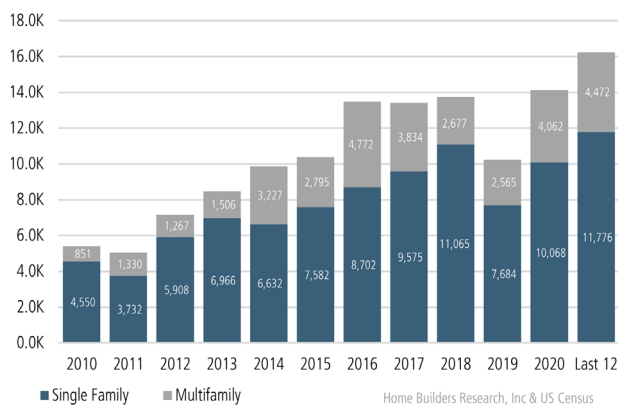
Boise Single Family & Multi-Family Permits



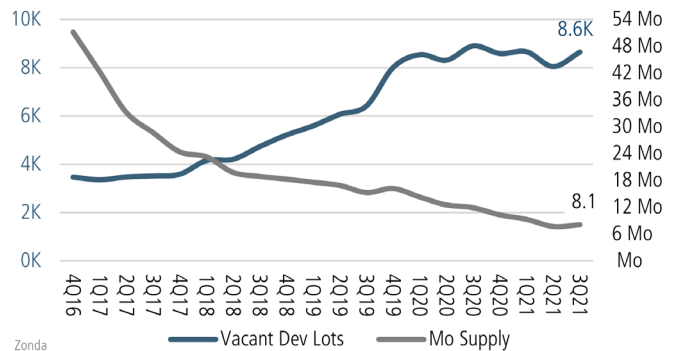
Boise Vacant Development Lot Supply



Las Vegas Single Family & Multi-Family Permits



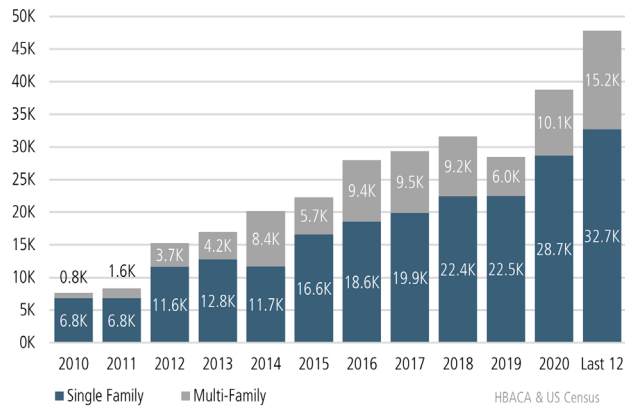
Las Vegas Vacant Development Lot Supply



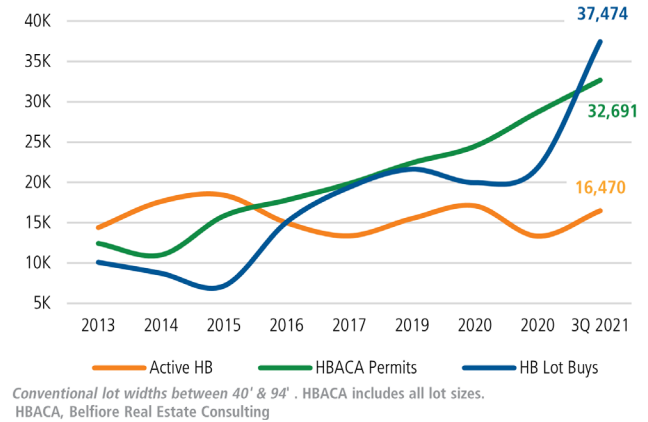


MARKETS AT A GLANCE - PHOENIX, RENO, TUCSON (3Q21)

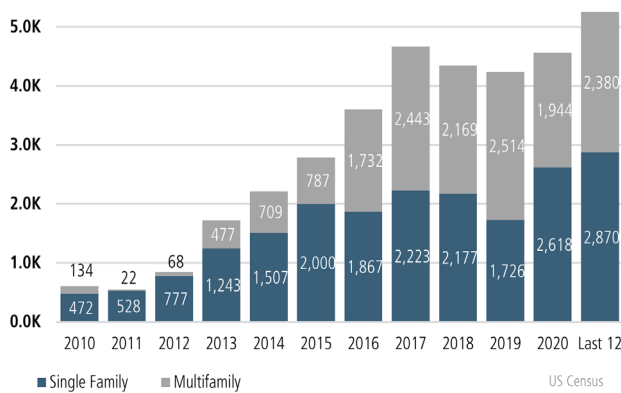
Phoenix Single Family & Multi-Family Permits



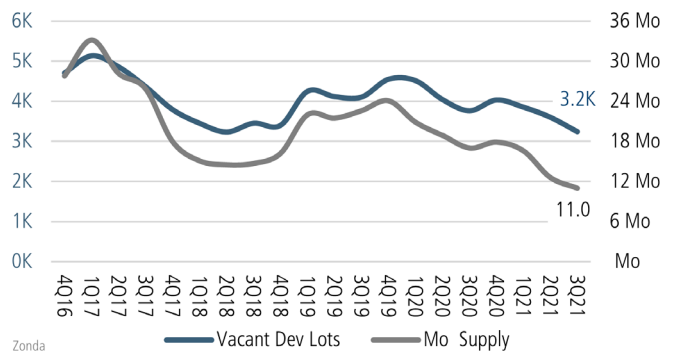
Phoenix Finished Lot Inventory vs. Permits



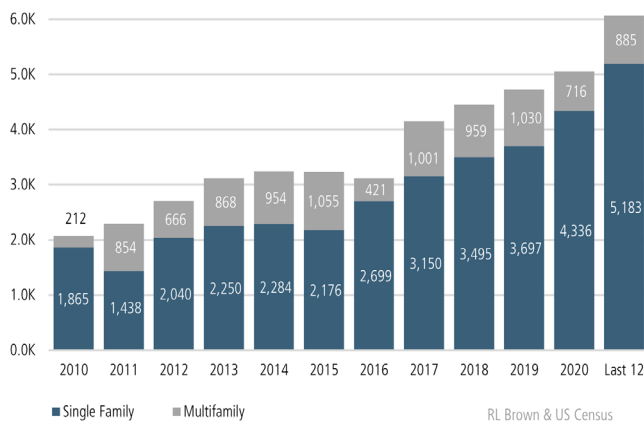
Reno Single Family & Multi-Family Permits



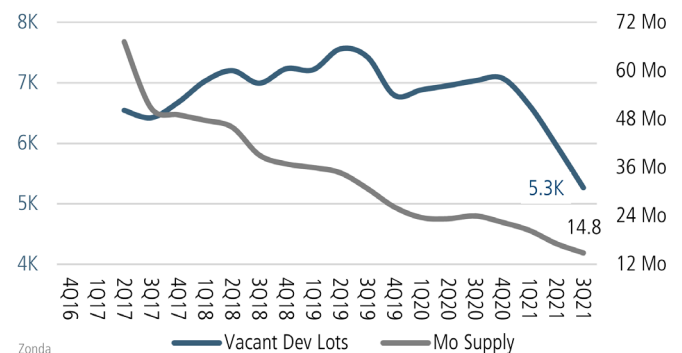
Reno New Vacant Developed Lots & Months Supply



Tucson Single Family & Multi-Family Permits



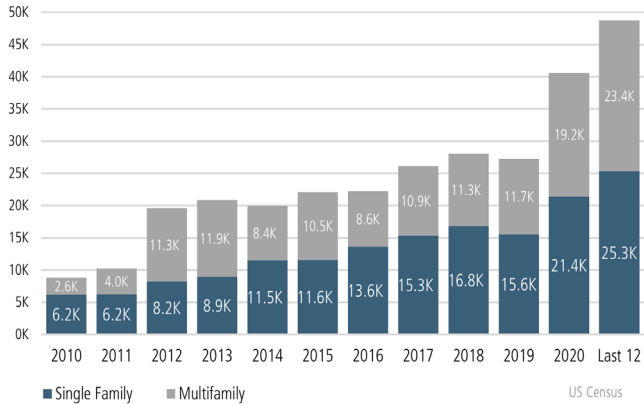
Tucson Vacant Development Lot Supply



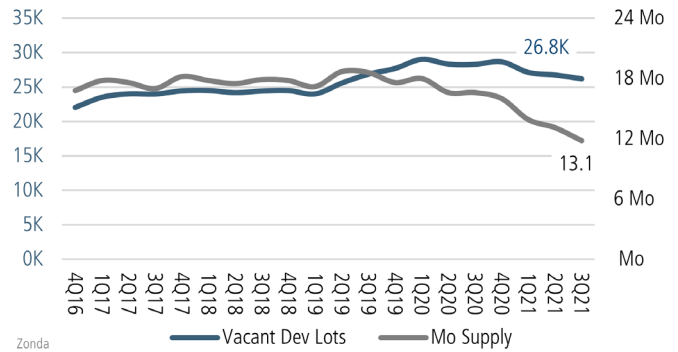


MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (3Q21)

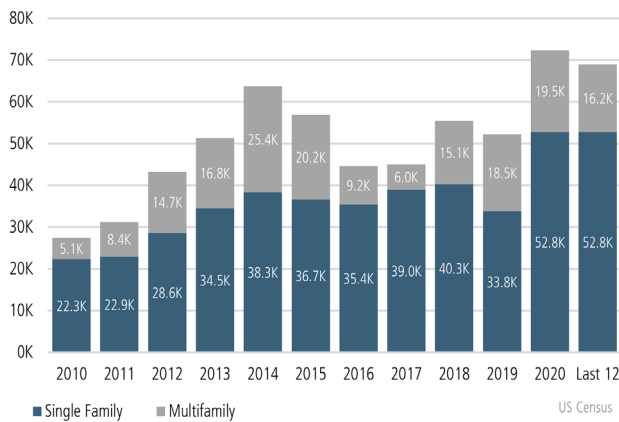
Austin Single Family & Multi-Family Permits



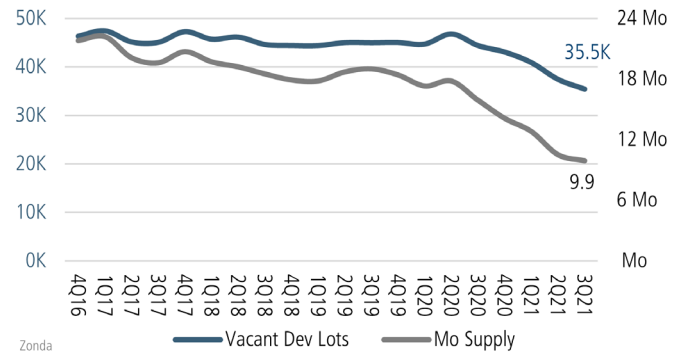
Austin Vacant Developed Lot Supply



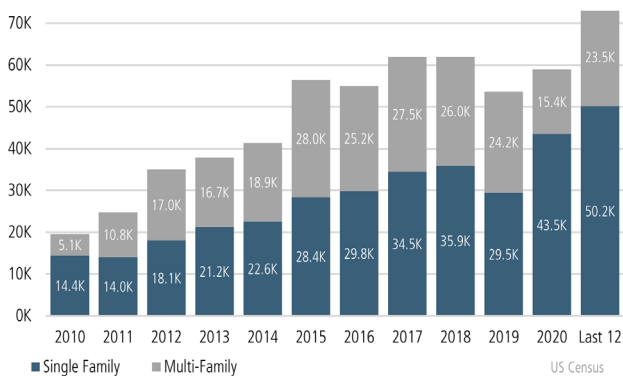
Houston Single Family & Multi-Family Permits



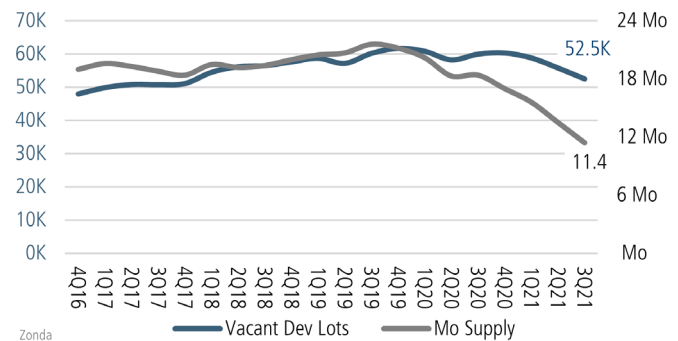
Houston Vacant Developed Lot Supply



Dallas Single Family & Multi-Family Permits



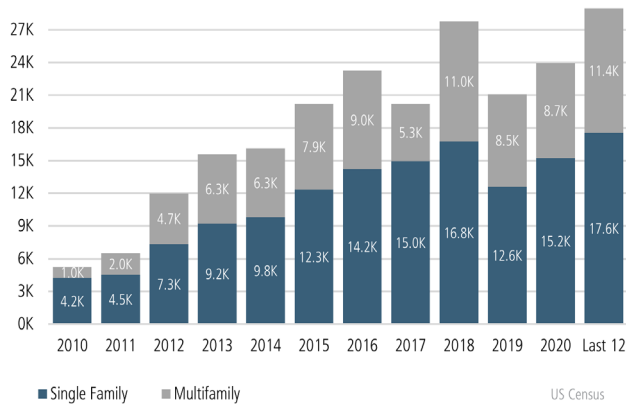
Dallas Vacant Developed Lot Supply



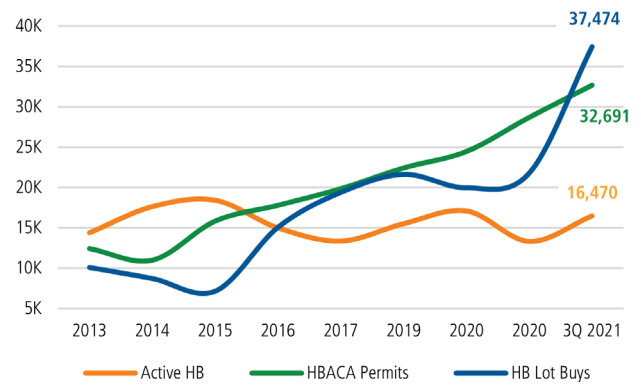


MARKETS AT A GLANCE - ORLANDO, TAMPA, CHARLOTTE (3Q21)

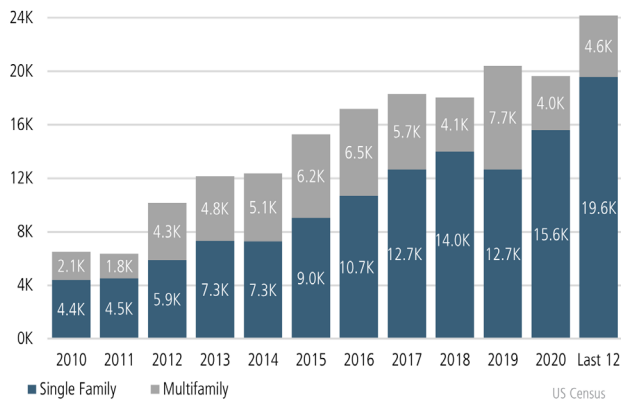
Orlando Single Family & Multi-Family Permits



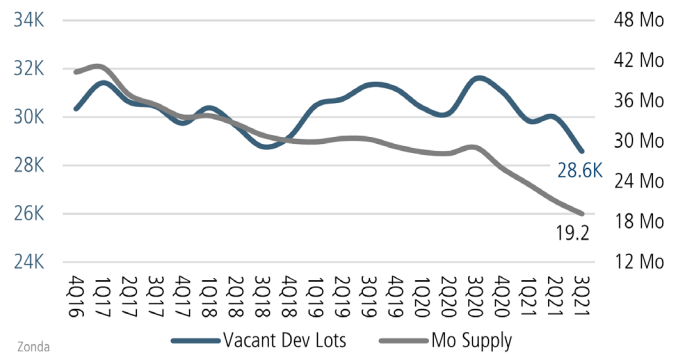
Orlando Vacant Developed Lot Supply



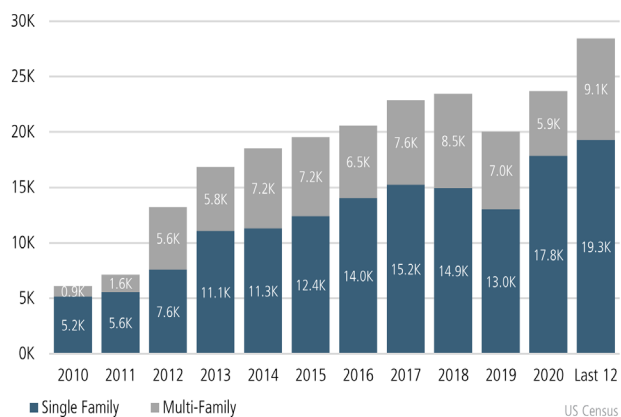
Tampa Single Family & Multi-Family Permits



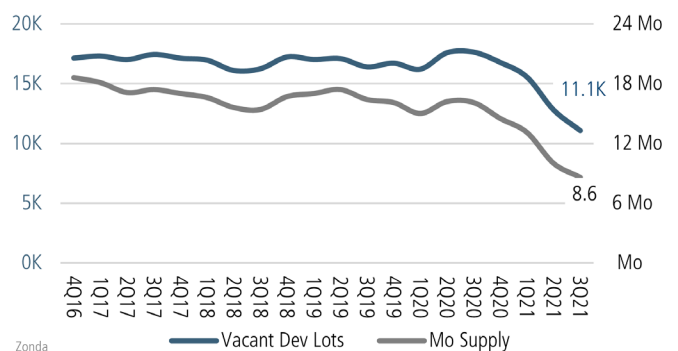
Tampa Vacant Developed Lot Supply



Charlotte Single Family & Multi-Family Permits



Charlotte Vacant Developed Lot Supply



THE LAUNCH SEQUENCE™

Launch Development Finance Advisors is a national transaction-based real estate consulting firm focusing on matters of public finance, solely on behalf of the private sector. We assist our clients finance infrastructure, reduce costs, and mitigate risks all with the goal of enhancing project profitability. Using The Launch Sequence™ we achieve these goals by breaking down each transaction into three distinct phases including Planning, Implementation and Management as illustrated below.

PLANNING

1. Conduct DOS Conversation
2. Determination of Eligible Facility Costs
3. Determine Property Tax Rates of Competitive Development Projects
4. Assemble Market Driven Bond Sizing Analysis
5. Perform RED Analysis TM (Reduce, Eliminate, Defer)
6. Prepare Development Impact Fee Credit Analysis
7. Generate Cash Flow and Proforma Analysis
8. Draft Finance Plan for Presentation to the Jurisdiction

IMPLEMENTATION

1. Add Favorable Financing Language to Development Agreement
2. Prepare District Formation Application
3. Coordination of District Formation Process
4. Assistance with District Financing Agreements
5. Review Assessment Methodology (if applicable)
6. Review Appraisal and Market Study
7. Assist in District and Developer Sections of Official Statement
8. Review Bond Documents for Clarity of Financial Matters

MANAGEMENT

1. Track Reimbursable Costs through the [Launch Reimbursement System™ \(LRS\)](#)
2. Prepare and Process Reimbursement Binders with Jurisdictions
3. Perform Developer Continuing Disclosure Obligation
4. Perform Lookback Diagnostic Reviews™ Related to Unreimbursed Construction Costs

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