

**FURST RANCH - 2022 MARKET ANALYSIS UPDATE**

**To:** Randi Rivera, McAdams  
**From:** Jason Claunch, Catalyst Commercial  
**Date:** September 30, 2022  
**Subject:** Update to the 2020 Furst Ranch Market Analysis

Mrs. Rivera,

Catalyst Commercial completed a market analysis for the Furst Ranch project in 2020. Attached is a 2022 update to the 2020 Market Analysis based upon current conditions.<sup>1</sup> In addition, we have provided program justification for the proposed multifamily density and its critical role in the success of this project.

**Retail**

As of Q3 2022, Furst Ranch could absorb approximately 711k square feet of retail space and absorb an additional 1.9M square feet of retail space over the next 20 years. This is an increase of approximately 100,000 square feet due to increased population and increased spending attributed to market trends, including COVID related market shifts.

**Salient Market Factors:**

- Per square foot (PSF) retail sales across the United States have grown significantly since 2010 with an increase of 44.2% from 2010 to 2021.
- Retail sales PSF across the United States grew 27.4% from 2010 to 2019.
- Retail sales PSF across the United States had a slight decrease at 0.6% from 2019 to 2020 due to COVID, but increased 13.9% from 2020 to 2021 due to the later economic response to COVID.
- In the DFW Metroplex and across the United States cap rates are at some of the lowest values seen in the last decade, indicating high values and strong confidence in this sector. Vacancy is forecasted to continue a downward trend, rents are forecasted to continue an upward trend, and values are forecasted to continue an upward trend.
- Investors continue to have confidence and interest in high-quality retail centers including redevelopment of underperforming retail across the DFW Metroplex.
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Retail Market	2020 Market Analysis	2022 Update
Existing Demand	682K SF	711K SF
20 Year Additional Demand	1.6M SF	1.9M SF

**Single Family**

As of 2022, it is estimated that Furst Ranch could capture 1,168 single family units annually (7% of total estimated Denton County activity). This demand is slightly lower than the previously identified demand in 2020 of 1,284 units annually due to release of the 2020 Census data that recalibrated the population growth projections. This data was released after the previous version of this study was completed.

- Denton County is one of the fastest growing counties in the United States growing 3.9% between April of 2020 and July of 2021.
- Denton County grew by 243,808 residents between 2010 and 2020, a total growth of 36.8%.
- The Texas Water Development Board estimates that Denton County will be home to 1,329,551 people by 2040 and will reach a population of 1.6 million by 2050, a significant increase from the current population of 941,647.

<sup>1</sup> Note: All assumptions and sources are consistent with the original market study, unless otherwise noted.

Single Family Market	2020 Market Analysis	2022 Update
Annual Demand	1,284 units	1,168 units

**Multifamily**

As of 2022, it is estimated that Furst Ranch could capture 761 multifamily units annually (7% of total estimated Denton County activity). This demand is slightly lower than the previously identified demand in 2020 of 817 units annually due to release of the 2020 Census data that recalibrated the population growth projections. This data was released after the previous version of this study was completed. There are a total of 1,599 units currently under construction in the Lewisville/Flower Mound Submarket with anticipated rents of \$2.01 PSF (\$1,734 per unit).

- As investors continue to focus on Sun Belt markets, the DFW Metroplex continues to hold a top spot for multifamily investment through mid-2022, a spot it has held since 2020.
- The DFW Metroplex has had record-setting demand and rent growth over the past year.
- As interest rates continue to rise, multifamily assets will serve a growing role in investors’ hedge against inflation with the continued demand and rent growth.
- The United States and the DFW Metroplex are seeing an increase in demand for multifamily as more people choose to rent.
- Attracted to robust economic and demographic drivers, low cost of entry, and solid multifamily fundamentals, investors have deployed record levels of capital to the metroplex over the last decade.
- Due to pent-up demand and a continuous flow from in migration, multifamily absorption in Dallas-Fort Worth surged to record levels, leading the country in absorption last year.
- Declining homeownership rates will increase demand for multifamily. This decline is especially pronounced in the age brackets of 35-44 years and 45-54 years which both fell over 6% from 2000 to 2020. As this shift take place, this will increase the size of the “rent-by-choice” segment of the older adult population.
- Increased mortgage interest rates will increase demand for multifamily.

Multifamily Market	2020 Market Analysis	2022 Update
Lewisville/Flower Mound Submarket Current Inventory	26,000 units	31,800 units
Annual Demand	817 units	761 units

**Corporate Office**

Since the market analysis conducted in 2020, a combination of quarters with significant deliveries and significant negative absorption (tenant vacating a property or properties) have caused a spike in the vacancy rate as the market equalizes and those spaces are absorbed.

- Dallas office market sales have been resilient despite the uncertainty in the sector. Solid economic underpinnings and continued interest from companies in more expensive coastal markets have generated increased interest in the DFW Metroplex.
- With pricing for many assets below \$200 PSF, the metroplex is a bargain compared to the traditional gateway markets while still offering the stability of a growing, diverse economic base.
- CBRE reported in Q2 2022 “there will continue to be a flight to quality where newer, highly amenitized renovated buildings will have the most activity. For all other projects, they will continue experiencing lower rent growth and shorter lease terms for new and renewing tenants. However, with new developments, pent up demand and a great local economy, DFW should be able sustain healthy fundamentals.”
- Corporate relocations and expansions continue to drive office demand in Dallas-Fort Worth. A highly skilled labor force, low business costs relative to coastal markets, and a central location add to the DFW Metroplex’s attractiveness.

Office Market	2020 Market Analysis	2022 Update
Lewisville/Denton Submarket Current Inventory	3.4M SF	3.8M SF
Vacancy	7.6%	17.0%

**Construction Phasing**

The table below highlights the planned phasing of the Furst Ranch project by use type and subtracts that from the market demand. As stated before, the demand values are the number of units or square feet that Furst Ranch could construct that the market would be able to efficiently absorb without oversupplying the market.

Retail	Years 1-10	Years 11-20	Years 21-30	Total
Market Demand	1,582,373 SF	981,284 SF	1,274,746 SF	3,838,403 SF
Furst Ranch Planned	1,101,400 SF	957,693 SF	124,200 SF	2,183,293 SF
Surplus Capacity	480,973 SF	23,591 SF	1,150,546 SF	1,655,110 SF
Single Family	Years 1-10	Years 11-20	Years 21-30	Total
Market Demand (excludes Prairie Vista)	11,680 units	11,680 units	11,680 units	35,040 units
Furst Ranch Planned	950 units	1,250 units	800 units	3,000 units
Surplus Capacity	10,730 units	10,430 units	10,880 units	32,040 units
Multifamily	Years 1-10	Years 11-20	Years 21-30	Total
Market Demand	7,610 units	7,610 units	7,610 units	22,830 units
Furst Ranch Planned	2,750 units	1,550 units	1,700 units	6,000 units
Surplus Capacity	4,860 units	6,060 units	5,910 units	16,830 units

Below is a justification for the multifamily proposed for this project. Essentially, these are the key functions that multifamily is critical and necessary in the success of the Furst Ranch project:

- The proposed corporate and mixed-use program is dependent on multifamily density.
- The additional density attributed to multifamily is required to offset the lack of population in the trade area due to adjacent low density development, upstream tributaries, floodplain, and Lake Grapevine.
- The additional value from multifamily enables the development to fund amenities, improvements and upgrades.
- The additional value from multifamily enables the development to eliminate the space originally contemplated for industrial.
- Multifamily creates greater economic value and necessary population, financial, and design contributions that traditional residential can not achieve.
- Multifamily has lower impact and greater tax benefits to AISD.
- Increased density can accommodate greater open space.
- Urban living creates vibrancy needed to create live/work/play environments.

**Corporate office requires access to diverse housing, including multifamily**

- Creating strategic density through the use of multifamily creates corporate office users access to talent.
- Fortune companies are dependent on areas that provide live, work, and play environments to attract top talent<sup>2</sup>.

<sup>2</sup> AmazonHQ2 RFP, KDC, Billingsley

<u>Developments</u>	<u>Appx Acreage</u>	<u>Retail</u>	<u>Office</u>	<u>Multifamily</u>	<u>Current 5 Mile Population</u>	<u>Overall Density Factor</u>
<b>Furst Ranch (proj. at build out)*</b>	<b>1,610</b>	<b>18%</b>	<b>33%</b>	<b>49%</b>	<b>59,197</b>	<b>0.18</b>
Lakeside (existing today)	136	16%	2%	82%	201,869	0.22
Cypress Waters (at build out)	1,011	3%	45%	53%	184,471	0.43
Shops at Legacy (Including Legacy West)	219	6%	36%	58%	321,353	0.67
Frisco DNT 380**	1,189	36%	35%	28%	169,301	0.48

Note: The Density Factor is the total square footage of office, retail and multifamily to the total project square footage

Note: Retail, Office & Multifamily Factor is the ratio of retail, office or multifamily square footage to the total mix of commercial.

Note: The Density Factor is the total square footage of commercial to the total square footage of the total land area of each district.

Sources: Source: CoStar, ESRI, McAdams, Catalyst

\*excludes residential, institutional, and industrial areas and based upon 6000 MF units

\*\*\* total acreage and total sf are based upon the 380 corridor study area plan

Note: Furst Ranch, including multifamily would equate to ~8 units per acre for mixed use or ~5.9 overall, compared to Lakeside at ~14 units per acre.

**Density offsets lack of purchasing power due to “lake effect”**

- Furst Ranch is adjacent to low density neighborhoods which creates lower population to contribute to the trade area. The population within 5 miles of Furst Ranch is 68,308 people or 754 vs 917 people per square mile average for the Dallas-Fort Worth Metroplex.
- In addition, 21% of the trade area is floodplain, which equates to a 45,000 population deficit compared to non-affected trade areas.
- Additional density can mitigate the lower density and flood plan deficits with greater efficiency of land use.
- Additional density from MF creates purchasing power from additional residents to offset low population due to Grapevine Lake that impacts competitiveness to alternative trade areas. 6,000 MF units creates \$380M in purchasing power, or 265,000 square feet of retail demand and approximately 9,000 workers to support corporate and services.