



# **Lone Star Rail Service Economic Impact Evaluation**

**Northern Hays County (Kyle) Station Area**

Prepared for

**Jacobs Engineering Group Inc.**

**On behalf of the Lone Star Rail District**

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by

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On

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MARKET  
RESEARCH**

Real Estate Research, Land Development Economics & Market Analysis

April 9, 2012

Jacobs Engineering Group Inc. on behalf of the Lone Star Rail District  
2705 Bee Cave Road  
Suite 300  
Austin, Texas 78746

**RE: LSTAR Rail Service Economic Impact Evaluation: Northern Hays County (Kyle) Station**

We have concluded the development impact analysis which may result from the provision of Passenger Rail Service in the Northern Hays County market area, connecting with the existing Capital Metro MetroRail service and the planned City of Austin Urban Rail network, with a specific focus on the development potential at the Northern Hays County (Kyle) Station. We have provided the results of this analysis in the report accompanying this letter.

We appreciate the opportunity to provide you with this analysis, and invite you to contact us with any questions or comments that you might have.

Respectfully Submitted,

**CAPITOL MARKET RESEARCH, INC.**

**DRAFT**

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## Introduction and Purpose

Capitol Market Research has prepared an economic impact evaluation to determine the economic benefit that might accrue to the City of Kyle if the fixed guideway LSTAR intercity passenger rail service is linked with the Capital Metro passenger rail line and City of Austin's proposed Urban Rail line to create an integrated rail system that will provide a viable transportation option for the residents of Hays County. The LSTAR will provide convenient passenger rail service from the City of Georgetown to the north through the core of downtown Austin extending south to the City of San Antonio. The LSTAR initiative by the Lone Star Rail District (LSRD) will operate mostly along the existing Union Pacific rail line with stations at the Seaholm Power Plant (Seaholm Station) and four other locations in Travis County, two stations in Hays County, two stations in Comal County, and five stations in the San Antonio MSA in Bexar County. Currently, Capital Metro has initiated passenger rail service on the existing Northwest rail corridor (Red Line), which terminates at Trinity and Fourth Streets, near the Austin Convention Center. The Urban Rail system is being planned by the City of Austin to provide local service from Manor Road East to the edge of the Mueller redevelopment tract at E.M. Franklin Boulevard then south, across Lady Bird Lake and east on East Riverside Dr. to ABIA. The portion of the rail service under consideration in this report is defined by the area which surrounds the LSTAR passenger rail station in the City of Kyle, in Northern Hays County.

The City of Kyle is an incorporated city within the Austin MSA that is located approximately 22 miles from downtown Austin. Kyle has a resident population base of 28,016 (in 2010), a 427% increase from 5,314 in 2000, making it one of the fastest growing cities in Texas. This rapid growth combined with significant upgrades in the city infrastructure provided the impetus for the construction of a new HEB and Target, along with the completion of the new (144 bed) Seton Medical Center Hays and associated medical office space.

The purpose of the analysis in Kyle is threefold. The primary purpose is to establish a current base year (2011) property tax value for parcels that are likely to be affected by the proposed LSTAR rail service, and then to forecast the likely changes to land use and value that may accrue over a 20 year time frame. A secondary purpose is to compare the forecasts with a "no build" scenario which does not include the planned LSTAR service. Finally, the analysis will show the potential income stream that will result from a Tax Increment Financing district (TIF) created to capture the anticipated increment in value.

A major determinant of land value is based on accessibility, and downtown areas have historically been the most accessible locations within metropolitan regions in the United States. In the Austin region there are also four suburban commercial nodes that have developed near the intersection of three major highways (The Arboretum, La Frontera, Lakeline and Sunset Valley). In addition, commercial development has clustered along major thoroughfares and particularly at the intersection of two major thoroughfares. The LSTAR passenger rail will also enhance accessibility by providing rapid rail service to other parts of the region.

### ***Rail Network***

Central and South Texas are currently developing a regional passenger rail network consisting of three connected systems: a regional passenger service connecting Austin to San Antonio with stations in between the two cities, an inter-/intracity passenger rail service, and a local service. Lone Star Rail District's (LSRD) planned LSTAR regional passenger rail service and Capital Metro's (CMTA) recently opened Red Line passenger service each enter downtown Austin at different sides of the central business district (CBD). The



City of Austin's planned Urban Rail network will provide a critical connection between the two other systems. The LSRD will also connect in San Antonio to VIA's planned street car service.

The first of the three rail systems to begin operations, in March 2010, was CMTA's MetroRail Red Line, a commuter system that runs 32 miles from the far northwest suburb of Leander along the east side of Central Austin to the Convention Center in the southeast corner of downtown Austin. Additionally, CMTA is in the planning phase for an extension of its commuter rail system that will provide service to the nearby cities of Manor and Elgin to the northeast, also terminating at the Convention Center.

The LSTAR intercity passenger rail service will connect several cities in Central and South Texas mostly along an existing 120 mile corridor paralleling I-35: Georgetown, Round Rock, Austin, Kyle-Buda, San Marcos, New Braunfels, and San Antonio. For the purpose of assessing the potential TIF impacts, LSTAR is planning to study two station areas in Hays County, one in Kyle and another in San Marcos. Initially, Buda will be served by the Kyle station, but it is possible that Buda will also have a station in an expanded LSTAR service program. The Kyle Station is located approximately 0.83 miles north of the FM 1626 overpass and the San Marcos station is located at the eastern edge of downtown between LBJ Parkway and C.M. Allen Parkway. In each area the economic benefit estimates will assume the rezoning of land within the study area to support Transit Oriented Development (TOD).

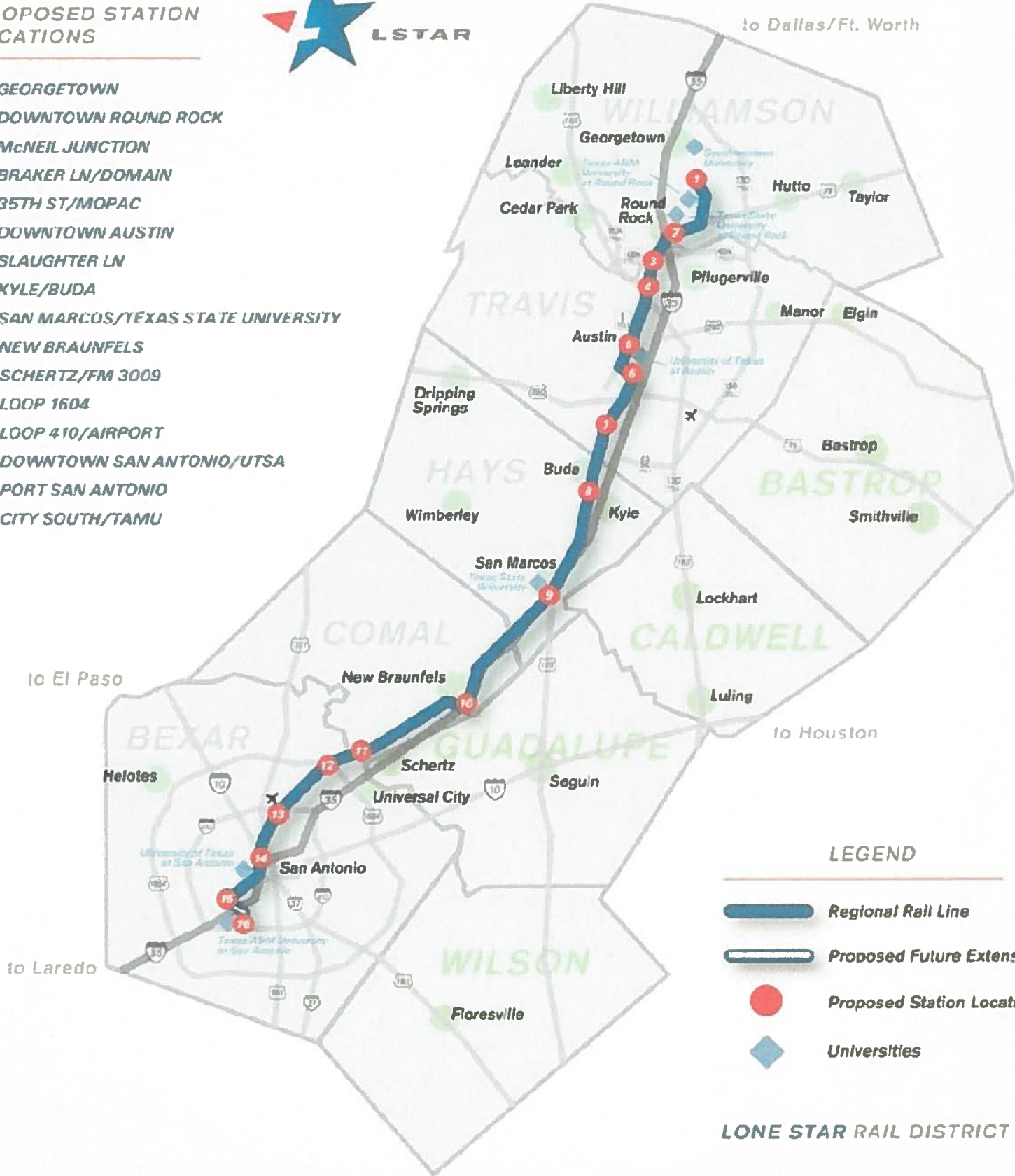
Linking the LSTAR and Capital Metro Red Line into a true network is the City of Austin's planned Urban Rail system, providing local service primarily within Central Austin. Urban Rail will connect the LSTAR and Capital MetroRail systems, whose downtown stations are nearly one mile apart, and the major activity centers within Central Austin, including downtown, the state Capitol complex, and The University of Texas, along with Austin's airport, ABIA. Austin's rail system serves as nexus for this emerging regional passenger rail network and will expand the reach of all three systems.

Figure (1)





PROPOSED STATION LOCATIONS



- 1 GEORGETOWN
- 2 DOWNTOWN ROUND ROCK
- 3 McNEIL JUNCTION
- 4 BRAKER LN/DOMAIN
- 5 35TH ST/MOPAC
- 6 DOWNTOWN AUSTIN
- 7 SLAUGHTER LN
- 8 KYLE/BUDA
- 9 SAN MARCOS/TEXAS STATE UNIVERSITY
- 10 NEW BRAUNFELS
- 11 SCHERTZ/FM 3009
- 12 LOOP 1604
- 13 LOOP 410/AIRPORT
- 14 DOWNTOWN SAN ANTONIO/UTSA
- 15 PORT SAN ANTONIO
- 16 CITY SOUTH/TAMU



**LEGEND**

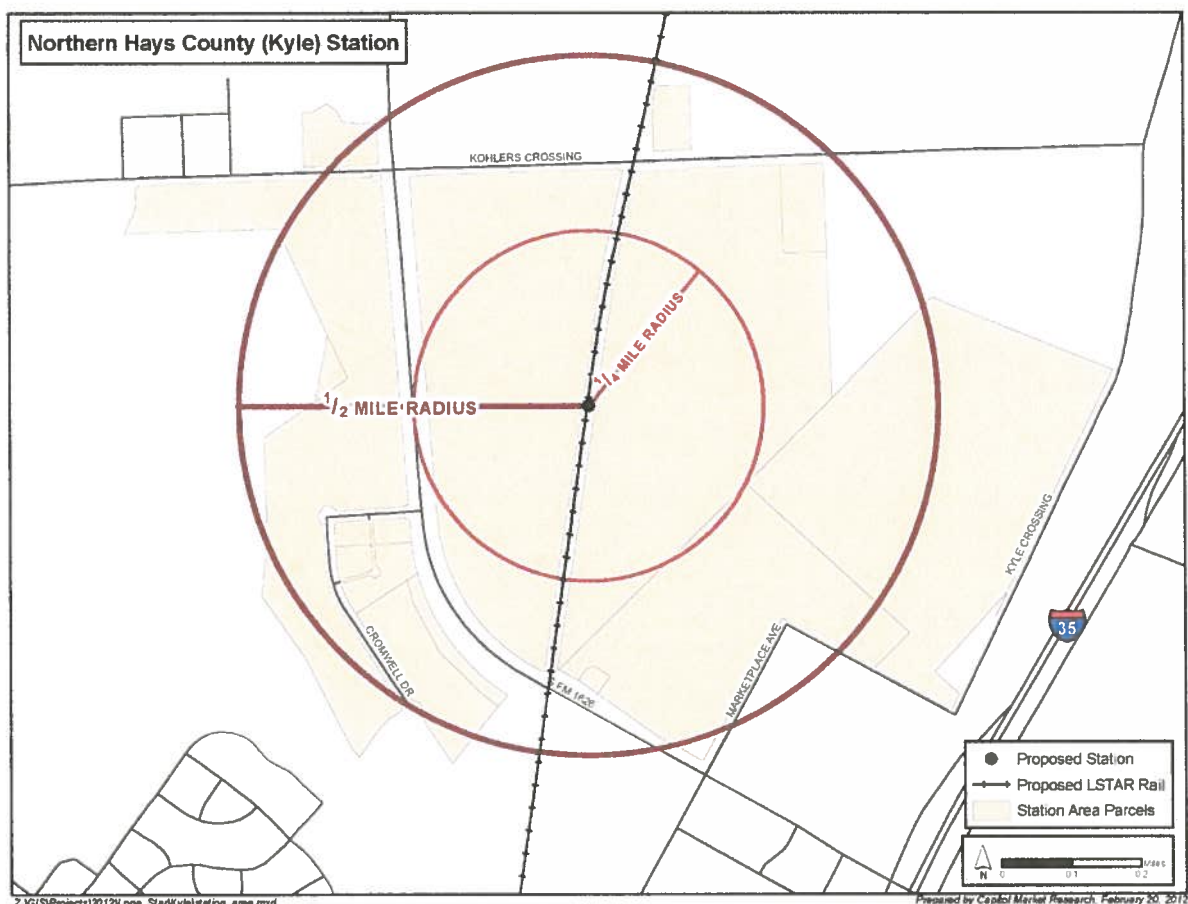
-  Regional Rail Line
-  Proposed Future Extension
-  Proposed Station Location
-  Universities

LONE STAR RAIL DISTRICT

## Northern Hays County (Kyle) Station Study Area

Most studies<sup>1</sup> that have analyzed the enhancements to value that result from proximity to rail service identify a ¼-mile radius as the zone within which a majority of “Station Area Impacts” will be felt, although there is some evidence to support a broader area impact of ½ mile or more. The study area used in this analysis reflects the more conservative ¼ mile distance but it also includes land outside of the ¼ mile radius when the parcel is more than 50% within the ¼ mile radius or when the parcel provides additional development potential that may measurably affect the TIF revenue forecast.

Figure (2)

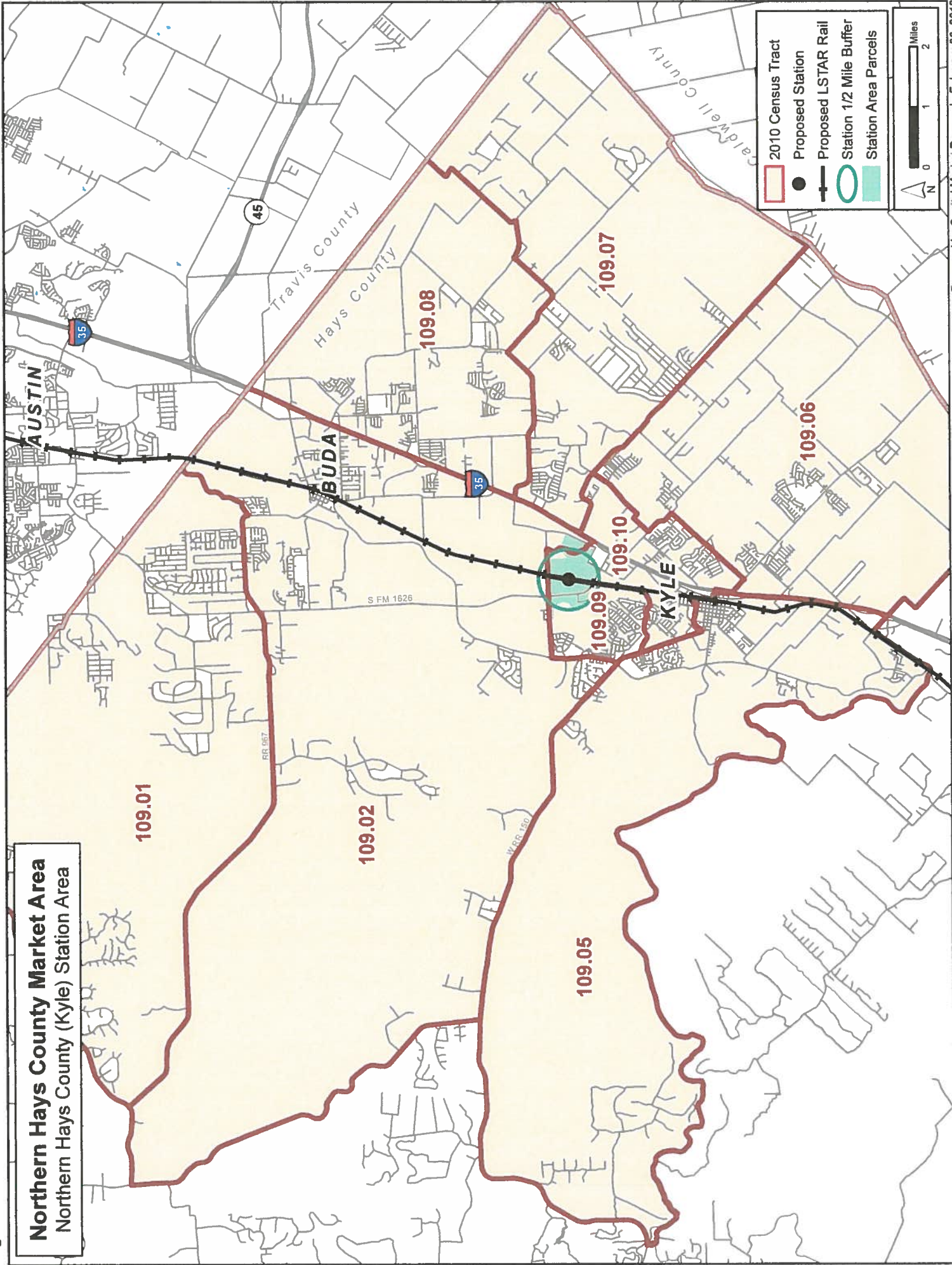


Source: Travis Central Appraisal District 2010 Parcel Boundary map, Jacobs Engineering, Capitol Market Research 2012

The map on the following page shows the Northern Hays County (Kyle) Station Area within the larger context of the Northern Hays County market area.

<sup>1</sup> Bibliography in the appendix to this report

Figure (3)



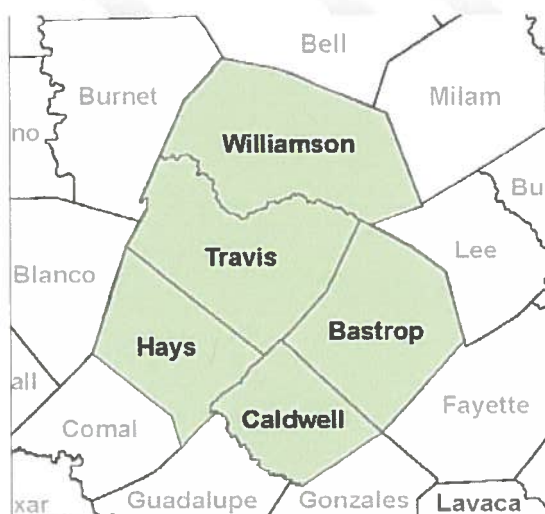
## Regional Economy and Employment Growth

The LSTAR passenger rail service connects several cities along an existing 120 mile corridor located west of and parallel to IH-35. LSTAR is planning to have five stations in Travis County and two in Hays County, one in Kyle and the second in downtown San Marcos. At the northern end, the LSTAR project is primarily influenced by the economic base of Austin and Round Rock and the Austin Metropolitan Statistical Area (MSA). The Austin MSA is comprised of Bastrop, Caldwell, Hays, Travis and Williamson counties. According to the U.S. Bureau of the Census, the Austin MSA was the 35th largest in the United States in 2010. The map below provides the location of these counties.

Austin is the Capital of Texas, the county seat of Travis County and one of the fastest-growing cities in the country. Anchored by employment in state government and the University of Texas at Austin, the community has recently experienced a surge of growth in high tech computer-related manufacturing and software development. Austin's government and education centers help stabilize the economy during difficult economic periods because these sectors are less affected by the cyclical nature of the economy. The University and the local, state and federal government offices have provided a solid employment foundation in Austin for more than one hundred years, and together employ more than 179,400 people, about 23.1% of Austin's wage and salary jobs. The University has also been a critical factor in diversifying Austin's economy. Research and development firms are attracted to Austin by the pool of young talented graduates from the University's programs in computer science, genetics, fusion energy, astronomy, neuroscience, electromechanics and geophysics.

Along with government and education, high-technology is a third vital sector of Austin's economy. In the 1980s and early 1990s, major high-tech firms including 3M and Applied Materials came to Austin and quickly expanded, and existing firms such as IBM and Motorola also grew. Austin's high-tech sector currently includes more than 1,500 firms. According to a 2008 Greater Austin Chamber of Commerce Survey, Dell Computer Corp. is the largest private company in the region with 17,000 employees, Seton Healthcare Network is second with 6,743 employees and IBM currently has 6,300, St. David's Healthcare Partnership (6,219), Freescale Semiconductor Inc. (5,000), AT&T (3,450), Flextronics (3,000), San Marcos Outlets (3,000), Advanced Micro Devices (2,600), and Applied Materials (2,500) follow.

Employment grew rapidly in Austin in the late 1990s with annual increases ranging from 24,300 in 1996 to 37,200 in 2000. However, in 2002 the Austin area lost more than 15,000 jobs and in 2003, the loss was 5,400. In a remarkable recovery, growth resumed in 2004, and the Texas Workforce Commission reported a net increase of 89,900 jobs from January 2004 through December 2007. However, as noted above the national recession has also had an impact on Austin which resulted in a decline in employment in 2009 followed by a modest recovery in 2010 and 2011. Table (1) provides recent employment statistics and projections for the Austin MSA. The forecast shown is from Moody's economy.com, July 2011.



Source: Capitol Market Research, 2010

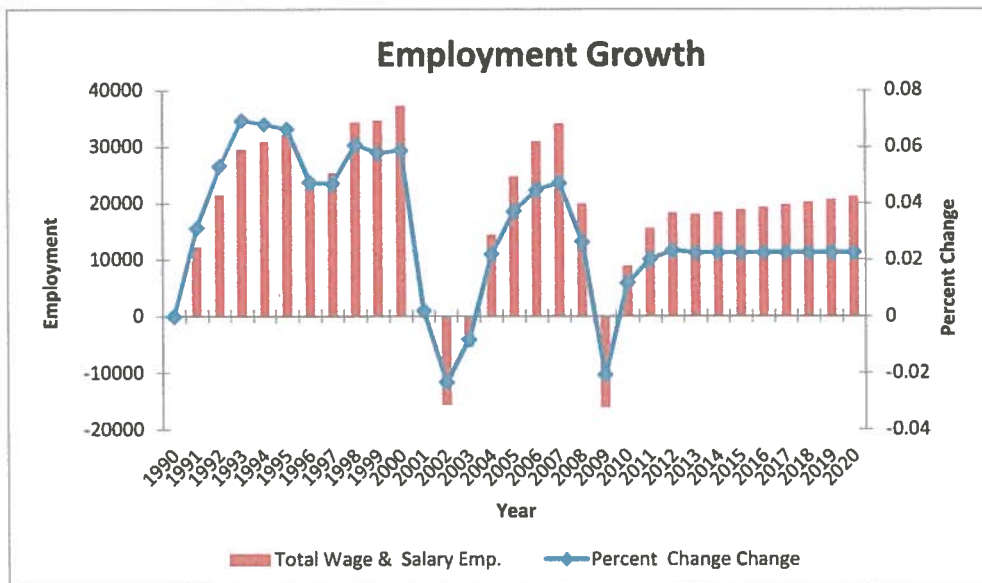
Table (1)  
 Historical & Projected Employment Growth  
 Austin MSA

Year	Total Wage & Salary Emp.	Annual Change	Percent Change
1990	390,600	...	...
1991	402,800	12,200	3.12%
1992	424,200	21,400	5.31%
1993	453,600	29,400	6.93%
1994	484,400	30,800	6.79%
1995	516,500	32,100	6.63%
1996	540,900	24,400	4.72%
1997	566,300	25,400	4.70%
1998	600,700	34,400	6.07%
1999	635,400	34,700	5.78%
2000	672,700	37,300	5.87%
2001	674,100	1,400	0.21%
2002	658,400	-15,700	-2.33%
2003	653,000	-5,400	-0.82%
2004	667,400	14,400	2.21%
2005	692,200	24,800	3.72%
2006	723,200	31,000	4.48%
2007	757,300	34,100	4.72%
2008	777,300	20,000	2.64%
2009	761,222	-16,078	-2.07%
2010	770,223	9,001	1.18%
2011	785,863	15,640	2.03%
2012	804,250	18,387	2.34%
2013	822,353	18,103	2.25%
2014	840,828	18,475	2.25%
2015	859,738	18,910	2.25%
2016	879,093	19,355	2.25%
2017	898,903	19,810	2.25%
2018	919,180	20,277	2.26%
2019	939,936	20,756	2.26%
2020	961,181	21,245	2.26%

Source: Texas Workforce Commission, Annual Average Wage & Salary Employment, Adjusted Annual Average, 1990-2010  
 Forecasted employment (increase based upon forecast obtained from Economy.com in July 2011)

emp\_gro\_2011.xls

Figure (5)



## Regional Population and Household Growth

Rapid population growth in Austin and other U.S. cities is almost always attributable to the migration of people from other areas, often because of job opportunities. The strong growth in employment, shown in the previous section, and a relatively low unemployment rate (6.9% in December 2009) means that as new jobs are created, people will continue to move into the region to take those jobs.

Between 1990 and 2000, the MSA increased by 59.9%, growing from 781,572 to 1,249,763 people. Approximately 40% of the growth in the region was captured by the City of Austin, and the City ended the decade with 656,562 people. Between 2000 and 2010, growth in the region slowed, and the City of Austin percentage growth rate dropped to 20.4%. On the other hand, Hays County continued to grow amidst the regional slow-down, increasing by 61% between 2000 and 2010. The County almost doubled its capture of regional growth, from 7% to 13%, during the same time period.

Table (2)  
Austin-Round Rock MSA Population Growth  
1990 - 2010

Area	1990 Census	2000 Census	2010 Census	Change 1990 - 2000	Change 2000 - 2010	% Change 1990 - 2000	% Change 2000 - 2010
Austin MSA	781,572	1,249,763	1,716,289	468,191	466,526	59.9%	37.3%
Travis County	576,407	812,280	1,024,266	235,873	211,986	40.9%	26.1%
Hays County	65,614	97,589	157,107	31,975	59,518	48.7%	61.0%
City of Austin	465,622	656,562	790,390	190,940	133,828	41.0%	20.4%
City of Kyle	2,225	5,314	28,016	3,089	22,702	138.8%	427.2%

Source: US Bureau of Census, Census of Population, 1990 - 2010

poptrend.xls

Households in the MSA also grew at a rapid pace, increasing 55.3% in the nineties and another 37.9% between 2000 and 2010. The City of Austin actually increased its capture rate of regional household growth over the last ten years, from 28.9% in the nineties to 33.2% in the 2000 to 2010 time period. Hays County outpaced both the Austin MSA and neighboring Travis County in terms of household growth, increasing its number of households by 65% in the last ten years. The County captured approximately 12% of the growth in the region between 2000 and 2010, and ended the decade with 55,245 households.

Table (3)  
**Austin-Round Rock MSA Household Growth**  
 1990 - 2010

Area	1990 Census	2000 Census	2010 Census	Change 1990 - 2000	Change 2000 - 2010	% Change 1990 - 2000	% Change 2000 - 2010
Austin MSA	303,871	471,855	650,459	167,984	178,604	55.3%	37.9%
Hays County	22,218	33,410	55,245	11,192	21,835	50.4%	65.4%
Travis County	264,173	320,766	404,467	56,593	83,701	21.4%	26.1%
City of Austin	217,054	265,649	324,892	48,595	59,243	22.4%	22.3%
City of Kyle	-	1,491	8,759	-	7,268	-	487.5%

Source: US Bureau of Census, Census of Population, 1990 - 2010

poptrend.xls

The disparity between population and household growth throughout the region and the City of Austin, is quite striking. Most notable is the comparison of the City of Austin to Hays County. While household size in the City of Austin has decreased slightly (from 2.40 in 2000 to 2.37 in 2010), household size in

Hays County has increased, from 2.69 to 2.72, over the same time period. The simple explanation for this trend is that most "family" households are moving to suburban cities and counties, while the non-family and smaller households are choosing more urban locations in Travis County and the City of Austin. The higher cost and availability of land in Austin has resulted in a more dense development pattern and smaller units, which, in turn, attracts households with fewer people. It is likely that this trend will continue, resulting in an evolving city form most dramatically evident now in the skyline of downtown Austin.

Area	1990	2000	2010
Austin MSA	2.48	2.57	2.58
Travis County	2.18	2.47	2.48
Hays County	2.68	2.69	2.72
City of Austin	2.15	2.40	2.37
City of Kyle	-	3.22	3.15

Source: US Bureau of Census, Census of Population, 1990 - 2010



## Current Land Use and Values

In this section we move from the discussion of regional trends to a more focused analysis of the market area to be investigated. This report (one of 16) will examine the Northern Hays County (Kyle) Station Area.

The analysis begins by identifying the current conditions with respect to land use and assessed values for the 454 acre study area. Capitol Market Research (CMR) obtained the 2010 certified tax roll from the Hays County Central Appraisal District that includes a property "structure code" to use for establishing land use. The appraisal data shows a total market value within the study area of \$21,187,840. The total net taxable value of \$14,674,850 is approximately 0.13% of the total value of the taxable real property in Hays County.

Table (4)  
Northern Hays County (Kyle) Station Area Parcel Values  
Summary by Property Use

Land Use	Total Parcels	Land Acres	Market Value	Assessed Value
Bank	1	1.19	\$748,640	\$748,640
Multi-Family	1	12.34	\$8,238,580	\$8,238,580
Office	1	5.02	\$3,993,410	\$3,993,410
Parks/Open Space*	1	2.71	\$0	\$0
Road/Right of Way**	1	0.47	\$0	\$0
School	1	1.14	\$1,380,470	\$1,380,470
Utilities	2	3.83	\$210,600	\$210,600
Vacant***	8	422.02	\$6,533,140	\$20,150
Water	1	4.86	\$83,000	\$83,000
<b>Grand Total</b>	<b>17</b>	<b>453.57</b>	<b>\$21,187,840</b>	<b>\$14,674,850</b>

*Prepared by Capitol Market Research, February 2012*

*\*Parks/Open Space (Missing parcel tax information)*

*\*\* Roads/Right of Way (Missing parcel tax information)*

*\*\*\*Vacant (Missing 3 parcel's tax information)*

land\_use\_kyle.xls

Figure (7)



The next step in the process for establishing the “baseline” market conditions was to identify the projects already under construction that are likely to be completed within the forecast time horizon. Currently, there are no Private Sector (taxable) project under construction (on January 1, 2012) within the Kyle Station area.

Recently, Austin Community College purchased approximately 96 acres of land within the study area, at the southeast corner of FM 1626 and Kohlers Crossing, to establish a community college campus that will serve Northern Hays County. According to the ACC facility planner, Paul Mason, the college will complete its first phase building, with 85,000 sq. ft., to accommodate 1,500 students in the Spring of 2014. This building will have a capacity to serve up to 2,000 students and it is anticipated that a second phase that includes 150,000 sq. ft. will be built between 2017 and 2019. At full build out, the Kyle campus is expected to serve up to 12,000 students and it will have a full range of course offerings in the “applied technology” fields like automobile repair, construction management, computer programming, law enforcement, culinary arts and other vocations in high demand. The presence of ACC within the station area should serve as a catalyst for other residential and commercial land uses.

Within the larger Northern Hays County market area there is one medical office building under construction, The Kyle Crossing Medical Office, with 42,000 sq. ft. This project should be completed within the year, 2012.

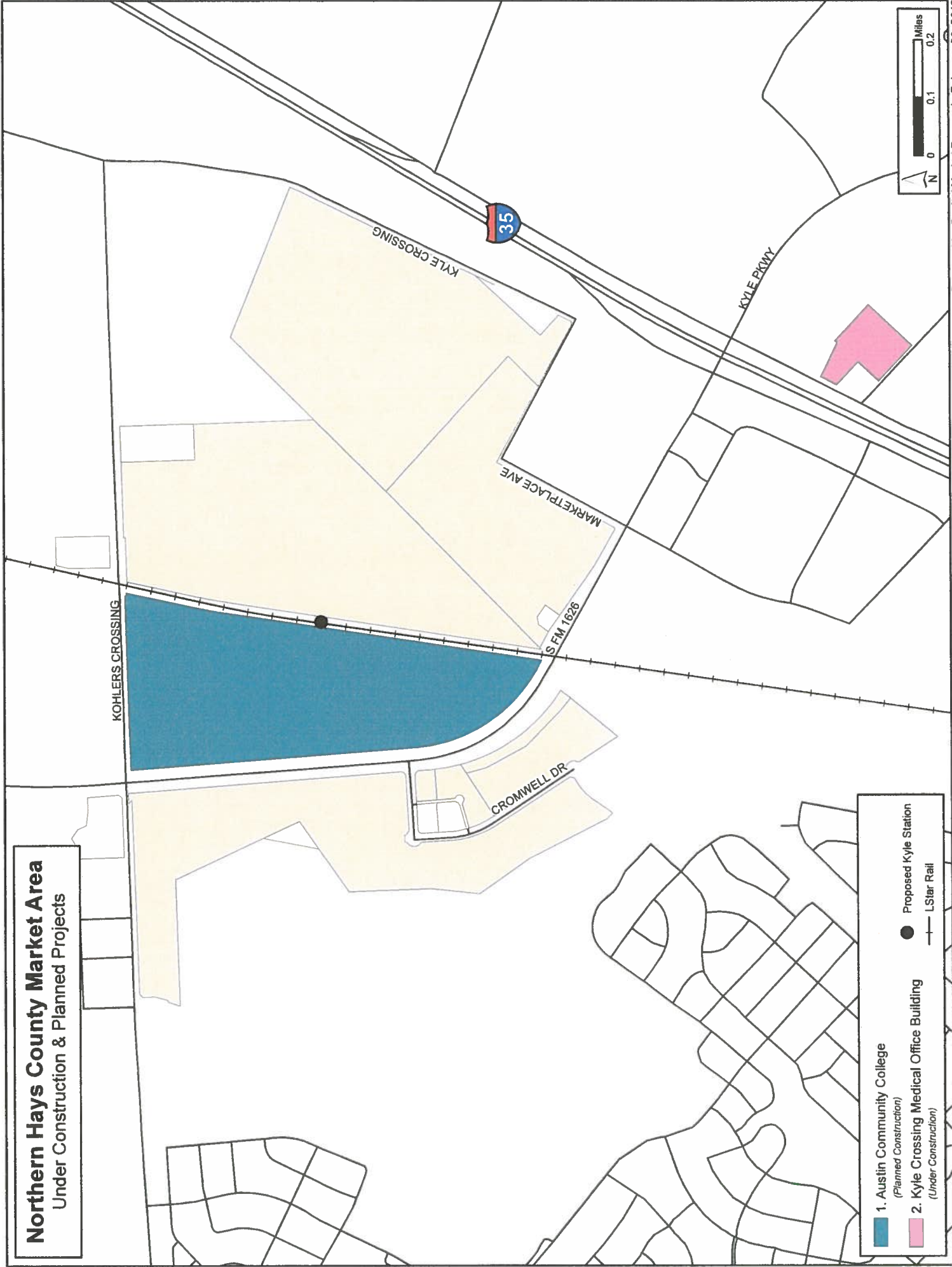
Table (5)  
Under Construction and Planned Projects  
Northern Hay County Market Area

Map No.	Property Name	Address	Net rentable area	Rent Per SF	Completion
1	Kyle Crossing Medical Office	20850 IH 35	42,000	\$21.00	2012
2	Austin Community College - Kyle	FM 1626 and Kohlers Crossing	85,000	n.a.	2014
Total/Average			127,000	\$21.00	

Source: Capitol Market Research, January 2012, interviews with brokers and developers.

office\_inventory\_Kyle.xls

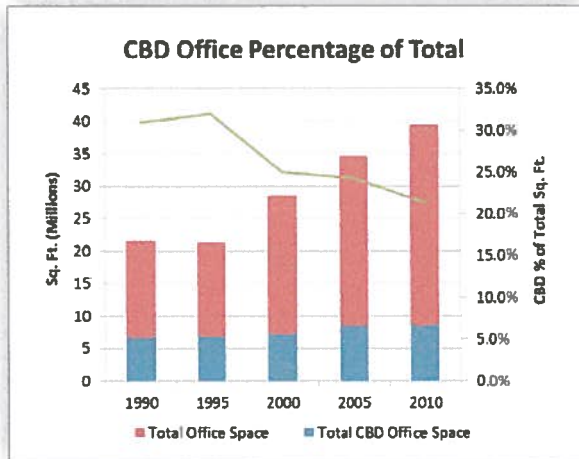
Figure (8)



## Austin Office Market Overview

The office market in Austin has, over the last 20 years, evolved from a relatively small government-oriented market to a much larger and more diverse multi-tenant market. In 1980 the multi-tenant office market in Austin contained approximately 5.4 million square feet of space in 77 buildings. By 1987, the market had expanded fourfold to include more than 22 million square feet in 251 buildings and it now contains 39.7 million sq. ft. in 580 buildings.

Figure (9)



Source: Capitol Market Research, Austin Area Office Survey, December 2000- June 2010

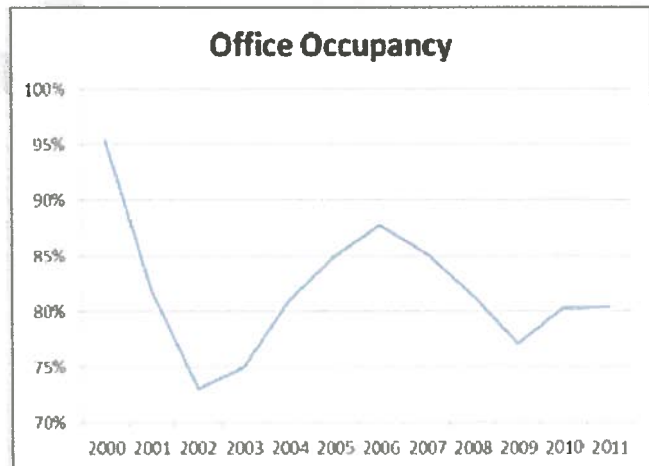
Reflecting the traditional government focus and the location of the State Capitol Building, historically the largest inventory of multi-tenant office space was located in Downtown Austin. This dominance began to erode in the nineties, when suburban office development dominated the market and 95% of the space built was constructed outside of the CBD, in the suburban market.

Between 2000 and 2005, a building boom in downtown occurred, which added 1,289,210 sq. ft. to the CBD market, an amount that was 21.2% of the space completed in that five year period. Since then, most of the construction has shifted back to the suburban markets and the percentage of inventory in the CBD has slipped to 21.4%.

Since 2000, a total of 10,772,676 sq. ft. of new office space in 248 buildings has been added to the regional office market. A significant percentage (34%) of the total has been added since 2007, when the most recent construction boom in the suburban market took place. During the first six months of 2011, the only new office building delivered was the Starr Building (redevelopment) with 38,174 square feet of office and 12,500 square feet of ground floor retail. Currently, there is only one building under construction, The Echelon Office Building I with 63,299 square feet.

At the end of 2000, the citywide office occupancy rate was a very healthy 95.4%. Then the economy experienced the tech bust and the office occupancy dropped more than 20 points to 73.1% at the end of 2002. Following the economic rebound of 2003 through 2006, the occupancy rate rebounded to 87.8%. But then in 2007, the national recession slowed job growth and office absorption again (at a time of unprecedented new office construction), resulting in a decline of occupancy to 77.1% in December 2009, and then increase of 81.9% in December 2010. The current occupancy rate (June 2011) has dropped to 80.4%.

Figure (10)

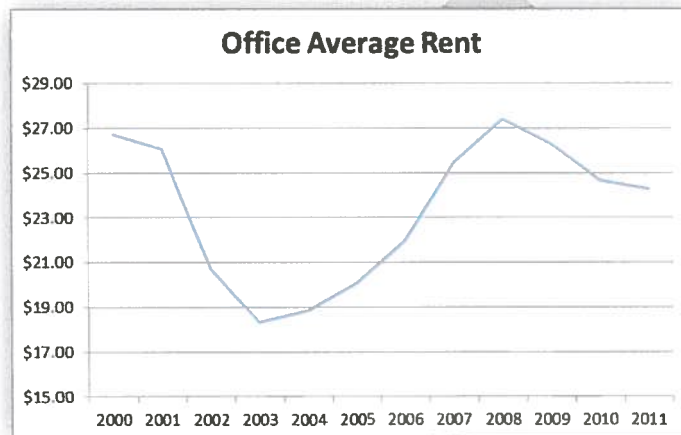


Source: Capitol Market Research, Austin Area Office Survey, December 2000- December 2011

Office absorption has also experienced a volatile decade, experiencing a high of 1.8 million sq. ft. in 2000 followed by a low of negative 1.7 million sq. ft. in 2001. As a result of three years of negative absorption, the average annual absorption in the Austin area since 2000 is only 302,490 sq. ft.

Rental rates have also fluctuated with the ebb and flow of the local economy. Quoted rates in 2000 were \$26.70 per square foot (gross) but with the dramatic overbuilding in 2001 and 2002, the rate dropped to \$18.35 by the end of 2003. Since that time, the average quoted rate has increased to \$27.41 in 2008 but dropped back to \$26.31 at the end of 2009, and is currently at \$24.29 (June 2011). It should be noted that these are the rates quoted for vacant space and do not include free rent, "turn key" finish out allowances and "buyouts" of existing lease terms which will drive down the net effective rates.

Figure (11)



Source: Capitol Market Research, Austin Area Office Survey, December 2000- December 2011

The declining occupancy throughout 2009 and lack of tenant interest in acquiring new space finally (in September) resulted in a drop in asking rates to \$26.31. Since then, the rates have continued to drop and average \$24.29 in June 2011. However, the rate of decline has slowed and absorption is slightly positive, which suggests that the market is finally beginning to turn.

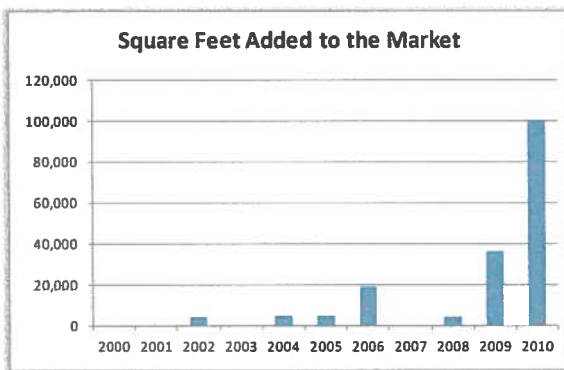
## Northern Hays County Office Market Conditions

### Overview

In December 2011, Capitol Market Research surveyed 12 multi-tenant office buildings in the Northern Hays County market area that together comprise a total of 196,164 square feet of rentable space. The current market area “direct” occupancy is 74%, which is up 5.3% from December 2009. Average rents for general purpose office buildings are \$18.72 per square foot on a “gross” lease basis, which is a \$1.05 decrease from December 2009. The two recently completed (2010) medical office buildings have achieved higher rents of \$29.37, and currently have 46.8% vacancy.

### New Construction

Figure (12)

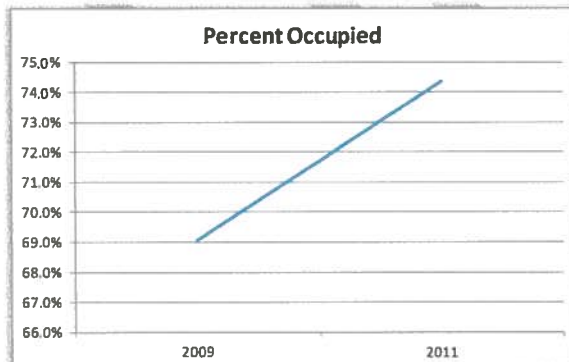


Eight new “general purpose” multi-tenant office buildings have been completed since 2000, and as of January 2012 there was one new medical office building under construction in the Northern Hays County market area. Most of the office product in this market area could appropriately be characterized as Class “B” suburban office product. The buildings are located primarily along FM967 northwest of Buda and in the IH-35 corridor from Main Street in Buda, south to the Kyle Parkway. Seton Medical Center Hays has developed the only class “A” office building, aptly named the Hays Medical Office Building. The

Northern Hays County office market reflects the demand for professional services generated by households living in nearby subdivisions. Tenants typically include medical professionals, financial services, and real estate businesses.

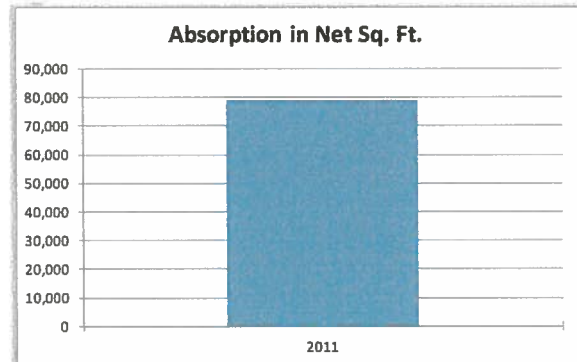
### Occupancy & Absorption

Figure (13)



Source: Capitol Market Research, 2012

Figure (14)



Source: Capitol Market Research, 2012

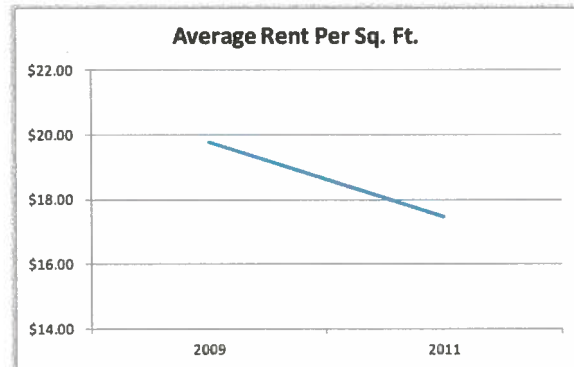
- December 2011 “direct” occupancy in the Northern Hays County market area was 74%, up 5.3 percentage points from the end of 2009. Without the two new medical office buildings (that are 53.2% occupied), the occupancy jumps to 96.3% for general purpose office space.
- The amount of built (completed) space increased by 88% between 2000 and 2010.

- The opening of the Hays Medical Office Building helps explain the net absorption of 79,268 square feet between 2009 and 2011.

### **Average Rents**

- Due to the growing demand for medical office space, average rents for the two new medical office buildings achieved \$29.37 gross rents, with an average of \$7.25 in expenses.
- For general purpose office space, rents went down \$1.05 since 2009, from \$19.77 to \$18.72 in December 2011. A high vacancy rate of 30.9% in 2009 may have been attributed to recently completed buildings that were still in “lease-up”.

Figure (15)



Source: Capitol Market Research, 2012

### **Summary and Market Outlook**

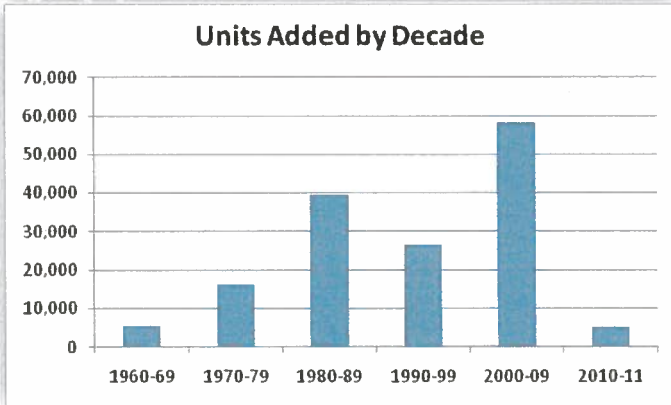
The multi-tenant office market in the Northern Hays County market area has seen significant activity in the past ten years. As the city grows, and the demand for professional services increases, new businesses typically lease space before purchasing a building or contracting for a single-tenant “build to suit”. Most tenants lease space in small multi-tenant buildings near subdivisions or lease space in the new shopping centers located along major thoroughfares. A notable exception to this trend is the activity occurring around the Seton Medical Center Hays. The recent leasing of the Hays Medical Office Building I is the first of several medical office buildings planned for the area.



## Austin Multi-Family Market Overview

Historically, apartment projects in Austin have been clustered near activity centers, major employers and the university areas. Examples of this trend include the cluster of apartments near IBM, Dell, Lakeline Mall and Seton Hospital, as well as the apartments surrounding the University of Texas and St. Edwards

Figure (16)



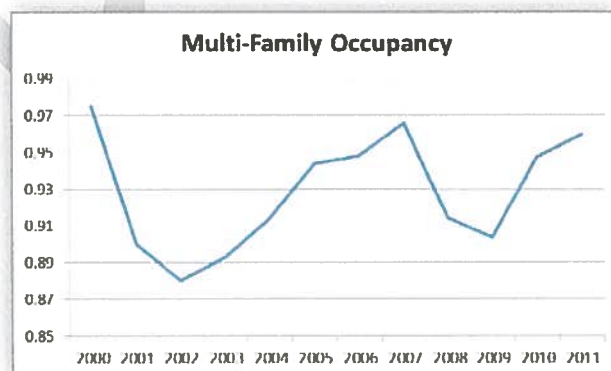
Source: Capitol Market Research, Austin Area Apartment Market Survey 2011

The construction boom of the last few years culminated with the addition of only 1,716 units in the last half of 2010. In the first half of 2011, only two new apartment projects delivered units (298 total).

Occupancy rates in the MSA move quickly, in a fairly narrow range, between 88% and 98%, corresponding to fluctuations in new completions and absorption. This pattern has been evident back to 1990 and appears to move in a cyclical pattern with recent low points in 1996, 2002 and 2009.

At the end of 2000 the citywide occupancy rate was very high, at 97.6%, and strong rent growth encouraged new unit construction, which led to overbuilding in 2001 and 2002. By the end of 2002, occupancy had dropped to 88.0%, but the resurgence of employment growth in 2003 through 2007 drove occupancy back up to 96.6% at the end of 2007. Then, following the increases in occupancy and corresponding increases in rent, the market responded again by overbuilding in 2008 and 2009. At the end of 2009, the citywide occupancy rate was 90.4%, and by the end of 2010 it had risen to 94.8%. The occupancy rate has continued to grow, topping out at 96% as of June 2011.

Figure (17)



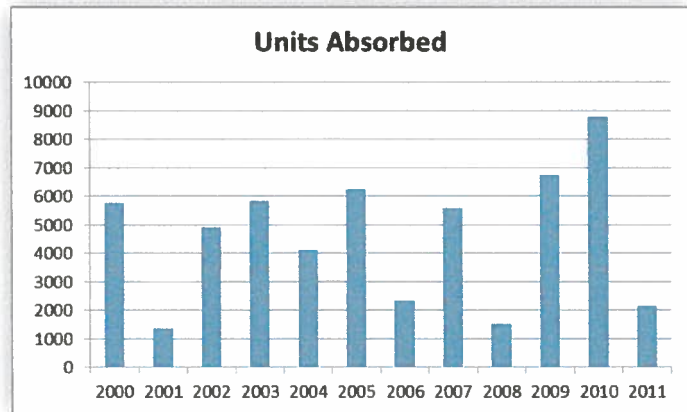
Source: Capitol Market Research, Austin Area Apartment Market Survey 2011

As noted earlier, absorption rates have fluctuated from year to year, driven in part by the pace of new construction, but also responding to demand for rental units from new migrants and fluctuations in the demand for single family homes. Absorption was high in 2000 and 2007 due to strong employment growth and rapid in migration. But it was also high in 2003 and 2009 when job growth was negative. It appears that the migration of (mostly young) people from other parts of the country is as strong a driver for rental unit absorption as new job creation.

Rental rates have fluctuated much more rapidly than occupancy over the last ten years, largely due to the pervasive presence of concessions available when properties are in lease-up. When a large number of units are delivered, the competition among properties for tenants can be fierce, with discounts up to 25% offered to tenants who sign a 12 month lease.

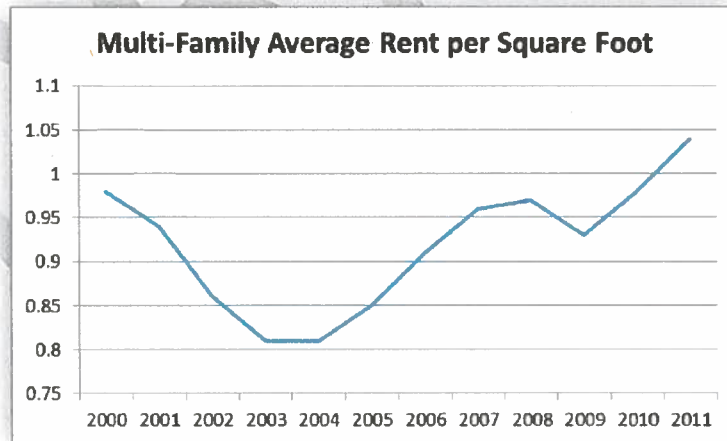
In 2000 the average rent hit a historic high of \$0.98 per square foot across all property types in the Austin area. Then, as the economy slowed and occupancy dipped below 90%, rates plummeted to \$0.81 in 2003. Between December 2003 and December 2007 rents increased 18.5% to \$0.94 as a result of strong demand, pushed by job growth and in migration. Growth slowed in 2008 and 2009 and in December 2009, rents dropped back down to \$0.93. In 2010, average rent grew to \$0.98 and in 2011 the rates climbed another \$0.6 to end at a record high of \$1.04 in June 2011.

Figure (18)



Source: Capitol Market Research, Austin Area Apartment Market Survey 2011

Figure (19)



Source: Capitol Market Research, Austin Area Apartment Market Survey 2011

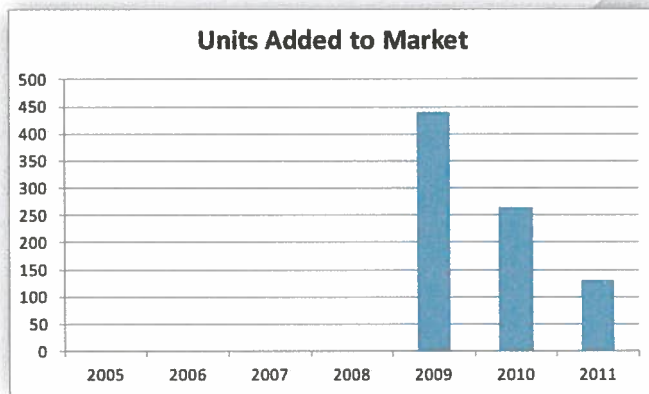
## Northern Hays County Apartment Market Conditions

### Overview

In December 2011, Capitol Market Research surveyed six apartment communities in the Northern Hays County market area that contain a total of 1,094 apartment units. One of the six communities, the Settlement, is leasing Phase 1 (130 units), and will have another 266 units available mid-2012. The market area occupancy is currently 83%, which is up from December 2009 (82.7%). The “stabilized” occupancy, including only those properties fully constructed and leased, is 93.9%. Average rents are \$0.90 per square foot, a \$0.08 increase since December 2009 and 5.3% below the regional mid-year average of \$1.04. All 1,094 units were built (completed) since the beginning of 2000.

### New Construction

Figure (20)

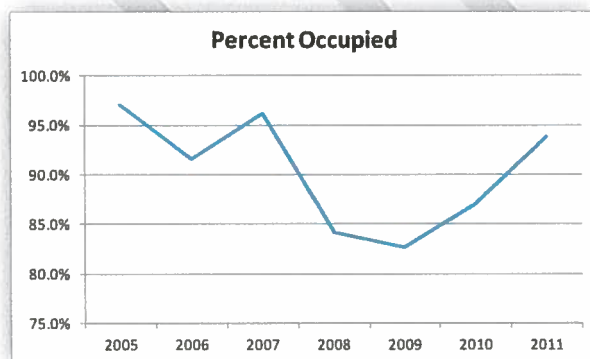


Source: Capitol Market Research, 2011

New construction in the Northern Hays County market area continued through the end of 2011, reflecting an ongoing developer and investor interest in areas along the IH-35 corridor. Two of the newest properties (Vantage at Buda and Vantage at Plum Creek) are leasing at average rental rates 10% above the market average (at \$0.98 and \$0.99 per sq. ft.). The newest development, The Settlement, is currently leasing 130 units with 36 confirmed residents, and will add a total of 396 units to the market by mid 2012.

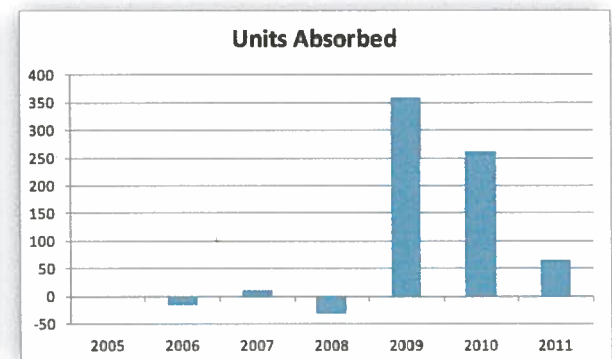
### Occupancy & Absorption

Figure (21)



Source: Capitol Market Research, 2011

Figure (22)



Source: Capitol Market Research, 2011

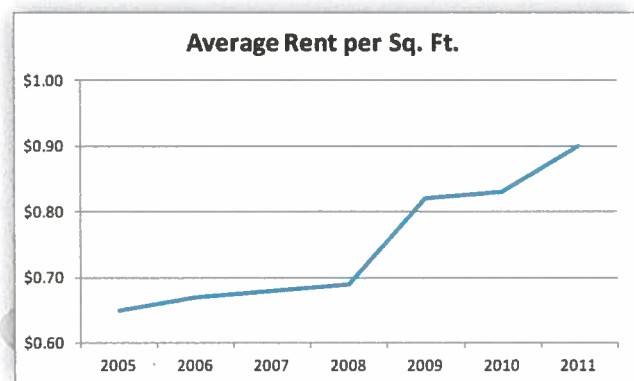
- The market area occupancy in December 2011 was 93.9%, up 11.3 percentage points from December 2009. The occupancy rate drops to 86.3% when the recently completed, but unleased units at the Settlement are included.

- One of the newest market rate projects, Vantage at Plum Creek, is fully leased, and Vantage at Buda, completed in 2009, stabilized in December 2011 with an average occupancy of 91.7%.
- The Northern Hays County market area has absorbed a total of 692 units between December 2000 and December 2011.

### **Average Rents**

- Average rents in the Northern Hays County market area are currently (December 2011) \$0.90, a 10% increase from \$0.82 in December 2009.
- Market area rents increased substantially (from \$0.69 to \$0.82) between 2008 and 2009 when two new properties opened.
- The newest property, The Settlement, is leasing at \$1.04 per sq. ft., which is 16% above the market average.

Figure (23)



Source: Capitol Market Research, 2011

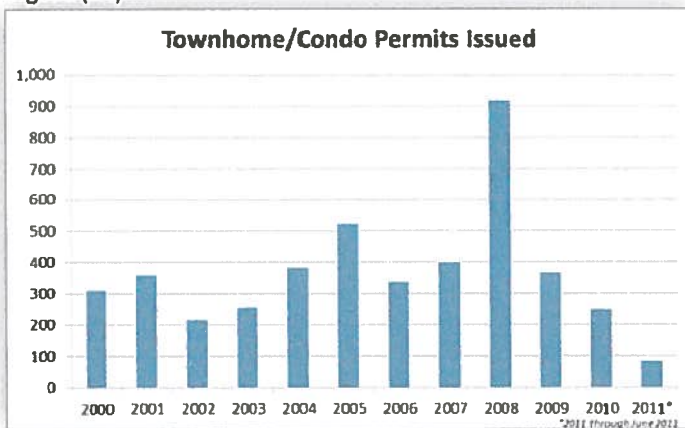
### **Summary and Market Outlook**

The high rental rates and occupancy achieved at the Vantage at Plum Creek and Vantage at Buda properties suggest that there is an opportunity in the Northern Hays County market area to build class "A" product and obtain substantially higher than average market rents. The ongoing leasing activity at The Settlement property will provide further information on and support for the demand for apartment rental units in the Northern Hays County area.

## Austin Townhome/Condominium Market Overview

Historically, townhome and condominium projects in the Austin MSA have been clustered in the central city, mostly in neighborhoods close to downtown, the Arboretum area and the University of Texas. Over the last few years, that area has expanded to include more neighborhoods such as Tarrytown, Bouldin Creek, Travis Heights, Barton Creek, Lakeway, East Austin and the Central Business District (CBD). The combination of strong consumer demand for housing and the rapid escalation of land prices in desirable neighborhoods has provided opportunities for new, higher density housing options. The most viable, and perhaps most successful, emerging market is the CBD. Since 2000, almost 2,700 new condominiums have been completed and absorbed, and many units have sold for prices that exceed \$400 per square foot.

Figure (24)



Source: City of Austin Building Permits, prepared by Capitol Market Research 2011

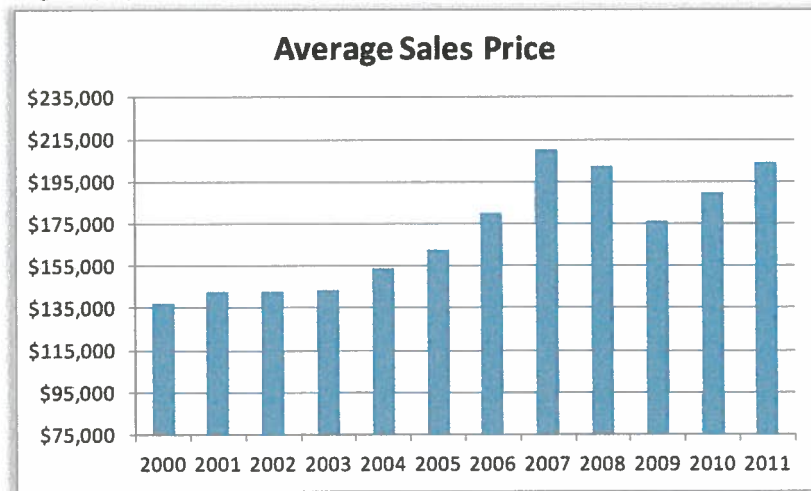
The current market trend has a solid footing in basic land economic fundamentals, unlike the condominium construction boom in the mid-eighties, which was fueled by favorable income tax treatment of "passive" real estate investments. In addition to rising single-family home prices, the demand for higher density housing has a strong demographic basis in ageing baby-boomer households and busy young professionals.

In the late nineties there were almost no new condominium or townhome projects for sale in Austin. Then in 2000, suburban construction began with the Courtyard Homes at Cobblestone (59 units) and Bouldin Creek Condominiums (33 units). Both projects were enthusiastically received by the young professional homebuyer and sold out quickly. Liberty Hill was also built in 2000, and sold rapidly to both young professionals and the empty nesters that live in the Westlake area. The success of these three projects enticed other developers to explore the market, and most of the new product developed since then has been well received. In roughly the same time period, the downtown condominium market emerged, expanding from two small "adaptive reuse" projects on East Fifth St., to several new condominium towers.

As discussed above, the townhome/condominium market in the Austin area is rapidly gaining strength and is emerging as an important segment of the new home market. Since 2000, the number of new townhome/condominium permits issued annually by the City of Austin has increased from 311 to 919 in 2008. Due to the national recession and credit constraints, the number of new units permitted in 2009 dropped to 341. The total units permitted in 2010 fell even lower (188), but the first part of 2011 saw an increase to 251 new units permitted.

Townhome and condominium sales, as a percentage of total MLS sales, have fluctuated within a narrow range from 8% to 10% over the last few years with an average of 9.2%. As more product is brought to the market, this percentage is likely to increase over the next few years.

Figure (25)



Source: Austin Board of Realtors, February 22, 2012

As demand increases and new, more expensive product is introduced to the market, the average unit sales price has also increased from \$137,485 in 2000 to a high of \$209,957 in 2007. In 2009, the average price dropped to \$176,372, but rebounded to \$204,144 in 2011.

One of the most interesting aspects of this higher density market is the degree to which homebuyers are accepting new innovative product, whether it is stark urban lofts in East Austin (The Pedernales), or elegant stone townhomes in South Austin (Kinney Muse) or expensive high-rise condominiums (Ashton and the Residences at the Four Seasons).

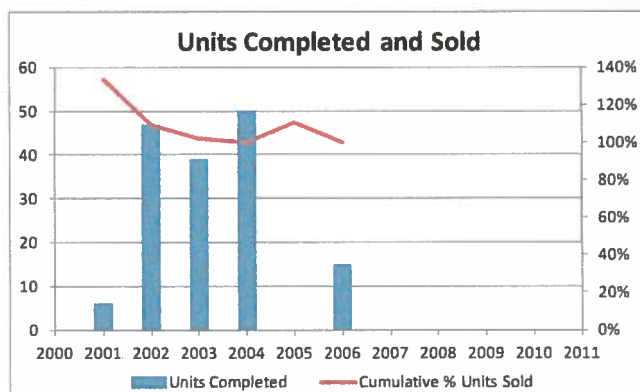
There are currently several news projects under construction or in the initial preconstruction sales period. Most of these projects are located in central city neighborhoods or major arterials close to downtown, but there are also a number of new projects in suburban areas like Cedar Park, Georgetown, Lakeway and Round Rock.

## Northern Hays County Market Area Condominium/Townhome Market Conditions

### Overview

In February 2012, Capitol Market Research surveyed the only condominium project currently completed in the Northern Hays County market, Plum Creek Townhomes. The townhome component of the larger Plum Creek master planned community has a total of 157 townhome-style duplex units. Average sales prices among the condominium project ranged from a low of \$95,990 to a high of \$119,250 (an average of \$85 per square foot, with a range of \$76 to \$95 per square foot). All of the 157 units were built between 2001 and 2006.

Figure (26)



Source: Capitol Market Research, 2012

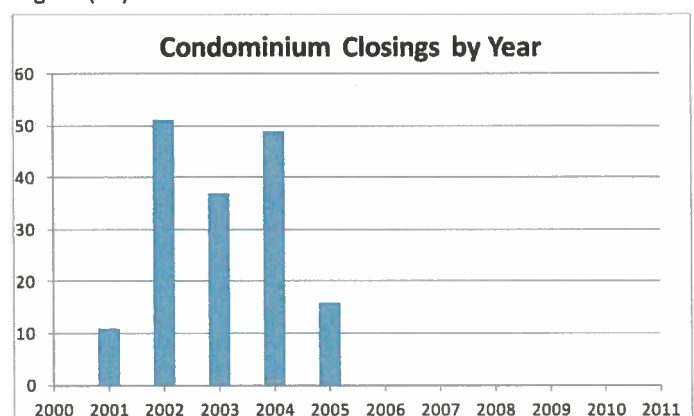
### New Construction

The Northern Hays County market area saw its first condominium development when Phase 1 of the Plum Creek community began construction in 2001. The condominium component in Plum Creek provided an alternative for households seeking a “new urbanist” lifestyle in Kyle, at a lower price point than the larger single family homes in the Plum Creek development.

### Absorption

Pulte Homes began selling the first of their planned 157 attached duplex units in August 2001. Pulte Homes sold 51 townhome units in Plum Creek in 2002, 49 closings in 2004, and by May of 2005, the second phase of the townhome development was sold out. The final 14 units were completed in 2006.

Figure (27)

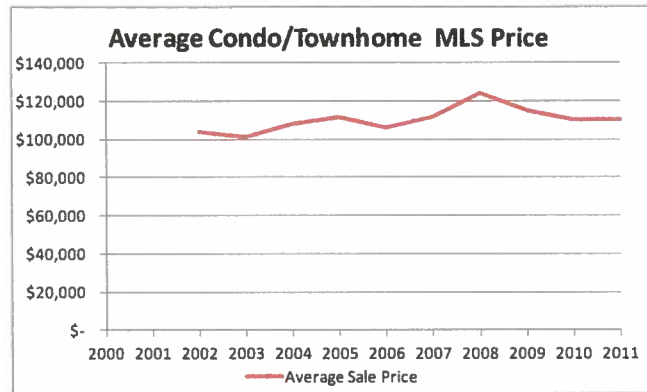


Source: Capitol Market Research, 2012

## Pricing

The Plum Creek townhome development provided buyers with six plans to choose from at different price points. The first phase of townhomes offered units ranging from 1,036 to 1,482 square feet for \$95,990 to \$113,490. The second phase (2003-2005) offered units with 1,036 to 1,506 square feet for \$99,250 to \$119,250. Resales of Plum Creek townhomes listed in the Multiple Listing Service (MLS) are represented in Figure (28). Resale prices have remained within the original price range for the Plum Creek townhomes, indicating stability, but not much appreciation for the townhome product type

Figure (28)



Source: Multiple Listing Service (MLS), January 2012

## Summary and Market Outlook

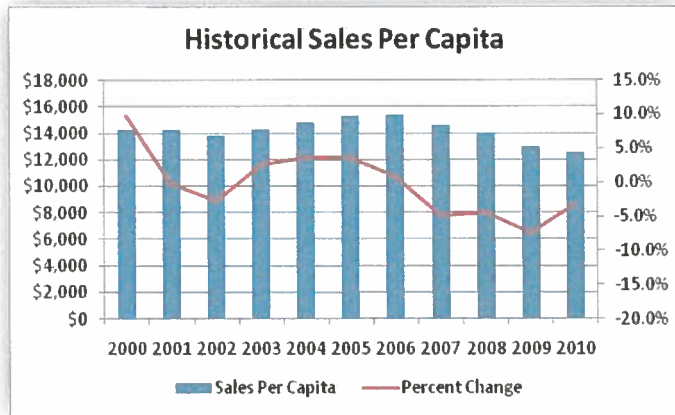
Based on the historical review of townhome sales data above, it is evident that there is a demand, although small, for townhome-style condominium homes. The Plum Creek townhome development is part of a special type of community in a market area with sufficient land available for affordable single family homes. Another new townhome development in the Northern Hays County area would also require unique attributes that would provide a regional draw to support a denser housing product. Often an amenity, like river or lake frontage, can drive demand for more dense development and, in the case of this evaluation, a commuter rail station and supportive zoning would increase demand for higher density housing. However, the current economic recession and lack of credit has affected townhome and condo sales in the same way it has affected the sale of single family homes. The low demand for townhome units, coupled with a more cautious buying market reduces the short-term feasibility for condominium projects in the Northern Hays County area.



## Austin Retail Market Overview

Following national trends, the Austin multi-tenant retail market has evolved from a concentration of retail space in neighborhood shopping centers and large regional malls, to a more diverse base that includes “power centers,” “lifestyle centers,” and off-price shopping. Approximately 14.7 million square feet of multi-tenant space have been added to the citywide inventory since 2000, an increase of 57.4%, and much of that space has been located near Lakeline Mall, in the MoPac corridor near the Arboretum, at La Frontera in Round Rock, in Sunset Valley and, most recently, at South Park Meadows.

Figure (29)



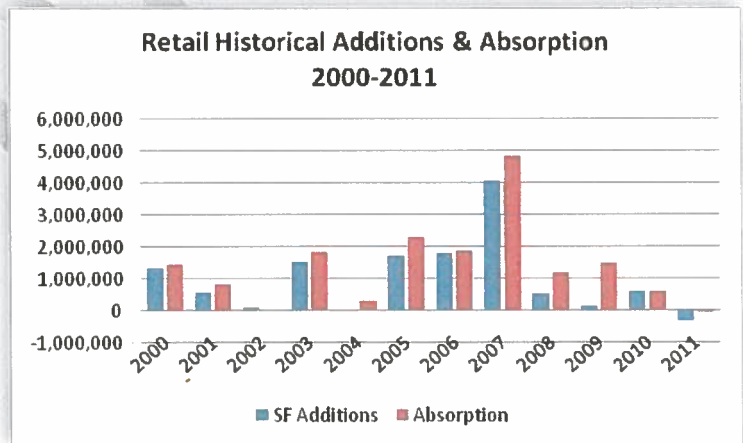
Source: Texas Comptroller's Office

Gross retail sales increase dramatically during periods of rapid growth in the region. Driven by strong growth in population and new household formation, it is not unusual for growth to exceed 10% on an annual basis. While aggregate sales growth is an important metric, the strength of the market is more accurately reflected by gross sales per capita. These data show an average annual increase of 3.7% from 2004 through 2008, but a decline of -3.1% in 2010.

Until recently, the combination of rapid population growth and increases in disposable income has created a healthy demand for retail space in the Austin area. In addition, the national trend toward replacement of neighborhood retail stores and malls with “big box” outlet stores and “lifestyle centers” generated a demand for new construction, even during the late eighties, and in 2001 and 2002 when the Austin economy was stagnant and there was little population growth.

Among commercial property types, the relationship between new construction and absorption is most closely correlated in the retail property group. Most retail center construction is financed with a 70% prelease commitment, which means that when centers are completed, they deliver occupied space to the market, thus maintaining an annual balance between space completed and absorption. The table below

Figure (30)

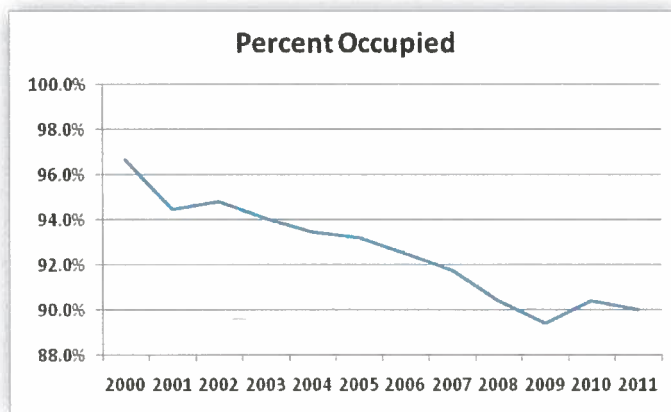


Source: Capitol Market Research Austin Area Retail Survey, 2011

shows this relationship from 2000 through the end of 2011. The disparities in 2008 and 2009 are due to tenant bankruptcy and downsizing which created a higher than average vacancy rate in the market.

Occupancy rates in multi-tenant shopping centers have consistently remained in the 90% to 94% range, even in periods of slow growth. But the national recession and store closures caused by declining activity on a global scale have resulted in very low absorption and declining occupancy rates in Austin.

Figure (31)

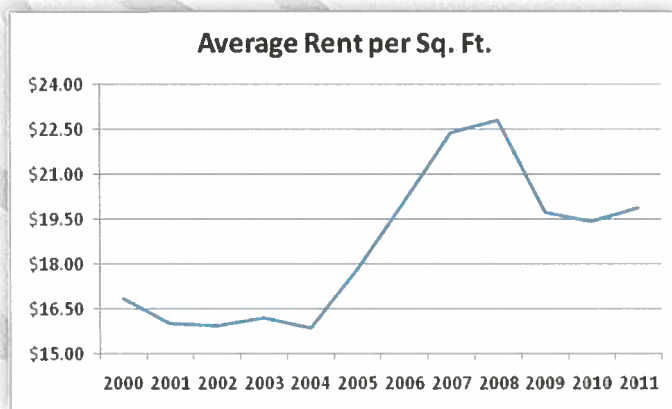


Source: Capitol Market Research Austin Area Retail Survey, 2011

Coincidence with the decline in sales and decreasing occupancy rate, there has also been a decrease in rent. For the first time since the tech bust in 2001, average rents also declined, \$2.91 per square foot, from \$22.81 to \$19.90 per square foot. The steep decline in asking rental rates (13.0%) reflects the overall decline in retail sales and the curtailment of retail store expansion plans caused by the national recession. This slowdown in the expansion of the large national retail chains has brought the construction of large power centers in suburban locations to a halt.

During the first six months of 2011, the Northcross Redevelopment Site added 125,530 sq. ft. of shop space to the Walmart Super center and a small strip center, Steck Town Center, also opened with 29,500 square feet. However, this positive activity was negated by the closing of Dillard's and Mac's at Highland Mall. Together, these closures removed 466,000 sq. ft. of retail space from the North Central market area inventory. When completed, Phase III of Southpark Meadows will have a large anchor (Sam's Club) that will bring 250,000 sq. ft. of retail space. Parkside Village (79,359 sq. ft) and Quinlan Crossing (150,000 sq. ft.) are also under construction in the southwest and far northwest markets, respectively. Together, these three projects are expected to bring 729,359 sq. ft. of retail space online in 2011.

Figure (32)



Source: Capitol Market Research Austin Area Retail Survey, 2011

Together, these closures removed 466,000 sq. ft. of retail space from the North Central market area inventory. When completed, Phase III of Southpark Meadows will have a large anchor (Sam's Club) that will bring 250,000 sq. ft. of retail space. Parkside Village (79,359 sq. ft) and Quinlan Crossing (150,000 sq. ft.) are also under construction in the southwest and far northwest markets, respectively. Together, these three projects are expected to bring 729,359 sq. ft. of retail space online in 2011.

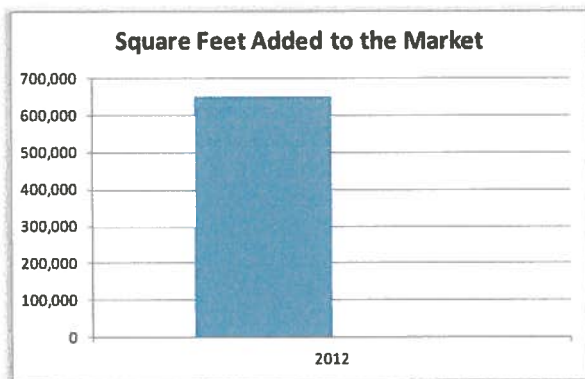
## Northern Hays County Retail Market Conditions

### Overview

In December 2011, Capitol Market Research surveyed 19 multi-tenant retail centers in the Northern Hays County retail trade area with a total of 1,916,691 square feet of net rentable area. Currently, the market area occupancy is 92.9. Average rents are \$25.83 per square foot.

### New Construction

Figure (33)



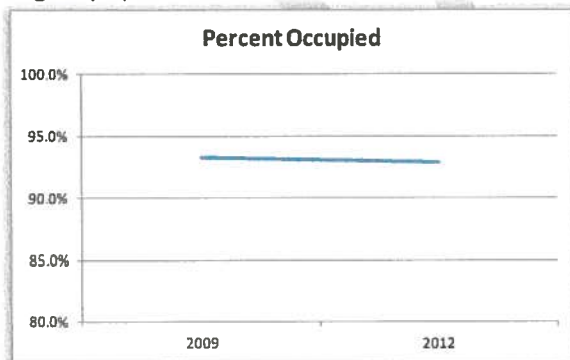
Source: Capitol Market Research, 2011

Street in Buda, and along FM 1626 and I-35 in Kyle.

Out of the 19 retail centers surveyed, 18 were built after 1999. Ninety-seven percent of the 1,852,587 total rentable square feet was built (completed) since the beginning of 2000. The growing population of the cities of Kyle and Buda has supported an increase of large retail centers. Many large “community” centers have appeared, including Kyle Crossing with 923,072 sq. ft. of retail space on the west side of I-35 and FM 1626. Smaller neighborhood shopping centers brought a collective 230,000 sq. ft. to the market in 2007. Much of the new construction in the past decade has occurred at the intersection of I-35 and Main

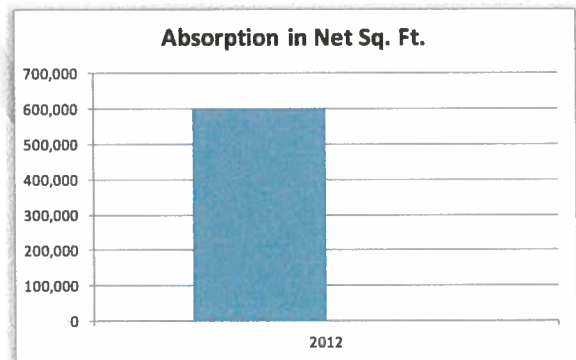
### Occupancy & Absorption

Figure (34)



Source: Capitol Market Research, 2011

Figure (35)



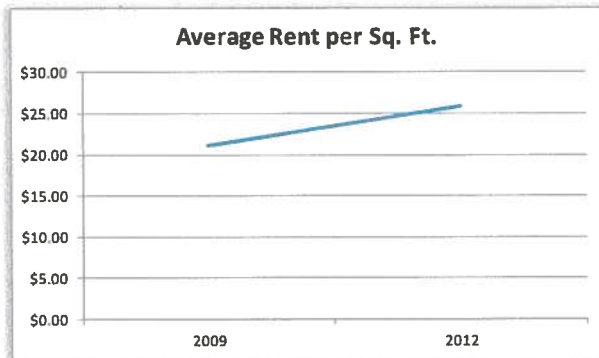
Source: Capitol Market Research, 2011

- The market area occupancy in January 2012 was 92.9%, down 0.4 percentage points from December 2009 when it was 93.3% occupied.
- There is approximately 77,065 sq. ft. of leasable space currently available among the 19 surveyed properties.
- Market area absorption between December 2009 and January 2012 (598,827 square feet) was a result of an additional 565,292 sq. ft. opening at Kyle Crossing with 97% occupancy, and the additional square footage added to three other retail properties in the area.
- Despite the recent economic downturn, which has adversely affected retail leasing throughout the country, occupancy rates have remained relatively stable in the area.

## Average Rents

- Average rents in the Northern Hays County market area are currently \$25.83 per sq. ft., which is a 22% increase from December 2009.
- Market rents for the newer properties have increased over the past two years.
- Most neighborhood and community centers are negotiable on the tenant's lease rate.

Figure (36)



Source: Capitol Market Research, 2011

## Summary and Market Outlook

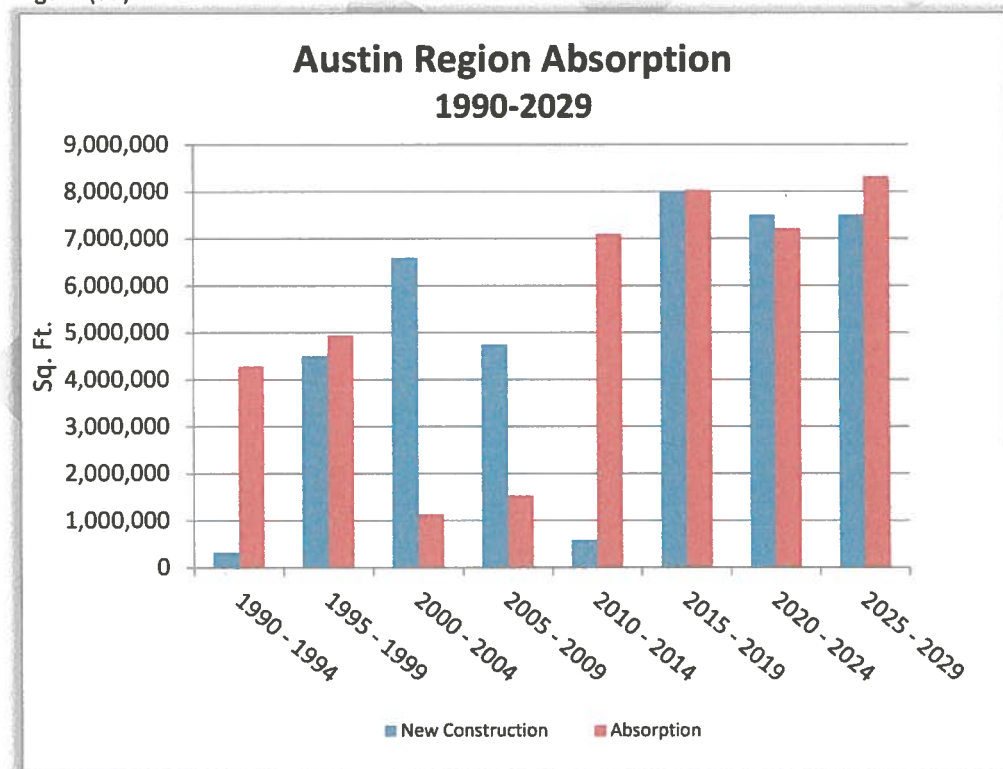
The retail market in Northern Hays County has undergone significant growth. Newer shopping centers along major highways like I-35 and into growing areas like San Marcos have created a significant regional “node” of retail activities that fosters very high occupancies and higher than average rents. The development and leasing of Kyle Crossing at IH-35 and FM 1626 has even drawn tenants from many other regional centers. The strong demographic base and population growth in the area will continue to attract tenant interest as the overall market recovers. However, there remains an existing unmet need for shopping focused on the needs of the local residential base, including the areas of dining and “specialty” retail services in particular.

## FORECASTS

## Austin MSA Office Absorption and Occupancy Forecast

Prior to the development of a Northern Hays County market area and San Marcos Station Area absorption forecast, it is instructive to first provide a regional context for the office market recovery. Job growth, as noted earlier, accelerated from January 2004 through the third quarter of 2007, at which point the rate of increase began to slow, and in 2009 the local economy lost approximately 16,000 jobs. In 2010, local job growth was positive (9,001), and in 2011 the economy regained strength with an estimated 17,100 new jobs added through September 2011. Based on a recent (July 2011) employment forecast from Moody's Economy.com, new job creation should increase to 15,640 in 2011 and average 2.22% over the next five years. This growth rate will, in turn, generate approximately 29,520 new office jobs and approximately 5,400,000 square feet of demand for multi-tenant office space from 2011 to 2015. This pace of growth should allow the office market to recover by 2014 with new construction commencing in downtown Austin and, as the recovery gains momentum, resuming in the suburban market. The graph below shows new construction and absorption in five year increments from 1990 through 2029.

Figure (37)



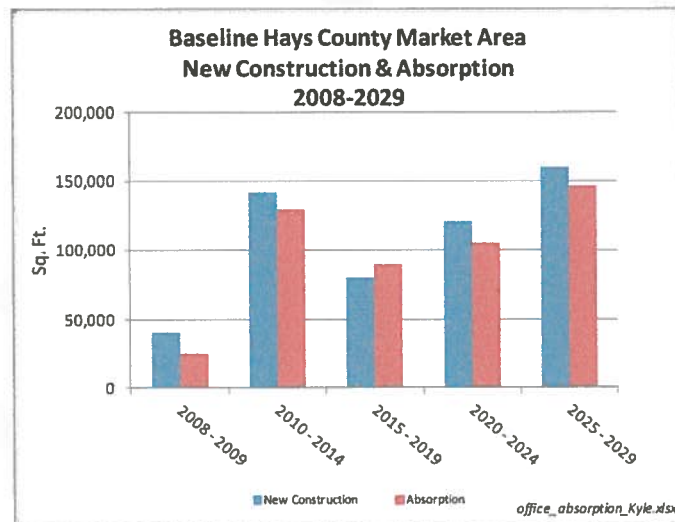
Source: Capitol Market Research, 2012

## Northern Hays County Market Area and Northern Hays County (Kyle) Station Area Absorption Forecast

New construction and absorption in the Northern Hays County market area has picked up in the past few years, but remains relatively small as a percentage of the total absorption taking place in the region. In 2011, the rate of absorption was 0.83% of the region total. Until recently, the Northern Hays County market area experienced very little new construction or absorption, due in large measure to the availability of sites in more established office markets. Since new construction is a significant factor driving positive absorption, the lack of building activity has been a hindrance to market absorption.

CMR has estimated that a gradual increase in the share of absorption will take place in the Northern Hays County market area starting with the 0.83% capture rate experienced in 2011 then gradually increasing to 2% over the next twenty years. Based on these assumptions, the Northern Hays County market area absorption forecast was developed and is shown in the chart below.

Figure (38)



Source: Capitol Market Research, 2012

CMR used the absorption forecast of the Northern Hays County market area as a base to evaluate the development potential for office uses at the Northern Hays County (Kyle) Station Area. This evaluation takes into consideration recent development trends in the area and the accessibility of the area due to the completion of FM 1626 to IH-35 and the recent expansion of Kohlers Crossing and the potential addition of the passenger rail service. Under the “baseline” development scenario, with no LSTAR commuter rail service, the absorption estimate assumes that approximately 35% of new Northern Hays County market area office development will occur in the Northern Hays County (Kyle) Station Area, and that new development will begin in 2016 when the overall Northern Hays County market regains a 99% occupancy. In 2016 and beyond, the Northern Hays County market will capture a proportionate share of the construction and leasing that occurs citywide.

Table (6)  
Office Space Absorption Forecast, LSTAR Passenger Rail  
Northern Hays County (Kyle) Station Area  
Baseline Market Share

Year	Citywide Absorption	Subject Market Percentage	Subject Market Absorption	Subject Market Additions	Share in Urban Rail District	Absorption in Urban Rail District	Cummulative Sq. Ft. Absorbed
2008	484,876	0.0%	...	4,188	.....	.....	.....
2009	(971,414)	-2.6%	25,073	36,304	....	.....	.....
2010	964,123	7.7%	74,069	99,716	....	.....	.....
2011	629,294	0.8%	5,199	0	35.0%	1,820	1,820
2012	1,061,153	0.8%	8,768	42,000	35.0%	3,069	4,888
2013	1,907,325	0.9%	16,937	0	35.0%	5,928	10,817
2014	2,543,782	0.9%	24,161	0	35.0%	8,456	19,273
2015	2,217,245	1.0%	22,429	0	35.0%	7,850	27,123
2016	1,662,428	1.1%	17,844	20,000	35.0%	6,245	33,368
2017	1,462,448	1.1%	16,601	20,000	35.0%	5,810	39,178
2018	1,423,459	1.2%	17,037	20,000	35.0%	5,963	45,142
2019	1,263,035	1.3%	15,898	20,000	35.0%	5,564	50,706
2020	1,242,713	1.3%	16,409	20,000	35.0%	5,743	56,449
2021	1,399,353	1.4%	19,342	20,000	35.0%	6,770	63,219
2022	1,489,678	1.4%	21,511	25,000	35.0%	7,529	70,748
2023	1,523,040	1.5%	22,934	25,000	35.0%	8,027	78,774
2024	1,557,150	1.6%	24,409	30,000	35.0%	8,543	87,318
2025	1,592,023	1.6%	25,939	30,000	35.0%	9,079	96,396
2026	1,627,678	1.7%	27,526	30,000	35.0%	9,634	106,031
2027	1,664,131	1.8%	29,170	30,000	35.0%	10,210	116,240
2028	1,701,400	1.8%	30,875	35,000	35.0%	10,806	127,046
2029	1,739,504	1.9%	32,641	35,000	35.0%	11,424	138,471
2030	1,778,461	2.0%	35,569	35,000	35.0%	12,449	150,920
<b>Total</b>							<b>150,920</b>

Source: Capitol Market Research, January 2012

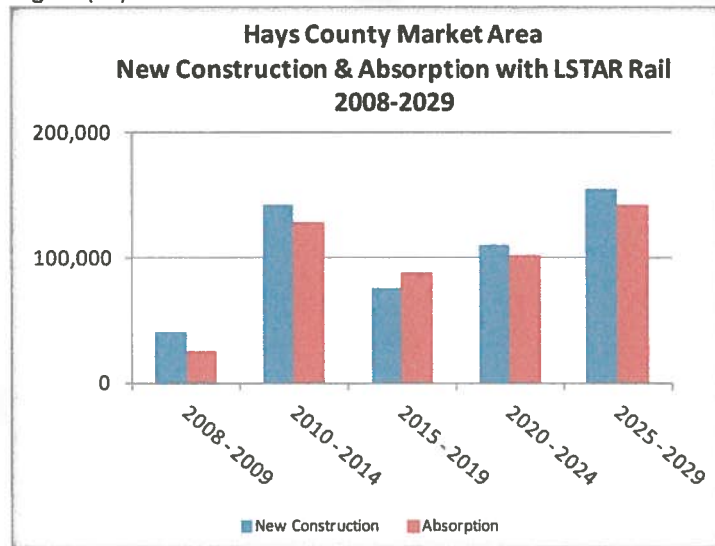
office\_absorption\_kyle.xls



## Office Absorption with LSTAR Rail Service

The literature review clearly indicates that proximity to rail stations has a positive impact on land values<sup>2</sup>. It is also clear that the additional access provided by commuter rail to office building owners and developers (by expanding the labor-force commuter-shed) will have a positive influence on the leasing activity around the Northern Hays County (Kyle) Station and, consequently on the future prospects for new development. The “baseline” forecast for the Northern Hays County market area shows an initial dip in occupancy due to the opening of 42,000 square feet at the Kyle Crossing Medical Offices in 2013, followed by a fairly rapid recovery of the office market over the next three years, and a resurgence of new construction beginning in 2016. This forecast assumes that the average capture rate of the Northern Hays County market area absorption will slowly increase from 0.83% to 2.0% over the next twenty years. The percentage of total absorption and new construction likely to occur within the 454 acres in the Northern Hays County (Kyle) Station is projected to increase from 35% to 55%, (shown in Table (7)) because the station’s influence on property values (and absorption) will have a discernible impact on properties within a ¼ mile (five minute) walking distance of the station.<sup>2</sup>

Figure (39)



Source: Capitol Market Research, 2012

<sup>2</sup> Bibliography provided in the appendix to this report

Table (7)  
**Office Space Absorption Forecast, LSTAR Passenger Rail**  
**Northern Hays County (Kyle) Station Area**  
Forecast with LSTAR Rail Impact Considered

Year	Citywide Absorption	Subject Market Percentage	Subject Market Absorption	Subject Market Additions	Share in LSTAR Rail District	Absorption in LSTAR Rail District	Cummulative Sq. Ft. Absorbed
2008	484,876	0.0%	...	4,188	.....	.....	.....
2009	(971,414)	-2.6%	25,073	36,304	....	.....	.....
2010	964,123	7.7%	74,069	99,716	....	.....	.....
2011	629,294	0.8%	5,199	0	55.0%	2,860	2,860
2012	1,061,153	0.8%	8,768	42,000	55.0%	4,822	7,682
2013	1,907,325	0.9%	16,878	0	55.0%	9,283	16,965
2014	2,543,782	0.9%	24,004	0	55.0%	13,202	30,167
2015	2,217,245	1.0%	22,224	0	55.0%	12,223	42,390
2016	1,662,428	1.1%	17,638	25,000	55.0%	9,701	52,091
2017	1,462,448	1.1%	16,375	15,000	55.0%	9,006	61,097
2018	1,423,459	1.2%	16,774	15,000	55.0%	9,225	70,323
2019	1,263,035	1.2%	15,624	20,000	55.0%	8,593	78,916
2020	1,242,713	1.3%	16,102	20,000	55.0%	8,856	87,772
2021	1,399,353	1.4%	18,953	20,000	55.0%	10,424	98,197
2022	1,489,678	1.4%	21,051	20,000	55.0%	11,578	109,775
2023	1,523,040	1.5%	22,416	25,000	55.0%	12,329	122,104
2024	1,557,150	1.5%	23,832	25,000	55.0%	13,108	135,211
2025	1,592,023	1.6%	25,300	30,000	55.0%	13,915	149,126
2026	1,627,678	1.6%	26,822	30,000	55.0%	14,752	163,878
2027	1,664,131	1.7%	28,399	30,000	55.0%	15,620	179,498
2028	1,701,400	1.8%	30,034	30,000	55.0%	16,519	196,017
2029	1,739,504	1.8%	31,727	35,000	55.0%	17,450	213,467
2030	1,778,461	2.0%	35,569	35,000	55.0%	19,563	233,030
<b>Total</b>							<b>233,030</b>

Source: Capitol Market Research, January 2012

office\_absorption\_Kyle.xls

## *Projected Impact on Office Values*

The net effect on the office market in the Northern Hays County market area can be measured through the impact on overall occupancy rates and new construction, both of which are driven by the accelerated absorption of office space, which will result from the influence of the construction of the LSTAR Passenger Rail Line. Table (8) shows the Baseline Office Value forecast for the Hays County (Kyle) Station Area. Currently there are no “taxable” office buildings within the station area, but it is likely that new office development will occur in the station area beginning in 2016. The Office Land & Improvement column is derived by dividing the net operating income by an eight percent (8.0%) Capitalization Rate<sup>3</sup>, converting Net Operating Income (NOI)<sup>4</sup> to property value. Since appraised values for commercial buildings are based on NOI, the change in occupancy and office inventory then drives the future increase in property value. For simplicity of analysis and to be conservative, the December 2011 Northern Hays County area net rental rate (\$14.39) for general purpose office buildings was held constant throughout the forecast period. Table (8) shows the baseline projected office property value increase while Table (9) reflects the higher absorption rates associated with improved access. The completion of the LSTAR passenger rail line will induce an increase in absorption of 64,102 sq. ft. over a 20-year term resulting in a \$11.5 million increase in office values, a 53.8% increase in value over the baseline forecast. A large portion of the increase in value is a result of the construction of (an estimated) 65,000 sq. ft. of additional office space, which is likely to be built in the Northern Hays County (Kyle) Station Area.

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<sup>3</sup>Capitalization Rate: The rate that is used to discount income to estimate value. The capitalization rate reflects both lenders’ and investors’ expectations of inflation, risk and the quality of the asset under consideration. NOI divided by the Capitalization Rate yields value. The higher the cap rate, the more conservative the value expectation. The 8.0% rate was derived from the average rent, and occupancy and values of the multi-tenant office buildings in the market area.

<sup>4</sup>Net Operating Income (NOI): The balance of cash remaining (on an annual basis) after deducting the operating expenses of a property from the “gross” income generated from the property.

Table (8)  
**Baseline Office Value**  
LSTAR Passenger Rail Line; Northern Hays County (Kyle) Station Area

Year	Office Land & Improvement Value	Baseline Occupancy	Net Operating Income	Occupied Sq.Ft.	Office Inventory NRA
2011	\$0	0.0%	\$0	0	0
2012	\$0	0.0%	\$0	0	0
2013	\$0	0.0%	\$0	0	0
2014	\$0	0.0%	\$0	0	0
2015	\$0	0.0%	\$0	0	0
2016	\$1,412,045	87.2%	\$112,964	7,850	9,000
2017	\$2,535,412	94.0%	\$202,833	14,095	15,000
2018	\$3,580,523	94.8%	\$286,442	19,906	21,000
2019	\$4,653,133	95.8%	\$372,251	25,869	27,000
2020	\$5,653,983	95.3%	\$452,319	31,433	33,000
2021	\$6,687,060	95.3%	\$534,965	37,176	39,000
2022	\$7,904,779	95.5%	\$632,382	43,946	46,000
2023	\$9,259,035	95.3%	\$740,723	51,475	54,000
2024	\$10,702,856	96.0%	\$856,228	59,502	62,000
2025	\$12,239,573	95.8%	\$979,166	68,045	71,000
2026	\$13,872,624	96.4%	\$1,109,810	77,124	80,000
2027	\$15,605,552	96.4%	\$1,248,444	86,758	90,000
2028	\$17,442,012	97.0%	\$1,395,361	96,967	100,000
2029	\$19,385,773	97.1%	\$1,550,862	107,774	111,000
2030	\$21,440,719	97.7%	\$1,715,258	119,198	122,000

Source: Office land & improvement value in 2011 from HCAD  
Rental Rate assumed to average \$14.39 net  
Occupancy rate based on CMR market survey December 2011  
Future office values based on office NOI and assumes a 8.0% cap rate  
Future additions to inventory shown in Table (11)

Table (9)  
**Office Value with LSTAR Rail Impact Considered**  
LSTAR Passenger Rail Line; Northern Hays County (Kyle) Station Area

Year	Office Land & Improvement Value	Occupancy With Urban Rail	Net Operating Income	Occupied Sq.Ft. w/ LSTAR Rail	Office Inventory w/ LSTAR Rail
2011	\$0	0.0%	\$0	0	0
2012	\$0	0.0%	\$0	0	0
2013	\$0	0.0%	\$0	0	0
2014	\$0	0.0%	\$0	0	0
2015	\$0	0.0%	\$0	0	0
2016	\$2,198,601	94.0%	\$175,888	12,223	13,000
2017	\$3,943,572	87.7%	\$315,486	21,924	25,000
2018	\$5,563,544	88.4%	\$445,084	30,930	35,000
2019	\$7,222,975	91.3%	\$577,838	40,156	44,000
2020	\$8,768,721	92.0%	\$701,498	48,749	53,000
2021	\$10,361,749	92.9%	\$828,940	57,605	62,000
2022	\$12,236,821	95.8%	\$978,946	68,030	71,000
2023	\$14,319,416	98.3%	\$1,145,553	79,608	81,000
2024	\$16,537,081	98.9%	\$1,322,967	91,937	93,000
2025	\$18,894,822	96.4%	\$1,511,586	105,044	109,000
2026	\$21,397,800	95.2%	\$1,711,824	118,959	125,000
2027	\$24,051,338	96.2%	\$1,924,107	133,711	139,000
2028	\$26,860,925	97.0%	\$2,148,874	149,331	154,000
2029	\$29,832,219	97.6%	\$2,386,578	165,850	170,000
2030	\$32,971,054	98.0%	\$2,637,684	183,300	187,000

Source: Office land & improvement value in 2011 from HCAD  
Rental Rate assumed to average \$14.39 net  
Occupancy rate based on CMR market survey December 2011  
Future office values based on office NOI and assumes a 8.0% cap rate  
Future additions to inventory shown in Table (11)

office\_absorption\_Kyle.xls

## ***Population Projection for Northern Hays County Market Area***

Most state agencies and local governments rely on the Texas State Data Center (SDC) population forecasts for county and MSA level population estimates through 2040. The population forecast used in this analysis is based on the most recently completed forecast available from the Texas State Data Center at Texas A&M University, (Scenario 1.0), February 2009.

Hays County, according to the 2010 census, contains approximately 9.2% of the population in the Austin MSA, and according to the State Data Center forecast, this percentage will increase to 11.7% by 2030. This increase will continue as counties that currently house a large “commuter” population capture an increasing percentage of the jobs and economic activity within the MSA. Because the State Data Center forecasts are based on historical trends, the forecast below assumes some redistribution of growth in the MSA that will accrue from the development of the LSTAR passenger rail service, based on the substantial evidence that markets served by a commuter rail network out-perform areas without commuter rail. In 2000, approximately 2.3% of the total population in the Austin MSA resided in the Northern Hays County market area. Since 2000 another 11,056 households were added to the market area, and the market share of the area rose to 3.9% of the MSA population. This strong growth for the market area is expected to continue as the area experiences increasing interest from the health care industry and manufacturing, warehouse and distribution companies and an increasing number of retail stores. In recognition of this increasing share of growth, the Northern Hays County market area in general, and the Northern Hays County (Kyle) Station, in particular, is expected to continue to grow and capture an increasing share of the expected regional growth.

Figure (40)

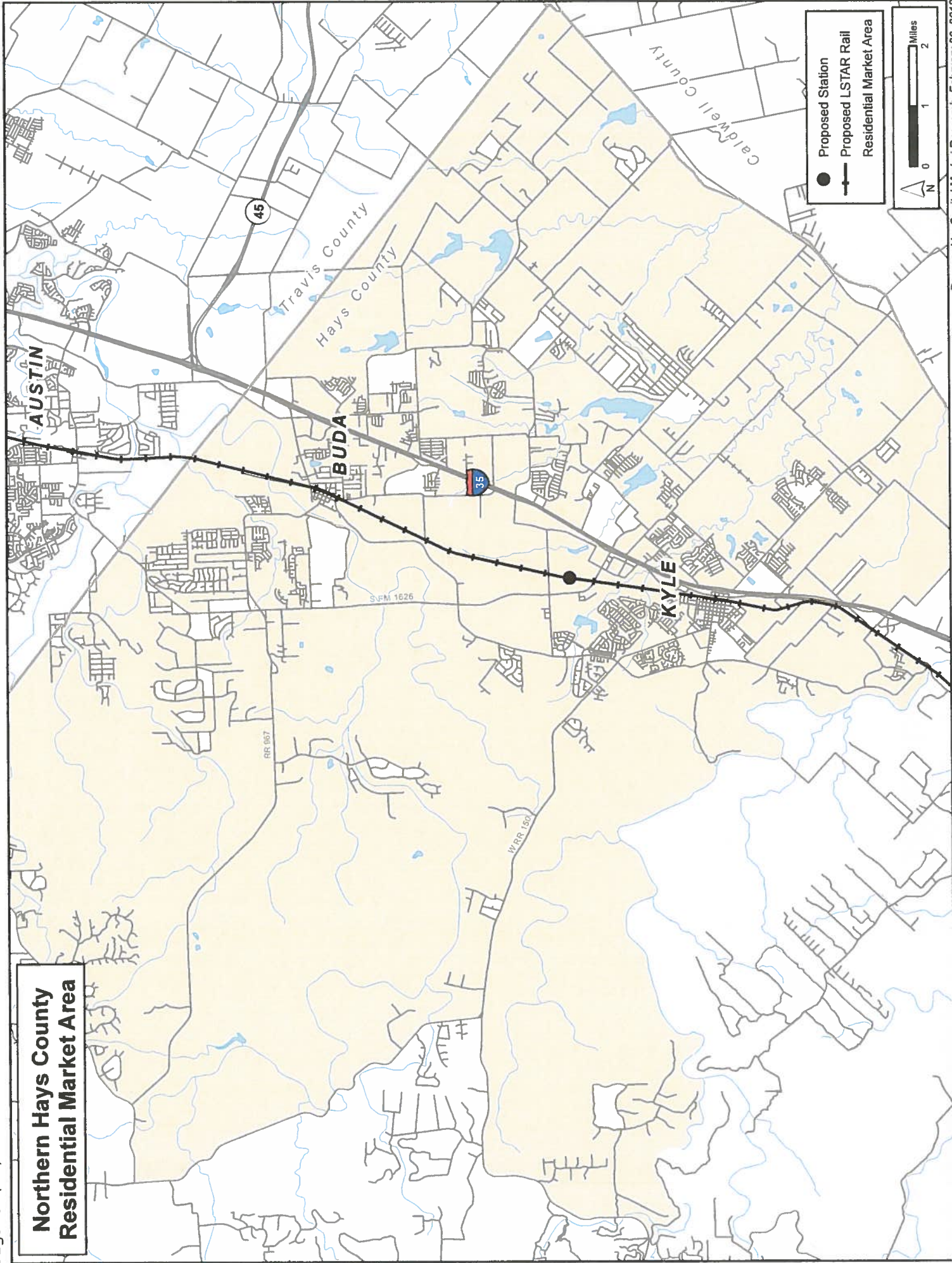


Table (10)  
**Population Growth**  
 Austin MSA and the Northern Hays County Market Area

	Year	MSA Population	Annual Change	Market Area Population	Market Area Pop. Increase	Market Area Market Share
Actual	2000	1,265,846	.....	29,319	.....	2.32%
	2001	1,319,000	53,154	32,031	2,712	2.43%
	2002	1,346,332	27,332	35,659	3,628	2.65%
	2003	1,376,005	29,673	39,463	3,804	2.87%
	2004	1,411,199	35,194	44,586	5,123	3.16%
	2005	1,452,529	41,330	49,312	4,726	3.39%
	2006	1,513,565	61,036	54,006	4,694	3.57%
	2007	1,598,161	84,596	57,614	3,608	3.61%
	2008	1,652,602	54,441	60,566	2,952	3.66%
	2009	1,705,075	52,473	64,450	3,884	3.78%
	2010	1,716,289	11,214	69,075	4,625	4.02%
2011	1,767,389	51,100	74,151	5,076	4.20%	
Forecast	2012	1,822,132	54,742	77,699	3,548	4.26%
	2013	1,876,874	54,742	81,322	3,623	4.33%
	2014	1,931,617	54,742	85,020	3,698	4.40%
	2015	1,986,359	54,742	88,793	3,773	4.47%
	2016	2,047,635	61,276	92,938	4,145	4.54%
	2017	2,108,910	61,276	97,167	4,229	4.61%
	2018	2,170,186	61,276	101,480	4,313	4.68%
	2019	2,231,461	61,276	105,878	4,397	4.74%
	2020	2,292,737	61,276	110,359	4,482	4.81%
	2021	2,361,923	69,186	115,311	4,952	4.88%
	2022	2,431,109	69,186	120,358	5,047	4.95%
	2023	2,500,295	69,186	125,500	5,142	5.02%
	2024	2,569,481	69,186	130,737	5,237	5.09%
	2025	2,638,667	69,186	136,069	5,332	5.16%
	2026	2,717,029	78,362	141,975	5,906	5.23%
	2027	2,795,391	78,362	147,989	6,014	5.29%
	2028	2,873,754	78,362	154,110	6,122	5.36%
	2029	2,952,116	78,362	160,340	6,229	5.43%
	2030	3,030,478	78,362	166,676	6,337	5.50%

Source: MSA Pop. Projections from the Texas State Data Center, Feb. 2009 (scenario 2000-2007)

MSA Population estimates 2000 - 2010 from US Census

Population Increase 2000 - 2011 based on building permits issued

Prepared by Capitol Market Research, February 2012

mfdemand\_KY.xls

## Northern Hays County Market Area Multi-Family Demand Forecast

The Northern Hays County market area has experienced an increase in population and households over the last 10 years, and as a percentage of the region, the population share has increased dramatically from 2.3% of the MSA in 2000 to 4.02% in 2010. This increase in market share between 2000 and 2010 was the result of the extraordinary growth that took place in some suburban locations and cities in the MSA (like Kyle and Buda) that were actively encouraging new housing development. Since 2000, the Northern Hays County market area has experienced a continuation in new construction as 13,755 new single family homes, apartment units and condominium units were added between 2000 and 2011. Table (11) below shows a multi-family demand forecast for the subject market area based upon the forecasted growth for the Northern Hays County market area which assumes an increase in share to 5.5% in 2030. Demand from population growth in the Northern Hays County market area yields a total average annual demand of 225 multi-family units through 2030.

Table (11)  
Multi-Family Housing Demand  
Northern Hays County Market Area

Year	Market Area Pop. Increase	HH Size	New Housing Demand	Percent Renter	Renter Demand	Percent MF	New MF Demand
2011	5,076	3.16	1,607	17.0%	273	75.0%	205
2012	3,548	3.16	1,123	17.2%	193	75.0%	145
2013	3,623	3.16	1,147	17.5%	200	75.0%	150
2014	3,698	3.16	1,170	17.7%	207	75.0%	155
2015	3,773	3.16	1,194	17.9%	214	75.0%	160
2016	4,145	3.16	1,312	18.1%	238	75.0%	178
2017	4,229	3.16	1,338	18.4%	246	75.0%	184
2018	4,313	3.16	1,365	18.6%	254	75.0%	190
2019	4,397	3.16	1,392	18.8%	262	75.0%	197
2020	4,482	3.16	1,418	19.1%	270	75.0%	203
2021	4,952	3.16	1,567	19.3%	302	75.0%	227
2022	5,047	3.16	1,597	19.5%	312	75.0%	234
2023	5,142	3.16	1,627	19.8%	321	75.0%	241
2024	5,237	3.16	1,657	20.0%	331	75.0%	248
2025	5,332	3.16	1,687	20.2%	341	75.0%	256
2026	5,906	3.16	1,869	20.4%	382	75.0%	287
2027	6,014	3.16	1,903	20.7%	393	75.0%	295
2028	6,122	3.16	1,937	20.9%	405	75.0%	304
2029	6,229	3.16	1,971	21.1%	417	75.0%	312
2030	6,337	3.16	2,006	21.4%	428	75.0%	321

Source: MSA Pop. Projections based on the Texas State Data Center, Feb. 2009, Scenario (2000-2007)  
Market area household size and percent owner based on 2010 US Census  
Percent renter based on 50% of the percentage increase in market area rental units from 2000 to 2010  
Percent multi-family based on new building permits issued in the area over the last 10 years  
Prepared by Capitol Market Research, February 2012

mfdemand.xls



## ***New Multi-Family Projects in the Northern Hays County Market Area***

Currently, apartment occupancy in the Northern Hays County market area is approximately 93.9%, which is up from 87.1% at the end of 2010. One new project was added to the market area in 2010 and another began leasing Phase 1 of a two phase development at the end of 2011. All five apartment properties in the market area were built after 2000, and three of the five have stabilized with an occupancy rate above 90%. The newest property, The Settlement, has experienced slow leasing activity in the first three months since opening in October 2011. Table (12) lists the five identified by the market as existing or good prospects for multi-family development in the Northern Hays County market area. Aside from The Settlement there are currently three projects considered as part of the regional “pipeline” – projects either held by or under contract to a developer with known intention to move forward with a multi-family project. Those three are Cabela’s Drive Apartments, Kyle Crossing, and Sunfield Ridge Apartments.

Table (12)  
**Competitive Multi-Family Sites**  
 Northern Hays County Market Area

No	Project	Units	Developer	Status	Zoning
1	Cabela's Drive Apt.	364	Silverado Buda Development	For Sale	MFR_C3_R3
2	Crossing at Plum	402	Forefront Builders	Feasibility	RS and W
3	Kyle Crossing	180	David Berndt Interests	For Sale	R-3-3
4	The Settlement	396	Westwood	Under construction	R/S
5	Sunfield Ridge Apt.	264	Provident Realty	Property for sale	PUD
		1,606			

Source: Capitol Market Research, February 2012

Apt\_comp\_sites\_Kyle.xls

The annual additions to the market area resulting from the development of this potential inventory of multi-family units may vary based on the capacity of the apartment developers to obtain the necessary construction financing and city approvals. It is possible that one or more of the projects that appear to be moving forward currently may encounter some obstacles that would prevent them from achieving the anticipated build-out schedule. It is also possible that other projects that today show little promise could be quickly developed and brought to the market. Thus, the list of planned additions is both actual because it represents current plans, and representative, because it presents a position that new apartment projects will be delivered during the anticipated development horizon.

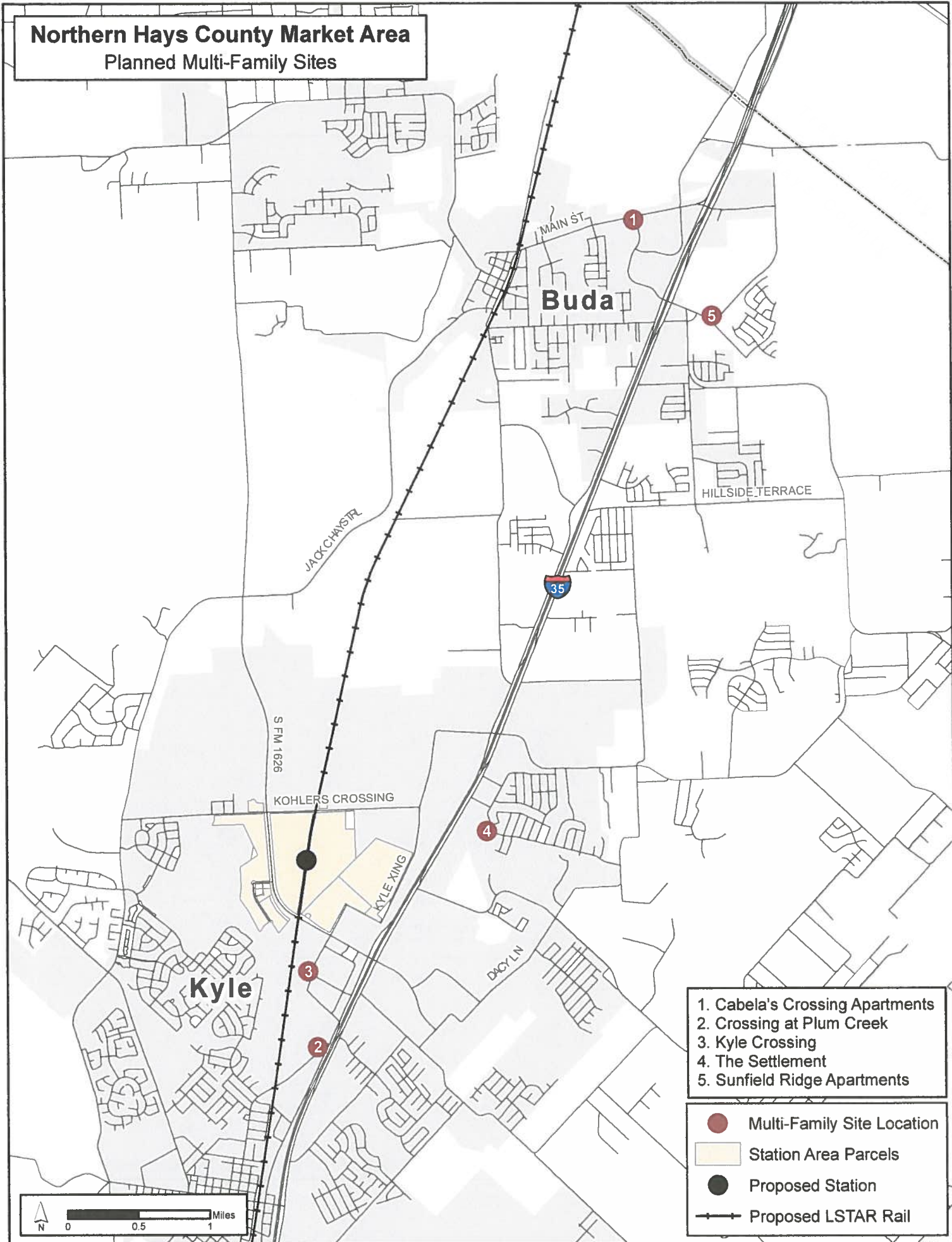
Table (13)  
**Planned Multi-Family**  
Northern Hays County Market Area

Map No.	Project Name	Units Planned	2011	2012	2013	2014	2015	Future
1	Cabela's Drive Apt.	364	...	...	...	...	...	364
2	Crossing at Plum Creek	402	...	...	...	...	...	402
3	Kyle Crossing	180	...	...	...	...	...	180
4	The Settlement	396	130	266	...	...	...	...
5	Sunfield Ridge Apt.	264	...	...	...	...	...	264
Total New Units		1,606	130	266	0	0	0	1,210
Total Annual Demand			203	145	150	156	161	
Hays County (Kyle) Station Area			0	0	0	0	0	

Source: Capitol Market Research Developer/Broker Interviews February 2012

Apt\_comp\_sites\_Kyle.xls

Figure (41)



## Multi-Family Absorption with LSTAR Rail

The literature which examines the impact of passenger rail on land use and value clearly indicates that proximity to a passenger rail network has a positive impact on land values<sup>5</sup>. It is also clear that the additional access provided to apartment renters will enable them to rely less on their automobiles, thus reducing their transportation expenditures. This in turn will have a positive influence on the leasing activity in the market area, and the future prospects for new development. The "baseline" forecast for the Northern Hays County market area shows maintenance of high occupancy through 2007, then a decrease in 2009 as a result of the surge of new apartment construction in the Northern Hays County market area, followed by a recovery in 2010 and 2011. The long term forecast for the market area assumes that the projected average market share of the regional population that resides in the Northern Hays County market area will slowly increase to 5.5% of the regional total over the next 20 years and, based on historical absorption and the available unit inventory, the Northern Hays County (Kyle) Station Area should receive a proportionate share of the Northern Hays County market area forecasted demand (20%), based on the availability of planned development (and redevelopment) sites in the Northern Hays County (Kyle) Station Area.

Under a scenario that includes passenger rail service, it is likely that the Kyle station area market share will increase in response to the increased accessibility provided by the LSTAR project. Consequently, the forecast, with passenger rail service (planned for 2017) connecting the Northern Hays County (Kyle) Station to downtown and, eventually, to the RMMA redevelopment site, will assume a 35% capture rate of the overall forecast for the Northern Hays County market area. Although most of the land surrounding the Kyle station is currently vacant, it is likely that several parcels will be developed with multi-family land uses. The areas that are most likely to be developed are located on the east side of the station, where privately held land is available for development. Within the Northern Hays County (Kyle) Station Area 326.02 acres are vacant and available for development. Under the baseline scenario approximately 40.52 acres are assumed to be developed at typical suburban apartment densities of 20 units per acre.

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<sup>5</sup>Bibliography provided in the appendix to this report

Table (14)  
Northern Hays County Market Area Apartment Market Forecast  
2005 - 2030

	Date	Total Units	New Completions	Available Units	Percent Occupied	Calculated Absorption
Actual	2005	260	0	8	97.1%	....
	2006	260	0	22	91.7%	-14
	2007	260	0	10	96.2%	12
	2008	260	0	41	84.2%	-31
	2009	700	440	121	82.7%	360
	2010	964	264	125	87.1%	574
	2011	1,094	130	149	86.3%	659
Forecast	2012	1,360	266	270	80.1%	145
	2013	1,360	0	195	85.6%	150
	2014	1,360	0	79	94.2%	155
	2015	1,520	160	79	94.8%	160
	2016	1,699	178	79	95.4%	178
	2017	1,883	184	79	95.8%	184
	2018	2,074	190	79	96.2%	190
	2019	2,270	197	79	96.5%	197
	2020	2,473	203	79	96.8%	203
	2021	2,700	227	79	97.1%	227
	2022	2,934	234	79	97.3%	234
	2023	3,175	241	79	97.5%	241
	2024	3,423	248	79	97.7%	248
2025	3,679	256	79	97.9%	256	
2026	3,966	287	79	98.0%	287	
2027	4,261	295	79	98.1%	295	
2028	4,565	304	79	98.3%	304	
2029	4,877	312	79	98.4%	312	
2030	5,198	321	79	98.5%	321	

Source: Capitol Market Research, February 2012

apt\_comp\_sites\_kyle.xls

Table (15)  
**Multi-Family Baseline Forecast 2011 - 2030**  
 Northern Hays County (Kyle) Station Area

Date	Total Units	New Completions	Available Units	Percent Occupied	Calculated Absorption
2011	0	0	0	0.0%	0
2012	0	0	0	0.0%	0
2013	32	32	2	94.3%	30
2014	65	33	4	94.3%	31
2015	99	34	6	94.3%	32
2016	137	38	8	94.3%	36
2017	176	39	10	94.3%	37
2018	216	40	12	94.3%	38
2019	258	42	15	94.3%	39
2020	301	43	17	94.3%	41
2021	349	48	20	94.3%	45
2022	398	50	23	94.3%	47
2023	449	51	25	94.3%	48
2024	502	53	28	94.3%	50
2025	556	54	31	94.3%	51
2026	617	61	35	94.3%	57
2027	680	63	38	94.3%	59
2028	744	64	42	94.3%	61
2029	810	66	46	94.3%	62
2030	878	68	50	94.3%	64

Source: Capitol Market Research, 2000 -2011 Apartment Market Survey  
 Planned unit completions from Table (13)  
 Absorption forecast from Table (11), assumes demand for new development in the station area starts when market regains 94% occupancy and construction financing becomes available in 2015. At that point new construction and unit completions are assumed to equal absorption potential, based on a 20% share.

Table (16)  
**Multi-Family LSTAR Rail Impact Forecast 2011 - 2030**  
 Northern Hays County (Kyle) Station Area

Date	Total Units	New Completions	Available Units	Percent Occupied	Calculated Absorption
2011	0	0	0	0.0%	0
2012	0	0	0	0.0%	0
2013	56	56	3	94.3%	53
2014	113	58	6	94.3%	54
2015	173	60	10	94.3%	56
2016	239	66	14	94.3%	62
2017	307	68	17	94.3%	65
2018	378	71	21	94.3%	67
2019	451	73	26	94.3%	69
2020	526	75	30	94.3%	71
2021	610	84	35	94.3%	79
2022	697	87	39	94.3%	82
2023	787	89	45	94.3%	84
2024	879	92	50	94.3%	87
2025	974	95	55	94.3%	90
2026	1,080	106	61	94.3%	100
2027	1,189	109	67	94.3%	103
2028	1,302	113	74	94.3%	106
2029	1,418	116	80	94.3%	109
2030	1,537	119	87	94.3%	112

Source: Capitol Market Research, 2000 -2011 Apartment Market Survey  
 Planned unit completions from Table (13)  
 Absorption forecast from Table (11), assumes demand for new development in the station area starts when market regains 94% occupancy and construction financing becomes available in 2015. At that point new construction and unit completions are assumed to equal absorption potential, based on a 35% share.

apt\_comp\_site\_kyle.xls

### ***Projected Impact on Multi-Family Values***

The net effect on the multi-family market in the Northern Hays County (Kyle) Station Area can be measured through the impact on overall occupancy rates and new construction. Both of these are driven by the accelerated absorption of multi-family units, which will result from the influence of the proposed LSTAR passenger rail line and its connection with the Urban Rail network in downtown Austin which connects to the MetroRail Red Line. Table (17) shows the Baseline Multi-Family Value forecast for the Northern Hays County (Kyle) Station Area. The current (2011) land and improvement values were obtained from the Hays County Appraisal District (HCAD). Current occupancy is based on the CMR December 2011 apartment market survey. The building income column is derived by taking the baseline occupancy and values and assuming a 7.0%<sup>6</sup> capitalization rate, converting the property value to Net Operating Income. Since appraised values for commercial properties are based on NOI, the change in occupancy and apartment inventory then drives future increase in property value. Table (17) shows the baseline projected multi-family property value increase while Table (18) reflects the higher absorption rates associated with improved access. The marginal increase in the Northern Hays County (Kyle) Station Area market share of 15% results in a \$51.5 million impact on apartment values. This is an 81.3% increase over the baseline forecast resulting from the construction of an additional 659 units.

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<sup>6</sup>A 7.0% cap rate was used for multi-family because it is generally perceived to be a less risky investment

Table (17)  
**Baseline Multi-Family Value**  
Northern Hays County (Kyle) Station Area

Year	Multi-Family Land & Improvement Value	Baseline Occupancy	Net Operating Income	Occupied Apartment Sq. Ft.	Total Apartment Sq. Ft.
2011	\$0	0.0%	\$0	0	0
2012	\$0	0.0%	\$0	0	0
2013	\$2,488,175	94.3%	\$174,172	24,070	25,514
2014	\$5,061,447	94.3%	\$354,301	48,964	51,902
2015	\$7,721,175	94.3%	\$540,482	74,694	79,175
2016	\$10,680,425	94.3%	\$747,630	103,321	109,520
2017	\$13,738,024	94.3%	\$961,662	132,900	140,874
2018	\$16,895,493	94.3%	\$1,182,684	163,445	173,251
2019	\$20,154,356	94.3%	\$1,410,805	194,970	206,668
2020	\$23,516,137	94.3%	\$1,646,130	227,492	241,141
2021	\$27,275,554	94.3%	\$1,909,289	263,860	279,691
2022	\$31,152,775	94.3%	\$2,180,694	301,367	319,449
2023	\$35,149,519	94.3%	\$2,460,466	340,031	360,433
2024	\$39,267,506	94.3%	\$2,748,725	379,868	402,660
2025	\$43,508,455	94.3%	\$3,045,592	420,894	446,148
2026	\$48,259,814	94.3%	\$3,378,187	466,858	494,870
2027	\$53,152,165	94.3%	\$3,720,652	514,186	545,037
2028	\$58,187,456	94.3%	\$4,073,122	562,897	596,671
2029	\$63,367,635	94.3%	\$4,435,734	613,009	649,790
2030	\$68,694,649	94.3%	\$4,808,625	664,542	704,414

Source: Multi-family land & improvement value in 2011 from HCAD  
Occupancy rate based on CMR forecast in Table (15)  
Net Rental Rate assumed to remain constant at \$0.60 per square foot  
Future multi-family values based on multi-family NOI and assumes a 7.0% cap rate  
Future additions to inventory shown in Table (13)

Table (18)  
**Multi-Family Value with LSTAR Rail Impact Considered**  
Northern Hays County (Kyle) Station Area

Year	Multi-Family Land & Improvement Value	Baseline Occupancy	Net Operating Income	Occupied Sq. Ft.	Apartment Sq. Ft.
2011	\$0	0.0%	\$0	0	0
2012	\$0	0.0%	\$0	0	0
2013	\$2,488,175	94.3%	\$304,801	42,123	44,650
2014	\$5,061,447	94.3%	\$620,027	85,686	90,828
2015	\$13,512,056	94.3%	\$945,844	130,714	138,556
2016	\$18,690,744	94.3%	\$1,308,352	180,812	191,660
2017	\$24,041,541	94.3%	\$1,682,908	232,574	246,529
2018	\$29,567,112	94.3%	\$2,069,698	286,028	303,190
2019	\$35,270,124	94.3%	\$2,468,909	341,198	361,670
2020	\$41,153,240	94.3%	\$2,880,727	398,110	421,997
2021	\$47,732,220	94.3%	\$3,341,255	461,754	489,460
2022	\$54,517,356	94.3%	\$3,816,215	527,393	559,036
2023	\$61,511,658	94.3%	\$4,305,816	595,055	630,758
2024	\$68,718,135	94.3%	\$4,810,269	664,769	704,655
2025	\$76,139,797	94.3%	\$5,329,786	736,565	780,759
2026	\$84,454,675	94.3%	\$5,911,827	817,002	866,022
2027	\$93,016,289	94.3%	\$6,511,140	899,826	953,815
2028	\$101,828,048	94.3%	\$7,127,963	985,070	1,044,174
2029	\$110,893,361	94.3%	\$7,762,535	1,072,766	1,137,132
2030	\$120,215,636	94.3%	\$8,415,095	1,162,948	1,232,725

Source: Multi-family land & improvement value in 2011 from HCAD  
Occupancy rate based on CMR forecast in Table (15)  
Rental Rate assumed to remain constant at \$0.92 per square foot  
Future multi-family values based on multi-family NOI and assumes a 7.0% cap rate  
Future additions to inventory shown in Table (13)

comp\_sites\_apt\_Kyle.xls



## Future Condominium Demand in Northern Hays County

The previous data and analysis examine historical MLS condominium sales and show that in the Northern Hays County market area, all of the condominium and townhome sales can be attributed to the Plum Creek townhome development, which consists of 157 duplex units built between 2001 and 2006. Resale prices remained within the original price range of \$95,990 to \$119,250, indicating stability but not much appreciation. Last year (2011) the average resale price in the Plum Creek townhome community was \$110,000.

Table (19) below provides an estimate of new condominium housing demand in the Northern Hays County market area based on the regional growth in population and the market share established for the Northern Hays County market area. The calculation of market share for Northern Hays County is based on 2000-2010 census data and recent permitting activity tracked within the County. The population market share for Northern Hays County has increased from 2.3% in 2000 to 4.2% in 2011. A continuation of this increase in share to 5.5% in 2030 is predicted, and growth is expected to continue at a somewhat faster rate than for the region as a whole. Demand for owner-occupied units is divided among different types of housing products and Capitol Market Research has estimated that condominium demand constitutes approximately 5.0% of new owner unit demand, based on recent issuance of building permits for owner occupied units in the Northern Hays County market area. Based on these data and assumptions, total new condominium housing demand should average 62 units per year from 2012 through 2030.

Table (19)  
Townhome/Condominium Housing Demand  
Northern Hays County Market Area

Year	Market Area Pop. Change	HH Size	New Housing Demand	Percent Owner	Owner Demand	Percent Condo	New Condo Demand
2011	5,076	3.16	1,607	83.0%	1,334	5.0%	67
2012	3,548	3.16	1,123	82.8%	929	5.0%	46
2013	3,623	3.16	1,147	82.5%	947	5.0%	47
2014	3,698	3.16	1,170	82.3%	963	5.0%	48
2015	3,773	3.16	1,194	82.1%	980	5.0%	49
2016	4,145	3.16	1,312	81.9%	1,074	5.0%	54
2017	4,229	3.16	1,338	81.6%	1,093	5.0%	55
2018	4,313	3.16	1,365	81.4%	1,111	5.0%	56
2019	4,397	3.16	1,392	81.2%	1,130	5.0%	56
2020	4,482	3.16	1,418	80.9%	1,148	5.0%	57
2021	4,952	3.16	1,567	80.7%	1,265	5.0%	63
2022	5,047	3.16	1,597	80.5%	1,286	5.0%	64
2023	5,142	3.16	1,627	80.3%	1,306	5.0%	65
2024	5,237	3.16	1,657	80.0%	1,326	5.0%	66
2025	5,332	3.16	1,687	79.8%	1,347	5.0%	67
2026	5,906	3.16	1,869	79.6%	1,487	5.0%	74
2027	6,014	3.16	1,903	79.3%	1,510	5.0%	76
2028	6,122	3.16	1,937	79.1%	1,533	5.0%	77
2029	6,229	3.16	1,971	78.9%	1,555	5.0%	78
2030	6,337	3.16	2,006	78.7%	1,577	5.0%	79

Source: MSA Pop. Projections based on the Texas State Data Center, Feb. 2009, Scenario (2000-2007)  
Market area household size and percent owner based on 2010 US Census  
Percent condominium based on new building permits issued in the area over the last 10 years  
Prepared by Capitol Market Research, February 2012

mfdemand.xls

### ***Planned Condominium Projects in the Northern Hays County Market Area***

In order to accurately forecast the absorption rate for the Northern Hays County market area, it is necessary to identify the tracts in the market area that are zoned for multi-family use that may be developed as condominiums within the forecast time period. Projects are defined as an “opportunity site” if the land is currently zoned appropriately for condominium or multi-family development and utilities are available. In order to be considered as part of the development “pipeline”, the proposed projects must either be held by, or under contract to, a developer with known intention to move forward with a condominium or multi-family project at a “price point” and location that will make it competitive. Currently there are no planned or proposed projects for condominium development in the Northern Hays County market area.

DRAFT

### ***Condominium Absorption Forecast***

The “baseline” condominium forecast for the Northern Hays County market area shows only one recently “active” condominium project in the market area, Plum Creek townhomes. The townhome development experienced good market acceptance, selling out all the units in Phase One, and pre-selling all of Phase Two before final completion in 2006. The baseline forecast from 2011 to 2030 assumes that the unit completions will coincide with the market demand based on the demand forecast shown in Table (19). The number of units added and absorbed in the larger Northern Hays County market area is projected to average 62 per year from 2011 to 2030.

The Northern Hays County market area has experienced a reasonable amount of market success in its first condominium development in the area. The Plum Creek townhome development has retained value and continues to receive interest in the community from resale buyers.

Table (20)  
**Townhome/Condominium Baseline Forecast 2011 - 2030**  
 Northern Hays County (Kyle) Station Area

Date	Total Units	New Completions	Existing Unit Price	Average New Unit Price	Total Inventory Average
2011	0	0	n.a.	n.a.	n.a.
2012	0	0	n.a.	n.a.	n.a.
2013	0	0	n.a.	n.a.	n.a.
2014	10	10	\$110,297	\$110,297	\$110,297
2015	20	10	\$110,297	\$110,297	\$110,297
2016	31	11	\$110,297	\$110,297	\$110,297
2017	42	11	\$110,297	\$110,297	\$110,297
2018	53	11	\$110,297	\$110,297	\$110,297
2019	64	11	\$110,297	\$110,297	\$110,297
2020	75	11	\$110,297	\$110,297	\$110,297
2021	88	13	\$110,297	\$110,297	\$110,297
2022	101	13	\$110,297	\$110,297	\$110,297
2023	114	13	\$110,297	\$110,297	\$110,297
2024	127	13	\$110,297	\$110,297	\$110,297
2025	140	13	\$110,297	\$110,297	\$110,297
2026	155	15	\$110,297	\$110,297	\$110,297
2027	170	15	\$110,297	\$110,297	\$110,297
2028	185	15	\$110,297	\$110,297	\$110,297
2029	201	16	\$110,297	\$110,297	\$110,297
2030	217	16	\$110,297	\$110,297	\$110,297

Source: Capitol Market Research, February 2012

Average value for the market area based on 2011 MLS sales

New unit additions and prices for 2011-2014 based on developer plans

New completions 2014-2030 based on forecast of station area demand.

Table (21)  
**Townhome/Condominium LSTAR Rail Impact Forecast 2011 - 2030**  
 Northern Hays County (Kyle) Station Area

Date	Total Units	New Completions	Existing Unit Price	Average New Unit Price	Total Inventory Average
2011	0	0	n.a.	n.a.	n.a.
2012	0	0	n.a.	n.a.	n.a.
2013	0	0	n.a.	n.a.	n.a.
2014	19	19	\$110,297	\$110,297	\$110,297
2015	39	20	\$110,297	\$110,297	\$110,297
2016	60	21	\$110,297	\$110,297	\$110,297
2017	82	22	\$110,297	\$110,297	\$110,297
2018	104	22	\$110,297	\$110,297	\$110,297
2019	127	23	\$110,297	\$110,297	\$110,297
2020	150	23	\$110,297	\$110,297	\$110,297
2021	175	25	\$110,297	\$110,297	\$110,297
2022	201	26	\$110,297	\$110,297	\$110,297
2023	227	26	\$110,297	\$110,297	\$110,297
2024	254	27	\$110,297	\$110,297	\$110,297
2025	281	27	\$110,297	\$110,297	\$110,297
2026	311	30	\$110,297	\$110,297	\$110,297
2027	341	30	\$110,297	\$110,297	\$110,297
2028	372	31	\$110,297	\$110,297	\$110,297
2029	403	31	\$110,297	\$110,297	\$110,297
2030	435	32	\$110,297	\$110,297	\$110,297

Source: Capitol Market Research, February 2012

New unit additions and prices for 2011-2014 based on developer plans

New completions 2014-2030 based on forecast of station area demand.

compsite\_condo\_kyle.xls

### ***Condominium Absorption with LSTAR Rail***

The literature review clearly indicates that proximity to commuter rail stations like LSTAR would have a positive impact on land values. It is also clear that the additional access provided to condominium buyers will enable them to rely less on their automobiles thus reducing their transportation expenditures. This in turn will have a positive influence on the condominium sales activity in Northern Hays County, and the future prospects for new development. The "baseline" forecast for the Northern Hays County (Kyle) Station Area shows no new construction through 2013. The baseline forecast then assumes that the projected average capture rate for new units in the Northern Hays County (Kyle) Station Area will hold constant at 20% without commuter rail. Under an LSTAR rail scenario, it is likely that the Northern Hays County (Kyle) Station Area market share will increase in response to increased accessibility afforded to residents, and the prospect of reduced automobile usage in an era of rapidly increasing gas prices. Consequently, the forecast, with the LSTAR rail providing service north from Kyle to Austin and south to San Antonio should be considerably higher, at a 40% capture rate of the overall forecast for the Northern Hays County market area.

### ***Projected Impact on Condominium Value***

The net effect on the condominium market in the Northern Hays County (Kyle) Station Area can be measured by the accelerated absorption of condominium units, which could result from the influence of the proposed LSTAR passenger rail service connection to downtown Austin and the urban rail network. Table (23) shows the Baseline Condominium Value forecast for the Northern Hays County (Kyle) Station Area. The current (2011) land and improvement values were obtained from the Hays County Appraisal District (HCAD). Because there are no condominium developments within the station area, information gathered on the Plum Creek townhome development was used to facilitate this analysis. Average price of MLS sales at Plum Creek townhomes (\$110,297) was used to estimate a conservative value of future units in the station area. Starting in 2014, "new" unit additions are estimated to average \$110,297. Table (23) shows the baseline projected condominium property value increase while Table (24) reflects the absorption rates associated with improved access as a result of implementing the Passenger Rail service. The marginal increase in the Passenger Rail station area of 202 units over a twenty-year term results in a \$24.0 million impact on condominium values, a 100.5% increase over the baseline forecast.

Table (22)  
Townhome/Condominium Baseline Value Forecast 2011 - 2030  
Northern Hays County (Kyle) Station Area

Year	Total Units	New Completions	Existing Unit Value	Value of new units	Total Inventory Value
2011	0	0	\$0	\$0	\$0
2012	0	0	\$0	\$0	\$0
2013	0	0	\$0	\$0	\$0
2014	10	10	\$0	\$1,102,970	\$1,102,970
2015	20	10	\$1,102,970	\$1,102,970	\$2,205,940
2016	31	11	\$2,205,940	\$1,213,267	\$3,419,207
2017	42	11	\$3,419,207	\$1,213,267	\$4,632,474
2018	53	11	\$4,632,474	\$1,213,267	\$5,845,741
2019	64	11	\$5,845,741	\$1,213,267	\$7,059,008
2020	75	11	\$7,059,008	\$1,213,267	\$8,272,275
2021	88	13	\$8,272,275	\$1,433,861	\$9,706,136
2022	101	13	\$9,706,136	\$1,433,861	\$11,139,997
2023	114	13	\$11,139,997	\$1,433,861	\$12,573,858
2024	127	13	\$12,573,858	\$1,433,861	\$14,007,719
2025	140	13	\$14,007,719	\$1,433,861	\$15,441,580
2026	155	15	\$15,441,580	\$1,654,455	\$17,096,035
2027	170	15	\$17,096,035	\$1,654,455	\$18,750,490
2028	185	15	\$18,750,490	\$1,654,455	\$20,404,945
2029	201	16	\$20,404,945	\$1,764,752	\$22,169,697
2030	217	16	\$22,169,697	\$1,764,752	\$23,934,449

Source: Capitol Market Research, February 2012  
 New unit prices based on Plumb Creek resales in 2011  
 New completions 2014-2030 based on 20% of market area demand

Table (23)  
Townhome/Condominium LSTAR Rail Impact Value Forecast 2011-2030  
Northern Hays County (Kyle) Station Area

Year	Total Units	New Completions	Existing Unit Value	Value of new units	Total Inventory Value
2011	0	0	\$0	\$0	\$0
2012	0	0	\$0	\$0	\$0
2013	0	0	\$0	\$0	\$0
2014	19	19	\$0	\$2,095,643	\$2,095,643
2015	39	20	\$2,095,643	\$2,205,940	\$4,301,583
2016	60	21	\$4,301,583	\$2,316,237	\$6,617,820
2017	82	22	\$6,617,820	\$2,426,534	\$9,044,354
2018	104	22	\$9,044,354	\$2,426,534	\$11,470,888
2019	127	23	\$11,470,888	\$2,536,831	\$14,007,719
2020	150	23	\$14,007,719	\$2,536,831	\$16,544,550
2021	175	25	\$16,544,550	\$2,757,425	\$19,301,975
2022	201	26	\$19,301,975	\$2,867,722	\$22,169,697
2023	227	26	\$22,169,697	\$2,867,722	\$25,037,419
2024	254	27	\$25,037,419	\$2,978,019	\$28,015,438
2025	281	27	\$28,015,438	\$2,978,019	\$30,993,457
2026	311	30	\$30,993,457	\$3,308,910	\$34,302,367
2027	341	30	\$34,302,367	\$3,308,910	\$37,611,277
2028	372	31	\$37,611,277	\$3,419,207	\$41,030,484
2029	403	31	\$41,030,484	\$3,419,207	\$44,449,691
2030	435	32	\$44,449,691	\$3,529,504	\$47,979,195

Source: Capitol Market Research, February 2012  
 New unit prices based on Plumb Creek resales in 2011  
 New completions 2014-2030 based on 40% of market area demand

compsite\_condo\_kyle.xls

## ***Retail Demand Projection Based on Market Area Growth***

The demand for retail *space* is a function of the demand for retail goods and services, and growth in this demand is fundamentally based upon population increase and growth in disposable income. Thus, the two most important demographic components of demand are population growth and changes in the income of the market area households.

Given the location of the Kyle Station in the Northern Hays County market area and the anticipated increase in housing stock in the market area, it seems reasonable to expect more neighborhood serving restaurants and “specialty” retail to be developed near the station. The regional (MSA) growth in the inventory and relatively high occupancy rates for retail space noted in earlier sections demonstrates a continuing and substantial need for more retail within the region, and with the demand for retail services in the market area already well established, it is likely that the Northern Hays County (Kyle) Station area will capture a reasonable share of the projected growth.

Under the “Baseline” scenario established by the apartment and condo demand forecasts, the study area households are expected to add 1,095 households from 2012 through 2030. CMR estimates that total disposable income in the area will increase to \$100 million through 2030 while individual household income increases 50.7%. In addition, sales per square foot are expected to increase by 56.0% during the same period resulting in a net demand for new space of 96,257 sq. ft. over a 20-year period.

Under the “LSTAR Rail Impact” scenario established by the apartment and condo demand forecasts, the study area households are expected to increase to 1,972 by 2030. CMR estimates that total disposable income in the area will increase to \$180 million through 2030 while individual household income increases 50.7%. In addition, sales per square foot are expected to increase by 56% during the same period resulting in a net demand for new space of 173,329 sq. ft. over an 18-year period.

It is important to note that the calculations of retail demand shown above have isolated the local/neighborhood demand derived from household growth in the station area, from “regional” demand for retail at this location which results from the proximity to the rail station in Kyle.



Table (24)  
**Demand for Retail Space**  
Northern Hays County (Kyle) Station Area  
Baseline Forecast

	Year	Households	Average HH Income	Disposable Income	Consumer Expenditures	Gross Sales per Sq. Ft.	Demand for Retail Space	Annual Change
Actual	2000	0	\$62,888	\$0	\$0	\$250	0	.....
	2001	0	\$69,081	\$0	\$0	\$250	0	0
	2002	0	\$75,914	\$0	\$0	\$250	0	0
	2003	0	\$71,430	\$0	\$0	\$250	0	0
	2004	0	\$71,430	\$0	\$0	\$250	0	0
	2005	0	\$71,857	\$0	\$0	\$255	0	0
	2006	0	\$73,779	\$0	\$0	\$258	0	0
	2007	0	\$73,992	\$0	\$0	\$261	0	0
	2008	0	\$73,779	\$0	\$0	\$264	0	0
	2009	0	\$78,263	\$0	\$0	\$267	0	0
	2010	0	\$78,797	\$0	\$0	\$270	0	0
2011	0	\$79,971	\$0	\$0	\$277	0	0	
Forecast	2012	0	\$81,815	\$0	\$0	\$284	0	0
	2013	32	\$83,701	\$1,973,423	\$907,775	\$291	3,122	3,122
	2014	75	\$85,630	\$4,741,390	\$2,181,040	\$298	7,318	4,196
	2015	119	\$87,604	\$7,707,685	\$3,545,535	\$305	11,606	4,288
	2016	168	\$89,623	\$11,128,990	\$5,119,335	\$313	16,350	4,743
	2017	218	\$91,689	\$14,789,373	\$6,803,111	\$321	21,197	4,848
	2018	269	\$93,803	\$18,701,363	\$8,602,627	\$329	26,150	4,953
	2019	322	\$95,965	\$22,878,045	\$10,523,901	\$337	31,210	5,060
	2020	376	\$98,177	\$27,333,085	\$12,573,219	\$346	36,378	5,168
	2021	437	\$100,440	\$32,508,653	\$14,953,980	\$354	42,211	5,833
	2022	499	\$102,755	\$38,023,002	\$17,490,581	\$363	48,167	5,956
	2023	563	\$105,124	\$43,893,359	\$20,190,945	\$372	54,248	6,080
	2024	629	\$107,547	\$50,137,702	\$23,063,343	\$382	60,454	6,206
	2025	696	\$110,026	\$56,774,796	\$26,116,406	\$391	66,787	6,333
	2026	772	\$112,562	\$64,402,452	\$29,625,128	\$401	73,912	7,125
	2027	850	\$115,157	\$72,505,440	\$33,352,502	\$411	81,182	7,270
	2028	929	\$117,811	\$81,107,339	\$37,309,376	\$421	88,598	7,416
	2029	1,011	\$120,527	\$90,322,059	\$41,548,147	\$432	96,257	7,659
	2030	1,095	\$123,305	\$100,090,061	\$46,041,428	\$442	104,066	7,808
	<b>Total</b>							

Source: Capitol Market Research, February 2012

- (1) 2001-2011 Households based on new construction of housing in the market area
- (2) 2012-2030 based on estimated demand for new housing shown in previous sections
- (3) 2001-2011 Average income based on HUD annual increases in Median HH Income for Hays County
- (4) Disposable Income is assumed to be 79.2% of total, based on the BLS, 2008 Consumer Expenditure Survey, survey of all consumer units
- (5) Retail purchases are estimated to be 64.5% of disposable income
- (6) Average HH Income increase assumed to average 2.31% per year

New Retail Demand\_Kyle.xls

Table (25)  
**Demand for Retail Space**  
Northern Hays County (Kyle) Station Area  
Forecast Including LSTAR Rail

	Year	Households	Average HH Income	Disposable Income	Consumer Expenditures	Gross Sales per Sq. Ft.	Demand for Retail Space	Annual Change
Actual	2000	0	\$62,888	\$0	\$0	\$250	0	.....
	2001	0	\$69,081	\$0	\$0	\$250	0	0
	2002	0	\$75,914	\$0	\$0	\$250	0	0
	2003	0	\$71,430	\$0	\$0	\$250	0	0
	2004	0	\$71,430	\$0	\$0	\$250	0	0
	2005	0	\$71,857	\$0	\$0	\$255	0	0
	2006	0	\$73,779	\$0	\$0	\$258	0	0
	2007	0	\$73,992	\$0	\$0	\$261	0	0
	2008	0	\$73,779	\$0	\$0	\$264	0	0
	2009	0	\$78,263	\$0	\$0	\$267	0	0
	2010	0	\$78,797	\$0	\$0	\$270	0	0
2011	0	\$79,971	\$0	\$0	\$277	0	0	
Forecast	2012	0	\$81,815	\$0	\$0	\$284	0	0
	2013	56	\$83,701	\$3,453,491	\$1,588,606	\$291	5,464	5,464
	2014	132	\$85,630	\$8,392,611	\$3,860,601	\$298	12,954	7,490
	2015	212	\$87,604	\$13,748,107	\$6,324,129	\$305	20,702	7,748
	2016	299	\$89,623	\$19,857,594	\$9,134,493	\$313	29,173	8,471
	2017	389	\$91,689	\$26,458,906	\$12,171,097	\$321	37,923	8,750
	2018	482	\$93,803	\$33,509,346	\$15,414,299	\$329	46,856	8,934
	2019	578	\$95,965	\$41,103,227	\$18,907,485	\$337	56,073	9,217
	2020	676	\$98,177	\$49,196,945	\$22,630,595	\$346	65,478	9,405
	2021	785	\$100,440	\$58,453,089	\$26,888,421	\$354	75,900	10,422
	2022	898	\$102,755	\$68,386,687	\$31,457,876	\$363	86,632	10,733
	2023	1,014	\$105,124	\$78,955,538	\$36,319,547	\$372	97,581	10,949
	2024	1,133	\$107,547	\$90,271,210	\$41,524,757	\$382	108,845	11,264
	2025	1,255	\$110,026	\$102,290,947	\$47,053,836	\$391	120,330	11,485
	2026	1,391	\$112,562	\$116,019,784	\$53,369,101	\$401	133,151	12,821
	2027	1,530	\$115,157	\$130,596,429	\$60,074,357	\$411	146,224	13,073
	2028	1,674	\$117,811	\$146,149,983	\$67,228,992	\$421	159,648	13,424
	2029	1,821	\$120,527	\$162,640,768	\$74,814,753	\$432	173,329	13,681
	2030	1,972	\$123,305	\$180,205,756	\$82,894,648	\$442	187,364	14,035
<b>Total</b>								<b>173,329</b>

Source: Capitol Market Research, February 2012

- (1) 2001-2011 Households based on new construction of housing in the market area
- (2) 2012-2030 based on estimated demand for new housing shown in previous sections
- (3) 2001-2011 Average income based on HUD annual Increases In Median HH Income for the Austin MSA
- (4) Disposable income is assumed to be 79.2% of total, based on the BLS, 2008 Consumer Expenditure Survey, survey of all consumer units
- (5) Retail purchases are estimated to be 64.5% of disposable income
- (6) Average HH income increase assumed to average 2.31% per year

New Retail Demand\_Kyle.xls

## *Summary and Conclusions*

The preceding data and analysis show that the provision of passenger rail service connected to a commuter rail network will have a significant impact on property values in the Northern Hays County (Kyle) Station area. Specifically, the analysis focuses on 454 acres located ¼ mile from the Kyle station. The analysis assumes high frequency level of service on the LSTAR passenger rail line as a part of the development of a comprehensive urban rail network which will serve the Austin to San Antonio rail corridor.

The impact of this proposed LSTAR Rail service can be evaluated based on the increased accessibility that is offered to properties within walking distance (1/4 mile) from the proposed station locations. A literature review conducted for this study (see bibliography in the Appendix) shows substantial and measurable impacts on property values within walking distance from a passenger rail station. The evaluation methodology follows five steps. First, current land use and property values for the 454 acre Northern Hays County (Kyle) Station area were determined. Second, projects within the station area that were under construction in 2011 and 2012 were identified and ascribed values. Third, a baseline forecast of expected office, multi-family, and condominium absorption was prepared, without considering the impact of the Passenger rail station. Then, an absorption forecast that takes into account the potential impact of the LSTAR rail on absorption and values was prepared. Finally, an estimate of the demand for retail services was calculated based on the anticipated increase in the number of market area households, with and without the LSTAR rail service.

The results show that currently there is a very small base of \$14.7 million in “taxable” value in the study area. This station area is clearly a “green field” where 93% of the land is vacant. Currently, there are no new projects under construction in the Kyle station area. The baseline (no LSTAR rail) forecast for new office, apartment and condominium construction will add another \$115 million in assessed value (between 2011 and 2030), due to increases in occupancy and new construction anticipated in the area. In addition, the impact of the LSTAR Rail will add at least \$87.8 million in additional assessed value, mostly from new construction and an acceleration of the development of the parcels that surround the proposed station location.

These results show a substantial growth in the tax base of the study area and overall a 67.6% increase in assessed value over the “baseline” growth, as a result of adding the LSTAR passenger rail service which connects with the rail network plans for Travis County.

It is important to note that this LSTAR rail forecast assumes that the vacant land and existing lower density land uses and vacant lots in the Northern Hays County (Kyle) Station area will be replaced with higher density retail, office, apartment and condominium uses and that approximately 326.02 (net) acres of vacant and underutilized land will be available for new development in the station area.

The implementation of an LSTAR passenger rail line has the ability to directly affect the development of a region in a number of ways, creating benefits for workers and other users who no longer have to contend with new transit riders who were previously on the highway. At the same time, the LSTAR rail contributes to the attractiveness of the region for the type of skilled worker in a knowledge-based economy that Austin seeks to retain and attract. Moreover, there are economic and fiscal impacts associated with the construction of passenger rail-stimulated real estate in the station area, as millions of dollars in economic activity and local tax revenues can be attributed to the presence of an LSTAR passenger rail service.

Table (26)  
**Comparison of Values With New Construction & LSTAR Rail Influence**  
 Northern Hays County (Kyle) Station Area

Year	Current Base Value	Base Plus Value of Projects Under Construction	Base, UC. Plus Value of Future Office & Residential	Base, UC Plus Value of Future Office & Residential with LSTAR Rail Influence
2011	\$14,674,850	\$14,674,850	\$14,674,850	\$14,674,850
2012	\$14,674,850	\$14,674,850	\$14,674,850	\$14,674,850
2013	\$14,674,850	\$14,674,850	\$17,163,025	\$17,163,025
2014	\$14,674,850	\$14,674,850	\$20,839,267	\$21,831,940
2015	\$14,674,850	\$14,674,850	\$24,601,965	\$32,488,489
2016	\$14,674,850	\$14,674,850	\$30,186,527	\$42,292,312
2017	\$14,674,850	\$14,674,850	\$35,580,759	\$51,814,614
2018	\$14,674,850	\$14,674,850	\$40,996,607	\$61,496,989
2019	\$14,674,850	\$14,674,850	\$46,651,644	\$71,396,262
2020	\$14,674,850	\$14,674,850	\$52,337,839	\$81,472,252
2021	\$14,674,850	\$14,674,850	\$58,564,194	\$92,511,982
2022	\$14,674,850	\$14,674,850	\$65,092,995	\$104,150,209
2023	\$14,674,850	\$14,674,850	\$71,988,153	\$116,205,125
2024	\$14,674,850	\$14,674,850	\$79,094,119	\$128,717,584
2025	\$14,674,850	\$14,674,850	\$86,415,944	\$141,585,302
2026	\$14,674,850	\$14,674,850	\$94,565,105	\$155,822,365
2027	\$14,674,850	\$14,674,850	\$102,955,136	\$170,567,021
2028	\$14,674,850	\$14,674,850	\$111,591,639	\$185,717,871
2029	\$14,674,850	\$14,674,850	\$120,480,331	\$201,394,279
2030	\$14,674,850	\$14,674,850	\$129,737,340	\$217,495,190

Source: Hays Central Appraisal District, 2011 Tax Roll; City of Kyle emerging projects 2011  
 Forecasts Prepared by Capitol Market Research, February 2012

New Development Kyle.xls

Figure (42)

**Comparison of Values With New Construction & LSTAR Rail Influence**

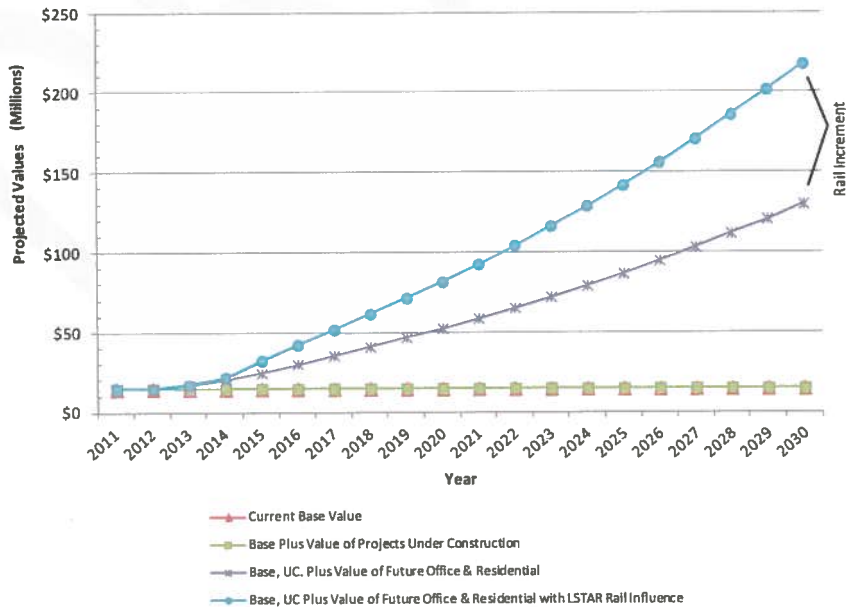


Table (27)  
**Comparison of Values With New Construction & LSTAR Rail Influence**  
 Northern Hays County (Kyle) Station Area  
 2.5% Inflation

Year	Current Base Value	Base Plus Value of Projects Under Construction	Base, UC. Plus Value of Future Office & Residential	Base, UC Plus Value of Future Office & Residential with LSTAR Rail Influence
2011	\$14,674,850	\$14,674,850	\$14,674,850	\$14,674,850
2012	\$14,674,850	\$15,041,721	\$15,041,721	\$15,041,721
2013	\$14,674,850	\$15,417,764	\$18,031,904	\$18,031,904
2014	\$14,674,850	\$15,803,208	\$22,441,611	\$23,510,611
2015	\$14,674,850	\$16,198,289	\$27,155,966	\$35,861,213
2016	\$14,674,850	\$16,603,246	\$34,153,285	\$47,849,869
2017	\$14,674,850	\$17,018,327	\$41,262,772	\$60,089,067
2018	\$14,674,850	\$17,443,785	\$48,732,083	\$73,100,594
2019	\$14,674,850	\$17,879,880	\$56,840,499	\$86,989,412
2020	\$14,674,850	\$18,326,877	\$65,362,789	\$101,747,679
2021	\$14,674,850	\$18,785,049	\$74,967,120	\$118,423,158
2022	\$14,674,850	\$19,254,675	\$85,407,650	\$136,654,100
2023	\$14,674,850	\$19,736,042	\$96,816,063	\$156,282,974
2024	\$14,674,850	\$20,229,443	\$109,032,116	\$177,438,611
2025	\$14,674,850	\$20,735,179	\$122,103,466	\$200,056,325
2026	\$14,674,850	\$21,253,558	\$136,958,468	\$225,677,245
2027	\$14,674,850	\$21,784,897	\$152,837,478	\$253,207,702
2028	\$14,674,850	\$22,329,520	\$169,799,876	\$282,591,704
2029	\$14,674,850	\$22,887,758	\$187,908,198	\$314,106,343
2030	\$14,674,850	\$23,459,952	\$207,404,623	\$347,698,726

Source: Travis Central Appraisal District, 2010 Tax Roll; City of Austin Site Plans filed 2005-2010  
 Forecasts Prepared by Capitol Market Research, February 2012

New Development Kyle.xls

Figure (43)

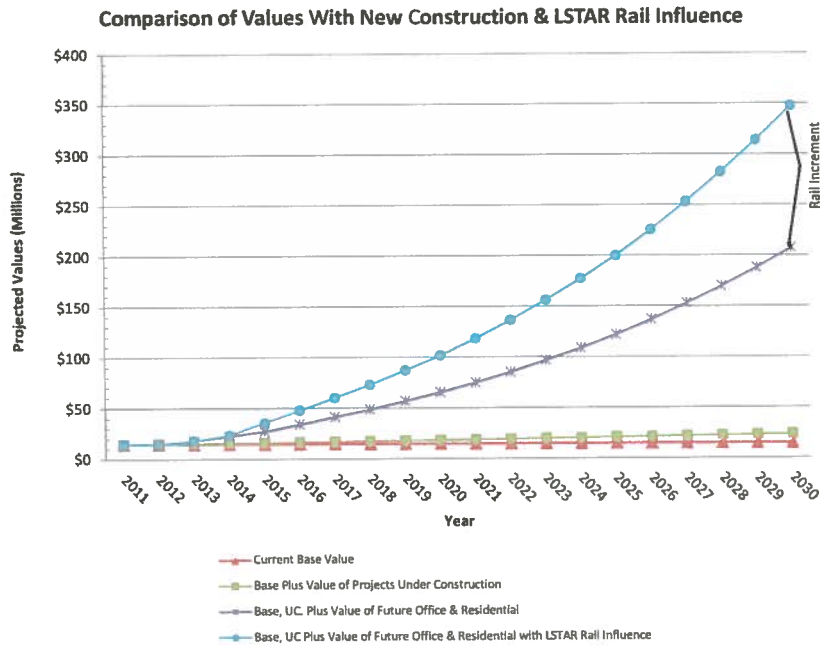


Table (28)  
Northern Hays County (Kyle) Station Area Tax Revenue Comparisons

Year	Current Base Value Tax Revenues (1)	Base Plus Value of Projects Under Construction (2)	Base, UC. Plus Value of Future Office & Residential (3)	Base, UC Plus Value of Future Office & Residential with LSTAR Rail Influence (4)	Total Tax Revenues Available from TIF (4 minus 1) (5)	Total Tax Revenues LSTAR Influence (4 minus 3) (6)
2011	\$71,100	\$71,100	\$71,100	\$71,100	\$0	\$0
2012	\$71,100	\$72,877	\$72,877	\$72,877	\$1,777	\$0
2013	\$71,100	\$74,699	\$87,365	\$87,365	\$16,265	\$0
2014	\$71,100	\$76,567	\$108,730	\$113,909	\$42,809	\$5,179
2015	\$71,100	\$78,481	\$131,571	\$173,748	\$102,648	\$42,177
2016	\$71,100	\$80,443	\$165,473	\$231,833	\$160,733	\$66,360
2017	\$71,100	\$82,454	\$199,918	\$291,132	\$220,032	\$91,213
2018	\$71,100	\$84,515	\$236,107	\$354,172	\$283,073	\$118,065
2019	\$71,100	\$86,628	\$275,392	\$421,464	\$350,364	\$146,071
2020	\$71,100	\$88,794	\$316,683	\$492,968	\$421,868	\$176,285
2021	\$71,100	\$91,014	\$363,216	\$573,760	\$502,661	\$210,545
2022	\$71,100	\$93,289	\$413,800	\$662,089	\$590,989	\$248,289
2023	\$71,100	\$95,621	\$469,074	\$757,191	\$686,091	\$288,117
2024	\$71,100	\$98,012	\$528,261	\$859,690	\$788,590	\$331,429
2025	\$71,100	\$100,462	\$591,591	\$969,273	\$898,173	\$377,682
2026	\$71,100	\$102,973	\$663,564	\$1,093,406	\$1,022,307	\$429,842
2027	\$71,100	\$105,548	\$740,498	\$1,226,791	\$1,155,692	\$486,294
2028	\$71,100	\$108,187	\$822,680	\$1,369,157	\$1,298,057	\$546,476
2029	\$71,100	\$110,891	\$910,415	\$1,521,845	\$1,450,746	\$611,430
2030	\$71,100	\$113,663	\$1,004,875	\$1,684,600	\$1,613,501	\$679,725
<b>Total</b>	<b>\$1,421,993</b>	<b>\$1,816,216</b>	<b>\$8,173,188</b>	<b>\$13,028,369</b>	<b>\$11,606,376</b>	<b>\$4,855,181</b>

Source: Hays County Appraisal District, 2011 Tax Roll; City of Kyle Emerging Projects December 2011

Forecasts Prepared by Capital Market Research, February 2012

Assumes tax rate remains constant at \$0.4845

New Development Kyle.xls

**APPENDIX**

DRAFT

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## ***Certificate***

The undersigned do hereby certify that, except as otherwise noted in this market/feasibility report:

We certify that we have personally inspected the aforementioned subject property, and that our fee is in no way contingent upon the determination of feasibility reported herein.

We have no present or contemplated future interest in the real estate that is the subject of this report.

To the best of our knowledge and belief the statements of fact contained in this report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct.

This report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.

Recognition is hereby given to Elizabeth Smith, Lindsey Fivecoat, Erin Roberts, Erin Framel and Derek Villemez for their assistance in the preparation of this report.

No one other than the undersigned prepared the analyses, conclusions and opinions concerning the real estate that are set forth in this report.

Respectfully submitted,

**CAPITOL MARKET RESEARCH, INC.**

**DRAFT**

Charles H. Heimsath, AICP  
President

## **CHARLES H. HEIMSATH: QUALIFICATIONS**

Charles H. Heimsath graduated from The University of Texas in 1976 with a Master of Science degree in City Planning. He has been active in the real estate market since 1976 in the areas of commercial and residential brokerage, market and feasibility studies, and real estate research. Prior to his association with Capitol Market Research, Mr. Heimsath was a senior project manager in charge of feasibility/market research with an appraisal firm, R. Robinson & Associates, Inc., Austin, Texas. Between 1980 and 1983 he was responsible for managing the real estate research division at the Rice Center in Houston.

Since moving to Austin in February 1984, Mr. Heimsath has conducted or managed over 300 market research and feasibility projects covering a range of property types from residential and mixed-use subdivisions through office/warehouse and service center space to downtown office buildings. His work has also included population forecasting for several cities, consultation to the General Land Office, The University of Texas System, and an assessment of the economic and land use impacts of closing Bergstrom Air Force Base.

### **EDUCATION**

B.S. in Economics, University of Vermont, Burlington, Vermont; June 1972  
M.S. in Community and Regional Planning, The University of Texas, Austin, Texas; August 1976  
Post Graduate Studies, Rice University, Houston, Texas; 1980, 1981

### **PROFESSIONAL MEMBERSHIPS & CERTIFICATIONS**

American Institute of Certified Planners, AICP  
American Planning Association  
Real Estate Council of Austin, former Board member  
Texas Real Estate Broker #188355-13  
Urban Land Institute  
Downtown Austin Alliance, Board member

### **PROFESSIONAL EXPERIENCE**

Capitol Market Research, Inc., President: Project feasibility analysis, market studies, economic impact analysis and demographic forecasting. June 1986 - Present

R. Robinson & Associates, Project Manager: Real estate research, market and demographic studies, land-use forecasting: February 1984 - June 1986

South Main Center Assoc., Associate Director: Construction management, office administration, policy development, community outreach: February 1983 - February 1984

Rice Center, Senior Associate: Senior project manager responsible for real estate research, urban development and economic forecasting: October 1978 - February 1983

Mayor's Office, City of Houston, Urban Economist: Responsible for preparing the Overall Economic Development Plan (OEDP) for Houston: October 1976 - October 1978