

AFFORDABLE HOUSING ANALYSTS
APPRAISERS/ANALYSTS/CONSULTANTS

August 19, 2011

Mr. Michael Duffy

McCormack Baron Salazar

via email: Michael.Duffy@McCormackBaron.com

Reference: Preliminary findings on the multifamily market analysis, the City of Galveston, Galveston County, Texas

At your request, I have performed a preliminary market analysis of the existing condition and potential demand for multifamily housing in Galveston, Galveston County, Texas.

I researched the existing apartment market in Galveston via personal interviews, research of on-line apartment market databases to which my company subscribes, and research via the internet. The research focused on units in complexes of 50 units or more, and excluded Public Housing units. The initial findings indicated that Galveston has a current average occupancy of approximately 79%, absorption over the past five quarters was 155 units, and the average rental rate was \$0.995 PSF (up from \$0.901 PSF prior to Hurricane Ike). Based on the reported occupancies, there were approximately 1,051 units vacant in Galveston.

However, upon additional research, the picture that the apartment market in Galveston paints is significantly different. There are a number of complexes in Galveston which are either closed, undergoing renovation, or in the initial re-leasing stage. When these complexes are removed, the average occupancy increases to approximately 96%. Removing the reported or estimated “down” units at Ebbitide, Park at Cedar Lawn, The Seasons, Captain’s Landing, Island Resort Bay, Champion Homes at Marina Landing, and Champion Homes at Bay Walk reduces the number of available units from 1,051 units to approximately 168 units. 168 units out of the total of 5,003 units represents approximately 3.35% of the total units. Typically a 5% frictional vacancy rate is considered to be normal. Therefore, the Galveston apartment market is currently well above maximum stabilized occupancy. A chart labeled Table A is included which depicts a summary of this preliminary analysis.

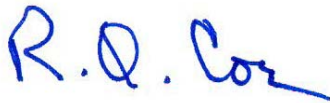
Mr. Michael Duffy
McCormack Baron Salazar
Galveston preliminary market analysis

I also performed a preliminary demand analysis for the subject's restricted units based on the current maximum allowable TDHCA rent schedule and a proforma unit mix. The demand analysis was based upon income-eligible existing renter households (no more than 30% of income paid for housing expense) from HISTA data from Ribbon demographics. The demand analysis was performed very conservatively without the inclusion of demand from those households returning from Hurricane Ike, without demand from Section 8 vouchers, without demand from households residing outside the Galveston area, or any other additional demand. The preliminary analysis indicated demand for approximately 2,507 Family units. (See Exhibit B).

If you have any questions, or require additional information, please contact me at the contact information below.

Respectfully submitted,

AFFORDABLE HOUSING ANALYSTS



Robert O. Coe, II
TX-1333157-G
State Certified General Real Estate Appraiser
Associate Member of the Appraisal Institute

GALVESTON TABLE A

COMPLEX	# UNITS	1br	2br	3br	1BR RENT	2BR RENT	3BR RENT	OCCUPANCY	NOTES
Stewart's Landing	216	75	141		\$560.00	\$714.79		85%	Units still down from IKE
Casa Caribe	165	71	41	8	\$526.34	\$747.44	\$1,030.00	98%	
Island Bay Resorts I & II	460	245	126		\$637.14	\$776.87		83%	Units still down from IKE
Champion Homes at Marina Landing	256	112	144					0%	Closed
Champion Homes at Bay Walk	192	48	144		\$625.00	\$778.33		59%	Under renovations
Carelton Courtyard	240	164	76		\$603.29	\$785.00		92%	
Antiqua	162	75	58	29	\$711.00	\$789.31	\$1,247.00	86%	Pre-leased to 99%, No current Concessions
Driftwood	238	166	72		\$584.86	\$800.00		84%	
Gulf Winds	66	20	34	12	\$637.00	\$811.18	\$1,077.00	90%	Pre-leased to 93%
Captain's Landing	174	100	74		\$692.33	\$838.25		88%	Units down from IKE. All livable units occupied
Carriage House	54	30	24		\$785.00	\$839.17		n/a	
Ashton Place	172	62	110	10	\$653.39	\$891.09	\$1,435.00	98%	
William B Travis	60	47	11	2	\$626.00	\$895.00	\$1,020.00	80%	
Lakeside @ Campeche	320	192	128		\$667.02	\$922.08		97%	
Newport at Campeche Cove	267	207	60		\$605.33	\$926.80		92%	Pre-leased to 95%
Park @ Cedar Lawn	192	56	132	4	\$706.14	\$949.00	\$1,124.00	25%	Only 48 units livable. Occ 100% of livable units.
Newport at West Beach	133	69	64		\$704.43	\$965.09		91%	Pre-leased to 93%
Fort Crockett	130	94	30	6	\$942.02	\$976.67	\$1,350.00	95%	
The Seasons	258	144	124		\$690.29	\$1,005.74		65%	Under renovations
The Broadwater	205	143	62		\$748.98	\$1,006.06		93%	Pre-leased to 100%
Village by the Sea	241	144	97		\$785.75	\$1,025.74		89%	
The Oceanfront	102	40	62		\$805.00	\$1,048.39		93%	Pre-leased to 94%
Seaside Village	90	18	72		\$777.33	\$1,052.33		97%	Pre-leased to 98%
Chateau LaFitte	80	30	50		\$887.00	\$1,150.00		98%	ABP
Villa Marina	184	148	36		\$703.08	\$1,301.95		76%	Pre-leased to 96% ABP
Club of the Isle	248	134	66	48	\$911.70	\$1,318.82	\$1,535.25	90%	Pre-leased to 95%
Ebbtide	98	53	45					0%	Closed for Renovations
TOTAL	5003							AVG OCC	79%
					Unit Vacant	1,051			
					Unit Down	883	OCC W/O Down		95.93%

EXHIBIT B - CAPTURE FAMILY UNITS

Type	No. Units	Turnover	Demand		Growth	Sec 8	Total Demand	Capture Rate	Capture Rate
1-1	30%	7	100.0%	317	317	5	321	2.2%	
1-1	40%	0	100.0%				0		
1-1	50%	14	100.0%	355	355	-3	352	4.0%	
1-1	60%	24	100.0%	379	379	-5	374	6.4%	4.30%
2-2	30%	12	100.0%	251	251	-12	240	5.0%	
2-2	40%	0	100.0%				0		
2-2	50%	23	100.0%	323	323	-5	318	7.2%	
2-2	60%	36	100.0%	305	305	-16	289	12.5%	8.38%
3-2	30%	4	100.0%	133	133	-17	116	3.4%	
3-2	40%	0	100.0%				0		
3-2	50%	9	100.0%	193	193	2	195	4.6%	
3-2	60%	12	100.0%	200	200	7	206	5.8%	4.83%
4-2	30%	2	100.0%	23	23		23	8.8%	
4-2	40%	0	100.0%				0		
4-2	50%	3	100.0%	43	43		43	7.0%	
4-2	60%	4	100.0%	31	31		31	13.1%	9.38%
		150							
HISTA		150	100.0%	2,551	2551	-44	2507	5.98%	5.98%