

Housing Market Study and New Housing Growth Community Marketing Assessment



Prepared for the City of Taylor, Texas

May 5, 2016

Lawrence Dean
Metrostudy

10707 Corporate Drive, Suite 200
Stafford, Texas 77477

Phone: 713.622.9909

Email: ldean@metrostudy.com

web: www.metrostudy.com

CONTENTS

Introduction	3
Purpose and Methodology	3
City Location and Characteristics.....	4
Community Challenges, Opportunities, and Assets	4
Land Availability.....	12
<i>Southwest Taylor.....</i>	<i>13</i>
<i>North / Northwest Taylor.....</i>	<i>14</i>
<i>Chandler Road Corridor</i>	<i>16</i>
<i>79 West near CR 373</i>	<i>17</i>
I. Executive Summary	19
Economic Overview	19
Housing Market Overview	19
Target Market Area Analysis	21
II. Austin Market Analysis.....	23
Summary	23
Economic Overview	24
<i>Labor Capacity and Utilization.....</i>	<i>24</i>
<i>Employment by Sector</i>	<i>24</i>
Demographic Trends	26
<i>Total Population.....</i>	<i>26</i>
<i>Age Distribution</i>	<i>27</i>
<i>Income Distribution.....</i>	<i>29</i>
Residential Real Estate Market.....	30
<i>Aggregate Supply & Demand.....</i>	<i>30</i>
<i>Pricing and Affordability.....</i>	<i>31</i>
<i>Existing Home Market Trends</i>	<i>33</i>
<i>New Housing Starts & Forecast.....</i>	<i>34</i>
<i>New Housing and Vacant Developed Lot Inventory Trends</i>	<i>35</i>
<i>Vacant Developed Lot Absorption and Inventory.....</i>	<i>36</i>

III. Target Market Area Analysis	38
Introduction	38
Definition and Justification	39
Population and Household Trends	40
Residential Analysis.....	46
<i>Housing Starts</i>	<i>46</i>
<i>Vacant Developed Lots.....</i>	<i>48</i>
<i>Lot Delivery and Absorption.....</i>	<i>51</i>
<i>Price Range Distribution of New Home Starts and VDL</i>	<i>53</i>
<i>TMA Demand by Lot Size.....</i>	<i>55</i>
<i>TMA Subdivisions Ranked by Annual New Home Starts.....</i>	<i>57</i>
<i>Planned Housing Projects</i>	<i>58</i>
IV. Strategic Recommendations	59
V. Q&A Development.....	71
VI. Resale Market Impact	73
<i>Current Conditions</i>	<i>73</i>
<i>New Development / Existing Home Characteristics.....</i>	<i>75</i>
<i>Potential Resale Market Impact Points.....</i>	<i>76</i>
<i>Conclusion.....</i>	<i>77</i>
VII. Assumptions & Limiting Conditions	77

Introduction

Purpose and Methodology

Metrostudy was tasked by the City of Taylor with providing an assessment of residential development needs. Our goal is to assess the City's needs and provide recommendations for the fulfillment thereof. In so doing, Metrostudy seeks to provide actionable insight for key stakeholders, including the City, homebuilders, developers, and their associated financial partners.

Our estimates and recommendations are based upon expected single-family housing demand within a defined Target Market Area (TMA) surrounding the City. It is from TMA housing needs that the City of Taylor will draw much of its market support. Metrostudy also evaluated the overall Austin economy, particularly trends in household formation and employment growth, to determine the correlation between economic expansion and single-family housing demand. By analyzing these historical trends, Metrostudy established a forecast for housing starts in the Austin Market¹ and the TMA. A map of the TMA can be found on page 19 of this document.

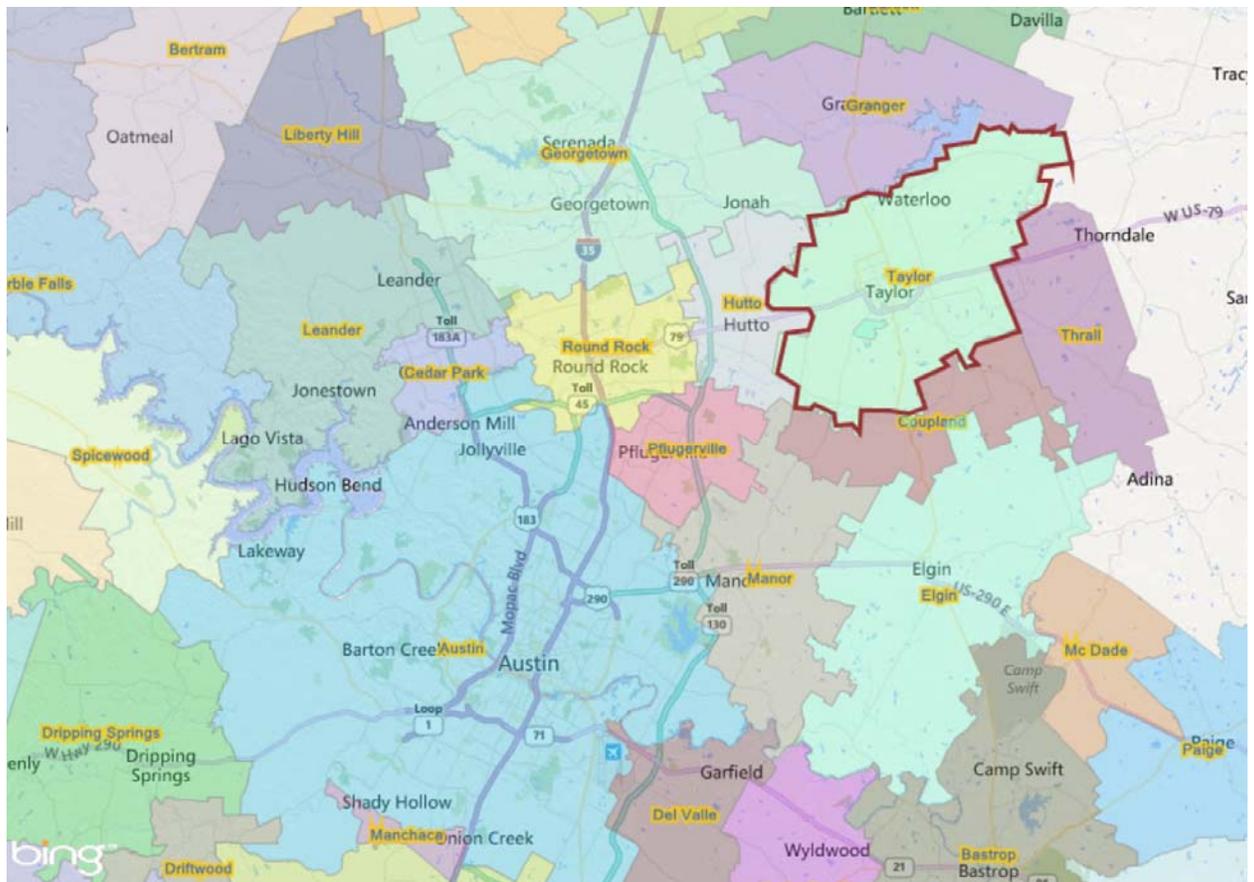
Aggregate single-family housing production was also analyzed to establish the manner in which Austin's housing supply expands and/or contracts in response to economic activity. Metrostudy monitors the supply of new homes on a quarterly basis to accurately determine the size of the Austin market, as well as the size and number of competing subdivisions.

Furthermore, a demographic analysis of the TMA was completed for two main reasons. First, to determine the percentage of the population that is capable of purchasing new homes. But more importantly, in order to break down the buyer profile of single-family housing purchasers in the general area. These are the types of households that will need to be targeted by the City's future developers and homebuilders.

¹ Metrostudy's Austin Market consists of Bastrop, Caldwell, Hays, Travis, and Williamson Counties.

City Location and Characteristics

The City of Taylor is nestled on the Northeast Austin frontier. Conveniently-located a short, 10 minute drive east of State Highway 130 along SH 79, Taylor provides residents the ambience of small town living with easy access to Austin’s wide variety of urban entertainment and high-tech employment clusters. Dell, Hewlett-Packard, and Oracle, all located in the Round Rock corridor, are just a 15 minute drive from Taylor.



Community Challenges, Opportunities, and Assets

The following portion of our analysis will serve to notify the City of Taylor of its various strengths and weaknesses in terms of its assets and perceived discrepancies. Typically such assets focus around, but are not limited to, proximity to employment, schools,

location, recreational amenities, and a reasonable building / development entitlement process. Metrostudy's goal is to qualitatively present these opportunities and challenges in terms of how builders and developers will perceive the City when considering a new project within its jurisdiction. In addition, we provide solutions and positive messaging to overcome these objections. In order to determine the challenges, opportunities, and assets, Metrostudy performed the following steps:

- Field Research – Included spending time on the ground in the various neighborhoods of Taylor and other nearby communities assessing housing conditions, market dynamics, and development patterns.
- Professional Interviews – We spoke with several Austin-area builders and developers and Taylor-area realtors in order to gain a better understanding of each's perceptions about Taylor, its housing market, and the market potential for higher-end new housing development.
- Secondary Research – an in-depth analysis of housing market data was performed both within Taylor as well as within nearby communities and metro Austin overall.

Beginning with the good news, Metrostudy has identified multiple community assets and opportunities that are expected to support Taylor's market potential for higher-end new housing, including:

Asset #1: A Genuine "Community Feel"

Unlike some competing suburbs of Austin, Taylor presents a genuine "hometown" or "community" feel. Elements that contribute to this intangible but important asset include Taylor's well preserved historic neighborhoods, extensive park system, and redeveloping classic small town downtown. Hutto does not offer these elements on a scale equal to Taylor. The historic old town areas of Round Rock and Georgetown are on more of a comparable scale to Taylor. Although many other factors contributed greatly to the large scale development occurring in those two cities, it is important to

note that they are instructive that Taylor's current footprint could potentially support additional new development on a larger suburb scale.



Taylor's downtown area includes several notable restaurants and charming local shops. Mueller BBQ and the mixed use redevelopment of the McCrory Timmerman building (including a brew pub, coffee house, and high end loft rental apartments) are not the least of the elements that offer Taylor a genuine "community feel."

The sizable historic neighborhoods just north of downtown Taylor also contribute to this asset.



Metrostudy observed market interest in these older homes in vintage neighborhoods. Most that are currently listed on the market are under contract. Many had been extensively renovated and restored, and were selling for prices in excess of \$110 per front foot. While this represents a value to similar home pricing in vintage areas of central Austin, pricing is still at a premium for this area, indicating the strong demand for – and continuing attractiveness of – Taylor’s historic neighborhoods.

Opportunity: Favorable Land Economics

Metrostudy observed land pricing among tracts currently on the market for sale that would provide a steep discount versus many other suburban locations of Greater Austin. Potential residential development tracts observed for sale ranged in price from \$7,800 to \$21,000 per acre. This pricing structure allows for developers to purchase land at a sufficiently low land basis, thereby pricing in the risk of developing in Taylor (which does not exhibit a demonstrable history of real estate demand).

Asset: Community Amenities

Because it is an established community, Taylor offers new residents a slate of existing amenities that could make the community attractive to new residents and ultimately buyers of new homes within new more upscale developments. These include Taylor’s park and trail system. The more fully developed community amenities within Taylor

should be marketed as an attribute both to potential developer / builders and potential new residents.



Asset: Proximity to 130 Toll, Path of Growth

The opening of the 130 Toll Road has made commuting to and from suburban communities in the northeast, east, and southeast sides of Austin much more feasible than it had been prior. This transportation corridor has allowed for the path of growth to continue east from Round Rock to Hutto beyond 130. Taylor is the next location beyond Hutto in this path of growth expansion. Similar path of growth development has occurred in Georgetown to the north. Previously, Georgetown (not unlike Taylor) was a small historic town with the Sun City age restricted community adjacent. However, Austin's strong growth coupled with path of growth development has lead Georgetown to see strong development growth as Round Rock reaches buildout. A similar dynamic can reasonably be expected to occur in Taylor as Hutto reaches buildout. I-35 is a more primary route in the region than is 79, so the degree to which Taylor is in the path of growth is slightly lesser than the degree to which Georgetown was. However, as Georgetown achieves greater and greater level of development, it is not unreasonable to

contemplate development moving east of Georgetown / Round Rock along Chandler Road and Highway 29 East. This development would eventually reach Taylor. This scenario is not unreasonable to contemplate in the future because development would simply have to reach points too far north from Austin along I-35 such as Jarrell and further into Bell County once it extends beyond Georgetown. The distances from Austin employment centers would be too great; it is more reasonable to expect development to fill back in to the east as projected above. Developers interviewed in this Housing Study process indicated that the perception among homebuilders in Austin (and homebuyers) is that Taylor is geographically “far out.” However, the reality (as acknowledged by the same developer) is that 130 Toll is less than a ten minute drive from Downtown Taylor, and the introduction of 130 makes the commute from Taylor to key Austin area employment nodes comparable to that from multiple other suburbs in the area.

Challenge: Abundance of Land

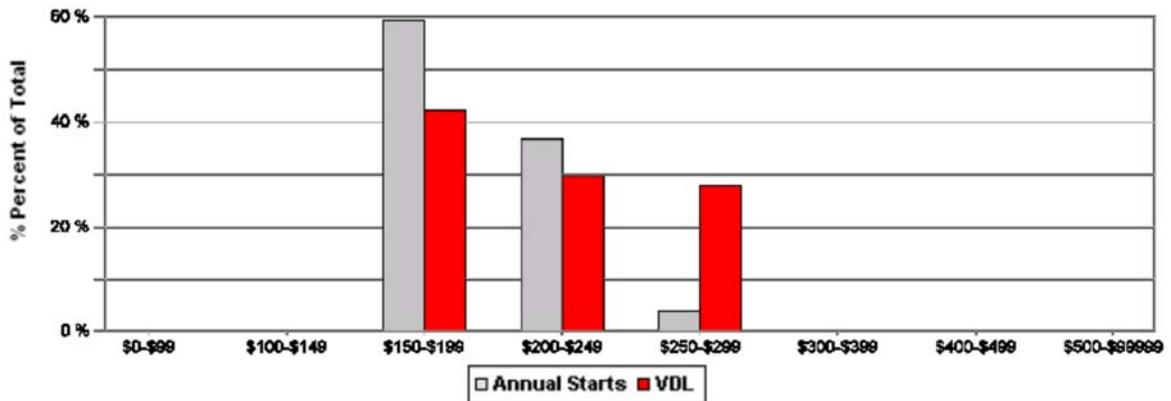
One challenge brought to our attention by our developer clients is the abundance of developable land within the TMA but outside of Taylor’s extraterritorial jurisdiction (ETJ). They fear that taking a long position in Taylor may expose them to undue risk of competition from potential tracts further west and closer to major transportation routes, such as SH-130 and I-35.

Challenge: Lack of Demonstrable Demand for Higher Priced Housing

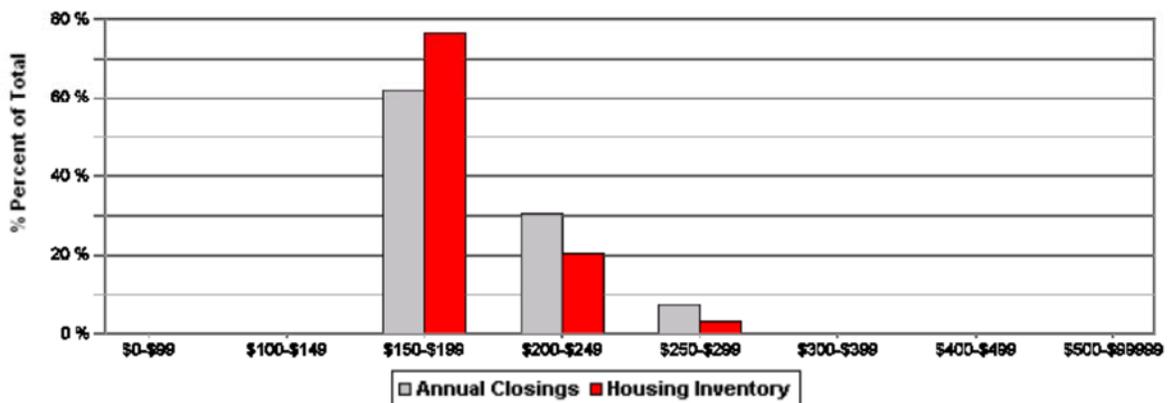
Taylor has many community assets and positives to offer. However, when contemplating where to develop new neighborhoods and build new homes, most builders, developers, and most importantly lenders, will want to see a demonstrable track record of new home sales in the targeted upper price ranges in order to move forward. Underwriting potential new upscale housing deals in Taylor may be more difficult than it would in areas that have a recent history of sales success of homes at or near the targeted price bands.

The tables below present Metrostudy's findings regarding the price band distribution of new homes recently sold in Taylor. Nearly all of these homes are within Summerfield.

Price Range Distribution of Annual Starts vs VDL



Price Range Distribution of Annual Closings vs Housing Inventory



In order to support new more upscale housing being developed in Taylor, it would require a more thorough underwriting and analysis than some developers, builders, and their lenders would wish to perform. This underwriting would ideally require:

- An analysis of the custom homes built on acreage in the surrounding area
- An analysis of the custom homes built at Hills at Mustang Creek

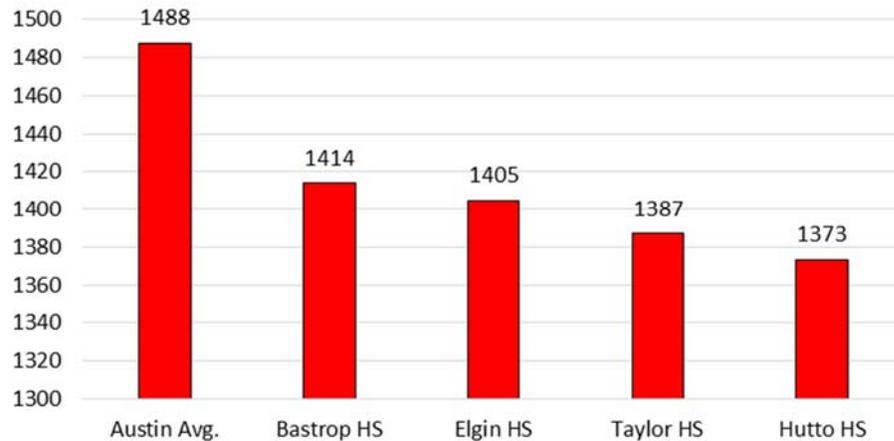
- Connections to be drawn between market potential in Taylor for such housing and market potential for same in surrounding communities including Hutto and Thrall.

Challenge: Public Education System

In order to assess school quality, Metrostudy evaluates district and campus performance on the Scholastic Aptitude Test (SAT) relative to nearby schools. SAT scores are expected to discount all positive and negative attributes that contribute to the quality of education at a particular school or district, including instructional expenditures, teacher experience, standards of accountability, and peer effects.

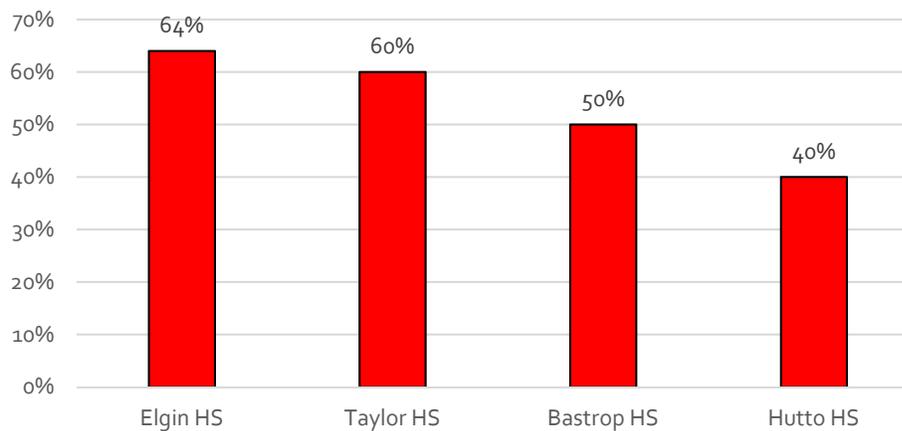
Taylor High School underperforms on the SAT compared to the Austin metro area in general, and also versus many comparable small town schools in particular, such as Bastrop High School and Elgin High School. The perception of Taylor having subpar public schools may hamper the City's competitiveness vis-à-vis other suburbs. This negative perception was confirmed by several local real estate agents. However, it is at least better than Hutto, which leads us to believe that its quality will suffice to support a similar level of new single-family residential attraction. Additionally, Taylor ISD does have a strong number of successes to celebrate. These are outlined in the Strategic Recommendations portion of this report as items which should be proactively promoted.

Average SAT Score



Source: Texas Education Agency, Metrostudy

Percentage of Students Classified as Economically Disadvantaged



Land Availability

Available land in a market-suitable, environmentally feasible, and structurally-supportable location is one of the most crucial key components needed to facilitate new residential development in Taylor. Fortunately, Taylor has the land and infrastructure to offer in the event that residential development interest materializes. Developable land in

Taylor is also priced very competitively as compared to developable tracts in other eastern Austin suburban areas, which generally trade currently for \$25,000 to \$40,000 per acre. Tracts available in Taylor, identified by Metrostudy, are on the market for between \$9,000 and \$22,000. This price structure sets up a potentially compelling value for land developers.

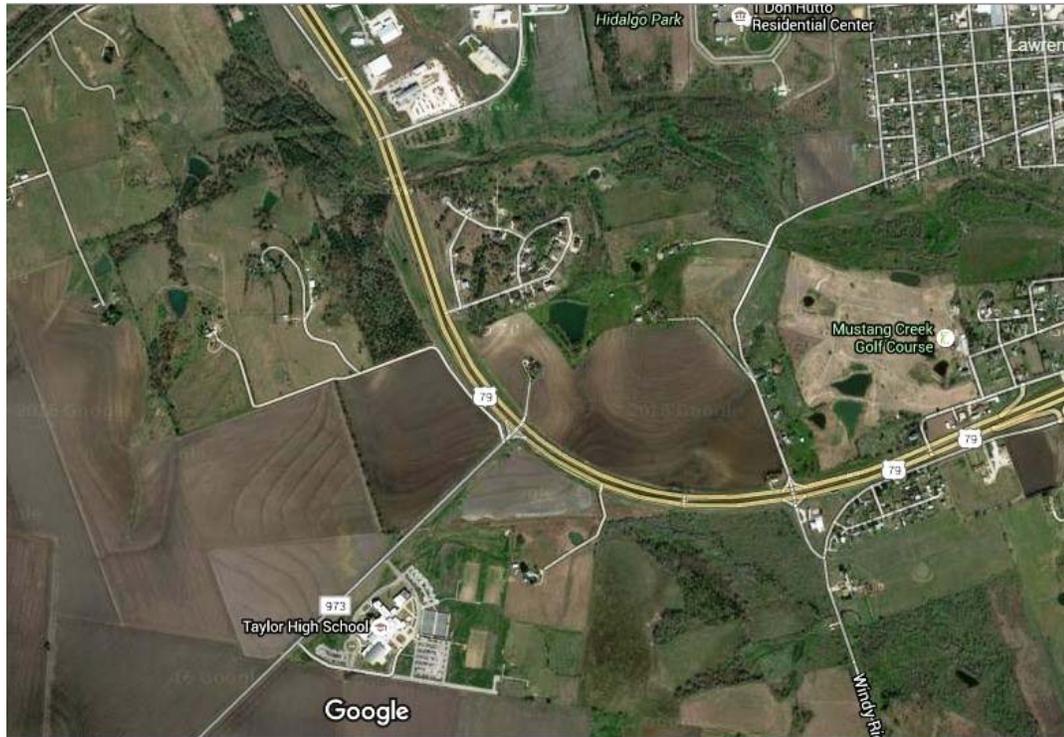
Metrostudy has identified several corridors and areas of Taylor as optimal for potential new residential development at the targeted price points and housing product types. These locations will be discussed below in terms of both available land within each as well as the characteristics Metrostudy identified making these corridors optimal.

SOUTHWEST TAYLOR

The first area identified as being suitable for additional residential development is Southwest Taylor. Specifically, three locations have been identified within Southwest Taylor:

1. Along 79 in the immediate vicinity of the existing upscale Hills of Mustang Creek neighborhood.
2. Along 973 across from or adjacent to the new Taylor High School campus.
3. Along Windy Ridge Road and Buttercup Road, east and south of the new Taylor High School campus.

This area is attractive for new residential development for several reasons. Most importantly, it enjoys close proximity to the attractive new high school campus and SH-79. Thus, it provides easy access to employment routes and also the town's retail.

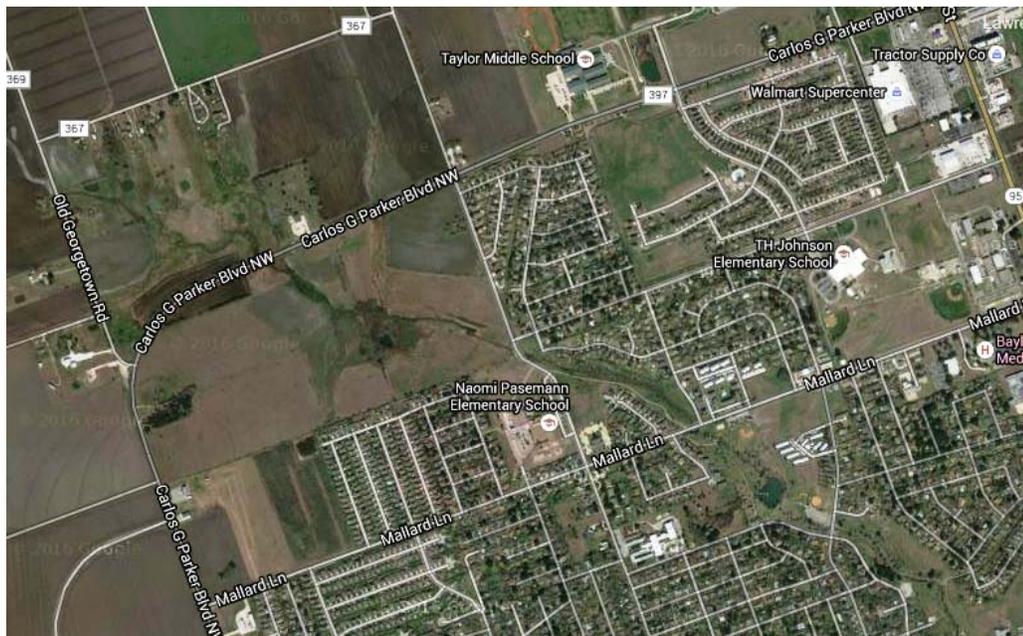


- There is currently a 39.74 acre tract at the hard northwest corner of Carlos G Parker and 973 on the market for \$894,308 or \$22,500 per acre.
- In addition, there are four tracts that total 137.31 acres south of the high school on the market for \$1,853,671 or \$13,499 per acre.
- There are seven subdivided 5 acre “gentleman’s ranch” tracts for sale for \$89,900 each along Windy Ridge Road near the intersection with Buttercup Road.
- There are currently five finished vacant developed lots for sale between \$25,000 and \$41,000 in the Hills of Mustang Creek neighborhood.

NORTH / NORTHWEST TAYLOR

This area provides the best opportunity identified by Metrostudy to tie new development into the existing fabric of Taylor. Developable land exists in this area along the northwest corner of Carlos G. Parker near the intersections with Mallard Lane and with North Drive.

This location is potentially desirable for new single family development because it is adjacent to existing community infrastructure including the park / trail system and facilities including Pasemann Elementary, Taylor Middle School, and the Taylor Regional Park and Sports Complex.



The primary challenge to seeing residential development in this area is twofold. First, much of the land along Carlos G. Parker is zoned for more intensive land uses than single family residential, including light industrial and others. Accordingly, the land is valued at a price too high for residential development. There is currently a 4.73 acre tract inside of Carlos G. Parker north of Mallard listed for \$773,000, and a 3.06 acre tract just to the northwest listed at \$350,000. Tracts could be available along North Drive, or immediately above Oaklawn Drive, that do not have commercial zoning and do not have Carlos G. Parker frontage. These tracts could then potentially be priced and zoned appropriately for residential development. The form this development would take would be smaller, "infill" types of neighborhood development as opposed to larger master planned communities that require more acreage.

CHANDLER ROAD CORRIDOR

As a secondary location, the Chandler Road Corridor has been identified as a potential development node. This is due to two factors:

- Chandler Road being a primary commuting “back door” from Taylor into Hutto, Round Rock, and 130 Toll.
- A potential “corridor effect” extending east from existing master planned communities along Chandler (or University Blvd at that point) including Vizcaya and Teravista.

The downside to developing a new community along Chandler Road in Taylor is lack of connectivity to the existing neighborhoods and amenities of Taylor. One potential scenario that could overcome that factor would be if a sufficiently large tract or tracts were to be acquired south of Chandler Road and north of Taylor Middle School and the Regional Park and Sports Complex. A development within this specific location could be tied into the existing north Taylor area by an extension of North Drive. It could also be further tied into the existing Taylor amenities if direct access were provided from the neighborhood into the Regional Park and Sports Complex.



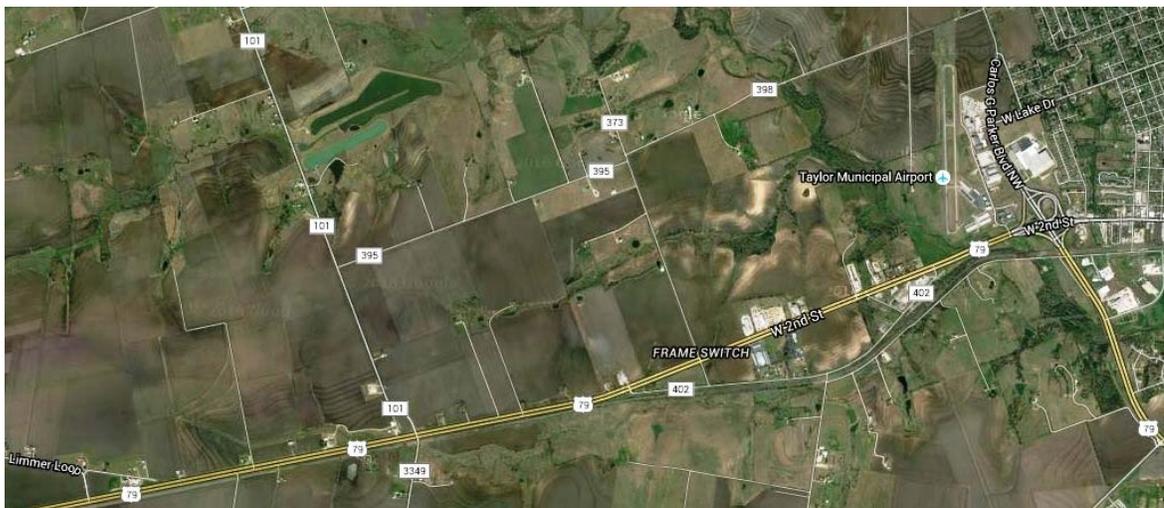
Examples of tracts currently on the market in this area include:

- A 210 acre site along N. CR 366 north of Chandler Road with San Gabriel River frontage for sale at \$2,500,000, or \$11,904 per acre that could be suitable for an upscale development.
- An 83 acre prairie tract for sale listed at \$650,000 along the north line of Chandler Road east of 374.

79 WEST NEAR CR 373

A fourth potential location suitable for new residential development is along 79 West, near CR 373. Metrostudy identified this location because it is the area within the City of Taylor that is most within the direct path of growth extending from Hutto. A medium sized to large residential development in this area could serve as an instigator to draw further development into Taylor from Hutto. The intersection with CR 373 is only a few minutes' drive east of Limmer Loop along 79, and Limmer Loop is the beginning of current new suburban development in Hutto.

This area appears to have sufficient vacant land to support development of a sizable, multiple lot size program single family development. Such a development could support the opening of an on-site Taylor ISD elementary school. An on-site school would not only serve as an attractive amenity for potential homebuyers, but could also serve to help overcome the current objection over Taylor schools perceived to be present in the new home market place. A new, in-neighborhood school, will often overcome objections otherwise expressed about the schools within an area.



Examples of tracts currently on the market in this area include:

- A 48 acre working farm on the north line of 79 priced at \$800,000 or \$16,645 per acre
- An 84 acre tract north of CR 398 priced at \$831,600 or \$9,900 per acre.

Ideally, a development in this area would have frontage along 79 sufficient to allow for a statement making entry area with high quality hardscape and softscape elements. Such an entrance will allow for the community to establish and directly present its identity to potential homebuyers.

I. Executive Summary

Economic Overview

- Austin's economy created approximately 200,000 net new jobs during the current market cycle. As a result, unemployment (3.1 percent) remains below Texas (4.4 percent) and the national average (4.9 percent).
- Despite some headwinds in manufacturing and continued mild growth in the state economy related to the high trade-weighted dollar value and prolonged commodity price slump, most of Austin's large service-based industries have continued to grow unabated. Buoyed by the continued strength and non-cyclical nature of its high-tech employment cluster, the city's professional services sector added 57,300 jobs since the depths of the recession. As a result, employment in non-basic sectors that are sensitive to consumer spending, such as leisure and hospitality, trade, transportation, and utilities, is also growing strong.
- Inflation-adjusted retail sales and wages data show considerable robustness in the economy late last year, surpassing growth in the state and nation.

Housing Market Overview

- Employment gains since the recession have caused housing demand to grow at a faster rate than housing supply. This excess demand is leading to a general shortage that is expected to become increasingly apparent as the housing cycle matures.
- Home prices are currently—and expected to continue—slightly exceeding the income-supported home price. Extreme overvaluation, while not currently the case, may in fact happen if the Austin region's political constraints to affordable housing development are not eased and construction costs continue their upward trend.

- Austin's resale home market adequately portrays the area's robust demand for livable square footage. The total dollar volume of MLS transactions reached \$10.5 billion in 2015, which is more than twice the post-recession low and 52 percent higher than the previous peak reached in 2006. A combination of rising prices and unit sales were responsible for the large increase. Annual closings reached 32,115 by the end of 2015, up 62 percent from the 19,872 units sold during the same period five years ago. Similarly, the median home price increased 37 percent, going from \$189,650 in 2010 to \$260,429 at the end of last year.
- The annual pace of new single-family housing starts reached 11,540 in 4Q15, which is almost twice the bottom reached 5 years ago after the Financial Crisis. However, on a year-over-year basis, growth in starts remained roughly unchanged versus 2014.
- New home inventory has been trending upward lately. A total of 7,310 homes were either under construction or sitting finished, vacant and ready to be sold. The current 8 months of supply remained relatively unchanged compared to a year ago, but this level is significantly high compared to historical norms, explaining why housing absorption failed to keep pace with lot deliveries over the past couple years.
- After several years of lot demand outstripping supply and declining inventories, lot deliveries began to outpace absorption (housing starts) during 2014. The trend continued through 2015, with developers bringing 3,945 more lots online than builders actually absorbed. As a result, vacant developed lot inventory and months of supply increased over the past couple years.
- VDL months of supply increased from 17.1 months in 3Q14 to 20.2 months during 4Q15. However, Metrostudy still considers current lot inventory to be within the long-term equilibrium range for this region. In other words, no oversupply exists in the lot market. Developers should increase the supply of

metro area lots, as builders are expected to remain ready and willing to buy them.

Target Market Area Analysis

- Population and household estimates indicate that the TMA is experiencing considerable growth. As of 2015, there were an estimated 281,143 people in 95,333 households. The TMA is expected to experience a population increase of approximately 32,533 and household increase of 10,998 by 2020, representing gains of nearly 12 percent.
- The TMA currently has an average household size of 2.91 persons, slightly larger than the 2.57 average size for the Austin area. Households consisting of 2 or fewer persons account for approximately 48 percent of the households within the TMA, while households containing 3-5 persons account for approximately 45 percent. Unsurprisingly, the TMA distribution of households in the 3-5 person range is about 10 percent higher than the Austin area, reflecting its attractiveness as a destination for families with children.
- On average, households within the TMA have higher household incomes than the overall Austin metro area. The TMA's estimated average household income for 2015 was \$80,107 with an estimated median household income of \$67,815. For comparison, the average household income in Austin was \$83,551 with a median household income of \$61,610.
- Annual starts on single-family homes within the TMA increased substantially since 4Q10, climbing from 1,295 to 2,904 annual starts by the end of 4Q15. As a result, the TMA's relative share of starts activity Austin area increased from 21.5% to 25.2%. We expect the TMA capture rate to stay on the same relatively stable path over the next five years due to higher barriers to entry in other submarkets.

- Lot absorption has outpaced lot delivery in 16 of the previous 24 quarters, most recently in 4Q15. Overall, there has been a net decrease of 601 lots from inventory since the beginning of 2010. As a result, months of vacant developed lot supply is roughly 25 percent below equilibrium. Under present conditions, we expect new entrants (communities) to experience above average absorption, especially if the product is sufficiently differentiated or priced competitively on per square foot basis.
- The TMA currently has 15 months of vacant developed lot supply versus the current market cycle average of 20. This is principally due to the increasing demand from end consumers and homebuilders for new livable square footage in the wider Austin area. We believe current conditions justify a more aggressive land acquisition strategy for local developers.
- Most TMA starts are in the \$200s. According to our most recent release (4Q15), these accounted for 63 percent of the TMA total, versus only 43 percent of Austin area starts. New homes priced above \$400,000 make up a tiny fraction (3%) of the market, so any future offerings in this category will have to be significantly cheaper on a per square foot basis and differentiated to an adequate extent that would entice high income or net worth households.
- The overall average months of supply of VDL across home price bands in the TMA is 15 months, well below the 20 to 24 month equilibrium range identified by Metrostudy. However, MOS is lowest for homes priced under \$300,000: the average MOS among those price bands is only 13. As a result, homes priced under \$300,000 are expected to achieve above average absorption.

II. Austin Market Analysis

Summary

The Austin economy is in the midst of rapid expansion and urban sprawl. Despite some headwinds in manufacturing and continued mild growth in the state economy related to the high trade-weighted dollar value and prolonged commodity price slump, most of Austin's large service-based industries have continued to grow unabated. Buoyed by the continued strength and non-cyclical nature of its high-tech employment cluster, the city's professional services sector added 57,300 jobs since the depths of the recession. This tightening of Austin's labor market continues to lead real wages higher. As a result, employment in non-basic sectors that are sensitive to consumer spending, such as leisure and hospitality, trade, transportation, and utilities, is also growing strong. Inflation-adjusted retail sales and wages data show considerable robustness in the economy late last year, surpassing growth in the state and nation.

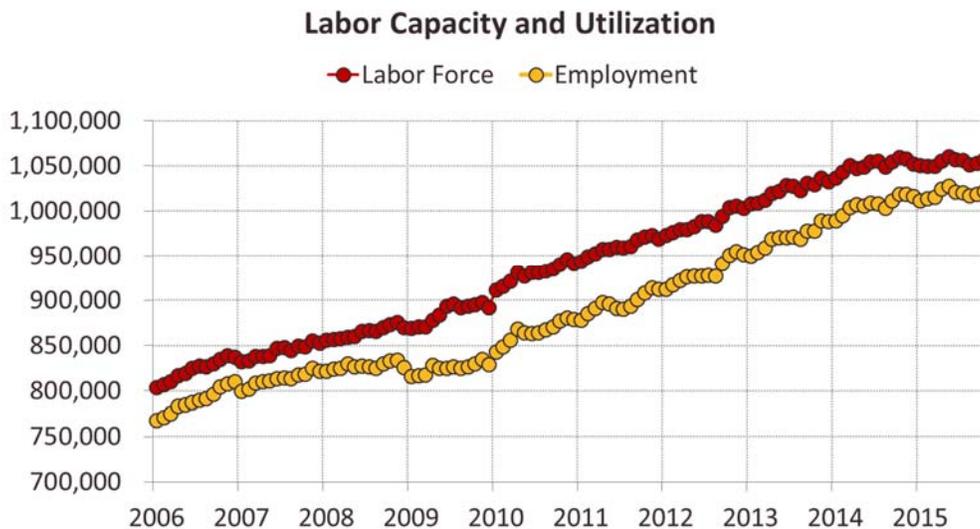
Several significant trends stand out for the Austin housing market. The resale home market provides an adequate portrayal of the area's robust demand for livable square footage. Due to a combination of rising prices and sales, the total dollar volume of MLS transactions reached \$10.5 billion in 2015 – more than twice the post-recession low and 52 percent higher than the previous peak reached in 2006. The annual pace of new single-family housing starts reached 11,540 in 4Q15, which is almost twice the bottom reached 5 years ago after the Financial Crisis. As a result – and after several years of lot demand outstripping supply– lot deliveries began to outpace absorption (housing starts) as early as 2014. The trend continued through 2015, with developers bringing 3,945 more lots online than builders actually absorbed. Overall, however, months of vacant developed lot supply is still within the long-term range that Metrostudy considers to be equilibrium for this market. And Austin still has a supply shortage at multiple price points and lot sizes. While the premium product market, characterized by prices in excess of \$400K on lots over 70' wide, is currently oversupplied, everything cheaper and smaller is chronically undersupplied. Absorption is therefore expected to be strongest for mid-

range and low-end (affordable housing) product types geared toward lower-to-middle and slightly upper-middle income families.

Economic Overview

LABOR CAPACITY AND UTILIZATION

Austin’s economy continues to register impressive growth, even after several years of expansion. Since the loss of around 21,000 jobs during the Great Recession, Austin has managed to create an average of about 61,000 net new jobs per year. A total of nearly 214,000 jobs have been added since the depths of the recession. As a result, unemployment (3.1 percent) remains well below Texas (4.4 percent) and the national average (4.9 percent). In fact, unemployment in Austin is amongst the lowest of the 50 largest metropolitan areas in the entire United States.



EMPLOYMENT BY SECTOR

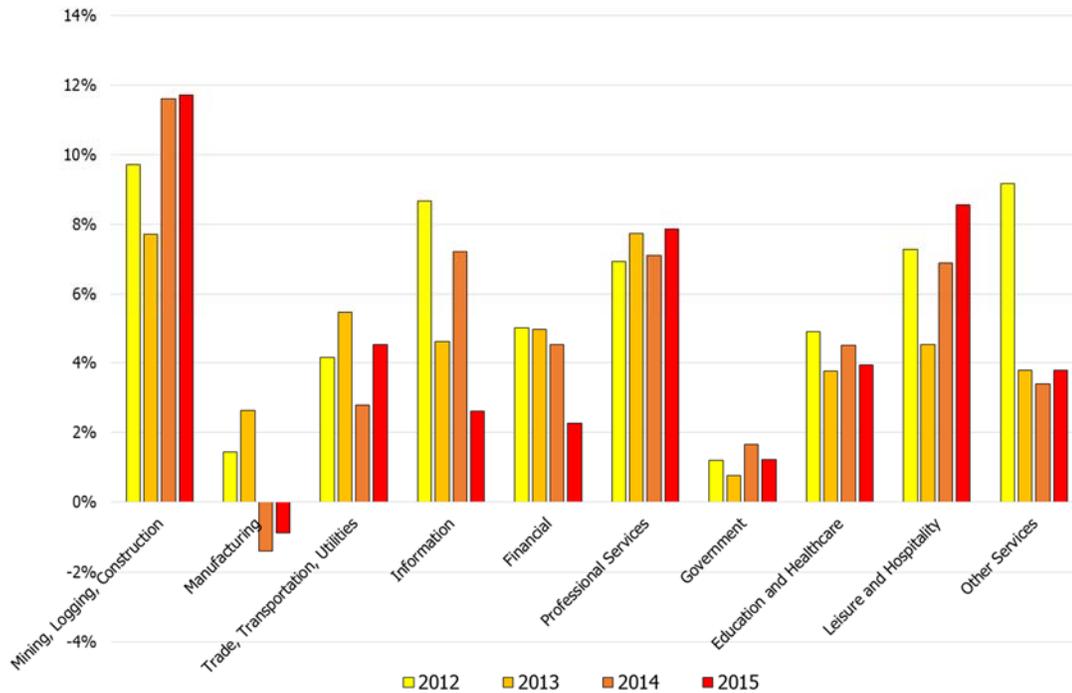
Despite some headwinds in manufacturing and continued mild growth in the state economy related to a high trade-weighted dollar value and the prolonged commodity price slump, most of Austin’s large service sectors have continued to expand at a healthy pace. Buoyed by the continued strength and non-cyclical nature of its high-tech

employment cluster, the city's professional services sector added 57,300 jobs since the depths of the recession. This tightening of Austin's labor market continues to lead real wages higher. As a result, employment in non-basic sectors sensitive to consumer spending, such as leisure and hospitality, trade, transportation, and utilities, is also growing strong.

Employment Growth by Sector							
Sector	2010	2011	2012	2013	2014	2015	Total
Mining, Logging, Construction	600	(700)	3,900	3,400	5,500	6,200	18,900
Manufacturing	1,500	2,100	800	1,500	(800)	(500)	4,600
Trade, Transportation, Utilities	6,500	6,300	6,100	8,400	4,500	7,500	39,300
Information	600	1,400	1,900	1,100	1,800	700	7,500
Financial	(400)	2,300	2,300	2,400	2,300	1,200	10,100
Professional Services	7,000	8,700	8,700	10,400	10,300	12,200	57,300
Government	800	(3,900)	2,000	1,300	2,800	2,100	5,100
Education and Healthcare	4,400	6,200	4,700	3,800	4,700	4,300	28,100
Leisure and Hospitality	4,000	3,700	6,600	4,400	7,000	9,300	35,000
Other Services	(200)	800	3,100	1,400	1,300	1,500	7,900
Total	24,800	26,900	40,100	38,100	39,400	44,500	213,800

Source: Bureau of Labor Statistics

Annual Non-Farm Employment Growth by Sector



Demographic Trends

TOTAL POPULATION

The following table summarizes Austin MSA population and household data from the 2010 Census, with 5-year estimates and projections for 2015 and 2020, respectively. After growing approximately 12 percent over the previous five years, population growth is expected to slow to roughly 9 percent through 2020 as the MSA establishes a larger base. Current population sits at nearly 2 million people residing in 773 thousand households. Nielsen Claritas forecasts the area to grow by an annual average 35,855 people and 14,030 households between 2015 and 2020. This growth will necessitate an expansion of the Greater Austin Area housing stock.

Austin Market	<i>Population and Household Growth</i>		
	2010 Census	2015 Estimate	2020 Projection
Population	1,716,289	1,927,989	2,107,262
Total Numerical Change	-	211,700	179,273
Total Percent Change	-	12.3%	9.3%
Annual Number Change	-	52,925	35,855
Annual Percent Change	-	3.0%	1.8%
Households	650,459	733,239	803,391
Total Numerical Change	-	82,780	70,152
Total Percent Change	-	12.7%	9.6%
Annual Number Change	-	20,695	14,030
Annual Percent Change	-	3.0%	1.8%
Average Household Size	2.6	2.6	2.6

Source: Claritas/U.S. Census Bureau

AGE DISTRIBUTION

During the next five years, Austin’s population is anticipated to grow across all age groups, including those aged 25-34, which makes it unique compared to other markets. Mimicking national demographic trends, the segment of the population over age 55 are anticipated to account for a much larger share of the regional population than previous cycles. Consequently, the demand for differentiated smaller products is expected to increase.

Both the number and percentage of population in the 45-64 age range, which is considered to be highest in earnings potential, are expected to increase in the region during the next five years. The 65-74 age group is expected to increase its share of the population by 2 percent, which is more than any other segment. These demographic shifts in age and income reinforce the need for developers and homebuilders to make timely alterations in neighborhood and/or floor plan designs to meet the needs of more elderly consumers.

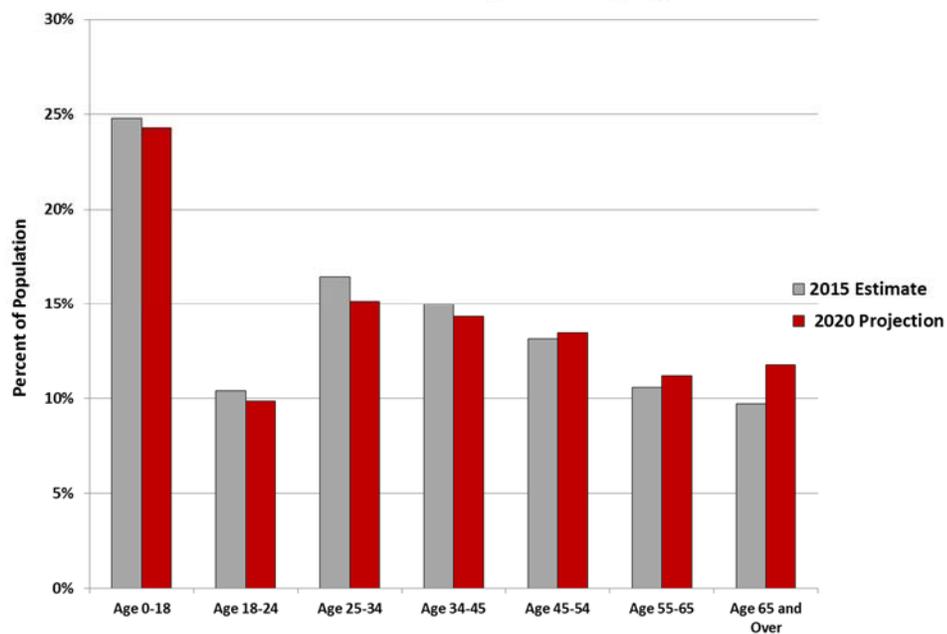
Austin's Population by Age

**Population Distribution By Age
Austin Market**

Age Range	2015 Estimate		2020 Projection	
	Number	Percent	Number	Percent
Age 0-18	477,807	25%	511,595	24%
Age 18-24	200,155	10%	207,709	10%
Age 25-34	317,233	16%	318,989	15%
Age 34-45	288,551	15%	302,042	14%
Age 45-54	253,188	13%	283,829	13%
Age 55-65	203,875	11%	235,546	11%
Age 65 and Over	187,180	10%	247,552	12%
Total	1,927,989	100%	2,107,262	100%
Median Age	34.0		35.5	

Source: Claritas/U.S. Census Bureau

Austin Market Population by Age



INCOME DISTRIBUTION

Austin’s median household income has grown substantially in recent years. According to Nielsen Claritas estimates, the MSA’s median income grew more than 10 percent over just the past couple years; in comparison, the national median income remained roughly stagnant. As Austin continues to grow, households with incomes of at least \$100,000 are anticipated to show the strongest growth. Consequently, further housing price appreciation is to be expected. However, as shown in the following chart, most area households will continue earning less than \$24,000 per year, leaving a broad swath of the market unattainable

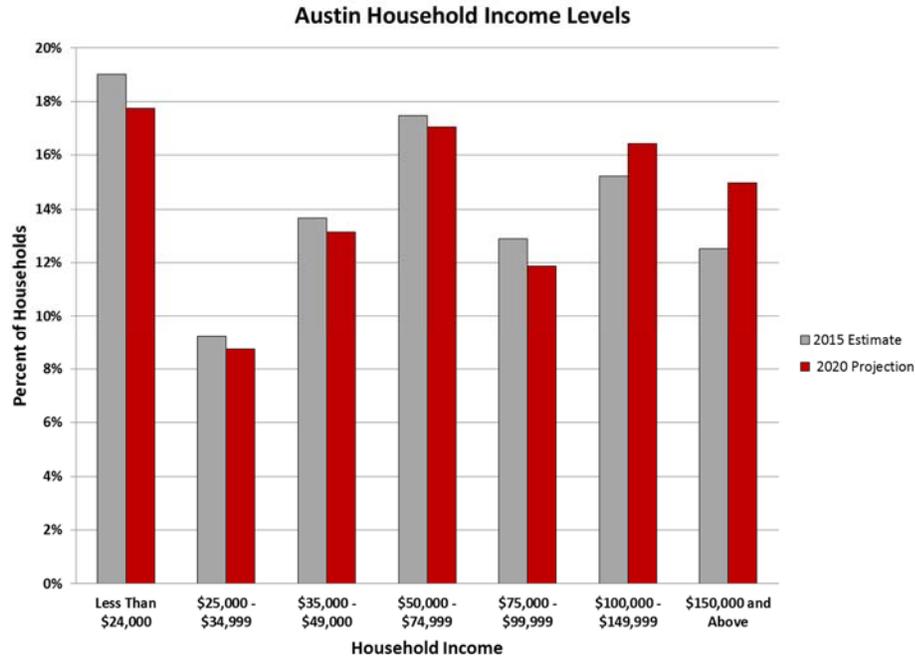
Austin’s Population by Household Income

**Household Income Distribution
Austin Market**

Income Range	2015 Estimate		2020 Projection	
	Number	Percent	Number	Percent
Less Than \$24,000	139,427	19%	141,244	18%
\$25,000 - \$34,999	67,538	9%	69,483	9%
\$35,000 - \$49,000	100,144	14%	104,526	13%
\$50,000 - \$74,999	128,140	17%	135,585	17%
\$75,000 - \$99,999	94,552	13%	94,552	12%
\$100,000 - \$149,999	111,707	15%	130,733	16%
\$150,000 and Above	91,731	13%	119,275	15%
Total	733,239	100%	795,398	100%

Median Income	\$61,610	\$65,939
Average Income	\$83,551	\$90,080

Source: Claritas/U.S. Census Bureau

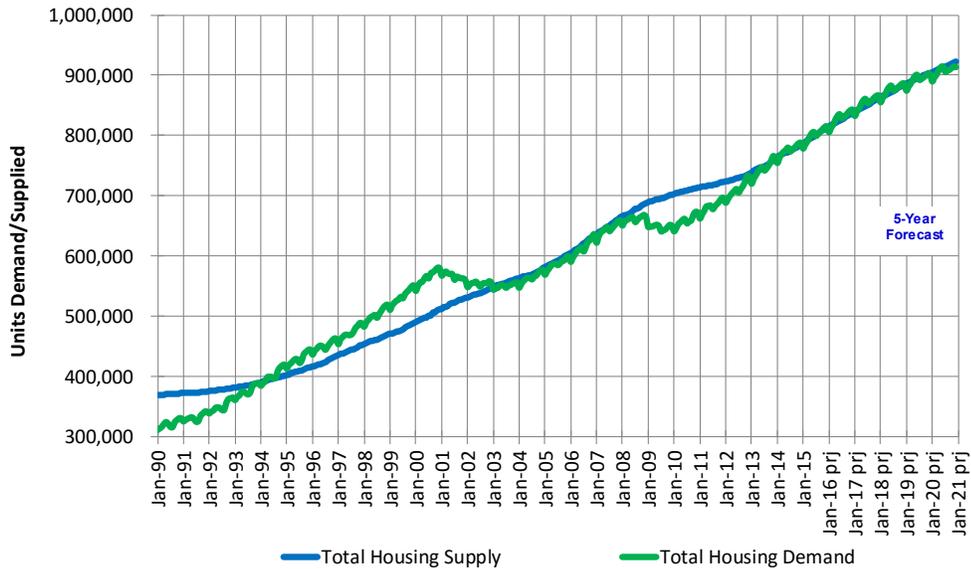


Residential Real Estate Market

AGGREGATE SUPPLY & DEMAND

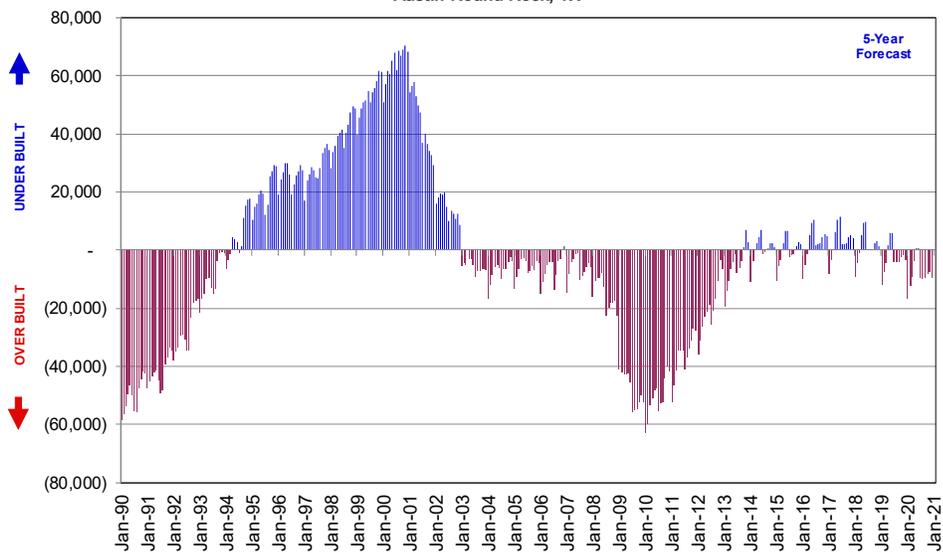
Patterns of housing over supply and under supply are based upon a comparison between a given year's ratio of jobs and housing relative to the long-term trend. During recessionary years, employment losses produced a condition whereby the existing housing stock was too large in comparison to the employment base, contributing to price degradation. Employment gains since the recession, on the other hand, have caused housing demand to grow at a faster rate than housing supply. This excess demand is leading to a general shortage that is expected to become increasingly apparent as the cycle matures.

HOUSING DEMAND AND SUPPLY PATTERNS
Austin-Round Rock, TX



Source: Bureau of Labor Statistics; Census Bureau; National Assoc. of Realtors; Real Estate Economics

HOUSING (OVER)/UNDER SUPPLY PATTERNS
Austin-Round Rock, TX

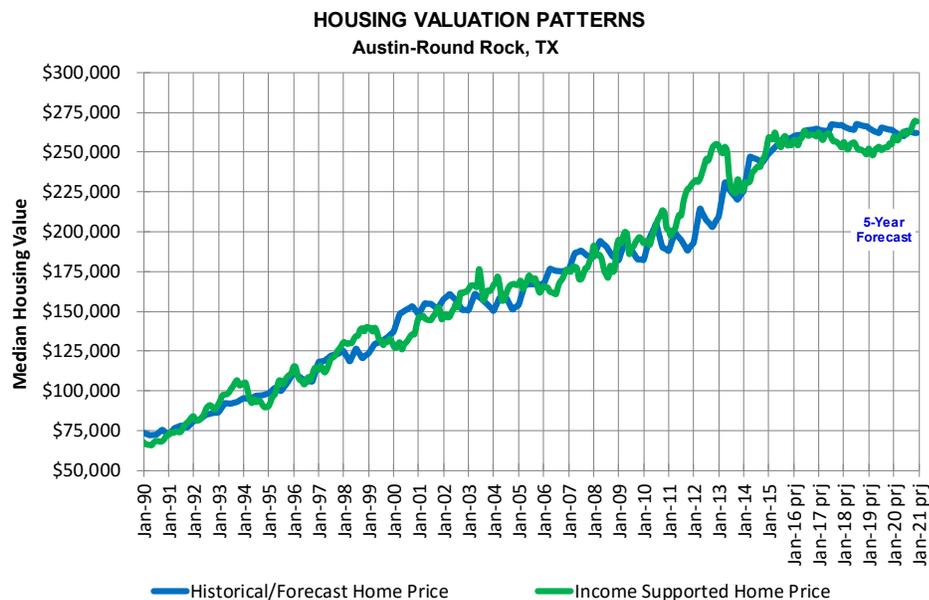


* Over/Under supply measures based on current jobs-to-housing relationship relative to long-term relationship between jobs and housing.

Source: Bureau of Labor Statistics; Census Bureau; National Assoc. of Realtors; Real Estate Economics

PRICING AND AFFORDABILITY

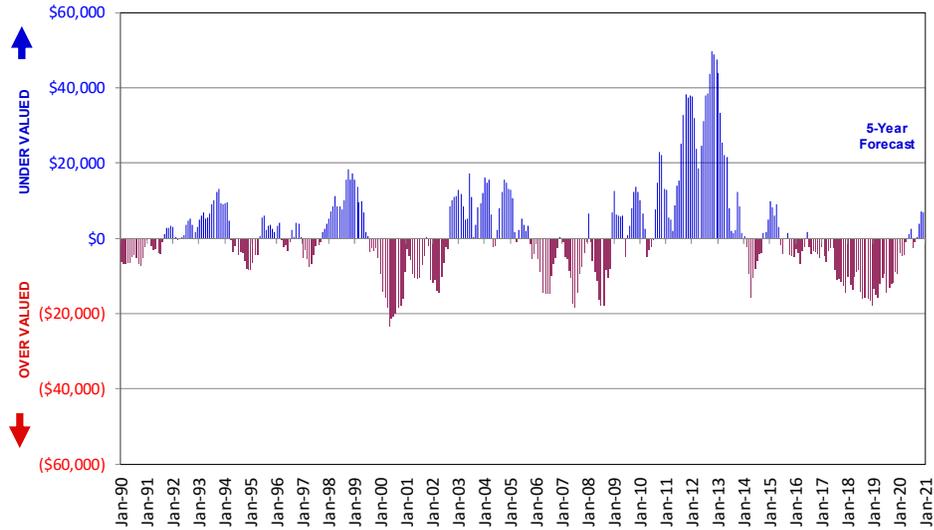
Austin are housing prices are currently –and expected to continue–exceeding the income-supported home price. Our ‘Supportable Median Home Price’ (shown by the green curve in our graph below) is derived from equilibrium housing costs based upon the 40-year trend line between housing values and household incomes. ‘Historical/Forecast Median Home Price’ (shown by the blue curve) is compared with supportable median prices to measure the degree of over/under valuation.



Source: Bureau of Labor Statistics; Census Bureau; National Assoc. of Realtors; Real Estate Economics

Though some under valuation was evident in the mid- to late 1990s, over valuation became increasingly apparent during the 2003-2006 unsubstantiated run-up in prices. The resultant economic and housing crisis caused artificially high housing prices to plummet, creating under valuation during recessionary years that was almost as significant as over valuation during the peak of the previous cycle. Currently, housing prices are not yet inflated to a significantly overvalued status, but extreme overvaluation is likely to appear soon if the Austin region’s political constraints to affordable housing development are not eased and construction costs continue their upward trend.

**HOUSING (OVER)/UNDER VALUATION PATTERNS
Austin-Round Rock, TX**



* Over/Under valuation based on value of housing (inclusive of mortgage rates) relative to long-term relationship between housing value & household incomes.
Source: Bureau of Labor Statistics; Census Bureau; National Assoc. of Realtors; Real Estate Economics

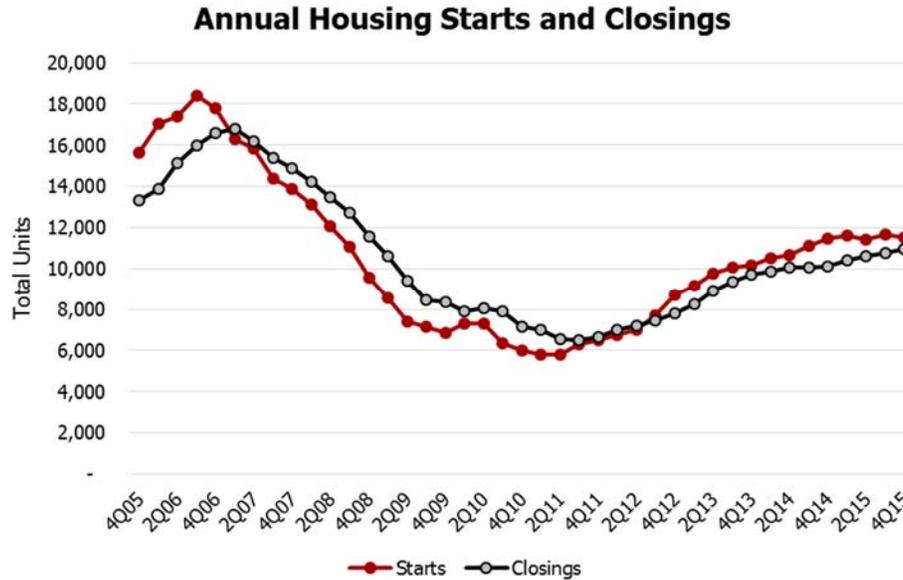
EXISTING HOME MARKET TRENDS

Austin’s resale home market adequately portrays the area’s robust demand for livable square footage. The total dollar volume of MLS transactions reached \$10.5 billion in 2015, which is more than twice the post-recession low and 52 percent higher than the previous peak reached in 2006. A combination of rising prices and unit sales were responsible for the large increase. Annual closings reached 32,115 by the end of 2015, up 62 percent from the 19,872 units sold during the same period five years ago. Similarly, the median home price increased 37 percent, going from \$189,650 in 2010 to \$260,429 at the end of last year. Months of supply dropped from 5.6 to a record low of 2.1 over the same period.



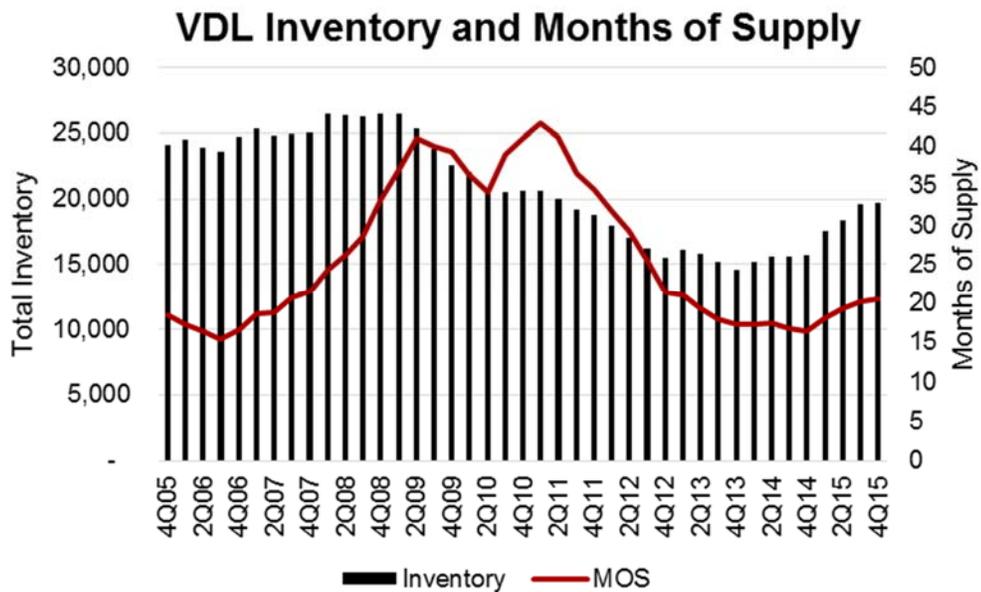
NEW HOUSING STARTS & FORECAST

The annual pace of new single-family housing starts reached 11,540 in 4Q15, which is almost twice the bottom reached 5 years ago after the Financial Crisis. However, on a year-over-year basis, growth in starts remained roughly unchanged versus 2014. During this time, homebuilder sentiment remained generally positive, although we have heard some only complaints regarding stiff competition over trades and rising land/lot prices due to new market entrants. Overall, however, most builders are expecting a good 2016. They are working hard to position deals appropriately, and we expect some heavy-hitters will attempt to push back harder on pricing throughout the year.



NEW HOUSING AND VACANT DEVELOPED LOT INVENTORY TRENDS

New housing and vacant developed lot inventory have both been trending upward lately. According to our most recent figures, a total of 7,310 homes were either under construction or sitting finished, vacant and ready to be sold. The current 8 months of supply remained relatively unchanged compared to a year ago, but this level is significantly high compared to historical norms – thus explaining why housing absorption failed to keep pace with lot deliveries over the past couple years. It seems that builders may have reached short-term capacity limits. Meanwhile, VDL inventory, currently at 19,705, grew by 3,992 units versus a year ago. As a result, VDL months of supply increased from 17.1 months in 3Q14 to 20.2 months during 4Q15. Metrostudy considers current lot inventory to be within the long-term equilibrium range for this region.

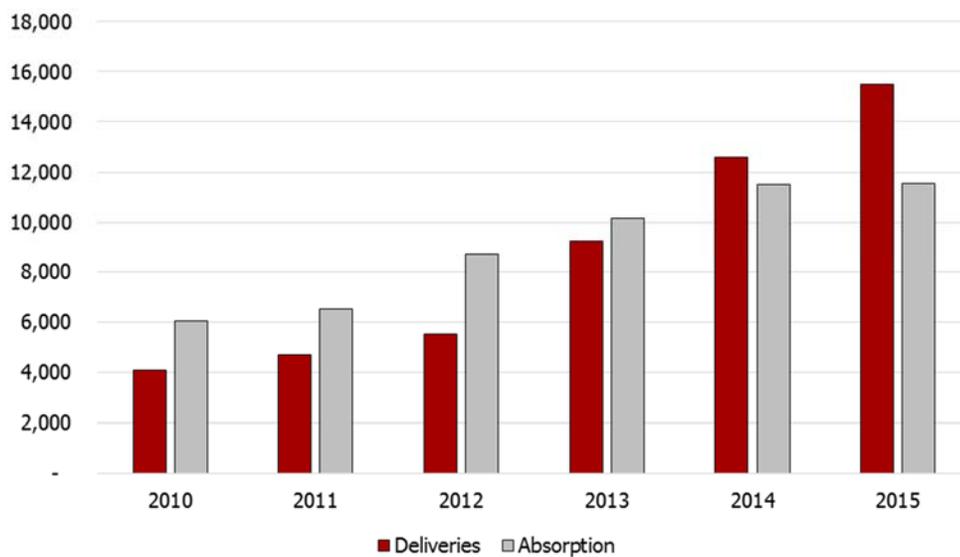


VACANT DEVELOPED LOT ABSORPTION AND INVENTORY

After several years of lot demand outstripping supply and declining inventories, lot deliveries began to outpace absorption (housing starts) during 2014. The trend

continued through 2015, with developers bringing 3,945 more lots online than builders actually absorbed. As a result, vacant developed lot inventory and months of supply increased over the past couple years. However, readers should not interpret this to imply fundamental weakness in the housing market. Overall, months of vacant developed lot supply is still within the long-term range that Metrostudy considers to be equilibrium for this market.

Annual Lot Deliveries and Absorption



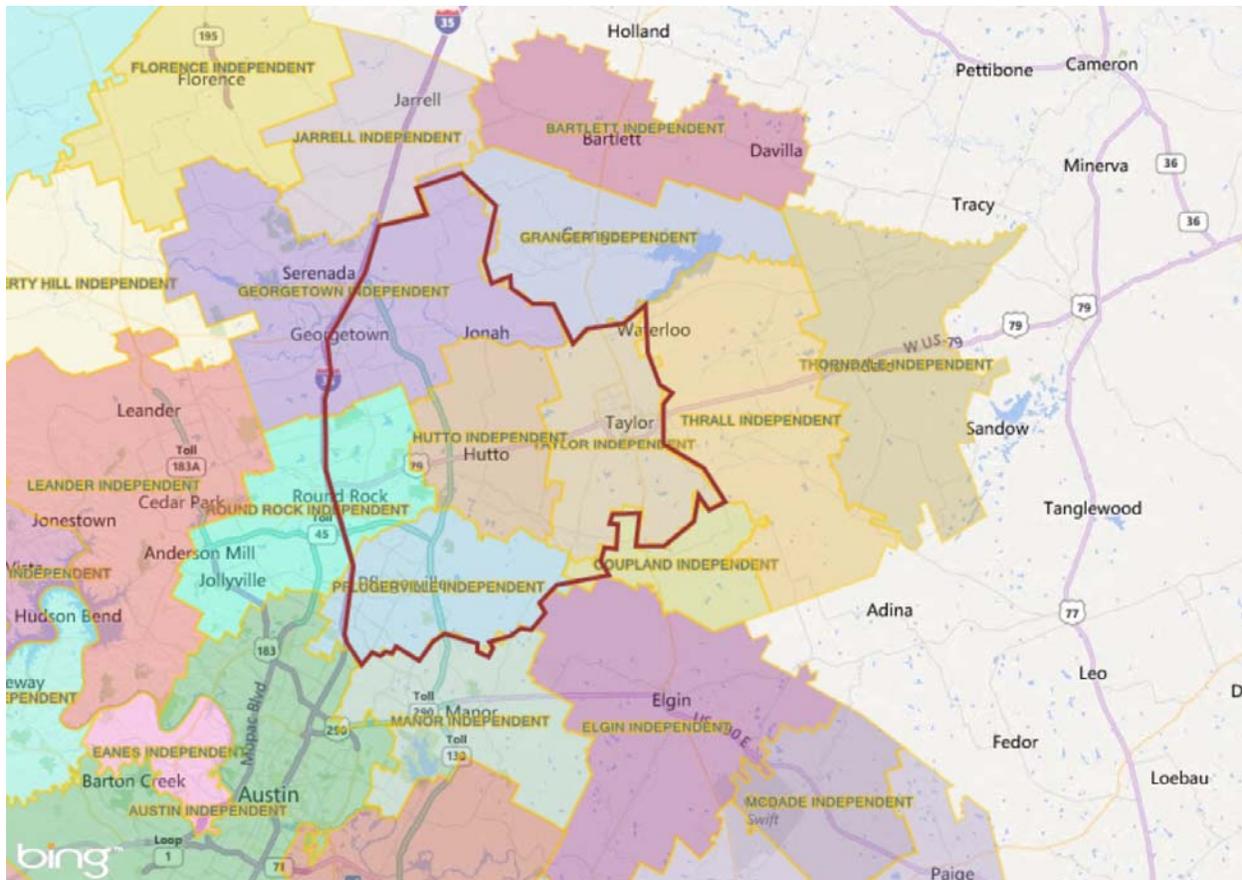
III. Target Market Area Analysis

Introduction

The following section describes the socioeconomic and residential real estate market trends in the City's trade area. An evaluation of housing sales, starts activity, lot inventory levels, and future development plans will provide a foundation for understanding the area's supply and demand, product preference, competition, and potential opportunities.

Definition and Justification

The map below shows the boundaries for the Target Market Area (TMA), as well as the City of Taylor’s position within the TMA.



The TMA boundaries were established using several market-related considerations. Primarily, these borders are represented by:

- **North:** The northernmost boundaries of Georgetown Independent School District.
- **South:** The southernmost boundaries of Pflugerville Independent School District.
- **East:** The easternmost boundaries of the City of Taylor’s extraterritorial jurisdiction.

- **West:** I-35.

Many of the communities within the TMA boundaries are expected to compete for the same buyer traffic. They will share the same infrastructure advantages and disadvantages, such as retail and commercial locations, traffic patterns, drive time to and from employment centers, and recreational facility availability. Consequently, new-home trends in the TMA communities are expected to be indicative of future demand for particular housing products in the City of Taylor.

Population and Household Trends

Metrostudy uses demographic data and projections from Claritas to help in characterizing geographic areas and in establishing trends. The underlying goal is to understand the buyer profile and determine the appropriate value proposition.

Population and household estimates indicate that the TMA is experiencing considerable growth. As of 2015, there were an estimated 281,143 people in 95,333 households. The TMA is expected to experience a population increase of approximately 32,533 and household increase of 10,998 by 2020, representing gains of nearly 12 percent.²

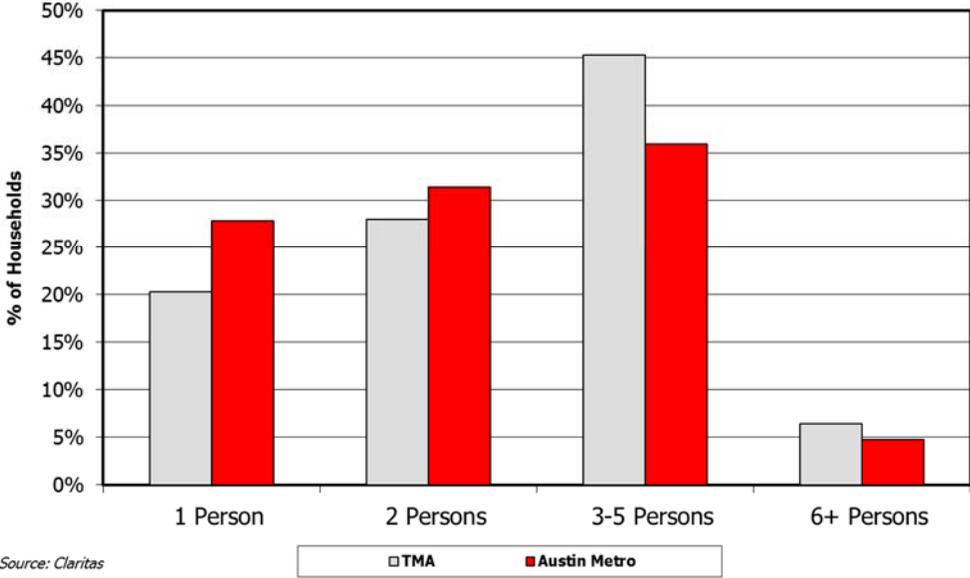
² Population and household growth estimates are always conservative. It is reasonable to assume the TMA will necessitate household growth of approximately 14 percent with a minimum of 11.5 percent and a maximum of 16.8 percent over five-year period spanning 2015-2020.

Northeast TMA	Population and Household Growth		
	2010 Census	2015 Estimate	2020 Projection
Population	240,317	281,143	313,676
Total Numerical Change	-	40,826	32,533
Total Percent Change	-	17.0%	11.6%
Annual Number Change	-	2,916	6,507
Annual Percent Change	-	1.1%	2.2%
Households	81,614	95,333	106,331
Total Numerical Change	-	13,719	10,998
Total Percent Change	-	16.8%	11.5%
Annual Number Change	-	980	2,200
Annual Percent Change	-	1.1%	2.2%
Average Household Size	2.9	2.9	2.9

Source: Claritas

The TMA currently has an average household size of 2.91 persons, slightly larger than the 2.57 average size for the Austin area. Households consisting of 2 or fewer persons account for approximately 48 percent of the households within the TMA, while households containing 3-5 persons account for approximately 45 percent. Unsurprisingly, the TMA distribution of households in the 3-5 person range is about 10 percent higher than the Austin area, reflecting its attractiveness as a destination for families with children.

**Target Market Area vs. Austin
Percent Distribution of 2015 Households by Size**



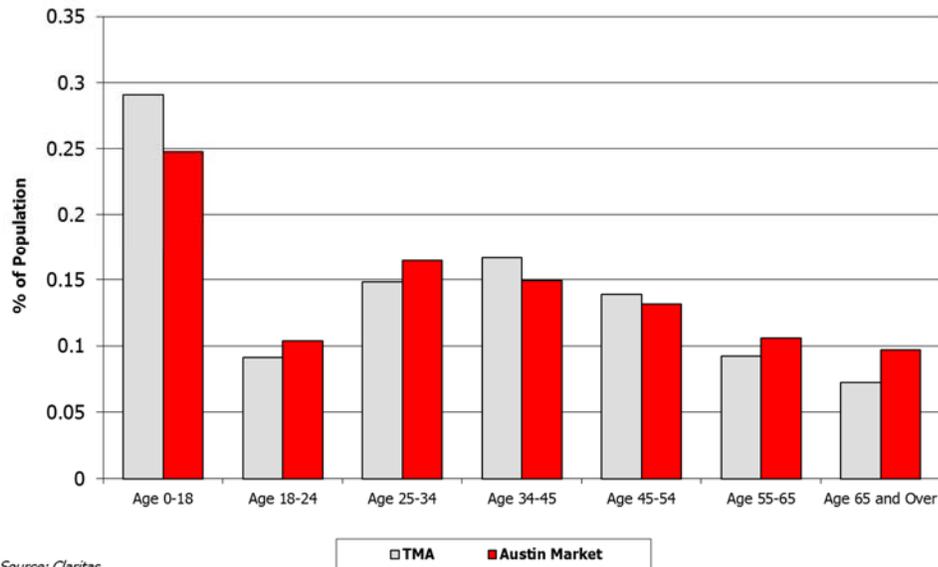
**Northeast Austin TMA
Household Size Profile
2015 Estimate**

Household Size	2015	% Distribution
1 Person	19,346	20%
2 Persons	26,706	28%
3-5 Persons	43,160	45%
6+ Persons	6,120	6%
TOTAL	95,332	100%
TMA Average HH Size:		2.91
Austin Metro Avg. HH Size:		2.57

Source: Claritas

As is typical with suburban areas of Austin with high quality public schools, the age distribution skews slightly younger, with 28% of residents under the age of 18. Another TMA contrast with the Austin market is the higher distribution of prime working age (34-54 year old) adults. This is the ideal buyer profile for the types of housing envisioned in the City of Taylor.

**Target Market Area vs. Austin
Percentage Distribution of Population by Age**



On average, households within the TMA have higher household incomes than the overall Austin metro area. The TMA’s estimated average household income for 2015 was \$80,107 with an estimated median household income of \$67,815. For comparison, the average household income in Austin was \$83,551 with a median household income of \$61,610.

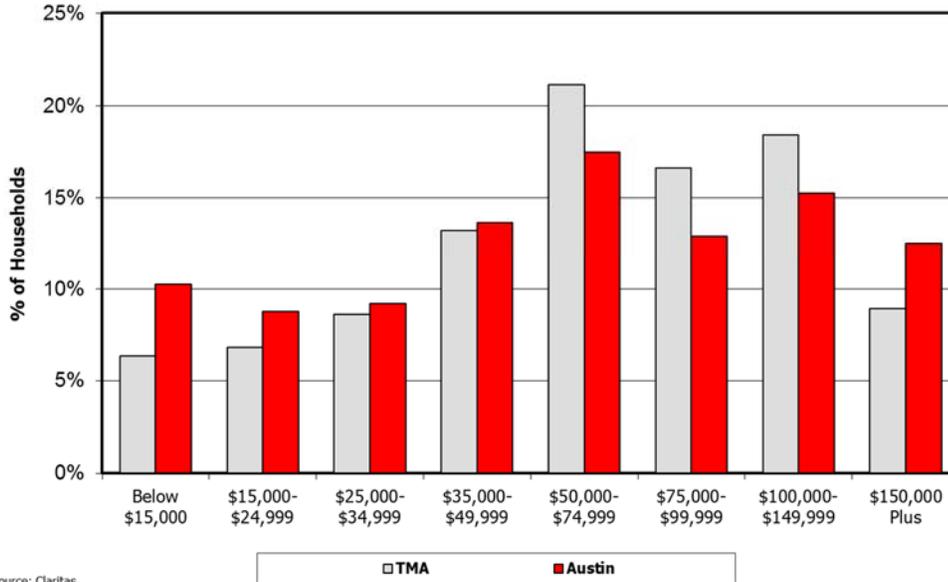
**Target Market Area
Income Profile of Households
2015 Estimate**

Household Income	2015	% Distrib.
Below \$15,000	6,041	6%
\$15,000-\$24,999	6,495	7%
\$25,000-\$34,999	8,194	9%
\$35,000-\$49,999	12,599	13%
\$50,000-\$74,999	20,119	21%
\$75,000-\$99,999	15,824	17%
\$100,000-\$149,999	17,570	18%
\$150,000 Plus	8,491	9%
TOTAL	95,333	100%

TMA Median HH Income:	\$67,815
TMA Average HH Income:	\$80,107
Austin Metro Med. HH Income:	\$61,610
Austin Metro Avg. HH Income:	\$83,551

Source: Claritas

**Target Market Area vs. Austin
Percent Distribution of 2015 Household Incomes**



Source: Claritas

Residential Analysis

This section describes recent quarterly trends in single-family housing starts and vacant developed lots in regards to price, volume, lot sizes, and subdivisions.

HOUSING STARTS

The table and chart on the following page display the annual rate of new single-family home starts on a quarterly basis from 4Q10 through 4Q15 for both the overall Austin market and the TMA, with the percent share of the metropolitan Austin market captured by the TMA also displayed.

Annual starts on single-family homes within the TMA increased substantially since 4Q10, climbing from 1,295 to 2,904 annual starts by the end of 4Q15. As a result, the TMA's relative share of starts activity Austin area increased from 21.5% to 25.2%. We expect the TMA capture rate to stay on the same relatively stable path over the next five years due to higher barriers to entry in other submarkets.

The following table and chart illustrate the historical and forecast rate of single-family housing starts in the Austin survey region and the TMA, as well as the historical and forecast market share.

**Target Market Area Starts
and Market Share of Total Austin Starts
4Q12 to 4Q15 and Projected**

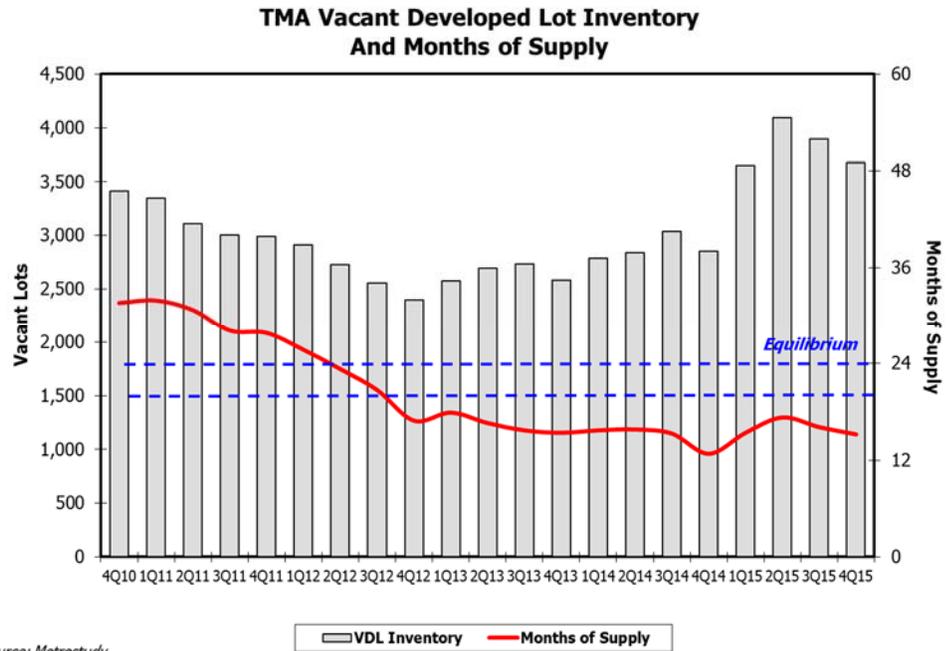
Qtr/Yr	Ann. Starts Austin	Ann. Starts TMA	TMA Share of Austin
4Q10	6,022	1,295	21.5%
1Q11	5,777	1,258	21.8%
2Q11	5,818	1,215	20.9%
3Q11	6,293	1,283	20.4%
4Q11	6,518	1,291	19.8%
1Q12	6,760	1,360	20.1%
2Q12	6,988	1,401	20.0%
3Q12	7,685	1,483	19.3%
4Q12	8,723	1,707	19.6%
1Q13	9,136	1,730	18.9%
2Q13	9,763	1,946	19.9%
3Q13	10,077	2,088	20.7%
4Q13	10,169	2,017	19.8%
1Q14	10,508	2,135	20.3%
2Q14	10,657	2,149	20.2%
3Q14	11,137	2,382	21.4%
4Q14	11,488	2,671	23.3%
1Q15	11,605	2,840	24.5%
2Q15	11,396	2,839	24.9%
3Q15	11,674	2,908	24.9%
4Q15	11,540	2,904	25.2%
<i>Projected</i>	-----	-----	-----
2016	11,500 to 12,500	2,933 to 3,188	25.5%
2017	12,500 to 13,000	3,163 to 3,289	25.3%
2018	13,000 to 13,500	3,263 to 3,389	25.1%
2019	13,500 to 14,000	3,375 to 3,500	25.0%
2020	13,500 to 14,000	3,362 to 3,486	24.9%
Avg. 16'-20'	12,800 to 13,400	3,119 to 3,288	25.2%

Source: Metrostudy



VACANT DEVELOPED LOTS

The following chart shows recent quarterly lot inventory trends in Austin and the TMA. Austin’s total VDL inventory had been in rapid decline since the beginning of the current market cycle (in 2010), as increasing consumer demand worked to clear the backlog resulting from the housing boom. Although total inventory has crept back up since 2014, months of supply is still well within the range Metrostudy considers to be equilibrium for this region. In the TMA, however, developers were unable to accelerate lot production to match the robust rebound of home starts rates. As a result, months of available lot supply is roughly 25 percent below equilibrium. Under present conditions, we expect new entrants (communities) to experience above average absorption, especially if the product is sufficiently differentiated or priced competitively on per square foot basis.



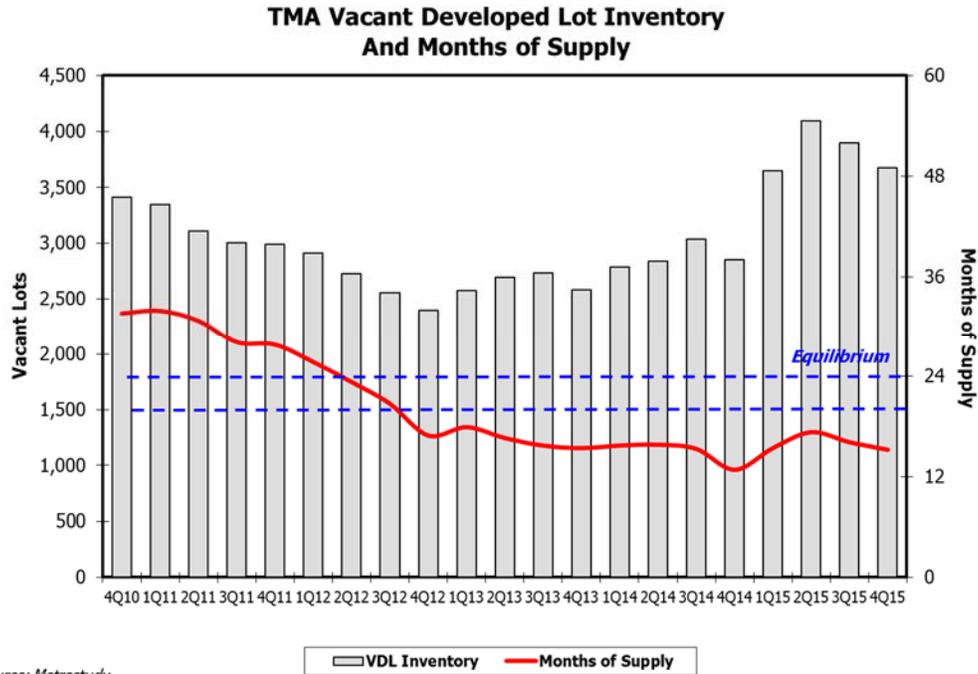
Source: Metrostudy

**Austin and Target Market Area
Vacant Developed Lot Inventory and Months of Supply
4Q10 to 4Q15**

Qtr/Yr	Austin VDL	Months of Supply	TMA VDL	Months of Supply
4Q10	20,615	41	3,412	32
1Q11	20,651	43	3,347	32
2Q11	19,974	41	3,108	31
3Q11	19,237	37	3,004	28
4Q11	18,766	35	2,992	28
1Q12	17,993	32	2,910	26
2Q12	17,042	29	2,725	23
3Q12	16,239	25	2,558	21
4Q12	15,538	21	2,397	17
1Q13	16,090	21	2,578	18
2Q13	15,804	19	2,692	17
3Q13	15,151	18	2,731	16
4Q13	14,626	17	2,585	15
1Q14	15,176	17	2,788	16
2Q14	15,561	18	2,838	16
3Q14	15,585	17	3,038	15
4Q14	15,713	16	2,851	13
1Q15	17,566	18	3,651	15
2Q15	18,361	19	4,092	17
3Q15	19,623	20	3,897	16
4Q15	19,705	21	3,676	15

Source: Metrostudy

The TMA currently has 15 months of vacant developed lot supply versus the current market cycle average of 20. This is principally due to the increasing demand from end consumers and homebuilders for new livable square footage in the wider Austin area. Current conditions justify a more aggressive acquisition strategy for local developers.



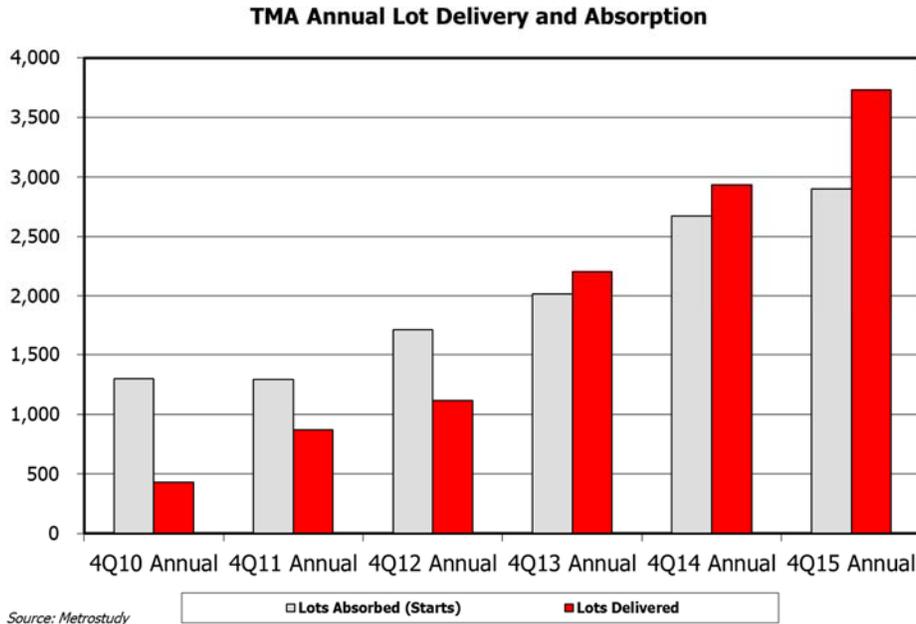
LOT DELIVERY AND ABSORPTION

Lot absorption has outpaced lot delivery in 16 of the previous 24 quarters, most recently in 4Q15. Overall, there has been a net decrease of 601 lots from inventory since the beginning of 2010. Over the previous four quarters, however, lot deliveries exceeded absorption by 825 units. This was due to a combination of two factors. Mainly, strong production in communities like Siena in Hutto, Paloma Lake in Round Rock, and Avalon in Pflugerville. Yet it was also due in part to the severe inclement weather experienced in Austin, and throughout the state of Texas, during the first half of 2015. It was a very wet year. This situation corrected in 3Q15 as lot absorptions outpaced lot deliveries and area weather stabilized. The following table shows historical lot deliveries and absorption rates during the current market cycle:

**Target Market Area
Quarterly Lot Delivery and Lot Absorption
1Q10 to 4Q15**

Yr/Qtr	Lots Absorbed	Lots Delivered	Net Increase or (Decrease)
1Q10	328	255	(73)
2Q10	427	74	(353)
3Q10	284	22	(262)
4Q10	256	79	(177)
1Q11	291	226	(65)
2Q11	384	145	(239)
3Q11	352	248	(104)
4Q11	264	252	(12)
1Q12	360	278	(82)
2Q12	425	240	(185)
3Q12	434	267	(167)
4Q12	488	327	(161)
1Q13	383	564	181
2Q13	641	755	114
3Q13	576	615	39
4Q13	417	271	(146)
1Q14	501	704	203
2Q14	655	705	50
3Q14	809	1,009	200
4Q14	706	519	(187)
1Q15	670	1,470	800
2Q15	654	1,095	441
3Q15	878	683	(195)
4Q15	702	481	(221)
Total	11,885	11,284	(601)

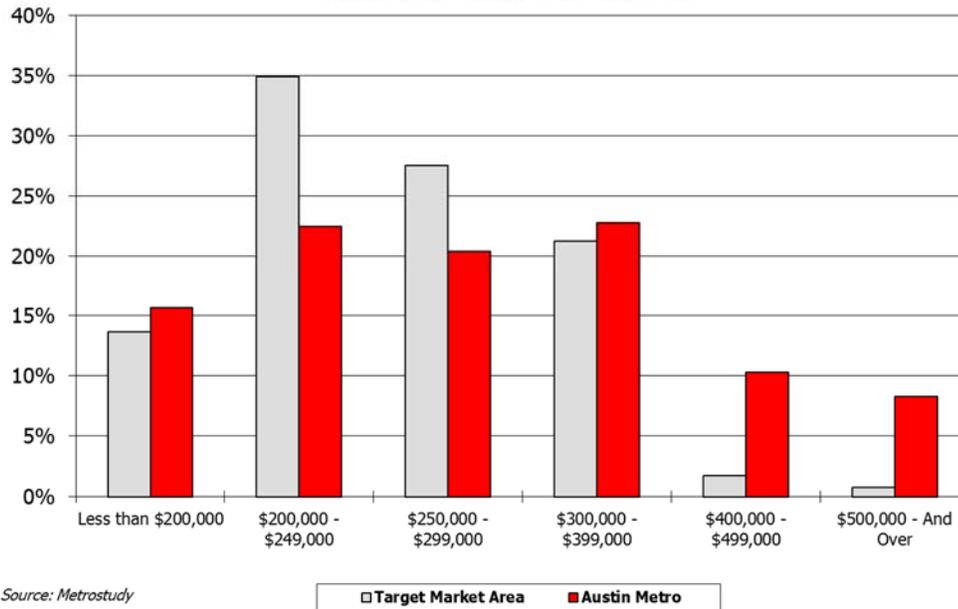
Source: Metrostudy



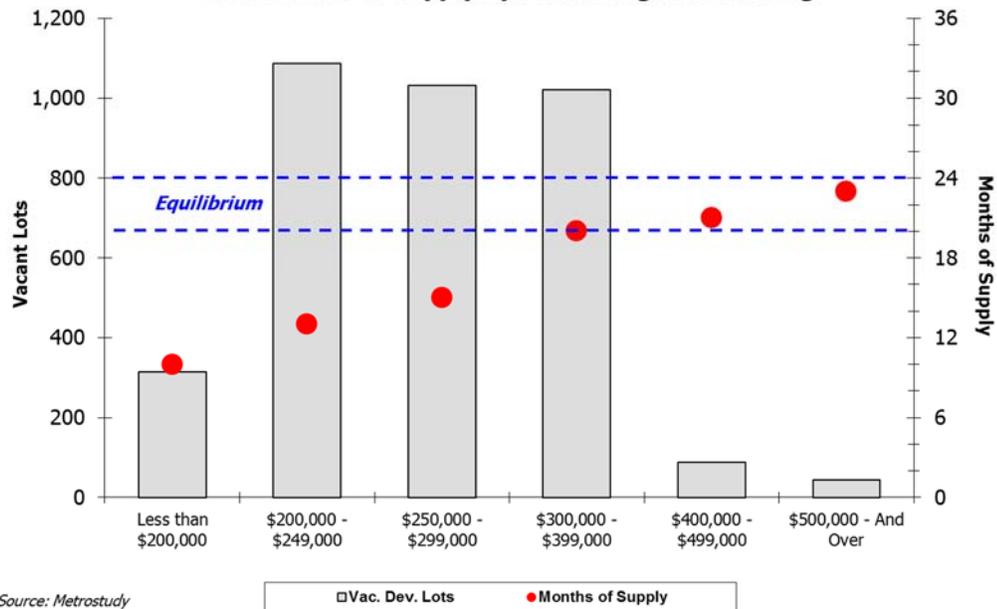
PRICE RANGE DISTRIBUTION OF NEW HOME STARTS AND VDL

Most TMA starts are in the \$200s. According to our most recent release (4Q15), these accounted for 63 percent of the TMA total, versus only 43 percent of Austin area starts. New homes priced above \$400,000 make up a tiny fraction (3%) of the market, so any future offerings in this category will have to be significantly cheaper on a per square foot basis and differentiated to an adequate extent that would entice high income or net worth households. The overall average months of supply of VDL across home price bands in the TMA is 15 months, well below the 20 to 24 month equilibrium range identified by Metrostudy. However, MOS is lowest for homes priced under \$300,000: the average MOS among those price bands is only 13. As a result, homes priced under \$300,000 are expected to achieve above average absorption.

**Percent Distribution of Annual Starts by Price Range
Austin and Target Market Area**



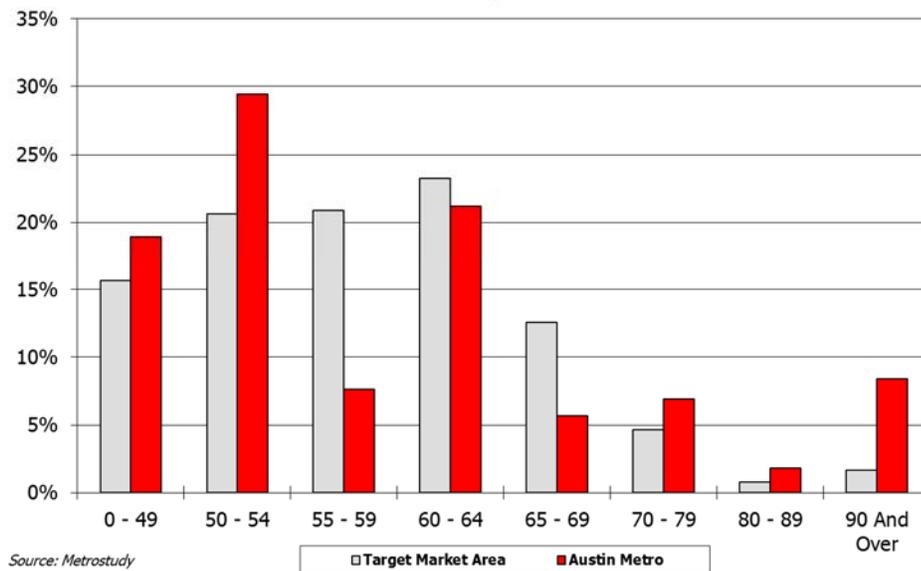
**TMA Vacant Developed Lot Inventory
And Months of Supply by Price Range for Housing**

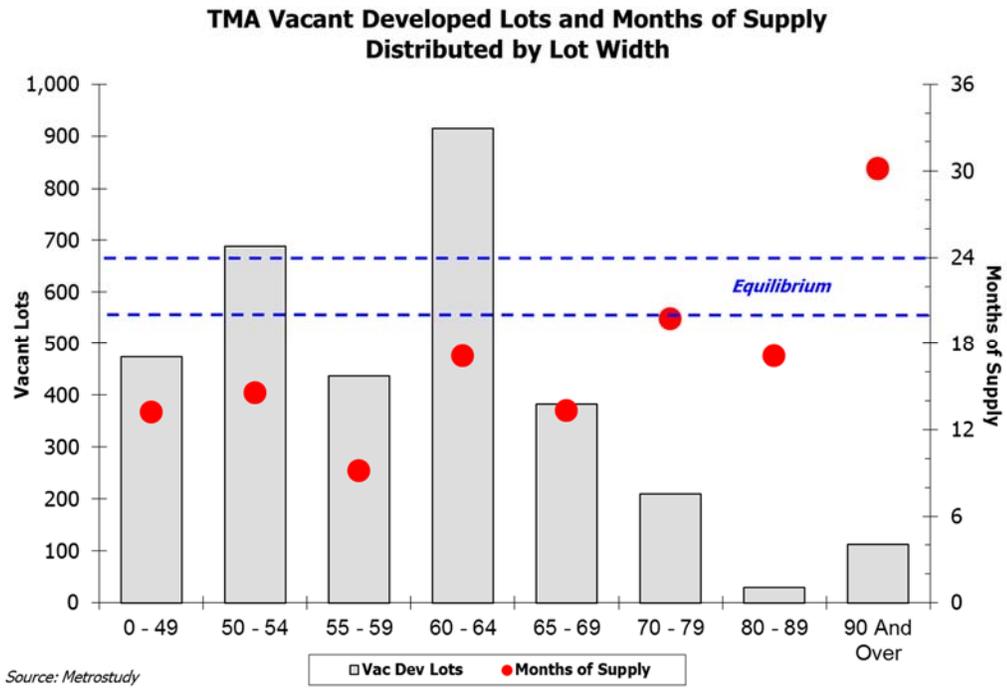


TMA DEMAND BY LOT SIZE

The 60'-64' lot width range is the sweet spot of this market area. Unsurprisingly, given the price range distribution, the vast majority (92%) of housing starts are 64' and below, with the below 49', 50'-54', 55'-59', and prized 60'-64' lot ranges accounting for 16%, 21%, 21%, and 23%, respectively. For the most part, all lot size programs are below equilibrium, with the exception of 90' and above. The appearance of oversupply in extra-large lot programs, however, is overstated due to the area's lack of a real market for this product type.

**Percentage Distribution of Annual Starts by Lot Width
Austin versus Target Market Area**





TMA SUBDIVISIONS RANKED BY ANNUAL NEW HOME STARTS

The following table shows the top 10 subdivisions in the TMA ranked by the total number of new homes started during 4Q15. The top 10 subdivisions started at least 80 homes each during the previous four quarters, and accounted for 1,620 starts (56%) of the total annual starts in the TMA. The top-10 subdivisions also have only a 16.4-month supply of vacant developed lots, which is below the level Metrostudy considers equilibrium for this region. An increase in supply –either by incumbents or new entrants—is warranted under current conditions, and will continue to be for the foreseeable future.

Target Market Area Subdivisions Ranked by 4Q15 Annual Starts							
Rank	Subdivision Name <i>Builders</i>	Price Range <i>(in Thousands of Dollars)</i>	Lot Size	4Q15 Ann Starts	4Q15 Ann Closings	Vac Dev Lots	Months of Supply
1	Siena	\$190 - \$571	53'-63'	316	257	533	20.2
2	Teravista	\$231 - \$467	50'-60'	206	204	352	20.5
3	Paloma Lake	\$219 - \$427	53'-70'	203	218	205	12.1
4	Avalon	\$193 - \$419	50'-65'	201	157	243	14.5
5	Falcon Pointe	\$249 - \$336	55'	184	168	63	4.1
6	Highland Park	\$188 - \$260	20'-70'	139	128	37	3.2
7	Blackhawk/Lakeside	\$232 - \$423	70'-80'	109	43	186	20.5
8	Pinnacle	\$176 - \$216	47'-52'	98	71	34	4.2
9	Commons at Rowe Lane	\$235 - \$399	55'-65'	84	70	123	17.6
10	Glenwood	\$169 - \$217	50'-60'	80	88	139	20.9
	Top 10 Total			1,620	1,404	1,915	16.4
	Balance of TMA			1,284	1,292	1,761	16.4
	TMA Total			2,904	2,696	3,676	15.2
Top 10 Subdivisions Share of TMA				56%	52%	52%	

Source: Metrostudy

PLANNED HOUSING PROJECTS

A total of 25,505 undeveloped lots have received either preliminary or final approval in the TMA. We include this information so that developers can get an idea of what is planned to come online over the next several years in the general market area. It is worth noting, however, that just because a plat is approved does not mean that the lots are under development. Many of these plats are only pre-approved and will enter the market only if Austin MSA single-family housing demand continues to grow unabated. Furthermore, delivery timing of lots will depend on the type of lot, the supply and demand for the lot type, and whether the lots are for brand new communities or “add-ons” to existing communities.

Target Market Area Future Lot Inventory				
--	--	--	--	--

Subdivision	Sec.	Lot Size	Developer	# of Lots
Addison (Georgetown)	Concept	N/A	Michael Moore	3,000
Avalon	Ph 11B	55x120	Blake Magee	1,888
Avalon	Ph 12	50x120	Blake Magee	1,640
Avalon	Ph 13	NA	Blake Magee	1,440
Avalon	Ph 14	60x120	Blake Magee	922
Avalon	Ph 16	NA	Blake Magee	915
Avalon	Ph 17	NA	Blake Magee	896
Avalon	Ph 5C	NA	Blake Magee	841
Avalon	Ph 6C	NA	Blake Magee	678
Ballantyne	Prel Plan	NA	Finley Company (Tim Finley)	637
Beaver Creek	Prel Plan	NA	Sealy Heatherwilde L.P.	550
Blackhawk/Lakeside II	Ph 2-1B Undefined	70x125	N/A	544
Blackhawk/Lakeside III	Future	NA	Robert Tieman	448
Blackhawk/Park III	Ph III Sec 2 Undefined	NA	N/A	445
Blackhawk/Park IV	Ph IV-6B	75x120	N/A	426
Blackhawk/Park VII	Ph VII-2 Undefined	NA	N/A	336
Cactus	FUTURE	N/A	Tejas Viego Land Company	330
Cantarra	FUTURE Sec III	N/A	Intermandeco	258
Cantarra	FUTURE Sec IV	NA	Intermandeco	224
Cantarra	FUTURE Sec V	N/A	Intermandeco	213
Cantarra	Sec IIA	50x120	Intermandeco	205
Cantarra	Sec IIIA (p) - DR	NA	Intermandeco	188
Cantarra II	FUTURE	N/A	N/A	182
Carmel	Prel Plan	NA	N/A	176
Carmel Creek	FUTURE	N/A	Pulte Homes	173
Carol Meadows	Sec 2	N/A	Bob Chambers	169
Chisholm Park Duplexes	Section 2	NA	LOM Services	161
Total Future Lots				25,505

Source: Metrostudy

IV. Strategic Recommendations

The following section highlights Metrostudy's recommendations for the City of Taylor, based on our comprehensive review of the Austin Market and TMA analysis. The overarching goal of these recommendations is to promote the success of introducing new home development in Taylor focused on higher price points and more upscale housing. Among the strategic recommendations identified are potential market niches. Some of these recommendations are large scale, capital intensive, time intensive public policy initiatives. Some of them are simple events and marketing messages that can be implemented cost and time effectively. Each has been identified by Metrostudy as an action with a potential resulting outcome of facilitating or promoting the development of new more upscale homes in Taylor.

Create a Public Improvement District

During the course of reaching out to developers, we were advised that a Public Improvement District (PID) might be sufficient to serve as a competitive advantage for the City. In mentioning this, our developer client stated that a PID would significantly reduce the cost burden associated with building a level of amenity sufficient to attract homebuyers. As a result, project risk would be lower and expected returns would be higher.

Chapter 372 of the Texas Local Government Code (TLGC) provides the process for establishing a PID. According to the TLGC, PIDs may be formed to develop, rehabilitate or expand affordable housing; create water, wastewater, health and sanitation, or drainage improvements; street and sidewalk improvements; mass transit improvements; parking improvements; library improvements; park, recreation and cultural improvements; landscaping and other aesthetic improvements; art installation; creation of pedestrian malls or similar improvements; supplemental safety services for the improvement of the district, including public safety and security services; or

supplemental business-related services for the improvement of the district, including advertising and business recruitment and development.

By defining the boundaries for PID implementation, only the tax payers within the district are responsible for paying for the improvements that specifically benefit them. This is preferable to a direct subsidy from the local government or issuance of bonds that would compel taxpayers in other parts of the City to shoulder part of the financial burden for improvements that offer them no direct benefit.

Promote Taylor ISD Successes

The general perception of Taylor ISD is that it is more challenged than neighboring school districts, with a greater percentage of children from lower socioeconomic backgrounds. However, the District also has its success stories. Taylor ISD (with the assistance of the City) should seek venues and opportunities to promote its successes to those generally in the real estate industry. These successes can include expansions and improvements to campuses, athletic wins, academic highlights, and special programs offered in the schools. Messaging Taylor ISD successes to the local realtor community could be done very efficiently through ABOR member marketing and events. Such messaging (via email, special events presenting TISD to the realtor community, articles in the local Association magazine, etc.) can work to change the perception of Taylor ISD first among area realtors and secondly among homebuyers in the region. Homebuilders and developers stay acutely aware of homebuyer perceptions, so any momentum achieved in altering perceptions will likely feed directly up to the builders and developers and will influence their actions regarding Taylor.

Taylor ISD offers many successes upon which to build a new narrative, redirecting perception away from current inaccurate perceptions based on previous conditions within the District that have been greatly improved and rectified over the last seven to eight years. These successes include:

- Taylor High School has changed from being ranked “Academically Unacceptable” eight plus years ago to now being rated highly and achieving the highest graduation rate of any high school in Williamson County.
- Legacy Early College High School, and it’s strong academic performance and unique (one of 13 in Texas) program in which every student receives an Associate’s Degree at no charge. 98% of LECHS graduates go on to attend four year universities.
- The new large scale stadium, field house, softball / baseball facilities, and ag facility in process for development by TISD.
- The HS-TSTC Tech Connect Co-Op between Taylor ISD and Texas State Technical College offering eight technical vocational certificate programs at no cost to the students.
- Taylor High School and Legacy High School are “One to One” campuses, meaning every student receives a Mac Book Air.
- A student / teacher ratio that is 3 below the state average, at 19:1
- Extracurricular programs that are highly competitive with high student participation levels.
- Naomi Pasemann Elementary School is a Premiere Level “Leader in Me” School
- Taylor has been the State Champions in Academic Decathlon three times in the last eight years.

Market and Leverage Taylor’s “Hometown Feel”

Taylor is fortunate to offer a true hometown feel including the City’s vintage neighborhoods and historic downtown. This is an advantage that Taylor can leverage to attract homebuyer / new resident interest in the community, which can ultimately lead to builder / developer interest in developing communities and housing in Taylor.

The overall umbrella of marketing the “Hometown Feel” can take three forms:

- Policies and incentives that encourage continued investment and improvement in assets like Taylor’s historic downtown that foster this “Hometown Feel”
- Organized promotion of Taylor’s current “Hometown Feel” assets and events
- New and different community events that emphasize these “Hometown Feel” assets and raise awareness of them to potential residents from throughout the Austin area.

Implement Policies for the Protection and Investment in “Hometown Feel” Assets

Metrostudy identifies two key sets of assets that contribute to the “Hometown Feel” of Taylor: (1) Its historic neighborhoods and (2) the vintage downtown area. Taylor’s historic neighborhoods should be protected, improved, and promoted by the creation of a neighborhood specific Historic District with unique street signage, wayfinding, and plaques noting the importance of each historic home within. The policy aspect of implementing a historic district centers on regulating remodel and rebuild / tear down activity in the neighborhood and specific to the historic homes themselves. When setting such policies, balance must be achieved between protecting the homes and neighborhood and realistically meeting the needs of actual neighborhood residents. This action could foster new more upscale housing development in Taylor because it makes the existing town assets more attractive and places greater emphasis on these assets, making Taylor overall a more desirable (or perceived to be more desirable) place to live.





The policies and initiatives that could bolster Taylor’s historic downtown area are likely to be more investment intensive. Taylor is already focusing resources towards this successfully via the Taylor Main Street Programs, including the Downtown Rental / Purchase Program. Such programs have contributed to Downtown successes like the McCrory Timmerman building redevelopment. Continued program successes in this area will only further bolster Taylor’s historic downtown area which will contribute to strengthening the “Hometown Feel” asset possessed by Taylor. This asset is a powerful advantage that many competing suburban areas do not offer. The strength and appeal of Downtown Taylor can lead to setting the stage for the community to be perceived as a desirable place to live and a desirable, suitable place for additional upscale single family housing development.

Organized Promotion of Existing “Hometown Feel” Assets

This family of action steps is generally low cost in nature, and works to raise awareness of Taylor among both Austin area building / development professionals and potential new residents from throughout the Austin region. One immediate opportunity is expanded marketing and promotion of the Blackland Prairie Days event throughout the greater Austin area. This fun event can be leveraged as a springboard for residents from other surrounding, more crowded suburban areas throughout the Austin region to have a reason to come to Taylor, and become familiar with Taylor. Direct marketing in area “Community Impact News” type newspapers serving Round Rock, Georgetown, Pflugerville, Leander, Cedar Park, and others could be effective to this end. Also,

promoting the event informally through family oriented Facebook feeds favored by families in these suburbs could be a low cost high impact effort. Finally, promoting the event in publications like Austin Family magazine / website could reach families in these other competing suburbs effectively. The goal of this effort is to leverage an event that is already happening to raise overall Austin-wide market awareness of Taylor. More interaction with and awareness of Taylor plants the seed of Taylor as a place to live, and gets Taylor on the radar of a greater pool of potential future homebuyers and residents. Austin's population has grown significantly in recent years, with many of these new residents from out of state. These residents will not have a reason to know about Taylor if they are not presented with a compelling reason to visit the town.

New and Different Events to Promote Taylor's "Hometown Feel" Assets

In addition to leveraging this existing event, Metrostudy has identified several additional targeted events:

Host a ULI Austin District Council Event at McCrory Timmerman: Urban Land Institute, or ULI, is a broad based think tank and professional organization for those involved in the real estate development industry and allied professions. The Austin District Council holds monthly meetings for both their overall membership as well as targeted meetings for their Young Leaders (under 35) group. These meetings typically contain both a professional networking and educational component, and often are held at a local new development or redevelopment of note. The McCrory Timmerman building is a perfect example and a perfect venue for such a meeting. The net outcome of hosting ULI would be awareness of a) activity and investment in Taylor, and b) Taylor overall as a destination among a group that includes the developers, consultants, and bankers that facilitate development in greater Austin.

Host a Homebuilders Association of Greater Austin event at McCrory Timmerman – both Williamson County Chapter and Overall Membership: The overall goal of this effort would be similar to that of hosting the ULI event. A low cost but potentially high impact

opportunity to drive awareness of activity within and the desirability of Taylor among local professionals charged with developing and building new housing in the overall Austin market.

Hold a Historic Home Tour “Sip and Stroll” type of event: A walking (or bus) tour of Taylor’s historic neighborhoods and homes could also work to build awareness of Taylor among both providers of upscale new housing as well as potential residents. Such an event could be oriented towards awareness growth among builders / developers if it were held in conjunction with ULI, ABoR, or Homebuilders Association of Greater Austin. A similar event could be oriented towards potential new residents if it were marketed in much the same way Metrostudy recommended marketing Blackland Prairie Days to residents of nearby and region-wide suburbs. Unlike holding events at McCrory Timmerman, this recommendation brings along with it the added logistical and possible political challenge of recruiting historic homeowners to participate in the event. One opportunity to create awareness of Taylor by leveraging its historic neighborhoods and homes while not requiring residents to make the inside of their homes available would be a holiday event mimicking “Lights in the Heights” in the Houston Heights area of Houston. This historic neighborhood in Houston holds an extensive holiday light festival every year where streets are closed off, residents sit on their porch and visit with event attendees, and decorate their homes extensively for the holiday. Typically a holiday concert is also held in a neighborhood park, giving the event a central congregating location.



One Austin area land developer interviewed during this process indicated that many residents in the greater Austin area do not have much of a mental image of Taylor, because they generally travel around Taylor on the south 79 Bypass instead of traveling straight along West 2nd Street / East 4th Street which connect through Downtown Taylor and function as "Business 79." An overarching goal of these events should be to create a reason for residents in the broader region (both professionals in the housing industry and the general population) to come into 'town' on West 2nd Street and come away with a mental picture of Taylor that is focused on these "Hometown Feel" Assets.

Leverage the Hills of Mustang Creek

Taylor does already have one upscale, luxury home development of the general nature targeted within this study: Hills of Mustang Creek. This community is located within one of the identified target development areas by this study, and in general offers a desirable location near the new Taylor High School campus and near Hwy 79 for ease of access to Hutto, Round Rock, and 130 Toll. This custom home community features lots sized 120' x 220' with a total of 57 homesites. 19 lots have homes built or under construction, resulting in 38 vacant developed lots. According to Williamson County Appraisal District, these 38 vacant lots are owned by 17 different owners (including some owned by the original developer). These lots are currently valued at a lower price / value than lots of a similar quality in communities of a similar quality elsewhere in suburban Austin. A local real estate broker could work with lot owners on assembling a package of vacant lots, somewhere between 20 and all 38, and then market these lots to a larger high end focused homebuilder. Such a builder could establish a model home sales center in the community, market the community in a proactive professional manner, and reactivate the asset. Hills of Mustang Creek represents the greatest "low hanging fruit" opportunity to introduce more upscale new homes to be built in Taylor. This is because:

- The community has 38 ready to build on, vacant lots, that support the type of more upscale executive housing Taylor is lacking.
- Austin is currently a lot constrained and land constrained market, so high quality homebuilders are actively looking for lots and land to buy to fulfill current strong homebuyer demand.
- Hills of Mustang Creek is a high quality development located within one of the key potential new home growth corridors of Taylor as identified by Metrostudy.

These 38 lots represent a relatively low risk opportunity for builders of upscale housing to establish a building presence and program in Taylor. Should they be successful in doing so, this will be highly productive in drawing the attention of other builders and developers of upscale housing neighborhoods towards Taylor.

Leverage Former Taylor MS/HS Site for a Unique Community Amenity

Metrostudy understands that Taylor ISD is in the process of accepting bids to purchase the 6.4 acre site in Central / North Taylor that houses the former Taylor High School and Taylor Middle School campuses. This is a unique re-development opportunity within one of Taylor's historic neighborhoods. The opportunity exists to re-purpose these two historic campus buildings into a unique community amenity asset that could be another "Hometown Feel" Asset making Taylor a more desirable place to live and therefore more desirable place for builders and developers to offer higher price point new homes. The scale and configuration of the historic school buildings lend themselves to a variety of adaptive re-use scenarios. One similar re-development that Metrostudy feels is instructive of what could be achieved in Taylor is Duling Hall in Jackson, Mississippi. Duling Hall is a venue in a repurposed historic junior high school building in the vintage Fondren neighborhood. Like the Taylor MS / HS site, Duling is surrounded by a neighborhood of historic homes and churches. Duling Hall fronts on a slightly busier, more commercial street than does the Taylor MS / HS site. However, the two locations are otherwise comparable.

As a private business enterprise that was aided by grant finding from the City of Jackson, Duling Hall has been converted into a multi-use venue including:

- A small concert venue showcasing local and regional musicians
- A locally owned, farm to table concept restaurant
- A special event venue

This site has become a redevelopment focal point in the Fondren neighborhood. Photos of the redevelopment site and it's various uses are presented on the top of the following page.



Develop an Agrihood

One challenge presented to Metrostudy by our developer clients interviewed as part of this Taylor effort was this: there is plenty of land left in Hutto and other suburbs closer in to Austin along the path of growth. Why would homebuyers choose to leapfrog past these areas to Taylor? The answer to that question is that they must be incentivized to do so by being offered a sufficiently unique value proposition to make them choose

Taylor over a closer in competing suburb. One development trend that is gaining a foothold on a national level is the “Agrihood.” These neighborhoods marry the conventional product offerings and layout of a master planned community with community agricultural and food growing as the key theme and amenity offering. Such communities are highly activated, and align well with the desire by both millennials and empty nesters to live in an active, connected community. Highly successful agrihoods have been launched in Dallas / Fort Worth and Houston by professional seasoned master planned community developers. Interestingly, as progressive as the Austin region is relative to its Texas large metro peers, Metrostudy knows of no meaningful agrihood developments that are either active or planned for development in the Austin region. Taylor could be a strong potential location for the first such community in Austin as the theme of an agrihood ties well with Taylor’s agricultural past and present. Will an agrihood support Taylor’s goal of attracting more upscale housing? The pricing and product of housing offered in Harvest Green in suburban Houston and Harvest in suburban Dallas are instructive towards this answer.

Near Houston, base home pricing in Harvest Green in Richmond ranges from a low of \$250,000 for homes on 50’ wide lots by DR Horton to \$560,000 for the largest home offered by Trendmaker Homes on a 75’ wide lot.

Near Dallas, base home pricing at Harvest in Argyle ranges from a low of \$330,000 for the smallest patio home to \$569,000 for the largest home offered by David Weekley Homes on an 80’ wide lot.

An agrihood in Taylor could initially be expected to achieve pricing at a value to the pricing represented in more established, closer in Harvest Green and Harvest. However, even at a relative value pricing, the net outcome would be homes offered at the \$250K to \$350K price range and the \$400K plus price range targeted for growth in Taylor.

Large Lot, Competitively-Priced Value Proposition

Another challenge to producing new upscale housing in Taylor that was brought up by developer clients interviewed was the scarcity of housing priced above \$400,000 in Hutto, which is closer to 130 Toll, has newer retail, and more highly perceived schools. Why would there be a market for such higher priced homes in Taylor which is further out and arguably lacks some of these other positive attributes? One way to potentially create this market is to give the homebuyer an incentive to buying an executive luxury home in Taylor versus closer in suburbs such as Round Rock. An incentive identified by Metrostudy is to offer the homebuyer a high end new custom or production home on an acreage estate lot at a price competitive with what they would pay for a similar home on a 70' to 90' subdivision lot in Round Rock or Pflugerville.

Metrostudy believes that an acreage estate lot community (defined as offering lots $\frac{3}{4}$ acre to 1.5 acres in size) that was professionally developed with lots sold to a builder or builders who operated a professional model home sales center and marketed the community proactively could achieve sales success at price points above \$400,000 in Taylor. Austin overall is a land constrained market, while Taylor is not land constrained. A way to leverage this dynamic is to offer large spacious lots at a relative value. Taylor is closer in to Austin than many locations where such acreage subdivisions are developed, providing it an advantage it may not similarly enjoy relative to conventional master planned communities. Land is sufficiently low priced in Taylor to facilitate such a development. Some of the most active large lot communities in Greater Austin are located in relative close proximity to Taylor:

- Grand Mesa at Crystal Falls: 42 annual closings priced from \$450K to \$1.0M
- Green Haven Ranch: 18 annual closings priced from \$300K to \$524K
- Reagans Overlook: 44 annual closings priced from \$492K to \$662K
- Shady Oaks Estates: 27 annual closings priced from \$399K to \$507K
- Woodland Park: 17 annual closings priced from \$376K to \$496K

Shady Oaks Estates, in nearby Hutto, is probably the most instructive example of pricing power that could be achieved in Taylor.

V. Q&A Development

The purpose of this recommendation is to preemptively present questions the City may reasonably anticipate being asked by potential land developers and homebuilders who are contemplating building homes or developing subdivisions in the City of Taylor. Some of these are direct questions with concrete answers, while others are broader concepts of concern and importance to builders and developers when evaluating new places in which to work. Many to most of these questions will be answered as part of Metrostudy's larger engagement with the City.

Next Steps:

City officials and other key related stakeholders should contemplate the answers to these questions and ultimately have answers ready in preparation for potential engagement with builders and land developers to recruit them to expand into the City of Taylor.

Market-Oriented Questions

1. What is the market demand for new homes in Taylor?
2. What are the key employers in and around Taylor?
3. What public schools serve Taylor, and how are they ranked by TEA?
4. Who do you anticipate will want to purchase a new home in Taylor?
 - (a) Current local residents who wish to upgrade their current home?
 - (b) Current local residents who wish to downsize from their current home?

- (c) Commuters into Austin?
 - (d) Commuters to Round Rock?
 - (e) Retirees / soon to be retirees from elsewhere in the Austin region?
 - (f) Others?
5. What is the current population of the City of Taylor?
 - A. Where do current residents of Taylor work?
 - B. What marketing window can my company use to drive traffic to our subdivision or homes?
 6. What other new home subdivisions (if any) are currently operating or planned within the City of Taylor?
 7. What attributes distinguish Taylor from other parts of the TMA where large scale suburban development is beginning? I.e. why should I expect a homebuyer to buy a new home in Taylor instead of 5-10 minutes away in Hutto or 15 to 25 minutes away in Round Rock and Pflugerville?
 8. What is the tax rate in Taylor, and how does this compare to other places in Williamson County?
 9. What community amenities or attributes are special about Taylor that I can reference to market the homes / neighborhood I plan on developing?

Process-Oriented Questions

1. What is the building permit process for home construction in Taylor?
2. What is the building inspection process for home construction in Taylor?
3. What is the platting /entitlement process for land development in Taylor?
4. What is the development review process for land developments in Taylor?
5. Does the City of Taylor have water and sewer capacity sufficient to serve a new residential subdivision?
6. Will the City of Taylor allow the formation of a PID to provide utilities or as a vehicle to reimburse the developer for infrastructure and amenities installed in a new subdivision?

7. Who is the electric, gas, phone, and cable infrastructure provider that serves Taylor and Williamson County?
8. Does Taylor have zoning or other land use controls in place?
9. What roads in or near Taylor are slated for expansion or construction, and what impact will that have on surrounding land tracts for development?
10. Are any areas of developable land in Taylor within the FEMA floodplain?
11. Are there any finished lots currently available to build homes immediately in Taylor?
12. Are there any subdivisions currently being engineered or planned for near term future development in Taylor?
13. Which civil engineering firms have land development experience in Taylor?
14. Does Taylor have a municipal building code?
15. Does Taylor have municipal subdivision regulations?

VI. Resale Market Impact

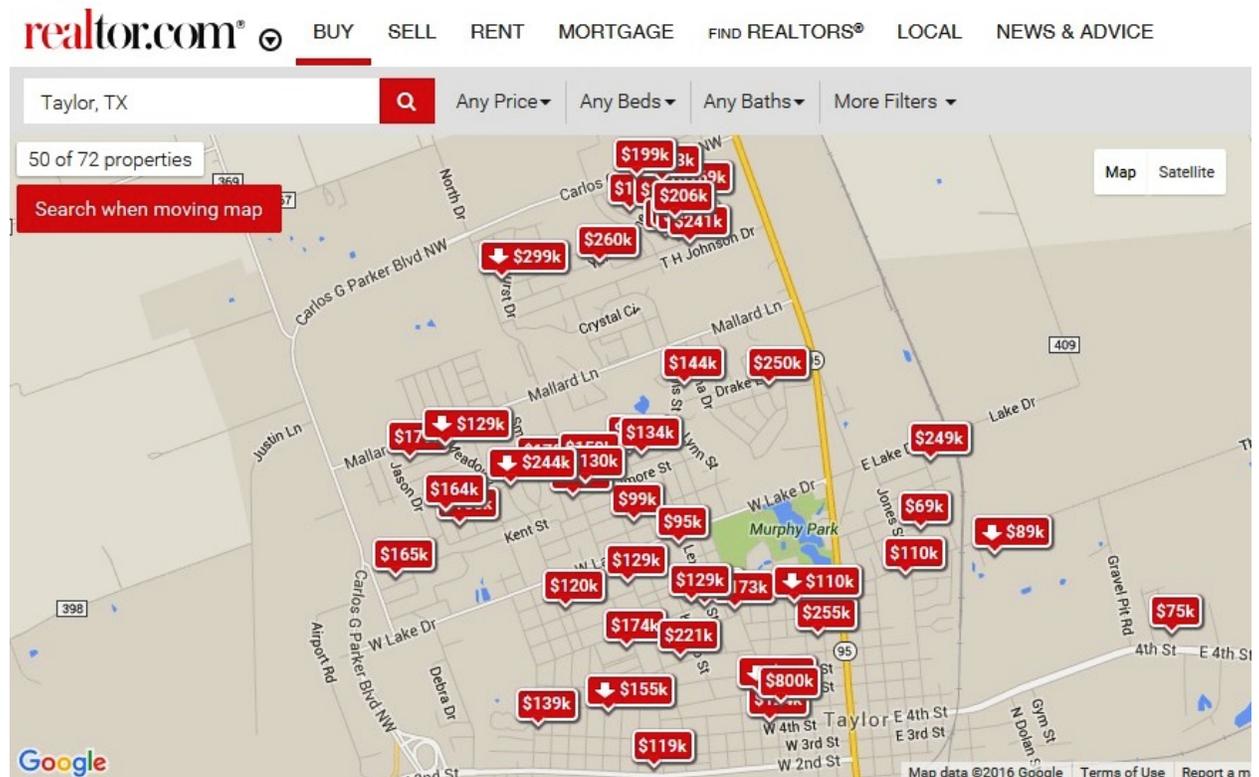
In addition to Metrostudy was tasked with assessing the impact on the existing resale home market in Taylor under the assumption that meaningful new single-family residential development will occur? In order to provide guidance around this impact, Metrostudy has:

- Assessed current resale home market conditions
- Noted potential differences between current and future development
- Presented potential resale market impact points
- Drawn conclusions from the above exercises

CURRENT CONDITIONS

The resale home market in Taylor is characterized by scarce inventory. Realtor.com, the National Association of Realtors public facing listing site, currently lists 72 homes on

the market in Taylor; however, of these 72, 27 are new homes primarily listed by KB Home in Summerfield.



Many of the remaining 45 (72 total minus 27 new homes) true resales are older properties in north and near-north Taylor.

Notably, of the 72 total listings, 33 are currently pending sale. Another 18 of the 72 are “place holder” listings by KB Home showing one of the plans they offer in Summerfield, but not tied to an actual home or specific lot on which to build a home. It is not uncommon for builders to leverage the MLS to advertise in this manner. Netting the 33 homes pending sale *plus* the 18 KB Home placeholders from the total of 72 listings results in true new and resale home inventory listed for sale of just 21 homes in Taylor. This represents less than three months inventory, corresponding directly with the current tight 2.0 months of inventory reported greater Austin-wide.

The fact that 33 homes (across all price and age characteristics) are currently pending sale indicates market interest in purchasing homes and living in Taylor. Some of this interest may stem from Taylor's relative affordability. The median listing price is \$176,000 or \$100 per foot. This represents a value versus the overall greater Austin market. The March 2016 median home price in greater Austin is \$278,000. Currently, virtually all home listings in Taylor are priced below \$300,000.

NEW DEVELOPMENT / EXISTING HOME CHARACTERISTICS

New single family development in Taylor is likely to be sufficiently different from most current housing offered in Taylor, and thus is not expected to result in a negative impact upon values and sales of existing homes. The most typical impact on existing homes and neighborhoods is a flight from these homes by current owners to the new homes and neighborhoods once they are offered. This flight can result in a decline of values of existing homes as their level of inventory builds as buyers flock to new homes. However, Metrostudy does not anticipate this dynamic occurring in Taylor for two key reasons.

First, many of the existing housing stock in Taylor is located within established, stable neighborhoods. Without significant decline characteristics, the level of incentive is not as strong for current homeowners to relocate to new neighborhoods as it would be if the existing neighborhoods were in a decline state. Metrostudy has not observed or been notified of flight from existing nearby neighborhoods to Summerfield as that neighborhood has been open for sales. Some of this is due to the entry level nature of a portion of Summerfield. However, Metrostudy still sees this as a positive indicator. Summerfield is located adjacent to several of Taylor's existing, established neighborhoods so it would have had an optimal opportunity to draw buyers from these neighborhoods as residents would not have to change schools, community resources, etc. to move to Summerfield. Yet Summerfield has not appeared to have a negative impact on existing home values nor has it appeared to have an impact on existing home inventory levels as they are and continue to be tight.

A reasonable portion of the existing housing stock in Taylor is historic or vintage in nature. A different sort of buyer seeks an older home in a vintage neighborhood over a new home in a new neighborhood. Very little, if any, cross-shopping between these two types of housing options occurs. Of the 33 listings currently pending sale, 21 of them are older / vintage homes indicating a level of interest in this type of housing in Taylor.

POTENTIAL RESALE MARKET IMPACT POINTS

Potential Resale Market Impact Points

Metrostudy is of the general opinion that additional new single family residential development in Taylor would have minimal impact on existing neighborhoods and housing in Taylor. The relatively small impacts that could potentially occur are limited to the following:

- Price declines and inventory creep in Summerfield. Buyers who sought “nicer” new homes in Taylor have until recently been offered essentially one option: the larger homes /lot size programs in Summerfield offered by KB Home. Should a new development offering a different variety of home floor plans and features be introduced in Taylor, some current residents may choose to relocate to this neighborhood. Further, some potential Summerfield larger lot new home buyers could choose to purchase homes in the new subdivision which would result in slower absorption in Summerfield.
- Slight price declines and inventory creep in certain other new neighborhoods in northern Taylor. Many of the neighborhoods north of Mallard Lane feature homes that are at least somewhat comparable to new homes. Therefore, residents of this area may be more likely than residents of other areas of Taylor to cross-shop with new homes and wish to “upgrade” to a new home should a high quality new home development be introduced in Taylor. Because of this, it is possible that an increased number of homes in these neighborhoods north of Mallard Lane could come to market and therefore result in increased inventory and suppressed pricing. This is considered by Metrostudy to be a minimal risk

because a) Summerfield has not posed this problem so far, and b) new housing a short drive west in Hutto has not appeared to present this impact on these Taylor neighborhoods either.

CONCLUSION

New high quality single-family home development is not expected to have a negative impact on values or home inventory in Taylor's existing neighborhoods. It is likely that the opposite will occur. A professionally-developed and marketed new community development in Taylor could generate increased overall interest in living in Taylor. Should this occur, the result is more likely to be increased values of existing homes in Taylor.

VII. Assumptions & Limiting Conditions

The following contingencies and limiting conditions are noted as fundamental assumptions that may affect the validity of the analysis and conclusions reached in this report:

- All information contained in this report, while based upon information obtained from the client and other sources deemed to be reliable, is in no way warranted by Metrostudy.
- The Austin MSA, State of Texas, and the nation as a whole will not suffer any major economic shock during the time period of the forecast contained in this report.
- Population will continue to increase at or above the rate forecast.
- The sources of statistical data and demographic estimates used in this analysis are sufficiently accurate to be useful for planning purposes.
- The development will be designed, promoted, and managed in a professional manner.

- The recommendations set forth in this report will be acted upon within a reasonable period of time to preclude major changes in the conditions evaluated.

Radical changes in factors affecting the major assumptions noted above could alter the conclusions reached in this analysis or necessitate the re-evaluation of portions of this report.