YOLANDA FORD
Mayor

VASHAUNDRA EDWARDS
Councilmember at Large Position No. 1

CHRIS PRESTON
Mayor Pro Tem
Councilmember at Large Position No. 2

CHERYL STERLING
Councilmember District A

JEFFREY L. BONEY
Councilmember District B

ANTHONY G. MAROULIS
Councilmember District C

FLOYD EMERY
Councilmember District D

CITY COUNCIL SPECIAL MEETING AGENDA

Notice is hereby given of a Special City Council Meeting to be held on **Monday, January 6, 2020,** at **5:00 p.m.** at: **City Hall, Council Chamber, 2nd Floor,** 1522 Texas Parkway, Missouri City, Texas, 77489, for the purpose of considering the following agenda items. All agenda items are subject to action. The City Council reserves the right to meet in a closed session on any agenda item should the need arise and if applicable pursuant to authorization by Title 5, Chapter 551 of the Texas Government Code.

1. CALL TO ORDER

2. DISCUSSION/POSSIBLE ACTION

(a) Demonstration on the Roll Call Pro – Swagit paperless voting and captioning technology.

(b) Presentation on market assessment for redevelopment areas.

(c) Presentation of new fire apparatus.

(d) Overview of City collaboration with the Texas Parks and Wildlife.

3. CLOSED EXECUTIVE SESSION

The City Council may go into Executive Session regarding any item posted on the Agenda as authorized by Title 5, Chapter 551 of the Texas Government Code. Notice is hereby given that the City Council may go into Executive Session in accordance with the following provision of the Government Code:

Texas Government Code, Section 551.074 – Deliberations concerning the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee: the city attorney.

Texas Government Code, Section 551.087 – Deliberations regarding commercial or financial information that the governmental body received from a business prospect that the governmental body seeks to locate, stay, or expand in or near the territory of the governmental body and with which the governmental body is conducting economic development negotiations: commercial development prospect.

4. RECONVENE into Special Session and consider action, if any, on items discussed in Executive Session.

5. ADJOURN

In compliance with the Americans with Disabilities Act, the City of Missouri City will provide for reasonable accommodations for persons attending City Council meetings. To better serve you, requests should be received 24 hours prior to the meetings. Please contact Maria Jackson, City Secretary, at 281.403.8686.

CERTIFICATION

I certify that a copy of the January 6, 2020, agenda of items to be considered by the City Council was posted on the City Hall bulletin board on December 31, 2019, at 4:00 p.m.

____
Yomara Frias, City Secretary Department

I certify that the attached notice and agenda of items to be considered by the City Council was removed by me from the City Hall bulletin board on the ____ day of _________________, 2020.

Signed: _____________________________ Title: ________________________________

CITY COUNCIL
AGENDA ITEM COVER MEMO

January 6, 2020

To: Mayor and City Council
Agenda Items: 2(b) Presentation on market assessment for redevelopment areas.

Submitted by: Joseph Esch, Economic Development

SYNOPSIS

Review and discuss recent market assessment of potential attraction of general retail, dining, medical and multifamily users in the redevelopment area.

STRATEGIC PLAN 2019 GOALS ADDRESSED

- Create a great place to live
- Maintain a financially sound City
- Grow business investments in Missouri City
- Have quality development through buildout

BACKGROUND

Current and previous councils, as well as the community stakeholders, have long expressed the desire to see new development as well as revitalization of existing properties in and along the Texas Parkway and Cartwright Rd corridors. To this end, the city has invested to date over $41,000,000 in capital improvement projects, facilitated the development of the HCC campus next to city hall, created a TIRZ for the purpose of supporting development and most recently adopted an economic development plan which included as one of the top five council priorities the redevelopment of Texas Parkway and Cartwright Road.

Last year, the city in pursuing a multi-faceted approach to redevelopment and utilizing the resources of TIRZ #1 approved four additional projects of redevelopment of Grand Park Center, the City's Veterans Memorial project, the redevelopment of the City's parks maintenance building and the collaboration with Fort Bend County on the revitalization of the Missouri City gymnasium.

Building upon the successes above the council and community have expressed a desire to medical service providers, sit-down dinning, and general retail. Included in this goal is the redevelopment of the Missouri City Central Property where the former movie theater is located as well as the King Dollar Center

In an effort to identify the market opportunities in the desired categories, staff engaged RCLCo to undertake a market assessment of the redevelopment corridor for various classes of commercial development. Staff will present and discuss the findings of the market assessment to council.

SUPPORTING MATERIALS

1. Market & financial assessment

Director Approval: **Joseph Esch, Economic Development**

City Manager Approval: **Anthony J. Snipes, City Manager**

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(DRAFT) MARKET & FINANCIAL ASSESSMENT

2 PARCELS

MISSOURI CITY, TEXAS

Prepared for the City of Missouri City

ABOUT RCLCO

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Since 1967, RCLCO has been the "first call" for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development.

RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over 50 years and thousands of projects–touching over $5B of real estate activity each year–RCLCO brings success to all product types across the United States and around the world.

Learn more about RCLCO at www.RCLCO.com.

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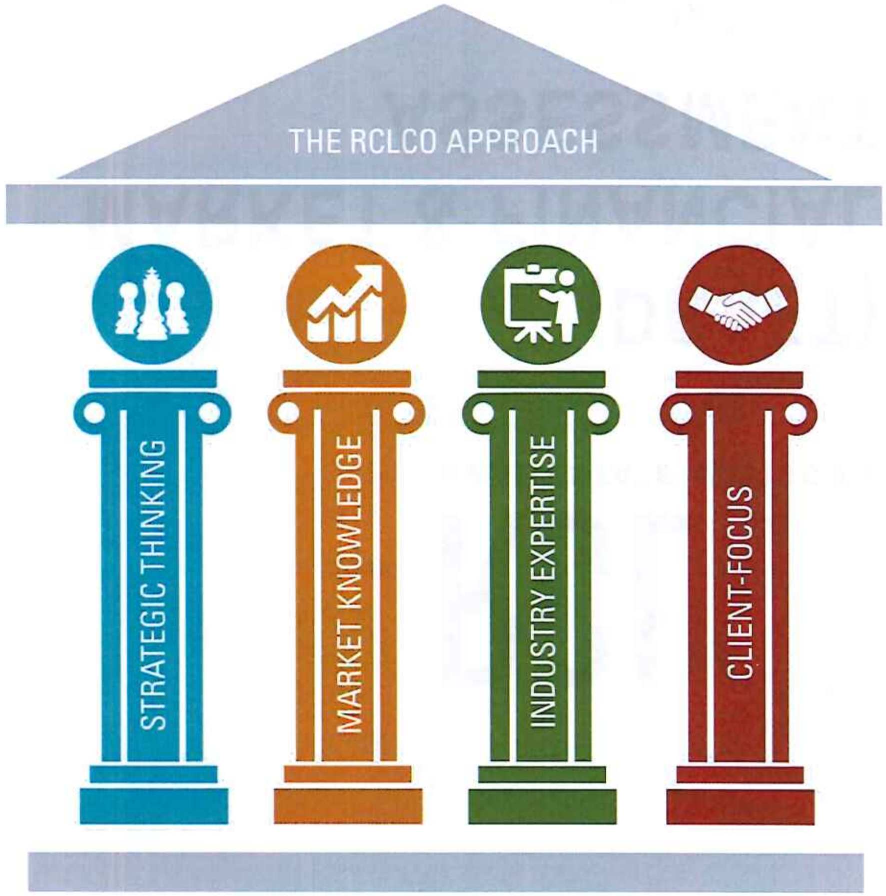

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OPPORTUNITY MATRIX

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LAND USE	TYPE	FIT AT SITE / LOCATION	SUPPLY/DEMAND BALANCE	REDEVELOPMENT ECONOMICS OPPORTUNITY
RESIDENTIAL				
Rental Townhomes	Low density single-family attached housing	**MODERATE/STRONG:** Sites are suited for in-fill townhome development; rental single-family attached product would integrate seamlessly with surrounding residential neighborhoods	**STRONG:** Strong regional demand for single-family rental product with limited competition	**WEAK:** Density constraints from single-family rental housing, at the current asking rents, do not allow for redevelopment economics to pencil for third-party developer
Rental Multifamily	Garden apartments	**STRONG: 200 units/site** While the sites would be value alternative to the north and I-69 corridor competition, sites benefit from connectivity to employment and strong visibility from Texas Pkwy	**MODERATE/STRONG:** Strong regional demand with increased renter turnover and multifamily propensities; near-term competition exists with a robust rental pipeline over the next five years	**STRONG:** Presents the most suitable land use for redevelopment given rents, scale, and densities achieved; Missouri City Central site offers stronger near-term redevelopment conditions. Public demolition subsidies may be required to attract private developers
COMMERCIAL				
Retail: Restaurants	Fast-casual limited-service restaurants	**WEAK/MODERATE:** Area surrounding the sites lack the household growth, incomes, and daytime population, as well as the site lacking a proper anchor (grocer/lifestyle) to attract restaurant tenants	**STRONG:** Retail gap/leakage analysis of the local trade area indicates depth (up to 35,000 SF) for food services and drinking places	**WEAK/MODERATE:** Asking rents and achievable densities of new neighborhood-serving retail by itself without complementary higher density development yield unfavorable redevelopment economics
Conventional Office	Neighborhood-serving and conventional office	**WEAK/MODERATE:** Not located in a preferred office node/corridor; opportunity is constrained to low-density neighborhood office	**WEAK/MODERATE:** Cautious approach to large conventional multitenant office given historically low absorption and neighborhood-serving office orientation	**WEAK:** Neighborhood-serving commercial space lacks the scale, density, and rental rates needed to support redevelopment efforts, individually
Medical Office	Ancillary medical services and/or healthcare providers	**WEAK:** Sites lack the proper criteria for significant medical office development: located more than five miles from a major hospital/healthcare center and lack strong regional accessibility/connectivity	**MODERATE:** Occupied medical office space per resident dynamic remains below other Houston submarkets but the local area's constant ratio over the past decade suggests local equilibrium at lower ratio	**WEAK/MODERATE:** Opportunity limited to small-scale neighborhood medical office and/or a small outpatient clinic (3,000-5,000 SF); asking rents and achievable densities of new neighborhood-serving medical office yield unfavorable redevelopment economics by themselves

CURRENT RETAIL ASSETS

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The retail sites of interest include: Missouri City Central Shopping Center and Quail Corner, both of which are existing retail assets, located at opposite corners of Texas Parkway and Independence Boulevard. Both retail sites are underperforming, with high vacancies and limited curbside appeal. While both assets are aged, Quail Corner Shopping Center is performing better, with higher occupancies, rents, and subsequently, more tax revenue for the city. Quail Corner is currently under contract for a $5.5M sale price ($722K/acre). **The Missouri City Central Shopping Center site is likely a better candidate for redevelopment based on its depreciated asset value, high vacancy, and portion of the asset that no longer conforms to city code.**

Based on the City of Missouri City's property tax rate and the asset's assessed value (Fort Bend Tax Assessors), RCLCO determined the property tax revenue. Additional sales tax revenue was calculated utilizing Missouri City's sales tax rate and a retail sales value per square foot ($/SF) assumption of approximately $150.

	MISSOURI CITY CENTRAL	QUAIL CORNER
Annual Avg. Tax Revenue		
City Property Tax Rate	0.63%	
City Sales Tax	1.00%	
Current Property Tax	$8,050	$17,280
Current Sales Tax[1]	$75,190	$108,350
Total Tax Revenue	**$83,240**	**$125,630**
Property Characteristics		
Land Area (Acres)	7.97 AC	7.61 AC
Year Built	1984	1984
Existing SF	71,000 SF	85,787 SF
Vacancy (%)	29.4%	15.8%
AV (2019)	$1,277,600	$2,742,720
For-Sale ($)	-	$5,500,000 (under contract)

Commercial Subject Sites
Missouri City, TX

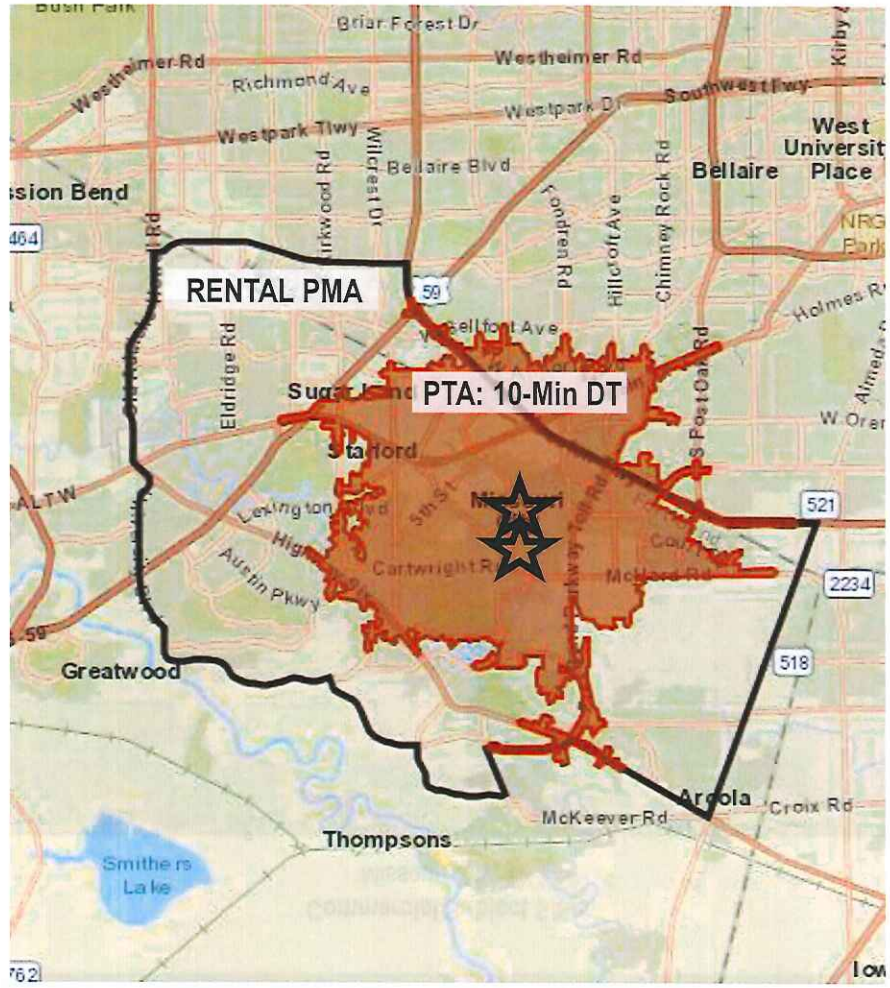
[1]Sales tax analysis assumes $150 of retail sales per occupied square foot
Source: Fort Bend Tax Assessors; CoStar; RCLCO

RCLCO defined the key geographies of the local area: Primary Market Area (PMA) for residential uses and a 10-minute drive-time Primary Trade Area (PTA) for retail analysis. The rental PMA's boundaries are based on a combination of drive-times, socioeconomics, highway infrastructure, and commuting patterns of existing households in the area. The PMA is intended to represent the primary source market of local demand for rental residential land uses at the subject sites. The PTA is used to examine the supply dynamics and gaps of retail in the local area for neighborhood-serving retail, as well as food and beverage services.

Per the U.S. Census Bureau and Esri's estimates, the PMA is comprised of approximately 108,000 households and is anticipated to grow by nearly 2,300 households per year through 2024. Median household income in the PMA is approximately $70,500, which is slightly higher than the overall metro. The PTA comprises a smaller geographic area, with a median household income of approximately $59,170, earning nearly 10% less than the overall Houston MSA.

CHARACTERISTIC	HOUSTON MSA	PMA	PTA (10-MIN)
HOUSEHOLDS			
2010	2,062,529	92,386	38,969
2019	2,475,335	107,773	42,656
2024	2,711,943	119,745	46,326
Growth Rate (2000-2010)	2.3%	2.5%	1.4%
Growth Rate (2010-2019)	2.0%	1.7%	1.0%
Growth Rate (2019-2024)	1.8%	2.1%	1.7%
Median HH Income (2019)	$65,600	$70,570	$59,170
Average HH Income (2019)	$95,200	$100,200	$78,150
HOUSEHOLDS AGE DISTRIBUTION (2019)			
Under 35	22.6%	17.4%	17.9%
35-64	57.8%	62.8%	60.5%
Over 65	19.5%	19.8%	21.7%

Map of Key Geographies
Primary Trade Area & Primary Market Area



Source: Esri; RCLCO

RETAIL & MEDICAL OFFICE ASSESSMENT

RETAIL – MARKET OVERVIEW

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SUPPLY CONDITIONS & PERFORMANCE METRICS

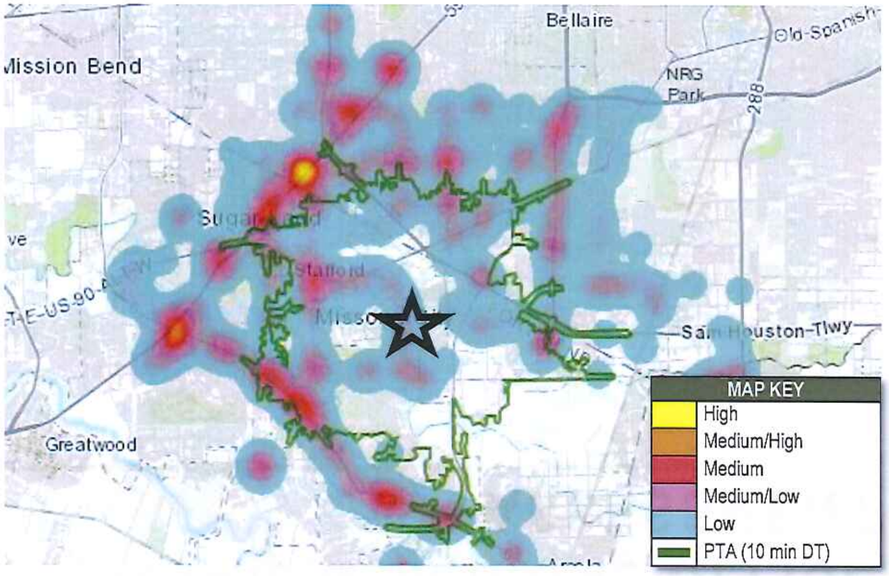
The local area retail market, defined by a 10-minute drive-time from the subject sites, has realized limited new retail development over the past 10 to 20 years. Although the local primary trade area (PTA) saw an uptick in development and positive absorption activity in 2018, new retail investment has concentrated along major thoroughfares and arterial roads. The vast majority of new retail is clustered along Highway 6 in neighborhood retail centers or power centers, catalyzed by the household growth from residential communities in South Missouri City (see page 20 for a comprehensive retail concentration map). Much of the retail inventory north of Highway 6 is aging or becoming obsolete, given relatively limited new household growth and incomes below the Houston MSA. Given the subject sites' interior locations, retail is likely limited in scale, serving the local neighborhoods within a 10-minute drive-time.

Fast-casual and full-service restaurants are primarily located outside the Primary Trade Area (PTA) of a 10-minute drive-time from the subject sites. Most dining is offered along major thoroughfares and intersections, such as I-69 and Hwy 6, that offer high visibility and accessibility to greater concentrations of households. Additionally, areas of higher household incomes tend to attract larger clusters of dining options such as Pearland and Sugar Land town centers, as retailers look for areas with the greatest retail spending potential. Given the lack of dining options in the designated 10-minute drive trade area, residents must travel up to 15-minutes to reach areas with a diverse set of dining options. Within 10-minute drive-time PTA, a majority of the non-fast food dining establishments are oriented towards higher traffic roads such as Hwy 6 or along Hwy 90.

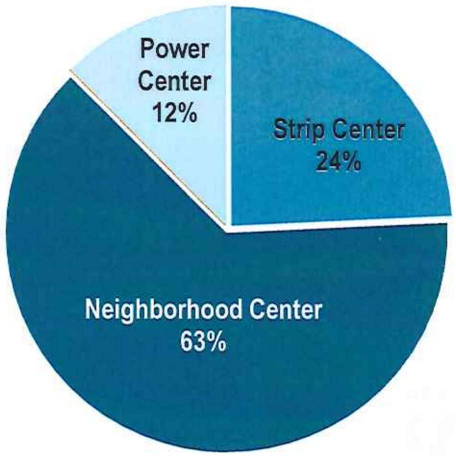
DEMAND DRIVERS

Retailers looking to expand generally seek out areas with high concentrations of spending potential (household concentration times household incomes) and areas experiencing strong household growth. Given the highly developed nature within the 10-minute drive-time, household growth is relatively modest compared to more greenfield areas south of Highway 6, though redevelopment and densification in the local area will likely lead to increased spending potential in the area, helping support small-scale retail development.

Heat Map of Retail



Mix of Retail Space by Shopping Center Type
PTA; 10-Minute Drive Time



Source: CoStar; ArcGIS; RCLCO

RETAIL LEAKAGE ANALYSIS

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OVERVIEW & SURPLUS

RCLCO utilized data regarding household incomes, estimated spending potential, and existing retail supply from Esri to determine potential retail gaps and surpluses within the local market area by retail trade/category.

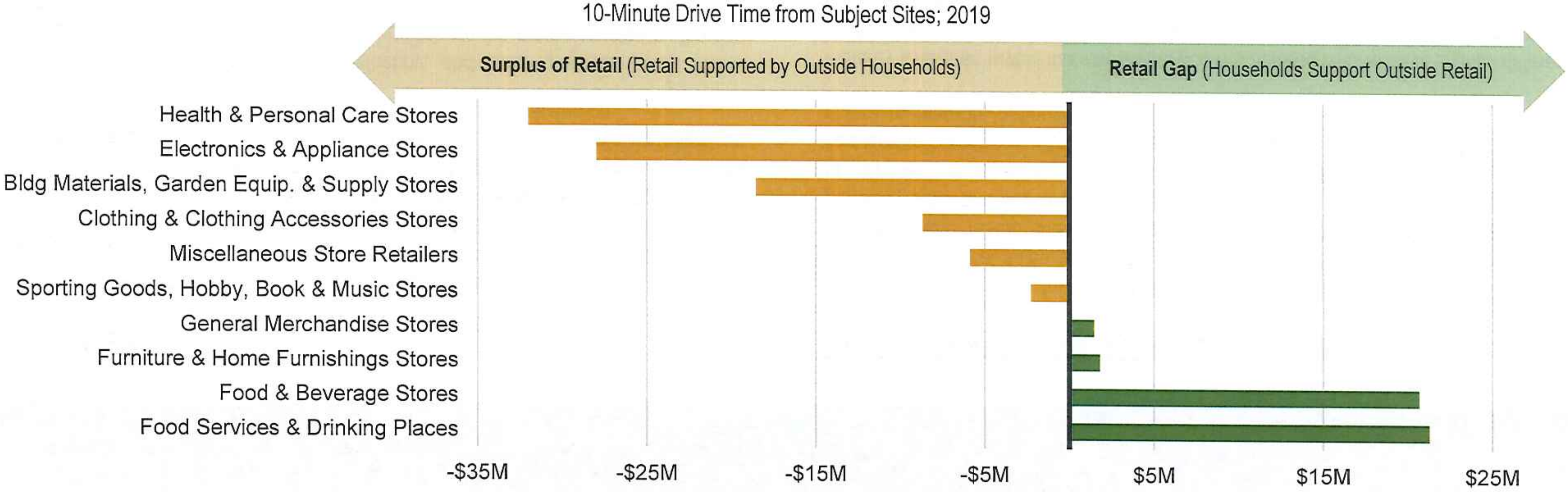
The analysis reveals that there is sufficient supply in most retail trades within the 10-minute drive-time of the subject sites; however, food service & drinking places, as well as grocery stores are both potentially under-supplied, with households commuting outside of the 10-minute drive-time area for most of their needs in these categories.

Food & Beverage Stores: Given the competitiveness of the grocery market, the relatively large number of grocers immediately outside of the 10-minute drive-time and the Fiesta Mart across the street satisfy demand for food & beverage stores in the local area. Furthermore, new grocery stores are typically located along higher traffic thoroughfares.

Food Services & Drinking Places: The greatest potential opportunity in the local market area is for additional food service and drinking places, with the gap analysis indicating a clear undersupply in the local market. Given the sparse offering of non-fast food restaurants and bars, residents are traveling to other areas, driving more than 10-minutes to other establishments. While there is a plentiful supply of fast-food stores, there are very few options for residents to dine/drink in their local market at fast-casual or full-service restaurants.

It should be noted that while there is likely an opportunity for fast/casual dining, current asking rents and achievable densities of new neighborhood-serving retail by itself without complementary higher density development yield unfavorable redevelopment economics of the two sites.

Retail Gap/Leakage Analysis
10-Minute Drive Time from Subject Sites; 2019



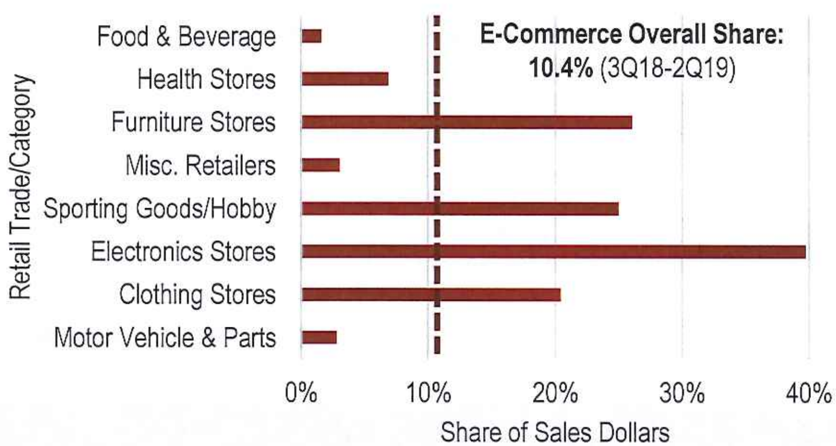
Source: Esri; RCLCO

E-COMMERCE

The rise of e-commerce will continue to impact consumer expenditure dynamics, leading to less brick-and-mortar retail space demanded per household, with 10.4% of total retail spending now occurring online. However, the effects of e-commerce are inconsistent across retail trades, with some retail categories disproportionately affected by an increasing share of retail expenditures shifting online. RCLCO utilized data from the U.S. Census Bureau's Annual Retail Trade Survey to gain insight on which retail categories are most affected by the rise in online spending:

- Electronic, furniture, sporting goods/hobby, and clothing stores (retail trades typically located in 'Big-box stores' and malls) are the most impacted by the rise of e-commerce, with 20% to 40% of total sales in these trades occurring online; the vast majority of recent retailer bankruptcies operate in these retail trades
- Food & beverage stores are the least susceptible to the rise of e-commerce, with less than 2% of total retail trade sales occurring online

Percentage Online Spending by Retail Trade
United States; 2016



RESTAURANT/DINING RETAIL BENCHMARKING

Given the supply gap for fast-casual dining in the local area, the table below benchmarks typical sales per square foot (revenue $/SF) range by restaurant type. Limited-service restaurants differ from full-service establishments in that patrons generally order and pay at a counter before eating. While full-service restaurants once represented the largest share of restaurants, the recent rise of fast-casual restaurants has lead to a reversal, with limited-service restaurants now accounting for over 53% of total restaurants, nationwide.

Industry averages reveal that limited-service restaurants tend to have slightly different economics than their full-service counterparts, primarily due to higher occupancy costs and lower check averages. Generally, at sales levels between $300-$400 per square foot, limited-service restaurants typically realize moderate profits, 5%-10% net income as a percentage of total sales.[1]

Benchmark of Restaurant Sales per Square Foot
United States; June 2018-May 2019

	FULL-SERVICE	LIMITED-SERVICE
RESTAURANT BENCHMARK	**RETAIL SALES PSF**	**RETAIL SALES PSF**
Operating Loss	<$150 / SF	<$200 / SF
Break-Even	$150-$250 / SF	$200-$300 / SF
Generate Profits (~5%-10%)	$250-$325 / SF	$300-$400 / SF

[1]Restaurant benchmarks were gathered from Bloom Intelligence Restaurant Benchmarks annual report and represent national averages
Source: U.S. Census Bureau; Fung Global Retail & Technology; Bloom Intelligence; RCLCO

SITE SELECTION CRITERIA

RCLCO REAL ESTATE ADVISORS

Given the defined retail gap for dining options within a 10-minute drive-time of the subject sites, RCLCO surveyed the socioeconomic characteristics within three-mile radii of approximately 200 casual, full-service restaurants and fast-casual limited-service restaurants across the Houston MSA to compare the site's characteristics to recent site selections of popular restaurants.

- **Households:** Despite a relatively sizable existing household base, the area lacks the necessary household growth, which is often seen as a key metric for revenue growth potential for restauranteurs
- **Incomes:** Average household incomes in the local market are below areas experiencing new restaurant openings across the Houston MSA
- **Daytime Population:** Given the lack of nearby office concentrations, the daytime population in the local area is below market averages
- **Traffic Counts:** While the site meets minimum traffic count requirements, Texas Parkway achieves nearly half as many daily trips as Highway 6 (50,000+), where many of these restauranteurs are opening new locations
- **Co-Tenants:** Restaurants often locate in sizable retail centers or with key anchor tenants to help drive traffic and visibility, though given the surplus of most retail categories the site is unlikely to appeal to key anchor retail tenants

Ultimately, the subject sites meet several minimum site selection criteria required for full-service (casual) and limited-service dining options; however, local dynamics are significantly weaker than other areas across the Houston MSA that are attracting popular restauranteurs. Additional household growth, spending potential, and daytime population will be required to attract most national, credit-worthy restauranteurs to either of the subject sites.

SITE CHARACTERISTICS (3-Mile Radii)	**Full-Service Casual** 3-Mile Radii (Bj's, Cracker barrel, Longhorn Steakhouse, Golden Corral, etc.)	**Fast-Casual Limited-Service** 3-Mile Radii (Chipotle, Five Guys, Smashburger, MOD Pizza, Zoe's Kitchen, etc.)	**3-Mile of Subject Site** Missouri City Central & Quail Corner	**Site Comparison**
Households (2019)	19,250-33,450 Avg. 27,050	20,900-64,450 Avg. 43,250	29,950	**In-Line with Market**
Annual Household Growth (2010-2019)	310-560 Avg. 470	390-1,230 Avg. 870	300	**Below Market Average**
Average Household Incomes	$82,800-$120,300 Avg. $102,100	$101,500-$137,900 Avg. $118,400	$83,100	**Below Market Average**
Daytime Population	50,600-91,300 Avg. 78,600	54,300-191,300 Avg. 141,600	62,200	**Below Market Average**
Traffic Counts	Minimum of 25,000 ADT		28,000 ADT (2011)	**Meets Market Minimums**
Orientation/ Preferred Co-Tenants	Lifestyle center, regional mall, freestanding	Grocery or lifestyle brand anchor	-	

Source: Esri; Chainlinks Retail Advisors' Retail Expansion Guide; RCLCO

MEDICAL OFFICE SUPPLY HAS MOVED TO MORE ESTABLISHED HEALTHCARE NODES

In general, medical office inventory in the local area (5-mile radius of subject site) is limited, represented primarily by neighborhood-serving medical office that occupy smaller spaces (<5,000 SF). Regionally, new medical office is heavily clustered along major thoroughfares, including I-69 and Highway 6, and proximate to hospitals or regional healthcare centers. While the submarket has experienced nearly 50,000 square feet of new medical office since 2016, it has primarily concentrated along accessible thoroughfares or clustered around other, existing medical office. New medical office within the local area is almost exclusively concentrated along Highway 6 (The Shops at Riverstone), which has recently spurred new investment given the corridor's road widening and intersection improvements.

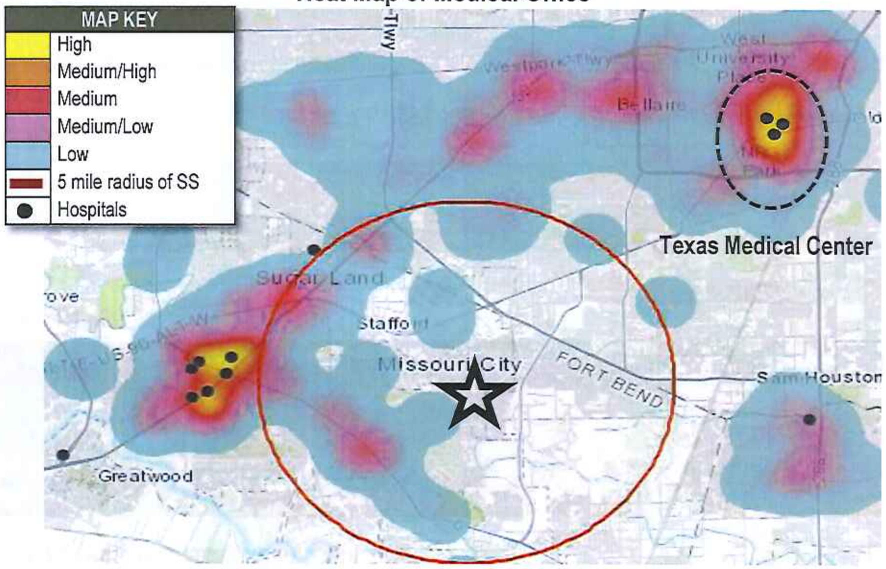
In general, local medical office vacancies trend to be lower than regional medical office in the MSA (11% - local vs. 14% - regional). Medical office rents in Fort Bend County average approximately $22 per square foot (NNN) in 2019, while the local area is priced at a slight discount at roughly $20 per square foot (NNN). Although local medical office is priced lower, submarket prices have increased significantly since 2013 as new, neighborhood-serving medical office was introduced.

DEMAND DRIVERS

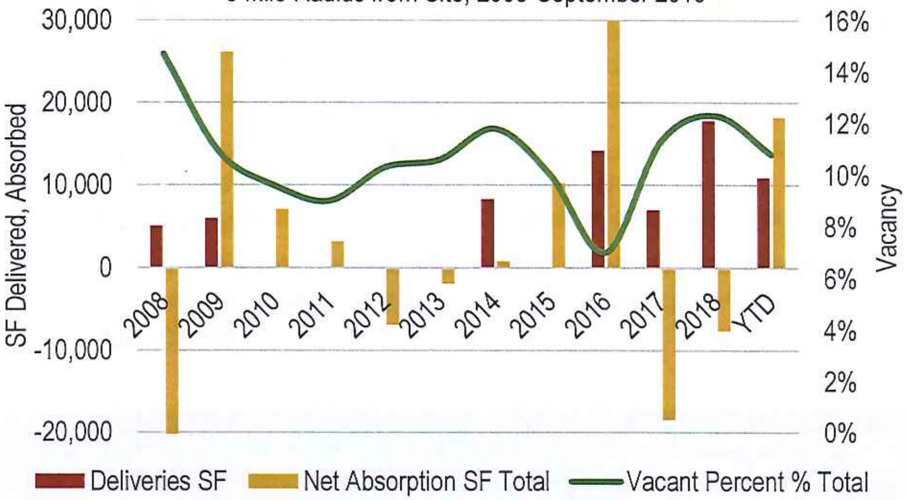
The 65+ population, which currently accounts for approximately 21% of households in a five mile radius of the subject sites, represents a fast growing age group in the local area. Missouri City's aging population is expected to fuel further medical ancillary services and spaces across the region in the future.

Furthermore, household growth is the primary driver of medical office demand. As residential development continues, particularly, in southern Missouri City, medical providers will likely follow.

Heat Map of Medical Office



Medical Office Absorption, Deliveries, and Vacancy
5 Mile Radius from Site, 2008-September 2019



*Note: A detailed medical office development map is on page 20 for reference

Source: CoStar; Esri; ArcGIS; RCLCO

MEDICAL OFFICE

As of 2019, the local area had 1.9 square feet of occupied medical office space per resident, a ratio that has been constant since before the recession. The broader region, including Fort Bend County and the Houston MSA, indicate ratios of approximately 3.1 and 4.4 occupied square feet per resident, respectively. While the local area is demonstrating a lower occupied medical office per resident ratio to the broader region, it is likely close to equilibrium given:

- Lack of a hospital or centralized healthcare center within five miles of the subject sites, limiting the emergence of a medical office core
- The submarket's and subject sites' interior orientation, as medical office tends to concentrate along major thoroughfares with high visibility and accessibility
- The local area's occupied medical office space per resident ratio has remained constant over the past decade

OPPORTUNITY

While Missouri City's aging population and household growth are positive demand drivers for medical office land uses in the future, that opportunity is likely bound to neighborhood-serving medical office (i.e. retail-facing) and/or urgent care centers (outpatient clinics). Medical office investment of scale will likely not materialize at the subject sites given:

- Lack of hospital and/or healthcare center within a 5-mile radius, as medical office tends to cluster near existing healthcare centers
- Sites' neighborhood-orientation and limited accessibility to major thoroughfare; given the cost associated with building and staffing a sizable medical operation, the sites' service area is too limited to support the capital costs associated with a larger regional medical center

However, the subject sites do pose an opportunity to serve the local households in the form of small-scale, neighborhood-serving medical office or an outpatient clinic, both of which typically range in size from 3,000 to 5,000 SF.

Occupied Medical Office Square Feet Per Person

5-Mile Radius, Fort Bend County, Houston MSA; 2009-Septmeber 2019

	5-MILE RADIUS OF SITE			FORT BEND COUNTY	HOUSTON MSA
Year	POPULATION	OCCUPIED SF MED OFFICE	OCCUPIED SF MED OFFICE PER PERSON	OCCUPIED SF MED OFFICE PER PERSON	OCCUPIED SF MED OFFICE PER PERSON
2009	244,930	491,505	2.0	3.4	4.5
2010	246,711	498,605	2.0	3.5	4.5
2011	250,540	501,821	2.0	3.5	4.4
2012	254,430	494,992	1.9	3.4	4.5
2013	258,380	493,089	1.9	3.4	4.5
2014	262,390	493,899	1.9	3.3	4.5
2015	266,460	504,127	1.9	3.3	4.6
2016	270,600	534,063	2.0	3.4	4.6
2017	274,800	515,655	1.9	3.3	4.6
2018	279,070	508,066	1.8	3.2	4.5
Sept. 2019	283,401	526,308	1.9	3.1	4.4

Source: CoStar; Esri; RCLCO

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RENTAL RESIDENTIAL – MARKET & FINANCIAL ASSESSMENT

RENTAL MARKET OVERVIEW

RCLCO REAL ESTATE ADVISORS

The SW Houston rental market (PMA outlined on page 6) demonstrates relatively stable market fundamentals, with demand for rental housing typically keeping pace and reacting positively to influxes in supply additions since the recession. Though rental absorption has historically averaged an annual 360 units over the past five years, RCLCO anticipates an increase in market depth moving forward, attributable to:

- **High Renter Turnover:** Missouri City and Sugar Land experiencing higher rates of turnover relative to the MSA (~36%), attributable to the high share of millennial and short-term family renters in the local area
- **Multifamily Preference:** Increasing rental propensity for multifamily product in SW Houston over the past five years as the area continues to add more employment
- **Rental Pipeline:** Region's robust pipeline over the next five years will continue to spur additional depth, sourcing renters from outside the local area (see page 23 for detailed rental pipeline)

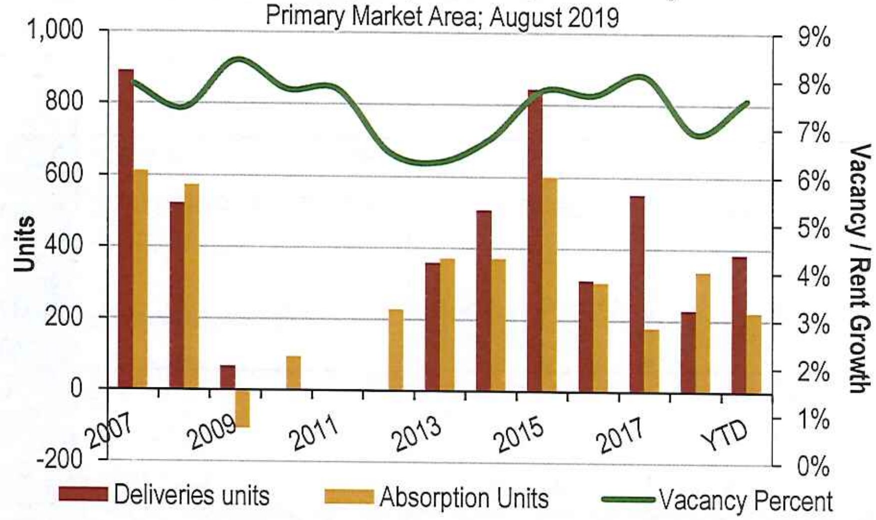
MARKET DEPTH

RCLCO estimated rental demand based on household growth, household turnover, renter propensities, product type preferences, and propensity to choose new apartment communities by age and income. RCLCO estimates annual income qualified structural demand for approximately 550 units (defined as households earning more than $35,000). The majority of demand for new apartment communities will originate from childless professionals (young & mature) and family households.

The subject site captures demand from the PMA based on analysis of all existing units in the market and foreseeable pipeline of multifamily (competitively weighted by probability of delivery). Competition from all existing units was incorporated via a rental turnover rate by unit type and pipeline activity was distributed by unit type based on the unit mix of comps (found on page 22).

Based on the rental market pipeline, RCLCO anticipates limited short-term rental demand before 2022, but depth for additional supply (~200 units per site) at one of the subject sites in approximately three to four years. RCLCO determined that rental product would be the highest-and-best-use for redevelopment at the subject sites; however, there is likely limited unmet demand in the next five years for the delivery of apartments on both parcels.

Rental Absorption, Deliveries, and Vacancy
Primary Market Area; August 2019



Rental Pipeline Schedule
Primary Market Area; 2019-2024

	TOTAL UNITS	2019	2020	2021	2022	2023+
Under Construction	782	320	462	-	-	-
Planned	2,413	-	124	789	-	1,500
Total	3,195	320	586	789	-	1,500

Demand
Primary Market Area; Near-term

HISTORICAL DEMAND		*FUTURE DEMAND*	
Historical PMA Annual Absorption (5-year)	*Pipeline: Years to Build-Out (Historical)*	*Projected PMA Annual Demand*	*Pipeline: Years to Build-Out*
360	5.0	**~550**	**3.1**

Source: Costar; Axiometrics; RCLCO

DEVELOPER FINANCIAL ANALYSIS

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RCLCO developed a financial model to test the economic feasibility of multifamily development at both retail sites. RCLCO utilized conservative development assumptions which are outlined in the table to the right. The project scope and operating assumptions were informed by the market analysis, while the development costs and valuation assumptions were informed by RCLCO research, conversations with local market players, and secondary sources.

Assuming target multifamily project yields of approximately **7.0%+ (unlevered)**, RCLCO determined that the opportunities as-is (without any subsidies) are likely not feasible for a multifamily developer. However, the opportunities differ drastically, largely contingent on the acquisition price (see page 17 for details). The distressed Missouri Central Shopping Center site proves more compelling for redevelopment in the near-term into a rental multifamily project, in which general partner(s) could expect to realize a **6.5% IRR (unlevered), without subsidies.**

Return Metrics: Public Cost Sensitivity Analysis
Missouri City, TX

	PROJECT IRR (UNLEVERED)	
CITY SUBSIDY	MISSOURI CITY CENTRAL	QUAIL CORNER
$0	**6.5%**	**5.1%**
$250,000	6.6%	5.2%
$500,000	6.8%	5.4%
$750,000	6.9%	5.5%
$1,000,000	7.1%	5.6%
$1,250,000	7.2%	5.8%
$1,500,000	7.4%	5.9%
$1,750,000	7.5%	6.0%
$2,000,000	7.7%	6.2%
$2,250,000	7.8%	6.3%
$2,500,000	8.0%	6.5%
$2,750,000	8.2%	6.6%
$3,000,000	8.3%	6.7%
$3,250,000	8.5%	6.9%
$3,500,000	8.6%	7.0%

In order for the development to be feasible for a third-party developer, the city would likely have to subsidize some portion of the redevelopment efforts:

- **Missouri City Central Site:** Subsidize demolition and some land development costs, ultimately helping bring the site back to a developable/raw form
- **Quail Corner Site:** Requires a much larger public cost given the site's higher acquisition price, which is currently under contract for $5.5 million

General Partner Ground-Up Multifamily Development Assumptions
Missouri City, TX

	KEY ASSUMPTIONS	MISSOURI CITY CENTRAL	QUAIL CORNER
Project Scope	Rental Units	200 Units	200 Units
	DU/Net Acre	25.1	26.3
	Parking	Surface (1.5/Unit)	Surface (1.5/Unit)
Dev. Costs	Acquisition Price ($)	$3,000,000 (~$377,000/acre)	$5,500,000 (~$722,400/acre)
	Break Ground Year	2022	2022
	Total Hard Costs (Excl. Land)	~$120/SF	~$120/SF
	Soft Costs (% of Hard Costs)	$16/SF (~14%)	$16/SF (~14%)
Operating	Rent per SF per Month	$1.40	$1.40
	Stabilized Occ.	95%	95%
	Operating Expenses	30%	30%
Valuation	Multifamily Cap Rate (Current)	5.60%	
	Market Cap Rate Expansion	Yes (70 bps over 10 years)	
	Property Sale Year	7	
Funding Gap (Potential Subsidy)		**$875,000**	**$3,450,000**

Source: City of Missouri City; CoStar; Real Capital Analytics; RCLCO

SENSITIVITY ANALYSIS

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The tables below illustrate the various unlevered developer returns under various assumptions regarding the initial asset/land acquisition price and the total public subsidy. Given the timing and scale of these two key assumptions, the model is highly sensitive to the two inputs.

- **Acquisition Price:** Expected sales price is based off market transaction trends, existing sale/listing pricing (i.e. Quail Corner), and conversations with local land brokers. RCLCO cornered in on an expected sale price for Missouri City Central (Parcel 1) of approximately $3 million using a variety of methods, including a market valuation based on cap rates and NOI, as well as land transactions in Missouri City over the past two years. Raw land is typically transacting between $210K to $360K per acre.
- **City Subsidy:** The public subsidies required in the redevelopment of Parcel 1 would likely come in the form of assistance with upfront site infrastructure costs (i.e. Missouri City subsidizes demolition of existing assets and/or some land development costs). Redevelopment at Quail Corner (Parcel 2) under current market conditions would likely not be feasible without a significant discount to the acquisition price.

Two-Way Sensitivity Analysis
Missouri City, TX

Project-Level Returns Unlevered IRR		PARCEL 1: MISSOURI CITY CENTRAL ACQUISITION PRICE						
		$2,000,000	$2,500,000	$3,000,000	$3,500,000	$4,000,000	$4,500,000	$5,000,000
TOTAL CITY SUBSIDY	$0	7.1%	6.8%	6.5%	6.2%	5.9%	5.7%	5.4%
	$250,000	7.2%	6.9%	6.6%	6.4%	6.1%	5.8%	5.5%
	$500,000	7.4%	7.1%	6.8%	6.5%	6.2%	5.9%	5.7%
	$750,000	7.5%	7.2%	6.9%	6.6%	6.4%	6.1%	5.8%
	$1,000,000	7.7%	7.4%	7.1%	6.8%	6.5%	6.2%	5.9%
	$1,250,000	7.8%	7.5%	7.2%	6.9%	6.6%	6.4%	6.1%
	$1,500,000	8.0%	7.7%	7.4%	7.1%	6.8%	6.5%	6.2%

Project-Level Returns Unlevered IRR		PARCEL 2: QUAIL CORNER ACQUISITION PRICE						
		$2,500,000	$3,000,000	$3,500,000	$4,000,000	$4,500,000	$5,000,000	**$5,500,000 (Under Contract)**
TOTAL CITY SUBSIDY	$0	6.7%	6.5%	6.2%	5.9%	5.6%	5.4%	**5.1%**
	$1,000,000	7.3%	7.0%	6.7%	6.5%	6.2%	5.9%	**5.6%**
	$1,500,000	7.6%	7.3%	7.0%	6.7%	6.5%	6.2%	**5.9%**
	$2,000,000	7.9%	7.6%	7.3%	7.0%	6.7%	6.5%	**6.2%**
	$2,500,000	8.3%	7.9%	7.6%	7.3%	7.0%	6.7%	**6.5%**
	$3,000,000	8.6%	8.3%	7.9%	7.6%	7.3%	7.0%	**6.7%**
	$3,500,000	8.9%	8.6%	8.3%	7.9%	7.6%	7.3%	**7.0%**

Source: RCLCO

CITY CASH FLOW & STRATEGY

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Utilizing the development assumptions outlined on page 16, RCLCO projected tax revenues produced from the redevelopment of each retail site.[1] The public cost to make the redevelopment projects economically feasible varies greatly depending on the sites' acquisition price. Under conservative assumptions, RCLCO determined the feasibility for redevelopment for the Missouri City Central Shopping Center (Parcel 1) to be the most compelling.

- **Missouri City Central Shopping Center:** Under the assumption that the City of Missouri City would subsidize land development costs (i.e. demolition), the city could expect to see a total tax revenue of approximately $1.9M over the next 15 years. This results in a tax revenue increase from the existing asset of approximately $722,000 over the next fifteen years. The City of Missouri City could expect a **10 to 11 year tax payback** of the initial subsidy, factoring in the incremental tax revenue lost from the existing retail center.
- **Quail Corner Shopping Center:** Redevelopment at the site is likely not possible without a significant site acquisition subsidy; without a reduction in anticipated sales price (under contract for $5.5M), this site is unlikely to redevelop in the near-term.

PARCEL 1: MISSOURI CITY CENTRAL REDEVELOPMENT		
Existing Property Tax Revenue (15 Year Total)	$	133,000
Existing Sales Tax Revenue (15 Year Total)	$	1,128,000
Existing Retail Total Cash Flow (15 Year Total)	**$**	**1,261,000**
Total City Subsidies (Demolition/Land Dev. Costs)	$	(875,000)
New Property Tax Revenue (15 Year Total)[2]	$	2,858,000
New Sales Tax Revenue (15 Year Total)	$	-
Cash Flow (15 Year Total)	**$**	**1,983,000**
Tax Revenue Increase	**$**	**722,000**
Years to Payback	**10-11 years**	

PARCEL 2: QUAIL CORNER REDEVELOPMENT		
Existing Property Tax Revenue (15 Year Total)	$	273,000
Existing Sales Tax Revenue (15 Year Total)	$	1,625,000
Existing Retail Total Cash Flow (15 Year Total)	**$**	**1,898,000**
Total City Subsidies (Demolition/Land Dev. Costs)	$	(3,450,000)
New Property Tax Revenue (15 Year Total)[2]	$	3,091,000
New Sales Tax Revenue (15 Year Total)	$	-
Cash Flow (15 Year Total)	**$**	**(359,000)**
Tax Revenue Increase	**$**	**-**
Years to Payback	**25+ years**	

[1]RCLCO utilized escalators for land appreciation and asset value (both new & existing) to determine projected tax revenues
[2]New property tax revenue was estimated based off the future asset value calculated via market (direct cap) valuation method
Source: Fort Bend Tax Assessors; RCLCO

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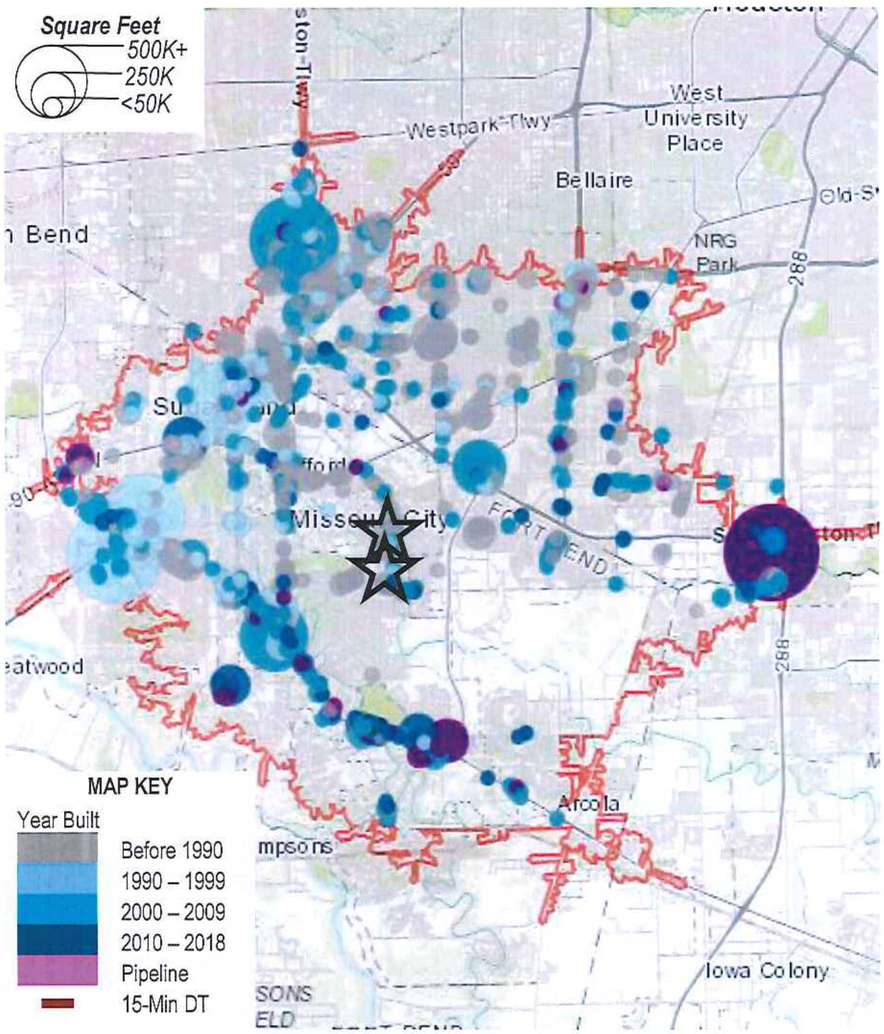
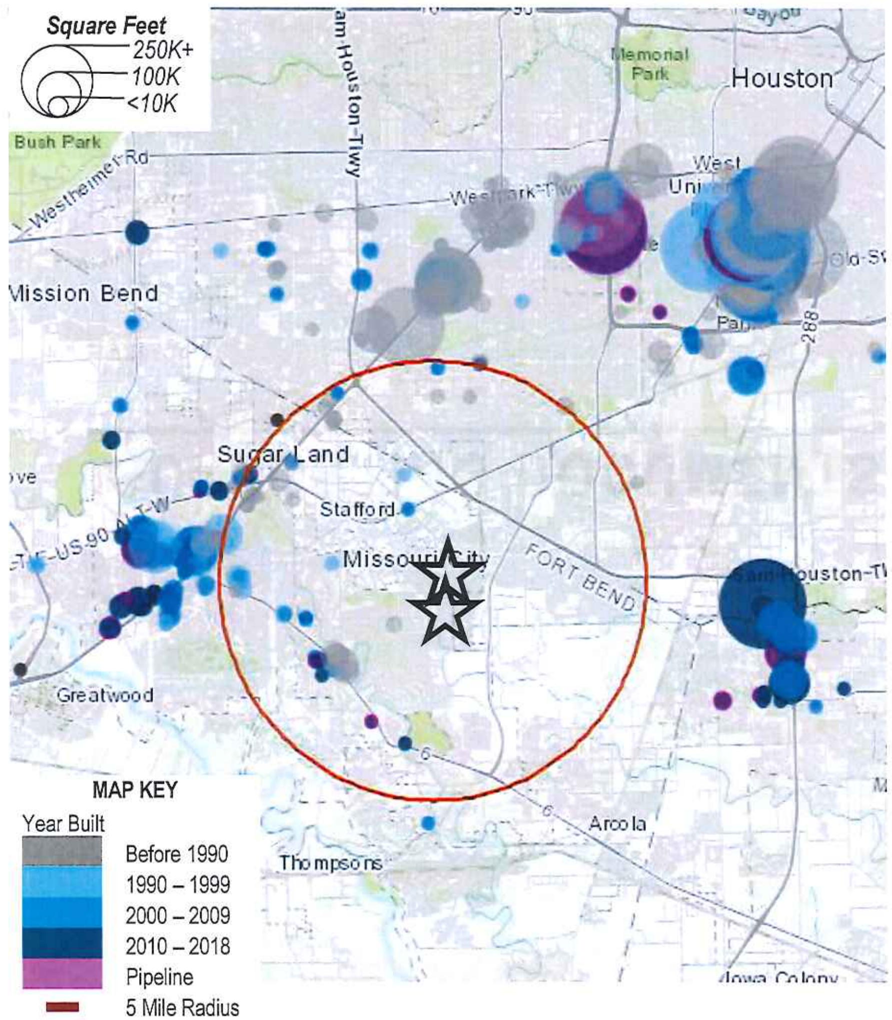
SUPPORTING DOCUMENTS

Map of Retail Concentrations
Primary Trade Area (PTA); 15-Minute Drive-Time from Sites



Map of Medical Office Concentrations
5-Mile Radius & Surrounding Area



Source: CoStar; ArcGIS; RCLCO

CONCENTRATIONS BY LAND USE

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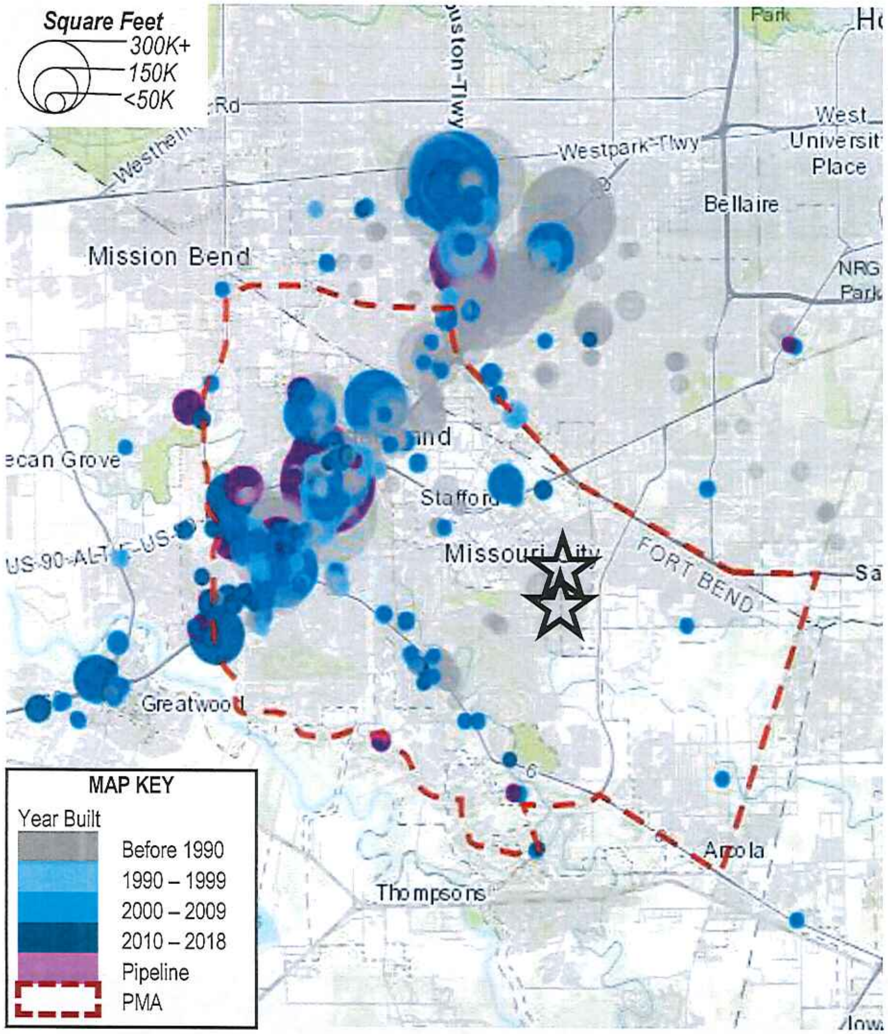
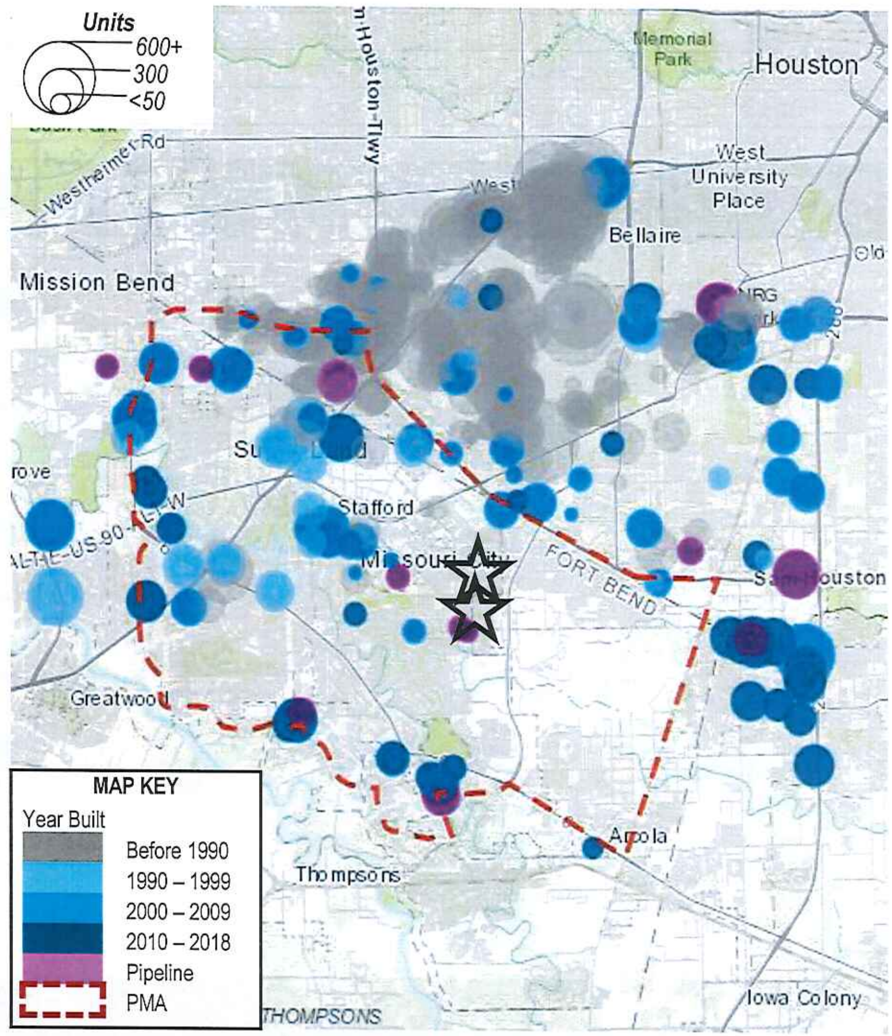
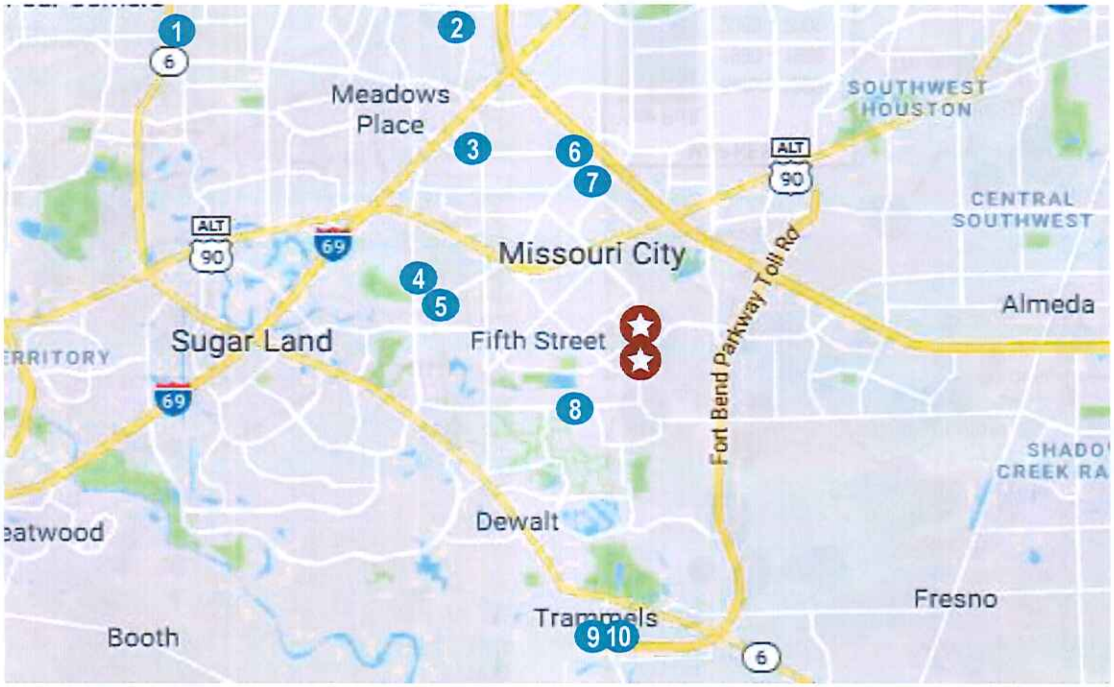
Map of Office Concentrations
PMA & Surrounding Area



Map of Apartment Concentrations
PMA & Surrounding Area



Source: CoStar; ArcGIS; RCLCO



MAP KEY	COMMUNITY NAME	YEAR BUILT	MARKET RATE UNITS	OCCUPANCY RATE	AVERAGE SIZE (SF)	AVERAGE EFFECTIVE RENT	AVERAGE EFFECTIVE $/SF
1	The Marquis at Sugarland	2009	312	97%	932	$1,275	$1.37
2	Aria at Wilcrest	2018	81	93%	771	$1,078	$1.40
3	1879 at the Grid	2019	385	18%	1,014	$1,560	$1.54
4	Silverbrooke	2007	312	92%	901	$1,144	$1.27
5	Lakeland Estates	2008	264	98%	1,062	$1,326	$1.25
6	Madison on the Meadow	2006	264	94%	991	$1,184	$1.20
7	The Retreat At Stafford	2006	264	96%	1,049	$1,303	$1.24
8	Plantation at Quail Valley	2005	124	94%	906	$1,336	$1.48
9	The Ranch at Sienna Plantation	2016	312	92%	1,104	$1,477	$1.34
10	Villas of Elysian at Sienna Plantation	2014	189	96%	1,102	$1,421	$1.29

Source: Axiometrics; Community Websites; CoStar; RCLCO

RENTAL PIPELINE

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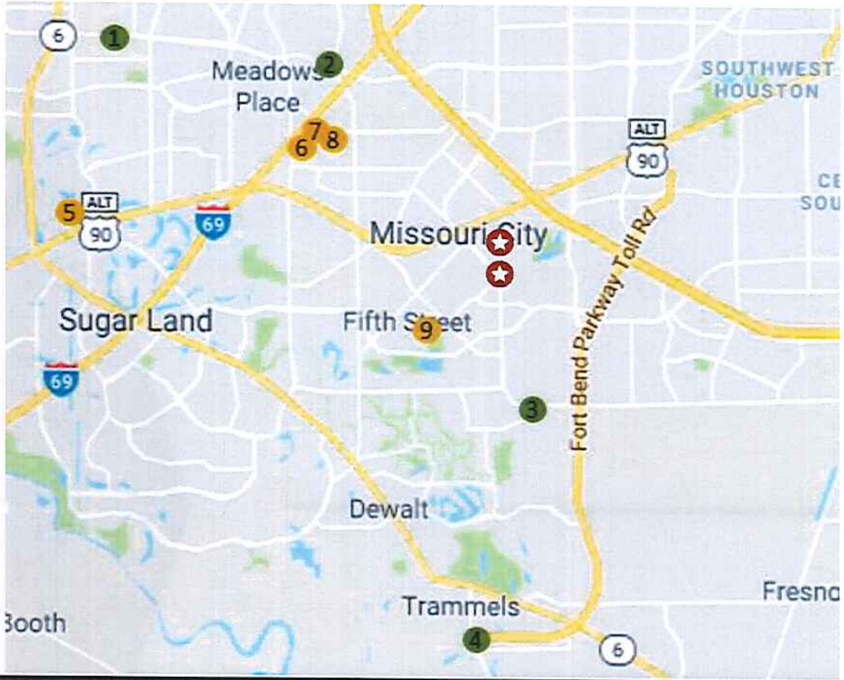

MAP KEY	PROJECT	DEVELOPER	EST. OPENING	TOTAL UNITS
	UNDER CONSTRUCTION			**782**
1	Provisions at West Bellfort	Gardner Capital	2020	50
2	Aria at Stancliff	N/A	2019	320
3	Provision at Texas Parkway	Gardner Capital	2020	120
4	Ravella at Sienna Plantation	Stanmore Partners	2020	292
	PLANNED/PROPOSED			**2,413**
5	Residences at Imperial Market	Sueba USA	2021	274
6	The Grid Mid/High-Rise (Urban Core)	JLB Partners	2023	600
7	The Grid Phase 2 (Eastern Portion)	JLB Partners	2021	515
8	The Grid Phase 3&4 (Eastern Portion)	JLB Partners	2024	900
9	Miramonte	Divine Farms LLC	2020	124

Source: Axiometrics; CoStar; RCLCO

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DISCLAIMERS

CRITICAL ASSUMPTIONS

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Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels
- The cost of development and construction
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

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Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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