

Neighborhood Description

- *The Courts at Riverbend* Apartments are located a quarter mile east of Interstate 35, in a neighborhood characterized by numerous apartment communities primarily populated by students. Positioned about a mile from the Texas State University campus, students are within walking distance of campus. In addition, *The Courts at Riverbend* is located on the Bobcat Tram bus service route providing access to both the main campus and downtown San Marcos.
- Aquarena Springs Drive is home to seven other apartment complexes in addition to *The Courts at Riverbend*. Only three of these properties are considered Class A Student Housing developments that are in direct competition to *The Courts at Riverbend*. The other properties are of older construction and originally built as conventional apartment properties. The competitive properties located along Aquarena Springs Drive include University Heights, built in 2006, The Villagio and The Zone, opened in 2001. The conventional apartment complexes located along this drive are the River Oaks Villas, Riverside Ranch, Autumn Chase, and Country Oaks.
- Located along the San Marcos Highway, within a half-mile south of the subject, is a major retail area. A Wal-Mart Supercenter is the focal point for the corridor. Other retail developments include the San Mar Plaza, the Springtown Shopping Center and the new Blanco River Village mixed use development. National retailers located in this area include Target, Best Buy, Beall's Department Store, JC Penney and Dollar General to name a few. A HEB Grocery store is also located near the Springtown Shopping Center.
- Residents of *The Courts at Riverbend* will have access to the Quail Creek Country Club, located a half-mile east of the property. Quail Creek is a semi-private golf course with a student rate as low as \$25 per round. A mile to the west of *The Courts at Riverbend* is the TSU–San Marcos university golf course, which features a nine-hole course and is home to the TSU Bobcats.

Area Overview

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The site is located in San Marcos, Texas about 30 miles south of the state capital in Austin and 50 miles from the city of San Antonio. Strategically, San Marcos is positioned along Interstate 35, just north of its intersection with Interstate 10 in San Antonio. While I-35 runs north-south through the center of the State and into Mexico at Laredo, I-10 cuts across Texas horizontally. As a result, over 70 percent of the Texas population is within 200 miles.

San Marcos is the county seat of Hays County, which covers an area 678 square miles. Hays County is part of the Austin 5-county Metropolitan Statistical Area, which includes Travis County, with the largest population, Williamson north of that, and Bastrop and Caldwell to the southeast. In total the MSA has a population of over 1.7 million and has grown 100 percent since 1990, about double the rate of the state of Texas.



Area Overview (continued)

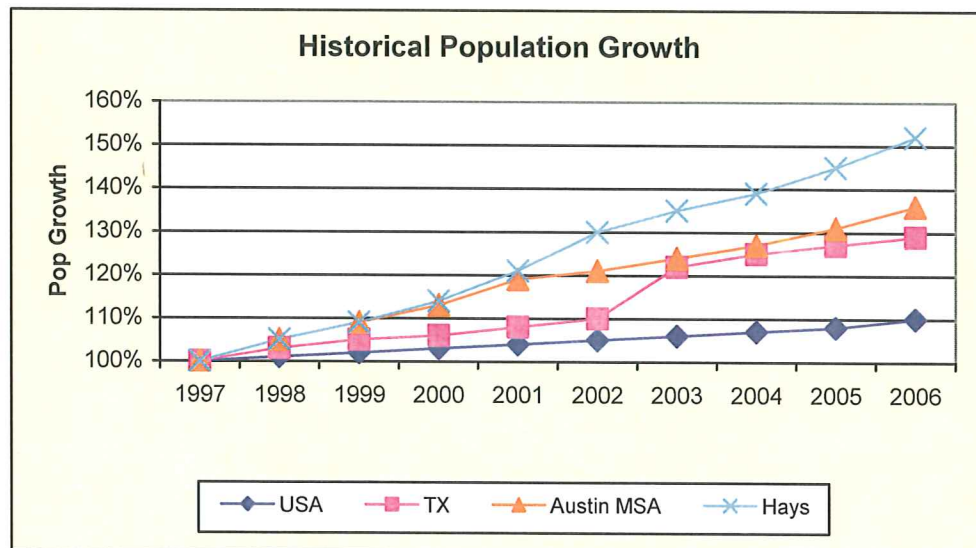
San Marcos is primarily known as the home to Texas State University-San Marcos, which is the state's sixth largest university and the biggest state university campus in Texas. In addition, San Marcos is known for its rich history, vibrant tourism and outstanding outlet shopping centers.



Population

Hays County has a population of just over 158,300. Considering that TSU-San Marcos has an attendance of 34,087 and an employee base of 5,845, the impact of the university on the county cannot be overstated.

Hays County is also one of the fastest growing counties in the state with a growth of over 52 percent in the last ten years. The Austin MSA has also shown tremendous growth at 36 percent. By comparison, Texas has grown 19 percent and the USA has increased 10 percent in the last ten years.

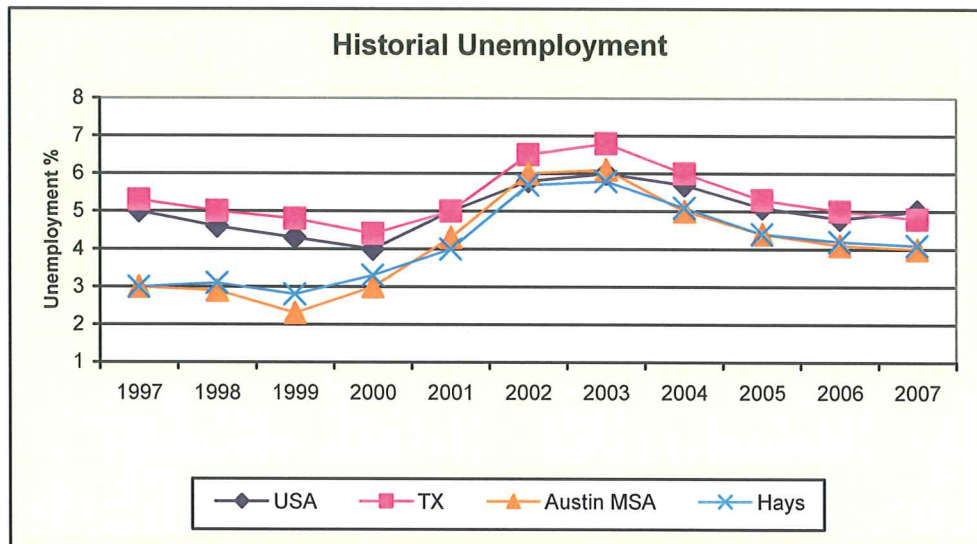


Employment

Hays County has historically enjoyed lower unemployment rates than the state and national averages. Since 1997, the Hays County unemployment rate has averaged 4.1 percent, while Texas and the US have averaged more than 5 percent. During the same period, Hays County employment has grown a staggering 48 percent. For comparison, the Texas wide employment growth over the last 10 years was 20 percent and the national growth was only 15 percent. The Austin-San Marcos metropolitan area has a work force of more than 818,000 while Hays County has an employment base of 68,700 workers.

The following table illustrates the historic unemployment rates for the US, Texas, the Austin MSA, and Hays County.

Area Overview (continued)



The largest employer in the Austin metropolitan region is The University of Texas at Austin, with more than 20,000 employees. The largest private employer is Dell Computer Corporation with 16,000 employees. San Marcos, located just 30 miles south of Austin, benefits from the broad base of employment opportunities available in the state capital. In fact, 18 percent of San Marcos residents report that they commute and work in Austin.



Within San Marcos, Texas State University-San Marcos is by far the largest employer with over 5,800 employees. The second and third largest employers are the Outlet Retail Centers of Tanger and Prime Outlets. The largest employers for San Marcos and the Austin MSA are listed in the cart below.



San Marcos – Top 10 Employers			Austin MSA – Top 10 Employers*		
1	Texas State University-San Marcos	5,845	1	University of Texas at Austin	25,313
2	Prime Outlets San Marcos	1,400	2	Dell, Inc.	16,000
3	Tanger Factory Outlet Center	1,400	3	Austin School District	10,408
4	San Marcos CISD (Public Schools)	1,000	4	Seton Family of Hospitals	11,106
5	Grande Communications	803	5	Freescale Semiconductor	6,600
6	Hunter Industries	650	6	H.E. Butt Grocery Co.	6,200
7	Central Texas Medical Center	600	7	IBM Corporation	6,200
8	HEB Distribution Center	480	8	Texas State University-SM	5,845
9	City of San Marcos	465	9	St. David's Healthcare	7,100
10	Wal-mart Super Center	435	10	Wal-Mart	4,700
*Employment figures do not include Federal, State and Local Government Employees estimated at 146,400					

Area Overview (continued)

Area Shopping

With Austin 30 miles to the north and San Antonio 50 miles to the south, San Marcos is an exciting day trip for many Texans. San Marcos is home to the state's third most popular tourist attraction – the Tanger Outlet Center and Prime Outlets – which draw millions of visitors each year. Jon Andrus, principal in the Austin office of Trammell Crow stated in an Austin Business Journal article that “studies show roughly 10 million visitors shop at the outlet malls each year, putting the retail center among the top tourist destinations in the state. About 25% of the mall shoppers come from Mexico.”

The Tanger Outlet Center boasts 2,000 brand name manufacturer and designer outlet stores in locations across 23 states coast to coast. In 1993 it became the first publicly traded outlet center real estate investment trust. With national name brand recognition, Tanger is able to draw shoppers from the entire southwest Texas region as well as northern Mexico. The San Marcos Tanger Outlet stores include American Eagle Outfitter, Lenox, Westpoint Stevens, Kenneth Cole and more than 10 restaurants.



Prime Outlets San Marcos was recently named the third best place to shop in the world by ABC's "The View." The 130 store center includes names such as Neiman Marcus, Giorgio Armani, Lacoste, Polo Ralph Lauren, and Saks Fifth Avenue outlet stores. The variety of shops cover accessories, children and family apparel, food, health and beauty, house wares, lingerie, luggage, services, shoes and specialty stores. It is obvious why it is called a shoppers haven.

Stonecreek Crossing, a 113-acre, 900,000-square-foot retail development is slated to begin construction at the northwest corner of Interstate 35 and McCarty Lane. The project is anchored by Target and JC Penney and is expected to open in 2008. The project is being directed by Dallas Cowboy Troy Aikman's company Direct Development.

Lincoln Property has begun construction on *Red Oak Village* at the Interstate 35 and Wonder World Drive interchange. The Dallas-based company has plans for a retail project totaling more than 300,000 square feet and a cost of \$14 million. Anchor tenants include Sam's Club, Petsmart, Marshall's, and Bed, Bath and Beyond. Lincoln will also extend two roads near the property, Cottonwood Creek Parkway and McKinley Place Drive.

On the north side of town plans are underway for the \$450 million *Blanco Riverwalk* project. The mixed-use project will include 765 condos, more than 800,000 square feet of entertainment and retail space, 400,000 square feet of medical office and care facilities, three hotels, and a 5,000-square-foot amphitheater.

The San Marcos Town Center is a \$150 million dollar mixed-use project under development between Hunter Road and the Union Pacific Railroad. The partnership developing the project has about 78-acres and plans to build over 500,000 square feet of office, supporting retail, a hotel and a hospital. It will also incorporate walking and bike trails, a large water feature and an open lawn modeled after the National Mall in Washington DC. The proposed timeline for this multi-phased project is four to five years.

Area Overview (continued)

Education

Texas State University-San Marcos is and will continue to be the heart of the San Marcos community. With 115 undergraduate degree programs as well as 84 masters and six PhD graduate degree programs, TSU-San Marcos supports an enrollment of 34,087. Beyond TSU-San Marcos, the MSA includes the University of Texas in Austin and Austin Community College. In total, the university programs in the Austin MSA have an enrollment of over 115,000. South of San Marcos, San Antonio is home to an additional 31 college institutions and over 100,000 students.



Austin MSA Universities		
School	2011 Enrollment	5 Year Growth
Austin Community College	42,004	108.4%
Concordia University	2,711	118.6%
Houston-Tillotson University	904	115.6%
St. Edward's University	5,320	122.3%
Texas State University-San Marcos	34,087	109.8%
University of Texas	51,112	95.1%
MSA Total	136,136	103.2%

San Marcos public schools are managed by the San Marcos Consolidated Independent School District (SCID). SCID, in partnership with parents and the community, strives to provide a quality education to all students, empowering them to pursue productive fulfilling lives. As a result of the 2004 Bond Election, Hays County had funds to construct a new 2,500-student San Marcos High School and the new Bowie Elementary School with a capacity of 700 students. Both schools opened for the fall 2007 school year. In addition, phase two will enable construction of the new Crockett Elementary School and a major conversion project that will introduce two revamped middle schools and a revamped elementary school to the district. In total the school system serves more than 7,200 students and operates 10 campuses.



Healthcare

Central Texas Medical Center is located in San Marcos and serves the entire Central Texas Region. This 113 bed, not for profit hospital is part of the Adventist Health System. The hospital provides a full range of health services, including birthing, cardiology, physical therapy, and cosmetic surgery. It is also the base for Critical Air, a 24 hour helicopter program for response to the critically ill or injured. As with most infrastructures in a fast growing community, Central Texas Medical Center is perpetually modernizing and remodeling its facilities, including the recently remodeled hospital rooms.



The San Marcos Treatment Center serves emotionally troubled adolescents in a residential setting. The Scheib Opportunity Center provides training, rehabilitation and support services to the emotionally disturbed and mentally retarded with the goal of keeping the patients in the community rather than a clinical setting. In total there are 95 medical centers and clinics serving the San Marcos area, which provide basic and specialty medical services.

Area Overview (continued)

Entertainment and Recreation

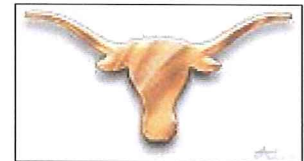
San Marcos is the gateway to the central Texas Hill Country. It provides a launching point for a wide variety of outdoor activities. The San Marcos River and the Aquarena Lake & Springs provide limitless crystal clear water for tubing, snorkeling, swimming and boating. The Balcones Fault Zone has caused numerous caves throughout the hill country, which can sometimes extend for miles. Texas has more than 3,000 known caves, though most are on private property and not open to the public. Wonder Cave in San Marcos is the oldest show cave in Texas and the only one formed by an earthquake. Attractions at Wonder World include a 45-minute tour through the cave, an observation tower, a small amusement park, and wildlife park.

Aquarena Lake, once an amusement park, was purchased by TSU-San Marcos in 1991. In 1996, the Board of Regents voted to close the theme park and convert it to an educational facility. Visitors can now explore the Aquarena Center for free. The lake is built over the springs, which have fed the San Marcos River for centuries. A glass bottom tour is available as well as numerous educational exhibits.

Sports

San Antonio, 50 miles south of San Marcos, provides professional sports through the Spurs of the National Basketball Association. In addition, the city offers the San Antonio Rampage of the American Hockey League and the Silver Stars of the Women's NBA. San Antonio is also home to the Baseball Minor League team, the San Antonio Missions, a franchise of the San Diego Padres National League team.

In Austin, the emphasis is on college sports as home to the University of Texas Longhorns, which field nationally competitive teams in football, basketball, baseball and most college sports. On the minor league level, the city supports the Austin Ice Bats of the Central Hockey League and the Round Rock Express, a minor league franchise of the Houston Astros National League Baseball team.




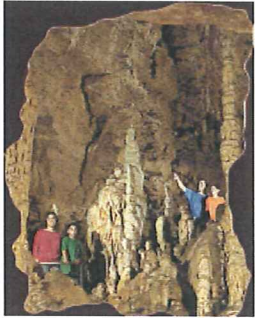
Locally in San Marcos, the Texas State Bobcats field a Men's NCAA Division I baseball and basketball team. The Bobcats also have a Division I AA football team. Diverse sporting events ranging from women's basketball to rodeo are available through the university.

Beyond spectator sports, San Marcos offers a wide range of participative and entertainment activities for visitors and residents. A short list of all that San Marcos has to offer:

- *Aquarena Center* – The crystal clear San Marcos River provides the perfect setting for a glass bottom boat ride and an opportunity to see the plant life and wildlife species in their natural habitat.
- *Wonder World Park* – The most visited cave in Texas was created by an earthquake. Explore the cave and ride to the top of the Texas Observation Tower for the most interesting views of the San Marcos area.
- *Quail Creek Country Club* provides an excellent challenge with over 7,000 yards of top caliber golf only four miles from downtown San Marcos.
- *The Commemorative Air Force Exhibit* – This World War II artifacts museum is located in a huge wooden World War II hangar. Exhibits include weapons, captured documents, uniforms, photos, radios, cameras, and aircraft equipment on loan or donated to the Commemorative Air Force.
- *The LBJ Museum at San Marcos* – This museum reflects on the life and times of President Lyndon B. Johnson, who was an alumnus of Southwest Texas University (now TSU-San Marcos.)



Area Overview (continued)

- *Wittliff Gallery* – A photography gallery with a comprehensive range of work from the region representing the history of photography from the 19th century to the present day. The Gallery has an emphasis on contemporary imagery.
- *Schlitterbahn Waterpark Resort* – Schlitterbahn is a 65-acre water park and resort complex featuring more than 40 rides and family activities in six areas. It is the most popular summertime water park in the United States, attracting more visitors than any other seasonal water park. For the past two years the park was also voted “America’s Most Beautiful Water Park.” Schlitterbahn is located on the banks of the spring-fed Comal River in New Braunfels. 
- *Historic Gruene* – It is home to the oldest dance hall in Texas where many country-singing stars and legends have performed over the years. Gruene has been designated a Historic Town by the state of Texas. The first home in this community, built in 1872, still stands proudly as the Gruene Mansion Inn. It is listed on the National Register of Historic Places and is a designated Texas Historic Landmark.
- *Canyon Lake* – Enjoy the water sports available at this 80-mile lake shoreline. Located on the Guadalupe River in Comal County, Texas, Canyon Lake has a surface area of 8,230 acres. It is one of the deepest lakes in Texas with an average depth of 43 feet.
- *Natural Bridge Caverns* – Texas’ largest caverns are called the Natural Bridge Caverns. The caves are located west of New Braunfels, Texas. A 75-minute tour through a half-mile of the largest and most spectacular show cavern in Texas is available. 
- *Natural Bridge Wildlife Ranch* – Take a safari drive – Texas-style. The ranch is home to over 50 species of animals from all over the world.

Area Residential Market

The San Marcos area has experienced tremendous population growth over the decades. As such, speculative single-family and multi-family developments are typical.

Hays County, Texas Single-Family Building Permits				
Year	Number of Dwelling Units		Average Value per Dwelling Unit (\$)	
	Units	Percent Change	Value	Percent Change
1997	157	-10%	\$71,400	-2%
1998	363	131%	\$80,000	12%
1999	754	108%	\$110,900	39%
2000	727	-4%	\$112,300	1%
2001	746	3%	\$83,100	-26%
2002	1,091	46%	\$123,100	48%
2003	1,156	6%	\$83,900	-32%
2004	1,960	70%	\$100,600	20%
2005	2,124	8%	\$146,500	46%
2006	1,992	-6%	\$133,200	-9%
Average	1,107		\$104,500	

Over the last 10-year period an average of 1,107 single-family homes were constructed annually. However, building activity grew substantially since 2002 skewing the average. In fact, the number of homes built per year has grown exponentially from 157 houses in 1997 to a record 2,124 in 2005. The average value of new homes has been slightly erratic. The average value in 1997 was only \$71,400. This

Area Overview (continued)

also peaked in 2005 at an average value of \$146,500 per home. 2006 has shown a slight drop in both construction and value from the previous year. Some of the major developments include the following:

- *Plum Creek* – A 2,200-acre master planned community is located in Kyle, Texas, just south of Austin in Hays County. Plum Creek is a mixed-use development which includes homes, parks, schools, community center, and commercial and office projects. The Austin-based Benchmark Land Development is spearheading the project and Legacy and Horton Homes are the home builders for this community. The project includes a golf course, pool, child play areas, hiking and bike trails as well as many other natural amenities.
- *Galisteo Ranch* is a 495-acre master-planned golf community. The project will include apartment homes, duplex homes, garden homes, hotels, commercial and retail space and a world class golf course. Currently 7,368 lots are planned. The property is located behind the Tanger and Prime Outlet Centers south of the city.
- *Blanco Riverwalk* – Positioned on the north side of San Marcos, Blanco Riverwalk is a 239-acre mixed-use development. The \$450 million project will include 765 condos, 800,000 square feet of entertainment and retail space, 400,000 square feet of medical office and healthcare space, three hotels and a 5,000-square-foot amphitheater.
- *Blanco Vista* – Located near the Blanco Riverwalk, Blanco Vista is a 575-acre residential development by Canadian Carma Developers. Current plans are to build 2,000 single-family homes, a trail system and other amenities along Old Stagecoach Road and Five Mile Dam. This is the largest single-family subdivision ever for San Marcos.
- *Blanco River Village* – Jeff Etheridge's development company is planning 325 homes on 106 acres laid out in a traditional style. The community will be located at the northwest corner of Highway 80 and Highway 21 and will extend to the Blanco River. Development plans include 5 acres of commercial land and 14 acres set aside for a public park facing the river. Pulte Homes will be the home builder and the community will be constructed in three or four phases.

Hays County, Texas 5+ Family Building Permits				
Year	Number of Dwelling Units		Average Value per Dwelling Unit (\$)	
	Units	Percent Change	Value	Percent Change
1997	370	6%	\$48,300	13%
1998	241	-35%	\$50,800	5%
1999	202	-16%	\$52,800	4%
2000	738	265%	\$39,000	-26%
2001	470	-36%	\$42,900	10%
2002	407	-13%	\$54,500	27%
2003	318	-22%	\$62,000	14%
2004	597	88%	\$59,800	-4%
2005	509	-15%	\$60,000	0%
2006	503	-1%	\$59,900	0%
Average	436		\$53,000	

- The multi-family construction starts have been somewhat more consistent over the last ten years when compared to the single-family construction starts. There was a large spike in construction during 2000, following by several conservative years. In 2004, the number of multi-family unit starts increased to 597 units in response to the improving economy. Over the last nine years, multi-family housing starts have averaged about 436 units per year. The value of the units has increased from the low \$50,000's in the late 1990's to \$60,000 per unit in 2005.

Area Overview (continued)

Senior Housing

Senior Housing is an increasing concern as numbers of “Snowbirds” are settling in south Texas permanently. Active seniors take advantage of unspoiled natural wonders, antique shopping as well as urban amenities such as professional sports and numerous galleries and museums.

Del Webb is capitalizing on demand for active senior housing with its first south Texas development: *Hill Country Retreat*. The community boasts beautiful views of downtown, lush natural landscaping and wildlife viewing. The community is being developed and completion is estimated for summer of 2007. When completed, the community will contain 2,000 housing units, a state-of-the-art fitness center and golf course.



Perhaps most relevant for *The Courts at Riverbend* development is student housing supply and demand. According to the Office of Provost for TSU-San Marcos, fall enrollment for 2006 was at 27,485 students. This represents a 10 percent increase over the 2002-estimated enrollment of 25,025 students. The total enrollment continued growing through 2011, when enrollment reached 34,087 and 2024 when enrollment is expected to top out at 45,000 students. Increased enrollment at TSU-San Marcos is expected to provide ample demand for the subject product for the foreseeable future. Additional supply and demand analysis is available in the Market Rent Section of this document.



Austin Overview

In 2006, Austin was recognized by the Wall Street Journal as the number one city for economic vitality and the number three Most Inventive City due to patent activity. In addition Expansion Management called Austin the best overall Metro to locate a business because of its “total package”. This city is loved for many reasons. An average of 300 days of sunshine places the capital of Texas squarely within the “sunbelt”. Austin enjoys a cosmopolitan atmosphere without big city hassle. It is surrounded and infused with great scenery and recreational opportunities. The city also enjoys a reasonable cost of living plus a great music and cultural scene. Austin is nestled among the rolling hills and lakes of Central Texas. It is the seat of state government and an educational Mecca with seven area universities

The number of households in the Austin MSA grew by more than 44.7 percent during the period from 1990 to the 2000 census. Since 2000, the Austin MSA has added an impressive 96,689 households. This represents a growth rate of more than 13,812 new households per year. Fast growth is expected to continue in Austin for the foreseeable future. The city’s reputation as a fun place to live, proximity to natural amenities, its location on trade routes from Mexico and the state government offices all work together to make Austin one of the fastest growing metropolitan regions in the country.

The 2007 Claritas Demographic Snapshot for the subject’s one, three and five mile radii is reproduced in the Exhibits section of this report. The Demographic Snapshot covers Texas, the Austin CBSA, and Hays County. A few of the highlights are summarized on the next page.

Area Overview (continued)

Demographic Profile:

- Population within a five-mile radius around the subject is 57,015 which make up 43 percent of the Hays County population. The population grew by 53 percent between 1990 and 2007.
- The population within the five-mile radius of *The Courts at Riverbend* is a diverse group consisting primarily of Caucasian (70 percent), Mixed-race (22 percent) and Hispanic (39 percent).
- As expected in a college town, the median age around the subject is about 25 years, far younger than the State and MSA averages of 33 years.

Economic Profile

- The Average Household Income within five-mile radius of *The Courts at Riverbend* is \$44,433. This is slightly less than the Average Household Income in Hays County, of \$65,628. This reflects the impact of the student body of TSU-San Marcos.
- The Average Per Capita Income within the five-mile radius of *The Courts at Riverbend* is \$16,341.

Housing Profile

- Home values within the five-mile radius average \$96,659, which is lower than the Hays County average of \$151,174.
- The rental profile around the subject indicates about 53 percent of the homes are renter occupied within the five-mile radius of *The Courts at Riverbend*. Within a one-mile radius of the subject, the percentage of renter-occupied households jumps up to 80 percent.
- 53 percent of the homes within Hays County were built since 1990, which reflects the amazing growth the county has experienced in that time period.

Summary

In summary, San Marcos is a college town strategically positioned for explosive growth. Driving the growth is the thriving market of Austin growing south along Interstate 35, the city of San Antonio expanding to the north and Texas State University-San Marcos helping to define San Marcos' personality and ambiance. As a result, San Marcos has drawn the attention of major retail and commercial businesses that have established a presence in the market. These companies will in turn fuel the continued growth. As the city reinvests into its own downtown assets, San Marcos is assured of a strong and robust future.

