

Jill Spencer
Payson City Planner

Re: Important facts and conclusions regarding the unit-mix, project absorption and financial feasibility of the Red Bridge project.

In concluding a final development concept for the Red Bridge project and to satisfy the market analysis requirements of underwriters and investors, PSMP has completed numerous studies of the multi-family market throughout Utah County and comparable markets in Salt Lake County. In addition to our own studies, we have used the services of numerous third party real estate market consultants including MetroStudy Inc., a national real estate market consulting firm engaged by D.A. Davidson, the PID bond underwriter, to study the market feasibility of the Red Bridge PID. In completing these studies we have incurred more than \$60,000 in outside consulting fees. Some of the firms and individuals providing outside consulting services for the Red Bridge project are as follows:

MetroStudy, Inc. (National firm specializing in real estate market analysis engaged by D.A. Davidson)
EMG Management: (Manages over 60 communities located in rural, suburban and gentrifying areas.)
Western States Multifamily: (Regional multifamily consultants)
Cushman Wakefield: (National real estate broker specializing in the multi-family market)
James Wood (Director, Bureau of Economic and Business Research, University of Utah)
WCEC Engineers (Parking and traffic specialists)

The following is a summary of information obtained from outside consultants and our own analysis of comparable Utah County communities. This information was used to derive conclusions for the Red Bridge project involving absorption, unit mix, and stabilized vacancy.

ABSORPTION:

Third party consultants conclusions and recommendations regarding absorption

Cushman Wakefield: Utah County continues its trend as one of the nations strongest markets. The vacancy rate is less than 2%. The 2022 vacancy rate is expected to remain below 4% with rental rates increasing by 10% to 12%. Cushman Wakefield estimates, along with Jim Wood (Director of Economic and Business Research University of Utah), by 2040, the population of Utah County will be equal to the population of Salt Lake County. (Cushman Wakefield Page 1)

Meyers Research-MetroStudy: Based on a review of the competitive market area, MetroStudy estimates an absorption rate of 19.54 units per month for the Red Bridge Project (Page 37).

Western States Multi-family: The Market Study update letter signed by Western States Multifamily August 21, 2021, indicates the rents, occupancy levels and optimal unit mix is unchanged from what was concluded in the original market study. The market study (on Page 134) indicates an absorption rate of 20 units per month is projected for the Red Bridge project.

Payson South Meadows Partners conclusions and projections of absorption for the Red Bridge project:

As indicated above, Jim Wood (Director of Economic and Business Research University of Utah) projects in 18 years the population of Utah County will be equal to Salt Lake County. Based on the foregoing, it is assumed that over the next 12 to 15 years, the population and economic growth patterns along the I-15 corridor between downtown Provo and Payson (a distance of approximately 17 miles) should be at least equal to the significant growth and development which has occurred along the I-15 corridor between downtown Salt Lake City and Draper over the last 15 years (a distance of approximately 20 miles).

Recent absorption rates of 15 to 22 units per month indicated by the Eversage multi-family project located approximately three miles north of Red Bridge is also considered an important factor in concluding absorption for the Red Bridge project.

Based on the foregoing, Payson South Meadows Partners has projected an absorption rate of 18 to 20 units per month commencing in the first quarter of 2023. Therefore, the total residential inventory in the Red Bridge project should reach stabilized occupancy by 2028.

UNIT MIX:

Third party consultants conclusions and recommendations regarding unit mix:

Cushman Wakefield: The overall average rental rate for all unit types increased by 17.3% in 2021, The rental rate for one-bedroom units increased by 24.4%, two-bedroom, two-bath units increased by 19.4% and three-bedroom units increased by 19.6%. The highest demand by unit was for one-bedroom units, followed closely by studio units. The push in demand for studio units is direct result of the massive increase in rental rates (page 1).

EMG Management: The data and experience we have provides a strong case for the recommendation of a diversified unit mix consisting of approximately 20% studio units, 40% one-bedroom units, 20% two-bedroom units and 10% three bedroom units (page 1).

Western States Multi-family: The suggested optimal unit mix for the Red Bridge project is 30% one-bedroom units, 50% two-bedroom units and 20% three-bedroom units (page 102).

Payson South Meadows Partners conculsion of optimal unit mix for the Red Bridge project:

Based on the foregoing recommendations and our own analysis of market data involving multi-family uses in Utah County, we have concluded the following unit mix for the Red Bridge project.

Red Bridge				
Lot No.	1BR	2BR	3BR	TOTAL
2	0	32	0	32
3	0	69	60	129
4	42	47	12	101
5	70	43	0	113
6	75	53	0	128
7	61	40	0	101
8	33	24	0	57
12	140	63	0	203
13	117	79	0	196
14	37	29	0	66
15	0	0	38	38
16	0	0	26	26
	575	479	186	1240
Percent of Total	46.37%	38.63%	15.00%	100.00%

line on estimated rental rates, please refer to the Red Bridge Pricing Program in Exhibit 17. **Overall, Meyers-Metrostudy believes Red Bridge will perform well by offering a competitive product in a desirable in-demand area.**

Absorption

Based on this review of the competitive market area, a projected build-out, product mix and other information provided by the District regarding the Subject Property, Meyers-Metrostudy has provided an absorption schedule forecast of the units within the for-rent residential portion of the Red Bridge development, which we believe is reasonable and supported within this report.

Exhibit 15 : For-Rent Apartment Absorption Schedule

Planning Area/Product Type	Average Unit Value	Unit Mix		2021				2022				2023				2024				2025				2026			
		Lots	%	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Red Bridge - Parcel 301	\$182,620	48	5.1%									15	15	16													
Red Bridge - Parcel 302	\$182,620	112	12.0%												10	10	10	20	40	37							
Red Bridge - Parcel 303	\$182,620	86	9.2%												10	10	10	20	25	7							
Red Bridge - Parcel 304	\$182,620	99	10.6%					35	25	15	15	4															
Red Bridge - Parcel 306	\$182,620	86	9.2%					30	25	15	12																
Red Bridge - Parcel 403	\$182,620	56	6.0%															20	20	13							
Red Bridge - Parcel 305	\$182,620	52	5.5%					5	5	10	10	15	4														
Red Bridge - Parcel 404	\$182,620	114	12.2%																					40	40	28	
Red Bridge - Parcel 307	\$182,620	147	15.7%					5	10	10	15	15	20	20	25	20											
Red Bridge - Parcel 308	\$182,620	32	3.4%					5	15	10																	
Towne and Country Apartments	\$182,620	105	11.2%					5	10	15	15	15	20	20													
Total	Occ Rate²=95.0%	938	100.0%	0				135				281				277				90						108	

Notes:

¹ Build-out reflects construction on the apartments to begin in 2021, with move-ins beginning 3Q22. This model assumes units may be occupied before all of construction is completed. Figures reflect occupied forecast, not construction completion, therefore total occupied units in the occupancy build-out equal 891, which equals the 95.0% occupancy rate estimated (not the total 938 units in the community). Taxes on apartment units will be collected regardless of their occupancy status.

² Occupancy rate for the Subject Property is based on field survey and additional research of actively-renting apartment communities within the competitive market area.



December 9, 2021

RE: Payson South Meadows Partners Development

To whom it may concern:

I am pleased to write this letter in support of the Payson apartment community development. The project unit mix is an integral part of the overall success of each of our communities and enables our management team to give options to renters while creating a diverse community with various occupancy and family mix.

EMG Management manages over 60 communities in Utah which are located in rural, suburban, and gentrifying areas. The data and experience we have provides a strong case for the recommendation of a diversified unit mix consisting of approximately 20% studio units, 40% one bedrooms, 20% two bedrooms, and 10% three bedrooms.

Nearest to Payson, we have three communities in the Provo area that have various sized apartments. Our studio apartments in Provo are highly occupied and have the least amount of turnover. They are very sought after and typically have the longest waiting list as people need options for wherever they are in life, just starting out or downsizing and living on a smaller budget. Studio units in general throughout our portfolio are remarkably similar as they provide a niche that has an appealing price point and can also provide a comfortable lifestyle. Typically, you will find that studio apartments deliver a great home option to a single person who does not want or need roommates, but they are also a great option for up to two people just starting out or even in the retirement stages. Studios are a great value add to any property that serve the community and the cities they are located in as they support in the workforce in many different career levels weather it be an entry level service-related industry or an up-and-coming executive.

We look forward to managing this project. We have also enclosed our corporate resume for a little more detail about us and what we do. Please feel free to reach out with any questions or concerns you may have.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Pickering', is written above the typed name.

Wendy Pickering
EMG Management
President/Principal Broker, Utah



**western states
multifamily**

appraisers & consultants

August 10, 2021

Mr. Thayne Bailey
Essential Real Estate
507 South Orem Boulevard
Orem, UT 84058

Type of Report:	Market Study
Description of Project:	Proposed South Meadow Apartments
Location:	Vicinity of 800 South 1700 West
Municipality:	Payson, Utah 84651
Client:	Essential Real Estate
Western States File No:	1910-05d

Dear Mr. Bailey:

At your request, I am writing regarding the proposed South Meadows Apartments, to be located in the vicinity of 800 South 1700 West, Payson, Utah. My market study was dated October 31, 2019.

Based on my work in the area, I have concluded that the rents, occupancy and land values have not deteriorated since the date of inspection. Were I to complete a new market study today, the rents, occupancy levels and land value would be at or above those found in my original market study.

In addition, the suggested optimal unit mix is unchanged from what was presented in the original market study.

I hope that this information is helpful to you.

Respectfully submitted,

Digitally signed by
Jeff Neese
Date: 2021.08.10
13:01:55 -06'00'

Jeff Neese, MAI

Utah State Certified General Appraiser License #5451871-CG00 (Exp. 6/30/23)
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Suggested Optimal Unit Mix for The Subject

SUGGESTED OPTIMAL UNIT MIX			
Unit Type	Number of Units	Percentage of Total Units	Unit Size
One-Bedroom, One Bath	32	16%	700 Square Feet
One-Bedroom, One Bath	28	14%	800 Square Feet
Two Bedroom, Two Bath	64	32%	975 Square Feet
Two Bedroom, Two Bath	36	18%	1,100 Square Feet
Three Bedroom, Two Bath	40	20%	1,250 Square Feet
Totals / Averages	200	100%	984 Square Feet

The proposed unit mix includes 30% one-bedroom units, 50% two-bedroom units and 20% three-bedroom units. The average unit size is 984 square feet.

Estimate of Absorption Rate

The absorption experience of new apartment projects has been strong recently. However, it has been necessary for some of the higher-rent projects to offer rental concessions in order to fill units. The absorption of experience of some local market rent projects is as follows:

RECENT ABSORPTION OF NEW APARTMENT PROJECTS IN THE MARKET AREA			
Project	Year	No. of Units	Absorption Rate Per Month
Parc on Center	2016	168	16
Parkway Lofts	2016 / 17	332	21
200 CityView	2018 / 19	139	10
Rivulet	2017 / 18	252	14
Meadows at American Fork	2018 / 19	270	30
Fields at Timpanogos	2018 / 19	192	11
The Vine	2018 / 19	468	35

The absorption rate at these projects has ranged from 10 to 35 units. The average is 20 units per month.

An absorption rate of 20 units per month is projected. Therefore, about 9 months will be required to reach stabilization at 94% occupancy (188 units). However, it is likely that some units will be occupied while others are still under construction.

Assuming that the first units are ready for occupancy within 17 months, and assuming that the total construction period is 20 months, absorption is projected to extend only 6 months following completion of construction. The total development and lease-up period is projected at 26 months.

An absorption rate of 20 units per month is projected. Therefore, about nine months will be required to reach stabilization at 94% occupancy (188 units). However, it is likely that some units will be occupied while others are still under construction. Assuming that the first units are ready for occupancy within 16 months, and assuming that the total construction period is 22 months, absorption is projected to extend only three months following completion of construction. The total development and lease-up period is projected at 25 months.



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February 17, 2022

JWRA Architects
C/O Jerry Robinson
2299 South Highland Drive, Ste. 200
Salt Lake City, Utah 84106

Jerry,

We are pleased to present you our teams' opinion of supply and demand for apartments in Utah County, and more specifically Payson. The statistics referenced in this letter come from Jim Woods, who runs economic research for the University of Utah. He provides an unbiased and accurate report of supply and demand economics for the county and is widely regarded as the most prominent demographer in the region.

The Utah County Market is experiencing an unprecedented demand for rental units driven by an enormous increase in population and employment opportunities. Despite inventory increasing to approximately 60,000 units in 2021, demand continues to exceed supply with an overall vacancy rate less than 2%, the lowest on record.

The low vacancy rate and growing demand for apartment units continues to put upward pressure on rental rates. The overall average rental rate for all unit types increased by 17.3% in 2021. The rental rate for one-bedroom units increased by 24.4%, two-bedroom, two-bath units increased by 19.4%, and three-bedroom units increased by 19.6%. Studio rental rates increased 4% and two-bedroom, one-bath units increased by 0.3%.

Demand for all unit types is at an all-time high. Studio, One-Bedroom, Two-Bedroom, Two-Bath and Three-bedroom units all report vacancy below 2%. This tight rental market is a direct result of the incredible job and population growth that Utah County is experiencing, and it is our team's belief that demand for all those unit types will only increase as the population of Utah County gains on Salt Lake County over the next 40 years. It is our estimate along with Jim Woods, that by 2040, the population of Utah County will be equal to the population of Salt Lake County.

The highest demand unit type was one-bedroom units, followed closely by studio units. The push in demand for studio units is a direct result of the massive increase in rental rates. As rents continue to increase, single renters and students are seeking affordable housing options in desirable areas. Furthermore, the unfortunate Covid-19 pandemic has deterred single renters to sharing an apartment with a roommate. This has spurred a craze around studio and micro units which seem to have the most success in areas with close proximity to universities such as BYU and UVU, trade and technical schools, as well as up and coming desirable areas to live. It is

likely that demand will continue due to the new Mountainland Technical College (M-Tech), scheduled to start construction in 2022 and the newly planned Utah Valley University Campus (UVU).

In 2020 we handled the sale of the first micro unit project to be built in Salt Lake City known as Green Print, which consisted of 145 units. These units ranged in size from 235-285 square feet. There was literally no parking and zero amenities. The demand was strong as we received 8 offers on the property. Ultimately, we closed on the property at 5.1% cap rate. Keep in mind this was 2 years ago and the best of the best apartment projects were selling for 4.75% cap rates at that same moment in time, so we were very pleased with this pricing and result. This clearly demonstrates micro units are successful and have a strong future moving forward.

Prior to 2014, there were only a handful of large, high-quality apartment communities for families in Utah County. Communities were developed for student renters, while non-student renter households lived in a highly fragmented rental market dominated by single-family homes, duplexes, and four-plex's. Since 2014, the market has undergone substantial change and growth with a strong demand for new, high-quality rental housing bringing historic levels of apartment development to the county.

The number of building permits issued for apartment development has reached record levels with an all-time high of 3,432 units permitted from January through October of 2021. This represents an increase of 263% over the 1,304 permits issued in 2020 and is a trend that we believe will continue.

Sincerely,



Kip Paul



Michael King