The District at Sugar Creek
Planned Development FAQ

District A

What are the proposed uses in District A?

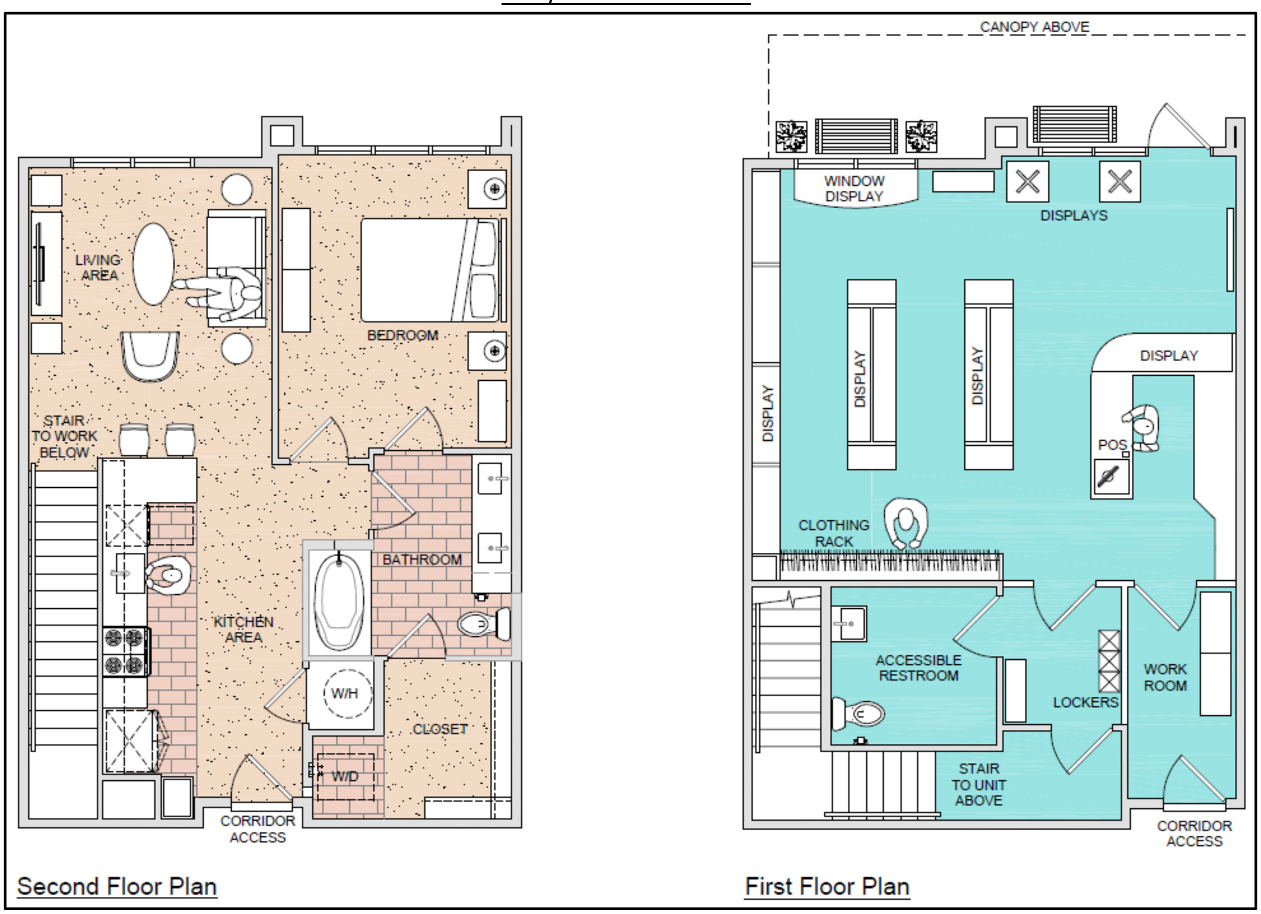
Proposed Uses	Units	Square Feet	
Multifamily	387	316,773	
Live/Work	15	23,297	(12,295 SF ground floor commercial / 11,002 SF 2nd floor living)
Commercial	1	2,376	

There would be 14,671 SF of commercial space in total.

How would the live/work units be operated?

The live/work units are 2-story units. They are designed such that the ground floor is to be used for commercial purposes. There would be a requirement that live/work tenants operate a business in their units. The 2nd floor living area would be accessed by a private stairwell in the unit.

Live/Work Floor Plan



The exterior of the live/work units would feature elements such as caste stone, storefront glass, canopies, and signage on the ground floor to promote an inviting commercial environment to the public.

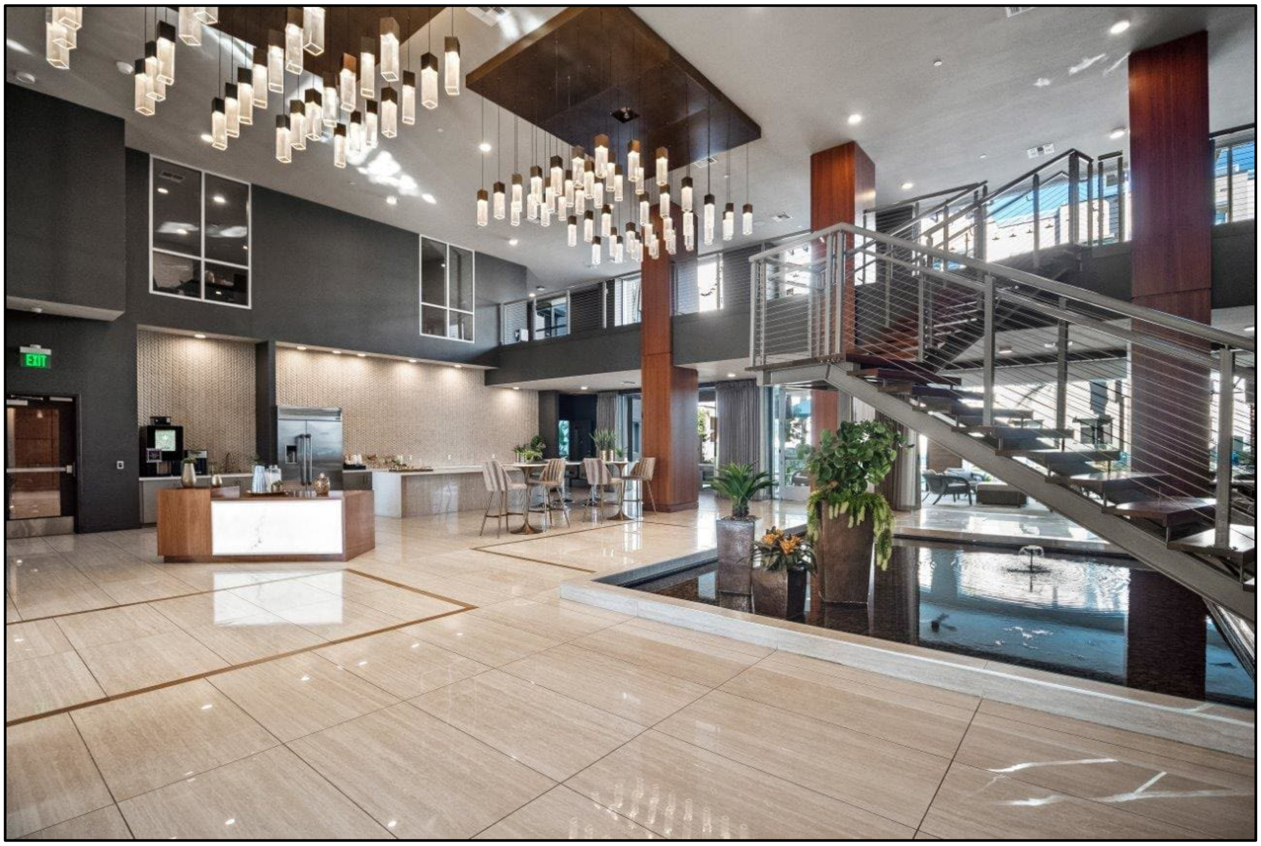
<u>The District at Sugar Creek Live/Work Exterior</u>

The District at Sugar Creek live/work units are required to operate a business and would also appear like commercial spaces on the ground floor which differentiates itself from Lake Pointe Townhomes live/work units.

<u>Lake Pointe Townhomes Live/Work</u>

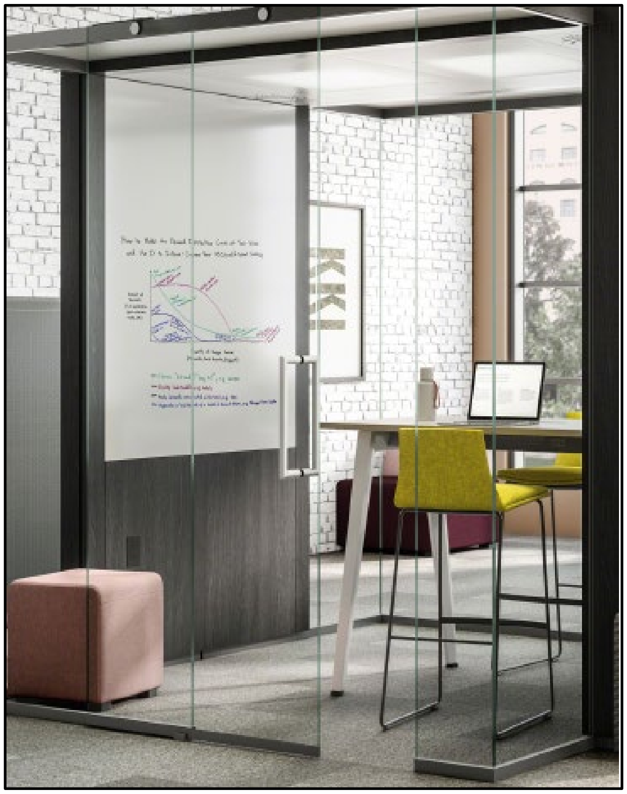
What distinguishes The District at Sugar Creek multifamily from other projects in Sugar Land?

Large Luxurious Clubhouse



Climate Controlled Corridors

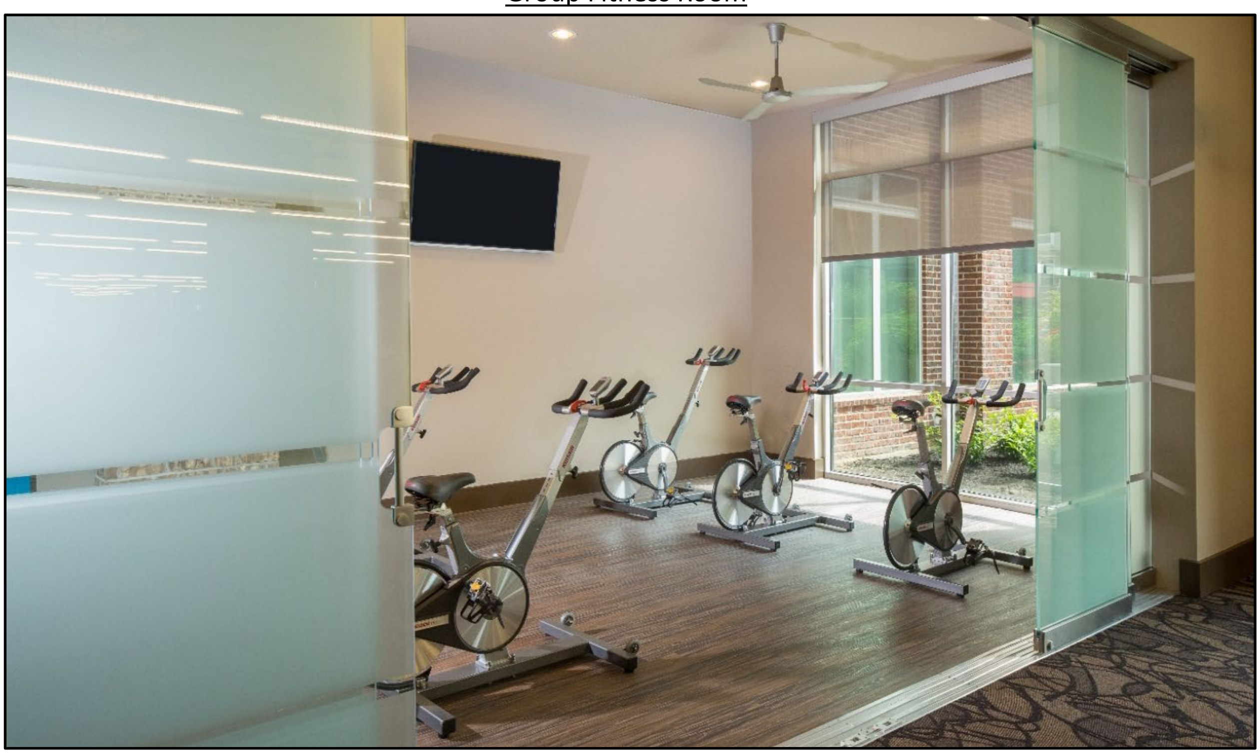
Co-Working Lounge with Private Work Rooms and Conference Room



Clubhouse Kitchen

Large Premium Fitness Center

Group Fitness Room

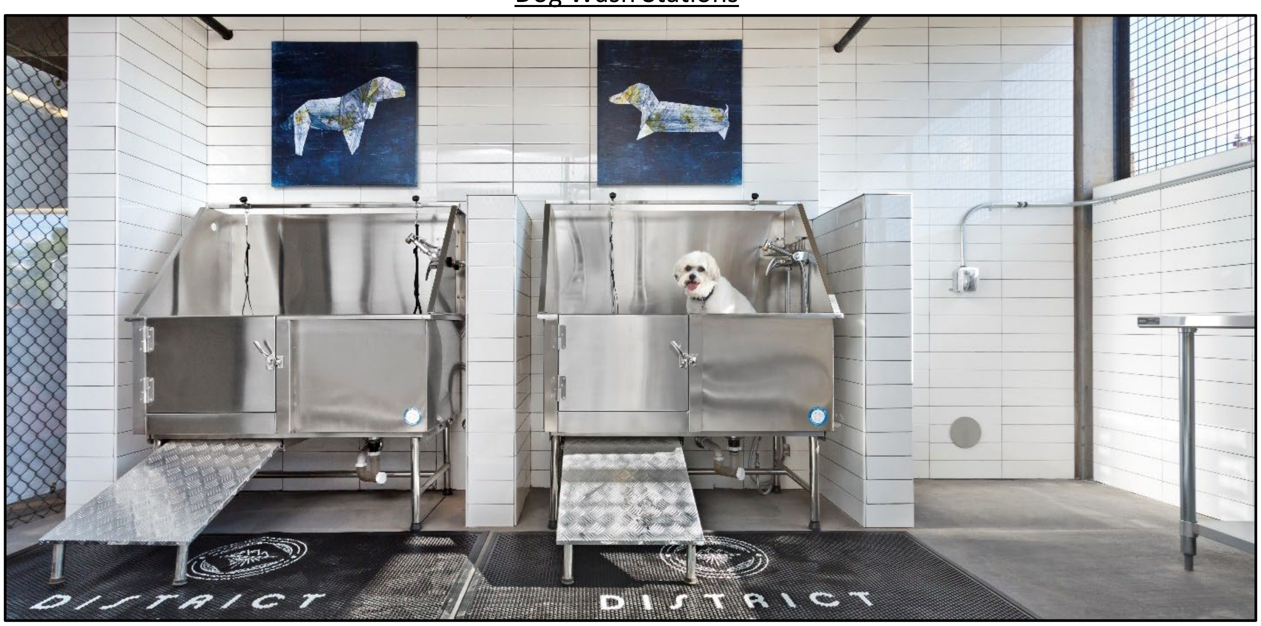


Multi-Sport Simulator

Large Well Landscaped Courtyard with Resort-Style Pool

Dog Park

Dog Wash Stations



Premium Kitchen Finishes

Quartz Countertops

1 GB Internet Speed Included in Every Unit

Smart Home Technology in Every Unit

Smart Nest Thermostats

Smart Door Locks

District B

What are the proposed uses in District B?

Uses in District B are restricted to only restaurants per the Final Development Plan.

Phasing

What is the delivery timing of Districts A and B?

The building permit for development on District A shall be applied for simultaneously with at least one building permit for development on District B per the Final Development Plan.

There's a real estate adage "retail follows rooftops". Having 600 new residents and potential customers next door would help the viability of the restaurants. If the restaurants in District B opened before District A is complete, the construction would be very disruptive to the customer service-based restaurants. This would be detrimental to the restaurants in their first year which is the most vulnerable time.

It's understood that the local community desires to have restaurants at The District at Sugar Creek. Having restaurants across the private drive is a great amenity for the multifamily also & makes District A even better. For that reason, the developer has every intention of having restaurants.

Multifamily developments take considerably longer to build than restaurants. The intent is to start construction of the first District B restaurant near the tail end of construction of District A. The first restaurant would open shortly after completion of District A. Then, the second and third restaurants would follow with staggered openings. One can imagine, it's very challenging for one restauranteur to open three restaurants at the same time.

Were the multifamily at The Grid built before restaurants?

We spoke to the manager at 1879 at the Grid. She has worked at the property since lease-up and said that the apartments opened 6 – 9 months prior to the restaurants opening.

Fort Bend County Appraisal District shows improvements on their tax rolls for 1879 at the Grid starting in 2019 and for Whiskey Cake at The Grid in 2020.

Competitive Market

What would be the starting and average rents for the multifamily?

It must first be prefaced that the developer often underwrites rents based on current rents of the submarket's best-in-class project without any or much premium for better location, product quality, or age. The submarket's best-in-class project is Arc at the Grid, a 3-story garden project completed in 2021. Its average rents are $1,873. The District at Sugar Creek's underwritten rents start at $1,430 and average $1,855 before mandatory fees of $142. Arc and overall submarket's rents have increased significantly over the last two years since the subject was first proposed. The District at Sugar Creek's rents are very conservative given its superior location & product quality compared to The Arc.

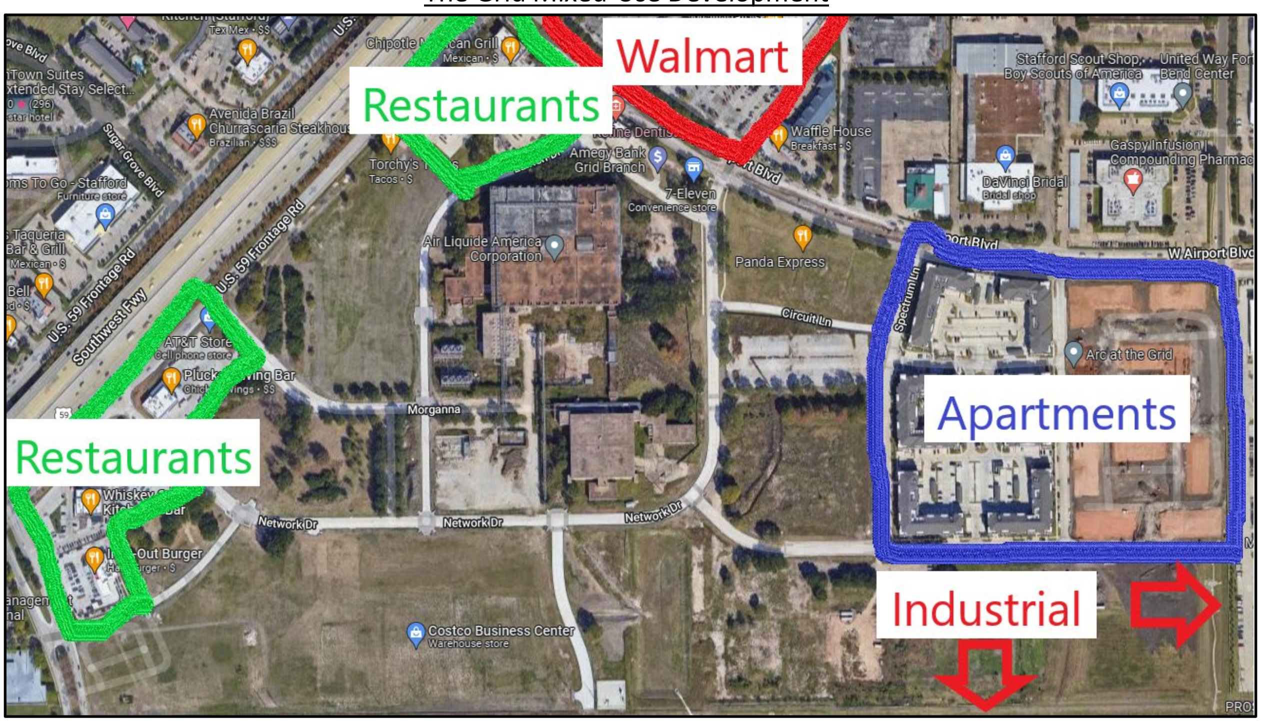
Why is The District at Sugar Creek a better location for multifamily than The Arc at the Grid?

Multifamily professionals can quickly see that Sugar Creek is a better location than The Grid by driving around the immediate area.

Sugar Creek: The subject site is surrounded by professional office buildings and an 8-minute walk to the city's largest employer, Schlumberger. The company has many highly paid young professionals that are renters-by-choice that have little viable housing options in Sugar Land.

The Grid: 1879 and Arc at the Grid apartments are part of a "mixed-used" development. However, it's tucked in the back of the site separated by acres of vacant land from the restaurants in the front. The apartments are surrounded by and closer to industrial warehouses and Walmart.

The Grid Mixed-Use Development



Sugar Creek: It's a 7-minute walk to Pappasito's and would be a 30-second walk across the private drive to 3 new interesting casual dining restaurants.

Marmalade Café at The District at Sugar Creek

The Grid: Arc is a 7-minute walk without sidewalks to Slurpees at a new 7-Eleven with 16 gas pumps, 10-minute walk to McDonald's inside Walmart, and 3-minute walk to a dilapidated abandoned corporate campus with broken windows.

Abandoned Texas Instruments Building

Is there an oversupply of multifamily?

No. The opposite is true. Sugar Land has a housing shortage, particularly for high income young professionals that are renters-by-choice. Many professionals that work in Sugar Land have limited desirable housing options in the city, so they live elsewhere. This is indicative of the essentially full occupancy in the city and dramatic rent growth.

Yardi Matrix shows that the Sugar Land – west submarket had a 96.5% occupancy and average rent of $1,499 in Q1 2022. It forecasts 96.4% occupancy and average rent of $2,220 in Q4 2032, a rent growth of 48% over 10 years.

There were two apartments built at The Grid in Stafford. 1879 at the Grid was completed in 2019 and now stabilized. Its rents increased from $1,630 in May 2021 to $1,898 in April 2022, an increase of 16.4% over 11 months. Arc at the Grid was completed in 2021 and currently leasing up. Its rents increased from $1,689 in May 2021 to $1,960 in May 2022, an increase of 16.0%. It's typical to see rents flat during lease-up.

This is very strong demand for multifamily. In comparison, the Sugar Land office occupancy is around 83%-84%.

What are the average rents of the 3 class B garden apartments on Dulles Ave?

The Vinings:	$1,382
Shadowbrooke:	$1,485
The Trestles:	$1,643

* Note that the garden apartments have 3-bedroom units and have a higher ratio of 2 bedrooms than the subject. A $1,800 1 bedroom unit is not the same tenant as a $1,800 3-bedroom unit.

Is it true that it would take 13 years to absorb the current submarket construction pipeline?

No. There has been conflation of multifamily construction data and employment growth required to absorb new units. This was intentionally misleading.

1. The multifamily submarket (Sugar Land and surrounding areas) for construction pipeline cited by a critic was much larger than the employment submarket (Sugar Land).

2. Too many people work in different submarkets than where they live for a standard absorption ratio to be relevant. For example, many people live in Sugar Land, but work in Houston.

3. The construction pipeline data cited was for units under construction and proposed. Multifamily projects typically take 2 years of construction to complete. Therefore, applying an absorption ratio for 2 years of construction and 1 year of employment growth is unreasonable.

4. Proposed projects have no timeline. Further, many of them never get built. If they do get built, projects currently proposed may be delivered over several years. Applying an absorption ratio proposed projects is also unreasonable.

We are assuming absorption of 22 per month and stabilization in 18 months. Historically, 15 – 25 units per month absorption is typical.

What's driving demand for live/work units?

A shift in the way people live and work has been happening for many years although COVID has accelerated it. People have become more minimalist, opting for convenience and efficiency. Instead of driving 45 minutes during rush hour from Sugar Land to downtown Houston, some have the convenience of telecommuting rather than spending 2 hours each workday for the round trip drive and getting ready.

Polling properties like this showed that 50% to 60% of residents work from home. It's not necessarily because of COVID, but because we create an environment where they have all the amenities (large gym, conference space, WeWork-style work space, etc.). Residents don't have to commute to what is often a shared office situation (and we plan to provide Wi-Fi in the common areas and units and 1 GB speed internet which is faster than many offices).

A live-work unit can be very appealing for many start-up entrepreneurs, artists, and sole proprietors. A photographer can have the convenience of only going downstairs of a unit to work in his or her studio. A lawyer can work and meet with clients without having to rent separate office space elsewhere. We can replace this hypothetical photographer and lawyer with many other sole proprietors that would benefit from having a small office or retail space for customers while having the convenience of living in the same unit.

Despite not promoting the live/work units yet, we've already received interest from some potential tenants including a photographer, jeweler, and coffee shop owner.

What's the demand for restaurants?

100%. Kaplan is in contract negotiations with a partnership of 2 restauranteurs for all 3 restaurant buildings in District B. The partners have been very successful in the city and know the market well. They own and operate 3 restaurants in Sugar Land Town Square including one of the longest running ones there, Japaniero's. The restaurant has been a staple of Sugar Land Town Square since 2003.

The 3 new restaurant concepts at The District at Sugar Creek are Be Planted, Marmalade Café, and Coyote Grill. Be Planted would be a full service plant-based restaurant with full bar. Marmalade Café would be a counter service, coffee shop/deli/bakery. Coyote Grill would be something of an Asian fusion.

Be Planted at The District at Sugar Creek

Is there enough demand for retail?

The District at Sugar Creek has only 2,376 square feet commercial/retail space that is not live/work or restaurants. This small amount of space would not have a large impact on the broader Sugar Land market. It only requires a unique tenant specific to The District at Sugar Creek. An urban market is proposed for this space.

Urban Market

Why is there so much retail vacancy in Sugar Land?

Going back to the real estate adage, “retail follows rooftops”. The District at Sugar Creek and its 600 new residents would help bring traffic back to retail and restaurants. More specifically, young professionals which the development would attract, are much more likely to dine out instead of cook at home than the general population. They have more discretionary income to spend at retailers.

Property Values

How would the development impact property values?

There has been 3 class B garden-style apartment projects totaling 668 units built on Dulles Ave between 1996 and 2002. Home sales price per square foot in Sugar Creek increased from $58.76/SF in 1997 to $142.56/ SF in 2021, a 142% increase per HAR.com, https://www.har.com/pricetrends/6610_sugar-land.

Sugar Creek has not seen a negative impact on property values from the 668 class B garden-style apartments units directly adjacent to it. In comparison, the The District at Sugar Creek is a class A mid-rise and would be across a 10-lane interstate highway and 6 lanes of service roads.

The high end multifamily mid-rise would be the best-in-class project in Sugar Land and enhance property values.

Traffic

Would the development generate too much traffic?

The traffic impact analysis (TIA) projected to have an increase of 90 vehicles per day (3.75/hour) going southbound and 180 vehicles per day (7.5/hour) going northbound at the intersection of US 59 and Sugar Creek Blvd. The TIA was scoped by the city, completed per industry and city standards, and concurred by the city.

Developer

Who is the developer?

Kaplan is a 44-year old local family-owned company based in Houston. Both of its principals have lived in Sugar Land for many years. Mike Kaplan lived in Sugar Creek and Sweetwater for 27 years. He also raised his children there, where they attended Fort Bend ISD schools. Geoff Simpson was also a Sugar Land resident, having lived in Greatwood for 10 years.

What is Kaplan's experience?

Kaplan has operated 2,500,000 square feet of retail, 35,000 multifamily units, and developed $1 billion of multifamily in a little over a decade.

Does Kaplan have live/work experience like what's proposed?

Kaplan has developed live/work units, however, just not like what's proposed. To clarify, the live/work units the company developed had direct access to public sidewalks and was dual use of residential and commercial. However, tenants were not required to operate a business.

The District at Sugar Creek would feature live/work units that have direct access to public sidewalks and be dual use of residential and commercial. The difference is that tenants would be required to operate a business.

How long would Kaplan hold the project?

Kaplan has indicated that sometimes the company sells its projects near stabilization. Other times, projects are held for over a decade. This is like many other industries in which there are different groups that do different parts of the business cycle.

When all multifamily projects sell is largely market driven. However, change in ownership does not mean degradation of the asset. Institutional investors like pension funds are the capital that buy core class A assets like the proposed. They often inject millions of dollars in improving the projects they buy, even new ones. This is what the city should want. The idea that multifamily projects turn into slums comes from old perceptions of old class B & C projects in which the owners may not spend money to maintain and upgrade the projects. This kind of scenario is more likely to happen with condo communities and single-family neighborhoods that have many different owners with varying interest in maintaining or upgrading their homes. This is not the case for $100 million core class A assets like the proposed that have a single owner that is well capitalized. Income growth and asset appreciation are the primary goals of investments such as the proposed.

Kaplan is a locally based company and typically holds assets in its home area longer term than other projects. Additionally, its equity partner, capitalized by a pension fund, is a long-term holder of its assets. Because of these reasons, the joint venture between Kaplan and its equity partner intends to hold the asset long term.