



KING & ASSOCIATES INC.
Market, Feasibility And Economic Analysis For The Real Estate Industry

Retreat Metropolitan District Nos. 1-2 Market & Appreciation Analysis

Prepared For:
Retreat Metropolitan
District Nos. 1-2

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EXECUTIVE SUMMARY

PURPOSE & SCOPE

- This report addresses the timing and intensity of planned residential development in Retreat Metropolitan District Nos. 1-2 (“Districts”), located in unincorporated El Paso County, Colorado.
- Proposed development in the Districts, marketed under the name “TimberRidge” or “Retreat at TimberRidge”, is anticipated to include 193 single-family detached homes with development anticipated over a three-year period from 2022 through 2024.
- Proposed development addressed in this report includes 193 single-family detached units in Retreat Metropolitan District Nos. 1-2 and has been assessed in light of current and anticipated real estate market characteristics and trends within the Colorado Springs, MSA and a defined project trade area.

MARKET TRENDS

Demographics & Employment

- Demographic and employment trends and forecasts presented for El Paso County and the trade area have exhibited positive trends in recent years.
- Forecast El Paso County population and household growth rates are projected to remain steady through 2026 with 9,637 residents and 4,466 households added annually.
- Forecast trade area population and household growth rates are projected to increase through 2026 with 4,246 residents and 1,490 households added annually.
- Employment trends in the Colorado Springs, MSA were positive from 2016 through 2019 with jobs increasing from 278,300 (2016) to 300,000 (2019).
- At the onset of the Covid-19 outbreak, employment levels declined and unemployment rose, however, employment levels in the Colorado Springs, MSA have surpassed year-end 2019 levels.
 - The Colorado Springs, MSA employment levels reached its lowest point in April 2020 at 265,700 jobs and has since increased by approximately 44,000 jobs to a total of 309,700 jobs as of December 2021.

Residential Market Trends

- Activity in the Colorado Springs, MSA and City of Colorado Springs residential real estate market has remained positive during the review period (2016 - 2021).
- Further, since the onset of Covid-19, local and regional residential real estate trends have been positive for new and existing home sales with historically low inventory levels and increasing average sale prices.
- Residential new home construction in the Colorado Springs, MSA has stabilized over the past six years with building permits averaging 6,273 annually.
- Single-family detached new home construction in the Colorado Springs, MSA has showed steady year-over-year (through December 2021) performance, increasing 0.7%.
- Existing (resale) single-family detached home sales trends have remained positive in recent years (2017 through 2021) with El Paso County existing (resale) home sale

trends (detached) experiencing home price appreciation of 55% and months supply of inventory ranging between 1.4 and 0.4.

- El Paso County new home sales trends have been positive in recent years (2018 - 2021) with single-family detached new home sales averaging 2,940 homes per year and single-family attached average new home sales averaging 451 homes per year.
- Further, custom / semi-custom (sales price greater than \$750,000) new home sales have shown positive year-over-year performance (2021 compared to 2020) with sales increasing from 63 to 261, representing growth of 314%.

PROJECT ASSESSMENT

Project Location & Districts Characteristics

- Retreat Metropolitan District Nos. 1-2 are located in unincorporated El Paso County (Colorado Springs, MSA).
- Steady new home sales trends in the trade area have been driven by positive job growth and population trends within the Colorado Springs, MSA and the Districts' proximity to newly built residential areas in the Colorado Springs, MSA.
- Further, the Districts have high growth potential because of the availability of developable land that surrounds the Districts.
- The Districts are being developed by Classic Homes and Vantage Homes, both market-leading developers in the Colorado Springs, MSA.
- New homes in the Districts offer more affordable upper-end housing options compared to the southern Douglas County market area.

Absorption (Capture Rate) Assessment

- Anticipated residential development in Retreat Metropolitan District Nos. 1-2, addressed in this report, totals 193 single-family detached homes with anticipated development over a three-year period from 2022 through 2024 (averaging approximately 65 units annually).
- Trade area residential demand is forecast to total 1,500 units annually, with projected single-family detached demand totaling 975 units per year, single-family attached demand totaling 150 units per year and multi-family demand totaling 375 units per year.
- Further, custom / semi-custom residential demand has been forecast on a market share methodology that assumes custom / semi-custom new home demand in the trade area will account for a percentage of trade area single-family detached demand (as previously presented).
- Resulting custom / semi-custom trade area residential demand has been forecast to range from 145 units to 245 units per year.
- The Districts' capture rate equals 27% to 45% of forecast annual detached housing demand (custom / semi-custom) in the trade area during the absorption period and is assessed as high and reasonable (see page 25 for further commentary).

Valuation Assessment

- Single-family detached development in the Districts has an estimated weighted average valuation of \$867,617 per unit.
- Estimated single-family detached new home sale prices are viewed as reasonable given comparability with custom and semi-custom trade area new home sales prices averaging \$867,768 per unit (based on 2021 sales).

Conclusion

- King & Associates, Inc. has reviewed the absorption forecast for the Retreat Metropolitan District Nos. 1-2 and believes it reasonable given review and assessment of regional and trade area residential housing market conditions.
- King & Associates, Inc. further believes the residential absorption forecast is reasonable in consideration of weighted average new home prices in the Districts totaling \$867,617 per single-family detached unit.
- Further, based on review and analysis of single-family home appreciation trends in the Black Forest (zip code 80908) and Colorado Springs, MSA housing market areas, King & Associates, Inc. projects the ongoing appreciation rate pertaining to the actual value of homes in the Districts at 3.00% annually through 2061.

NOTE: This report has been completed during the SARS-CoV-2 (Coronavirus) outbreak. At the time of this report, the impacts of the Coronavirus outbreak upon national and local real estate markets has not been fully determined. The findings in this report have been based on the most current real estate market information available prior and during the Coronavirus outbreak. Market performance and absorption potential that may occur in Retreat Metropolitan District Nos. 1-2 given impacts from the Coronavirus outbreak may be different, possibly materially, from the findings and conclusions detailed in this report.

PURPOSE AND SCOPE

King & Associates, Inc. has been retained by Retreat Metropolitan District Nos. 1-2 to assess project feasibility and valuation planned in the Districts as well as an ongoing appreciation (value) projection. Anticipated residential development in the Districts has been measured against current and projected real estate market conditions within the Colorado Springs, MSA as well as a defined trade area. Real estate supply and demand factors have been reviewed and include among others: demographic trends and forecasts as well as residential market trends (building permits, existing home sales, new home sales and competitive projects).

DEVELOPMENT PROGRAM AND ABSORPTION

Anticipated development addressed in this report includes 193 single-family detached homes planned for completion over a three-year period from 2022 through 2024 (average absorption of approximately 65 units annually). Planned residential development has an estimated weighted average sales price of \$867,617 per unit. The following table outlines absorption and valuation for residential units planned in Retreat Metropolitan District Nos. 1-2.

Retreat Metropolitan District Nos. 1-2 - Development Program

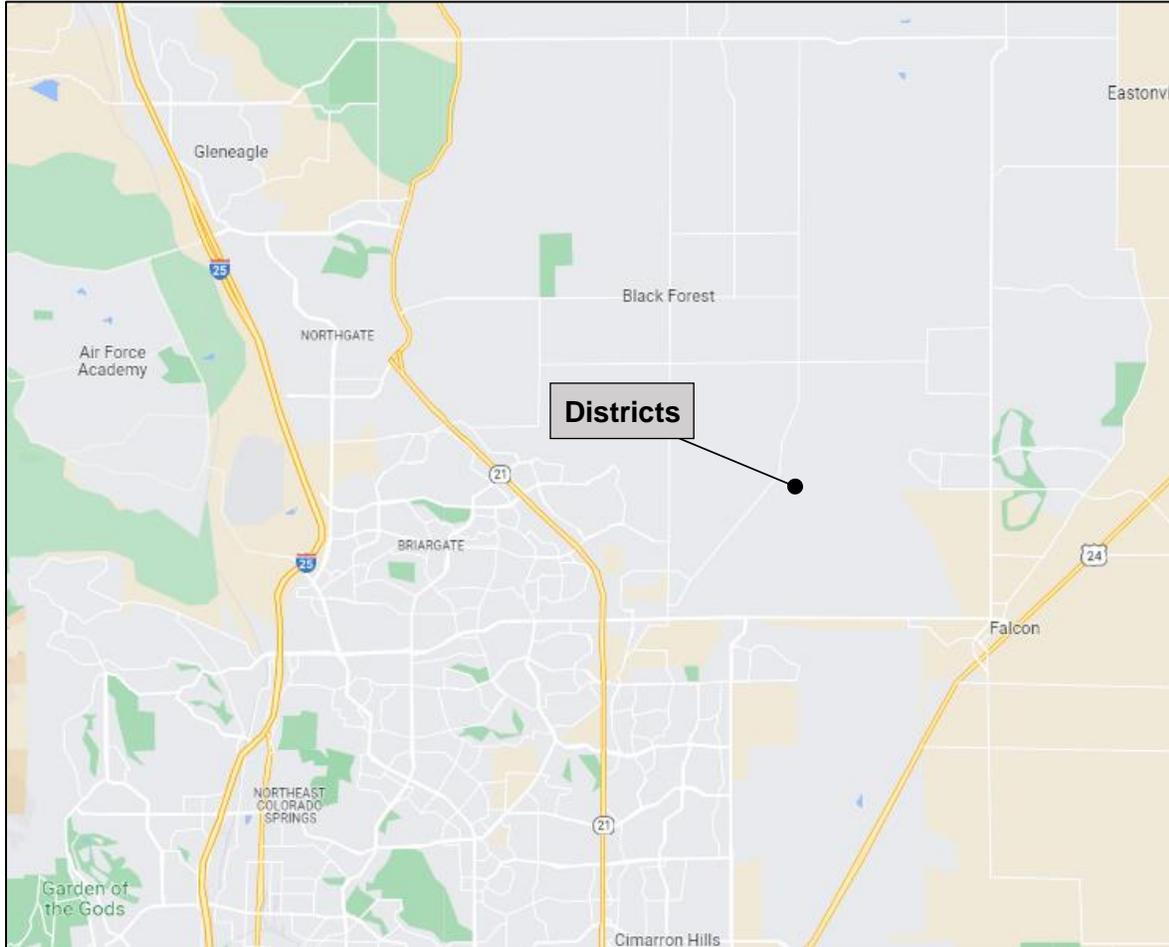
Product Type	Average Price	2022	2023	2024	Total
Single-family Detached Absorption (units)					
Filing 1 - Urban (Classic Homes)	\$800,000	38	-	-	38
Filing 1 - Estate (Classic Homes)	\$1,100,000	7	-	-	7
Filing 1 - Urban (Vantage Homes)	\$800,000	19	2	-	21
Filing 1 - Estate (Vantage Homes)	\$1,100,000	4	-	-	4
Filing 2 - Urban (Classic & Vantage Homes)	\$803,846	-	42	36	78
Filing 2 - Estate (Classic & Vantage Homes)	\$1,100,000	-	7	5	12
Filing 3 - Urban (Classic & Vantage Homes)	\$950,000	-	-	27	27
Filing 3 - Estate (Classic & Vantage Homes)	\$1,100,000	-	-	6	6
Total		68	51	74	193

Source: Retreat Metropolitan District Nos. 1-2.

DEVELOPMENT AREA

Retreat Metropolitan District Nos. 1-2 are located in unincorporated El Paso County, Colorado southeast of the Highway 24 and S 21st St intersection. The following map depicts the general location of the Districts.

Retreat Metropolitan District Nos. 1-2 - Locator Map

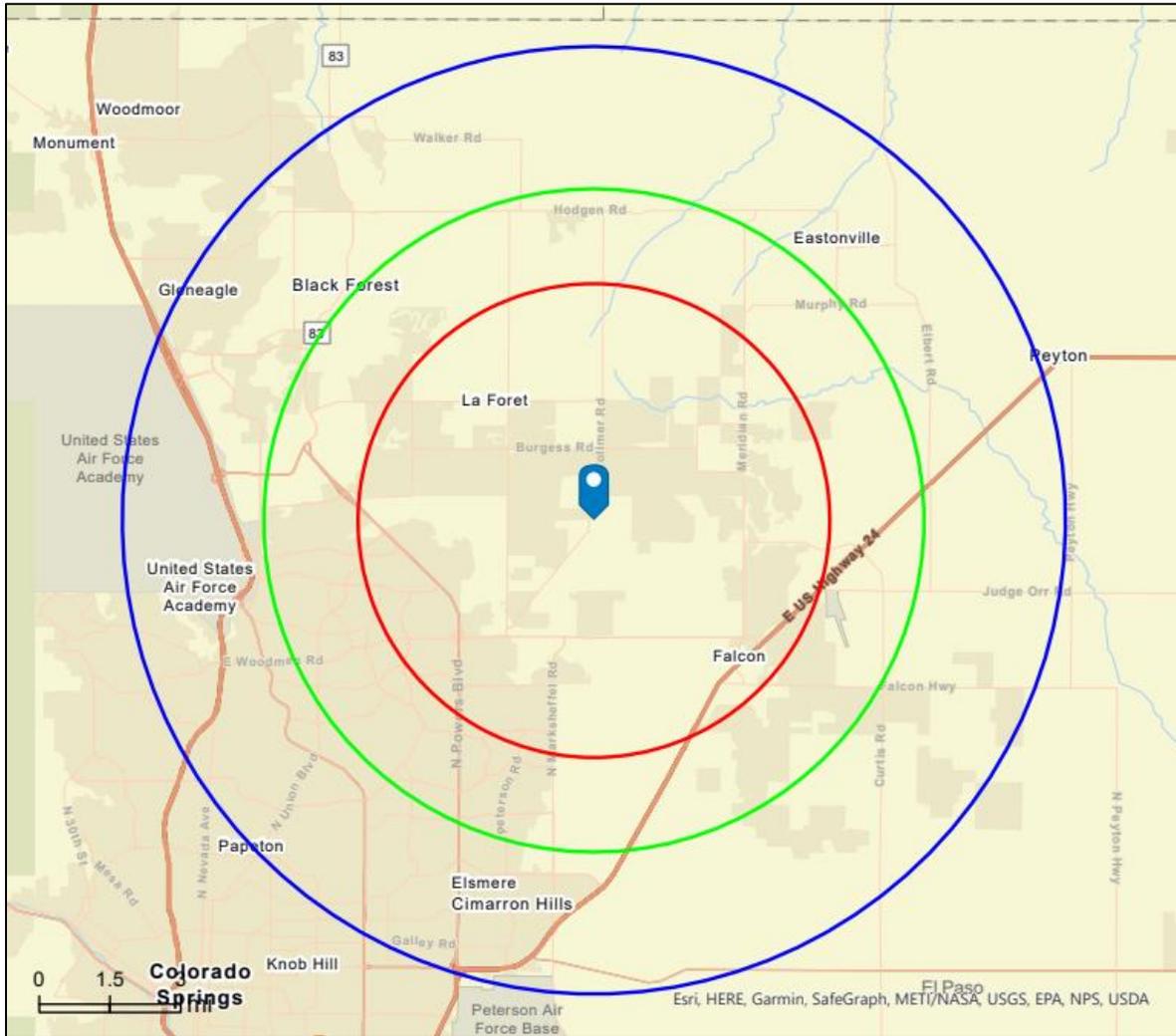


Source: King & Associates, Inc.

TRADE AREA

A trade area has been identified to analyze market supply and demand factors that relate to forecast absorption in the Retreat Metropolitan District Nos. 1-2. The trade area includes a 7-mile radius of the site and has been determined as the primary geographic area from which competition for existing and planned comparable single-family projects in the Districts exist.

Retreat Metropolitan District Nos. 1-2 - Trade Area Map



Source: ESRI, King & Associates, Inc.

Note: 7 - mile trade area boundary depicted by green circle.

DEMOGRAPHICS

Demographics trends & forecasts are presented for El Paso County as well as the trade area and include population, households, and average household size information. Demographic trends and forecasts, particularly those relating to households, provide a basis for forecasting future housing demand.

El Paso County Demographics

Population

- Population in El Paso County was approximately 520,000 in 2000 and was estimated at approximately 740,000 in 2021.
- From 2010 to 2021, population has increased by an average of 10,232 residents per year, reflecting a 1.51% annual growth rate.
- El Paso County population is forecast to reach approximately 788,000 by 2026, increasing by 9,637 residents per year and reflecting an average annual growth rate of 1.27%.

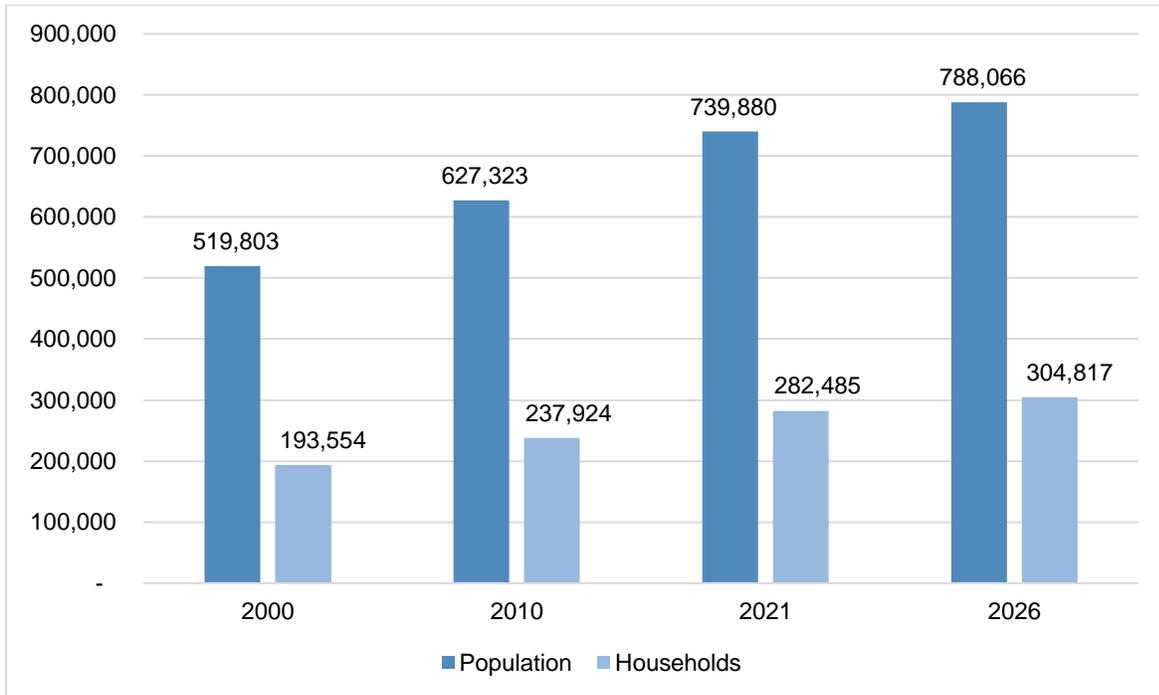
Households

- The number of El Paso County households equaled approximately 193,500 in 2000 and 282,500 in 2021.
- From 2010 to 2021, households increased by 4,051 per year, reflecting a 1.57% average annual growth rate.
- Households are projected to increase by 4,466 per year through 2026 with overall households reaching approximately 305,000 by 2026, reflecting a 1.53% average annual household growth rate during the 2021 through 2026 forecast period.

Household Size

- The average household size in El Paso County has decreased from 2.61 in 2000 to 2.54 in 2021.
- Average household size is forecast to decrease slightly to 2.51 by 2026.
- The following graph presents demographic trends and forecasts for El Paso County.

El Paso County - Demographic Trends & Forecasts



Source: State of Colorado Demography Office, King & Associates, Inc.

Trade Area Demographics

Population

- Trade area population was 143,486 in 2010.
- Trade area population is estimated at 198,003 in 2021.
- From 2010 to 2021 population has increased by an average of 4,956 residents per year, reflecting a 2.97% annual growth rate.
- Trade area population is forecast to reach 219,233 by 2026, increasing by 4,246 residents per year and reflecting an average annual growth rate of 2.06%.

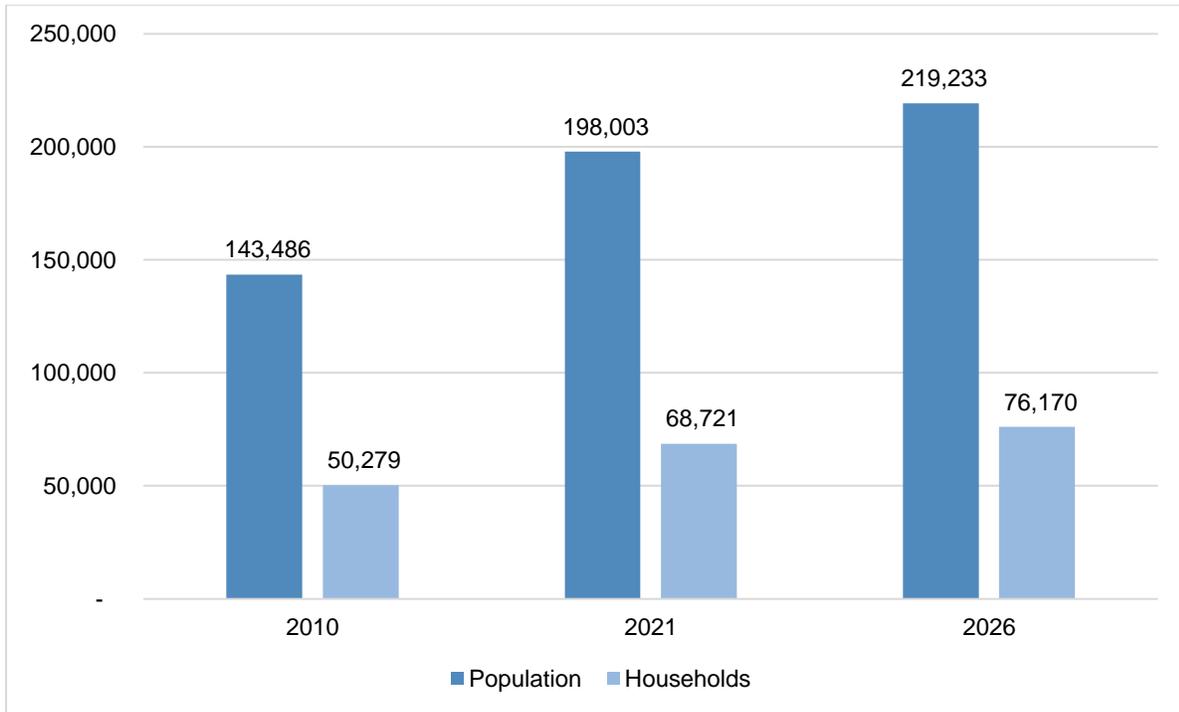
Households

- The number of trade area households was 50,279 in 2010.
- Trade area households are estimated at 68,721 in 2021.
- From 2010 to 2021, the number of households in the trade area increased by 1,677 per year, reflecting a 2.88% average annual growth rate.
- Trade area households are projected to increase by 1,490 per year through 2026 with overall households reaching 76,170 with the trade area household growth rate equaling 2.08% during the 2021 through 2026 forecast period.

Household Size

- Average trade area household size has increased from 2.85 in 2010 to 2.88 in 2021.
- Average household size in the trade area is projected to remain at 2.88 through 2026.
- The following graph presents trade area demographic trends and forecasts.

Trade Area - Demographic Trends & Forecasts



Source: ESRI, King & Associates, Inc.

EMPLOYMENT

Employment trends in the Colorado Springs, MSA (Metropolitan Statistical Area) have been reviewed since 2010, with information including overall employment levels, job growth and unemployment rates. Employment trends and forecasts are indicators of residential housing demand.

Employment Trends

Colorado Springs, MSA

- From 2010 through year-end 2019, average annual employment levels increased steadily in the Colorado Springs, MSA, with particularly strong growth in 2016.
- In 2010, the average annual employment level stood at approximately 244,600 and employment increased to 292,500 at the end of 2018.
- During 2019, employment levels increased to 300,000 through year end with 7,500 jobs added.
- During the 2010 through 2019 period, an average of 6,156 jobs have been added each year in the Colorado Springs, MSA, representing average annual growth of 2.3%.
- The Colorado Springs, MSA employment stood at 289,500 as of year-end 2020, decreasing by 10,500 when compared with employment of 300,000 in year-end 2019.
- Decreased employment in the Colorado Springs, MSA was a result of the Covid-19 outbreak, however, employment in the Colorado Springs, MSA has rebounded significantly, surpassing pre-pandemic employment levels (before March 2020).
- Employment levels in the Colorado Springs, MSA reached their lowest point in April 2020 (265,700 jobs), however, job growth has increased by 44,000 or 16.56% since the April 2020 low to 309,700 jobs as of December 2021.

Unemployment Trends

Colorado Springs, MSA

- The unemployment rates in the Colorado Springs, MSA have trended downward the past several years.
- In 2010, the unemployment rate was 9.8%
- The average annual unemployment rate in 2019 and 2020 was 3.2%, and 7.3%, respectively.
- Unemployment in the Colorado Springs, MSA as of December 2021 was 5.0% and marked an increase from the 3.0% unemployment rate in February 2020 and reflects increased unemployment resulting from the Covid-19 outbreak.
- Unemployment in the Colorado Springs, MSA reached its highest level in April 2020 (12.6%), however, unemployment levels have decreased steadily with unemployment decreasing to its current level of 5.0% as of December 2021.

Colorado Springs, MSA - Employment Trends

Variable	2010	2016	2017	2018	2019	2020	2021
Employment	244,600	278,300	286,200	292,500	300,000	289,500	307,900
Change from prior period							
Numeric		8,100	7,900	6,300	7,500	-10,500	20,200
Percent		3.00%	2.84%	2.20%	2.56%	-3.50%	6.98%
Unemployment Rate							
	9.80%	3.60%	3.00%	3.60%	3.20%	7.30%	5.00%

Source: Colorado Division of Labor and Employment.

Notes:

1. 2021 data through December with employment change from 2020 to December 2021.
2. Prior period numeric and percent change listed in 2016 table column compares change from 2010 to 2016.

Employment Forecasts

- The Colorado Division of Labor and Employment has completed employment forecasts for statistical areas in the State of Colorado.
- Employment has been forecast in the Colorado Springs, MSA from 2020 through 2030.
- During the 2020 to 2030 period, employment is projected to increase in the Colorado Springs, MSA from approximately 309,000 to 376,000.
- During the ten-year period, employment is forecast to increase by 6,676 jobs per year or by a rate of approximately 1.97% annually in the Colorado Springs, MSA.
- The current forecast represents employment growth impacted from the Covid-19 outbreak.
- The following table present forecasts for the Colorado Springs, MSA employment from 2020 to 2030.

Colorado Springs, MSA Employment Forecasts

	2020	2030
Employment	309,197	375,955
Annual change		
Numeric		6,676
Percent		1.97%

Source: Colorado Division of Labor and Employment.

Note: The forecast reflects total employment, which is higher than wage and salary employment data presented in the previous table.

COLORADO SPRINGS, MSA RESIDENTIAL REAL ESTATE TRENDS

This section of the report discusses residential market supply and demand trends for the Colorado Springs, MSA market area. Information presented focuses on building permits and existing home sales. Additionally, a housing demand forecast is presented.

Building Permits

Building permit trends provide a leading indicator of housing supply and demand for the Colorado Springs, MSA market area.

Colorado Springs, MSA Building Permit Trends

- Residential building activity has varied in the Colorado Springs, MSA since 2016 with total building permits averaging 5,661 per year (2016 - 2020).
- Building activity peaked in the Colorado Springs, MSA at 6,932 permits during 2020 and building activity was the lowest in 2017 at 4,965 building permits.
- From 2016 through 2020, building permit activity has averaged 5,661 permits per year with a total of 37,638 permits issued.
- As of year-end 2021, building permits have totaled 9,333 permits, representing an increase of 34.6% from the 6,932 permits issued through 2020.
- Single-family detached permits averaged 4,309 units per year from 2016 through 2021 and have accounted for 68.7% of all building activity in the Colorado Springs, MSA since 2016.
- From 2016 through 2020, single family detached permits increased from 3,610 (2016) to 5,039 (2020).
- As of year-end 2021, single-family detached building permits totaled 5,072 permits, representing an increase of 0.7% from the 5,039 permits issued through 2020.
- Single-family attached permits have averaged 138 per year (2016 - 2021), increasing from 8 in 2016 to 336 in 2021 and representing 2.2% of all home building activity in the Colorado Springs, MSA since 2016.
- As of year-end 2021, single-family attached building permits totaled 336 permits, representing an 9.8% increase from the 306 permits issued through 2020.
- Colorado Springs, MSA multi-family building has varied since 2016, averaging 1,826 permits annually and accounting for 29.1% of total building permits issued in the Colorado Springs, MSA.
- During the 2016 through 2020 period, the number of multi-family permits issued has ranged from 1,106 units in 2017 to 1,587 units in 2020.
- As of year-end 2021, multi-family building permits totaled 3,925 permits, representing a 147% increase from the 1,587 permits issued through 2020.
- The following table details building permit trends from 2016 through 2021 in the Colorado Springs, MSA.

Colorado Springs, MSA Residential Building Permit Trends

Unit Type	2016	2017	2018	2019	2020	2021
Single-Family Detached	3,610	3,852	4,229	4,051	5,039	5,072
Single-Family Attached	8	7	32	141	306	336
Apartments	1,548	1,106	1,473	1,316	1,587	3,925
Total	5,166	4,965	5,734	5,508	6,932	9,333

Source: United States Census Bureau.

Note:

1. 2021 building permit data through December.

Existing Home Sales – El Paso County

Existing (re-sale) Single Family Home Sales

- Existing single-family home sales provide an indication of residential market supply and demand trends with data provided for El Paso County.
- Active listings (inventory) and sales rates (demand) of existing homes indicate potential sales and demand rates for newly constructed homes.

El Paso County - Detached

- In 2020, detached sales in El Paso County totaled 15,455 homes, representing an annual increase of 5.8% from the 14,605 sales that were registered in 2019.
- In 2021, detached sales in El Paso County totaled 16,055 homes, representing an increase of 3.9% from the 15,455 detached sales that were registered in 2020.
- From 2017 through 2021, the average home price in El Paso County increased (56%) from approximately \$315,000 to \$492,000 per unit.
- From 2017 through 2021, the number of active listings (supply) in El Paso County ranged from a year-end level of 1,671 homes in 2018 to 555 units in 2020.
- At year-end 2021, there were 652 active listings in El Paso County, which was an increase (17%) from the 555 active listings at the end of 2020.
- The real estate industry uses the term “months supply of inventory” (unsold inventory) to describe the relationship between existing home sales rates and the number (inventory) of active listings in a given geographic market area.
- This statistic indicates the number of months it would take to sell all homes listed for sale (active listings) at a given point in time based on recent average sales rates.
- It is generally held that declining unsold inventory (months supply) trends are a positive indicator of housing market strength.
- Months of supply of inventory in El Paso County has varied over the past several years from 1.4 at year-end 2018 to 0.4 at year-end 2020.
- Through January of the current year (2022), existing detached market trends remained positive despite the Coronavirus outbreak, demonstrated by average sale prices increasing (15.2%) to \$506,992 per unit (compared with an average sales price of \$439,958 through January 2021) and months supply of inventory equaling 0.4 (compared with 0.4 in January 2021).

El Paso County - Attached

- In 2020, attached sales in El Paso County totaled 2,305 homes, representing an annual increase of 9.6% from the 2,103 sales that were registered in 2019.
- In 2021, attached sales in El Paso County totaled 2,487 homes, representing an increase of 7.9% from the 2,305 attached sales that were registered in 2020.
- From 2017 through 2021, the average home price in El Paso County increased (63.2%) from approximately \$198,500 to \$324,000 per unit.
- From 2017 through 2021, the number of active listings (supply) in El Paso County ranged from a year-end level of 177 homes in 2018 to 81 units in 2020.

- At year-end 2021, there were 100 active listings in El Paso County, which was a increase (23%) from the 81 active listings at the end of 2020.
- Months of supply of inventory in El Paso County has varied over the past several years from 1.0 at year-end 2018 to 0.4 at year-end 2021.
- Through January of the current year (2022), existing attached market trends remained positive despite the Coronavirus outbreak, demonstrated by average sale prices increasing (24.8%) to \$341,105 per unit (compared with an average sales price of \$273,342 through January 2021) and months supply of inventory equaling 0.4 (compared with 0.4 in January 2021).
- The following table highlights re-sale market trends in El Paso County.

El Paso County Existing Single-family Home Sales Trends

Year	2017	2018	2019	2020	2021	YTD 2022
Detached						
Average price	\$315,393	\$346,405	\$366,895	\$417,128	\$492,087	\$506,992
Existing home sales (YTD)	15,079	14,274	14,605	15,455	16,055	887
Average sales per month	1,257	1,190	1,217	1,288	1,338	887
Active listings	1,371	1,671	1,193	555	652	551
Months Supply	1.1	1.4	1.0	0.4	0.5	0.4
Attached						
Average price	\$198,431	\$227,363	\$243,594	\$267,367	\$323,759	\$341,105
Existing home sales (YTD)	2,404	2,198	2,103	2,305	2,487	143
Average sales per month	200	183	175	192	207	143
Active listings	102	177	135	81	100	91
Months Supply	0.5	1.0	0.8	0.4	0.5	0.4

Source: Colorado Association of Realtors, King & Associates, Inc.

Note: 2022 data through January.

El Paso County New Home Sales

- New home sales trends in El Paso County are presented from 2018 through year-end 2021.
- Since 2018, there have been 13,563 single-family new home (attached and detached) sales recorded in El Paso County with average sales of 3,391 units per year (71 units per month).
- Since 2018, single-family detached home sales have accounted for 87% of overall new home sales in El Paso County.
- Single-family detached new home sales in El Paso County have averaged 2,940 homes per year from 2018 through year-end 2021.
- The price of new homes has increased from an approximate average of \$406,238 in 2018 to \$499,772 per unit as of year-end 2021, representing price growth of 23%.
- Single-family detached new home prices averaged \$522,188 per unit as of year-end 2021, representing an increase of 26% from the 2018 average single-family detached new home price of \$414,117.
- Single-family attached new home sales have averaged 451 units per year from 2018 through year-end 2021, accounting for 13% of overall new home sales in El Paso County.
- Single-family attached new home prices averaged \$367,251 per unit as of year-end 2021, representing an increase of 5% from the 2018 average single-family attached new home price of \$348,219.
- The following table presents single-family attached and detached new home sales trends in El Paso County.

El Paso County New Home Sales Trends

Year	2018	2019	2020	2021	Total
All Units					
Sales	3,379	3,025	3,786	3,373	13,563
Average Price	\$406,238	\$421,412	\$439,323	\$499,772	
Single-Family Detached					
Sales	2,975	2,693	3,207	2,885	11,760
Average Price	\$414,117	\$430,630	\$458,524	\$522,188	
Single-Family Attached					
Sales	404	332	579	488	1,803
Average Price	\$348,219	\$346,644	\$332,974	\$367,251	

Source: MetroStudy, King & Associates, Inc.

COLORADO SPRINGS, MSA RESIDENTIAL DEMAND FORECAST

Housing demand has been forecast for the Colorado Springs, MSA from 2021 through 2026 based on projected household growth. The forecast addresses overall housing demands as well as categorized demand for various housing unit types.

- Previously, demographic trends and forecasts were presented in the Colorado Springs, MSA with forecast growth equaling 4,466 households per year starting from 2021 and extending through 2026.
- Assuming each new household formed will create equivalent demand for new housing units, demand is projected at approximately 5,000 units annually.
- However, Colorado Springs housing demand has been adjusted to range from 4,000 to 6,000 units annually to compare more closely with recent building permit trends.
- In addition to forecast overall demand, segmented demand has also been projected for single-family and multi-family unit types.
- The demand allocation is based on previously presented building permit trend averages over the past several years as well as housing characteristics in the region.
- During the 2021 through 2026 forecast period, overall segmented single-family and multi-family housing demand is presented as follows.

Colorado Springs, MSA Housing Demand Forecast

Year	2021	2026
Estimated / Projected Households	282,485	304,817
Forecast new households (demand)		
Total		22,323
Annual		4,466
<u>Annual Demand Range (2021 - 2026)</u>		
	<u>Low</u>	<u>Higher</u>
Total units demanded	4,000	6,000
Single family detached	2,600	3,900
Single-family attached	400	600
Multi-family	1,000	1,500

Source: King & Associates, Inc.

TRADE AREA RESIDENTIAL MARKET TRENDS

This section discusses trade area single-family market trends with a particular focus on the custom / semi-custom new home market. Single-family information presented includes existing and new home sales as well as review of comparable custom / semi-custom new home projects.

Custom / Semi-custom New Home Sales Trends

- The custom / semi-custom new home market includes new homes in El Paso County with an average sales price greater than \$750,000 per unit.
- From 2018 through year-end 2021, there has been a steady increase in the number of custom / semi-custom new home sales within the El Paso County housing market, averaging approximately 3% of total detached new home sales.
- From 2018 through 2021, there have been 410 custom / semi-custom new homes sold in El Paso County with average sales equaling 8.5 homes per month.
- In 2020, custom / semi-custom homes sales in El Paso County totaled 63 units and was up 66% when compared with 38 custom / semi-custom sales registered in 2018.
- During 2021, custom / semi-custom new home sales accounted for approximately 9% of El Paso County detached new home sales.
- The average custom / semi-custom new home sale price in El Paso County has decreased (8.3%) from approximately \$950,000 per unit in 2020 to approximately \$871,000 per unit in 2021.
- The following table summarizes single-family custom / semi-custom home sales and price trends in El Paso County from 2018 through year-end 2021.

Trade Area Custom / Semi-custom New Home Sales Trends

Year	2021	2020	2019	2018	Total
Custom / Semi-custom New Home Sales	261	63	48	38	410
Market Share (1)	9%	2%	2%	1%	3%
El Paso County Average Price (detached)	\$522,188	\$458,524	\$430,630	\$414,117	
Custom / Semi-custom Average Price	\$870,883	\$949,950	\$888,514	\$912,059	

Source: Metro Study, King & Associates, Inc.

Note:

1. Numerator for Market Share calculation is custom / semi-custom new home sales and denominator is total detached El Paso County new home sales.
2. 2021 data through December 2021.

Trade Area New Home Market Characteristics

- The trade area and northwest Colorado Springs, MSA are well located with direct access to the Colorado Springs central business district and N. Powers Blvd / I-25 which provides a nearby transportation link to northern and central parts of the metro area.
- The availability of large, developable land parcels within the trade area in close proximity to employment corridors will likely encourage further anticipated residential development in the trade area.
- Limited supply of single-family (detached and attached) residential homes (new homes and existing) has driven strong demand for new home sales in the trade area.
- The trade area has been a focal point of custom / semi-custom new home sales with virtually all custom / semi-custom new home projects located in the northern portion of the Colorado Springs, MSA.

Comparable Custom New Home Projects

- Single-family custom / semi-custom new home sales in El Paso County have been reviewed from 2018 through 2021.
- Given the higher sales prices for proposed development in the Districts, a comparable custom / semi-custom new home sales review for El Paso County has been completed in order to properly assess the characteristics for the higher sales prices proposed in the Districts.
- There are four active custom new home projects in El Paso County that will be most competitive with homes planned in the Districts.
- The four active custom / semi-custom competitive new home projects in El Paso County include: Sanctuary Pointe, Briargate, Wolf Ranch and The Farm.
- Sanctuary Pointe:
 - Since 2018, Sanctuary Pointe has registered 109 custom / semi-custom home sales with 10 and 84 sales during 2020 and 2021, respectively.
 - Custom / semi-custom new home prices during 2021 in Sanctuary Pointe averaged \$827,013 per unit, with sale prices ranging from \$779,955 to \$1,800,000 per unit.
 - Custom / semi-custom new home sales at Sanctuary Pointe during 2021 accounted for 32% of El Paso County custom / semi-custom new home sales.
- Briargate:
 - Since 2018, Briargate has registered 81 custom / semi-custom home sales with 14 and 43 sales during 2020 and 2021, respectively.
 - Custom / semi-custom new home prices during 2021 in Briargate averaged \$806,117 per unit, with sale prices ranging from \$768,782 to \$1,067,774 per unit.
 - Custom / semi-custom new home sales at Briargate during 2021 accounted for 16% of El Paso County custom / semi-custom new home sales.
- Wolf Ranch:
 - In 2021, Wolf Ranch registered 32 custom / semi-custom home sales.
 - Custom / semi-custom new home prices during 2021 in Wolf Ranch averaged \$828,170 per unit, with sale prices ranging from \$639,025 to \$8,443,390 per unit.

- Custom / semi-custom new home sales at Wolf Ranch during 2021 accounted for 12% of El Paso County custom / semi-custom new home sales.
- The Farm:
 - In 2021, The Farm registered 16 custom / semi-custom home sales.
 - Custom / semi-custom new home prices during 2021 in The Farm averaged \$922,892 per unit, with sale prices ranging from \$778,717 to \$1,300,103 per unit.
 - Custom / semi-custom new home sales at The Farm during 2021 accounted for 6% of El Paso County custom / semi-custom new home sales.
- Custom new home projects in El Paso County are summarized in the table below.

El Paso County – Custom / Semi-custom New Home Sales

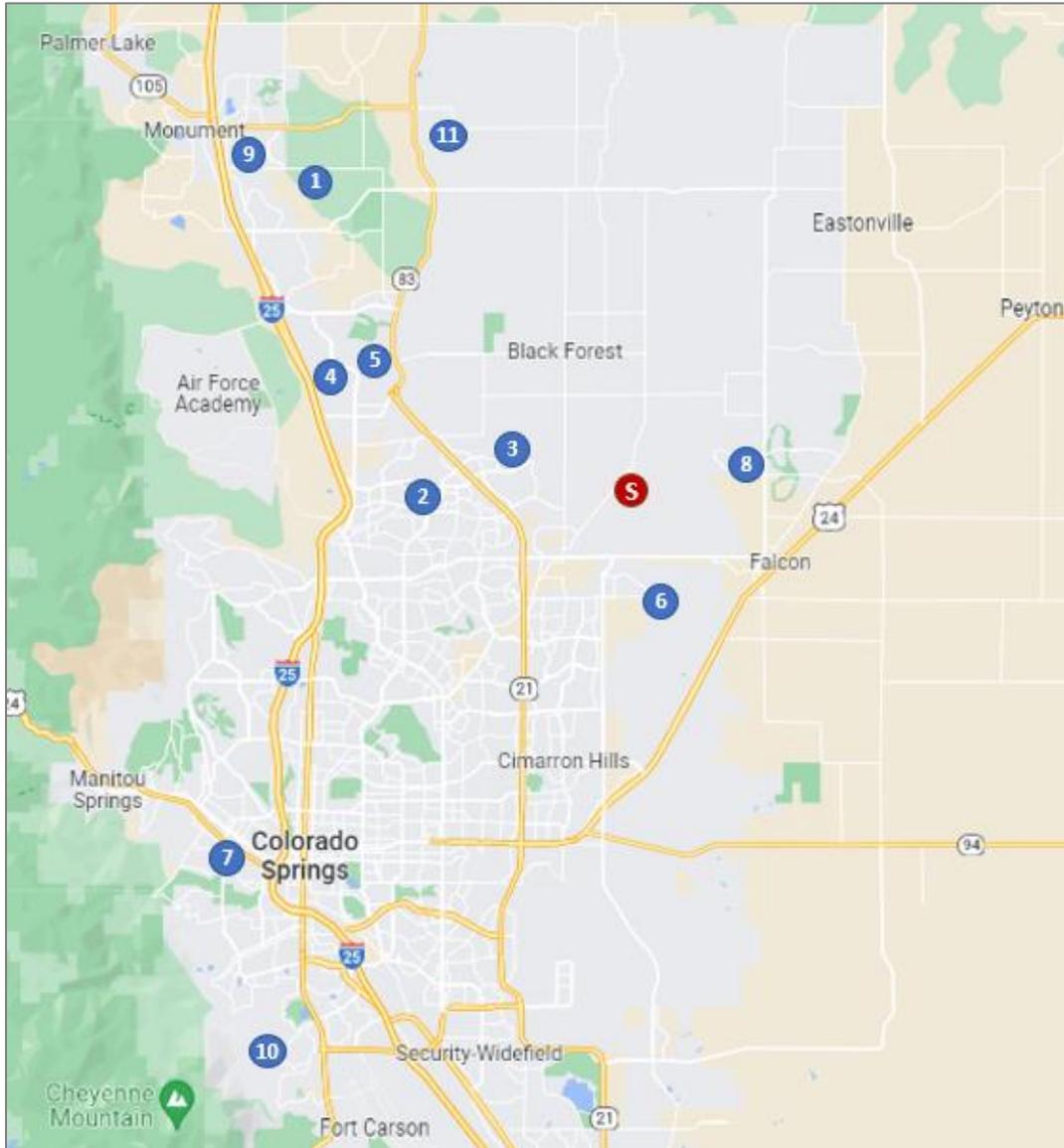
Map Key	Project	Sales					Market Share		Average Price
		2021	2020	2019	2018	Total	Overall	2021	
1	Sanctuary Pointe	84	10	9	6	109	27%	32%	\$827,013
2	Briargate	43	14	15	9	81	20%	16%	\$806,117
3	Wolf Ranch	32	0	0	0	32	8%	12%	\$828,170
4	The Farm	16	0	0	0	16	4%	6%	\$922,898
5	Flying Horse	11	8	9	10	38	9%	4%	\$834,424
6	Banning Lewis	11	0	0	0	11	3%	4%	\$752,635
7	Gold Hill Mesa	9	0	0	0	9	2%	3%	\$1,544,059
8	Paint Brush Hills	9	0	0	0	9	2%	3%	\$822,724
9	Forest Lakes	8	1	0	0	9	2%	3%	\$811,992
10	Star Ranch	8	16	2	0	26	6%	3%	\$885,913
11	Walden Preserve	3	2	5	4	14	3%	1%	\$1,268,587
	Misc.	27	12	8	9	56	14%	10%	\$923,696
	Total	261	63	48	38	410	100%	100%	\$867,768

Source: MetroStudy, King & Associates, Inc.

Notes:

1. Average price per project based on total 2021 new home sales.
2. 2021 market share represents 2021 sales performance.

El Paso County – Custom / Semi-custom New Home Project Locator Map



Source: King & Associates, Inc.

Note:

1. Blue Circles - comparable projects, Red Circle - Districts.
2. Projects located outside of the trade area boundary have been included in the analysis since they are competitive (custom / semi-custom) to homes anticipated for construction in the Districts.

TRADE AREA HOUSING DEMAND FORECAST

Trade area housing demand has been forecast from 2021 through 2026 based on a projected household growth in the trade area. As with housing demand forecast for the Colorado Springs, MSA, overall and segmented trade area housing demand is presented.

- Trade area demographic trends and forecasts were previously presented with the number of households projected to increase by 1,490 per year from 2021 through 2026.
- Assuming each new household formation will create equivalent demand for new housing units, adjusted demand is projected to range from 1,250 to 1,750 units annually in the trade area, with average demand of 1,500 units per year.
- In addition to overall forecast housing demand, segmented demand has also been projected for single-family detached and attached unit types as well as multi-family unit types based on previously presented building permit trend averages over the past several years as well as characteristics of the housing stock in the trade area.
- Segmented average housing demand in the trade area is as follows:
 - Single-family detached - 975 units per year.
 - Single-family attached - 150 units per year.
 - Multi-family - 375 units per year.
- Trade area housing demand is presented in the following table from 2021 through 2026, including total and segmented demand.

Trade Area - Forecast Annual Housing Demand

Year	2021	2026
Estimated / Projected Households	68,721	76,170
Forecast new households (demand)		
Total		7,449
Annual		1,490
<u>Annual Demand Range (2021 - 2026)</u>		
Total units demanded		1,500
Single family detached		975
Single-family attached		150
Multi-family		375

Source: King & Associates, Inc.

ABSORPTION & VALUATION ASSESSMENT

This section of the report addresses the timing and intensity of residential development (absorption) anticipated in the Districts as well as estimated residential unit values. Capture rates in the project have been calculated and are presented in relation to single-family detached new home sales in the trade area.

Residential Capture Rate Calculation and Assessment

Residential Demand Summary

- Anticipated residential development in the Districts has been compared with trade area single-family detached (including custom / semi-custom) new home sales trends and trade area forecast housing demand.
- Custom / semi-custom residential demand has been forecast on a market share methodology that assumes custom / semi-custom new home demand in the trade area will account for a percentage of trade area single-family detached demand (as previously presented).
- Since 2018, custom / semi-custom new home sales have accounted for approximately 3% of El Paso County new home sales, ranging from 1% to 9% annually.
- However, the trade area's custom / semi-custom residential new home demand has been adjusted to account for the trade area's share of custom / semi-custom new home sales in recent years, which has ranged from approximately 15% to 25%.
- Based on a 15% to 25% market share range, custom / semi-custom demand is forecast to range from approximately 145 homes to 245 homes per year (calculated by multiplying forecast annual trade area single-family detached demand of approximately 975 units by the projected 15% to 25% custom / semi-custom market share rate).

Single-family Custom / Semi-custom Capture Rate Calculation

- Planned single-family custom / semi-custom development in the Districts totals 193 units over a three-year period from 2022 through 2024 (65 units annually).
- The resulting capture rate for single-family custom / semi-custom unit types in the Districts ranges from 27% to 45% of forecast trade area custom / semi-custom demand during the 2022 through 2024 absorption period.
- At 27% to 45%, the capture rate for single-family custom / semi-custom units planned in the Districts is assessed as high and reasonable.
- Several factors should be considered in relation with the Districts' single-family (custom / semi-custom) capture rate:
 - Custom / semi-custom new home sales have increased significantly in recent years, with the majority of custom / semi-custom development occurring in the trade area and northern Colorado Springs, MSA area.
 - Sales activity in the Districts' has been positive with approximately 40 pending sales to date and closings anticipated to commence in March 2022.
 - The Districts are being developed by Classic Homes and Vantage Homes, both developers with extensive home building experience in the Colorado Springs, MSA.

- The following table presents the capture rate calculation for planned single-family custom / semi-custom development in the Districts based on a market share of trade area single-family detached demand.

**Retreat Metropolitan District Nos. 1-2
Custom / Semi-custom Capture Rate Calculation**

Residential Capture Rate Calculation		
Residential capture rate (Units):		
Planned single-family detached units	193	
Projected annual absorption in the Districts (2022 - 2024)	65	
	<u>Low</u>	<u>High</u>
Forecast trade area annual custom / semi-custom demand	145	245
Districts' residential capture rate	27%	45%

Source: King & Associates, Inc.

Residential Valuation Assessment

Custom / Semi-custom Valuation Assessment

- Anticipated single-family custom / semi-custom development in the Districts has an estimated weighted average value of \$867,617 per unit.
- Anticipated development in the Districts will include 193 single-family custom / semi-custom units.
- Valuation of comparable trade area single-family custom / semi-custom homes have been researched to compare the projected valuation of development in the Districts with existing single-family custom / semi-custom units.
- Anticipated single-family custom / semi-custom new home prices in the Districts (\$867,617) are comparable with single-family custom / semi-custom new home prices in the trade area, which range from approximately \$752,635 to \$1,544,059 per subdivision, with average prices of \$867,768 per unit.
- Estimated home pricing in the Districts is reasonable given comparability with single-family custom / semi-custom new home prices in the trade area and El Paso County.

**Retreat Metropolitan District Nos. 1-2
Single-family Custom / Semi-custom Valuation Analysis**

Valuation Analysis	
Value Range of Single-family Custom / Semi-custom New Home Sales (1)	
Low:	\$752,635
High:	\$1,544,059
<i>Projected Retreat MD Nos. 1-2 Valuation:</i>	\$867,617

Source: MetroStudy, King & Associates, Inc.

Note:

1. Low and high value range reflect aggregate average single-family custom new home sales price per comparable subdivision.

APPRECIATION ANALYSIS

This report section addresses and provides a home value appreciation projection for the Districts. To complete the projection, residential market value trends in the City of Colorado Springs market area and Colorado Springs, MSA (includes El Paso County) market area have been reviewed.

Residential Appreciation Trends

Existing Home Value Index Trends - Black Forest Market Area, Colorado

- The Districts are located in the Black Forest (zip code 80908) residential market area, which includes the Districts and homes in the surrounding area.
- The Zillow Inc. Home Value Index has been reviewed to assess long-term appreciation trends in the Colorado Springs market area.¹
- From February 2012 (extent of available data) through January 2022 period, the Home Value Index in the Colorado Springs market area increased from approximately \$217,000 to \$727,000, equaling appreciation of 12.96% annually.
- During the 2012 (February) through 2022 (January) period, the Home Value Index reached two defined high points (October 2019 and January 2022) and one low point (February 2012).
 - The Home Value Index peaked at approximately \$529,000 per unit in October 2019 and \$727,000 in January 2022.
 - The Home Value Index dipped to a low point of approximately \$217,000 per unit in February 2012.

Colorado Springs, MSA Sales Price Trends

- S&P / CoreLogic Case – Shiller (Case – Shiller) single-family home price index data has also been provided as additional residential appreciation trend information.²
- Colorado Springs, MSA residential price appreciation trends have been reviewed over the past thirty-year period extending from Q3 1991 through Q3 2021 (most current data).
- Retreat Metropolitan District Nos. 1-2 is located in unincorporated El Paso County which is within the Colorado Springs, MSA.
- The Colorado Springs, MSA provides a discrete geographic area for tracking price appreciation trends within urban and suburban neighborhoods surrounding the District.
- S&P / CoreLogic Case – Shiller (Case – Shiller) housing price data has been used as a basis to forecast future appreciation rates in the Districts since it indexes single-family home price trends from urban and suburban areas throughout the Colorado Springs, MSA.

¹ The Zillow Inc. Home Value Index includes single-family attached and detached home types.

² The S&P / CoreLogic Case – Shiller Home Price Index addresses single-family homes and does not specify between single-family attached and detached unit types. The index does not include condominiums or co-ops.

Colorado Springs, MSA – S&P / CoreLogic Case – Shiller Home Price Index

- The Case – Shiller Colorado Springs, MSA Home Price Index has been reviewed from Q3 1991 through Q3 2021 (most current data).
- In Q3 1991, the Colorado Springs, MSA Home Price Index stood at 75.10.
- By Q3 2021, the Home Price Index was 346.13.
- During the Q3 1991 through Q3 2021 period, the Colorado Springs, MSA Home Price Index has increased by an annual rate of 5.22% and provides an excellent measure of home price appreciation trends during the past thirty-year period.
- The review period includes one significant housing market down-cycle, which extended from Q2 2007 through Q2 2012, during which the Home Price Index decreased by 2.42% annually.
- There have also been two periods of extended housing price appreciation in the Colorado Springs, MSA housing market.
 - The first period extended from Q3 1991 through Q1 2007 (approximately 16 years) with home price appreciation equaling 6.05% annually.
 - The second period has extended from Q3 2012 through Q3 2021 (most recent data) with home price appreciation equaling 8.40% annually.

Coronavirus (SARS-Cov-2) Impacts

- The State of Colorado implemented measures to combat the spread of the Coronavirus during March 2020, which included closing nonessential businesses and stay-at-home guidelines for the general population.
- These guidelines have been reviewed and updated since March 2020, with easing of stay-at-home guidelines for the general population and reopening of businesses occurring throughout the State of Colorado.
- Given unprecedented impacts on global health and safety, as well as economic uncertainties, the extended impacts of the Coronavirus on home prices and appreciation in the Colorado Springs, MSA area are not fully known at the current time.
- However, single-family detached resale (existing homes) statistics have been summarized for the past year for the El Paso County market area to depict known and current impacts of the Coronavirus.

Single-family Detached El Paso County Home Sales

- Recent single-family detached home resale (existing homes) statistics from the Colorado Association of Realtors are provided (January 2022 compared to January 2021).
- Resale data comparing January 2022 trailing-twelve-month statistics with January 2021 trailing-twelve-month statistics show: i) sales volume up by 4.1%, ii) average sales prices up by 16.4%, iii) active listings down by 672% and iv) months supply of inventory remaining at 0.4.
- Year-over-year comparative statistics for the month of January (2022 and 2021) show: i) sales volume up by 5.9%, ii) average sales prices up by 15.2% and iii) active listings up by 10.4%.

- Given this data, single-family detached resale markets in El Paso County have demonstrated strong buying activity and increased average home sale prices since the onset of the Coronavirus outbreak.

Findings

- King & Associates, Inc. has reviewed single-family home appreciation trends in the City of Colorado Springs market area and the Colorado Springs, MSA (includes El Paso County) market area.
- The Zillow Inc. Home Value Index for the Black Forest (zip code 80908) market area indicates single-family resale home prices have appreciated by 12.96% annually from February 2012 through January 2022.
- From Q3 1991 through Q3 2021, the S&P / CoreLogic Case-Shiller Home Price Index for the Colorado Springs, MSA has increased annually by 5.22%.
- A 3.00% annual appreciation rate is projected for single-family units in the Districts and is believed to be a conservative ongoing average of residential value growth (appreciation) that considers periods of both increasing and declining residential market values.
- The following table summarizes residential appreciation trends in the City of Colorado Springs market area and the Colorado Springs, MSA market area.

Residential Appreciation Trends and Ongoing Appreciation Rate Projection

City of Colorado Springs Market Area - Home Value Index Trends	
2012 (February)	\$217,000
2022 (January)	\$727,000
Average annual appreciation	12.96%
Colorado Springs, MSA - Single-family Home Price Index Trends	
1991 (Q3)	75.10
2021 (Q3)	346.13
Average annual appreciation	5.22%
Projected Appreciation:	
Ongoing single-family projected appreciation rate	3.00%

Source: Zillow Inc., S&P / CoreLogic Case-Shiller and King & Associates, Inc.

DISCLAIMER

King & Associates, Inc. has reviewed real estate market conditions in the Colorado Springs, MSA as well as a defined trade area to assess development potential in the project area of Retreat Metropolitan District Nos. 1-2. Readers of this report should understand that real estate market conditions are dynamic and that unforeseen factors can have a negative impact, sometimes materially, on market conditions in the region, trade area and the project. The findings and conclusion put forth within this report are based on information and market conditions as of its date and should not be interpreted as a guarantee of development potential and ultimate project performance.

COVID - 19 DISCLAIMER

Research and analysis of this report was completed in 2022 (to date). During this time the COVID - 19 virus has become a significant factor to global health with yet-to-be determined economic impacts. The conclusions and findings of this report do not adjust for impacts that may occur within national and local real estate markets that may result from the COVID - 19 virus. Therefore, King & Associates, Inc. does not make any claims or guarantees there will be no resulting real estate market impacts resulting from the COVID - 19 virus within local real estate markets or the Retreat Metropolitan District Nos. 1-2.



STERLING RANCH METROPOLITAN DISTRICT NO. 1
COLORADO SPRINGS

EL PASO COUNTY, COLORADO

Prepared for:

STERLING RANCH METROPOLITAN DISTRICT NO. 1

August 2020

Meyers-Metrostudy
Denver, Colorado Office
9033 East Easter Place, Suite 116
Centennial, CO 80112
www.metrostudy.com
Phone: 720.493.2020

August 12, 2020 (10.19.20 Revision - Lot Count Change)

Mr. Jim Morley
Sterling Ranch Metropolitan District No. 1
c/o SR Land LLC
20 Boulder Crescent Street, Suite 200
Colorado Springs, CO 80903

RE: Sterling Ranch Metropolitan District No. 1

Dear Jim:

Meyers-Metrostudy is pleased to present this market analysis and absorption forecast for Sterling Ranch Metropolitan District No. 1. We have evaluated the El Paso County/Colorado Springs market area as well as the competitive market area around the Subject Property (Sterling Ranch CMA), and rendered our conclusions in the following report.

This report was conducted by Joe Hemmelgarn, Senior Manager and Eric Patterson, Market Analyst, with participation from John Covert, Regional Director of Colorado. Meyers-Metrostudy has been engaged in analyzing residential market conditions since 1975 with its proprietary lot-by-lot survey, and locally within the state of Colorado since 2001.

Please contact us at your convenience with any comments or questions regarding this report.

Respectfully Submitted,

Meyers-Metrostudy

metro**study**

Sterling Ranch Metropolitan District No. 1

Metrostudy

Page-1

Executive Summary

The purpose of this report is to provide Sterling Ranch Metropolitan District No. 1 with an overview of the Colorado Springs Market economy and the Competitive Market Area (CMA) surrounding the Subject Property in order to provide insights about the positioning and absorption potential of the homes within the District, consisting of 1,139 home sites. Sterling Ranch Metropolitan District No. 1 is a portion of the larger Sterling Ranch community that includes 870 home sites in Sterling Ranch Metropolitan District#2, a portion of which builders are actively selling homes and are occupied by residents, along with an estimated 3,216 future home sites. In total the Sterling Ranch community is anticipated to have an estimated 5,225 homes at full buildout. The community is conveniently located north of East Woodmen Road and east of Black Forest Road. More specifically, it lies just east of Vollmer Road, which offshoots diagonally off of Black Forest Road, north of East Woodmen Road. The community is located relatively equidistance between Interstate 25 to the west (8 miles) and Highway 24 to the east (7.7 miles). The subject property is serviced by the highly acclaimed Academy 20 School District. This northeastern area of Colorado Springs/Black Forest is highly desirable and includes numerous master plan communities. The Subject Property (Metropolitan District No. 1) will consist of a total of 1,139 residential homes at completion, a mixture of townhomes and single-family detached homes of various sizes and price points.

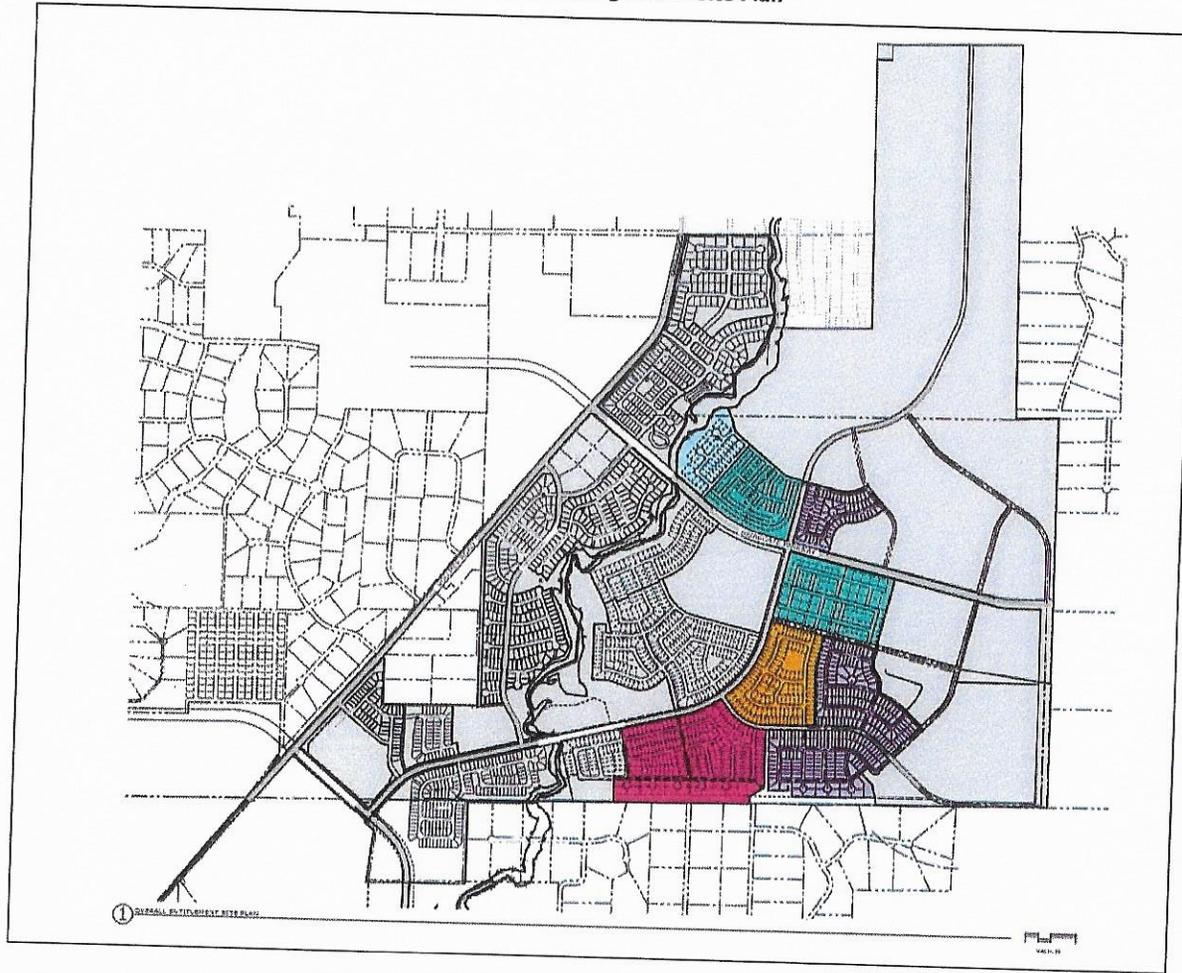
Meyers-Metrostudy analyzed the competitive position of the product offering in the Sterling Ranch Metropolitan District No. 1 as it relates to other for-sale communities in the Colorado Springs Springs/Black Forest area. We have collected and reviewed data on the activity levels on new and resale for-sale housing. We have also compiled data on the Colorado Springs Market economy, including demographics for the overall Market and the Sterling Ranch CMA. Utilizing this data and research, Meyers-Metrostudy has provided its conclusions about the marketability, competitive positioning, product mix, and absorption levels that should be achievable within the Sterling Ranch development.

Note: *This report was completed during the ongoing global COVID-19 Coronavirus outbreak, the duration and consequences of which continue to evolve. Our research and conclusions are based upon the best information available to us at the time of publication.*

While prospects for the housing market through the remainder of 2020 and beyond were disrupted by the pandemic, we believe this has the full attention of the federal, state and local governments to help minimize both its health and economic impact. The likely prospect for continued low interest rates, and generally positive housing supply and demand conditions that prevailed in the region before this setback to our local markets should lead to a positive recovery as more clarity is realized from this unprecedented event. Please refer to attached addendum for Metrostudy's latest "COVID-19 (Coronavirus) Impact on Front Range Housing" update.



Exhibit 5 : *Sterling Ranch Site Plan*



Sterling Ranch Metropolitan District No. 1 includes the lots highlighted in color in the above exhibit

Colorado Springs Market Overview

The Colorado Springs Market's strong economic growth, high in-migration, and supply-restricted housing market has translated into continued increases in new and resale home prices since the last downturn. The rising home prices have acted as a double-edged sword, benefiting existing home owners with magnified home equity gains, while reducing the ability of first-time home buyers to enter the new home market. Many homebuilders have recently pivoted towards smaller homes on smaller lots to assist in making their offerings more attainable to a larger group of consumers.

The Colorado Springs Market experienced a 4.8% decrease in annual starts and a 1.6% decrease in annual closings from 2018 to 2019. A total of 3,518 new homes were started in the Colorado Springs Market in 2019 compared to 3,694 in 2018. A total of 3,539 new homes were closed in 2019 compared to 3,593 closed in 2018. In the first half of 2020, the Colorado Springs Market realized 2,206 new home starts and 1,877 new home closings. The 2,206 new home starts were a considerable 28.3% ahead of the first half pace of 2019 (1,720 starts), while the 1,877 new home closings were just slightly ahead (1.3% of the first half 2019 level of transactions (1,853 closings).

Even though the Colorado Springs Market's new housing activity in 2020 began with considerable momentum, beginning in mid-March the COVID-19 pandemic began significantly impacting the local economy. All the preventive measures taken to reduce the health impact of the virus greatly reduced the amount of home buying activity that is typical during this time of the year. The initial health concerns in Colorado which surfaced in late February quickly accelerated at the State and local governments to issue unprecedented measures to "flatten the curve" in order to not overwhelm the capacities of the State's hospitals and health care professionals. (see Addendum for recent case figures).

Through a series of measures progressing from a shutdown of schools, restaurants, and non-essential businesses, social distancing guidelines, and concluding with State-ordered "Stay-at-Home" measures from March 26th to April 26th, businesses began furloughing or laying off workers. This in turn, has resulted in a significant negative short-term, and possibly long-term economic impacts depending on the duration of the health crisis. The pace and rise of unemployment claims has been unprecedented.

On March 27, 2020, the Federal Government passed the Coronavirus Aid, Relief, and Economic Security Act (also known as the CARES Act) into law. Along with the stimulus checks currently being sent to many American citizens, help for small-business owners (Payment Protection Program - PPP) and other relief measures were included in the Cares Act. An additional provision of the CARES Act will allow borrowers with federally-backed mortgages to request temporary loan forbearance for up to four months.

The new home construction industry was classified as an essential business for the duration of the stay-at-home orders, which allowed homebuilders to continue/complete construction on their homes in backlog, which were at a relatively high level given the strong levels of sales activity in January, February, and the first half of March. However, from a sales perspective, with the Stay-at-Home directive in place, builders had very limited capacity to perform real estate transactions while consumers were having to be in this stay-at-home mode. All builders had to limit visitations to their model

home sales centers to by appointment only, putting more reliance on virtual sales activity via their websites and social channels. During this time period, sales activity steadily declined as the buyer pool diminished. In addition, a percentage of this backlog of contracts to purchase have cancelled due to these buyer's own economic and health uncertainties. Customer traffic to new home sales centers has steadily increased since the orders were rescinded and new home sales activity has rebounded. However, significant constraints remain, in regards to social distancing, the wearing of masks, and the number of customers allowed at one time.

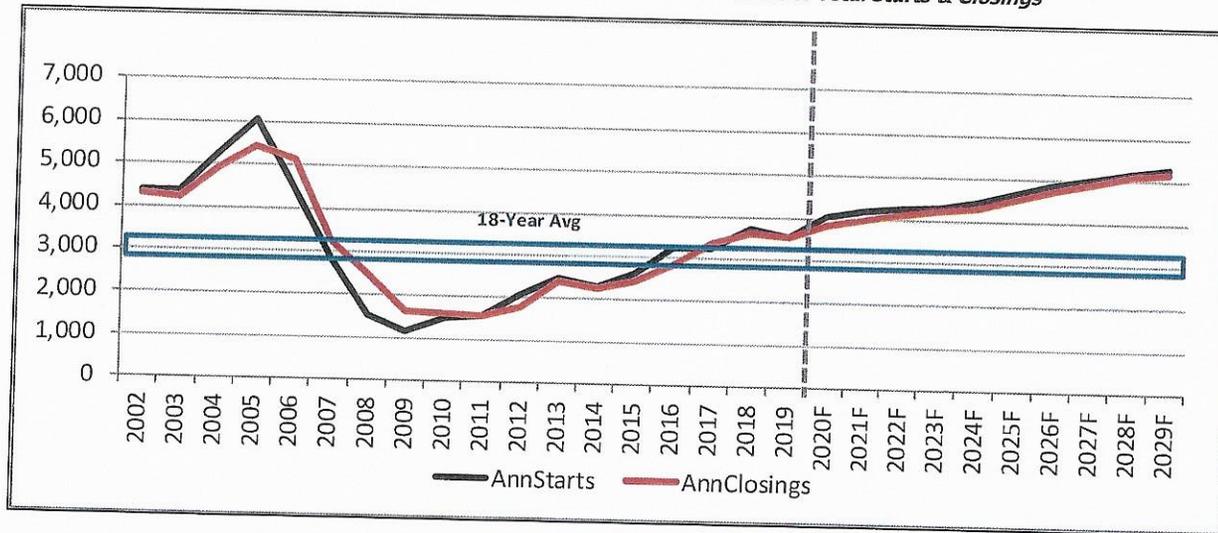
Governor Polis ended the State's Level 1 "*Stay-at-Home*" orders on April 26th, transitioning to a Level 2 "*Safer-at-Home*" measure. After a short transition to Level 3; the "*Protect your Neighbor*" phase, which allowed for even more public movement and economic activities to occur, but still at a significantly lower level than what was occurring prior to the outbreak. The state has recently reversed back to Level 2 – "*Safer at Home*", as the COVID-19 case numbers have recently trended upwards. Part of this upward trend is due to the additional testing capacity. Throughout this pandemic, social distancing and the wearing of masks is still highly recommended and required in many instances. Obviously, these limitations have made it more difficult for normal economic activity to occur, including new home transactions.

The duration and consequences of both the health and economic crisis in the State remain largely unknown and the economic outlook is dependent on the virus being controlled to a point where State officials feel safe in fully restoring public movement and normal economic activities. It is becoming evident there will be a graduated restoration of public movement, with continued demands for physical distancing. Beyond what is being allowed, a major unknown lies in the behavior and the levels of consumers engaging in a still cloudy health environment. Having an effective vaccine available for residents is the likely turning point. From an economic standpoint, the longer the duration of the health crisis, the larger the negative effect on some businesses, which in turn will continue to result in short-term employee furloughs and layoffs and a higher probability of permanent job losses.

Due to the continued health and economic uncertainties related to the COVID-19 outbreak, Meyers-Metrostudy has provided three scenarios (presented on next page) that are directing our future housing forecasts as the market proceeds in these unprecedented times. For the purpose of this report, we are using general markers in Scenario 1 for guiding our housing forecast. It is important to note that not all of these markers need to be achieved to stay within each of these scenarios.

Based on the general markers in Scenario 1, Meyers-Metrostudy believes the Colorado Springs Market's new housing levels by year-end 2020 will likely see a 15% increase in new home starts and an 8% increase in annual new home closings from 2019 volume levels. In 2021, we anticipate start activity to increase by 3.0%, with closing activity levels increasing 4.0% from projected 2020 figures. Attaining these figures are based on the health and economic concerns staying within the general parameters defined for Scenario 1 in Exhibit 6.

Exhibit 7 : Colorado Springs Market Historical & Forecast of Total Starts & Closings



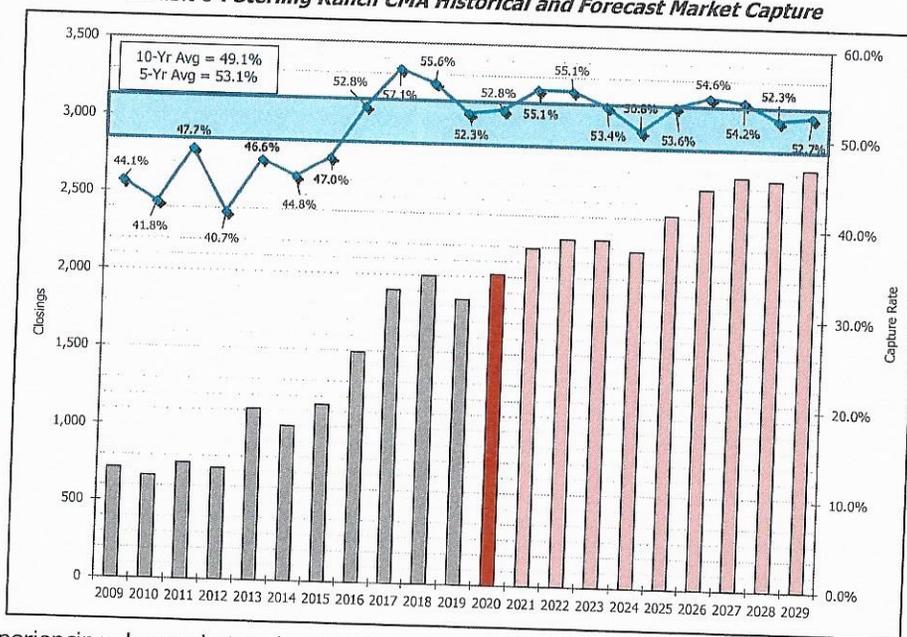
Like the entire nation, the Colorado Springs Market economy has been strongly affected by the unprecedented domino of events of the COVID-19 outbreak. However, Meyers-Metrostudy believes the Colorado Springs Market's strong market conditions prior to the outbreak, its quality of life, and its prior robust economy enabled it to rebound strongly in the first few months to date. As long as the health hazards can be controlled and major outbreaks are avoided, the local economy will likely normalize to the new standards of mask-wearing and social distancing until an effective vaccine is developed.

Sterling Ranch CMA Market Overview

In reviewing the competitive environment within the Sterling Ranch CMA, Meyers-Metrostudy coupled data obtained from its quarterly survey database with current online research, wherein the various active developments were inspected, and pricing was updated. In addition, a review of resale activity and future proposed activity was conducted to further understand demand and supply conditions currently and into the future. Based on market trends, the Sterling Ranch CMA can be expected to continue to grow as a significant new housing submarket within the context of the Colorado Springs Market.

- In 2005 and 2006, the Sterling Ranch CMA was adding new homes at a very strong pace buoyed by relaxed lending practices. However, the market turned quickly in 2007 as new home closing volumes declined from 2,227 in 2006 to 1,320 in 2007. By 2008, the closing volume had dipped further to 1,156 homes closed, 48.1% less than 2006. During the 2006 to 2008 time-period, the CMA's capture rate of the Colorado Springs Market averaged 44.0%.
- In 2009, the CMA closed only 714 homes, declining in step with the overall Market.
- In 2010, closing activity within the CMA continued to decline, dropping to only 664 closings, its most recent sales trough. The CMA reported 751 closings in 2011, but dropped slightly to 719 closings in 2012 as the local economy remained fragile. The CMA's share of the Market's closings dropped to its lowest level in recent history at 40.7%.
- In 2013, the recovery occurred in earnest in the CMA, as 1,110 new homes were closed. The overall Market was experiencing demand at a slightly slower pace, resulting in the CMA's capture rate of 46.6%.
- In 2014, new home closings in the CMA dropped to 1,005 closings, but rebounded strongly in 2015 to 1,147 closings. In 2016, the CMA saw another strong gain to 1,494 closings, resulting in its share of the overall Market climbing above 50% for the first time (52.8%).
- The years 2017 and 2018 saw new home closings climb even higher in the CMA; to 1,902 and 1,997 transactions, respectively, matching a level last experienced in 2006. In 2019, 1,852 new homes were closed in the CMA, the first drop in closings since 2014.

Exhibit 8 : Sterling Ranch CMA Historical and Forecast Market Capture

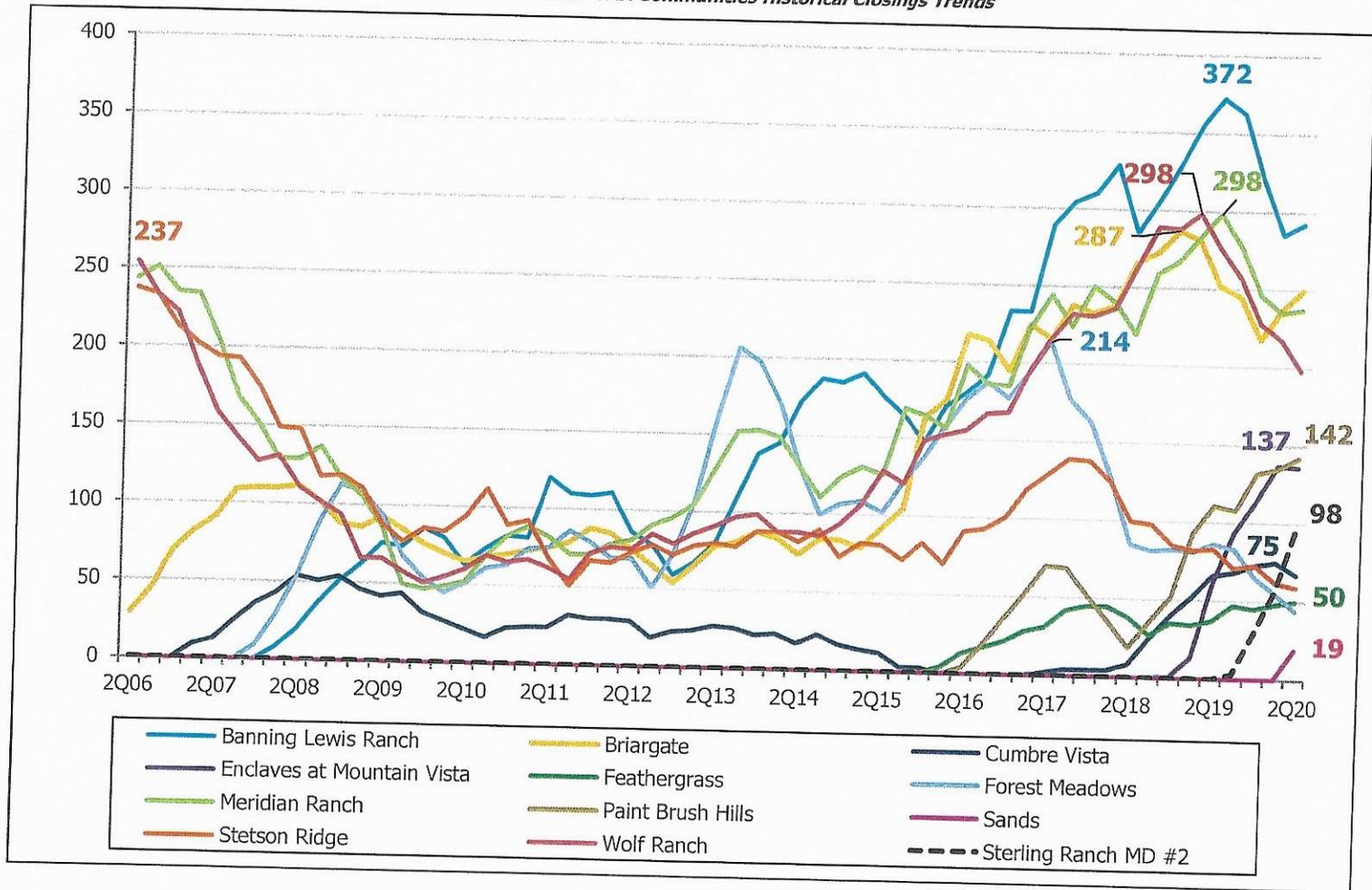


Residential lot development in the Sterling Ranch CMA averaged only 265 new lot deliveries per year from 2009 to 2012, as it recovered from the excess supply of lots resulting from the economic downturn and decline in housing demand. Lot development activity in the CMA picked up in 2013 and 2014, averaging 750 new lots annually, as the market began gaining momentum and needed new supplies. The CMA has seen a nearly threefold increase in annual lot development the past five years, averaging 1,982 new lot deliveries annually from 2015 to 2019. During this same five-year period, the CMA has started 8,857 new homes, an average of 1,771 homes per year, nearly 11% less than the average annual lot delivery pace. However, like starts, the pace of lot deliveries has been more recent, resulting in the VDL months of supply dwindling down from a much-oversupplied 38.1 months at the end of 2011 to only 14.9 months at the end of 2019. As of 2Q20, 2,398 new homes have been started in the CMA over the trailing 12 months, while 2,987 new lots have been delivered. Despite lot deliveries exceeding start activity by nearly 25%, there still remains only 10.6 months of vacant developed lots (2,121). With a well-balanced supply of finished lots estimated to be between 18 and 22 months, the current 10.6 months of supply identifies a shortage of finished lots in the CMA, which bodes well for the development of the Subject Property.

On the previous page, an illustration is provided of the CMA's historical and anticipated closing activity. Actual annual closings within the CMA are noted from 2010 through 2019 in the grey columns. The blue-line represents the CMA's capture of all annual closings within the Colorado Springs Market. A housing forecast for 2020 through 2029 is provided, identified by the red columns. More discussion of these figures is offered in the following pages concentrating on the CMA's Housing and Lot Supply Build-out model (Exhibit 11). The forecasted annual closings totals are derived from the Colorado Springs Market housing forecast (as represented in Exhibit 7). Meyers-Metrostudy believes that as the Colorado Springs Market continues to expand, the Sterling Ranch CMA will most likely experience a significant increase in share of the overall Market as new communities continue into their growth and maturity stages and new communities forge into their introduction stages. The CMA is supported by affluent households, and a highly acclaimed school district and high-performing schools which provides it with strong demand, especially from families, that enable it to compete very favorably within the overall Market.

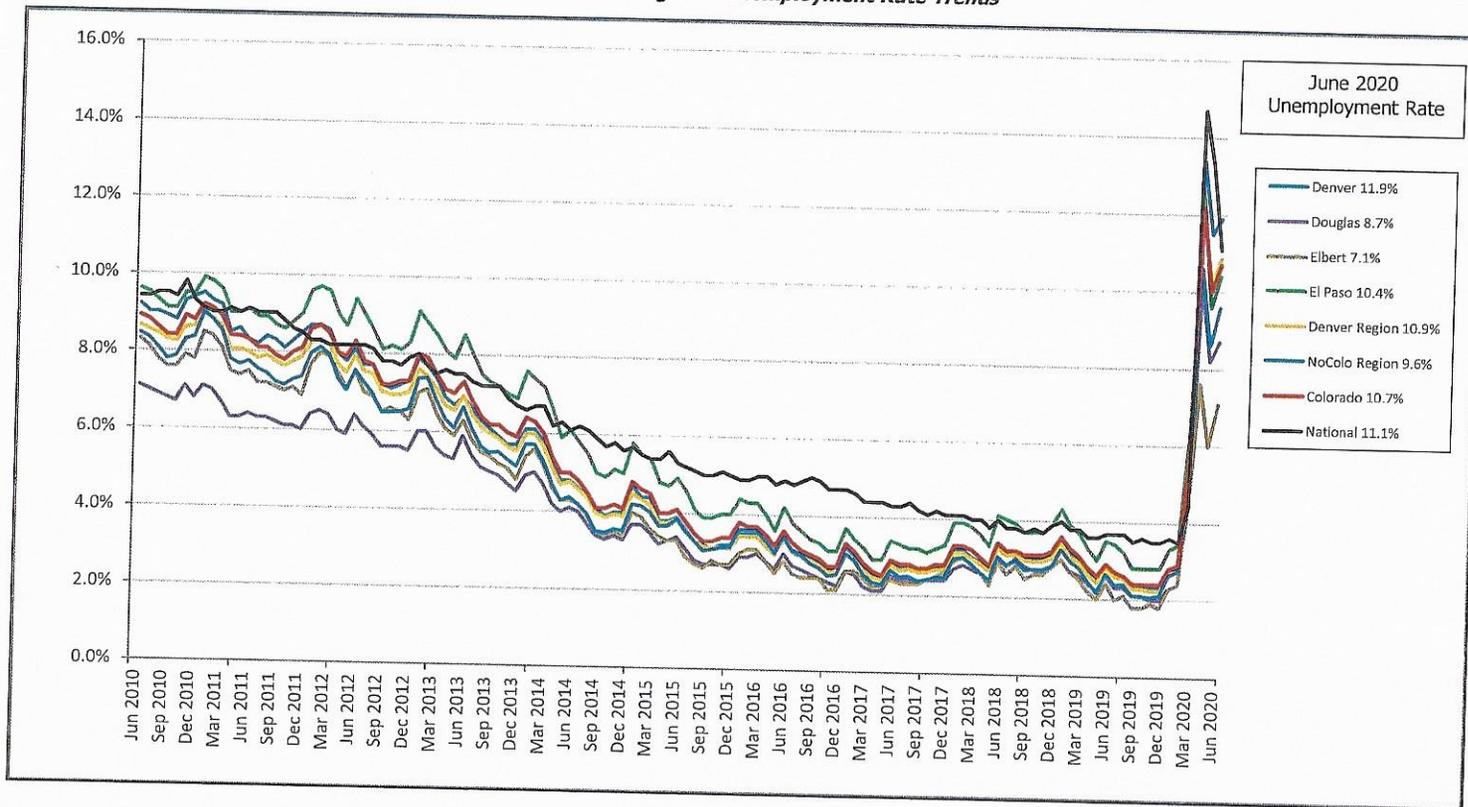
As can be seen in the charts and tables on the following pages, Banning Lewis Ranch (15.7% capture rate of closings) and Briargate (13.4% capture rate) have been the dominant communities in the CMA in terms of closings for the trailing 12 months ending second quarter 2020. Rounding out the top five were Meridian Ranch (12.7%), Wolf Ranch (10.6%) and Paint Brush Hills (7.6%). Meyers-Metrostudy believes the Sterling Ranch CMA has the capacity to continue to capture its share of consumer new housing demand as long as new home sites are delivered to meet the pace of demand at price points and designs that are relatable to the incumbent households and new residents moving from outside the region and the state.

Exhibit 9 : Selected CMA Communities Historical Closings Trends



To further break down the economic health of the area, we have provided a historical look at the unemployment rates of El Paso County, its neighboring counties to the north and the Denver Region, the State, and National rates. Due to the COVID-19 pandemic, El Paso County, like all the other areas, experienced significant spikes in March & April in their unemployment rates because of the Stay-at-Home orders and the temporary closure of retail, restaurant, hotel and offices. The June unemployment rate for El Paso County ticked up to 10.4%, after dropping to 9.6% in May from the 12.5% figure reported in April. These rates are all significantly higher than the 3.4% rate reported in February. This rate is slightly below the State rate of 10.7% and the National Rate of 11.1%. We anticipate this rate to come down as the economy is able to reopen and more furloughed or temporarily laid off workers can return back to work. However, we do not anticipate a near-term bounce back to the level recorded in February, as announcements of permanent job cuts are also beginning to materialize.

Exhibit 17 : Regional Unemployment Rate Trends



Population and Households

Demographic Overview

Exhibit 18 : *Colorado Springs Market Total Population*

El Paso County	Total Population		
	2010 Census	2020 Estimate	2025 Projection
Population	622,264	731,981	789,960
Total Numerical Change	---	109,717	57,979
Total Percent Change	---	17.6%	7.9%
Annual Number Change	---	10,972	11,596
Annual Percent Change	---	1.6%	1.5%
Households	235,959	277,009	298,935
Total Numerical Change	---	41,050	21,926
Total Percent Change	---	17.4%	7.9%
Annual Number Change	---	4,105	4,385
Annual Percent Change	---	1.6%	1.5%
Average Household Size	2.6	2.6	2.6

Source: Metrostudy/Neustar/U.S. Census Bureau

Exhibit 19 : *Sterling Ranch CMA Total Population*

Sterling Ranch CMA	Total Population		
	2010 Census	2020 Estimate	2025 Projection
Population	171,280	208,718	226,448
Total Numerical Change	---	37,438	17,730
Total Percent Change	---	21.9%	8.5%
Annual Number Change	---	3,744	3,546
Annual Percent Change	---	2.0%	1.6%
Households	61,689	74,450	80,633
Total Numerical Change	---	12,761	6,183
Total Percent Change	---	20.7%	8.3%
Annual Number Change	---	1,276	1,237
Annual Percent Change	---	1.9%	1.6%
Average Household Size	2.8	2.8	2.8
CMA % of Market			
Population	27.5%	28.5%	28.7%
Households	26.1%	26.9%	27.0%

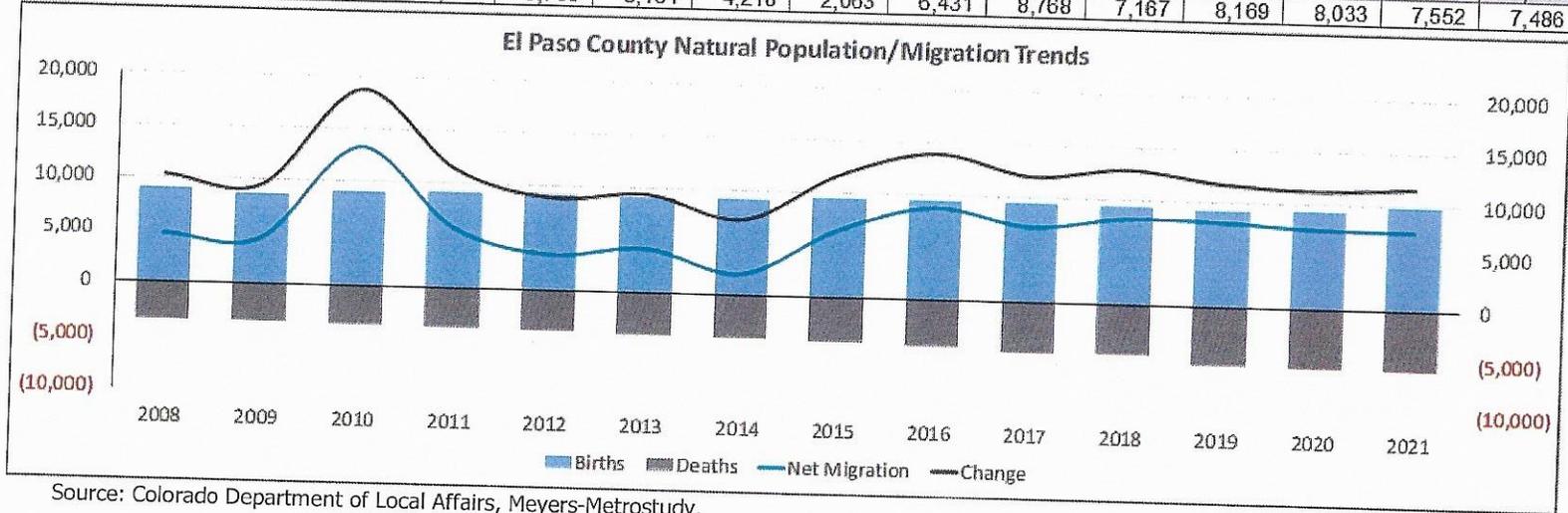
Source: Metrostudy/Neustar/U.S. Census Bureau

Population/Migration Trends

The following table represent population and migration patterns for El Paso County as provided by the Colorado Department of Local Affairs. This table reflects population gains by natural increases (births minus deaths), as well as net migration. El Paso County has realized positive net migration gains over a long period of time, with an uptick since 2015 after a period of lesser migration from 2012 to 2014.

Exhibit 24 : *Population and Net Migration Trends – El Paso, CO*

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Population	599,060	608,518	627,232	638,570	647,399	656,763	663,957	675,663	689,577	701,544	714,398	726,109	737,354	748,981
Change	---	9,458	18,714	11,338	8,829	9,364	7,194	11,706	13,914	11,967	12,854	11,711	11,245	11,627
Natural Increase	---	5,074	5,476	5,580	5,375	5,146	5,131	5,275	5,146	4,800	4,685	3,678	3,693	4,141
Net Migration	---	4,384	13,238	5,758	3,454	4,218	2,063	6,431	8,768	7,167	8,169	8,033	7,552	7,486



Source: Colorado Department of Local Affairs, Meyers-Metrostudy.