

Rental Market

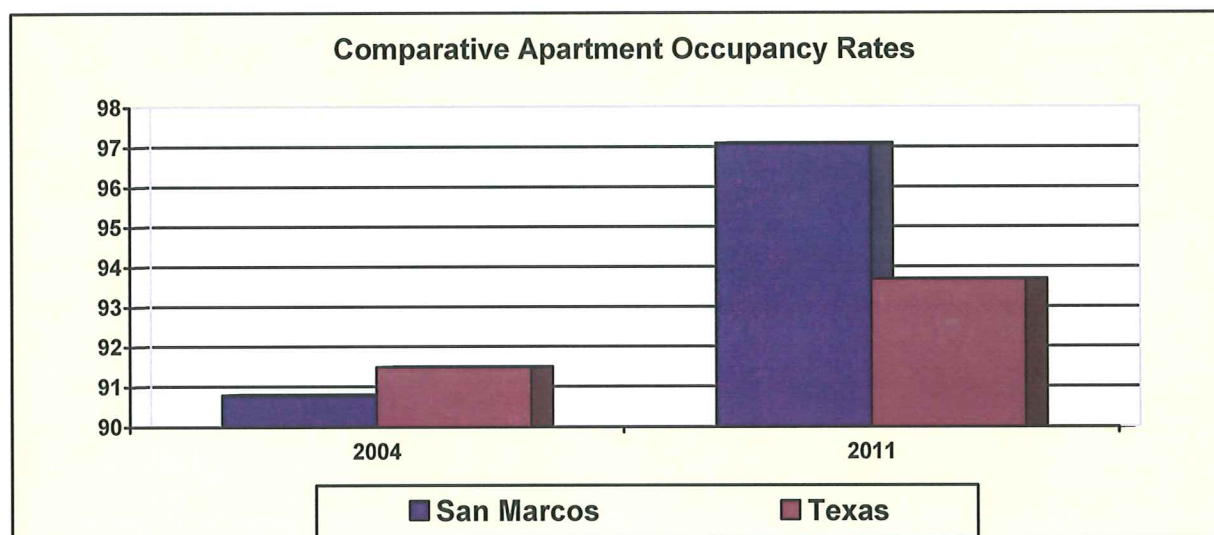
San Marcos – Austin Apartment Market

The Courts at Riverbend is located in San Marcos, Texas. The Real Estate Center of Texas A&M University reports multi-family statistics on both San Marcos and Austin multi-family housing markets. Below is a synopsis of the 2011 data.

San Marcos Apartment Occupancy Statistics 2011								
	San Marcos				Texas			
	2004	2006	2011	%	2004	2006	2011	%
Average Occupancy	90.8%	93.5%	97.1%	6.9%	91.5%	92.8%	93.7%	2.4%
Average Occupancy for units built before 2000	88.3%	92.2%	97.0%	9.9%	92.4%	94.1%	95.8%	3.7%

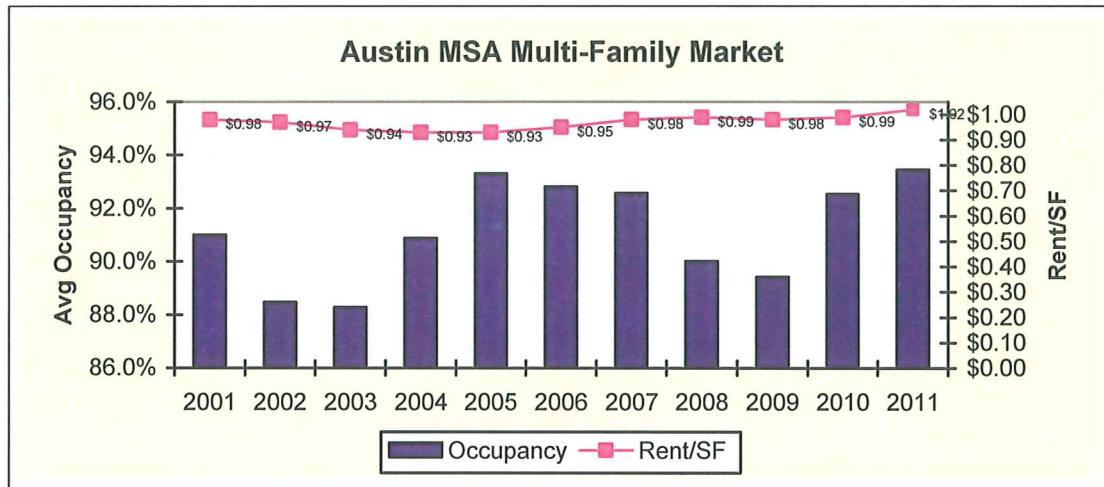
Source: Real Estate Center at Texas A&M

Based upon statistics gathered by the Real Estate Center, San Marcos has consistently outperformed the State of Texas during the last few years with regards to multi-family housing occupancy. In 2011, the average occupancy in San Marcos was 97.1 percent while occupancy in the State of Texas stood at 93.7 percent. In addition, occupancy is up almost seven percent in the San Marcos area since 2004.



Looking at the greater Austin MSA multi-family market, historical rents per square foot and average occupancy have both been climbing since 2004. The employment increase of over 50,000 jobs since 2004 has supported the improvement in market conditions, and in turn prompted managers to decrease or eliminate rental concessions. While the number of building permits for multi-family housing dropped significantly in 2003 to about 2,500 units, in the last two years, the figures have again climbed into the 5,000 to 6,000 unit range. The following chart illustrates the historical rent and occupancy rates for the MSA.

Rental Market (continued)

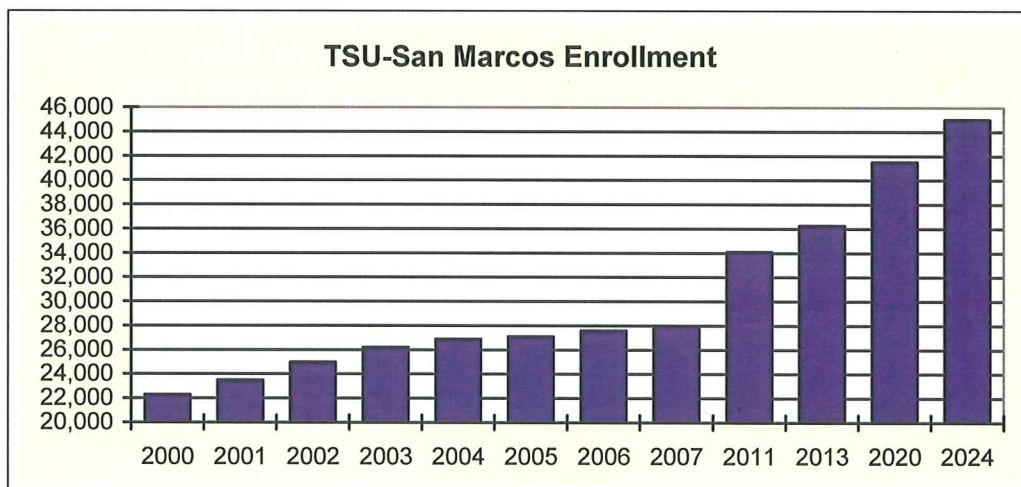


Source: Real Estate Center at Texas A&M

Demand

Demand for student housing is based on the student population of the San Marcos area. While historically, students under the age of 21 with less than 52 credit hours earned must reside in University residence halls, the University recently changed the requirement for freshmen only; the remaining student population, eligible to live off campus, is sizable and growing. As a result of this growing population, developers have constructed apartment properties geared toward students in order to better serve their lifestyle preferences. In addition to the apartment project units and amenities being designed for students, the utility packages and lease structures (renting by the bed) are targeted to college students as well. As a result, the demand for *The Courts at Riverbend* apartments is based primarily on the enrollment and growth expectations for TSU-San Marcos.

Enrollment at Texas State University-San Marcos has increased 54% since 2000 and is expected to continue growing. At this time, the University's Provost Office expects enrollment to expand annually to exceed 45,000 students by fall of 2024. This represents an increase of 32% or more than 10,000 new students in the next ten years. The historical enrollment rates for TSU-San Marcos are summarized in the graph below.



Rental Market (continued)

Occupancy rates in San Marcos for housing geared toward the student populations typically hovers in the 95 percent to the 100 percent range. Occupancy usually drops about 5 percent in the summer according to some property managers. However, within the last five years, property managers have begun charging a premium for nine-month leases, which has helped to eliminate this seasonal change. Many students prefer to stay in San Marcos over the summer in order to enjoy the amenities or to work. The University's summer enrollment has increased 15 percent since 2000 to about 18,000 students.

Supply

On average, 436 multi-family units have been constructed per year over the last 10-year period in Hays County. By comparison, the student population at TSU-San Marcos has grown by an average of 713 students per year over the same period, keeping slightly ahead of the supply growth. The multi-family building activity (5 units and up) and student growth is summarized in the following table.

San Marcos Apartment Supply vs Student Population Growth		
	Hays County 5+ Family Building Permits by Year	TSU-San Marcos Student Population Change by Year
Year		
1997	370	-112
1998	241	802
1999	202	294
2000	728	664
2001	470	1,087
2002	407	1,516
2003	318	1,301
2004	597	-1,386
2005	509	2,595
2006	503	450
2007	N/A	636
Average	436	713

As discussed in the previous Demand analysis section, 10,000 new students are expected over the next 10-year period. The city has a strict ordinance against multiple unrelated persons occupying non-student housing. For this reason, TSU-San Marcos students overwhelmingly choose student apartment developments. At the average development rate of 436 units per year, supply is not expected to keep up with the increasing enrollments.

During 2006, a total of 202 new housing units were opened in a project called The Sanctuary Lofts located on Hutchinson and North Church Street. In addition, the Cabana Beach Apartments, a 276-unit / 744-bed student apartment community was built near the TSU-San Marcos Campus and opened in the fall of 2006. Considering the University's increasing enrollment, Hays County's increasing population, the historical rate of multi-family developments, and the current supply of student housing, the market appears to be enjoying a period of equilibrium.

The Courts at Riverbend and Rent Comparables

A market for Class A University Apartments is made up of 12 comparables. In total, the market contains 3,903 units and 9,955 beds. As indicated in the following chart, most of the comparable properties have been built since 2001. Villagio, the Sanctuary Lofts, Cabana Beach and the Exchange II were the most recent additions to the market with 898 units. This represents capacity growth of over 56 percent in the last two years. However, as the current market occupancy is estimated at 98 percent, the market easily

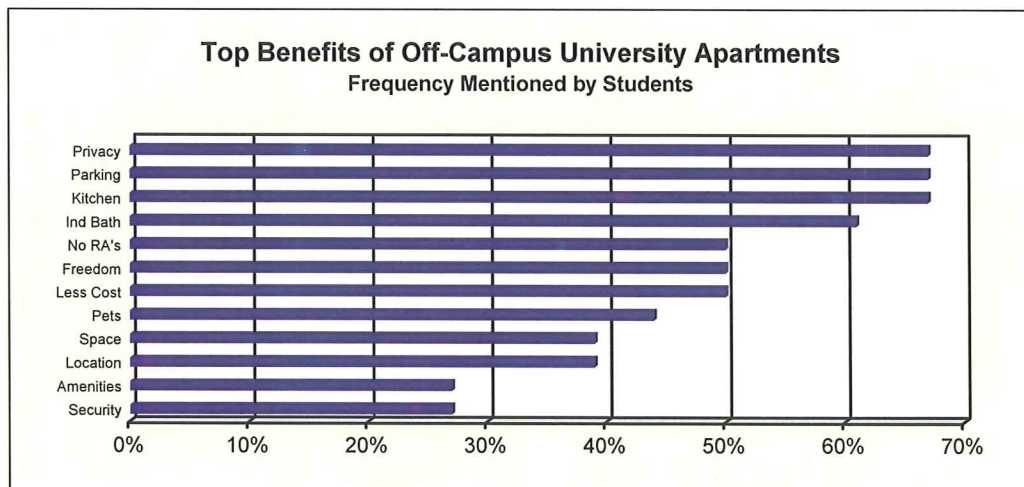
Rental Market (continued)

absorbed the new developments. Effective rents have also remained strong in light of the market expansion with an average effective rent per bed for the market of \$502.

Apartment	Year Built	Units	Beds	Current Occupancy	SF per Unit	Eff. Rent Per Bed	Eff. Rent Per SF
The Villagio	2006	180	492	100%	1,057	\$479	\$1.24
The Zone	2001	258	696	99%	1,044	\$424	\$1.19
University Heights at SM	2001	288	816	97%	1,042	\$434	\$1.21
University Springs	1998	152	488	99%	1,164	\$394	\$1.31
Sanctuary Lofts	2006	200	484	100%	888	\$605	\$1.65
The Outpost	2004	162	486	99%	1,148	\$451	\$1.27
Heights II (EX2)	2005	240	672	100%	1,037	\$438	\$1.33
Hillside Branch	1997	258	408	97%	792	\$550	\$1.10
Dakota Ranch	2001	188	316	99%	787	\$595	\$1.36
The Ridge	1999	172	548	96%	1,032	\$363	\$1.12
University Club	2002	110	374	95%	1,312	\$334	\$1.17
Cabana Beach	2006	276	744	97%	1,086	\$465	\$1.29
University Housing Avg's	2002	207	544	98%	1,021	\$502	\$1.27

With the number of recently constructed properties in San Marcos, property amenities and construction differentiators ultimately make the difference in price. With that in mind, *The Courts at Riverbend* will stand out among its peers. Built with stone and stucco exteriors, among a beautifully manicured landscape, *The Courts at Riverbend* presents the feeling of a resort lifestyle. In particular, the swimming pool with its luxurious deck gives *The Courts at Riverbend* the visual appeal that is a primary attraction to new tenants.

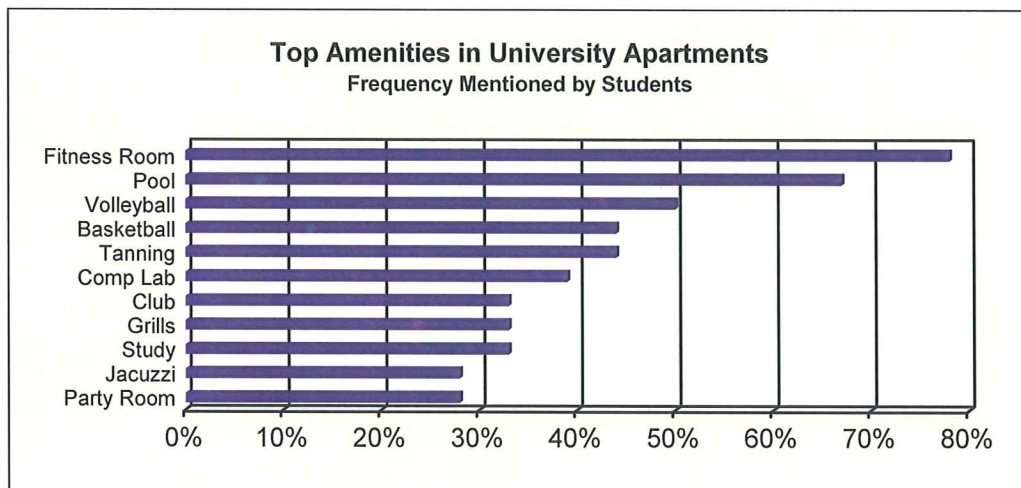
In a recent poll taken by the National Multi Housing Council of students living in off-campus apartments, 67 percent cited privacy as a key benefit and 61 percent gave personal bathrooms as a top benefit. *The Courts at Riverbend* was designed with this in mind as each bedroom is separately keyed and each resident has their own bath. In addition, the all-inclusive rents ensure students of the value they are looking for in university apartments. The following table highlights some of the major attributes that capture the attention of prospective student tenants.



Source: National Multi Housing Council Study – September 2007

Rental Market (continued)

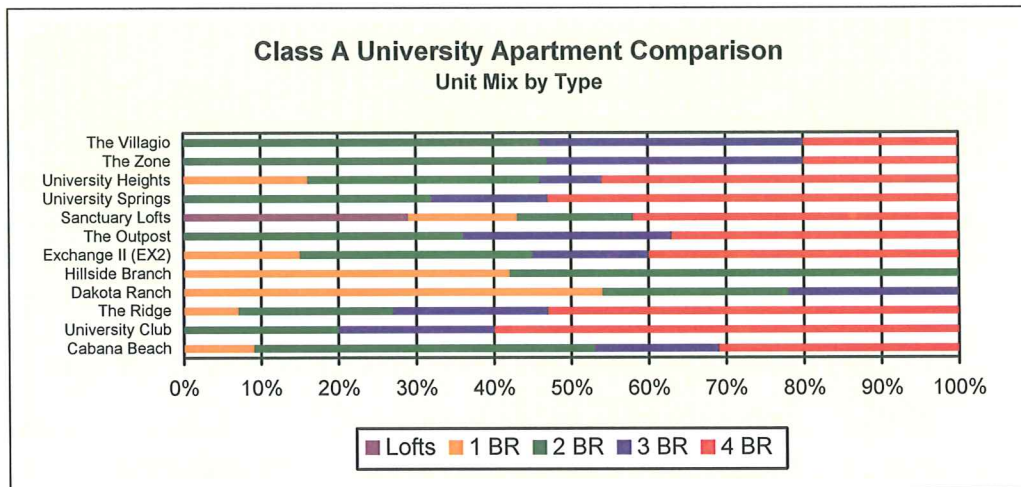
Among the amenities that are frequently mentioned, the fitness room, a resort-style swimming pool and sand volleyball courts are most often cited. *The Courts at Riverbend* again stands out from the competition with their outstanding range of property amenities. The clubhouse also includes a fully-equipped fitness center and tanning beds. In addition, there is a coffee bar and cyber café complete with computer workstations, along with party and game rooms. The resort-style swimming pool includes a beach entry, tanning ledges, a hot tub and provides poolside wireless internet. The courtyard areas include barbeque grills as well as additional outside wireless and relaxation areas. *The Courts at Riverbend* will feature outdoor athletic facilities such as a sand volleyball court and a basketball court. Below is a chart of the amenities most frequently mentioned by students looking for off-campus university apartments. *The Courts at Riverbend* meets every amenity need mentioned. A comparative analysis of property amenities among the twelve comparables is also attached highlighting the differences between the subject and its peers.



Source: National Multi Housing Council Study – September 2007

Unit mix is another primary consideration when reviewing the comparable properties. The following bar chart provides a graphic illustration of how varied the mix is among the comparables. A unit mix heavy in four-bedroom / four-bath units is popular among younger undergraduates but is least desired among upper classmen and graduates. A mix heavy in one-bedroom units favors upperclassmen; however, they are individually more costly per student. *The Courts at Riverbend* considered this in developing a unit mix of two, three and four bedroom units. The following bar chart breaks down all the competitive properties by unit mix.

Rental Market (continued)



In summary, *The Courts at Riverbend* has been designed and amenitized to strategically dominate the university apartment market. With the projected growth of the university market, *The Courts at Riverbend* is expected to take a leadership position in the upcoming years.