

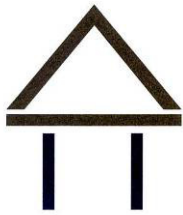
Revised Market Analysis for Renovation
John Groom School
South Hill, Virginia

Prepared for:

Ms. Lisa A. Sari
Groom School Apartments, LLC

March 4, 2019

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Potomac Falls, Virginia 20165



■ S. PATZ & ASSOCIATES, INC ■
■ REAL ESTATE CONSULTANTS ■

March 4, 2019

Ms. Lisa A Sari
Landmarket Assets
406 East 4th Street
Winston-Salem, N.C. 27101

Dear Ms. Sari:

Attached is our updated market study for the adaptive reuse of the former John Groom School in South Hill, Virginia. The apartment proposal was awarded “9%” LIHTC’s during the 2017 competitive round in Virginia. The current report is in support of additional tax credit financing for the proposal to improve project feasibility.

The updated market study shows an improving economy within Mecklenburg County and an increased demand for additional housing units. In addition to John Groom School, one other apartment proposal is under development, for market rate rents.

The competitive apartment market is at near full occupancy and most better apartment properties have a waiting list. None of the “comps” are unique in design, and are standard garden properties. The Groom School proposal will be an attractive new addition to the South Hill apartment market with a creative concept with a mix of adaptive reuse properties and new construction. Market data fully support the rents and unit characteristics, which are likely to generate a five-month lease-up for the 55 proposed units.

The detailed market and economic data that support our findings, conclusions and recommendations are presented in the attached report. Please call if additional data or clarification are required.

Sincerely,

Stuart M. Patz
President

SMP/mes

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Section I Introduction

This will submit our revised market study for the proposed development of the 55-unit, adaptive reuse, affordable apartment property, John Groom School Apartments, that is planned for renovation during late-2018-late-2019 on an attractive site located within the center of the Town of South Hill, Virginia. The apartment complex will have a mix of unit sizes and rents in an attractive adaptive reuse of the building that was a former elementary school, plus two new construction buildings adjacent the school. Once renovated, the former elementary school expansion will be an attractive apartment complex with rent and income restrictions under the federal LIHTC program. No age restrictions are included in the proposal. **Our field research and site visit was undertaken on February 20, 2019.**

The market study will be submitted to officials of Virginia Housing Development Authority (VHDA) for tax credit approval under the 2019 “9%” competitive round, with a submittal date of March 14, 2019. The report to follow is prepared in accordance with the VHDA market study guidelines.

To carefully follow the VHDA guidelines, the report is presented in three separate sections. The first, the Introduction, includes a detailed description of the John Groom School Apartments site, its setting within the Town of South Hill, in Mecklenburg County, and the development proposal for the general occupancy apartment units.

The site setting describes the public and commercial facilities that serve the residents of the neighborhood, where the former elementary school is located, and will serve future residents of the apartment proposal. The site setting analysis will show that the proposed apartment site, and proposal, are unique, based on the building’s attractive design and renovation plan, plus the moderate rents proposed. Most importantly, there exists a pent-up demand for quality affordable apartment units of the type proposed in the South Hill marketplace.

A second part of Section I is an Economic Overview of the market area defined for the apartment proposal. The economic overview analyzes the economic stability and growth of the market area in terms of at-place job growth, employment growth and future job and employment growth based on the magnitude of new developments proposed.

Combined, these three economic factors are also the basis for evaluating demographic growth, as job growth generates population and household growth, and thus, housing unit demand, particularly for the type of apartment units under study.

The economic analysis is also important in the evaluation of apartment unit demand for affordable housing. Moderate-income families are more likely to remain in a community, if there is a “comfort level” related to job security. That is a critical factor related to family stability. This is also a key factor for families moving to a new community or remaining in place.

Section II is the Apartment Market Analysis of affordable housing units in the defined market area. First presented is the demographic analysis that “solves” for the number of market area renter households with incomes that can support the proposed rents and fall within the eligible LIHTC guidelines. The apartment proposal has a wide range of incomes from 40% of AMI to 60% of AMI and a wide range of unit sizes. The income range under study is large, at \$13,700 to \$34,000, when incomes are reported in 2018 dollars, as one-, two- and three-bedroom units are planned within the rent categories of 40%, 50% and 60% of AMI for the South Hill marketplace. For the 50% and 60% rents, household incomes are set at 60% of AMI.

Thirty-five (35) percent of income was used to evaluate affordability, as the proposed rents include cold water, sewer and trash collection. Affordable apartment units of the type under study often attract lower-income families. Persons with Section 8 Housing Vouches typically constitute 10 to 20 percent of renters at rent restricted apartment properties of the type proposed. In the demand analysis, the target income

population with incomes in the target category, will be adjusted upward to also account for the potential market from persons with Housing Vouchers.

The income categories were determined based on the proposed net rents in each of the three proposed AMI categories, with 35 percent of household income set aside for net rent. Rents at John Groom School Apartments are net rates, with water, sewer and trash included, but with electricity costs excluded from the base rent. Renters with incomes in the range identified above can afford the proposed rents, again using 35 percent of income allocated to rent and are eligible for LIHTC rents under household income guidelines. All incomes are reported in constant 2018 dollars, as 2019 dollars are not yet calculated.

The second part of Section II is the analysis of the competitive apartment market defined for the apartment proposal. The market area has five moderate rent general occupancy properties, plus apartments managed by local real estate companies with higher rents. There are not many direct “comps” for the Subject proposal. Area apartment properties that have comparable rents with the proposal, as described below, are mature and moderate. They are studied for traditional market data of rent, occupancy, unit and building characteristics and features, etc. The features of these properties are fully described and compared with the John Groom School Apartments proposal.

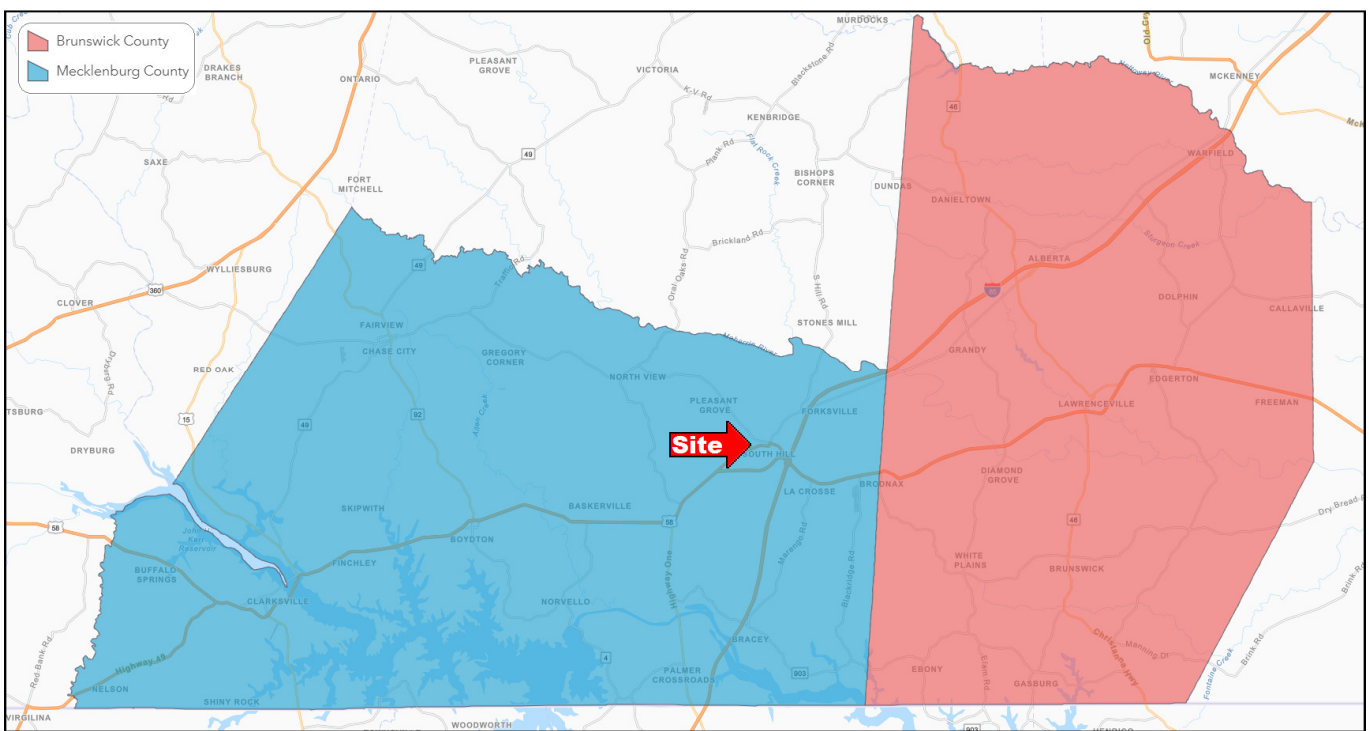
The third and final section of the report is the Conclusions. This section analyzes the Subject proposal, evaluates the proposed rents and project features and includes the completion for VHDA Demand Chart. The Conclusion section also analyzes the absorption rate for the proposal and includes the VHDA affirmation statement.

Market Area Definition

The market area defined for the general occupancy apartment proposal is all of Mecklenburg County, which includes the Town of South Hill, where the subject is

located, as well as the towns of Boydton, Chase City, Clarksville, La Crosse and portions of Brodnax. It also includes all of Brunswick County, which includes the towns of Lawrenceville and Alberta.

Specifically, the market area is bordered by Lunenburg, Nottoway and Dinwiddie counties to the north, Greenville County to the east, and Charlotte and Halifax counties to the west. The southern boundary is the Virginia-North Carolina border. This market area was defined based on input from real estate professionals based in South Hill.



Map A - Market Area

It is a large market area within a rural setting. The Town of South Hill currently competes for the towns in Mecklenburg County for housing demand. Lawrenceville, and several small towns in the adjacent Brunswick County to the east, are very close to South Hill, and in fact, closer than the more western communities in Mecklenburg County. Because Mecklenburg County and Brunswick County (and other area communities) do not have comparable apartment communities with the John Groom School proposal, there is a strong likelihood that qualified renters will be attracted to the

South Hill location for new, affordable apartments. Thus, we used a slightly larger market area than usual.

Site Description

The proposed apartment site is the vacant John Groom School and property. The site is located at 1050 Plank Road, between Smith Street and Opie Road in the Town of South Hill in the northeastern portion of Mecklenburg County. The site is located approximately 0.8 miles west of downtown South Hill and three miles west of South Hill’s retail corridor at the intersection of I-85 and Route 58. Map B shows the location of the study site.

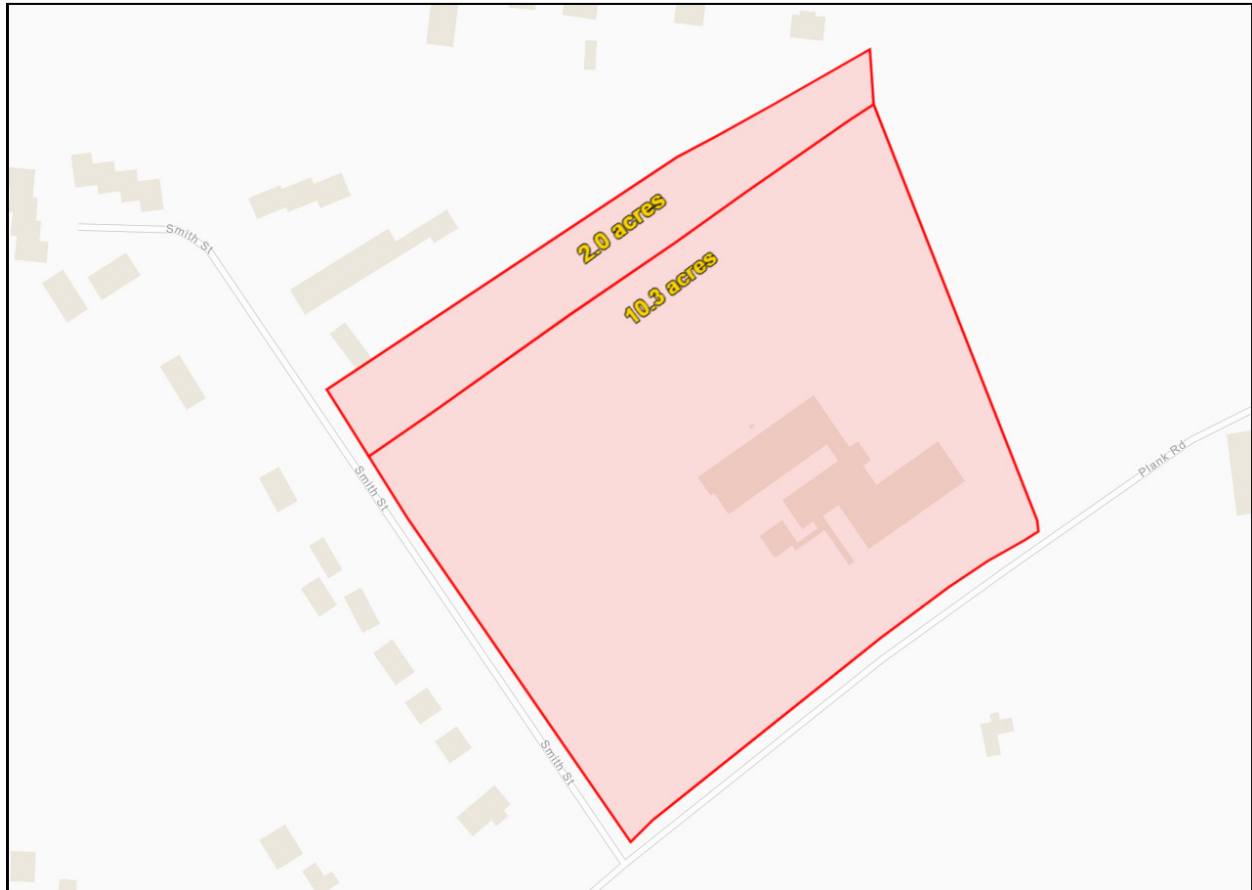
The site is gently rolling and slopes approximately 15 feet to the rear. Much of the site is grassy fields. A wooded area lines northwestern and northeastern portions of the property. Public water and sewer are available at the property.

The school building on site was constructed in 1948 in a standard “C” shape design for that time. Additions were added in 1954 and 1959.



Map B - Site Location

Map C shows the two parcels that comprise the study site. This is a triangular shaped site total totals 10.3 acres. One parcel is 8.3 acres in size. The second is two acres. The former school building is located at the southeastern corner of the parcel. The site was rezoned in December, 2016 from R1-10 to R2-16, which permits apartment unit development.



Map C - Parcel Map

Next shown is a northern aerial view of the site. It shows that the vacant school building fronts on Plank Road. Most of the property is vacant, grass area. A small circular driveway accesses the property from Plank Road. This original driveway will remain as part of the development. There are also several large trees at the front of the property.

Development north and east of the study site is vacant and wooded. To the west, along Smith Street, are mature single-family, duplex and townhome units. Pine Brook Apartments, to be detailed further below, is located at the end of this roadway. South of the site, along Plank Road are several mature industrial warehouse structures.



Northern Aerial View of John Groom School Property

John Groom School was originally built to serve the community's African-American population. When the building opened in 1949, it was initially called the South Hill Negro Elementary School. The school was later renamed South Hill Primary School in 1969, after school consolidation. It was shut down when a new South Hill Elementary/Primary complex was built in 2005 and reopened to students in 2006. The site was named to the National Register of Historic Places in February, 2018 and the Virginia Landmarks Register in September, 2017.

The school was built in three phases. The original structure was constructed in 1948. A side cafeteria/auditorium addition was constructed in 1954. A rear classroom addition was constructed in 1959.

The school structure is a one-story building with a brick exterior. The 1948 and 1954 sections are designed in a simple Colonial Revival style with gable roofs, multi-pane windows and a Colonial Revival style trimmed primary entrance. The two initial phases contain lunette attic vents, and large banks of multiple double-hung sash windows, primarily to light classroom space. The 1959 addition, located to the rear of the initial phases, is designed in a flat roof International Style with metal windows that have large panes. This section features smaller window openings.

The exterior of the 1948 section is a “C” configuration, with front gable bays at both ends of a side gable core section. The 1954 addition was extended from the original building, off the northwest corner. The 1959 addition was added to the rear and is integrated into the older section by a small hyphen from what was originally the northwest rear door.

The interior plan of the 1948 section features a small entrance lobby that leads back to a double loaded hallway. There are eight classrooms, boys’ and girls’ restrooms, office with waiting room, and a small library. The hallway terminates at two rear entrances, on the rear wall elevation.

Photos of the study site are shown below. As shown, construction has commenced on the apartments.



School Building



School Building



New Construction Portion



School Building and New Construction Portion

Shown below are pre-construction photos of each of the components of the existing school structure.



1. BLDG 1-ORIGINAL SCHOOL AND CAFETERIA



2. BLDG 1 - ORIGINAL SCHOOL (1948)



3. BLDG 1 - ORIGINAL ENTRANCE



4. BLDG 1 - ORIGINAL BUILDING



5. BLDG 2 - CAFETERIA GABLE



6. BLDG 3 - REAR ADDITION (1959)



7. BLDG 1 - REAR ELEVATION



8. BLDG 3 - REAR ELEVATION

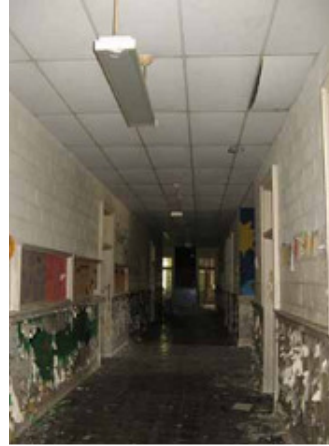
Next shown are pre-construction photos of the interior of the building. There is nothing unusual about the building space. The interior apartment unit design to follow will show the proposed transition of the interior space to apartment units.



Classrooms



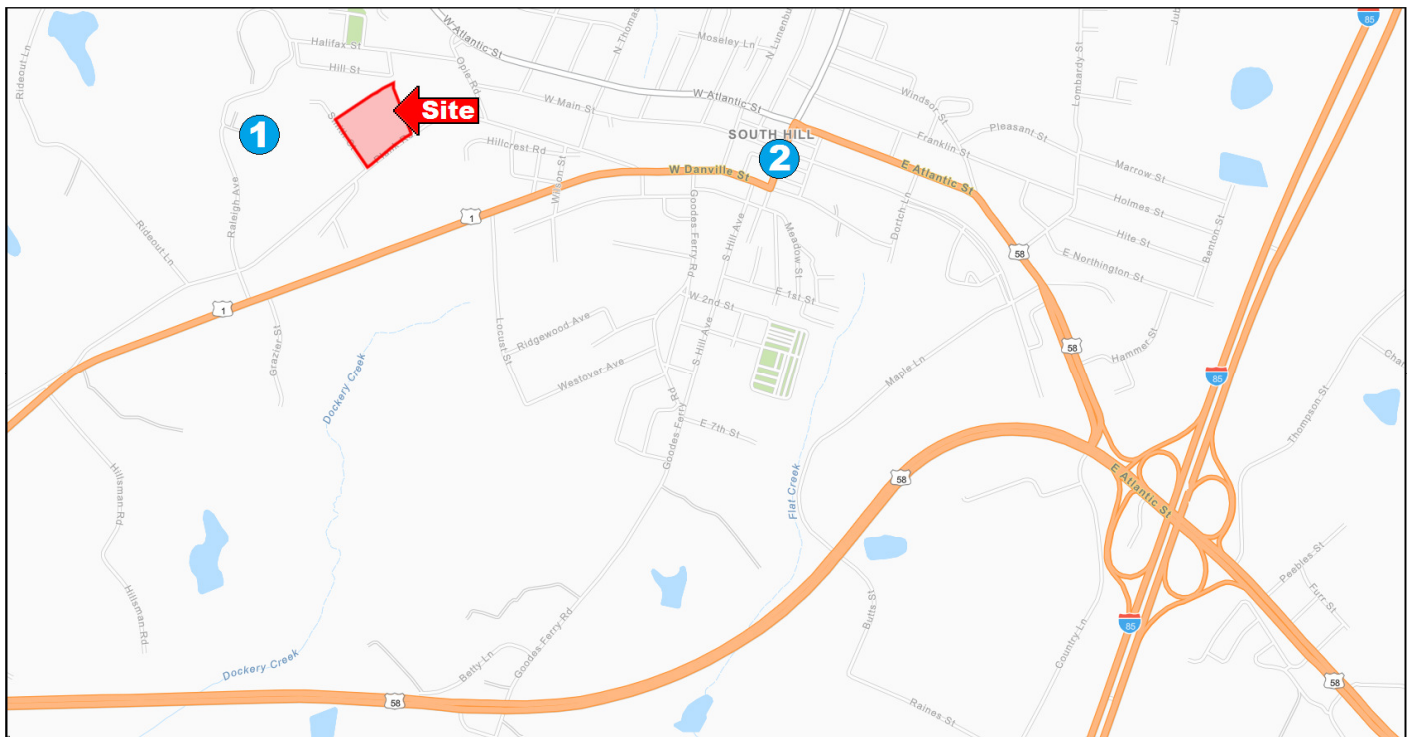
Cafeteria/Auditorium



Hallway

Site Setting

As previously noted, the study site is located at the northeastern intersection of Plank Road and Smith Street, less than one mile from Downtown South Hill. Map D below shows the site setting within South Hill.



Map D - Site Setting within the Town of South Hill

Plank Road is a two-lane roadway that generally runs in an east-west direction between W. Danville Street in the east, just outside of Downtown, and Union Level Road, approximately 4.5 miles southwest of South Hill. This roadway is sparsely developed. Several mature warehouse structures and single-family homes are located east of the study site along this roadway.

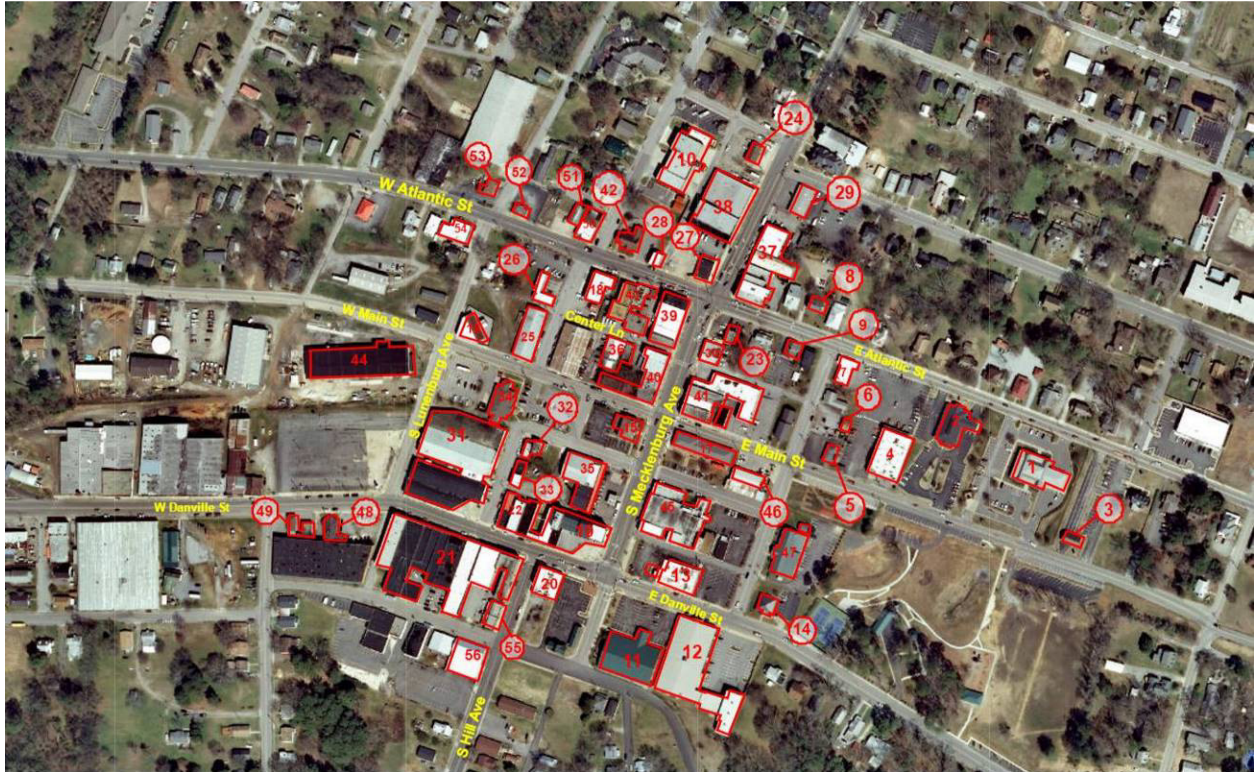
West of the site, the roadway accesses Parker Park (Note 1), a sports facility featuring nine lighted baseball/softball fields that can be converted to soccer fields, an indoor training facility for baseball/softball, three basketball courts, a sand volleyball court, walking trails/areas, picnic areas and two concession areas with restrooms. Parker Park frequently hosts district, state and national baseball/softball tournaments and has hosted several World Series tournaments. Development west of the park, along Plank Road, includes South Hill Elementary School, small industrial structures and mature single-family homes. The park provides a unique area amenity for residents of the proposed apartment units.

The nearby downtown (Note 2) contains a wide range of government buildings, historic churches, and large banks within a partly historic setting. Part of the downtown is being classified as historic, as the Town was established in 1901 and many of the buildings were constructed in the early-1900's. Town officials are working on the establishment of a Historic District in the downtown. One building, the Colonial Theater, which was built in 1925, is listed in the National Register of Historical Places. This building was renovated and reopened in 2011 as a performing arts and visual venue, including community theater.

Following is an aerial photo of the downtown, which is centered along South Mecklenburg Avenue, from Franklin Street on the north to Virginia Street on the south. Most of the commercial downtown center is within the blocks between Danville Street and Atlantic Avenue. Town and other government offices are located just north of Danville Street along Mecklenburg Avenue. Downtown retail stores are along

Mecklenburg Avenue, mostly up to Center Lane. The former train station depot is located at the corner of Mecklenburg Avenue and Main Street.

The Groom School property is to the west of the downtown, on the south.



Aerial of Downtown South Hill

The aerial key below identifies the key building uses in downtown identified in the aerial.

Aerial Key: Downtown South Hill by Property Type (Excluding Churches)

| Key | Name | Business Type | Key | Name | Business Type |
|------------|--|-------------------------|------------|-------------------------------|------------------------|
| 1 | First Citizens Bank | Bank | 33 | Crute's Barber Shop | Barber Shop |
| 2 | BB&T | Bank | 34 | DMV | DMV |
| 3 | Carter Bank & Trust | Bank | 35 | Quick Stop | Gas Station |
| 4 | Advance Auto Parts | Auto Parts Store | 36 | Brown's Towing & Auto Repair | Auto Repair |
| 5 | S & B Donuts | Restaurant | 37 | J's Antiques | Antique Store |
| 6 | Bay Seafood | Restaurant | 37 | South Hill YMCA (Closed) | Youth Organization |
| 7 | Gantt Insurance of South Hill | Insurance | 37 | Luxury Nails | Nail Salon |
| 8 | Family Eye Center | Optometrist | 37 | The Hungry Farmer | Restaurant |
| 9 | Southside Insurance | Insurance Agency | 37 | Harper Jewelry | Jeweler |
| 10 | South Hill Municipal Fire Station | Fire Station | 37 | H&S Elite Fashion | Clothing Store |
| 11 | R T Arnold Public Library | Library | 37 | Percy's Barber Shop | Barber Shop |
| 12 | Lake County Advanced Knowledge Center | Community College | 38 | Food Deals | Currently Vacant |
| 13 | Virginia Workforce Center | Employment Center | 39 | Graham Hardware | Hardware Store |
| 14 | Colonial Farm Credit | Bank | 39 | State Farm Insurance | Insurance |
| 15 | Southside Planning District Commission | State Government | 39 | Ruth's Beauty & Barber | Beauty Salon |
| 16 | Tobacco Farm Life Museum of Virginia | Museum | 39 | Paradise Pools by the Lake | Pool Supply Store |
| 17 | Model Railroad Museum | Museum | 40 | The Martin Collection | Greeting Card Shop |
| 17 | Virginia S. Evans Doll Museum | Museum | 40 | JuLee's Ladies Fine Apparel | Women's Clothing |
| 17 | South Hill Chamber of Commerce | Chamber of Commerce | 40 | Archie's Florist & Gifts | Florist |
| 18 | South Hill Police Department | Police Department | 41 | Southside Office Supply | Office Supply Store |
| 19 | Colonial Theatre | Theater | 41 | Concord Baptist Association | Religious Organization |
| 19 | South Hill Farmers Bakers Market | Farmers Market | 41 | Tienda Mexicana La Nortanita | Latin Store |
| 20 | The Repeat Boutique | Clothing Store | 42 | Williams Enterprises | Property Management |
| 21 | 3WD FM South Hill | Radio Station | 42 | B&W Storage | Mini Storage |
| 21 | Discount Furniture Center | Furniture Store | 43 | Centurylink | Internet Service |
| 21 | AmeriCare Plus | Personal Care | 44 | Crop Production Services | Agricultural Service |
| 21 | Schewel Furniture Company | Furniture Store | 45 | BIT Communications | Internet Service |
| 21 | Senior Benefits Insurance Agency | Health Insurance Agency | 45 | South Hill Town Hall | Town Government |
| 21 | Town & Country Cleaners | Dry Cleaner | 46 | Ingram Tire Co | Tire Shop |
| 22 | Telamon Corporation | Construction Company | 47 | American Legion Post 79 | Veterans Organization |
| 22 | Pathstone | Business Development | 48 | Horseshoe Restaurant (Closed) | Restaurant |
| 23 | Enterprise Rent-A-Car | Car Rental | 49 | Double J Service Center | Auto Services |
| 24 | Watkins Insurance Agency | Insurance | 50 | Lake Country Insurance | Insurance Agency |
| 25 | Jim's Pawn Shop | Pawn Shop | 50 | Liberty Tax Services | Tax Preparation |
| 26 | Pro Styles | Beauty Salon | 51 | A & A Accounting | Tax Preparation |
| 27 | Jackson Hewitt | Tax Services | 52 | Prissy Hippie Beauty Shop | Beauty Salon |
| 28 | Impressions By Wendy | Hair Salon | 53 | Marino's Pizza | Restaurant |
| 29 | Atlantic Medical Inc | Medical Supply Store | 54 | Oris P Jones Funeral Home | Funeral Home |
| 30 | Crowder & Holloway Insurance Agency | Insurance | 55 | Town & Country Cleaners | Laundry |
| 31 | Boyd Property | Currently Vacant | 56 | Allan's Small Engine Repair | Lawn Mower Store |
| 32 | Southside Upholstery | Upholstery | | | |

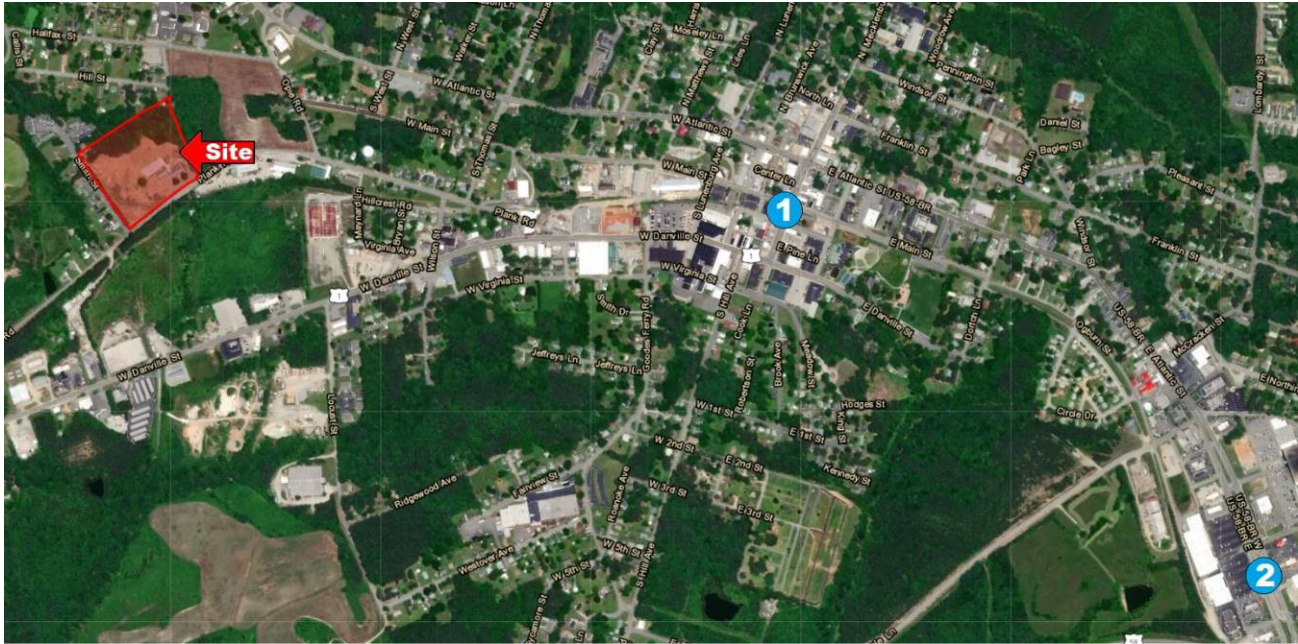
Downtown South Hill houses several buildings occupied by government organizations. These include the South Hill Municipal Fire Station (10), RT Arnold Public Library (11), Lake County Advanced Knowledge Center (12), Virginia Workforce Center (13), Southside Planning District Commission (15), South Hill Chamber of Commerce (17), South Hill Police Department (18), Department of Motor Vehicles (34) and South Hill Town Hill (45).

In terms of retail stores, downtown South Hill contains a range of retailers including four banks (First Citizen Bank, BB&T, Carter Bank & Trust, and Colonial Farm Credit). Three tax preparation service companies operate in the downtown area, as well. There are only a few restaurants in the downtown. Other retail types include an auto parts store, several barber shops and beauty salons, an office supply store, a hardware store, two furniture stores, and a large greeting card shop. A few small clothing stores are also located in downtown South Hill.

Approximately three miles east of the site is the commercial area near the intersection of I-85 and Route 58. This area contains the Rose's-anchored Park Hill Plaza, the Food Lion and Peebles-anchored Town Square, AutoZone, CVS, Home Depot and Wal-Mart Supercenter.

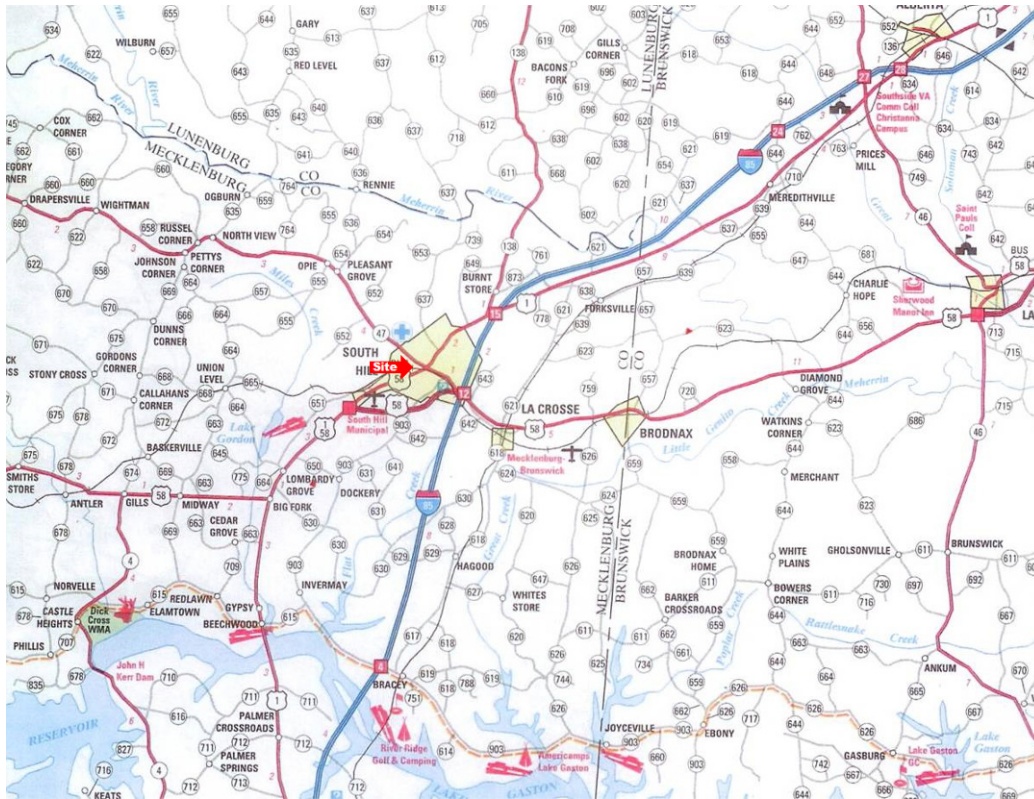
Following is an aerial of the center of the Town of South Hill, which is a better option for describing the site setting of the former school. The arrow shows the site west of the downtown. The center of downtown South Hill is less than one mile from the study site, at the intersection of Route 1 (Mecklenburg Avenue and Danville Street) (see Note 1). This area also has several restaurants and specialty stores. The primary commercial node is on the east end of Atlantic Street. As will be described below, this area has a wide range of commercial uses (see Note 2).

Both locations are in close proximity. Also of importance is the fact that Plank Road accesses W. Danville Street on the east, which accesses Mecklenburg Avenue in the Downtown. Mecklenburg Avenue runs north to the new hospital site and Exit 15 at I-85. Mecklenburg Avenue also provides access to Atlantic Street in the east, which access South Hill's second I-85 interchange (Exit 12) and the ability to easily reach area streets, neighborhoods and the region's highways.



Aerial View of the Center of South Hill

Map E is a regional location map. The key points to note is the area’s highway system. I-85 runs north-south through this part of Virginia and up to the Petersburg area. There are two I-85 interchanges in South Hill. No other area community has that “feature.” U.S. Route 58 is the region’s east-west highway. Route 1 parallels I-85. CR 47 runs east-west from South Hill to the northern part of Mecklenburg County.



Map E - Regional Location Map

Community Facilities

The above analysis is a detailed description of the study site and its location in South Hill. The outcome is that the site has all required utilities for housing. This will be further confirmed by the following analysis of facilities that serve the site and future residents of the apartment building.

Medical Care. The closest hospital to the study site is the VCU Health Community Memorial Hospital, which opened in November, 2017 at 1755 N Mecklenburg Avenue, approximately three miles northeast of the site. The 166,700± square foot facility includes 70 private rooms, a cardiac catheterization lab and a 16-bay emergency department. It's also equipped with a comprehensive suite of diagnostic services, including MRI scans, CT scans and nuclear medicine. The opening of the hospital created 40 new jobs.

Community Facilities. The closest post office to the site is located 1.9 miles northeast at 216 E Ferrell Street. Fire protection is provided locally by the South Hill Volunteer Fire Department, located one mile west of the site at 114 N Brunswick Avenue. RT Arnold Library is located at 110 E Danville Street, 0.9 miles east of the site.

Schools. Mecklenburg County Public Schools enroll students in four elementary schools, two middle schools and two high schools. None of the zoned schools are within walking distance from the subject, however public school bus service will be available for all the students. School-aged children residing at the property will be served by the following schools.

| <u>Schools Serving Subject</u> | | |
|---|-----------------------|------------------------|
| <u>Name</u> | <u>Address</u> | <u>Distance</u> |
| South Hill Elementary School | 1290 Plank Road | 0.9 miles SW |
| Park View Middle School | 365 Dockery Road | 4.2 miles SW |
| Park View High School | 205 Park View Circle | 2.9 miles SW |
| Source: Mecklenburg County Public Schools | | |

The only institution of higher education in South Hill is the Lake Country Advanced Knowledge Center, located at 118 E Danville Road in Downtown South Hill, which is affiliated with Southside Virginia Community College. The facility offers Career Studies Certificates in CAD courses and welding.

Religious Institutions. There are several churches located within close proximity to the former school site. These are listed below.

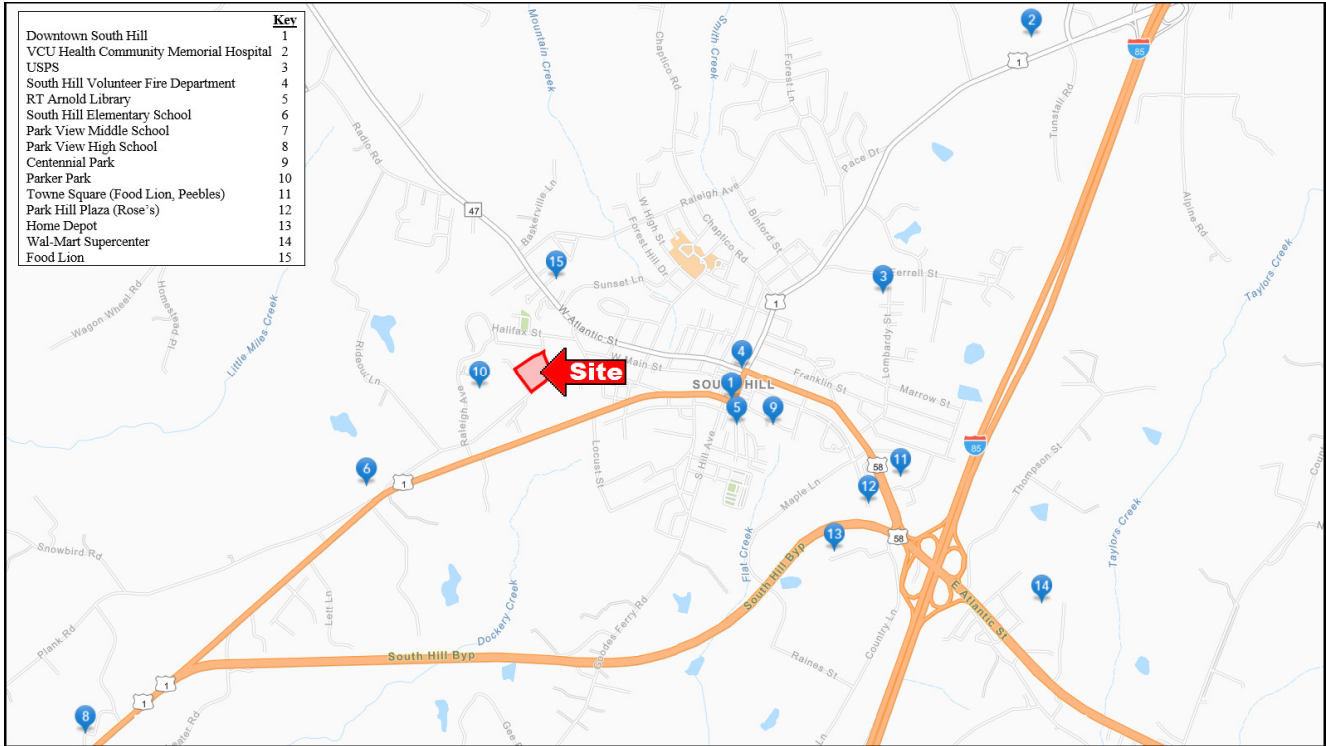
| <u>Location of Nearby Religious Institutions</u> | |
|---|-----------------------|
| <u>Church</u> | <u>Address</u> |
| Gethsemane Baptist Church | 512 W Atlantic St |
| First Baptist Church | 410 N Mecklenburg Ave |
| Temple Gate RZUA Church | 405 S Hill Ave |
| Mecklenburg Community Baptist Church | 123 E Main St |
| Echo's of Praise Ministry | 810 W Main St |
| Temple Gate | 405 S Hill Ave |
| Source: S. Patz & Associates field survey | |

Parks and Recreation. The Town of South Hill is home to two parks: Centennial Park and Parker Park. These two parks are detailed below.

- **Centennial Park** is a 15-acre park located between E Main Street and E Danville Street. It hosts numerous annual festivals and has two tennis courts and two covered pavilions with restrooms. It is also a green area for kids to run and play and has a shaded playground with a wide variety of climbing equipment, swings, sliding boards, etc.
- **Parker Park** is a 55-acre park located off Halifax Street in the western portion of the park. This sports facility features nine lighted baseball/softball fields which may be converted to soccer fields, an indoor training facility for baseball/softball, three basketball courts, a sand volleyball court, walking trails/areas, picnic areas and two concession areas with restrooms. Parker Park frequently hosts district, state and national baseball/softball tournaments and has hosted several World Series tournaments.

Shopping. As previously noted, there are two commercial areas near the site. The downtown area contains primarily smaller specialty retailers while the commercial area near and along E Atlantic Street contains larger retailers, such as a Food Lion grocery store, Home Depot, Wal-Mart Supercenter and Rose's. This is also the location of most of the nearby restaurants. A second Food Lion is located closer to the site at 1022 W Atlantic Street, 0.7 miles north of the site.

Map F shows the location of the community facilities that will serve the site.



Map F - Location of Area Community and Public Facilities

Development Plan

As shown in Table 1, John Groom School Apartments will contain 55 apartment units with a mix of one-, two-, and three-bedroom units. Eleven units will be one-bedrooms with approximately 700 square feet of space. Twenty-eight of the apartment units will be 900 square feet two-bedroom units with two full baths. The remaining 16 apartment units are three-bedroom in size, with 1,100 square feet and two full bathrooms.

**Table 1: Development Proposal for John Groom School
Renovation, February, 2019**

| | <u>Total Units</u> | <u>Unit Size</u> | <u>Proposed Net Rent</u> 1/ |
|-----------------------------|--------------------|------------------|-----------------------------|
| <u>One-Bedroom</u> | | | |
| 40% of AMI | 6 | 700 | \$348 |
| 50% of AMI | <u>5</u> | 700 | \$448 |
| (Subtotal) | (11) | | |
| <u>Two-Bedroom</u> | | | |
| 50% of AMI | 5 | 900 | \$518-\$534 |
| 60% of AMI | <u>23</u> | 900 | \$638-\$654 |
| (Subtotal) | (28) | | |
| <u>Three-Bedroom</u> | | | |
| 50% of AMI | 12 | 1,100 | \$592 |
| 60% of AMI | 4 | 1,100 | \$730 |
| (Subtotal) | <u>(16)</u> | | |
| Total | 55 | | |

Note: 1/ Rents include cold water, sewer and trash

Source: Landmark Asset Services, Inc.

The rents shown include cold water, sewer and trash collection. Electricity is paid for by the resident. As shown, six one's are set at or below 40 percent of AMI. There are apartment units at or below 50% of AMI in each apartment unit size category. The two-bedroom and three-bedroom units have 60% rents. These rents are proposed by the sponsor and are market-tested in the following market analysis.

Rent Comparison

Table 2 shows the gross rents proposed for the apartment units with a utility allowance (UA) for electricity costs, added to net rents. The UA was calculated for the sponsor, based on the unit sizes and energy efficient HVAC system and appliances. An audit was used for the calculation. The apartment buildings will all be energy efficient within the VHDA guidelines. The gross rents shown are compared with the HUD allowable gross rents for Mecklenburg County. The comparison shows that the proposed gross rents, based on the calculated UA, are well below the maximum allowable rates for the market area.

| Table 2: <u>Rent Comparison Chart, John Groom School Apartments and HUD Maximum Allowable Rates, 2019 Dollars</u> | | | | |
|--|-----------------|--------------------------------|-------------------|------------------------------|
| | <u>Net Rent</u> | <u>John Groom School UA 1/</u> | <u>Gross Rent</u> | <u>HUD Maximum Allowable</u> |
| <u>One-Bedroom</u> | | | | |
| 40% of AMI | \$348 | \$51 | \$399 | \$438 |
| 50% of AMI | \$448 | \$51 | \$499 | \$547 |
| <u>Two-Bedroom</u> | | | | |
| 50% of AMI | \$518-534 | \$66-82 | \$600 | \$657 |
| 60% of AMI | \$638-654 | \$66-82 | \$720 | \$789 |
| <u>Three-Bedroom</u> | | | | |
| 50% of AMI | \$592 | \$101 | \$693 | \$759 |
| 60% of AMI | \$730 | \$101 | \$831 | \$911 |
| Note: 1/ Range based on type of unit – rehab/new. Source: HUD and Landmark Asset Services, Inc. | | | | |

The proposed development will seek an EarthCraft Gold rating.

Development Cost

The estimated development cost for the 55-unit John Groom School Apartments proposal is \$8.8 million, or \$160,000 per unit on average. This cost includes the renovation of the former rehab building and addition of two new construction buildings, one with three stories and an elevator. The cost breakdown is \$4.6 million for hard costs for building construction and approximately \$1.97 million for the wide range of required soft costs, excluding developer overhead and profit (which is \$1.15 million).

Project Amenities

Project amenities include (1) energy star kitchen appliances, (2) heat/AC at least 15 seer, (3) water sense faucets and shower heads, and (4) water sense toilets. In addition, other project amenities include:

- Computer room
- Community room - includes kitchenette
- Covered picknick shelter
- Fitness center

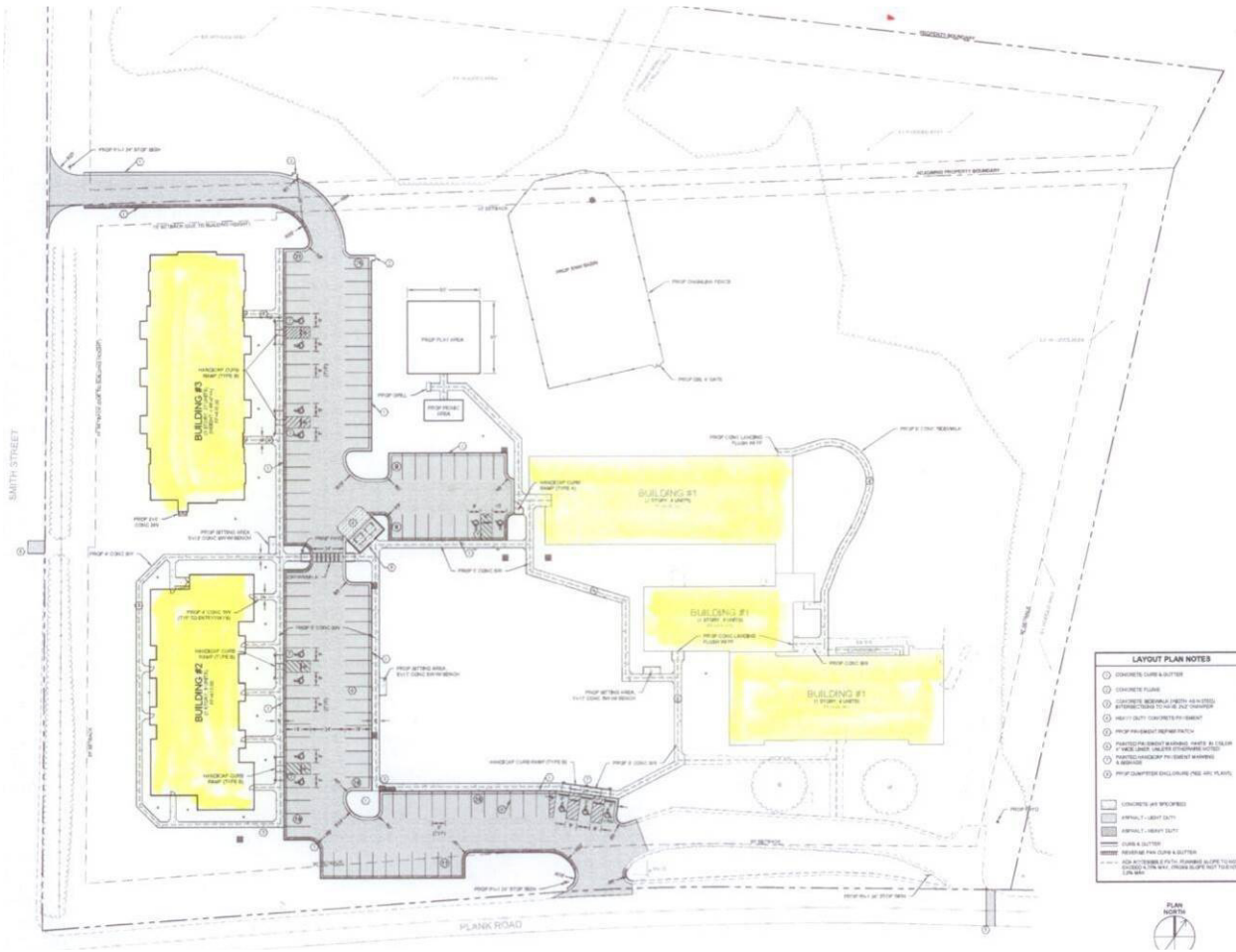
- Outdoor playground
- Laundry room
- Outdoor sitting areas

The apartment complex will also have an on-site management office. All appliances, fixtures, fans and lighting will be Energy Star. Fixtures, faucets and showerheads will be WaterSense.

Site Plan

The site plan is presented next. It shows the existing school building with the two additions and two new construction buildings. The site is developed with a low density of 5.3 apartment units per acre. Considerable open space is planned and a total of 110 surface parking spaces are to be built, with 12 accessible parking spaces provided, along with one van accessible space for community use.

The former school building, along with the two expansion buildings, will have 19 apartment units on one floor. Building 2 is also a one-story building that will have nine apartment units. Building 3 is a three-story building with 9 units per floor and 27 units in total.



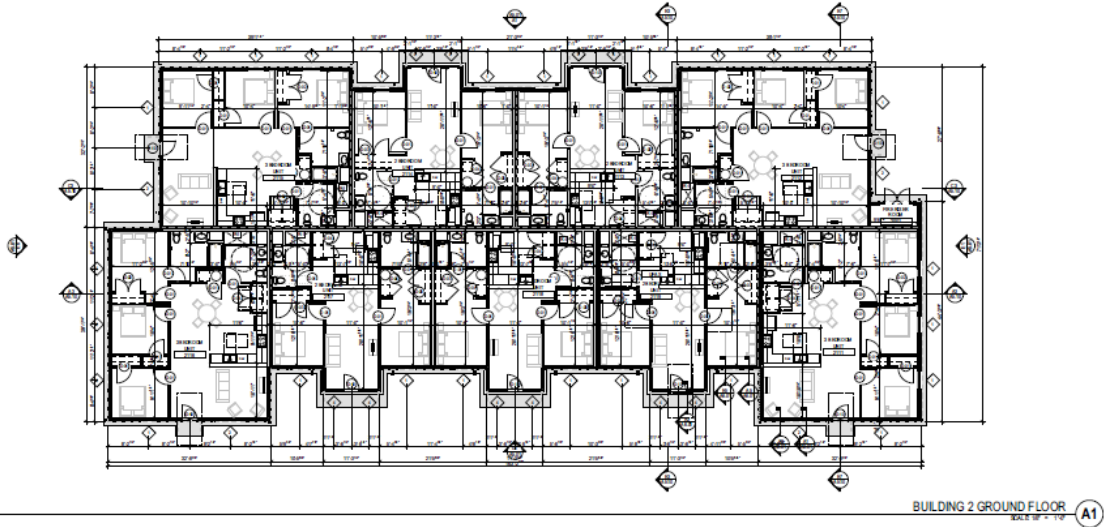
Site Plan

The chart below “summarizes” the development proposal in terms of total units, unit sizes and units in each building.

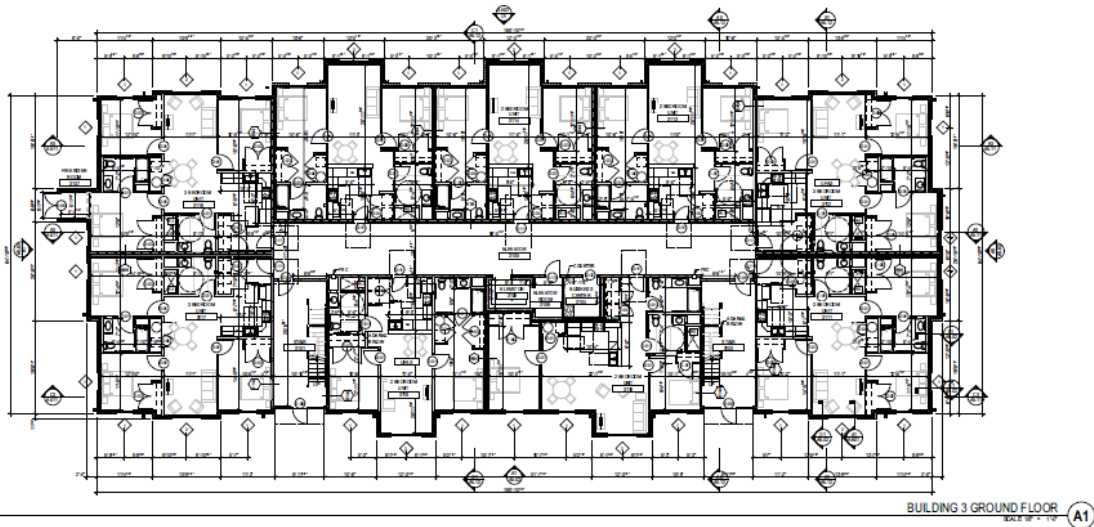
| Apartment Unit Development Plan | | | | |
|--|---------------------------|---------------------------|-----------------------------|---------------------|
| | <u>One-Bedroom</u> | <u>Two-Bedroom</u> | <u>Three-Bedroom</u> | <u>Total</u> |
| School Building | 11 | 8 | 0 | 19 |
| Building 2 | 0 | 5 | 4 | 9 |
| Building 3 | 0 | 15 | 12 | 27 |
| Total | 11 | 28 | 16 | 55 |

Source: Landmark Asset Services, Inc.

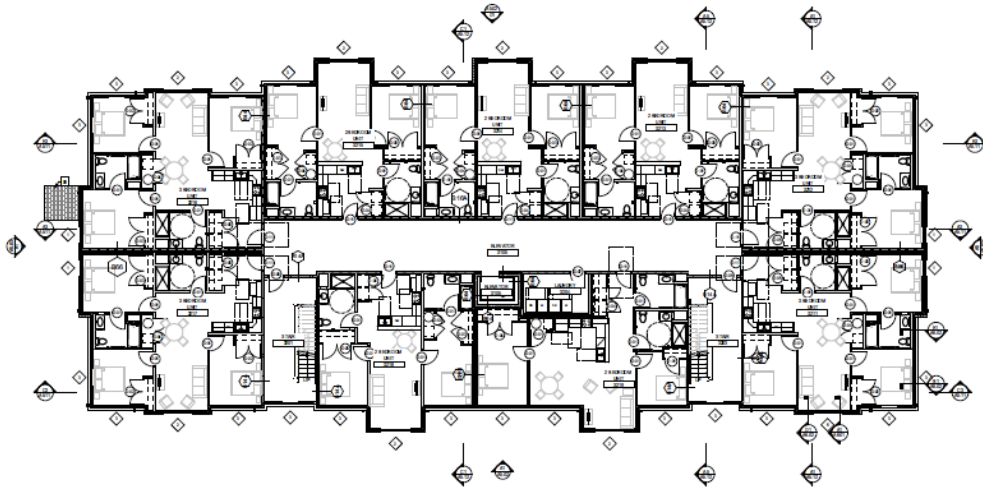
Next shown is the unit layout for each of the three buildings. Unit floor plans will follow. All of the one-bedroom and eight two-bedroom units will be located in the former school building. The three-bedroom units will be built in the two new construction buildings. Walking paths will connect each of the buildings.



New Construction Ground Floor: Building 2

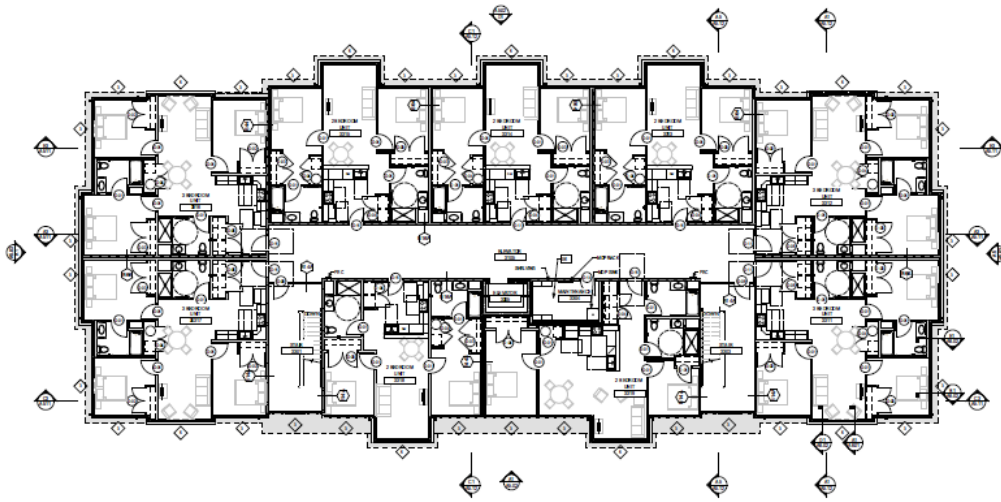


New Construction Ground Floor: Building 3



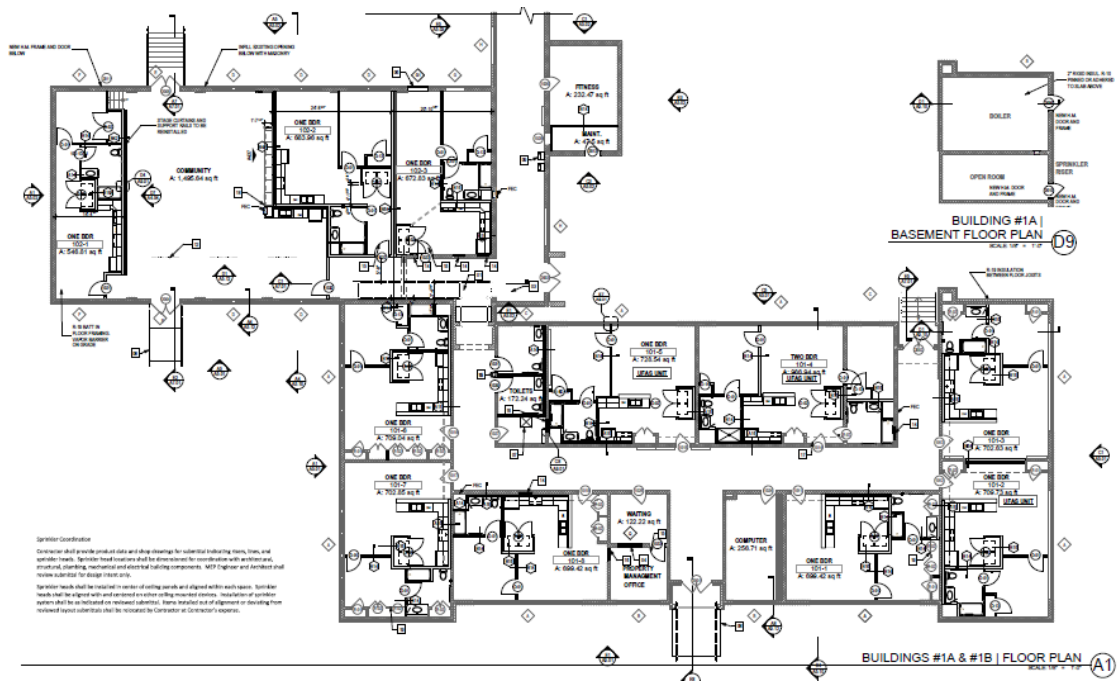
BUILDING 3 SECOND FLOOR
SCALE: 1/8" = 1'-0" A1

New Construction 2nd Floor: Building 3

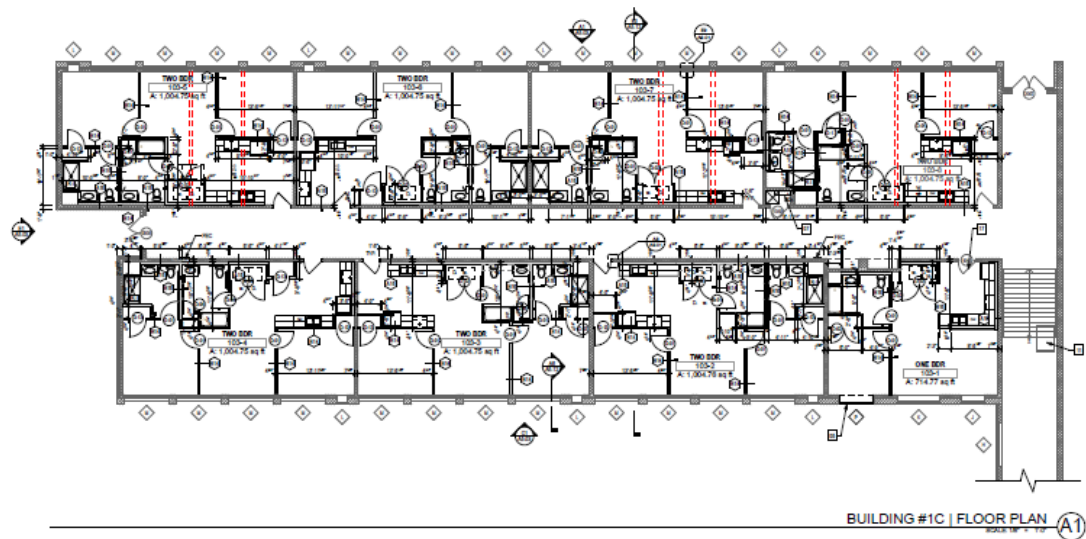


BUILDING 3 THIRD FLOOR
SCALE: 1/8" = 1'-0" A1

New Construction 3rd Floor: Building 3



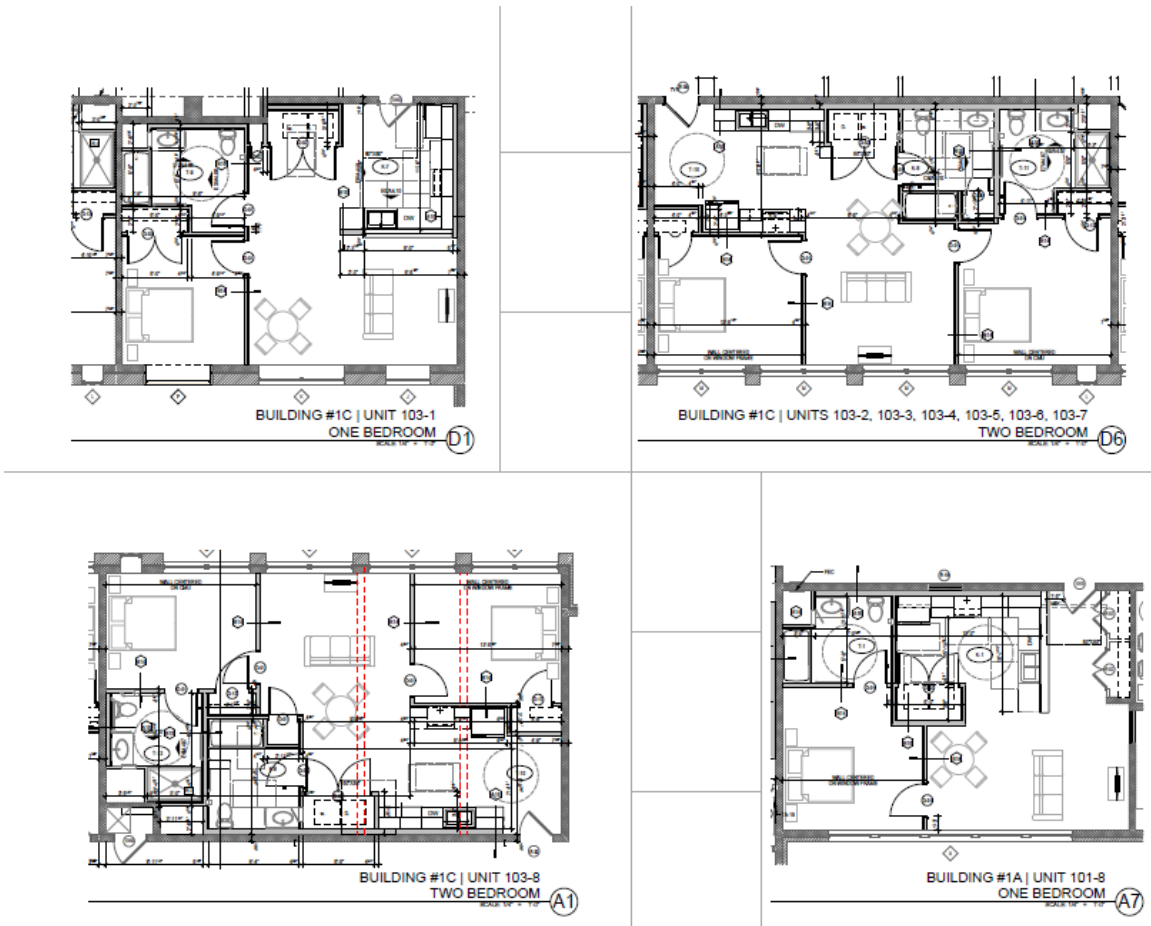
Adaptive Reuse Floor Plan



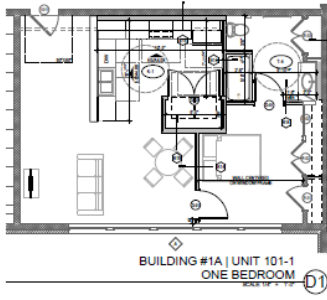
Building 1C Floor Plan

Floor Plans

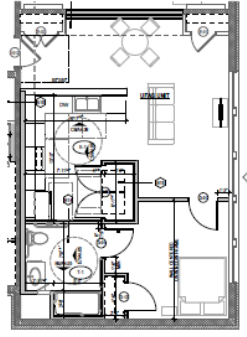
A sample floor plan for each apartment unit is shown next. The apartment units will be generally rectangular in design with large rooms. Each apartment unit will have an open kitchen area as well as a dining room area. All two- and three-bedroom units will have two full bathrooms. Adequate closet space is planned. All units will have several windows for an abundance of light and air. The beds are separated in all unit designs.



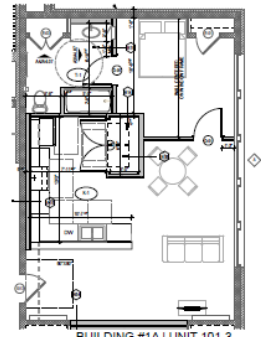
Adaptive Reuse Floor Plans



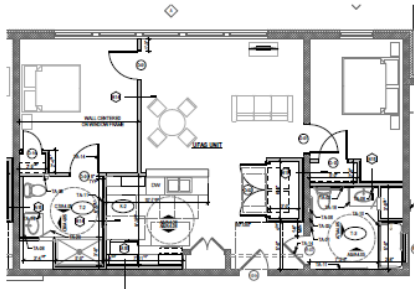
BUILDING #1A | UNIT 101-1
ONE BEDROOM
SCALE 1/8" = 1'-0"



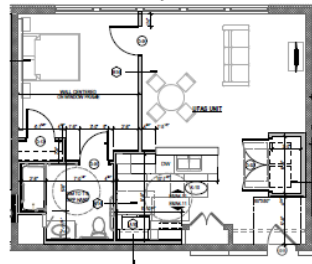
BUILDING #1A | UNIT 101-2
ONE BEDROOM
SCALE 1/8" = 1'-0"



BUILDING #1A | UNIT 101-3
ONE BEDROOM
SCALE 1/8" = 1'-0"

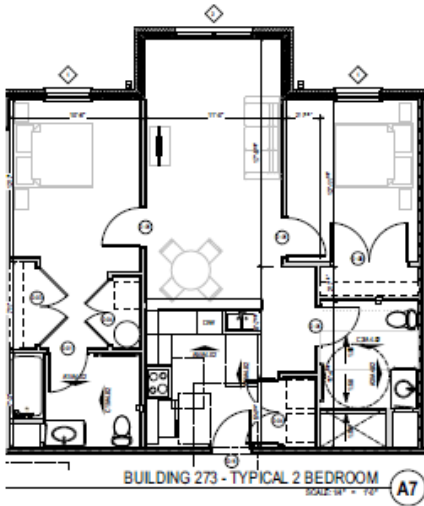


BUILDING #1A | UNIT 101-4
TWO BEDROOM
SCALE 1/8" = 1'-0"

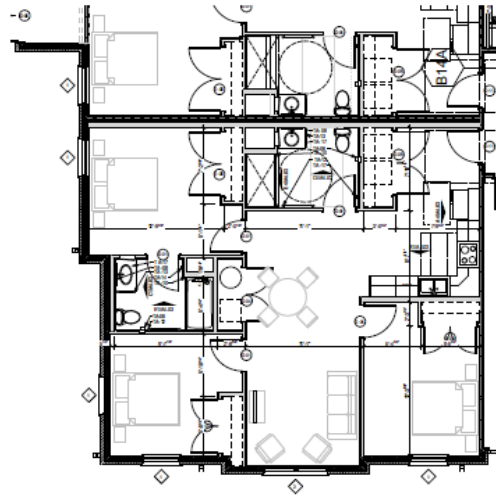


BUILDING #1A | UNIT 101-5
ONE BEDROOM
SCALE 1/8" = 1'-0"

New Building Floor Plans



BUILDING 273 - TYPICAL 2 BEDROOM
SCALE 1/8" = 1'-0"



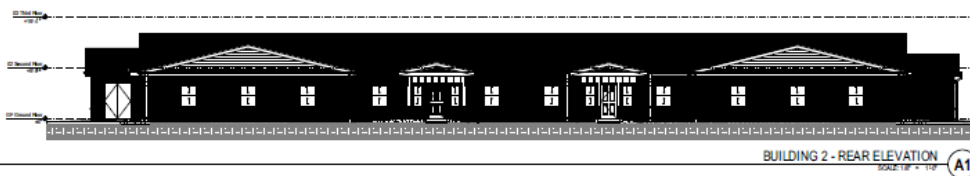
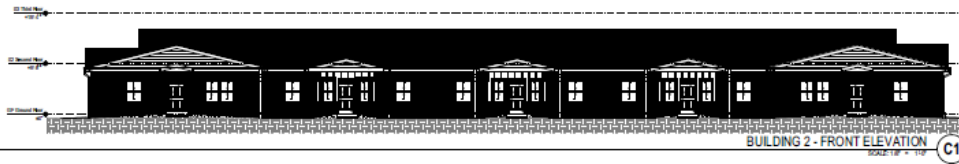
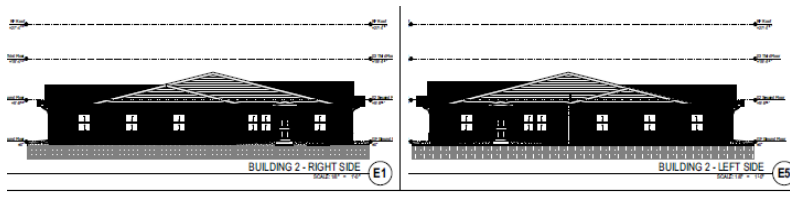
BUILDING 3 - TYPICAL 3 BEDROOM PLAN
SCALE 1/8" = 1'-0"

Elevations

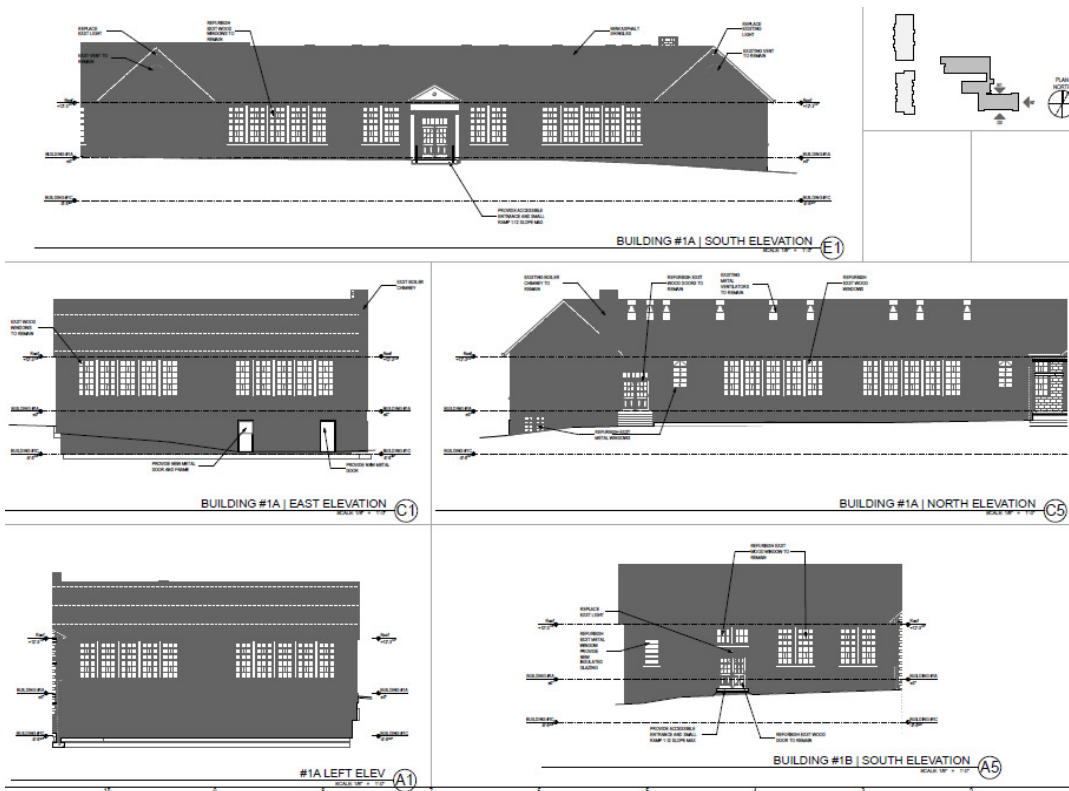
Following are the elevations for the new construction buildings and adaptive reuse building. These will be brick buildings with wood panels. The three-story building will have an elevator. The one-story building will have exterior entrances to each apartment unit.



New Construction Front Elevation - Building 1



New Construction Front Elevation - Building 2



Elevation for Adaptive Reuse Building

Market Area Economic Overview

This part of the market analysis presents an economic overview of the Mecklenburg County and Brunswick County economy, with the primary emphasis on job and employment growth and trends. Data presented by the U.S. Department of Labor will show a stagnant economy up to year-end 2017, the last date some of the data are available. This is the reason why the market area has had limited new housing development in recent years. However, data presented in this subsection will also show a significant level of new job growth expected, starting primarily in 2016. This growth will change the housing market conditions in the market area and is the reason for the positive market conclusions of this market report.

First presented is the market area at-place job trends. This is followed by employment and labor force data and then by a description of active area larger developments and the likely total of new jobs that these projects will generate. The

purpose of an economic overview analysis is to show the level of economic stability in the market area, as the basis for families wanting to remain in place rather than to move from the area.

At-Place Jobs

At-place jobs/employment refer to jobs physically based at employers located in the market area, whether the job is based in private sector or government offices, manufacturing facilities, schools, retail stores, restaurants, nursing home, or other facilities. At-place employment in Mecklenburg County was 11,500± at year-end 2017. The trends in at-place employment for the period from 2008 through 2017 are shown in Table 3.

The economic recession of the late-2000's led to the loss of 640± jobs between 2008 and 2011. Despite the end of the national recession in about 2010, total employment continued to fall in the County, with 240± jobs lost in 2012 and 700± jobs lost in 2013. In 2014, a small net increase in jobs was realized; 350± new jobs were added in 2015, the most in any single year over the past decade. Only 70± jobs were added in 2016, while 270± jobs were eliminated most recently in 2017.

The only employment sectors with employment growth over the past decade are Health Care (220± new jobs), Wholesale Trade (80± new jobs) and Other Services (50± new jobs). The job growth in the Information sector during the middle part of the decade is almost entirely the result of growth at the Microsoft plant in the community of Boynton, on the west side of Mecklenburg County. Construction employment growth during that period is largely related to the expansion of the Microsoft plant and more recently with the construction of a new hospital in South Hill. Future expansions at Microsoft, which were recently announced, will increase jobs in both sectors in 2019.

Mecklenburg County has a relatively small, yet diversified, job base, with no reliance on any single employer. The largest employment sector in the County is the

Health Care sector, with 1,930± employees in 2017, up 220± jobs from 2008. This sector includes the largest employer in Mecklenburg County, the VCU Health Community Memorial Hospital.

The second largest employment sector in the County is Retail Trade, with 1,670± employees in 2017. This total is down by 30± since 2008. Major retailers include Home Depot, Walmart Supercenter, and Food Lion. Local Government, with 1,380± jobs in 2017, accounts for nearly 12 percent of total employment in the County. 190± Local Government jobs have been lost in this sector since 2008. Much of the employment in this sector consists of staff at Mecklenburg County Public Schools.

In 2008, Manufacturing was the second largest sector in the local economy, accounting for 12.8 percent of total jobs. As of 2017, this sector accounts for only 11.1 percent of total County jobs. Since 2008, the Manufacturing sector has shed 380± jobs. About 220 total jobs were lost in 2013 alone in two major layoffs. Home Care Industries announced that it would close its La Crosse floor care accessories manufacturing and distribution facility, just 14 months after opening, cutting 113 jobs. In the same year, International Veneer Company, which manufactures hardwood veneer, announced that it would reduce employment by 100. Surprisingly, net Manufacturing job growth occurred in 2014 and 2015. 160± Manufacturing jobs were added during these two years.

Mecklenburg County still has several large manufacturing employers, including American Building Co. (steel buildings), Brodnax Mills (yarn spinning mill), International Veneer (hardwood veneer), Lawson Mardon Wheaton (glass vials), Virginia Home Manufacturing (modular homes) and Virginia Quilting (home furnishings).

Each of the three levels of government reduced employment since 2008, accounting for 560± lost jobs total. Much of these job losses were the result of the closure of the Mecklenburg Correctional Center in 2012, which resulted in the loss of 325 jobs.

About half of the impacted employees were placed at other jobs within the Department of Corrections.

| Industry | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Change |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Agriculture/Forestry/Fishing | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Mining | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Utilities | 139 | 137 | 135 | 133 | 125 | 119 | 118 | 119 | 121 | 114 | -25 |
| Construction | 640 | 548 | 530 | 573 | 496 | 455 | 553 | 648 | 636 | 344 | -296 |
| Manufacturing | 1,651 | 1,306 | 1,250 | 1,317 | 1,387 | 1,169 | 1,212 | 1,331 | 1,298 | 1,276 | -375 |
| Wholesale Trade | 198 | 193 | 240 | 206 | 206 | 190 | 201 | 201 | 208 | 281 | 83 |
| Retail Trade | 1,693 | 1,590 | 1,542 | 1,560 | 1,559 | 1,566 | 1,533 | 1,580 | 1,653 | 1,666 | -27 |
| Tranort./ Warehousing | 716 | 727 | 721 | 760 | 689 | 692 | 663 | 637 | 603 | 549 | -167 |
| Information | 153 | 181 | 180 | 191 | 216 | 214 | 203 | 189 | 177 | 179 | 26 |
| Finance/Insurance | 295 | 274 | 268 | 273 | 264 | 271 | 277 | 266 | 265 | 266 | -29 |
| Real Estate | 127 | 127 | 109 | 109 | 110 | 114 | 108 | 91 | 78 | 74 | -53 |
| Professional/Tech. Services | ND | ND | ND | ND | ND | 266 | 254 | 271 | 325 | 391 | -- |
| Management of Companies | ND | ND | ND | ND | ND | 187 | 119 | 118 | 121 | 123 | -- |
| Admin./Waste Services | 567 | 551 | 574 | 485 | 421 | 449 | 497 | 570 | 612 | 517 | -50 |
| Educational Services | 39 | ND | 7 | 4 | 4 | 3 | 5 | 21 | 26 | 35 | -4 |
| Health Care | 1,717 | ND | 1,931 | 1,872 | 1,903 | 1,893 | 1,893 | 1,903 | 1,919 | 1,934 | 217 |
| Arts/Enter./Recreation | 65 | 61 | 62 | 61 | 60 | 59 | 61 | 62 | 62 | 61 | -4 |
| Accommodations/Food | 1,199 | 1,194 | 1,166 | 1,170 | 1,193 | 1,081 | 1,116 | 1,122 | 1,155 | 1,145 | -54 |
| Other Services | 415 | 404 | 418 | 423 | 429 | 380 | 382 | 421 | 441 | 462 | 47 |
| Local Government | 1,563 | 1,565 | 1,528 | 1,482 | 1,461 | 1,433 | 1,450 | 1,440 | 1,428 | 1,377 | -186 |
| State Government | 701 | 698 | 692 | 679 | 487 | 353 | 341 | 339 | 346 | 346 | -355 |
| Federal Government | <u>137</u> | <u>143</u> | <u>153</u> | <u>130</u> | <u>124</u> | <u>120</u> | <u>116</u> | <u>112</u> | <u>117</u> | <u>118</u> | <u>-19</u> |
| Total | 12,840 | 12,463 | 12,270 | 12,203 | 11,959 | 11,260 | 11,354 | 11,706 | 11,772 | 11,502 | -1,338 |

Notes: ND = Data do not meet BLS or State agency disclosure standards.
Source: United States Department of Labor, Bureau of Labor Statistics

Overall, Mecklenburg County has not fully recovered from the recession of 2008/09, although, surprisingly more job losses occurred in 2013 than in any year between 2009 and 2012. The job losses in 2013 were partly due to the recession. However, as will be described below, several major development projects created a considerable number of new (temporary) construction jobs that had significant positive economic benefits for the local economy.

Table 4 below details the at-place job totals in neighboring Brunswick County. As of year-end 2017, the County had a total of 3,790± jobs, or 1,030± fewer than in 2008. While total at-place jobs did increase slightly in 2013, 2014 saw the loss of 160± jobs and 2015 saw the loss of 20± jobs. 20± jobs were lost in 2016 and additional 160± jobs were eliminated in 2017. These jobs losses were not concentrated in any single sector.

There are considerable disclosure issues in the Brunswick County data, as is often the case in rural communities, so data are not provided for every industrial job category. The only sector with net job growth since 2008 is Admin./Waste Services (140± new jobs).

Local, State and Federal Government shed a combined 540± jobs over the past decade. The Manufacturing sector lost 170± jobs during this period and the Transportation and Warehousing Sector shrank by 150± jobs.

Table 4: Trends in Average At-Place Employment, Brunswick County, VA 2008-2017

| Industry | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Change |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Agriculture/Forestry/Fishing | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Mining | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Utilities | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Construction | 285 | 241 | 244 | 208 | 195 | 238 | 211 | 200 | 219 | 206 | -79 |
| Manufacturing | 424 | 328 | 290 | 279 | 241 | 244 | 231 | 233 | 236 | 250 | -174 |
| Wholesale Trade | 56 | 54 | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Retail Trade | 344 | 336 | 309 | 301 | 314 | 339 | 341 | 343 | 309 | 283 | -61 |
| Tranort./ Warehousing | 333 | 288 | 284 | 281 | 276 | 267 | 232 | 210 | 191 | 187 | -146 |
| Information | ND | ND | ND | ND | ND | ND | ND | ND | ND | 21 | -- |
| Finance/Insurance | 82 | 84 | 76 | 63 | 61 | 63 | 62 | 71 | 63 | 63 | -19 |
| Real Estate | 10 | 9 | 9 | 10 | 9 | 9 | 10 | 10 | 9 | 8 | -2 |
| Professional/Tech. Services | 78 | ND | ND | 85 | 119 | 113 | 106 | 103 | ND | ND | -- |
| Management of Companies | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Admin./Waste Services | 439 | 423 | 440 | 447 | 474 | 659 | 641 | 618 | 673 | 575 | 136 |
| Educational Services | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Health Care | ND | ND | ND | ND | ND | ND | ND | ND | ND | ND | -- |
| Arts/Enter./Recreation | 50 | 42 | 38 | 30 | 30 | 16 | 9 | ND | ND | ND | -- |
| Accommodations/Food | 312 | 267 | 248 | 219 | 215 | 204 | 190 | ND | ND | ND | -- |
| Other Services | ND | ND | ND | ND | ND | ND | ND | ND | 82 | 156 | -- |
| Local Government | 734 | 727 | 706 | 707 | 778 | 657 | 637 | 623 | 629 | 619 | -115 |
| State Government | 689 | 663 | 337 | 363 | 380 | 388 | 374 | 346 | 303 | 277 | -412 |
| Federal Government | 55 | 58 | 60 | 52 | 46 | 41 | 41 | 39 | 38 | 38 | -17 |
| Total | 4,813 | 4,525 | 4,155 | 4,061 | 4,066 | 4,141 | 3,980 | 3,960 | 3,940 | 3,785 | -1,028 |

Notes: ND = Data do not meet BLS or State agency disclosure standards.

Source: United States Department of Labor, Bureau of Labor Statistics

Employment and Labor Force

Employment differs from at-place jobs as it refers to the number of market area residents who are employed, no matter where the job is located, while at-place jobs refer to where the job is located.

Mecklenburg County and Brunswick County realized a net decrease in employment of 1,980± jobs during the period between 2008 and 2017. Mirroring at-place job trends, employment grew slowly in the first part of the 2000 decade and up until 2008, when employment reached its peak of 19,160±. Employment dropped slightly in 2009 when 240± jobs were lost, mostly in Brunswick County. In the same year, the labor force grew by 750±, pushing the unemployment rate up from 6.6 percent to 11.0 percent. In 2010, total employment fell by 200± while the labor force shrank by 230±. Employment remained flat in 2011. Since that year, total employment has fallen by 1,510±. 2017 saw the unemployment rate fall by 0.5 percent, largely due to shrinking labor force.

| Table 5: Trends in Employment and Unemployment, Mecklenburg and Brunswick Counties, VA, 2008-2017 | | | | |
|--|--------------------|-------------------|---------------------|---------------------------|
| | <u>Labor Force</u> | <u>Employment</u> | <u>Unemployment</u> | <u>Percent Unemployed</u> |
| 2008 | 20,510 | 19,163 | 1,347 | 6.6% |
| 2009 | 21,262 | 18,921 | 2,341 | 11.0% |
| 2010 | 21,111 | 18,720 | 2,391 | 11.3% |
| 2011 | 20,877 | 18,697 | 2,180 | 10.4% |
| 2012 | 20,272 | 18,315 | 1,957 | 9.7% |
| 2013 | 19,439 | 17,623 | 1,816 | 9.3% |
| 2014 | 19,095 | 17,595 | 1,500 | 7.9% |
| 2015 | 18,846 | 17,649 | 1,197 | 6.4% |
| 2016 | 18,646 | 17,568 | 1,078 | 5.8% |
| 2017 | 18,156 | 17,188 | 968 | 5.3% |
| Net Change | -2,354 | -1,975 | -379 | -1.3% |
| Source: United States Department of Labor, Bureau of Labor Statistics | | | | |

Overall, the demographic trends (as presented below), employment trends and at-place job trends within the market area are negative. We show these data as a comparison with current trends, as presented below. Current trends include new sizable projects that are under construction or are in active planning. These have both permanent employment growth and a requirement of housing for construction workers. The new projects are described below.

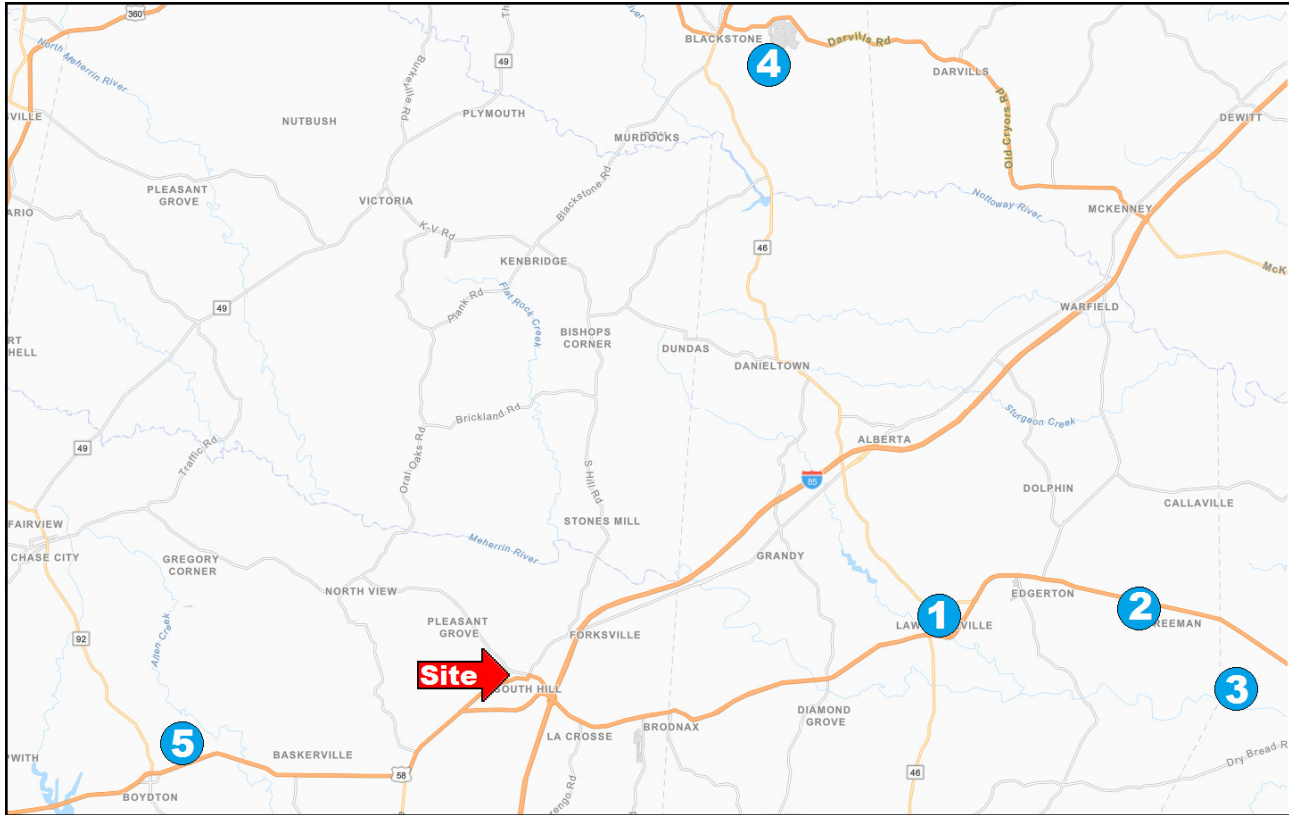
Active Developments

There are significant economic changes evolving in the market area with major expansions by Microsoft, plus other new developments, that will add to job growth. These growth factors are described in the following paragraphs and show a more positive picture for economic growth within the market area currently, compared with past trends.

Regional Map. Map G shows the economic region under study and the proximity of South Hill to the Town of Lawrenceville, which is the county seat of Brunswick County (Note 1). Lawrenceville is the closest residential area to Dominion Power's new Brunswick County Power Station in Freeman (Note 2). This facility was completed in the spring of 2016 and employs 43 people earning incomes of \$60,000 and above. More recent to open is the Greensville County Power Station (Note 3), with a generating capacity of 1,588-megawatts. This facility employs 49 people and pays similar wages. This facility is located west of Emporia, slightly east of the market area.

Fort Picket (Note 4), located just north of the market area in Blackstone, is approximately 31 miles north of South Hill. Fort Picket provides a live-fire and maneuver training site for active and reserve Army components, as well as the largest block of special use airspace in Virginia. Construction is expected to be complete in mid-2019 on a new Foreign Affairs Security Training Center at the base that will train between 8,000 and 10,000 people a year, including members of the State Department diplomatic corps and military personnel. The facility is expected to generate 800 full-time jobs.

Also shown in Map G is the location of the expanding Microsoft Data Center near Boydton, to be detailed further below (Note 5).



Map G - South Hill Economic Region with Location of Key Development Locations

- **VCU Health Community Memorial Hospital.** Construction was completed in November, 2017 on this new 167,000 square foot hospital at the north side of South Hill. Within the building are 70 private patient rooms, three operating room suites, a cesarean section suite, a 16-bay emergency department and an obstetrics department with four labor, delivery, recovery and postpartum rooms. The hospital replaces an older facility that was constructed in 1954. Approximately 800 people are employment in the hospital, which represents an increase of 100 over the number of the former facility. An additional 45 employees are expected to be hired by the end of 2019.
- **KASS USA** recently completed construction on a new food manufacturing facility in the former Southern States building at 409 West Fifth Avenue in Lawrenceville. KASS Foods focuses on manufacturing healthy snack products in various segments including organic, sweet and savory. The facility employs approximately 15 people.
- **Microtel by Wyndham.** Construction began in June, 2018 on this four-story, 88-room hotel with an indoor swimming pool at the intersection of Arnold Drive and Cycle Lane near the I-85 interchange in South Hill. The property

encompasses about two acres, but not all of it will be used for the hotel and parking. A lot that fronts Arnold St. could be the future site of a Waffle House or similar restaurant.

- **Microsoft Corporation** announced in January, 2019 that it would expand its enterprise data center in Mecklenburg County by adding 100 new jobs by early-2020. The project is Microsoft's sixth expansion at the facility since 2010 and will allow the company to further enhance its ability to serve customers in the U.S. and across the globe. Microsoft has created approximately 300 jobs in Mecklenburg County. This announcement follows a 2016 expansion round that created 44 new jobs. These employees earn annual salaries of approximately \$50,000.
- **Buggs Island Brewery** announced in June, 2018 that it would move to a larger lakeside location at 101 Second Street next to the Magnuson Hotel by the summer of 2019. The owners will tear down the existing home on the property and build a new structure with two to three times the seating capacity of their current location. There will also be room enough to increase their brewing production and a dock in front of the property for boaters to motor up to the brewery.
- **Cypress Creek Renewables** plans on building a 65-megawatt solar power generation facility on a tract of land near Bracey. The project would be located adjacent to the Beechwood Substation and would be the second largest solar farm in the county. The facility would likely employ between five and ten people.

Overall, net job growth is being realized in the market area. These new jobs are at higher salaries than the market area average. They will start to generate the demand for new housing.

New Housing Proposal

In addition to the John Groom School proposal, another former school building in the Town of South Hill is under development for new housing. The former South Hill Elementary School at 313 Franklin Street, just north of the downtown, will be converted into 27 market rent apartment units. The former school building is expected to be ready for occupancy prior to the end of 2019. This proposal is not expected to compete with the Groom School apartments.

Section II Affordable Apartment Market Analysis

Following is the supply/demand analysis for the apartment proposal. First presented is the demographic analysis that “solves” for the number and growth of renters who qualify for the tax credit rents proposed at the Groom School proposal. The forecast date is 2021, as project development was started at the end of 2018 and project completion and opening is expected in late-2019 or early-2020.

The demographic analysis is followed by the evaluation of the current rental housing market in the market area. The greater South Hill area has a very small and modest rental apartment market. Much of the area’s rental housing is short-term rentals for construction workers and many of these workers rent rooms of apartment units from individuals in homes and trailers. This situation is changing somewhat with the area’s new job growth.

The direct comps are listed below in Table 7 and are compared with the Groom School proposal in terms of rents, occupancy and unit characteristics and project amenities.

Population Trends and Projections

Data in Table 6 show the population trends and projections for the two-county market area that includes Mecklenburg County and Brunswick County. Mecklenburg County data include the Town of South Hill. Brunswick County was included in the market area, as much of the population in the County is close to South Hill and Brunswick County has no apartment properties without Section 8 and RD rent subsidies.

The market area population was calculated at 50,160± in 2010 by the U.S. Bureau of the Census. More recent population updates show a population decline to 47,470±. This estimate is by the Weldon Cooper Center for Public Service. The population decline, if valid, would be the result of past job losses and associated employment

declines. However, as shown in the final part of Section I, there is new development activity in the market area at this time and the likelihood of new job growth in the magnitude of 150 new jobs. This growth, plus growth generated by higher salaried personnel at Microsoft, should generate net overall population and household growth in the market area by 2021, as shown. Overall population is expected to increase by 110± by 2021.

| Table 6: <u>Trends and Projections of Population and Households by Tenure and Income, Mecklenburg/Brunswick County, VA 1990-2019</u> (Constant 2019 Dollars) | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | <u>1990</u> | <u>2000</u> | <u>2010</u> | <u>2018</u> | <u>2021</u> |
| Market Area Population | 45,230 | 50,800 | 50,160 | 47,470 2/ | 47,580 |
| Brunswick County | 15,990 | 18,420 | 17,430 | 16,480 | 16,280 |
| Mecklenburg County | 29,240 | 32,380 | 32,730 | 30,990 | 31,300 |
| Group Quarters Population 1/ | 2,180 | 3,960 | 3,920 | 3,920 | 3,920 |
| Household Population | 43,050 | 46,840 | 46,240 | 43,550 | 43,660 |
| Persons Per Household | 2.57 | 2.44 | 2.33 | 2.32 | 2.31 |
| Households | 16,740 | 19,230 | 19,860 | 18,780 | 18,900 |
| Renter Households | 4,570 | 4,720 | 5,560 | 5,840 | 5,950 |
| Percent Renter Households | 27.3% | 24.5% | 28.0% | 31.1% | 31.5% |
| <u>Target Market</u> | | | | | |
| 40% of AMI (\$13,000-\$22,360) | | | | | |
| Total Renter Households | 580 | 530 | 590 | 650 | 710 |
| Percent of Renter Households | 12.7% | 11.2% | 10.6% | 11.1% | 11.9% |
| 50% of AMI (\$17,000-\$27,950) | | | | | |
| Total Renter Households | 560 | 570 | 650 | 750 | 850 |
| Percent of Renter Households | 12.3% | 12.0% | 11.7% | 12.8% | 14.2% |
| 60% of AMI (\$21,000-\$33,540) | | | | | |
| Total Renter Households | 370 | 330 | 360 | 430 | 520 |
| Percent of Renter Households | 8.1% | 7.0% | 6.5% | 7.4% | 8.7% |
| Notes: 1/ Primarily located at nursing facilities, Baskerville Correctional Center, and Brunswick Work Center. | | | | | |
| 2/ Based on data from the Weldon Cooper Center for Public Service. | | | | | |
| Source: 1990, 2000 and 2010 U.S. Department of Commerce, Bureau of the Census; S. Patz and Associates, Inc. | | | | | |

Group Quarters Population

The market area has a small Group Quarters population, primarily persons in nursing homes and hospitals, but also residents of two public facilities in Brunswick County, as shown in Note 1 in Table 6. This total is not projected to meaningfully change prior to 2021. The subtraction of the Group Quarters population from total population

yields Household Population. Household Population is the basis for determining housing unit demand.

Households

The market area had 19,860± households in 2010, the date of the most recent U.S. Census. Along with the population decline, and the decrease in average household size, market area households were reported to have decreased between 2010 and 2018, as the market area had not fully recovered from the past recession at that time. We show net household growth of 120± over the 2019 to 2021 period, based exclusively on net new job growth, as described above.

The market area's average household size is low (for a rural area) at 2.33 in 2010, the date of the most recent Census. The average household size declined considerably since 1990, from 2.57 in 1990 to 2.44 in 2000 to 2.33 in 2010. The average household size continues to decline as younger residents move from the area to find jobs elsewhere.

Renter Households. In 2018, 31.1 percent of all market area households were renters. This is compared with approximately 35 percent for the state and nation. The market area has had a steady increase in renter households since 2000, as almost no new housing units have been built locally. Renter household growth is projected to grow by 110± and reach 5,950± households 2021, based on the job growth described above.

Target Households

We analyzed each of the income categories proposed for Groom School. We separated each of the three income categories based on the AMI rent levels proposed for John Groom School Apartments. The net renter household growth for each income category for the 2018 to 2021 period is:

| | <u>Net Target</u> <u>Household Growth</u> (2018-2021) |
|--------------|--|
| 40% of AMI | 60 |
| 50% of AM | 100 |
| 60% of AM | <u>90</u> |
| Total | 250 |

These data show some net growth and that the household growth will be within all three income categories under stud for Groom School.

Apartment Market Analysis

Characteristics of the Market

Table 7 lists the competitive apartment properties within the study area. Exit Town & Lake Realty manages and leases the better area apartment properties, plus much of the home market area rentals, both in the lake area and in South Hill. The company manages approximately 140 apartment/rental units, many of which are townhomes. There was only one vacant unit in these properties at the time of our research. Typically, the company has an extensive waitlist

We identified six moderate apartment properties in the market area. Three of these are income-restricted properties that were developed under LIHTC or RD programs. Management at Mecklenburg Manor opted out of the “236” rent subsidy program, so the non-RD/Section 8 apartment units at the property, as shown, are now at market rents. Pine Creek has no rent restrictions. It is a mature and modest rent property.

River Wynd is the newest of the moderate rent apartment properties in the market area with a 2002 opening date. Pinewood opened a year prior, in 2001. The other properties are older. The competitive properties have a total of 320± apartment units. There are six units vacant at this time, for a 1.8 percent market area vacancy rate.

**Table 7: Characteristics of Competitive Apartment Complexes.
Groom School Market Area, February, 2019**

| | <u>Map H</u> <u>Key</u> | <u>Date</u> <u>Built</u> | <u>Total</u> <u>Units</u> | <u>Vacant</u> <u>Units</u> |
|----------------------------|----------------------------|-----------------------------|------------------------------|-------------------------------|
| Exit Town & Lake Realty 2/ | -- | -- | 138 | 1 |
| Castle Heights | 1 | 2000 | 16 | 0 |
| River Wynd 1/ | 2 | 2002 | 40 | 1 |
| Mecklenburg Manor 3/ | 3 | 1974 | 27 | 2 |
| Planters Woods I & II 1/ | 4 | 1986/90/17 | 38 | 2 |
| Pinewood Forest 1/ | 5 | 2001 | 48 | 0 |
| Pine Creek | 6 | 1985/04 | <u>21</u> | <u>0</u> |
| Total | | | 318 | 6 |

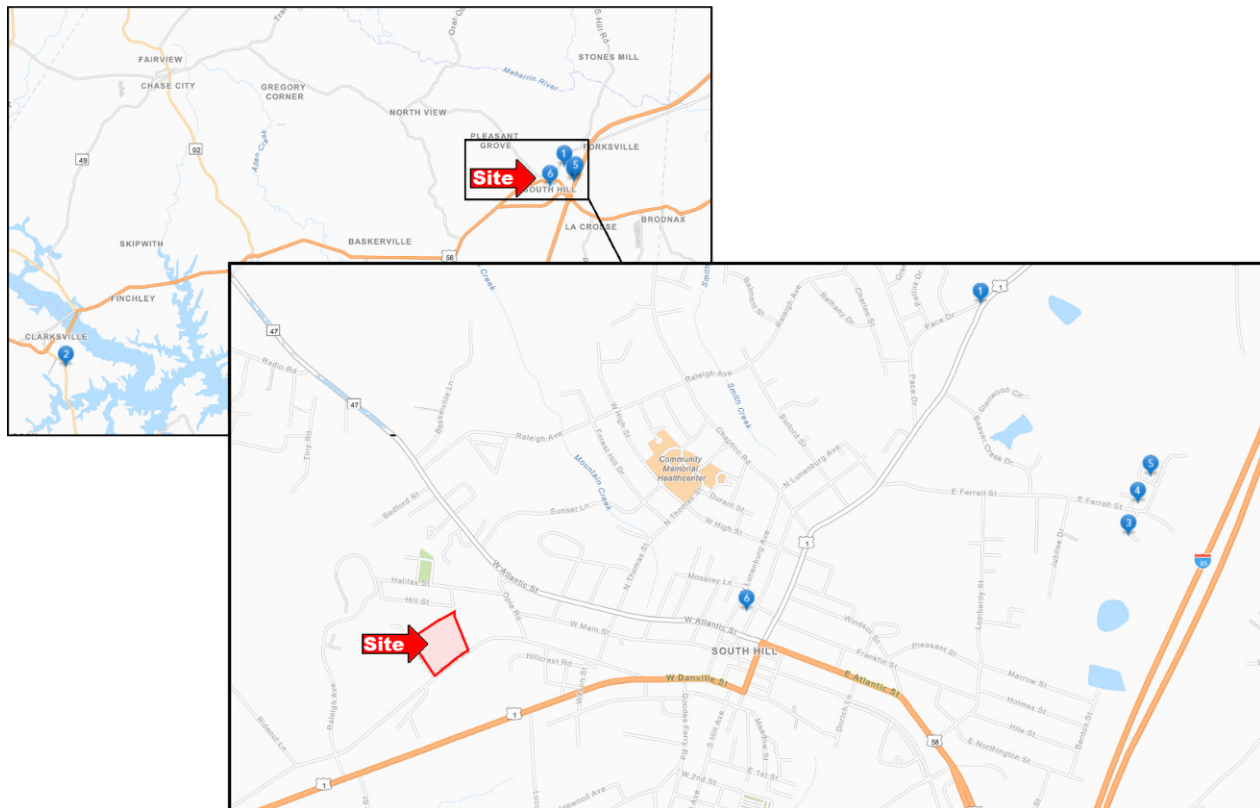
Notes: 1/ Excludes rent restricted.

2/ Includes the following apartment properties – Briar Cliff, Pinebrook, Hite Street, Beaver Creek Rentals and three small Clarksville properties.

3/ Market rent units.

Source: S. Patz & Associates.

Map H shows the locations of each of the comps. Castle Heights is located near Clarksville, while all of the other comps are located in South Hill.



Map H - Locations of Competitive Apartments

Following are photos of these apartment properties and a brief description of each property. Briar Cliff, Beaver Creek, Pinewood and Hite Street Apartments are under management by Exit Town & Lake Realty.



Castle Heights



River Wynd



Mecklenburg Manor



Planters Woods



Pinewood Forest



Pine Creek



Briar Cliff



Pinebrook



Hite Street



Beaver Creek Rentals

- **Briar Cliff** is an attractive property with land for expansion. This is the best area rental. Rents are above the Groom School proposal.
- **Beaver Creek** was built for home ownership. Half of the units were sold. The other units shown in Table 8 are rentals. This too is an upscale rental property with higher rents.
- **Pinebrook and Hite Street Apartments** are managed by Exit Town & Lake Realty. Both are attractive properties with rents above the moderate rent comps, but below Briar Cliff and Beaver Creek.
- **River Wynd** is a LIHTC property located in Clarksville. It is an attractive two-story garden with a mix of two- and three-bedroom units. Of the 40 apartment units, 12 are rented to residents with Section 8 vouchers. Rents are at 50% of AMI. A large waiting list exists. This is a good comp for Groom School.

- **Mecklenburg Manor** was built as a “236” rent restricted property. Management opted out of the program recently. Of the 51 total units, 27 are at market rents. The remainder are at Section 8 RD rents. Mecklenburg Manor also has a waiting list.
- **Planters Woods I & II** is a mature RD/LIHTC property. Of the 48 units, 18 are rent restricted under the RD program. The property was recently renovated under the LIHTC program. Rents are at 30% of income, but residents without RD rents pay the average rates shown in Table 8.
- **Pinewood Forest** is also a LIHTC property with rents at 50% and 60% of AMI. Two- and three-bedrooms are offered.
- **Pine Creek** is a market rate property with relatively low rents. Management reports that some units have been renovated.

In addition to these apartment properties, there are three small, privately owned apartment complexes in Clarksville:

- Thompson Apartments with six three-bedroom units
- Colonial Village Apartments with 10 units
- Simmons Associates Apartments with 6 units

The market area has an abundance of low rent age-restricted apartments. There are two general occupancy apartments with very low Section 8 and RD rents – Fox Run with 56 apartment units and Lawrenceville Manor with 24 units.

Within the Town of South Hill, there are an abundance of homes for rent. Following are photos of two- and three-bedroom home rentals



Typical Area Home Rentals



Typical Area Home Rentals

Market Area Net Rents

The rents shown in Table 8 were adjusted to include cold water, sewage and trash collection and are therefore comparable with the proposed rents at John Groom School Apartments. The rents at rent restricted apartment properties are more comparable. They range between \$360 and \$617 for one-bedroom, \$460 and \$674 for two-bedroom and between \$530 and \$630 for three-bedroom units. The proposed one-bedroom rents at John Groom School Apartments are comparable with rents at the mature, modest rent properties. The rents proposed for the two- and three-bedroom units are higher and more comparable with the rents at better area apartment properties. However, the rents at John Groom School Apartments include two full bathrooms for all two- and three-bedroom units. This is not the case for the older market area properties.

The proposed rents at John Groom School Apartments are at or below the rents at the better apartment properties. The better apartment properties are now 15+ years old.

The rents proposed for John Groom School Apartments are somewhat “unique” in terms of analysis. The 40% rents (six apartment units) are comparable with the rates at lower rent properties. The 50% rents are comparable with the rents at better apartment properties. The 60% rents are above the current rent market, but comparable with the rates of better rentals at properties managed by Exit Town & Lake Realty.

| Table 8: <u>Net Rental Rates 1/ at Competitive Apartment Properties, Groom School Market Area, February, 2019</u> | | | |
|--|---------------------------|---------------------------|-----------------------------|
| | <u>One-Bedroom</u> | <u>Two-Bedroom</u> | <u>Three-Bedroom</u> |
| Exit Town & Lake Realty | -- | \$600-\$775 | \$800-\$1,000 |
| Castle Heights | -- | \$770 | -- |
| River Wynd 2/ | -- | \$524 | \$630 |
| Mecklenburg Manor 2/ | \$449 | \$488 | \$522 |
| Planters Woods 2/ | \$460-\$617 | \$508-\$674 | -- |
| Pinebrook Forest 2/ 3/ | \$360 | \$460 | \$530-\$560 |
| Pine Creek 3/ | \$380 | \$480 | -- |
| Range (Market Rate) | \$380 | \$480-\$775 | \$800-\$1,000 |
| Range (Income Restricted) | \$360-\$617 | \$460-\$674 | \$530-\$630 |
| Groom School Proposed (Net) | \$348-\$448 | \$518-\$654 | \$592-\$730 |
| Notes: 1/ Rents adjusted to include cold water, sewer and trash. 2/ LIHTC rent 3/ Estimate. | | | |
| Source: Field and telephone survey by SPA. | | | |

Apartment Unit Sizes

Following are the unit sizes for the market area's moderate-rent apartment units. The units at John Groom School Apartments are comparable in size with units at area apartment complexes. At 700 square feet, the one-bedroom units will exceed the market area average by 41 square feet. The two-bedroom units, which will measure 900 square feet, will exceed the market area average by 23 square feet. The three-bedroom units will be 1,000 square feet, or 82 square feet smaller than the market area average.

**Table 9: Unit Sizes at Competitive Apartment Properties,
Groom School Market Area, February, 2019**

| | <u>One-Bedroom</u> | <u>Two-Bedroom</u> | <u>Three-Bedroom</u> |
|---|--------------------|--------------------|----------------------|
| Castle Heights | -- | 1,016 | -- |
| River Wynd | -- | 1,000 | 1,184 |
| Mecklenburg Manor | 618 | 765 | 897 |
| Planters Woods | -- | 839 | 1,124 |
| Pinebrook Forest | -- | 839 | 1,124 |
| Pine Creek | 700 | 800 | -- |
| Average | 659 | 877 | 1,082 |
| Groom School Proposed | 700 | 900 | 1,100 |
| Notes: 1/ Rents adjusted to exclude utilities. 2/ LIHTC rent 3/ Lower rent at 50%; higher rent at 60%. 4/ Market rents | | | |
| Source: Field and telephone survey by SPA. | | | |

Unit Mix

The higher rent apartment properties are two-bedroom units and in some cases, like Briar Cliff and Beaver Creek, have three-bedroom units. For the more moderate rent market area apartment properties, the unit mix has a few one-bedroom and the majority of two-bedroom units. The unit mix at John Groom School Apartments is comparable with the mix at moderate rent apartment properties.

**Table 10: Unit Mix at Competitive Apartment Complexes,
Groom School Market Area, February, 2019**

| | <u>One-Bedroom</u> | <u>Two-Bedroom</u> | <u>Three-Bedroom</u> | <u>Total Units</u> |
|-------------------------------|--------------------|--------------------|----------------------|--------------------|
| Castle Heights | 0 | 16 | 0 | 16 |
| River Wynd | 0 | 24 | 16 | 40 |
| Planters Woods I & II | 10 | 28 | 0 | 38 |
| Pinewood Forest | 0 | 16 | 32 | 48 |
| Pine Creek | <u>8</u> | <u>13</u> | <u>0</u> | <u>21</u> |
| Total | 18 | 97 | 48 | 163 |
| Percent of Total | 11.0% | 59.5% | 29.5% | 100.0% |
| Groom School | 11 | 28 | 16 | 55 |
| Source: S. Patz & Associates. | | | | |

Amenities

The list of amenities offered at John Groom School are listed above. The market area apartment properties under study have few, if any, amenities.

Section III Conclusions

The market data presented above show an improving economy in Mecklenburg County. Job growth exists and is at a higher level than in prior years. Net population and household growth is expected. In prior years, the market area's population decreased due to job losses. This is no longer the case.

The demographic analysis presented above shows net growth, based on net new job growth. Much of the job growth described above will occur in 2017 and after.

Additionally, the market area apartment market is strong with a very low vacancy rate and a waiting list at the better apartment properties. At this time, there is no pipeline proposals for new apartment unit development, other than the proposed renovation and expansion of the former South Hill Elementary School building into market rent apartment units for older adults.

Demand Chart

The demand chart shows the net target household growth in each income category under study. The total net growth demand is 250. To be conservative we projected to 2021, the date that lease-up should occur. We added a small number of households in the rent overburdened category to account for Section 8 tenants likely to be attracted to the Groom School and persons on the waiting list at competitive properties. For households in substandard housing, that category includes persons in substandard housing and persons who are "doubled-up" due to lack of housing availability.

The total demand for affordable housing is 340. There is no available or planned supply, so total demand equals net demand. We expanded the demand chart to include the capture rate for each income category, as shown.

Absorption Period. We expect the six “40%” units to be preleased. Half of the “50%” units should also be preleased. The remaining 50% units will require five months to be occupied. We show a 10-month absorption for the “60%” units.

| <u>Demand Table</u> (2018-2021) | | | | | |
|--|--|-------------------------|-------------------------|-------------------------|---------------------|
| Income Restrictions | | <u>Up to 40%</u> | <u>Up to 50%</u> | <u>Up to 60%</u> | <u>Total</u> |
| New Rental Households | | 60 | 100 | 90 | 250 |
| PLUS | | | | | |
| Existing Households - Over-Burdened 1/ | | 10 | 10 | 10 | 30 |
| PLUS | | | | | |
| Existing Households- Substandard Housing 2/ | | 20 | 20 | 20 | 60 |
| PLUS | | | | | |
| Elderly Households- Likely to Convert to Rental Housing | | 0 | 0 | 0 | 0 |
| PLUS | | | | | |
| Existing Qualifying Tenants – to Remain After Renovation | | 0 | 0 | 0 | 0 |
| | | | | | |
| Total Demand | | 90 | 130 | 120 | 340 |
| MINUS | | | | | |
| Supply (includes directly comparable vacant units completed or in pipeline in PMA) | | 0 | 0 | 0 | |
| <i>EQUALS</i> | | 0 | 0 | 0 | 0 |
| NET DEMAND | | 90 | 130 | 120 | 340 |
| Proposed Apt. Units | | 6 | 21 | 28 | 55 |
| Capture Rate by Income | | 6.7% | 16.2% | 23.3% | 16.2% |
| ABSORPTION PERIOD 1/ | | 0 | 5 | 10 | 10 |

Notes: 1/ Section 8 voucher holders.

2/ Waiting list at lower and moderate rent apartment properties.

The VHDA capture rate chart is as follows:

| | <u>Number</u> |
|--|---------------|
| Project Wide Capture Rate - LIHTC Units | 16.2% |
| Project Wide Capture Rate - Market Units | -- |
| Project Wide Capture Rate - All Units | 16.2% |
| Project Wide Absorption Period (in months) | 10 |

I affirm the following:

1. I have made a physical inspection of the site and market area.
2. The appropriate information has been used in the comprehensive evaluation of the need and demand for the proposed rental units.
3. To the best of my knowledge, the market can support the demand shown in this study. I understand that any misrepresentation in this statement may result in the denial of participation in the Low Income Housing Tax Credit Program in Virginia as administered by the Virginia Housing Development Authority.
4. Neither I nor anyone at my firm has any interest in the proposed development or relationship with the ownership entity.
5. Neither I nor anyone at my firm nor anyone acting on behalf of my firm in connection with the preparation of this report has communicated to others that my firm is representing VHDA or in any way acting for, at the request of, or on behalf of VHDA.
6. Compensation for my services is not contingent upon this development receiving a LIHTC reservation or allocation.



March 4, 2019

Market Analyst

Date