THE LAUNCH REPORT
Q2 2022 NEWSLETTER

IN THIS ISSUE - AN INTERVIEW WITH GWC CAPITAL'S BROOK COLE AND THE MAJOR TAKEAWAYS FROM "THE IMPACT OF RISING INTEREST RATES" PANEL DISCUSSION.

LAUNCH

DEVELOPMENT FINANCE ADVISORS

Guest Corner - An Interview with GWC Capital's Brook Cole

By Carter T. Froelich, CPA

Over the last couple of years, it was impossible go to a national real estate event without hearing about the Boise real estate market. Given the huge run up in demand for housing in the Boise metropolitan area, we thought that our readers may be interested in hearing from GWC Capital ("GWC"), one of the largest master planned community developers in the Treasure Valley who is currently developing the 6,000+ acre Spring Valley project in Eagle, Idaho. In this edition of the Guest Corner, we will be interviewing Brook Cole, GWC's Chief Planner and Project Manager related to this impressive development.

1. **When more developers are moving toward the development of smaller communities that they can sell out of in 5 to 7 years, what was GWC's thinking in relation to taking down such a large project?**

   I think that biggest motivator for us is that Spring Valley is a legacy project and that the time, effort, and investment in this project will pay dividends long into the future. In our opinion, it actually makes more sense to develop larger projects, especially when you're putting in a huge amount of time upfront to develop something special and unique (as opposed to trying to rinse and repeat 10 smaller projects in 10 different jurisdictions). Our decision was made easier given the fact that GWC has sister companies who are active in the Idaho and Boise markets so it wasn't like we were going into a new market with no experience, knowledge or connections.

2. **Now that you're beginning to construct the infrastructure necessary to serve the Project, what are the biggest issues you're experiencing?**

   The most significant issues we're running into is the increasing cost and availability of materials. Inflation and the supply chain are the biggest obstacles for us to stay on budget and on schedule.

3. **Is there any one material that you're experiencing the greatest challenges or are they across the board?**

   There hasn't been just one item that has been challenging; they're all challenging. Labor is up, fuel is through the roof, and the cost of PVC pipe is driving a lot of our biggest increases in costs.

Guest Corner - An Interview with GWC Capital's Brook Cole (Continued)

By Carter T. Froelich, CPA

4. **How have the issues of supply chain impacted your development schedule and how are you working to stay on schedule?**

   Currently all of our construction projects are on schedule. However, we're finding ourselves having to be more pragmatic and address issues as the come; which is almost daily.

   The reason we have been able to stay on schedule is what we do on the front end of the project. At the onset of a development project, they meet with our project managers, construction consultants, and the engineering consultants, and they lay out the construction phasing and schedule prior to having any contractors mobilized so that all contractors know the construction sequence. We then constantly review the schedule on a weekly/monthly basis and make adjustments so if a contractor is behind, we can see how it may be impacting the other contractors three to six months in the future, and we can make changes now, to make sure this doesn't snowball into a larger problem in the future.

   Additionally, when we meet with the contractors we have very candid discussions about construction scheduling and we work with the trades to build in flexibility and buffer time into our schedules. This way if there are some hiccups, we know that (within reason) we will be able to stay on schedule.

   To put a finer point on sequencing, the main thing is that one category of construction doesn't have to be 100% complete before the next category can start. You're basically line building on the infrastructure as opposed to having, for example, 100% of the grading done before you start coming in behind them putting in the sewer lines, water lines or whatever it may be. We're adjusting our construction schedules to insure that the contractors are all working in unison with one another and they're out of each other's way but we're not waiting for 100% of the work to be done before the next contractor begins their work.

5. **During the pandemic, a lot of people sold their homes in higher cost metro areas to move to less expensive areas that provide a lot of outdoor recreational options. The Boise MSA was clearly one of the areas that benefited from this trend. Do you see this trend continuing or do you think the demand in housing in the Boise area will fall off?**

   Prior to that pandemic, during the pandemic, and now post pandemic, we're very bullish on the Boise metro area because of its underlying market characteristics. Boise is a more affordable market than other surrounding urban areas. There's land available to be developed. Idaho in general and the Boise/Eagle area specifically is business friendly where you can get stuff done. The pandemic only sped up that process, and we're experiencing a bit of a halo effect as a result. Our project's absorption rate will vary over time. However, we believe that Boise is a good long term market and that's one of the reasons that we are taking on Spring Valley. We believe that the time and investment necessary to get Spring Valley started is worth the 20 to 30 years' worth of development because we see Boise being a favorable market over a long period of time.

Guest Corner - An Interview with GWC Capital's Brook Cole (Continued)

By Carter T. Froelich, CPA

6. **With lessons learned from the pandemic, have you redesigned any aspects of Spring Valley?**

   We have not made any changes to our land use plan or amenity offerings as we believe that are incorporating offerings that address the various market segments. The only major difference we would say is that internet connectivity is of paramount importance and we're making sure that those who are working from home have the connection speeds that they need to make working from home realistic.

   The builders are adjusting their floor plans, and their product types to accommodate work-from-home, but from a Master Developer's perspective, it's a lifestyle driven market and we believe that with our amenity offerings and high speed internet connections we will be able to provide our residents with what they are looking for in a master planned community experience.

7. **How was the Spring Valley Community Infrastructure District viewed in the context of funding public improvements?**

   Anytime a developer is tackling countywide or city infrastructure projects that historically have been built by counties and/or cities, the use of special financing districts is a major factor in financing the infrastructure.

8. **What is GWC's view in working with local jurisdictions as it relates to a large project such as Spring Valley?**

   It's really important to have willing partners in the public agencies. They may not agree with your growth plans or on everything that you're looking to do, but you need them to be working with you. We do our best to find consensus wherever we can. So that the project becomes "our project" versus just the developer's. If you have willing partners in local government and if they're willing to roll up their sleeves and work with you, instead of against you, it makes your time a lot more valuable and efficient. This fact is really critical when looking at any big project like Spring Valley's 6,000 acres, because you're really setting the stage for the next 30 years.

   Our motto at GWC is to "build a better community." Not to build a better subdivision or a better project, but a "better community." So how a project fits within the overall framework of the municipality and what it brings to the area is important. Does the project make the overall community better at the end of the day? These changes can be large or small, but as long as you take this mindset, then you are able to work collaboratively with the local agencies towards this goal as opposed to working against each other.

Brook Cole is the Chief Planner and Project Manager for GWC Capital.

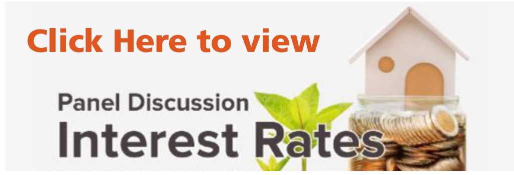
Impact of Rising Interest Rates

By Carter T. Froelich, CPA

In early July, Doug Jorristma of Land Advisors Organization, Pete Reeb of Clarity Real Estate Advisors, Carter Froelich of Launch Development Finance Advisors, Chris Shiota of LakeBridge, and Scott Emery of Qtative participated in a live panel discussion related to the impact of rising interest rates on each professional's area of expertise.

All of the organizations in the panel discussion are affiliated companies of the Land Advisors Organization - the one-stop shop to move from Land to Lots™.

The major takeaways from the panel discussion follow.



Doug Jorristma – Land Advisors Organization

Depending on the buyer and the location of the project, I'm seeing the following:

- Builders are "updating" their numbers which generally means their increasing their costs and lowering their revenue estimates.
- Given the uncertainty in the market, in some markets land buyers are extending their purchase contracts to see what the market does.
- Buyers are wanting to restructure the purchase price and/or terms of previously submitted offers.
- It's challenging to transact in an adjusting market.
- Capital is currently not flowing towards master planned community projects given their long development timeline.
- It's not doom and gloom… we're just readjusting to current market trends.

Pete Reeb – Clarity Real Estate Advisors

- Rising interest rates are dampening new home sales.
- Southern California cancellations are generally up and sales are down.
- We're seeing no widespread panic on the part of home builders.
- Home builders are providing incentives such as buying down interest rates.
- New home sales prices are generally holding.
- Pete Reeb's "Rule of Three" for anticipating new home price movement
  - At least 3 sales per project per month and 3 months' supply of available inventory will generally always lead to positive price appreciation.
    - Except for the Los Angeles metropolitan area, sales per project per month are above 3 per month and inventories are generally below 3 months' supply.
  - When sales fall below 2 per project per month and inventories climb above 4 to 5 months prices will begin to fall.
- Only 437 actively selling projects in Southern California compared to over 1,200 active projects 15 years ago.
- If interest rates remain in the low 5% range we will see a relatively soft landing.
- If interest rates increase above 6% expect to see mid-teens declines in home prices.

Impact of Rising Interest Rates (Continued)

By Carter T. Froelich, CPA

Carter Froelich – Launch Development Finance Advisors

- The national economy is still strong.
  - The national labor market added 306,000 jobs in May.
  - National unemployment rate at 3.6%.
- Interest rates are climbing
- Example of Interest Rate Increases year-over-year

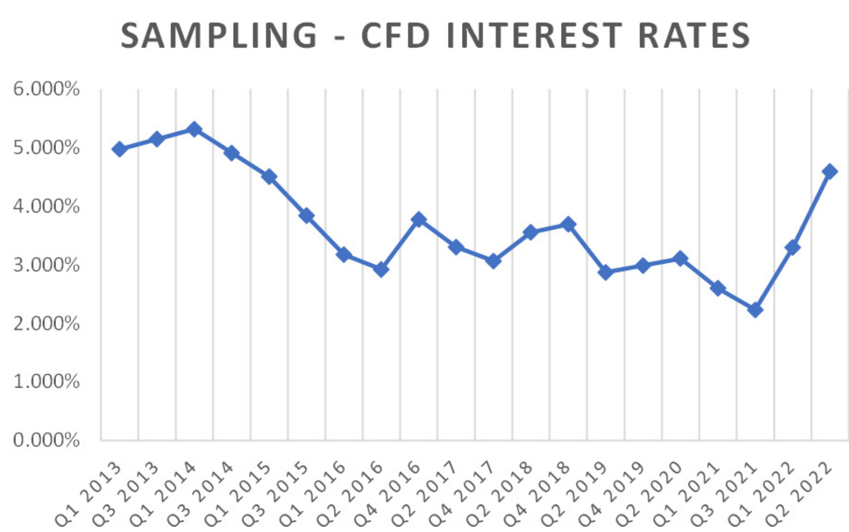
Description	7/1/2022	7/1/2021	Diff.	% Change
Prime Rate (1)	4.75%	3.25%	1.50%	46.15%
US Treasury 10 Year (Yield)(1)	3.10%	1.29%	1.81%	140.71%
30 Mortgage (1)	5.84%	3.00%	2.840%	94.667%
Avg. CFD Rate (2)	4.59%	2.69%	1.900%	70.632%

Footnotes

(1) Per Wall Street Journal 7.8.22

(2) Sampling of CFD transaction to which Launch is knowledgeable (See chart below).

A sampling of California community facilities district ('CFD") bond transaction interest rates.



Impact of Rising Interest Rates (Continued)

By Carter T. Froelich, CPA

- Increasing CFD interest rates will lead to lower bond amounts (See California CFD bond sizing example below).

I. Home Prices and Combined Tax Rates	PA 1	PA 2	PA 3	PA 4	PA 5	PA 6	PA 7	Total
a. Assessable Square Footage	2,751	2,801	2,887	2,904	2,958	3,002	3,325	3,047
b. Unit Mix	49	51	68	57	51	74	68	418
c. Estimated Base Home Price	$ 819,798	$ 829,096	$ 848,778	$ 847,968	$ 857,820	$ 864,576	$ 950,950	$ 863,390
d. Homeowner's Exemption	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)
e. Estimated Assessed Home Value	$ 819,798	$ 829,096	$ 848,778	$ 847,968	$ 857,820	$ 864,576	$ 950,950	$ 863,390
f. Ad Valorem Tax Rate	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%	**1.19%**
g. Ad Valorem Taxes	$ 9,778	$ 9,889	$ 10,123	$ 10,114	$ 10,231	$ 10,312	$ 11,342	$ 10,298
h. Total Fixed Charges	926	926	926	926	926	926	926	926
i. CFD Estimated Special Tax	5,283	5,353	5,502	5,496	5,571	5,622	6,276	5,613
j. Total Annual Property Taxes	**$ 15,986**	**$ 16,167**	**$ 16,551**	**$ 16,535**	**$ 16,727**	**$ 16,859**	**$ 18,544**	**$ 16,836**
k. Property Taxes as % of Assessed Home Value	1.95%	1.95%	1.95%	1.95%	1.95%	1.95%	1.95%	1.95%
l. Total CFD Annual Taxes	**$ 258,854**	**$ 273,010**	**$ 374,149**	**$ 313,275**	**$ 284,104**	**$ 416,015**	**$ 426,764**	**$ 2,346,171**
m. Total Annual Special Taxes for Bonding ($25,000 Admin / 110% DSC)								**$ 2,110,155**
II. Estimated CFD Bond Sizing								
a. Interest Rate					**4.75%**	**5.00%**	**5.25%**	**5.50%**
b. Bond Amount (30 Year Term, 28.0 Year Amort.)					**$ 42,280,000**	**$ 40,945,000**	**$ 39,675,000**	**$ 38,460,000**
d. Underwriter's Discount					(845,600)	(818,900)	(793,500)	(769,200)
e. Capitalized Interest (24 Months)					(4,016,600)	(4,094,500)	(4,165,875)	(4,230,600)
f. Reserve Fund					(1,685,426)	(1,685,426)	(1,685,426)	(1,685,426)
g. Cost of Issuance (Estimate)					(300,000)	(300,000)	(300,000)	(300,000)
h. Total Net Construction Proceeds					**$ 35,432,374**	**$ 34,046,174**	**$ 32,730,199**	**$ 31,474,774**
i. Construction Proceeds/Unit					**$ 84,766**	**$ 81,450**	**$ 78,302**	**$ 75,299**
III. Value to Lien Requirement					**4.75%**	**5.00%**	**5.25%**	**5.50%**
a. **Estimated Total Lien**					**$ 42,280,000**	**$ 40,945,000**	**$ 39,675,000**	**$ 38,460,000**
b. **Required Minimum Value**								
c. 3:1 Value to Lien Requirement					**$ 126,840,000**	**$ 122,835,000**	**$ 119,025,000**	**$ 115,380,000**
d. 4:1 Value to Lien Requirement					**169,120,000**	**163,780,000**	**158,700,000**	**153,840,000**

- In this inflationary environment, it's more important than ever to review home pricing, fees, construction costs, timelines, and bond assumptions.
- California CFD bond buyers are not rewarding developers/builders for increased security. For example, a bond with a 20 to 1 value-to-lien ("VTL") ratio was priced at 4.93% while a 10 to 1 VTL was priced at 4.96%. For having double the security, the true interest rate on the bonds only decreased by 0.03%.
- Given the bond market's unwillingness to reward additional bond security, consideration should be given to issuing bonds earlier in the process to accelerate cash into the proforma and bump up IRRs.

Impact of Rising Interest Rates (Continued)

By Carter T. Froelich, CPA

Chris Shiota – Lakebridge

- Bank construction lending is still available, however, as this lending is tied to the prime rate and other indexes that are expected to see increases, expect bank construction debt rates to peak around 7%.
- Debt funds are aggressive in the build-to-rent space providing 70% of loan-to-costs but interest rates have increased.
- Permanent financing has gone from 3% to 4.75% and multifamily developers can't rely on permanent financing being available to take out construction loans.
- Debt funds have experienced withdrawals from their funds, however, they're generally available at a lower loan-to-cost.
- Land banking is still available to leverage bigger deals; land banking deals were in the 10% range, and as interest rates move up so will the cost of land banking.
- Equity is still available, but we have to work harder to address the issues of uncertainty in the market. Equity return expectations have risen faster than interest rates.

Scott Emery – Qtative

- Lead Times are Pushing Out
    a. PVC pipe – 4 to 6 weeks
    b. PVC pipe with specialty sizes can take 4 – 6 months.
    c. RCP small Diameter – 4 to 6 weeks.
    d. RCP medium Diameter – 6 to 8 weeks.
    e. RCP large Diameter – 8 to 12 weeks
    f. Ductal iron - 16 weeks.
    g. Meter boxes – 10 to 16 weeks.
    h. Brass fittings – 10 to 16 weeks.
    i. Concrete – 4 weeks.
    j. Need to plan on ordering long lead time items in advance.

- Construction Prices are Increasing
    a. Concrete used to be $95 per cubic yard at the end of this year it will be $185 per cubic yard.
    b. Copper is up 250%
    c. PVC pipe is up 300% since 2021
    d. Copper and brass fittings are up 250%
    e. Diesel is up 100%.
    f. Skilled labor – Up 40%
    g. Material bids are often only good for a week or less

- Potential Bright Spot
    o As subcontractors begin to slow down, there is the opportunity to negotiate better terms.

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Introducing the Land to Lots™ Podcast

By Carter T. Froelich, CPA

Land to Lots™ Podcast

In our continued effort to be a hero to the development and home building industry, we are happy to announce the introduction of the Land to Lots™ podcast.

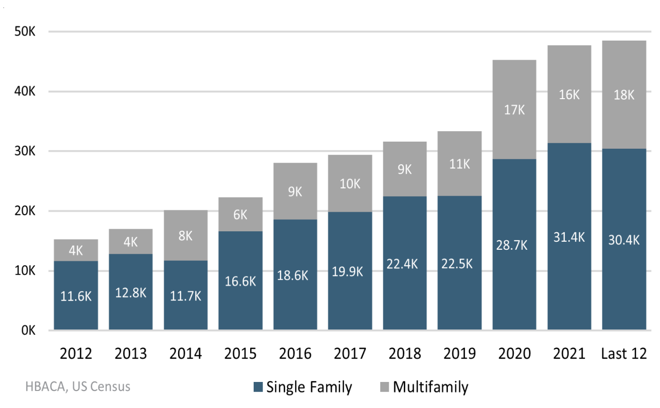
During the podcast it is my intention to provide timeless, actionable information that you can use today to assist in the financing of infrastructure, reduction of costs and mitigation of risks, all with goal of enhancing your project's profitability and returns.

We will also be conducting interviews with development and home building leaders to get their insights and lessons learned.

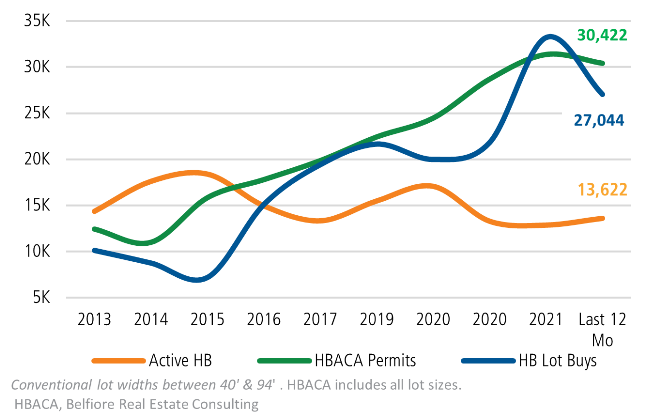
The first Land to Lots™ podcast is entitled How Can You Borrow Money That You Don't Have to Pay Back? The Land to Lots™ podcast can be found on Apple, Spotify, and Amazon. Download the apps and subscribe today.

MARKETS AT A GLANCE - PHOENIX, PINAL, NORTHERN AZ, TUCSON (Q2 2022)

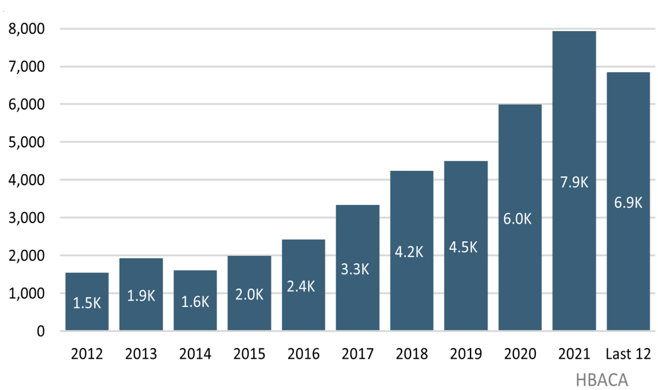
Phoenix Single Family & Multi-Family Permits



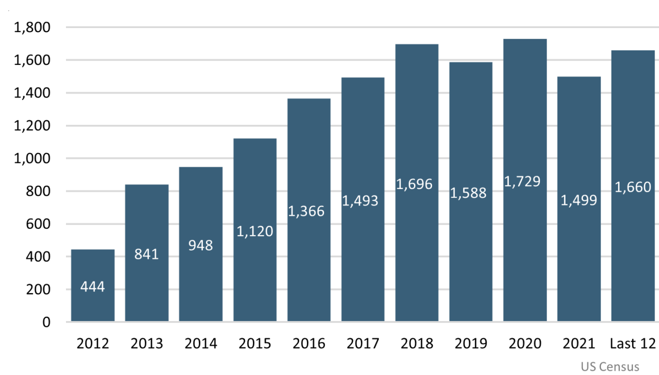
Phoenix Finished Lot Inventory vs. Permits



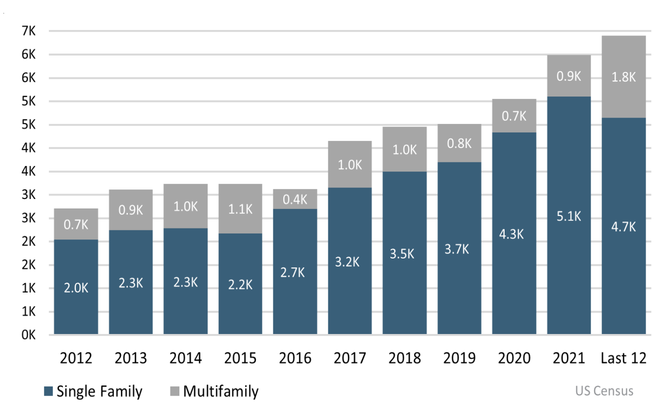
Pinal Single Family & Multi-Family Permits



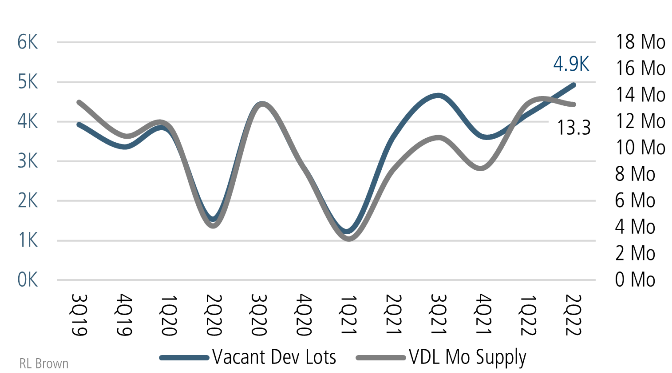
Northern AZ Family & Multi-Family Permits



Tucson Single Family & Multi-Family Permits

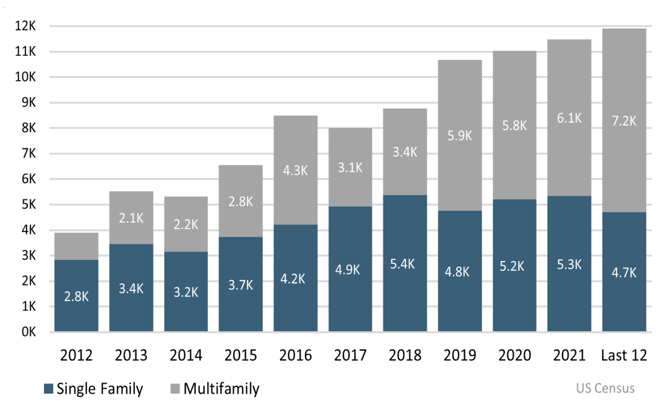


Tucson Vacant Development Lot Supply

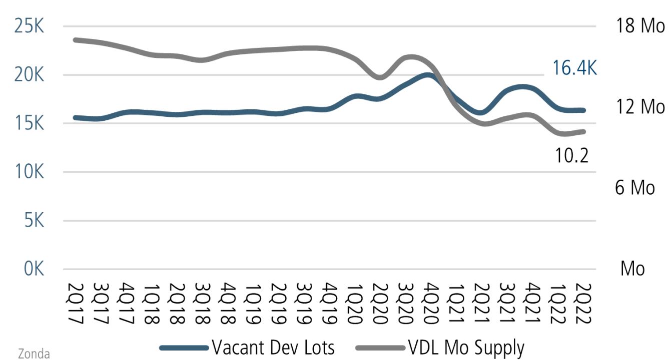


MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (Q2 2022)

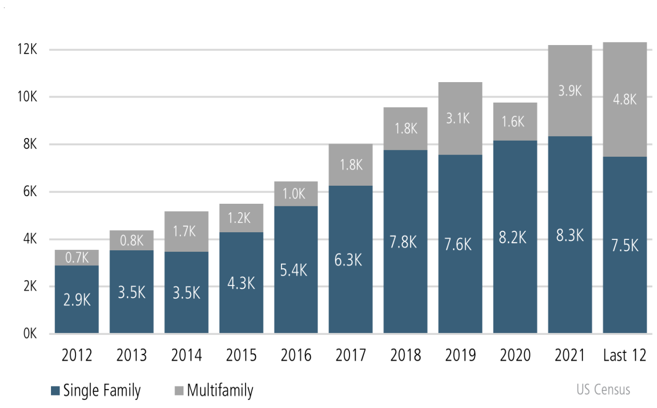
Utah Single Family & Multi-Family Permits



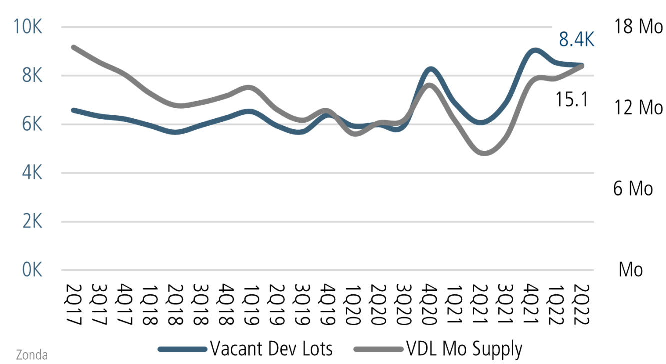
Utah Vacant Development Lot Supply



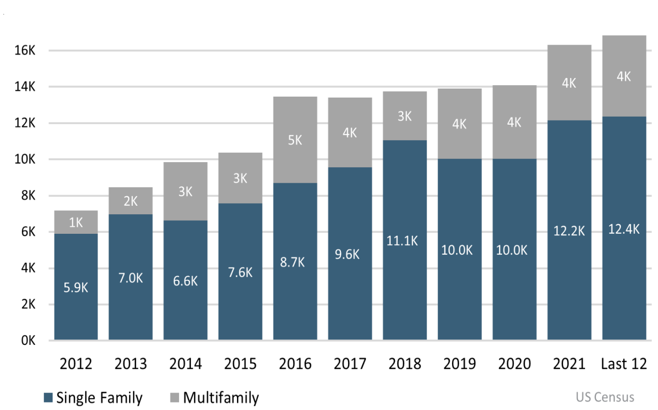
Boise Single Family & Multi-Family Permits



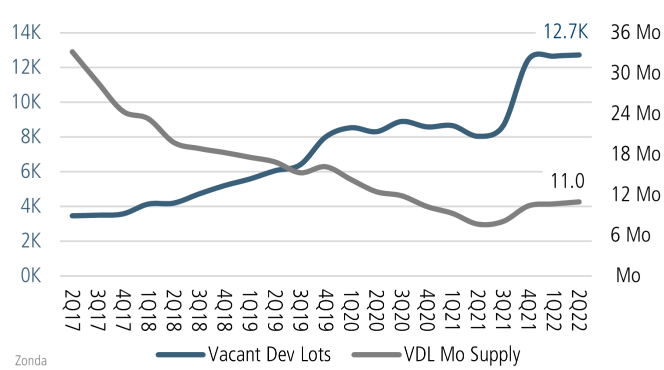
Boise Vacant Development Lot Supply



Las Vegas Single Family & Multi-Family Permits

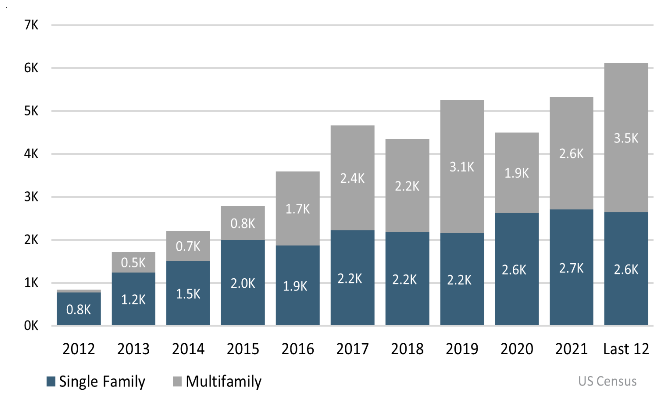


Las Vegas Vacant Development Lot Supply

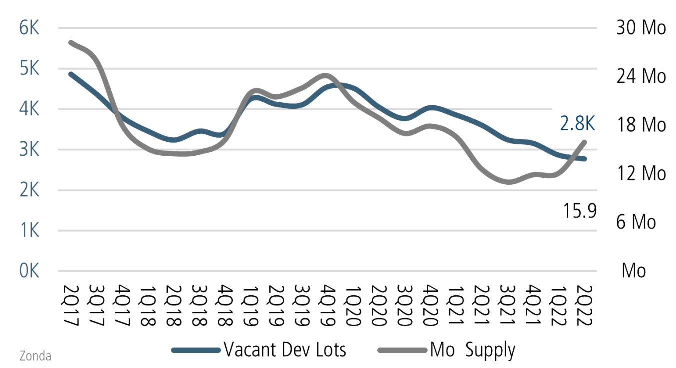


MARKETS AT A GLANCE - RENO, KANSAS CITY, HUNTSVILLE (Q2 2022)

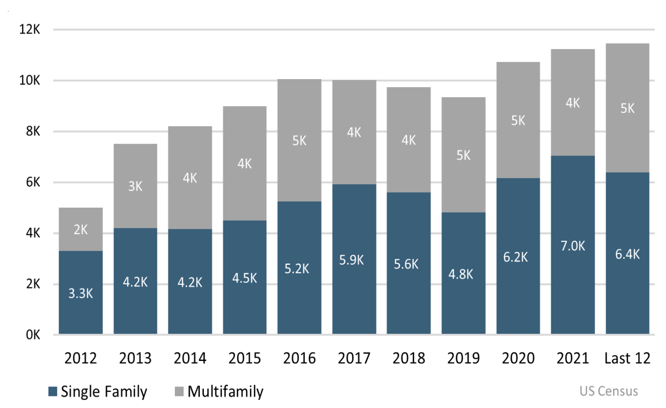
Reno Single Family & Multi-Family Permits



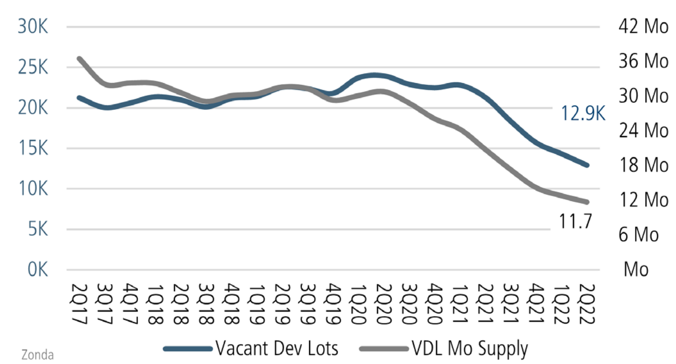
Reno Finished Lot Inventory vs. Permits



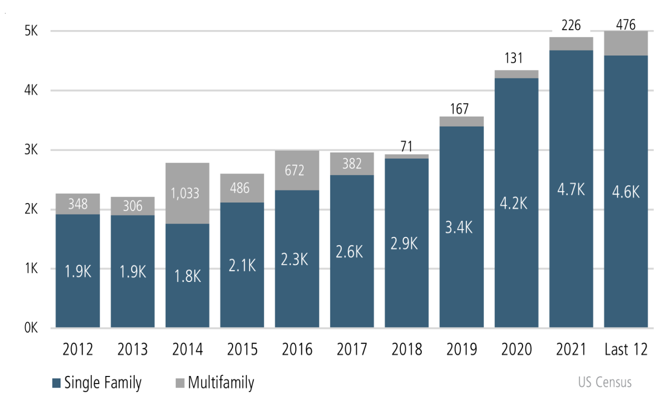
Kansas City Single Family & Multi-Family Permits



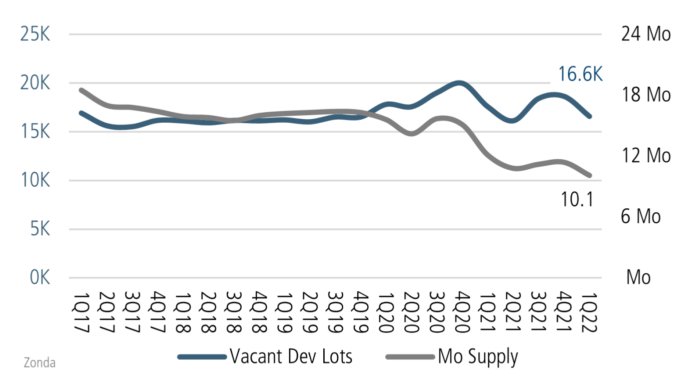
Kansas City New Vacant Developed Lot Supply



Huntsville Single Family & Multi-Family Permits

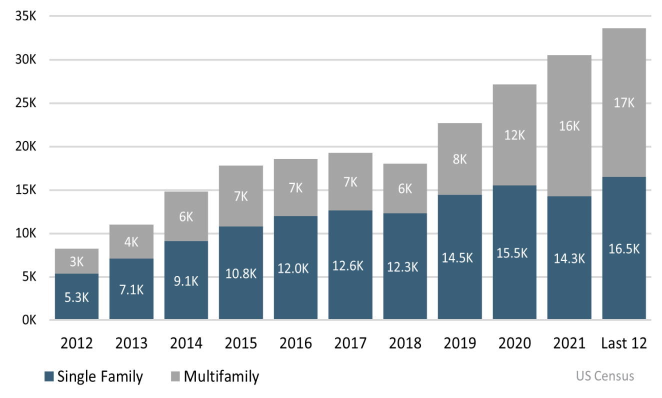


Huntsville Vacant Development Lot Supply

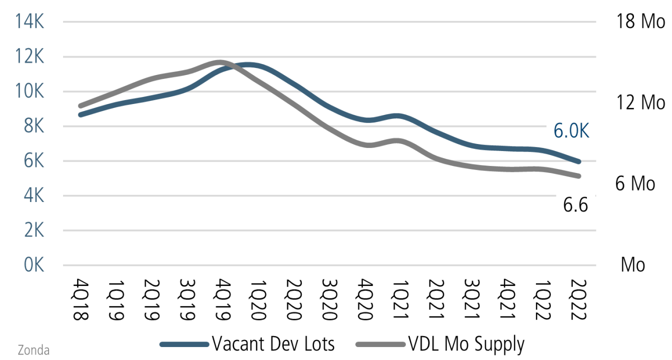


MARKETS AT A GLANCE - NASHVILLE, ATLANTA, CHARLOTTE (Q2 2022)

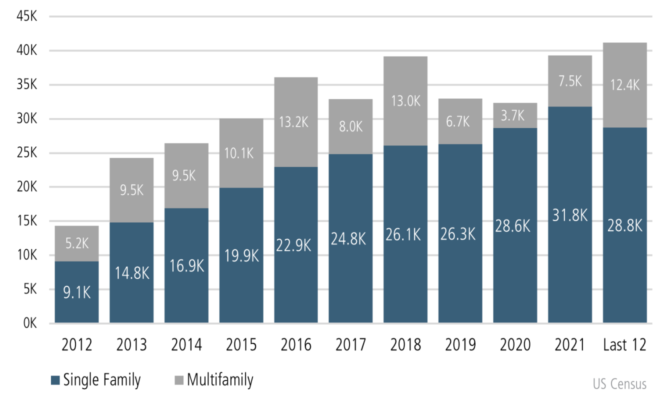
Nashville Single Family & Multi-Family Permits



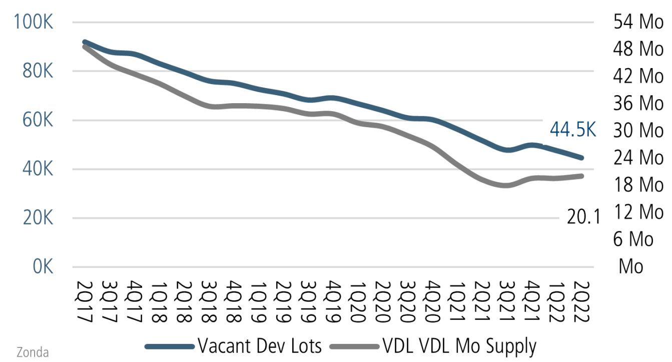
Nashville Vacant Development Lot Supply



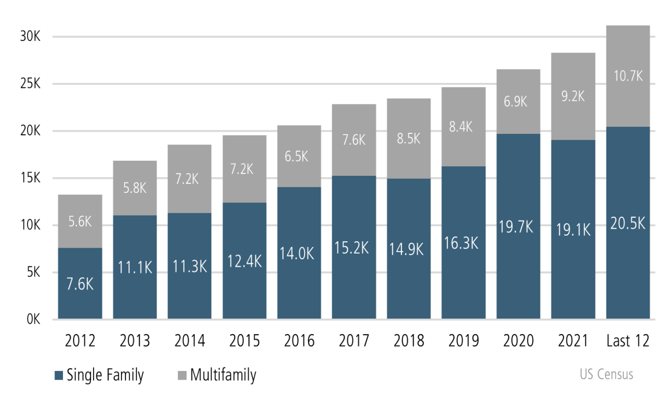
Atlanta Single Family & Multi-Family Permits



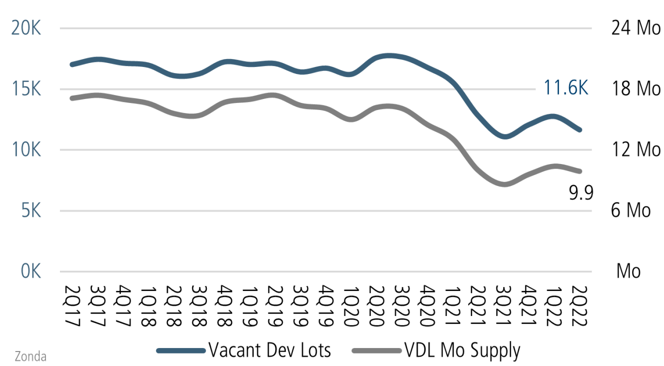
Atlanta Vacant Development Lot Supply



Charlotte Single Family & Multi-Family Permits

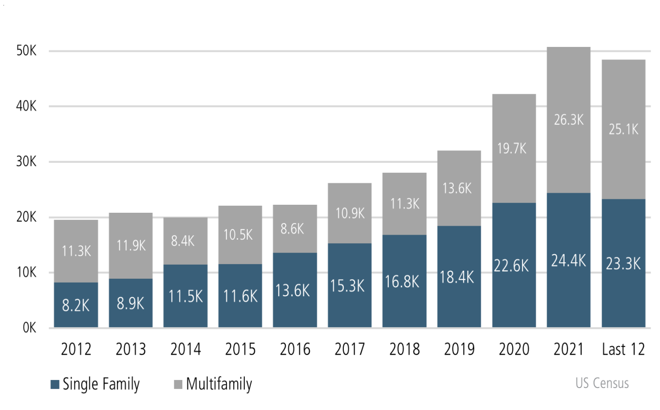


Charlotte Vacant Development Lot Supply

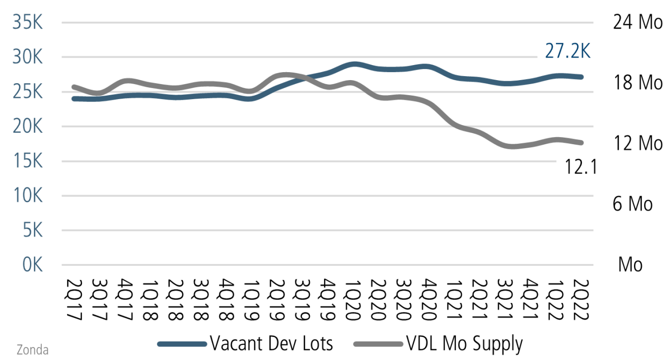


MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (Q2 2022)

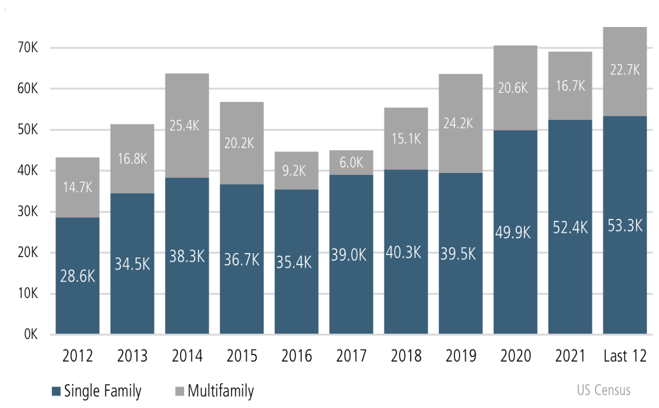
Austin Single Family & Multi-Family Permits



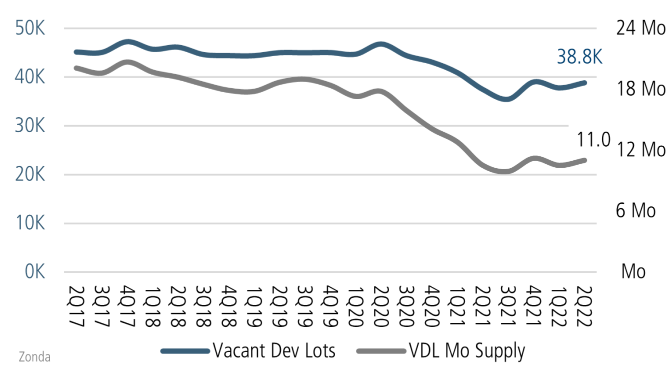
Austin Vacant Developed Lot Supply



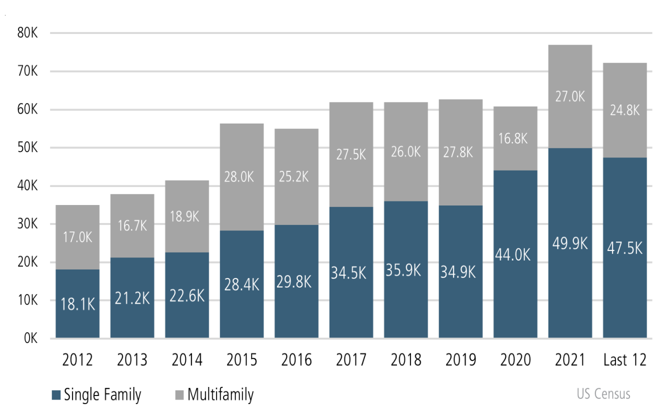
Houston Single Family & Multi-Family Permits



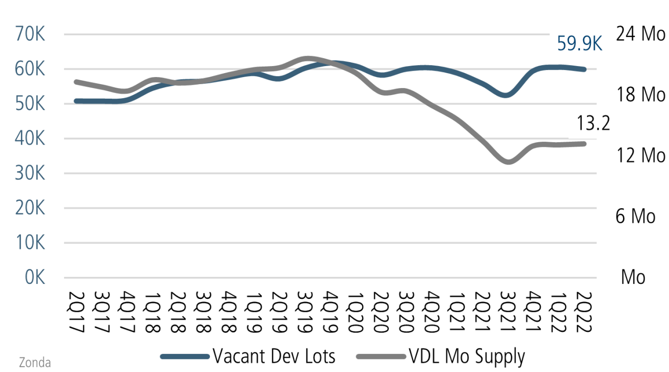
Houston Vacant Developed Lot Supply



Dallas Single Family & Multi-Family Permits

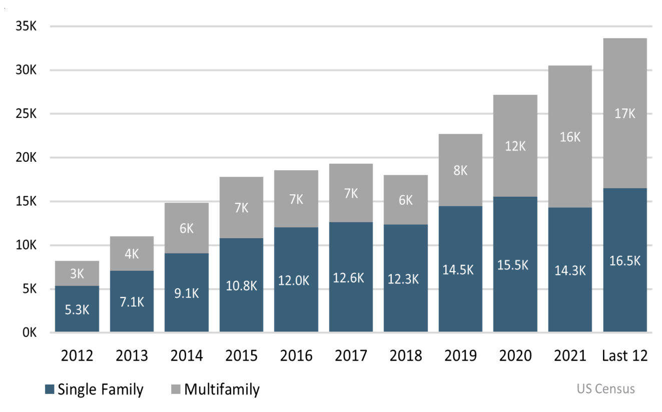


Dallas Vacant Developed Lot Supply

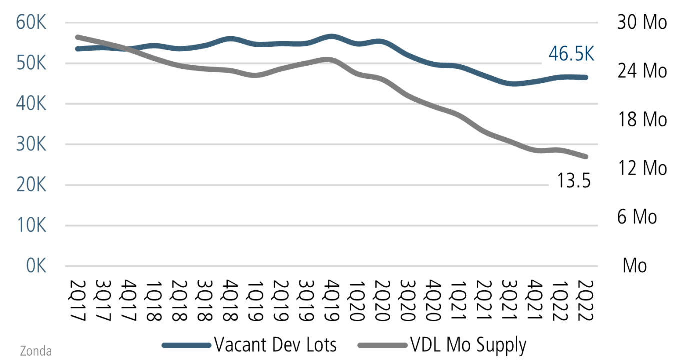


MARKETS AT A GLANCE - ORLANDO, TAMPA, JACKSONVILLE (Q2 2022)

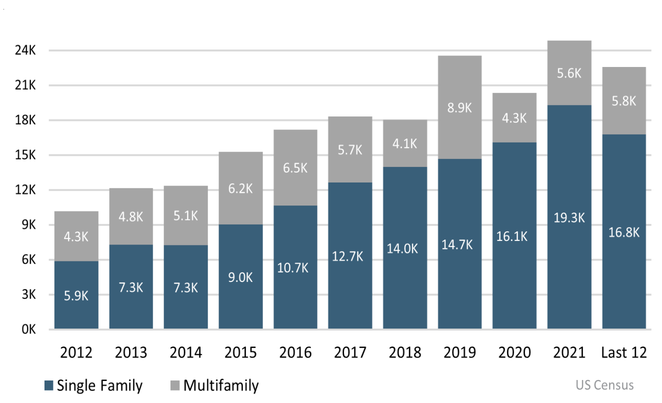
Orlando Single Family & Multi-Family Permits



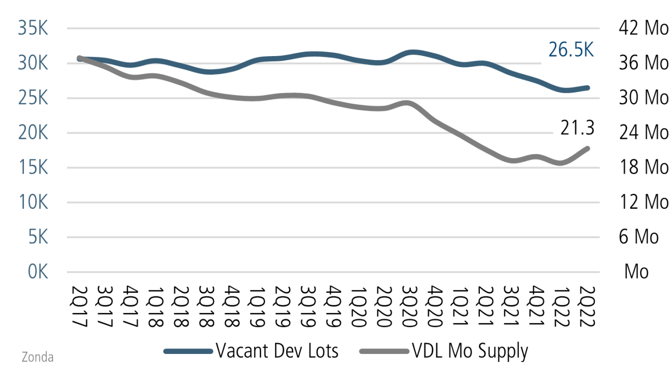
Orlando Vacant Developed Lot Supply



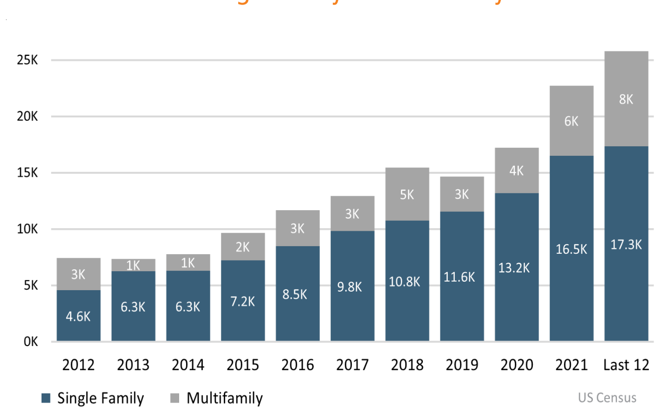
Tampa Single Family & Multi-Family Permits



Tampa Vacant Developed Lot Supply



Jacksonville Single Family & Multi-Family Permits



Jacksonville Vacant Developed Lot Supply