Thesis in Senior Living

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Executive Summary

I have identified an opportunity to develop market rate seniors housing in Irving, Texas. The site is currently owned by the Trinity Broadcast Network (“TBN”), which owns 40 television stations around the world. TBN is based near my home town of Irvine, California.

The idea for seniors housing on this site started when a project in my home town provided a faith based senior housing community, it was developed by a Christian organization. The development has been very successful and I believe that there is a niche market that demands this type of housing.

I acquired the subject site information through the web resources provided by TBN and identified approximately 3 acres of unused land. This encouraged me to explore the opportunity of developing a seniors housing community on this site. By developing this community, TBN would have direct access to the residents to participate in the television programs conducted on the subject site.

Based on the work performed, I concluded the following:

Proposed Development

- 250 market rate senior apartments.

Market Research Conclusions

- Significant demand for a 250-unit senior apartment community.
- 8% capture rate of the income qualified senior population in the primary market area.
- No significant competition in the area and no new senior apartments being developed.
• The senior market is growing at a faster pace than that of the country as a whole, with significant growth projected in the next ten to fifteen years.

• Pricing for the apartments will start at $1,569 per month for a one-bedroom unit and $1,951 per month for a two-bedroom unit.

• There is significant added value for creating a spiritually, service enriched environment that will promote peace of mind, well being, and independence for the prospective residents and their families.

• Significant marketing benefits from the association with Trinity Broadcasting Network.

Financial Feasibility

There is significant support for the financial viability of the proposed community based on preliminary project cost analysis, proposed rental rates, operating cash flow at stabilization, and an overall financial return analysis.

The investor will receive an internal rate of return of 20% in a seven year period. The unleveraged return, measured by total construction costs divided by the stabilized NOI, is 8%. By refinancing the property in year 3, the IRR is increased to 23%. The assumptions used are the following:

• Financing
  
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<thead>
<tr>
<th></th>
<th>Amount</th>
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<tbody>
<tr>
<td>Equity</td>
<td>$12.7 million</td>
</tr>
<tr>
<td>Debt</td>
<td>$38.2 million</td>
</tr>
<tr>
<td>Project Costs</td>
<td>$50.9 million</td>
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• Refinance in year 3 generating $8.9 million in proceeds.

• Reversion in year 7 based on year 8 NOI, generating $35.8 million in proceeds.
Site Description

The subject site is located in Irving, Texas. Currently the 2.87 acre site is under utilized by a single television station, creating an unique development opportunity. The site location is ideal for senior housing, it is within a close proximity to services. The project involves cooperation from the local television station. With the proper planning, live audience television programs can be used as a marketing tool for the proposed project. The close proximity to the television station can increase the demand for the proposed project.

Independent Seniors Housing

I determine that a market-rate apartment community for seniors is the highest and best use for the site. The different types of independent seniors housing that were considered for this site includes: market-rate and affordable apartment communities, for-sale condominium communities. The comprehensive analysis of the highest and best use includes: industry trends, demographic data, financial projections, market supply and demand.
Product Description

I will develop, build, and operate quality apartment communities for senior living. Although these communities will essentially look and feel like traditional Class A apartment homes, they are operated in a dramatically unique and different manner. Through my educational and entrepreneurial experiences of providing services and housing to seniors, I have developed a keen understanding of resident needs, desires, wants, wishes, hopes and dreams. I have developed my concept around this understanding of the senior 65+ markets.

Service drives the senior housing product because, unlike traditional multi-family housing, most residents spend a significant amount of time in the apartment community. I add value to the product by providing access to services, activities, community involvement opportunities, and informational resources at a minimum or no cost.

My concept of developing and operating quality apartment communities for senior living is centered on helping seniors live the lives they want to live. I will develop and tailor a broad based menu of services, activities, supportive informational resources, and community involvement opportunities. Networking with existing local and regional resources allows the staff to serve as a “gate keeper” for residents and their families. On-site resident services coordinator, linkage with community volunteers, and local community service staff allows me to provide access to these services, activities, informational resources, and other opportunities to satisfy the needs of the senior residents at a minimum cost to them and their families. This adds significant value for residents and increases customer satisfaction, which will allow me to increase revenues.
**Key Concept**

Most of us are keenly aware of the resistance of seniors to live in traditional supportive senior housing, historically and collectively often referred to as “Retirement Homes”. My quality apartment community, is designed with these feelings and facts in mind.

Over the last 20 years our society has experienced a significant shift in medical care and non-medical personal care for seniors away from high cost institutional environments to lower cost socially more acceptable models. Today seniors are discharged quickly from hospitals, even after major surgery. Assisted living facilities have grown into a national industry due to this trend. I believe this trend will continue; allowing residents to live in their own homes, apartments, and other current living arrangements if they need non-medical personal care services. Many states are now considering portable vouchers for “assisted living” services that will allow seniors the benefits of Medicare reimbursement without moving into a skilled nursing or assisted living facility.
Most senior apartment complexes have been targeted to lower income senior citizens. Many of these were financed since the mid-1960’s by HUD, and more recently, with low income housing tax credits and tax exempt bonds. These properties usually experienced rapid lease-ups and maintain high occupancies, and most have extensive waiting lists.

Recently, there are a few scattered developers in regional areas around the country who have built senior market rate apartments. Most are not operators and do not offer many services, and lack focus on quality of life issues. Despite this fact, the handful of properties studied in Southern California has experienced rapid lease-ups and maintains high occupancies. I believe that successful marketing and lease-up track record, focus on service, and quality of life enrichment will provide a strong competitive advantage.

The focus is on community relations work early on in the entitlement process that gathers support for the intended use. This community network expands into a service and quality of life program for the tenants. More significantly, this platform acts to launch the marketing and pre-leasing efforts in an extremely efficient and effective proven method.

Traditionally most providers of supportive senior communities such as assisted living, congregate care, or CCRCs have delivered services that are expensive and are resisted by the vast majority of seniors.

For instance, these communities typically offer food services in a central dining room that cost operators from $300 to $400 per month or more per resident. That translates to a customer cost of about $1,000 or more per month per resident. This is why
assisted living and CCRC’s average cost per year to operate are exceeding $30,000 per
resident with rents of $4,000 to $5,000 per month for a 350+ square foot studio.

Most seniors, especially the majority of woman 65+, still like to grocery shop and
cook for themselves. Of course, most also enjoy eating out occasionally with their family
or friends or like to catch an inexpensive meal while on the go.

The program meets this desire by offering the following types of services:

• Grocery delivery service
• Assistance bringing groceries from a resident’s car to their apartment
• Identifying community based meal programs that charge a nominal fee and offer
  nutritious and well-prepared meals in a stimulating social environment. Some of
  these programs such as local senior centers offer free meals if one chooses not to
  pay the nominal charge.
• Other supportive programs include access to nutrition classes, cooking classes,
special dietary educational seminars for diabetics and other special needs
programs like low sodium, low fat, or people trying to reduce their cholesterol.
Many of these programs are offered free of charge by hospitals, non-profit
community based organizations, and senior centers.
• An on-site community holiday and special occasion parties. These events are
  usually catered by outside vendors and hosted by resident hospitality committees.
Residents decorate and set-up for these events with the help of staff or volunteers
and pay for the direct cost of the event, which is usually around five to ten dollars
per person. Sometimes near-by assisted living communities or others will provide
the food free of charge.
Statement of Purpose
I recognize seniors’ desire to:

- Maintain family ties
- Remain self sufficient
- Express independence

I will exceed resident’s expectations and desires through a unique company culture that is focused on customer service and genuine empathy and care of residents.

Mission Statement

- Improve the quality of life for residents and their families by providing a service enriched quality apartment community that promotes independence, dignity, and peace of mind.

Objectives

- Continually improve customer service and satisfaction, which will increase revenues and maintain full occupancy.
- Provide the most efficient and effective service to residents and their families utilizing, whenever possible, community based services at minimal or no cost.

Strategies

- Design and provide functional common area to be used to offer residents opportunities to socialize with their family, friends, community, and others.
- Identify and provide access to opportunities that promote spirituality, wellness, and a sense of community.
- Provide access to supportive informational resources, services, activities, and community involvement opportunities with minimal cost impact to residents.
The urban location will provide access to quality hospital based services, access to public transportation, access to near-by shopping, access to cultural and entertainment opportunities.

The on-site resident services director will coordinate volunteer groups such as woman’s and men’s church groups, intergenerational volunteer opportunities through the schools and colleges and other service organizations, and other service organization support programs.

**Principles of Service**

I will enhance resident quality of life by:

- Providing a positive service enriched environment where residents and their families are served by a caring and well-trained staff.
- Providing access to services that encourage independence
- Involvement with family and friends
- Providing freedom of choice
- Celebrating individuality
- Provide meaningful community involvement
- Serve as a “gate keeper” for residents
Services and Activities

Restatement of resident needs:

- Maintain family ties
- Be self-sufficient
- Remain independent

I strive to create an environment to meet resident needs by creating programs based on:

- Wellness
- Spirituality
- Meaningful community involvement

There are a number of services, activities, informational resources, and community involvement opportunities that will be tailored for each local community. Some examples of these are listed below. The goal is to provide access to these services as a “gate keeper” at a nominal or no cost to residents. Another goal is provide many intergenerational opportunities that will benefit both residents and the young people in the community. Many of the examples listed below will be part of an overall intergenerational program. The internal budget for resident services director, van, and other social activities budgets is based on a monthly service charge of approximately $35 per month per resident. Some services such as housekeeping, escorts for shopping and doctor’s visits, drivers, etc. will be charged on an ala carte basis.
Services

- Grocery delivery
- Housekeeping service
- Assistance with home decorating
- Assistance with moving
- Access to off site meal programs
- Transportation to doctors, meal programs, shopping, doctors, etc.
- Personal escorts and drivers for shopping and doctors visits
- Trips to movies, museums, and other entertainment excursions
- Coordination of free outside transportation services
- Coordination of public transportation services
- Off site storage

Wellness Programs and Activities

- On site health and fitness center equipment with appropriate equipment for seniors
- Lectures on good nutrition and eating habits
- Personal trainers
- Yoga
- Stretch classes
- Access to physical therapy
- Wellness and health lectures
- Support groups
- Family counseling
- Insurance counseling
- Swimming and aerobic classes
- Golf
- Tennis
- Post surgical meal services
- In house home theater- regular movie night
- Health fairs
- Travel slide shows
- Assistance with travel
- Automobile maintenance and service
- Auto detailing
- Medical insurance assistance
- Priority seating at near-by restaurants
- Restaurant food delivery
- Concierge services to purchase tickets
- Catered food assistance
- Assistance bringing groceries or deliveries to apartment
- Dry cleaning services
- Secretarial services
- Assistance with tours and vacation planning
- Cooking classes
- Cards, table games, pool tournaments, etc.
- Walking, running and hiking groups
- Youth group entertainers
- Theater
- Museum visits
- Dances
- Las Vegas nights
- Chamber of commerce involvement
- Interaction with senior centers
- Hospital programs & activities
- Sewing and knitting classes
- Computer classes
- Pet therapy
- Art classes
- History studies
- Educational opportunities
- Holiday and special occasion parties

Spirituality

- Church/synagogue services
- Bible studies
- Support groups
Concept Design Elements
The Development Program

The development process begins with inception of an idea, usually the developer generates an idea for a particular type of project. There are four real estate situations that describe the four general scenarios in real estate. The four situations are:

1) **A site looking for a use**, the most common situation in real estate. A landowner wants to develop his or her land, or an investor buys land, without first deciding on a particular development plan.

2) **A use looking for a site**, a developer identifies a need in a certain area for a specific kind of constructed space. Then the most appropriate site must be found.

3) **Capital looking for an investment opportunity**, an investor has cash and needs to invest.

4) **An existing development**, an existing structure may be converted to a new use or be “redeveloped.”

Although all four situations are common in the real world, the second situation is the most efficient way to turn ideas into reality. The site looking for use, the first situation, is in some sense “putting the cart before the horse.” The developer reflects on the type of tenants who might be interested in the projected space and the possible sources of financing.

Generating an idea is the most creative aspect of the real estate industry. By reading, looking, listening, and thinking, the developer finds new combinations of place, built space, and services to satisfy consumers’ needs. When combined with the broad market concept with the long development process, it can be said that the developer
anticipates what new space consumers will want in the future and convinces the market that his space is the best way to meet their needs.

After the idea passes the initial thought process it must undergo testing. Zoning has to be checked or that the appropriate rezoning is possible, the entitlement process must be examined. Through the consultation of a Political Consultant, it has been determined that the proper entitlement shall be achieved through a Specific Plan. The other option is to apply for an amendment to the General Plan, which is more time consuming.

With a Specific Plan, the time spent designing the building are concurrent with the re-zoning process. Although this creates more risk for the developer, because all working drawings must be submitted in order to obtain the Specific Plan approval.

An amendment to the General Plan can take nine (9) months and then working drawings must be submitted and approved, which takes another six (6) months. In comparison, the Specific Plan is estimated to take approximately nine (9) months to obtain zoning approval and working drawing approval. The benefit to the developer is that there is less holding cost for the land, if a land loan is being utilized. In the event that a land loan is not being utilized, the other benefit to the developer is that with some certainty that the project is of interest to the governing body, then the developer spends less time doing the same amount of work required for the amendment to the General Plan.

Additionally, there must be access to appropriate transportation corridors. After passing the initial test of idea refinement, the developer must “tie-up” the land. At this stage in the development process, the developer is leery of committing large sums of
money to land that may not end up being developed. For this development I assume a purchase price of $7,000,000 for the land. Based on creative purchase agreements that I have structured in the past, I have developed the following terms for the proposed development (these terms are represented on Exhibit G):

- Due Diligence- 60 days, $25,000 refundable note
- Extension of Due Diligence- 30 days, $75,000 refundable note
- 2nd Extension of Due Diligence- 30 days, $100,000 refundable note
- Entitlement Period- 360 days- $300,000 refundable note
- Additional Payment- based on positive feedback from the governing agency, a $50,000 non-refundable payment will be made to the seller.
- Extension of Entitlement Period- 60 days- $500,000 refundable note
- When the Construction Loan closes, the seller will repay the one million dollar note and I will pay the seller $6,950,000.

The next step is to determine physical feasibility and prepare an architectural layout. The developer will arrange for soil tests to determine the load-bearing capacity of the ground, examine the grade and configuration of the site, and consider any other unique physical characteristics. The developer’s architect determines whether the general type of size of the envisioned project can be placed on the site. Appearance and function are important not only to the marketability, but also to the developer’s relationship with the partner and the local governing body.

The formal feasibility study is the next process to begin. The developer will use regional and urban economic data to study the market prospects for the chosen product. Preliminary drawings will be made, trading off an aesthetic market appeal against the
cost of the particular project. From the preliminary drawings, more refined construction cost estimates will be made.

At this point, discussions with both permanent and construction lenders will become more specific. A developer lacking the necessary contacts may retain a mortgage banker to facilitate these discussions. Based on the costs projected in the preliminary drawings as well as the estimate of market demand for the development, the feasibility study is completed, permitting a more refined cost and value statement to the developer that more rigorously determines the economics of the development. The developer has incurred cost and still has the option to abandon the development.

The contract negotiations stage is the point written agreements are entered into with all the key participants in the project. On the financial side, a permanent loan commitment will usually be obtained. The permanent lender, relying on the developer’s feasibility study as well as on its own analysis and appraisal of the site and project, agrees by this commitment to make a loan if the project is built according to plans and specifications. The developer will then take the permanent loan commitment to a potential construction lender. After convincing the construction lender that the project is likely to be completed on time according to plans and specifications, the developer obtains a construction loan, to be funded in stages as the project is built.

This is the point the developer must decide on how to retain the general contractor. In most private construction situations, contracts are negotiated because not all the plans are complete when the general contractor is hired.
At this stage, the developer must also decide whether to attempt pre-leasing. If pre-leasing is effective, then financing will be easier to obtain. Finally, if the debt and equity monies can’t be raised, then the project may still be canceled.

The commitment point is when the contracts negotiated are signed, or conditions required to make them effective are satisfied. Contracts negotiated in the contract negotiation stage may be contingent on other contracts; for example, the permanent loan commitment may be contingent on a specific pre-leasing benchmark.

In the next stage, the partnership or joint-venture agreement is closed. The construction contract is signed with the general contractor.

A detailed construction budget is created, based on the agreements negotiated earlier. Cash control is maintained through construction loan draw procedures. Time control is established by scheduling the work of the different contracts in a critical path method. This operations research technique allows the decision maker to identify and focus on the “critical path.” Thus, the greatest attention can be directed to those activities which, if delayed, will delay the final completion of the project.

The construction period is when the structure is being built, based on comparable construction schedules I assume that the project will take fifteen (15) months to build. I have based my construction numbers off of comparable developments, these are represented in Exhibit O. At this point, the developer’s emphasis switches from stressing minimal financing exposure (in the event the project does not go forward) to seeking to reduce the construction time during which he experiences maximum financial exposure. The commitment point is past, and now the developer will be called on to function more as a manager and less as promoter.
Periodically during construction, the subcontractors submit bills or vouchers for their costs to the general contractor, who submits the total to the developer. The developer adds his soft-dollar costs (insurance, interest, marketing, etc.) to the hard-dollars costs and sends a draw request to the commercial bank. The commercial bank funds the loan according to the loan agreement executed in the previous stage by placing funds in the developer’s bank account. The developer writes a check to the general contractor, and the general contractor pays the subcontractors.

The construction lender is protected by having the general contractor’s work approved by either the architect or the construction manager in order to make sure that it has been done according to plans and specifications. Furthermore, a portion of the payments due the general contractor and the subcontractors, approximately ten percent, will be withheld. This practice, known as retainage, is intended to protect the lender (and developer) against incomplete or defective work. The retained sums are paid after the architect or construction manager certifies that the project has been competed in accordance with the plans and specifications.

The construction manager, marketing representative and financial officer- all members of the development team- work closely together during this stage. The construction manager must be sure that the project is being built according to plans and specifications and on time. The marketing representative must see to it that pre-leased future residents are receiving what they expected and any remaining space is being leased or sold. The financial officer is the coordinator between the construction process and the marketing function on one side and the sources of financing on the other. The finalcial officer transmits the draw request from the construction manager and supervises banking
relations. At the same time, they approve adjustments that must be made to reflect the realities of the marketplace as described by the marketing representative.

Initiation of operations occurs when the construction is completed and the operating personnel are brought on the scene. Pre-leasing, advertising and promotion take place, utilities are connected, municipal requirements such as inspections and certificate of occupancy are satisfied, and the residents move in.

On the financial side, the permanent loan is closed and the construction loan is paid off. Unless the developer is keeping the property as an investment, long term equity interests take over from the developer, and the formal opening is held.

Finally, asset management includes all facets of maintaining, releasing, and repositioning the asset in the marketplace over its economic life. To do this well in the best of times is a challenge. In today’s overbuilt seniors housing markets, the capacity for quality asset management may be the critical ingredient in financing and initially leasing any new seniors housing development.

**Development Team**

**Developer**

I will be the developer and will be responsible for providing all the support necessary to enable the Partnership to successfully develop the site. This support will include, but will not be limited to: organizational, financial and management support. I will hire the people necessary to make my firm successful.
Investor

The investor and will be responsible for providing a high percent of the equity needed for the deal. In return for the equity investment, the investor will receive a stream of returns from operations and capital events. One of the many potential investors for this product is AEW Capital Management, L.P. (“AEW”). AEW was formed in 1981 as a real estate investment advisory firm, providing investment management and related services to institutional investors and other owners of commercial properties and portfolios. Grounded in research and experienced in the complexities of the real estate and capital markets, AEW seeks to be clients’ most trusted and effective advisor - offering innovative solutions to needs, adding value to portfolios, and consistently exceeding expectations for service and performance.

AEW currently manages approximately $19.4 billion in capital, which is invested in over $27 billion of property and securities in the United States, Canada, and Europe. Clients include many leading public and private retirement programs, university endowments, foundations and Taft Hartley plans, as well as international and private investors, and government entities.

AEW offers a range of investment services designed to match client capital with real estate market opportunity. AEW is today one of the world’s largest investors of real estate capital and managers of real estate portfolios. Our investment strategies share a strong value orientation and have a common goal of providing the highest level of return for each investor’s desired level of risk.
AEW also acts as a financial advisor or consultant to government entities with respect to their real estate holdings and real estate-secured loan portfolios.

**Owner**

A limited partnership will be formed as a Delaware company. Limited partnerships provide the members with the tax benefits and protection acceptable for the investor’s needs and the protection necessary for the developer. The general partner remains personally liable for partnership debts while the limited partners incur no liability with respect to partnership obligations beyond their capital contributions. The purpose of this form of business is to encourage investors to invest without risking more than the capital they have contributed.

The partners to the limited partnership will be:

**Limited Partner:** The investor has contributed 90% of the capital necessary for the development and will share in the profits but take no part in running the business.

**General Partner:** The Developer will contribute 10% of the capital, manage the business and receive benefits from cash flow and capital events. This is the developer’s compensation for taking on the risk of development and being the coordinator for the project.

**Property Manager**

An affiliate of the developer will be responsible for maintaining the daily operations of the property upon completion of construction. The management company will earn 3.5% or effective gross income. Additionally, the
management company will manage all of the future properties to be developed by the developer. This provides the management company to reach and economies of scale through centralizing operating functions including: accounting, marketing and operations.

**Project Financing**

**Equity**

Refer to Exhibit D for detailed calculations of the cash flow distributions that are summarized below.

**Investor**

A capital contribution of $11.5 million dollars, 90% of the total capital contributed. In return, they will receive 90% of available cash flow as a return on capital until a cumulative preferred return of 16% is reached. The available cash for distribution after the preferred return will be distributed pro rata until the capital contributions have been repaid. After the return of capital, the investor will receive 60% of the available cash flow until a 16% IRR is reached. Finally, 50% of available cash flow after 16% IRR.

**Developer**

A capital contribution of $1.2 million dollars, 10% of the total capital contributed. In return, the developer will receive a 10% preferred return on the capital invested. Then 10% of available cash flow as a return on capital until all capital has been repaid. 40% of the available cash flow
will be distributed until a cumulative preferred return of 16% IRR is reached. Finally, 50% of available cash flow after 16% IRR.

Debt

The investor will provide the partnership with the accessibility to sources of debt financing. It is assumed that the debt will consist of a Development Loan, Construction Loan and a Permanent Loan.

Development Loan

The development loan is to be used for the upfront costs associated with the development prior to the construction loan. The terms of this loan are: 6% annual interest on each draw with a total credit line of $3 million dollars. The development loan will roll into the construction loan.

Construction Loan

The construction loan is based on the following terms: 6.50% annual interest, 15 month term and two 6 month options. The construction loan will roll into the permanent loan.

Permanent Loan

The permanent loan is based on the following terms: 6.50% annual interest, 15 year term and 30 year amortization.
Market Analysis
Based upon the preceding, I recommend that the subject development include the following amenities:

**Unit Amenities**
- Washer/Dryer
- Refrigerator
- Dishwasher
- Disposal
- Pre-Wiring for Cable TV
- Private Alarms
- Microwave
- Extra Storage
- Patio/Balcony

**Community Amenities**
- Swimming Pool
- Clubhouse
- Fitness Center
- BBQ Grills
- Social Activities
- Access Gates
- Scheduled Transportation
- Beauty Salon
Competition - Map

I have identified 10 competitors and have prepared a brief comparison of each one. Below is a map showing the location of the 10 competitors and the subject site.
**Competition - Summary**

Park Manor is located at 2930 West Pioneer Drive in the City of Irving, approximately ½ mile south of the subject site. The property was built in 1980, consists of 210 units, and is reporting occupancy of 94%. The property, which offers only one bedroom units, is 100% market rent. The average rent per square foot is $0.84. The property is managed by Monarch Properties. Although this property is located within the PMA, it is considered less comparable to the subject than the other comparables, which are newer properties offering an array of superior amenities.

Villas of Mission Bend is located at 1201 Medical Avenue in the City of Plano, approximately 18 miles northeast of the subject site. The property, which was built in 2000, consists of 135 units and is reporting occupancy of 97%. The property offers both market rent units and income restricted units. The rental rates shown are for market rent units. The average market rent per square foot is $1.17. The property opened in November of 2000 and reached stabilized occupancy 5 months later, equating to an absorption pace of 27 units per month. The property is managed by Quest Asset Management.

Villas on Bear Creek is located at 8009 Davis Boulevard in the City of North Richland Hills, approximately 13 miles northwest of the subject site. The property, which was built in 2000, consists of 240 units and is reporting occupancy of 99%. The property offers both market rent units and income restricted units. The rental rates shown are for market rent units. The average rent per square foot is $1.21. The property opened in April of 2000 and reached stabilized occupancy 13 months later, equating to an absorption pace of 17 units per month. The property is managed by Western Rim Property Services.

Tuscany at Goldmark is located at 13731 Goldmark Drive in the City of Dallas, approximately 15 miles northeast of the subject site. The property, which was built in 1999, consists of 184 units and is reporting occupancy of 98%. The property offers both market rent units and income restricted units. The rental rates shown are for market rent units. The average
market rent per square foot is $0.99 (based on market rents). The property opened in September of 1999 and reached stabilized occupancy 11 months later, equating to an absorption pace of 16 units per month. The property is managed by Quest Asset Management.

Waterford at Goldmark is located at 13695 Goldmark Drive in the City of Dallas, approximately 15 miles northeast of the subject site. The property, which was built in 1996, consists of 220 units and is reporting occupancy of 90%. The property offers both market rent units and income restricted units. The rental rates shown are for market rent units. The average market rent per square foot is $1.02. Absorption information for this property is unavailable. The property is managed by Quest Asset Management.

Villas by the Lake is located at 5301 Collett Little Road in the City of Fort Worth, approximately 19 miles southwest of the subject site. The property, which was built in 1999, consists of 234 units and is reporting occupancy of 92%. The property offers both market rent units and income restricted units. The rental rates shown are for market rent units. The average market rent per square foot is $1.00. This property opened in April of 2000 and reached stabilized occupancy eight months later, equating to an absorption pace of 27 units per month. The property is managed by Western Rim Property Services.

Bristol at Buckingham is located at 535 East Buckingham Road in the City of Richardson, approximately 16.2 miles northeast of the subject site. The property opened in July of 2002, consists of 242 units and is reporting occupancy of 70%, equating to an absorption pace of 10 units per month. The property consists of both market rent units and income restricted units. The rental rates shown are for market rent units. The average market rent per square foot is $1.02. The property is managed by Westdale Asset Management.

Preston Place is located at 5000 Old Shepard Place in the City of Plano, approximately 16.8 miles northeast of the subject site. The property was built in 1989, consists of 240 units and is reporting occupancy of 93%. The property is 100% market rent. The unit mix ratio for Preston
Place is unavailable. Thus, in turn, the average unit size, average rent, and average rent per square foot are unavailable. The property is managed by Spectrum Properties.

The Village at Johnson Creek is located at 400 South Collins Street in the City of Arlington approximately 9.5 miles southwest of the subject site. The property opened in July of 1999 and reached stabilized occupancy in May of 2000, equating to an absorption rate of 14 units per month. The property offers both market rent units and income restricted units at 50% and 60% of household adjusted median income for the area. The rental rates shown are for market rent units. The property is managed by Southwest Housing Management.

Claremont (aka Arlington Seniors) is located at 971 East Sanford Street in the City of Arlington, approximately 8.9 miles southwest of the subject site. The property opened in May of 2003, consists of 261 and is reporting occupancy of 46%, equating to an absorption of 17 units per month. The property is 100% income and rent restricted to persons earning no more than 50% and 60% of household adjusted median income for the area. The property is managed by Cohen Esrey.
Qualitative Analysis of the Market Area

Highest-And-Best Use Study

The subject property is located at 3000 West Airport Freeway. It is in the western region of Dallas County, southeast of the intersection of West Airport Freeway (Highway 183) and North Beltline Road in the City of Irving, Dallas County, Texas. The primary market area (PMA) is defined as the area that a majority of the project’s tenants will be drawn from. Market areas are shaped by physical barriers, psychological barriers, density, and other factors. Based upon these factors, I consider the primary market area (PMA) to be a 5.5-mile radius from the subject property. The PMA population growth has historically trailed the state, but has exceeded the nation. The forecasted growth for the PMA through 2007 is at a rate greater than the nation, but less than the state. The PMA seniors 62+ population count is forecast to increase at a rate of 2.27% through 2007. Household size and median age are two other important demographic figures. PMA household sizes are less than the state and national figures. The PMA’s median age is less than the PMSA, state, and national figures. The current PMA median household income figure is greater than the state and nation. The current PMA per capita income figure is greater than the state, and nation.

In looking at three different types of independent senior housing types, I have considered market rate apartments, affordable apartments and for-sale condominiums.

Market Rate Apartments: The market has older market rate apartments and they are not age restricted. The living arrangements provided in the general occupancy communities is not a friendly environment for seniors. As an example, the local college has many students that live in the surrounding communities and the students are generally
louder during the evening hours. This is not the ideal living situation for seniors. As an option, seniors would be more willing to live in an age restricted environment to prevent the loud disturbances present at general occupancy communities.

**Affordable Apartments:** Some of the apartment communities in the area offer mixed communities with market rate and affordable apartments that are income restricted. Affordable apartments are in high demand, this is evidenced by the high occupancy rates of the communities providing affordable housing. The hesitation for affordable housing on the subject site is based on the customer base of the television station. TBN generates it’s income from people’s donations, it is assumed that people that are qualified to live in affordable housing do not have income available to donate to the television station. This option has been ruled out as the highest and best use.

**For-Sale Condominiums:** This product type has been a big hit within the current economic environment. Although this product type would be in consideration for the subject site, I determine that the development timeline currently set for the subject site has increased risk for the for-sale condominium product. The high risk is mostly created by the uncertainty of the interest rates when the project opens. In the event that interest rates increase to a point that homeownership decreases, my project would be in risk of failure. Considering this use is appealing, but the risk-return is not in my interest or that of my investor.

**Apartment Market Analysis**

The subject is well located in an area that has traditionally had a healthy apartment market, the area has not been immune to the recessionary climate felt nationally. In Dallas as a whole and in the PMA, occupancy rates have declined and rents
have stabilized or fallen. The subject is located in an area with average occupancy levels and average rents.

**Apartment Demand Analysis**

Based on information provided by the local governing agency, there are no known projects forecasted to come online within the PMA during the next 24 months. PMA demand based upon population growth is for 71 new “seniors only” units per year. Furthermore, analysis of the PMA indicates pent-up demand. The data shows that 2,684 senior households have been added to the PMA since 1990, while no “seniors only” complexes were built (since 1990). With a renter-occupied senior housing percentage of 27.2% (according to the Census Bureau), 730 “seniors only” units should have been built. Also, based on the “step-up” demand analysis, there are approximately 624 senior households who are currently renting that might elect to “step-up” to a new senior apartment annually, rather than maintain residency in less desirable, multi-family apartments. Average annual absorption in the PMA since 1970 is 1,241 units per year (this applies to all unit types, not just “seniors only”). Based on growth, pent-up demand, “step-up” demand, and historical absorption trends, I conclude that the PMA is capable of absorbing approximately 300 new “seniors only” units this year. My analysis indicates there to be an estimated 2,830 income qualified renter senior households within the PMA.

The subject property should provide no more than 250 “seniors only” units, which equates to only 12.0% of the estimated income qualified renter senior household population (2,830 total income qualified senior households). This means that the subject will only need to capture 12.0% of total income qualified renter senior households in order to be successful. With only one known existing “seniors only” property consisting
of 210 units within the PMA, there is indicated to be more than sufficient unmet demand for the subject development of 250 “seniors only” units. The development of a “seniors only” apartment community is feasible considering market supply and demand conditions.

I analyzed the demographics of Dallas and the State of Texas, using information provided by the Census Bureau. Information includes historical and projected population, employment and income data.

**Population**

Historical and projected population trends for Dallas are charted below:

**Dallas Population Trends**

*Source: Census Bureau*

The population of Dallas increased at a rate of 2.47% from 1998 to 2003. For the same time period, the State of Texas grew at a rate of approximately 1.76%. Over the last fifteen years Dallas’s average change was 2.56%, compared to 1.87% for the State of Texas.

Looking ahead, both Dallas and the State of Texas are anticipated to experience continued growth, with future population estimates reflecting growth rates similar to those experienced in the past. For the period 2003 to 2018, the populations of Dallas and the State of Texas are expected to increase by a rate of 1.93% and 1.71%, respectively. For the next five years, the population of Dallas should grow faster than the 15-year average.
Population Trends
Source: Census Bureau

<table>
<thead>
<tr>
<th>Year</th>
<th>State of Texas Population (000's)</th>
<th>% Change</th>
<th>Dallas MSA Population (000's)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>10,607.6</td>
<td></td>
<td>2,509.4</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>10,161.6</td>
<td>9.0%</td>
<td>2,594.7</td>
<td>11.7%</td>
</tr>
<tr>
<td>1998</td>
<td>20,157.5</td>
<td>11.0%</td>
<td>3,348.2</td>
<td>15.7%</td>
</tr>
<tr>
<td>1999</td>
<td>20,558.2</td>
<td>2.0%</td>
<td>3,448.1</td>
<td>3.0%</td>
</tr>
<tr>
<td>2000</td>
<td>20,967.2</td>
<td>2.0%</td>
<td>3,544.6</td>
<td>2.8%</td>
</tr>
<tr>
<td>2001</td>
<td>21,364.0</td>
<td>1.9%</td>
<td>3,652.9</td>
<td>3.1%</td>
</tr>
<tr>
<td>2002</td>
<td>21,677.0</td>
<td>1.5%</td>
<td>3,717.0</td>
<td>1.8%</td>
</tr>
<tr>
<td>2003</td>
<td>21,996.1</td>
<td>1.5%</td>
<td>3,752.9</td>
<td>1.8%</td>
</tr>
<tr>
<td>2004</td>
<td>22,398.4</td>
<td>1.8%</td>
<td>3,863.9</td>
<td>2.1%</td>
</tr>
<tr>
<td>2005</td>
<td>22,802.6</td>
<td>1.8%</td>
<td>3,945.1</td>
<td>2.1%</td>
</tr>
<tr>
<td>2006</td>
<td>23,207.6</td>
<td>1.8%</td>
<td>4,026.4</td>
<td>2.1%</td>
</tr>
<tr>
<td>2007</td>
<td>23,615.5</td>
<td>1.8%</td>
<td>4,108.0</td>
<td>2.0%</td>
</tr>
<tr>
<td>2008</td>
<td>24,026.8</td>
<td>1.7%</td>
<td>4,189.9</td>
<td>2.0%</td>
</tr>
<tr>
<td>2013</td>
<td>26,146.5</td>
<td>8.8%</td>
<td>4,608.4</td>
<td>10.0%</td>
</tr>
<tr>
<td>2018</td>
<td>28,356.6</td>
<td>8.5%</td>
<td>5,036.8</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

Employment

Employment trends for both Dallas and the State of Texas should follow a pattern similar to the population trends for these areas, although at higher rates of increase. From 1998 to 2003, Dallas employment grew at a rate of 2.29% compared to 1.80% for the State of Texas. These figures indicate that Dallas surpassed the State of Texas in employment growth over the last five years. Looking back fifteen years, Dallas employment grew at a rate of 2.62%, compared to the State of Texas growth rate of 2.45%. Over the next five and fifteen years Dallas employment growth should exceed the State of Texas growth rate. From 2003 to 2008, Dallas should grow by a 2.87%, while the long term projection, 2003 to 2018, is for a 2.48% increase. For the same periods, employment in the State of Texas is expected to grow at rates of 2.64% and 2.31%, respectively. Employment gains are a strong indicator of economic health and generally correlate with real estate demand. Historically, Dallas has exceeded the State of Texas’s growth rate, suggesting that Dallas’s relative position is strengthening. Employment trends for Dallas and the State of Texas are presented below.
To more completely understand the economy of Dallas and the State of Texas and how it relates to future real estate demand, I analyzed the employment mix. The following chart represents the current distribution of employment by industry.

**Dallas Employment Sectors 2005**
*Source: Dallas Business Journal*

The preceding chart and following tables show that in 2005, the largest employment sectors in Dallas were:

- Services (33.1%)
- Retail Trade (15.5%)
- FIRE (11.1%)
- Manufacturing (10.0%)
By comparison, the largest employment sector in the State of Texas is Services (30.6%), Retail Trade (16.7%), Government (14.8%), and Manufacturing (9.0%). Over the past fifteen years, the largest percentage gains in employment within Dallas occurred within the Construction and Services sectors with rates of 3.99% and 3.93% respectively. Over the past five years the most significant activity has occurred in the FIRE and Construction sectors with rates of 3.33% and 3.15%, respectively.

### Historic Dallas Employment Trends (thousands)

*Source: Dallas Business Journal*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>2561</td>
<td>2389</td>
<td>2389</td>
<td>2389</td>
</tr>
<tr>
<td>Services</td>
<td>848</td>
<td>738</td>
<td>738</td>
<td>738</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>398</td>
<td>354</td>
<td>354</td>
<td>354</td>
</tr>
<tr>
<td>FIRE</td>
<td>284</td>
<td>244</td>
<td>244</td>
<td>244</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>254</td>
<td>227</td>
<td>227</td>
<td>227</td>
</tr>
<tr>
<td>Government</td>
<td>238</td>
<td>211</td>
<td>211</td>
<td>211</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>169</td>
<td>161</td>
<td>161</td>
<td>161</td>
</tr>
<tr>
<td>TCPU</td>
<td>155</td>
<td>144</td>
<td>144</td>
<td>144</td>
</tr>
<tr>
<td>Construction</td>
<td>151</td>
<td>127</td>
<td>127</td>
<td>127</td>
</tr>
<tr>
<td>Mining &amp; Other</td>
<td>49</td>
<td>44</td>
<td>44</td>
<td>44</td>
</tr>
</tbody>
</table>

Historical trends for the State of Texas are summarized in the following chart. The largest gains in employment over the past fifteen years occurred within the Construction and Services sectors with annual average compound growth rates of 3.6% and 3.4% respectively. Over the past five years significant activity has occurred in the FIRE and TCPU sectors with annual average compound growth rates of 3.0% and 2.6%, respectively.

### Historic Texas Employment Trends (thousands)

*Source: Dallas Business Journal*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>8579</td>
<td>9582</td>
<td>11419</td>
<td>12484</td>
</tr>
<tr>
<td>Construction</td>
<td>835</td>
<td>741</td>
<td>741</td>
<td>741</td>
</tr>
<tr>
<td>FIRE</td>
<td>1059</td>
<td>912</td>
<td>912</td>
<td>912</td>
</tr>
<tr>
<td>Government</td>
<td>1846</td>
<td>1659</td>
<td>1659</td>
<td>1659</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1123</td>
<td>1154</td>
<td>1154</td>
<td>1154</td>
</tr>
<tr>
<td>Mining &amp; Other</td>
<td>405</td>
<td>387</td>
<td>387</td>
<td>387</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2085</td>
<td>1907</td>
<td>1907</td>
<td>1907</td>
</tr>
<tr>
<td>Services</td>
<td>3825</td>
<td>3449</td>
<td>3449</td>
<td>3449</td>
</tr>
<tr>
<td>TCPU</td>
<td>723</td>
<td>637</td>
<td>637</td>
<td>637</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>579</td>
<td>570</td>
<td>570</td>
<td>570</td>
</tr>
</tbody>
</table>
The fifteen year projections for Dallas shows Mining & Other related employment leading all other sectors with Services second. The forecast for the State of Texas has TCPU related employment leading all other sectors with Services second. Future projections are summarized in the following tables.

Projected Dallas Employment Trends (thousands)
*Source: Dallas Business Journal*

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2008</th>
<th>2013</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>2584.1</td>
<td>2954.0</td>
<td>3340.0</td>
<td>3702.2</td>
</tr>
<tr>
<td>Construction</td>
<td>151.4</td>
<td>171.2</td>
<td>189.8</td>
<td>207.3</td>
</tr>
<tr>
<td>FIRE</td>
<td>284.7</td>
<td>326.4</td>
<td>367.4</td>
<td>405.3</td>
</tr>
<tr>
<td>Government</td>
<td>238.4</td>
<td>272.2</td>
<td>305.0</td>
<td>337.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>257.4</td>
<td>283.8</td>
<td>306.1</td>
<td>321.9</td>
</tr>
<tr>
<td>Mining &amp; Other</td>
<td>49.5</td>
<td>58.3</td>
<td>67.3</td>
<td>76.2</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>398.0</td>
<td>458.2</td>
<td>518.2</td>
<td>574.7</td>
</tr>
<tr>
<td>Services</td>
<td>848.1</td>
<td>993.1</td>
<td>1139.4</td>
<td>1279.8</td>
</tr>
<tr>
<td>TCPU</td>
<td>167.2</td>
<td>194.9</td>
<td>223.3</td>
<td>251.1</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>169.4</td>
<td>195.8</td>
<td>222.6</td>
<td>248.4</td>
</tr>
</tbody>
</table>

Projected Texas Employment Trends (thousands)
*Source: Dallas Business Journal*

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2008</th>
<th>2013</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>12484.2</td>
<td>14222.3</td>
<td>15952.2</td>
<td>17580.5</td>
</tr>
<tr>
<td>Construction</td>
<td>835.0</td>
<td>939.4</td>
<td>1038.1</td>
<td>1131.0</td>
</tr>
<tr>
<td>FIRE</td>
<td>1059.8</td>
<td>1205.6</td>
<td>1349.7</td>
<td>1483.2</td>
</tr>
<tr>
<td>Government</td>
<td>1846.3</td>
<td>2102.4</td>
<td>2356.5</td>
<td>2594.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1123.0</td>
<td>1236.3</td>
<td>1334.2</td>
<td>1407.3</td>
</tr>
<tr>
<td>Mining &amp; Other</td>
<td>405.2</td>
<td>460.3</td>
<td>515.6</td>
<td>569.0</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2085.3</td>
<td>2377.5</td>
<td>2670.4</td>
<td>2947.2</td>
</tr>
<tr>
<td>Services</td>
<td>3825.8</td>
<td>4400.9</td>
<td>4908.7</td>
<td>5558.3</td>
</tr>
<tr>
<td>TCPU</td>
<td>723.9</td>
<td>840.1</td>
<td>958.4</td>
<td>1071.9</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>579.9</td>
<td>659.8</td>
<td>740.6</td>
<td>818.0</td>
</tr>
</tbody>
</table>

Dallas accounted for approximately 20.05% of the State of Texas's employment in 1988. In 2003, the ratio is 20.48% and it is projected at 21.06% through 2018. This is an indication that Dallas is growing at a rate above that of the State of Texas. Dallas’s economy is not dependent on a particular sector. The employment base is varied, as are the major employers. Therefore, Dallas should be less susceptible to market cycles that have occurred in other areas dominated by a single industry. The area’s major employers are listed below.
**Major Employers**  
*Source: Dallas Business Journal*

<table>
<thead>
<tr>
<th>Employer</th>
<th># of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMR Corp. (American Airlines)</td>
<td>17,954</td>
</tr>
<tr>
<td>Texas health Resources</td>
<td>17,100</td>
</tr>
<tr>
<td>Southwestern Bell</td>
<td>14,300</td>
</tr>
<tr>
<td>Verizon</td>
<td>14,000</td>
</tr>
<tr>
<td>Baylor Health Care System</td>
<td>13,200</td>
</tr>
<tr>
<td>EDS Corp.</td>
<td>12,000</td>
</tr>
<tr>
<td>Texas Instruments, Inc.</td>
<td>11,000</td>
</tr>
<tr>
<td>Columbia/HCA</td>
<td>10,500</td>
</tr>
<tr>
<td>JC Penney Co., Inc.</td>
<td>10,000</td>
</tr>
</tbody>
</table>

**Income**

Personal income is a significant factor in determining the real estate demand in a given market. From 1998 to 2003, Dallas’s income grew at a rate of 1.24%, compared to the State of Texas’s rate of 1.82%. The two market areas displayed a similar pattern in per capita income growth over the last fifteen years. Dallas's growth rate was 1.86% as compared to 2.18% for the State of Texas. Projections for the next five and fifteen year periods reflect growth rates for Dallas that are less than the forecasted rates for the State of Texas. For the two time frames, 2003 to 2008 and 2003 to 2018, Dallas is anticipated to experience 2.12% and 1.68% growth rates, respectively, compared to the projected growth rates of the State of Texas of 2.38% and 1.92%.

An examination of income per household reveals that, historically, Dallas has experienced a growth rate below that of the State of Texas. Future projections predict slower growth for Dallas compared to the State of Texas.
Income Per Capita Comparison  
*Source: Census Bureau*

<table>
<thead>
<tr>
<th>Year</th>
<th>Income/Per Capita</th>
<th>% Change</th>
<th>Income/Per Capita</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>$10,536</td>
<td></td>
<td>$24,942</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>$20,943</td>
<td>7.2%</td>
<td>$25,695</td>
<td>3.0%</td>
</tr>
<tr>
<td>1998</td>
<td>$24,672</td>
<td>17.8%</td>
<td>$30,908</td>
<td>20.3%</td>
</tr>
<tr>
<td>1999</td>
<td>$25,049</td>
<td>1.5%</td>
<td>$31,488</td>
<td>1.9%</td>
</tr>
<tr>
<td>2000</td>
<td>$26,092</td>
<td>4.2%</td>
<td>$34,065</td>
<td>8.2%</td>
</tr>
<tr>
<td>2001</td>
<td>$25,814</td>
<td>-1.1%</td>
<td>$31,716</td>
<td>-6.9%</td>
</tr>
<tr>
<td>2002</td>
<td>$26,054</td>
<td>0.9%</td>
<td>$31,785</td>
<td>0.2%</td>
</tr>
<tr>
<td>2003</td>
<td>$27,007</td>
<td>3.7%</td>
<td>$32,872</td>
<td>3.4%</td>
</tr>
<tr>
<td>2004</td>
<td>$27,779</td>
<td>2.9%</td>
<td>$33,736</td>
<td>2.6%</td>
</tr>
<tr>
<td>2005</td>
<td>$28,560</td>
<td>2.8%</td>
<td>$34,625</td>
<td>2.6%</td>
</tr>
<tr>
<td>2006</td>
<td>$29,201</td>
<td>2.2%</td>
<td>$35,292</td>
<td>1.9%</td>
</tr>
<tr>
<td>2007</td>
<td>$29,822</td>
<td>2.1%</td>
<td>$35,936</td>
<td>1.8%</td>
</tr>
<tr>
<td>2008</td>
<td>$30,381</td>
<td>1.9%</td>
<td>$36,505</td>
<td>1.6%</td>
</tr>
<tr>
<td>2013</td>
<td>$33,283</td>
<td>9.6%</td>
<td>$39,484</td>
<td>8.2%</td>
</tr>
<tr>
<td>2018</td>
<td>$35,942</td>
<td>8.0%</td>
<td>$42,185</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Income Per Household Comparison  
*Source: Census Bureau*

<table>
<thead>
<tr>
<th>Year</th>
<th>Income/Per Household</th>
<th>% Change</th>
<th>Income/Per Household</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>$55,000</td>
<td></td>
<td>$67,074</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>$58,064</td>
<td>6.7%</td>
<td>$69,259</td>
<td>3.3%</td>
</tr>
<tr>
<td>1998</td>
<td>$69,432</td>
<td>18.4%</td>
<td>$84,397</td>
<td>21.9%</td>
</tr>
<tr>
<td>1999</td>
<td>$70,510</td>
<td>1.6%</td>
<td>$86,146</td>
<td>2.1%</td>
</tr>
<tr>
<td>2000</td>
<td>$73,494</td>
<td>4.2%</td>
<td>$93,395</td>
<td>8.4%</td>
</tr>
<tr>
<td>2001</td>
<td>$72,491</td>
<td>-1.4%</td>
<td>$88,671</td>
<td>-7.2%</td>
</tr>
<tr>
<td>2002</td>
<td>$73,000</td>
<td>0.7%</td>
<td>$88,650</td>
<td>0.0%</td>
</tr>
<tr>
<td>2003</td>
<td>$75,500</td>
<td>3.4%</td>
<td>$89,395</td>
<td>3.2%</td>
</tr>
<tr>
<td>2004</td>
<td>$77,480</td>
<td>2.6%</td>
<td>$91,519</td>
<td>2.4%</td>
</tr>
<tr>
<td>2005</td>
<td>$79,476</td>
<td>2.6%</td>
<td>$93,698</td>
<td>2.4%</td>
</tr>
<tr>
<td>2006</td>
<td>$81,072</td>
<td>2.0%</td>
<td>$95,269</td>
<td>1.7%</td>
</tr>
<tr>
<td>2007</td>
<td>$82,606</td>
<td>1.9%</td>
<td>$96,767</td>
<td>1.6%</td>
</tr>
<tr>
<td>2008</td>
<td>$83,961</td>
<td>1.6%</td>
<td>$98,059</td>
<td>1.3%</td>
</tr>
<tr>
<td>2013</td>
<td>$90,779</td>
<td>8.1%</td>
<td>$104,605</td>
<td>6.7%</td>
</tr>
<tr>
<td>2018</td>
<td>$96,127</td>
<td>5.9%</td>
<td>$109,533</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

**Conclusion**

Overall, the economic outlook for Dallas is positive. Total population is projected to increase slightly. More importantly, the area is projected to experience increasing employment growth. Based on this analysis, it is anticipated that Dallas will continue to grow and prosper. The expected growth should provide an economic base that supports demand for seniors housing on the subject property.
**Marketing Plan**

Marketing Approach up to Groundbreaking:

1. *Print Advertising:* Newspaper advertising will be used. There are three newspapers which cover the market area. The frequency for the local papers will vary on a monthly and weekly basis for the period prior to groundbreaking.

2. *Brochure Mailings:* Copies of a project brochure, a fact sheet and an application will be mailed to churches, organizations and community groups.

3. *Groundbreaking:* The groundbreaking will be used as an opportunity for interested persons to attend this event and announce the development plan to the greater community.

Marketing During Construction:

1. *Print Advertising:* To continue as described above.

2. *Project Signs:* A project sign and construction activity at a very heavily traveled intersection will help generate interest.

3. *Model Apartment:* A model apartment will be created immediately to show interested residents the quality of the units. A marketing agent will be hired on a base salary and commission basis to take applications as necessary.

4. *Events:* Special events may be scheduled which relate to the history of the building and the area. Spring Fairs or other activities in conjunction with the neighborhood could be initiated. These could be useful in generating widespread community support.
Economic and Financial Feasibility

The assumptions for the development, shown in Exhibit D, are based on comparable communities within the general market area. The market can support 250 senior apartments, which is the highest density that I would be able to achieve on the subject site. Through preliminary discussions with the city of Irving, I determined that 90 units to the acre is the highest density feasible for my development.

The key indicators for senior housing in today’s competitive market are:

- Return on Cost- 8%
- Cost Per Unit- $200,000 to $225,000
- Operating Margin- 25%
- IRR (7 year hold)- 20%

Upon completion of construction, I believe that sixty (60) apartments will be pre-leased and that sixteen (16) apartments a month will be leased for twelve (12) months. To cover the negative operating expenses for the lease-up period, I have used the project cost line item “Interest Reserve” to cover the deficit, referenced in Exhibit F. Additionally, the line item “Working Capital” provides the community with money to pay for community relations activities and cover additional overhead.

The waterfall distribution negotiated with the investor is represented in Exhibit K. The investor will receive distributions after lease-up, the average cash on cash is approximately 10% and the IRR is 20%. Assuming that the property is refinanced in year three, the investor will receive a total of $9.1 million in that year alone. The next capital event is the sale in year seven, this event will generate approximately $21.6 million distribution to the investor.
Conclusion and Recommendation

Real estate development projects are by nature a risky endeavor. Planning today for conditions which will exist in the future is a difficult task. A multitude of activities are required to be put into motion simultaneously in order to begin to understand the overall nature of the deal. Clearly understanding all of the issues which surround a project allows planning and management decisions to be made in order to reduce the exposure to risk. There are, however, events and economic conditions in which cannot be controlled. My proposed development is exposed to a variety of risks, some of which may be able to be controlled and others which are inherent of developing apartment communities.

There is currently significant demand for senior housing in Irving, Texas. The proposed development appears to be attractive in the marketplace and well suited to serve the needs of aging person in the primary market area. It has been determined that there are no other competitive rental projects for seniors within the primary market area. Providing large community space and amenities for seniors, and involving tenants in the management of the property creates an environment that is extremely popular, easily marketable and successful.

The project will require participation for the television station to obtain the interest of the customer base of TBN. The risk that the developer has is that TBN experiences negative events that would prevent people from wanting to be associated with the community.
Exhibits
Exhibit B: Proposed Site Plan
Exhibit C: Site Photographs

The site is owned by the Trinity Broadcast Network ("TBN"), a Christian television station owner. TBN is using part of the site for a television studio. Below are photographs of the site.

Above: Pond and water feature to be utilized by the future residents of the community.

Above: Amphitheatre used for outdoor broadcasting programs.
Above: The pond, which provides a scenic walkway.

Above: The white building across the street is television studio for TBN.
## Exhibit D: Development Assumptions

### Project Information
- **Name**: Irving
- **Address**: 3400 West Irving Blvd.
- **City**: Irving
- **State**: TX

### Key Indicators
- **Operating Margin**: 23%
- **Return on Cost**: 8%
- **Leveraged Return**: 20%
- **Cost Per Unit**: $203,742

### Development Input

#### Land Assumptions
- **Size**: 2.87 acres, 125,017 sf
- **Sales Price**: $7,000,000
- **Cost psf**: $55.99

#### Development Assumptions
- **Total Units**: 250
- **Units Per Acre**: 87
- **Unit Mix**:
  - 1 Bedroom: 50%
  - 2 Bedroom: 50%
- **Net Rentable Square Feet**: 210,000
- **Gross Square Feet**: 261,613

### Operations Input

#### Operating Assumptions
- **Management Fee**: 3.50%
- **Structured Vacancy**: 4.00%
- **Other Income/unit/month**: $30
- **Reserves/unit/year**: $300

#### Lease-Up Assumptions
- **Units Pre-Leased**: 60
- **Lease-Up Period**: 12 months
- **Units Leased Per Month**: 16

#### Market Rent Assumptions
- **1 Bedroom**:
  - **Square Feet**: 700
  - **Rent psf**: $2.24
  - **Market Rent**: $1,569
- **2 Bedroom**:
  - **Square Feet**: 980
  - **Rent psf**: $1.99
  - **Market Rent**: $1,951

#### Annual Escalation Assumptions
- **Income Escalation**: 3.0%
- **Expense Escalation**: 2.5%

### Financing Input

#### Debt Assumptions
- **Loan to Cost**: 75%
- **Face Amount**: $38,201,631
- **Interest**: 6.50%
- **Amortization**: 30 years
- **Annual Debt Service**: $2,897,524

#### Sources and Uses Assumptions
- **Project Cost**: $50,935,509
- **Debt**: 75% $38,201,631
- **Equity**: 25% $12,733,877
- **Capital Contributions**:
  - **Investor**: 90% $11,460,489
  - **Developer**: 10% $1,273,388

### Resident Days Calculation
- **Total Units**: 250
- **Occupied Units**: 240
- **Occupancy Percent**: 96%
- **Resident Days**: 87,600
### Exhibit E: Square Footage Breakdown

<table>
<thead>
<tr>
<th>Gross Square Footage</th>
<th>Per Unit</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Area</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Restrooms</td>
<td>2.35</td>
<td>587</td>
<td>0.22%</td>
</tr>
<tr>
<td>Multi-purpose Room</td>
<td>7.51</td>
<td>1,878</td>
<td>0.72%</td>
</tr>
<tr>
<td>Mail Room</td>
<td>0.61</td>
<td>154</td>
<td>0.06%</td>
</tr>
<tr>
<td>Lounge/Data</td>
<td>6.20</td>
<td>1,549</td>
<td>0.59%</td>
</tr>
<tr>
<td>Reception Lobby</td>
<td>0.78</td>
<td>195</td>
<td>0.07%</td>
</tr>
<tr>
<td>Administrative Office</td>
<td>3.54</td>
<td>885</td>
<td>0.34%</td>
</tr>
<tr>
<td>Kitchen</td>
<td>0.80</td>
<td>199</td>
<td>0.08%</td>
</tr>
<tr>
<td>Storage Room</td>
<td>1.79</td>
<td>448</td>
<td>0.17%</td>
</tr>
<tr>
<td>Elec.-Mechanical &amp; Equip.</td>
<td>9.40</td>
<td>2,350</td>
<td>0.90%</td>
</tr>
<tr>
<td>Janitors Room</td>
<td>1.93</td>
<td>482</td>
<td>0.18%</td>
</tr>
<tr>
<td>Trash Room</td>
<td>4.67</td>
<td>1,168</td>
<td>0.45%</td>
</tr>
<tr>
<td>Laundry</td>
<td>4.59</td>
<td>1,148</td>
<td>0.44%</td>
</tr>
<tr>
<td><strong>Total Community Area</strong></td>
<td></td>
<td>11,044</td>
<td>4.22%</td>
</tr>
<tr>
<td><strong>Circulation Area</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corridor/Circulation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Floor</td>
<td>40.22</td>
<td>10,056</td>
<td>3.84%</td>
</tr>
<tr>
<td>Second Floor</td>
<td>47.86</td>
<td>11,965</td>
<td>4.57%</td>
</tr>
<tr>
<td>Third Floor</td>
<td>46.07</td>
<td>11,517</td>
<td>4.40%</td>
</tr>
<tr>
<td><strong>Total Corridor/Circulation</strong></td>
<td>134.15</td>
<td>33,538</td>
<td>12.82%</td>
</tr>
<tr>
<td>Elevators</td>
<td>7.27</td>
<td>1,816</td>
<td>0.69%</td>
</tr>
<tr>
<td>Stairs</td>
<td>20.86</td>
<td>5,215</td>
<td>1.99%</td>
</tr>
<tr>
<td><strong>Total Circulation Area</strong></td>
<td>162.28</td>
<td>40,569</td>
<td>15.51%</td>
</tr>
<tr>
<td><strong>Total Common Area</strong></td>
<td>206.45</td>
<td>51,613</td>
<td>19.73%</td>
</tr>
<tr>
<td><strong>Net Rentable Area</strong></td>
<td>840.00</td>
<td>210,000</td>
<td>80.27%</td>
</tr>
<tr>
<td><strong>Gross Building Area</strong></td>
<td>1,046.45</td>
<td>261,613</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Exhibit F: Project Cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Project Cost</th>
<th>% of Total</th>
<th>Cost / Unit</th>
<th>Cost PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>7,000,000</td>
<td>13.74%</td>
<td>28,000</td>
<td>27</td>
</tr>
<tr>
<td>Construction Indirects</td>
<td>1,569,680</td>
<td>3.08%</td>
<td>6,279</td>
<td>6</td>
</tr>
<tr>
<td>Construction Directs</td>
<td>28,777,461</td>
<td>56.50%</td>
<td>115,110</td>
<td>110</td>
</tr>
<tr>
<td>Contractor's Fee / Overhead</td>
<td>2,563,810</td>
<td>5.03%</td>
<td>10,255</td>
<td>10</td>
</tr>
<tr>
<td>Construction Contingency</td>
<td>1,438,873</td>
<td>2.82%</td>
<td>5,755</td>
<td>6</td>
</tr>
</tbody>
</table>

**subtotal hard costs**                  | 34,349,824   | 67.44%     | 137,399     | 131      |

<table>
<thead>
<tr>
<th>Description</th>
<th>Project Cost</th>
<th>% of Total</th>
<th>Cost / Unit</th>
<th>Cost PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Architecture &amp; Engineering</td>
<td>320,250</td>
<td>0.63%</td>
<td>1,281</td>
<td>1</td>
</tr>
<tr>
<td>Civil Engineer/ Other Consultants</td>
<td>111,250</td>
<td>0.22%</td>
<td>445</td>
<td>0</td>
</tr>
<tr>
<td>Permits</td>
<td>1,020,750</td>
<td>0.20%</td>
<td>4,083</td>
<td>4</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>96,250</td>
<td>0.19%</td>
<td>385</td>
<td>0</td>
</tr>
<tr>
<td>Insurance</td>
<td>518,250</td>
<td>1.02%</td>
<td>2,073</td>
<td>2</td>
</tr>
<tr>
<td>Legal &amp; Consulting</td>
<td>331,000</td>
<td>0.65%</td>
<td>1,324</td>
<td>1</td>
</tr>
<tr>
<td>Title/Broker Fees/ Deposits</td>
<td>251,000</td>
<td>0.49%</td>
<td>1,004</td>
<td>1</td>
</tr>
<tr>
<td>Marketing</td>
<td>625,000</td>
<td>1.23%</td>
<td>2,500</td>
<td>2</td>
</tr>
<tr>
<td>FF &amp; E</td>
<td>416,750</td>
<td>0.82%</td>
<td>1,667</td>
<td>2</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>416,750</td>
<td>0.82%</td>
<td>1,667</td>
<td>2</td>
</tr>
<tr>
<td>Soft Cost Contingency</td>
<td>82,145</td>
<td>0.16%</td>
<td>329</td>
<td>0</td>
</tr>
<tr>
<td>Working Capital</td>
<td>291,750</td>
<td>0.57%</td>
<td>1,167</td>
<td>1</td>
</tr>
<tr>
<td>Construction Period Interest</td>
<td>1,551,941</td>
<td>3.05%</td>
<td>6,208</td>
<td>6</td>
</tr>
<tr>
<td>Developer Fee</td>
<td>1,717,491</td>
<td>3.37%</td>
<td>6,870</td>
<td>7</td>
</tr>
<tr>
<td>Interest Reserve</td>
<td>1,071,075</td>
<td>2.10%</td>
<td>4,284</td>
<td>4</td>
</tr>
<tr>
<td>Financing</td>
<td>764,033</td>
<td>1.50%</td>
<td>3,056</td>
<td>3</td>
</tr>
</tbody>
</table>

**Total Project Cost**                  | 50,935,509   | 100%       | 203,742     | 195      |
### Exhibit G: Project Cash Flow

<table>
<thead>
<tr>
<th>Days</th>
<th>Months</th>
<th>Costs</th>
<th>Cumulative</th>
<th>Non-Refund.</th>
<th>Refundable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Due Diligence</td>
<td>60 days</td>
<td>2 months</td>
<td>103,037</td>
<td>103,037</td>
<td>25,000</td>
<td>128,037</td>
</tr>
<tr>
<td>Pre-Entitlement</td>
<td>360 days</td>
<td>12 months</td>
<td>1,151,506</td>
<td>1,252,542</td>
<td>50,000</td>
<td>2,272,542</td>
</tr>
<tr>
<td>Pre-Construction</td>
<td>120 days</td>
<td>4 months</td>
<td>737,004</td>
<td>1,989,547</td>
<td>7,201,000</td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td>450 days</td>
<td>15 months</td>
<td>49,332,137</td>
<td>42,321,684</td>
<td>-</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>Total</td>
<td>990 days</td>
<td>33 months</td>
<td>42,321,684</td>
<td>42,321,684</td>
<td>7,251,000</td>
<td>-</td>
</tr>
</tbody>
</table>

### Initial Due Diligence

- **Month 1**
  - Land Loan (Refundable): 25,000
  - Non-Refundable: 50,000

### Pre-Entitlement

- **Month 2**
  - Architecture & Engineering: 5,124
  - Civil Engineer/ Other Consultants: 21,138
  - Permits & Fees: 64,050
  - Property Taxes: 15,297
  - Legal & Consulting: 16,550

- **Month 3**
  - Architecture & Engineering: 64,050
  - Land Purchase: 100,000
  - Civil Engineer/ Other Consultants: 15,297
  - Insurance: 64,050
  - Marketing: 16,550

- **Month 4**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Insurances: 64,050
  - Legal & Consulting: 16,550

- **Month 5**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Property Taxes: 64,050
  - Legal & Consulting: 16,550

- **Month 6**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Legal & Consulting: 16,550

- **Month 7**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Marketing: 16,550

### Pre-Construction

- **Month 8**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Marketing: 16,550

- **Month 9**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Insurances: 64,050
  - Legal & Consulting: 16,550

- **Month 10**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Insurance: 64,050
  - Legal & Consulting: 16,550

- **Month 11**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Legal & Consulting: 16,550

- **Month 12**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Marketing: 16,550

### Construction

- **Month 13**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Marketing: 16,550

- **Month 14**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Insurances: 64,050
  - Legal & Consulting: 16,550

- **Month 15**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Insurance: 64,050
  - Legal & Consulting: 16,550

- **Month 16**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Legal & Consulting: 16,550

- **Month 17**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Marketing: 16,550

- **Month 18**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Insurance: 64,050
  - Legal & Consulting: 16,550

- **Month 19**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Marketing: 16,550

- **Month 20**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Legal & Consulting: 16,550

- **Month 21**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Marketing: 16,550

- **Month 22**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Legal & Consulting: 16,550

- **Month 23**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Marketing: 16,550

- **Month 24**
  - Architecture & Engineering: 64,050
  - Civil Engineer/ Other Consultants: 15,297
  - Permits & Fees: 64,050
  - Legal & Consulting: 16,550

### Total Project Cost

- **Month 25**
  - Total Project Cost: 62,188

### Cumulative

- **Month 26**
  - Cumulative: 62,188

*Note: Project Cash Flow does not include "Working Capital" and "Interest Reserve".*
### Initial Due Diligence
- 60 days
- 2 months

### Pre-Entitlement
- 360 days
- 12 months

### Pre-Construction
- 120 days
- 4 months

### Construction
- 450 days
- 15 months

### Total
- 990 days
- 33 months

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*Note: Project Cash Flow does not include "Working Capital" and "Interest Reserve".
### Days and Months

- Initial Due Diligence: 60 days / 2 months
- Pre-Entitlement: 360 days / 12 months
- Pre-Construction: 120 days / 4 months
- Construction: 450 days / 15 months
- Total: 990 days / 33 months

### Construction Period Interest

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### Note

- Project Cash Flow does not include "Working Capital" and "Interest Reserve".
## Exhibit H: Lease-Up Cash Flow - Monthly

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## Exhibit I: Stabilized Cash Flow- Year 2

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<td><strong>Net Cash Flow Before Reserves</strong></td>
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<td>1,100,909</td>
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### Exhibit J: Proforma- 7 Year

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<th>Year 1</th>
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<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
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<tr>
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<td>59%</td>
<td>96%</td>
<td>96%</td>
<td>96%</td>
<td>96%</td>
<td>96%</td>
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<td><strong>Revenue</strong></td>
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<td>Potential Gross Revenue</td>
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<td>Market Rent</td>
<td>5,279,869</td>
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<td>5,601,413</td>
<td>5,769,455</td>
<td>5,942,539</td>
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<td>Vacancy Loss</td>
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<td>224,057</td>
<td>230,778</td>
<td>237,702</td>
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<td>231,978</td>
<td>238,902</td>
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<td>5,219,534</td>
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<td>5,537,477</td>
<td>5,703,637</td>
<td>5,874,782</td>
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<td>53,280</td>
<td>90,000</td>
<td>92,700</td>
<td>95,481</td>
<td>98,345</td>
<td>101,296</td>
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<td>5,468,856</td>
<td>5,632,958</td>
<td>5,801,983</td>
<td>5,976,078</td>
<td>6,155,396</td>
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<td>Activities</td>
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<td>81,180</td>
<td>83,210</td>
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<td>87,422</td>
<td>89,608</td>
<td>91,848</td>
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<td>151,181</td>
<td>154,961</td>
<td>158,835</td>
<td>162,806</td>
<td>166,876</td>
<td>171,048</td>
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<td>57,784</td>
<td>59,229</td>
<td>60,750</td>
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<td>113,267</td>
<td>116,999</td>
<td>119,002</td>
<td>121,977</td>
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<td>574,298</td>
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<td>603,372</td>
<td>618,456</td>
<td>633,917</td>
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<td>49,200</td>
<td>50,430</td>
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<td>52,983</td>
<td>54,308</td>
<td>55,665</td>
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<td>111,222</td>
<td>185,834</td>
<td>198,165</td>
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<td>199,627</td>
<td>205,617</td>
<td>211,787</td>
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<td>15,530</td>
<td>13,868</td>
<td>14,215</td>
<td>14,570</td>
<td>14,935</td>
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<td><strong>Total Operating Expenses</strong></td>
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<td>1,236,102</td>
<td>1,264,690</td>
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<td><strong>Net Operating Income</strong></td>
<td>2,041,889</td>
<td>4,073,432</td>
<td>4,204,166</td>
<td>4,335,708</td>
<td>4,471,331</td>
<td>4,611,161</td>
<td>4,755,327</td>
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<tr>
<td>NOI %</td>
<td>64.26%</td>
<td>76.72%</td>
<td>76.87%</td>
<td>76.97%</td>
<td>77.07%</td>
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<td>77.25%</td>
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<td>2,897,524</td>
<td>2,897,524</td>
<td>2,897,524</td>
<td>2,897,524</td>
<td>2,897,524</td>
<td>2,897,524</td>
</tr>
<tr>
<td><strong>Debt Service Coverage</strong></td>
<td>0.70</td>
<td>1.41</td>
<td>1.45</td>
<td>1.50</td>
<td>1.54</td>
<td>1.59</td>
<td>1.64</td>
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<tr>
<td><strong>Net Cash Flow Before Reserves</strong></td>
<td>(855,635)</td>
<td>1,175,909</td>
<td>1,306,642</td>
<td>1,438,185</td>
<td>1,573,808</td>
<td>1,713,638</td>
<td>1,857,804</td>
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<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
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<td>75,000</td>
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<tr>
<td><strong>Net Cash Flow After Reserves</strong></td>
<td>(930,635)</td>
<td>1,100,909</td>
<td>1,231,642</td>
<td>1,363,185</td>
<td>1,498,808</td>
<td>1,638,638</td>
<td>1,782,804</td>
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**Exhibit K: Cash Flow Distribution**

<table>
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<tr>
<th>Refinance Summary - Year 3</th>
<th>Refinance Assumptions</th>
<th>Sale in Year 7</th>
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<td>NOI</td>
<td>4,204,166</td>
<td>DCR 1.25</td>
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<tr>
<td>Effective New Debt Service</td>
<td>3,363,333</td>
<td>Interest 6.00%</td>
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<td>Effective New Face Amount</td>
<td>46,747,974</td>
<td>Amortization 30 years</td>
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<td>Lease: Remaining Principal</td>
<td>36,832,059</td>
<td>Finance Fee 2.0%</td>
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<td>Lease: Finance Fee</td>
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<tr>
<td>Equals: Net Proceeds From Refi</td>
<td>8,980,056</td>
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</table>

<table>
<thead>
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<th>Cash Flow Distribution</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Income</td>
<td>2,041,889</td>
<td>4,073,432</td>
<td>4,204,166</td>
<td>4,335,708</td>
<td>4,471,331</td>
<td>4,611,161</td>
<td>4,755,327</td>
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<tr>
<td>Debt Service Coverage</td>
<td>0.70</td>
<td>1.41</td>
<td>1.48</td>
<td>1.29</td>
<td>1.33</td>
<td>1.37</td>
<td>1.41</td>
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<tr>
<td>Net Cash Flow Before Reserves</td>
<td>(855,635)</td>
<td>1,175,909</td>
<td>1,386,642</td>
<td>972,376</td>
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<tr>
<td>Net Proceeds From Refinance</td>
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<tr>
<td>Proceeds Available For Distribution</td>
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<td>30,213,698</td>
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<td>1,002,999</td>
<td>1,172,828</td>
<td>17,384,684</td>
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</table>

**Priority One: Preferred Return**
- Investor: 10% - 990,818, 1,287,637, 807,638, 929,699, 1,055,546, 1,408,300
- Developer: 10% - 110,091, 143,071, 89,738, 103,300, 117,283, 156,478

**Priority Two: Return of Capital**
- Investor: 11,460,489 - 7,962,890, - , - , - , 3,557,099
- Developer: 1,273,388 - 878,099, - , - , - , 395,289

**Priority Three: Until 16% IRR**
- Investor: 60% - , - , - , - , - , 4,966,101
- Developer: 40% - , - , - , - , - , 3,310,734

**Priority Four**
- Investor: 50% - , - , - , - , - , 11,695,092
- Developer: 50% - , - , - , - , - , 11,695,092

**Investor Return Analysis**
- Initial Investment: (11,460,489)
- Cash Distributions: - , 990,818, 9,190,328, 807,638, 929,699, 1,055,546, 21,627,091
- Cash Flow: 11,460,489, - , 990,818, 9,190,328, 807,638, 929,699, 1,055,546, 21,627,091
- Cash on Cash: 8.65%, 11.24%, 10.22%, 8.11%, 9.21%, 12.29%
- IRR: 23%

**Developer Return Analysis**
- Initial Investment: (1,273,388)
- Cash Distributions: - , 110,091, 1,021,170, 89,738, 103,300, 117,283, 15,557,592
- Cash on Cash: 8.65%, 11.24%, 10.22%, 8.11%, 9.21%, 12.29%
- IRR: 51%
- NPV @ 10%: 7,759,957

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## Exhibit L: Reversion Analysis

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<th>Cap Rate</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5%</td>
<td>74,062,406</td>
<td>76,439,380</td>
<td>78,831,059</td>
<td>81,296,935</td>
<td>83,839,295</td>
<td>86,460,496</td>
<td>89,162,968</td>
</tr>
<tr>
<td>6.0%</td>
<td>67,890,539</td>
<td>70,069,431</td>
<td>72,261,804</td>
<td>74,522,190</td>
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<td>79,255,455</td>
<td>81,732,721</td>
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<tr>
<td>6.5%</td>
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### Net Proceeds Calculation

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<td>Net Proceeds</td>
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## Exhibit M: Rent Roll

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<th>Number of Total</th>
<th>Number of Units</th>
<th>Square Feet</th>
<th>Rent</th>
<th>Rent psf</th>
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<td>1 Bedroom</td>
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<td>700</td>
<td>$1,569</td>
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<tr>
<td>2 Bedroom</td>
<td>50%</td>
<td>125</td>
<td>980</td>
<td>$1,951</td>
<td>$1.99</td>
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<tr>
<td>Total</td>
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### Exhibit N: Payroll Detail

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<th>Position</th>
<th>Hours/month</th>
<th>Wages</th>
<th>Compensation</th>
<th>Cost/Month</th>
<th>Cost/Year</th>
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</thead>
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<td><strong>Administration</strong></td>
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<tr>
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<td>$2,599.50</td>
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<td>Leasing Consultant</td>
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<td><strong>Sub-Total Leasing</strong></td>
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<td>Resident Services</td>
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<tr>
<td>Resident Services Director</td>
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<td>$1,559.70</td>
<td>$18,716.40</td>
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<tr>
<td><strong>Sub-Total Activities</strong></td>
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<td>$1,559.70</td>
<td>$18,716.40</td>
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<td><strong>Maintenance</strong></td>
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<td>Supervisor</td>
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<td>$2,772.80</td>
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<td><strong>Sub-Total Maintenance</strong></td>
<td>323.3</td>
<td>$24.00</td>
<td>$3,972.80</td>
<td>$3,972.80</td>
<td>$47,673.60</td>
</tr>
</tbody>
</table>

**Total** | 963.2       | $67.50         | $11,031.65   | $250.00    | $135,379.80|

**Footnote:**

(a) Assumes $50 compensation per lease with an average of 5 leases per month.
### Exhibit O: Comparable Construction Cost Analysis

#### Comparable Property

| Constructor Property | HP Hilltop | HP Tustin | HP Cathedrals
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 2000</td>
<td>June 2003</td>
<td>August 2004</td>
</tr>
<tr>
<td>Number of Units</td>
<td>33 Units</td>
<td>34 Units</td>
<td>52 Units</td>
</tr>
<tr>
<td>Gross Square Footage</td>
<td>53,080 sf</td>
<td>76,390 sf</td>
<td>55,089 sf</td>
</tr>
</tbody>
</table>

#### Total Cost

<table>
<thead>
<tr>
<th>Constructor Property</th>
<th>HP Hilltop</th>
<th>HP Tustin</th>
<th>HP Cathedrals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,456,320</td>
<td>1,410,167</td>
<td>1,410,167</td>
</tr>
<tr>
<td></td>
<td>1,410,167</td>
<td>1,410,167</td>
<td>1,410,167</td>
</tr>
<tr>
<td></td>
<td>1,410,167</td>
<td>1,410,167</td>
<td>1,410,167</td>
</tr>
<tr>
<td></td>
<td>27,625</td>
<td>27,625</td>
<td>27,625</td>
</tr>
</tbody>
</table>

#### Percent of Total

<table>
<thead>
<tr>
<th>Constructor Property</th>
<th>HP Hilltop</th>
<th>HP Tustin</th>
<th>HP Cathedrals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13.40%</td>
<td>13.40%</td>
<td>13.40%</td>
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<tr>
<td></td>
<td>13.40%</td>
<td>13.40%</td>
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<td>13.40%</td>
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<tr>
<td></td>
<td>14,101,67</td>
<td>14,101,67</td>
<td>14,101,67</td>
</tr>
</tbody>
</table>

#### Cost Per Unit

<table>
<thead>
<tr>
<th>Constructor Property</th>
<th>HP Hilltop</th>
<th>HP Tustin</th>
<th>HP Cathedrals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27,625</td>
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<td></td>
<td>14,101,67</td>
<td>14,101,67</td>
<td>14,101,67</td>
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</tbody>
</table>

#### Comparison

<table>
<thead>
<tr>
<th>Constructor Property</th>
<th>HP Hilltop</th>
<th>HP Tustin</th>
<th>HP Cathedrals</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>13.40%</td>
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<tr>
<td></td>
<td>14,101,67</td>
<td>14,101,67</td>
<td>14,101,67</td>
</tr>
</tbody>
</table>

#### Note

- **Gross Square Footage**
- **Number of Units**
- **Completion Date**
- **Comparable Property**
- **Gross Square Footage**
- **Total Cost**
- **Percent of Total**
- **Cost Per Unit**
- **Real Estate Taxes**
- **Insurance**
- **Appraisal/Market Study**
- **Credit Facility Fee**
- **Construction Contingency & Other**
- **Soft Cost Contingency**
- **Bridge Loan Cost**
- **TAC Fees**
- **CDLC Fees**
- **Permit Fees**
- **Legal**
- **Marketing**
- **Rent-up & Operating Reserves**
- **Miscellaneous**
- **Project Administration**
- **Developer Fee**
- **Consultant/Processing Agent Fees**

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**Note:** The table above provides a detailed breakdown of construction costs for comparable properties, including land, construction costs, soft costs, and other expenses, allowing for a comprehensive analysis of costs and expenses associated with comparable construction projects.
2 Bedroom

Living Room

Guest Bedroom

Master Bedroom

Kitchen

Bathroom

Closet

Patio
Exhibit Q: Development Timeline

Entitlement Submission       July 2005

Entitlement                  April 2006

Construction Permits        May 2006 through June 2006

Ground Breaking             July 2006

Construction                 July 2006 through October 2007

Grand Opening                November 2007
Bibliography


