February 7, 2020

MCALLEN HOUSING AUTHORITY
c/o Mr. Arnold Padilla – Executive Director
2301 Jasmine Avenue
McAllen, Texas 78701

RE: An appraisal report of seven (7) vacant multifamily residential lots located at 2400-2504 Hibiscus Avenue, McAllen, Texas 78501

Dear Mr. Padilla:

This is a new appraisal report that incorporates by reference specified information/analysis from the prior report so that, in combination, the referenced portions and the new information/analysis added satisfies the applicable reporting requirements intended to comply with the minimum reporting requirements set forth in the current 2020-2021 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP). As such, it represents no discussions of the data, reasoning, and analyses that are used in the appraisal process to develop the appraisers’ opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraisers’ workfile. The appraisers' opinions and conclusions set forth in the report may not be understood properly without access to the original appraisal report along with additional information in the appraisers' workfile. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated. The appraisers are not responsible for the unauthorized use of this report. The following items from that prior report are specifically identified as follows:

Subject Property:  (7) vacant multifamily lots located at 2400-2504 Hibiscus Avenue, McAllen, Texas 78501
Client and Intended Users: The intended user of the appraisal is the client, McAllen Housing Authority.

Intended Use: The intended use of the appraisal is to provide the client, McAllen Housing Authority, with the appraisers' opinion of the market value of the subject property as of February 6, 2020, for counseling purposes.

Appraisers: The appraisers have not changed from the original appraisal from Joe W. Patterson, MAI, SRA, TX-1321595-G and Joe Cheaney, MNAA, TX-1322541-G of Aguirre and Patterson, Inc.

Date of Report: February 7, 2020

Effective Date of Appraisal: The effective date of the appraisal is February 6, 2020.

Interest Appraised: Fee Simple

Correlation: The Sales Comparison Approach to Site Appraising was considered as the approach to value. The appraisers reviewed the current relevant sales and listings of competing tracts within the McAllen market area. As a result, the price per square foot range presented by the comparables in the market produced a market value estimate for the subject property of $985,000.00.

SUMMARY OF ANALYSIS AND VALUATION: It is the appraiser’s opinion that the market value of the subject property as of February 6, 2020, is estimated to be $985,000.00.
CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.

- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is our personal, impartial, and unbiased professional analyses, opinions, and conclusions.

- We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.

- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

- The appraisers have performed an appraisal of the subject property within the past three years and have notified the client prior to acceptance of the assignment.

- The reported analyses, opinions, and conclusions were developed and this report is intended to comply with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute and the current 2020-2021 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP).
To Whom It May Concern:

Reference is made to the Appraisal Report dated February 7, 2020 (the “Appraisal”) prepared by this firm for the Housing Authority of the City of McAllen. Please be advised that the following entities (including any and all affiliates, successors and assigns of such entities) are hereby permitted to rely upon the Appraisal and the conclusions contained therein, subject to the limitations stated therein:

MHA Hibiscus Village, Ltd.

Texas Department of Housing and Community Affairs

Aguirre & Patterson, Inc., will not benefit from the Development in any way other than receiving a fee for performing the Appraisal, and that fee is in no way contingent upon the outcome of the assessment. All persons who have a property interest in the report hereby acknowledged that the Department may publish the full report on the Department’s website, release the report in response to a request for public information and make other use of the report as authorized by law.
CERTIFICATION (continued)

▪ The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

▪ I, Joe Cheaney, have made a drive-by inspection of the property that is the subject of this report.

▪ No one provided significant real property appraisal assistance to the persons signing this certification.

▪ As of the date of this report, Joe W. Patterson, MAI, SRA has completed the continuing education program of the Appraisal Institute.

Joe Patterson, MAI, SRA
TX-1321595-G

Did X Did Not Physically
Inspect the Property

Joe Cheaney, MNAA
TX-1322541-G

X Did Did Not Physically
Inspect the Property
Certified General
Real Estate Appraiser

Appraiser: Joseph William Patterson III
License #: TX 1321595 G License Expires: 12/31/2021

Having provided satisfactory evidence of the qualifications required by the Texas Appraiser Licensing and Certification Act, Occupations Code, Chapter 1103, authorization is granted to use this title: Certified General Real Estate Appraiser

For additional information or to file a complaint please contact TALCB at www.talcb.texas.gov.
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III

State Licensing and Certification
Licensed and certified by the State of Texas as a General Real
Estate Appraiser: License Number - TX-1321595-G Date of
Expiration: December 31, 2021)

Professional Designations
Member of Appraisal Institute with MAI and SRA Designations

Education
Bachelor of Business Administration from Baylor University,
Waco, Texas

Graduate Study at Baylor University Law School, Waco, Texas

Continuing Education in Real Estate and Appraising at University
of Houston, University of Texas, University of North Carolina,
San Diego University, University of Colorado, University of
Illinois, Mills Collage (Oakland), and University of Texas Pan
American

Professional Affiliations
Member of the McAllen Association of Realtors

Member of the Texas Association of Realtors

Member of the National Association of Realtors

Professional Offices Held
President of Rotary Club of McAllen, Texas, Chapter #2076, 1996-
1997

President of the Society of Real Estate Appraisers, Rio Grande
Valley, Chapter #144 - 1983-1984

Board of Directors of the Society of Real Estate Appraisers,
Waco, Texas, Chapter #145 - 1975-1977
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III (continued)

Board of Directors of the Society of Real Estate Appraisers, Rio Grande Valley, Chapter #144 - 1976-1991

Board of Directors of the American Institute of Real Estate Appraisers, South Texas Chapter #29 - 1986 - 1991

Teaching Experience
Instructor for Real Estate Appraising and Real Estate Law at Hill Junior College, Hillsboro, Texas

Substitute Instructor for Real Estate Principles, Real Estate Law, Real Estate Finance, Real Estate Appraising, and Business

Professional Experience
Appraising since 1971, Joe Patterson was an independent appraiser with Smith Real Estate Association in Waco, Texas for five years. He was also a staff appraiser for First Federal Savings and Loan Association in Waco, Texas, for one year. He then associated himself with D.U. Buckner, a local MAI, for seven years as an independent fee appraiser. In 1984 he opened his own office and currently covers the Rio Grande Valley area from his McAllen office.

As an appraiser for the past 48 years, he has worked on the following types of properties: single family residences, duplexes, apartments, manufacturing properties, shopping centers, discount houses and supermarkets, hospitals, hotels and motels, funeral homes, restaurants, storage buildings, office buildings, country clubs, golf courses, mobile home parks, nursing homes, gasoline stations, taverns, land developments, churches, schools, medical clinics, international bridges and border stations, fire stations, warehouses, banks, farms, ranches, bowling alleys, convention centers, grain elevators, gins, condominium projects, flood processing plants, civilian airport facilities, and "FIRREA" affordable housing program. Other assignments include partial taking, right of ways, eminent domain, easements, and partial interests.

Joe has also served as the guest speaker and lecturer for numerous local service clubs, professional organizations and schools, including University of Texas Pan American.
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III (continued)

Recently Completed Course Studies

Basics of Expert Witness for Commercial Appraisers offered by McKissock Learning online, September 2019

Basic Hotel Appraising – Limited Service Hotels offered by McKissock Learning online, March 2019

Advanced Hotel Appraising – Full Service Hotels offered by McKissock Learning online, July 2019

7-Hour National USPAP Update offered by McKissock Learning online, July 2019

Legal Update – Part 1 (2018-2019) offered by McKissock Learning online, December 12, 2018

Legal Update – Part 2 (2018-2019) offered by McKissock Learning online, December 21, 2018

Texas Supervisor-Trainee Course, offered by McKissock Learning online, December 6, 2018

Broker Responsibility 3.0, offered by McKissock Learning online, December 3, 2018

Real Estate Investing: Beyond the Basics, offered by McKissock Learning online, November 7, 2018

Residential Market Analysis and Highest and Best Use, offered by The Columbia Institute, Austin, Texas January 15, 2018

Constructing the Professional Report From A-Z, No. 026, offered by The Columbia Institute, Austin, Texas, October 3, 2017

Comprehensive Square Foot Calculations, No.155, offered by The Columbia Institute, Austin Texas, October 4, 2017

Red Flags in Property Inspection, No.157, offered by The Columbia Institute, Austin, Texas, October 5, 2017
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON III (continued)

2016-17 7-hour National USPAP Update, No.101, offered by The Columbia Institute, Austin, Texas, October 6, 2017

TREC Essentials of Real Estate Transactions, offered by 003FreeMCEhours online, February 3, 2017

TREC Legal Update MCE, offered by 003FreeMCEhours online, January 30, 2017

USPAP Update 2014/2015, No. 101, offered by the Columbia Institute, Austin, Texas, October 30, 2015

Real Estate Principals, offered by 003FreeMCEhours online, February 19, 2015

TREC Ethics MCE, offered by 003FreeMCEhours online, February 3, 2015

TREC Legal Update MCE, offered by 003FreeMCEhours online, January 15, 2015

USPAP Update 2012/2013, No. 101, offered by the Columbia Institute, Austin, Texas, January 18, 2013

Appraising in a Depressed Market, No. 125, offered by the Columbia Institute, Austin, Texas, January 16, 2013

Interagency Rules of Banks and Credit Unions, No. 011, offered by the Columbia Institute, Austin, Texas, January 16, 2013

Write It Right, No.148, offered by the Columbia Institute, Austin, Texas, January 17, 2013

Online Appraisal Curriculum Overview – Residential, offered by the Appraisal Institute, January 14, 2013,

Online Business Practices and Ethics, offered by the Appraisal Institute, December 12, 2012

Report Writing-the UAD, No. 120, offered by the Columbia Institute, Harlingen, Texas, August 2, 2011
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON III (continued)

The Mortgage Loan System, No. 015, offered by the Columbia Institute, Harlingen, Texas, August 1, 2011

Practice of Appraisal Review - FHA Protocol, No. 145, offered by the Columbia Institute, Harlingen, Texas, February 2011

USPAP Update 2010-2011, No. 101, offered by the Columbia Institute, Harlingen, Texas, March 2011

USPAP Update No. 101, September 2009

Identifying Relevant Characteristics Course 019 - The Columbia Institute, Sept. 2009
FHA Today Course 114 - The Columbia Institute, March 2009

Fannie Mae Today Course 116 - The Columbia Institute, March 2009

Basic Appraisal Principles, The Appraisal Institute, North Texas Chapter, May 2007

Scope of Work and Appraiser Due Diligence, No. 36, The Columbia Institute, April 2007

USPAP Update No. 101, The Columbia Institute, April 2007

Fundamental of Appraisal Review No. 105, The Columbia Institute, April 2007

FHA, the URAR & the 1025 No. 104, The Columbia Institute, April 2007


Uniform Standards of Professional Practice, USPAP Update, The Appraisal Institute, Houston Chapter, September 2005

Litigation Skills for this Appraiser, The Appraisal Institute Houston Chapter, September 2005

Ethics & Special Purpose Properties, The Appraisal Institute, September 2005
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON III (continued)

Appraising from Blueprints and Specifications, The Appraisal Institute Online Continuing Education Program, Chicago,

Uniform Standards of Professional Practice, USPAP Update, The Appraisal Institute North Texas Chapter, June 2003

Small Hotel/Motel Valuation, the Appraisal Institute Online Continuing Education Program, Chicago, Illinois, November 2002

Appraisal Procedures, The Appraisal Institute, Daniels College of Business, Denver, Colorado, August, 2002

Techniques of Appraisal Review, The Columbia Institute, Course #108, October 2001

Residential Appraisal Update, The Columbia Institute, course #117, October 2001

Standards of Professional Practice, Part C, The Appraisal Institute, September 2001
Certified General
Real Estate Appraiser

Appraiser: JOE EDWARD CHEANEG
License #: TX 1322541 G License Expires: 02/28/2022

Having provided satisfactory evidence of the qualifications required by the Texas Appraiser Licensing and Certification Act, Occupations Code, Chapter 1103, authorization is granted to use this title: Certified General Real Estate Appraiser

For additional information or to file a complaint please contact TALCB at www.talcb.texas.gov.
QUALIFICATIONS OF THE APPRAISER
JOE CHEANEY

State Licensing and Certification
Licensed and certified by the State of Texas as a General Real Estate Appraiser since February, 1992: License Number – TX-1322541-G Date of Expiration: February 28, 2022

Professional Designations
Member of the National Association of Appraisers with MNAA Designation

Education
Pan American University, Accounting Major

Over 392 hours of appraisal continuing education (ACE) courses from Robinson Real Estate School, Houston, Texas, Columbia Institute, Houston, Texas, and McKissock School of Appraisal Education, E-Campus. Most recently completed courses:

McKissock School of Appraisal Education, E-Campus, January 31, 2014, February 1, 2 & 4, 2014

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McKissock School of Appraisal Education, E-Campus, March 12, 2015; November 4, 2015; December 15, 2015; January 7, 2016

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<td>The Sales Comparison Approach</td>
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<td>2016-2017 7-hour National USPAP Update Course</td>
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<tr>
<td>Appraisal of Fast Food Facilities</td>
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QUALIFICATIONS OF THE APPRAISER
JOE CHEANEY (continued)

McKissock School of Appraisal Education, E-Campus, May 23, 2017; September 7, 2017; September 30, 2017; January 3, 2018

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<td>Complex Properties: The Odd Side of Appraisal</td>
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McKissock School of Appraisal Education, E-Campus, August 24, 2019; September 30, 2019; October 16, 2019; January 14, 2020

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Professional Experience

Joe Cheaney joined the staff of Aguirre & Patterson, Inc. as a licensed appraiser in February, 1990. As an independent fee appraiser, he has worked on the following types of properties throughout the Rio Grande Valley: Duplexes, apartments, packing sheds, shopping centers, discount warehouses, restaurants, self-storage projects, public and vocational schools, office buildings, golf courses, green houses, bowling alleys, mobile home parks, lumber yards, international bridges and border stations, Laundromats, convenience stores, land developments, churches, hospitals, medical offices, outpatient clinics, fire stations, car wash facilities, truck stops, miniature golf courses, arcades, partial interests, partial takings, marinas, night clubs, grain elevators and related grain storage facilities, civilian airport facilities, acreage, food processing plants, hotels, convention/civic centers, lake property, warehouses, “FIRREA” affordable housing disposition program, expert witness, HUD/FHA Fast Track Appraisal Processing and the Uniform Appraisal Standards for Federal Land Acquisitions.
July 23, 2018

MCALLEN HOUSING AUTHORITY
c/o Mr. Daniel Delgado
2301 Jasmine Avenue
McAllen, Texas 78701

RE: An appraisal report of seven (7) vacant multifamily residential lots located at 2400-2504 Hibiscus Avenue, McAllen, Texas 78501

Dear Mr. Delgado:

In accordance with your request, we performed an appraisal report of the above-referenced property which is legally described on page 15 of the attached report. The property was inspected on July 23, 2018.

The intended use of the appraisal is to provide the appraisers' opinion of the market value of the subject property according to the definitions, assumptions and limiting conditions contained herein. This appraisal is intended to comply with the minimum reporting requirements set forth in Standards Rule 2-2(a) of the current 2018-2019 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP) for an appraisal report.

As a result of the appraisal and analysis, it is the appraisers' opinion that the prospective market value “as if sold in a single transaction” of the subject property as of July 23, 2018, is expected to be as follows:

NINE HUNDRED EIGHTY-FIVE THOUSAND DOLLARS ($985,000.00)
Extraordinary Assumptions: Two of the seven subject lots, Lots 6 and 7, are encumbered with a high-pressure gas line which traverses both lots diagonally from southwest to northeast. The prospective market value opinion is predicated on the assumption that the two encumbered lots could be developed without diminution in value from the location of the gas line. The prospective market value opinion is intended to reflect current expectations and perceptions of market participants along with available factual data. The appraisers cannot be held responsible for unforeseeable events that alter market conditions prior to completion of the projected sell-out period of one year. The use of extraordinary assumptions in this appraisal report might have affected the assignment results (see page 19 "Extraordinary Assumption Defined").

Exposure Period: Based upon the appraisers' analysis of past events assuming a competitive and open market, the appraisers estimate a reasonable exposure period for this type of property at the market value estimated in this report would not have exceeded twelve months.

The supporting data and the analysis and conclusions upon which this value is based are contained in the accompanying report.

Respectfully submitted,

Joe W. Patterson, MAI, SRA
TX-1321595-G

Joe Cheaney, MNAA
TX-1322541-G
An Appraisal Report Of

(7) VACANT MULTIFAMILY RESIDENTIAL LOTS

Located At
2400-2504 Hibiscus Avenue
McAllen, Texas 78501

FOR

MCALLEN HOUSING AUTHORITY
2301 Jasmine Avenue
McAllen, Texas 78501

BY

AGUIRRE & PATTERSON, INC.
Mr. Joe Patterson, MAI, SRA
Mr. Joe Cheaney, MNAA
3315 North McColl Road
McAllen, Texas 78501

Effective Date Of Appraisal: July 23, 2018
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CERTIFICATION

We certify that, to the best of our knowledge and belief:

▪ The statements of fact contained in this report are true and correct.

▪ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is our personal, impartial, and unbiased professional analyses, opinions, and conclusions.

▪ We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.

▪ We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

▪ Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

▪ Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

▪ We have performed an appraisal related service with regards to the subject property within the three years prior to this assignment and have notified the client prior to acceptance of this assignment.

▪ The reported analyses, opinions, and conclusions were developed, and this report is intended to comply with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute and Standards Rule 2-2(a) of the current 2018-2019 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP).

▪ The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
CERTIFICATION (continued)

- I have made a personal exterior inspection of the property that is the subject of this report.

- No one provided significant real property appraisal assistance to the persons signing this certification.

- As of the date of this report, Joe W. Patterson, MAI, SRA has completed the continuing education program of the Appraisal Institute.

<table>
<thead>
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<th>Did</th>
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<td>Joe Patterson, MAI, SRA</td>
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<tr>
<td>Joe Cheaney, MNAA</td>
<td>Inspect the Property</td>
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Joe Patterson, MAI, SRA
TX-1321595-G

Joe Cheaney, MNAA
TX-1322541-G
SUMMARY OF IMPORTANT DATA

Type Property: Seven Vacant Multifamily Residential Lots

Location: Hibiscus Avenue, North Side, West of 23rd Street, McAllen, Texas 78501

Description: The subject property consists of seven (7) vacant multifamily residential lots. Lots are rectangular shaped and range in size from approximately 25,210 to 37,815 square feet with an average lot size of approximately 28,811 square feet. The subdivision is served by all underground utilities and private asphalt paved fire lane with concrete curbs and gutters.

Zoning: R3-A - Apartments

Date of Report: July 23, 2018

Prospective Market Value Opinion: $985,000.00 (as if sold in a single transaction)

Date of Inspection/Effective Date of Appraisal: July 23, 2018

Extraordinary Assumptions: Two of the seven subject lots, Lots 6 and 7, are encumbered with a high-pressure gas line which traverses both lots diagonally from southwest to northeast. The prospective market value opinion is predicated on the assumption that the two encumbered lots could be developed without diminution in value from the location of the gas line. The prospective market value opinion is intended to reflect current expectations and perceptions of market participants along with available factual data. The appraisers cannot be held responsible for unforeseeable events that alter market conditions prior to completion of the projected sell-out period of one year. The use of extraordinary assumptions in this appraisal report might have affected the assignment results (see page 19 "Extraordinary Assumption Defined").

Present Use: As of the effective date of the appraisal, the subject is seven (7) vacant multifamily residential lots which is a legally conforming use of the property. The appraisers' value opinion reflects the present use.
Exposure Period: Based upon the appraisers' analysis of past events assuming a competitive and open market, the appraisers estimate a reasonable exposure period for this type of property at the market value estimated in this report would not have exceeded twelve months.

Marketing Period: With adequate advertising, exposure and aggressive marketing, the appraisers estimate the marketing period not to exceed twelve months. This is based primarily on marketing data presented in the Multiple Listing Service and the appraisers' knowledge of this particular submarket.

Terms: Typical terms would be 10% to 30% down; 6% to 8% interest rate; amortized over a period of 10-20 years; balloon in 3-5 years.

Taxes: The subject (Property ID#'s 182066, 182067, 182068, 182069, 182070, 182071 and 182072) is assessed by the Hidalgo County Appraisal District for 2018 at $1,038,654.00. The combined tax rate for the subject for 2018 is estimated at $2.5406 per $100.00. Annual taxes for 2018 are estimated at $26,388.04 per year.

Ownership History: The property was old by Aguirre Family Properties, Ltd. (Seller) July 1, 2015, to Housing Authority of the City of McAllen (Buyer) for $840,000.00. Verification source is Grantor/Grantee/Deed #2626739, HCDR. Ownership has not changed from these entities since 2011. The subject is not known to be listed for sale and no offers were mentioned. No other sales information was discovered within the normal course of business.

Market Trends: Signs of recent sales activity and increased lending indicate that the local real estate market is slowly recovering from a previous stagnant economic climate. This trend of slow recovery is expected to continue into the foreseeable future.
Pertinent Information: No environmental study or survey was provided. The final value estimate is made subject to an environmental study and survey.

Statement of Compliance: This appraisal is intended to comply with the minimum reporting requirements set forth in Standards Rule 2-2(a) of the current 2018-2019 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP) for an appraisal report.

Statement of Competency: The appraisers have a total of over 76 years of experience in the real estate appraisal business which includes the appraisal of the subject and similar properties; therefore, we feel we have attained the necessary knowledge and experience to competently complete this assignment (See Qualifications).

Data Sources: Sources used in verifying comparable sales data include buyers, sellers, selling agents, lenders and deed records.

Valuation of Personal Property: Not applicable.

Environmental Disclaimer: No known or viable environmental hazards were observed during the appraiser's on-site inspection. The appraisers are not qualified to detect the existence of or cost to cure environmental contamination. The value estimated in this report is predicated on the assumption that no such condition exists.

Income Property Provision: The subject should remain income producing over the projected sell-out period. Absorption, revenues and expenses are based on competing comparable projects.

Contingency Provision: The appraisers certify that their compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. Furthermore, this appraisal assignment is not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
Discounting Process: The discounting process is only considered applicable when: 1) the subject is proposed construction and it is estimated that the construction will take over six months to complete; 2) the subject is partially leased and the absorption period is estimated to be more than six months; 3) the subject is being leased at other than market rent; or 4) the subject is a large project with several unsold units. The discounting process is utilized to estimate the prospective market value “as if sold in a single transaction”.

Statement Concerning Disabilities Act: The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraisers have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the appraisers have no direct evidence relating to this issue, possible noncompliance with the requirements of ADA in estimating the value of the property has not been considered.

Census Tract: According to the U.S. Geological Survey Department, the subject is located within Census Tract 0207.21, map reference Hidalgo County, Texas.

Flood Designation and Disclaimer: The appraisers are not experts in determining the flood zone designation for the subject. No responsibility is assumed on our part for accurately determining the subject’s flood zone. If an official survey or flood designation certificate is not provided, the appraisers estimate flood designation based on available FEMA flood maps and/or recorded subdivision maps. Because some of the information may be inconclusive, the appraisers’ opinion of value is predicated on the assumption that the flood zone indicated herein is correct. The appraisers used InterFlood online service for the subject property flood zone information which cites FIRM #4803430005C, effective date November 2, 1982, that the subject property is located within
a flood zone "B" (subject to survey) which does not require special flood hazard insurance. We recommend to you the client that you obtain a flood certificate with regards to the subject property to be certain.

Property Inspection Disclaimer: The appraisers are not licensed property inspectors. An inspection conducted by an appraiser is not the equivalent of an inspection by an inspection professional such as a structural engineer or a licensed property inspector. The extent of the appraiser’s inspection process is an aspect of the scope of work, and may vary based on assignment conditions and the intended use of the assignment results. The appraiser’s inspection is limited to those things readily observable without the use of special testing or equipment. The appraiser has inspected as far as possible, by observation, the land; however, it was not possible to personally observe conditions beneath the soil. No representations are made herein as to these matters unless specifically stated and considered in the report.
PREFACE

An appraisal is a type of research into the laws of probabilities with respect to real estate transactions. The Insurance Industry can reliably predict that out of so many exposures a certain number of losses will occur. They, of course, cannot predict the exact insured on whom this loss will fall. The appraiser can predict the general real estate market with much greater certainty than he can the value of a specific piece of property.

The appraiser who estimates market value of a particular property is merely stating his opinion of what such property most likely will bring in dollars if it is exposed for sale on the open market allowing a reasonable time for buyers to inspect and investigate before making their offers.

Through the appraiser's education, training, experience, and integrity he is able to relate how sellers and buyers have acted in the past into a forecast of how they most likely will act to the particular property in question. Because each particular property is different and unique, he must by necessity make adjustments in making comparisons to arrive at his final conclusions.

An appraisal does not necessarily set the price to be paid. It should be used to form a basis of negotiation between owner and
prospective purchaser or between lender and borrower or between condemnor and condemnee.

This appraisal is not guaranteed. It cannot be proven. If the property brings the estimated value herein, or if a mortgage is predicated thereon, or if a settlement is made as a result of such estimated value, it merely means the parties concerned agreed with the appraiser. The parties may disagree and this does not disprove the estimated value. It merely means a difference of opinion.

Prices paid and awards made often reflect sentiment, compassion, sympathy, bias, politics, personal interest, specific needs, lack of understanding and other factors not considered by the impartial appraiser. The final opinion of value is the result of a professional opinion and analysis of a considerable quantity of physical and economic facts. The methods used in the analysis are explained in the appraisal report. The reader is invited to draw his own conclusions in the event of a difference of interpretation of the facts within the report.

This appraisal is made subject to certain basic assumptions, definitions and limiting conditions. These should be read by the reviewer.
PREMISES OF THE APPRAISAL

Identification of the Property

The subject property is located at 2400-2504 Hibiscus Avenue, McAllen, Texas 78501. The legal description is provided as follows:

All of Lots 1, 2, 3, 4, 5, 6 and 7, W.H. GRANER SUBDIVISION UNIT NO. 2, an Addition to the City of McAllen, Hidalgo County, Texas, according to the map recorded in Volume 22, Page 1, Map Records in the Office of the County Clerk of Hidalgo County, Texas, reference to which is here made for all purposes.

Property Rights Appraised

This appraisal requires that the ownership of the subject property include all rights to title that may be legally owned. Such ownership is termed "fee simple" and said ownership is the property rights appraised in this report, excluding oil, gas and other mineral rights and subject to easements of record.

Intended Use of the Appraisal

The intended use of the appraisal is to provide the client, McAllen Housing Authority, with the appraisers' opinion of the market value of the subject property as of July 23, 2018, for counseling purposes.
Intended User of the Appraisal

The intended user of the appraisal is the client, McAllen Housing Authority.

Scope of Work

The appraisers performed an appraisal report of the subject property for McAllen Housing Authority as our client intended to comply with the minimum reporting requirements set forth in Standards Rule 2-2(a) of the current 2018-2019 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP) for an appraisal report. The appraiser physically inspected the subject property on July 23, 2018, which included photographs of the subject lots and access street; reviewed the subject subdivision plat which included the subject lots; identified extraordinary assumptions in the appraisal with regards to location of a gas line on the property and marketing conditions during the marketing period; noted the use of extraordinary assumptions in the appraisal might have affected the assignment results; analyzed property data such as demographics, supply and demand, property size, location and zoning; and performed a highest and best use analysis of the subject property. One
approach to value, the Income Approach was found to be relevant to the assignment. The approach included research and analysis of comparable lot sales, entrepreneurial incentive, absorption rates, holding expenses and discount rates. The data was correlated and the appraisers' conclusions and opinions of prospective market value "as if sold in a single transaction" presented.

Market Value Defined

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated.

2. Both parties are well informed or well advised, and acting in what they consider their best interests.

3. A reasonable time is allowed for exposure in the open market."
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto.

5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

(The Office of the Comptroller of Currency 12 C.F.R., Part 34, Subpart C-1 Appraisals 34-42 Definition (g); and, The Code of Federal Regulations, Title 12, Chapter III, Subchapter B, Section 323.2(g)

**Prospective Opinion of Value Defined**

"A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy."

Extraordinary Assumption Defined

"An assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraisers’ opinions or conclusions."

LIMITING CONDITIONS AND ASSUMPTIONS

By this notice, all persons and firms reviewing, utilizing or relying on this report in any manner bind themselves to accept these assumptions and limiting conditions. Do not use this report if you do not so accept. These conditions are a part of the appraisal report, they are a preface to any certification, definition, fact or analysis, and are intended to establish as a matter of record that the appraiser's function is to provide a present market value indication for the subject property based upon the appraiser's observations as to the subject property and real estate market. This appraisal report is an economic study to estimate value as defined in it. It is not an engineering, construction, legal or architectural study nor survey and expertise in these areas, among others, are not implied.

1. LIMIT OF LIABILITY:
The liability of the Patterson firm and employees and affiliated independent contractors is limited to the client only and to the fee actually received by appraiser (total per appraisal). Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The Appraiser is in no way to be responsible for any costs incurred to discover or correct any deficiencies of any type present in the property; physically, financially, and/or legally. In the case of limited partnerships or syndication offerings or stock offerings in real estate, client agrees that in case of lawsuit (brought by lender, partner or part owner in any form of ownership, tenant, or any other party), any and all awards, settlements of any type in such suit, regardless of outcome, client will hold Appraiser completely harmless in any such action.

2. COPIES, PUBLICATION, DISTRIBUTION, USE OF REPORT:
Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report(s) remain the property of the Appraiser for the use of the client, the fee being for the analytical services only.
The Bylaws and Regulations of the Appraisal Institute require each Member and Candidate to control the use and distribution of each appraisal report signed by such Member or Candidate; except as hereinafter provided, the client may distribute copies of this appraisal report in its entirety to such third parties as he may select; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations, news, sales or other media for public communication without the prior written consent of appraiser. (See last item following this list for client agreement-consent).

3. CONFIDENTIALITY:
This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analysis as set forth in the report were prepared by the Appraiser(s) whose signature(s) appear on the appraisal report, unless indicated as "Review Appraiser". No change of any item in the report shall be made by anyone other than the Appraiser and/or officer of the firm. The appraiser and firm shall have no responsibility if any such unauthorized change is made.

The Appraiser may not divulge the material (evaluation) contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designee as specified in writing except as may be required by the Appraisal Institute as they may request in confidence for ethics enforcement, or by a court of law or body with the power of subpoena.

4. TRADE SECRETS:
This appraisal was obtained from Aguirre and Patterson, Inc. or related companies and/or its individuals or related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempted from disclosure under 5 U.S.C. 552 (b) (4). Notify the
LIMITING CONDITIONS AND ASSUMPTIONS (continued)

Appraiser(s) signing report or an officer of Aguirre and Patterson, Inc., of any request to reproduce this appraisal in whole or part.

5. INFORMATION USED:
No responsibility is assumed for accuracy of information furnished by work of or work by others, the client, his designee, or public records. We are not liable for such information as the work of possible subcontractors. Be advised that some of the people associated with Aguirre and Patterson, Inc. and possibly signing the report are independent contractors. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other source thought reasonable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market-related information. It is suggested that the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds to the subject property.

6. TESTIMONY, CONSULTATION, COMPLETION OF CONTRACT FOR APPRAISAL SERVICE:
The contract for appraisal, consultation or analytical service is fulfilled, and the total fee is payable upon completion of the report. The Appraiser(s) or those assisting in preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part, nor engage in post appraisal consultation with client or third parties except under separate and special arrangement and at additional fee. If testimony or deposition is required because of any subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

7. EXHIBITS:
The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if any, are included for the same purpose
as of the date of the photos. Site plans are not surveys unless shown from separate surveyor.

8. LEGAL, ENGINEERING, FINANCIAL, STRUCTURAL, OR MECHANICAL NATURE HIDDEN COMPONENTS, SOIL:
The appraiser and/or firm have no responsibility for matters legal in character or nature, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report. The legal description is assumed to be correct as used in this report as furnished by the client, his designee, or as derived by the Appraiser.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek legal assistance), and such. The lender or owner may wish to require mechanical or structural inspections by qualified and licensed contractor, civil or structural engineer, architect, or other expert.

The Appraiser has inspected as far as possible, by observation, the land and the improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural, or other components. We have not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report. The value estimate considers there being no such conditions that would cause a loss of value. The land or the soil of the area being appraised appears firm, however, subsidence in the area is unknown. The Appraiser(s) do not warrant against this condition or occurrence of problems arising from soil conditions.

The appraisal is based on there being no hidden, unapparent, or apparent conditions of the property site, subsoil, or structures or toxic materials, which would render it more or less valuable. The appraiser and firm have no responsibility for any such
conditions or for any expertise of engineering to discover them. All mechanical components are assumed to be in operable condition and status standard for properties of the subject type. Conditions of heating, cooling, ventilating, electrical and plumbing equipment is considered to be commensurate with the conditions of the balance of the improvements unless otherwise stated. No judgment may be made by us as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment, which is assumed standard for subject age and type.

If the Appraiser has not been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranties are made concerning obtaining the above mentioned items.

The Appraiser has no responsibility for any costs or consequences arising due to the need, or the lack of need for flood hazard insurance. An Agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

9. LEGALITY OF USE:
The appraisal is based on the premise that, there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building, use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

10. COMPONENT VALUES:
The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must
LIMITING CONDITIONS AND ASSUMPTIONS (continued)

not be used in conjunction with any other appraisal and are invalid if so used.

11. AUXILIARY AND RELATED STUDIES:
No environmental or impact studies, special market study or analysis, highest and best use analysis study or feasibility study has been requested or made unless otherwise specified in an agreement for services or in the report.

12. DOLLAR VALUES, PURCHASING POWER:
The market value estimated, and the costs used, are as of the date of the estimate of value. All dollar amounts are based on the purchasing power and price of the dollar as of the date of the value estimate.

13. INCLUSIONS:
Furnishings and equipment or personal property of business operations except as specifically indicated and typically considered as part of real estate, have been disregarded with only the real estate being considered in the value estimate unless otherwise stated. In some property types, business and real estate interests and values are combined.

14. PROPOSED IMPROVEMENTS, CONDITIONED VALUE:
Improvements proposed, if any, on or off-site, as well as any repairs required are considered, for purposes of this appraisal to be completed in good and workmanlike manner according to information submitted and/or considered by the appraisers. In cases of proposed construction, the appraisal is subject to change upon inspection of property after construction is completed. This estimate of market value is as of the date shown, as proposed, as if completed and operating at levels shown and projected.

15. VALUE CHANGE, DYNAMIC MARKET, INFLUENCES, ALTERATION OF ESTIMATE BY APPRAISER:
The estimated market value, which is defined in the report, is subject to change with market changes over time; value is highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The value estimate
LIMITING CONDITIONS AND ASSUMPTIONS (continued)

considers the productivity and relative attractiveness of the property physically and economically in the marketplace.

In cases of appraisals involving the capitalization of income benefits the estimate of market value or investment value or value in use is a reflection of such benefits and Appraiser's interpretation of income and yields and other factors derived from general and specific client and market information. Such estimates are as of the date of the estimate of value; they are thus subject to change as the market and value is naturally dynamic.

The "Estimate of Market Value" in the appraisal report is not based on whole or in part upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

The appraisal report and value estimate is subject to change if physical or legal entity or financing is different than that envisioned in this report.

16. MANAGEMENT OF THE PROPERTY:
It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management; neither inefficient nor super-efficient.

17. CONTINUING EDUCATION CURRENT:
The Appraisal Institute conducts a voluntary program of continuing education for its designated members; MAI and SRA Designates who meet the minimum standards of this program are awarded periodic educational certification and; MAI(s) signing the report is/are currently under this program.

18. FEE:
The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report or the physical report itself. Amount or payment of fee for services is not contingent on any result, approval amount or other estimates or statements.
19. INSULATION AND TOXIC MATERIALS:
In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea-formaldehyde foam insulation, and/or the existence of toxic material or waste, or other environmental hazards, which may or may not be present on the property, has not been considered. The appraiser is not qualified to detect such substances. We urge the user of this report to retain an expert in this field if desired. If such is present, the value of the property may be adversely affected and, therefore, must be reappraised at additional cost.

20. REVIEW:
Unless otherwise noted herein, named review Appraiser of/from Aguirre and Patterson, Inc. has reviewed the report only as to general appropriateness of technique and format, and has not necessarily inspected the subject or market comparable properties.

21. CHANGES, MODIFICATIONS:
The Appraisers and/or officers of Aguirre and Patterson, Inc., reserve the right to alter statements, analysis, conclusions or any value estimate in the appraisal if there becomes known to us facts pertinent to the appraisal process, which were unknown to us, when the report was finished.

22. FHLBB REGULATIONS:
Federal Home Loan Bank Board has special requirement for appraisals to be used by Savings and Loan Associations for some types of loans; this appraisal is not intended to be used for such unless specifically stated otherwise in the report. Any additional research, analysis, and report writing may be undertaken at a later date upon client request at additional fee for time and costs.

23. AFTER TAX ANALYSIS AND/OR VALUATION:
Any "after" tax income or investment analysis and resultant measures of return on investment are intended to reflect only possible and general market considerations, whether as part of estimating value or estimating possible returns on investment at an assumed value or price paid; note that the Appraiser(s) does
not claim expertise in tax matters and advises client and any other using the appraisal to seek competent tax advice as the Appraiser is in no way to be considered a tax advisor or investment advisor.

24. ACCEPTANCE OF, AND/OR USE OF, THIS APPRAISAL REPORT BY CLIENT OR ANY THIRD PARTY CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS. APPRAISER LIABILITY EXTENDS ONLY TO STATED CLIENT, NOT SUBSEQUENT PARTIES OR USERS OF ANY TYPE, and the total liability of appraiser and firm is limited to the amount of fee received by Appraiser.
SUBMARKET ANALYSIS

According to the Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, page 224, a submarket is a division of a total market that reflects the preferences of a particular set of buyers and sellers. According to definition, the submarket is considered to be the development along both sides of 23rd Street (F.M. 1926) bound by Nolana Avenue (F.M. 3461) on the north and Pecan Boulevard (F.M. 495) on the south. Twenty-Third Street is a main north-south commercial traffic artery for the submarket which leads south to McAllen Foreign Trade Zone #12 and the McAllen-Hidalgo International Bridge. Nolana Avenue and Pecan Boulevard are both main east-west commercial traffic arteries for the area.

Submarket development is mixed whereby development along 23rd Street includes convenience stores, restaurants, McAllen Public Library, office buildings, medical office buildings, banks, retail strip centers, bowling alley, neighborhood centers, K-Mart, etc. The back-lying areas feature numerous single-family residences, apartments, etc. Access to and through the submarket is good due to a network of paved feeder streets. Vacancies appear low throughout the area. A few vacant tracts await future development and utilities are readily available.
Signs of recent sales activity and increased lending indicate that the local real estate market is slowly recovering from a previous stagnant economic climate. This trend of slow recovery is expected to continue into the foreseeable future. The submarket is considered stable at present.
SITE ANALYSIS

The subject property consists of seven (7) vacant multifamily residential lots located at 2400-2504 Hibiscus Avenue, McAllen, Texas 78501. Lots are rectangular shaped and range in size from approximately 25,210 to 37,815 square feet with an average lot size of approximately 28,811 square feet. The subdivision is served by all underground utilities and private asphalt paved fire lane with concrete curbs and gutters. The site is bound by multifamily residential development, commercial development and a drain ditch. No survey, legal or engineering analysis of the subject has been made by us. It is assumed that the legal description and area computations furnished are accurate.

Access to the subject site is good via Hibiscus Avenue and a private asphalt paved fire lane. Hibiscus Avenue is a two-lane asphalt paved east-west residential feeder street with concrete curbs/gutters/street lighting and adequate storm drainage.

The subject is zoned R3-A - Apartments by the City of McAllen. The appraisers used InterFlood online service to determine the subject's flood zone which cites FIRM# 4803430005C, effective date November 2, 1982, that the subject is located within a flood zone “B” (subject to survey). Zone "B" does not require special flood hazard insurance. We recommend to you the client that you obtain a flood certificate to be certain. Census tract is 0207.21, map
reference Hidalgo County, Texas. All public utilities and services are available to the subject site. City bus transportation is available at 23rd Street. Telephone and electrical services are provided by various providers; water/sewer/garbage collection is provided by the City of McAllen as well as police and fire protection.

Two of the seven subject lots, Lots 6 and 7, are encumbered with a high-pressure gas line easement which traverses both lots diagonally from southwest to northeast (subject to survey). Any additional easements are for typical road and utility services (subject to survey).
 SUBJECT PHOTOGRAPHS

Looking North over Subject Lots

Looking West over Subject Lots
SUBJECT PHOTOGRAPHS (continued)

Looking West along Fire Lane, Subject On Left

Looking North along Fire Lane, Subject On Left
SUBJECT PHOTOGRAPHS (continued)

Looking West along Hibiscus Avenue, Subject on Right

Looking East along Hibiscus Avenue, Subject on Left
Definition and Scope

Highest and best use may be defined as "the reasonable and probable use that supports the highest present value, as defined, as of the date of the appraisal."

Alternatively, highest and best use is "the use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and that results in highest present land value."

The second definition applies specifically to the highest and best use of land or site as though vacant. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue unless and until land value in its highest and best use exceeds the sum of the value of the entire property in its existing use and the cost to remove the improvements.

An additional implication is that the determination of highest and best use results from the appraiser's judgment and analytical skill. The use determined from analysis represents an opinion, not a fact to be found. In appraisal practice the concept of highest and best use represents the premise upon which value is based.
The first type of highest and best use - highest and best use of land or a site as though vacant - assumes that a parcel of land is vacant or that it can be made vacant through the demolition of any improvements. The question to be answered in the analysis of this type of highest and best use is; if the land is (or was) vacant, what use should be made of it? That is, what type of building or other improvements (if any) should be constructed on the land? When a property's highest and best use can reasonably be forecast to change in the near future, the prevailing highest and best use is considered an interim use. For instance, the highest and best use of a farm in the path of urban growth would be interim use as a farm, with its future highest and best use as a potential residential subdivision. In certain cases, an appraiser's conclusion is that the highest and best use of a parcel of land is to be held vacant until price appreciates.

The second type of highest and best use - highest and best use of a property as improved - pertains to the use that should be made of the property, as it exists. Should a 30-year-old hotel building be maintained as it is, renovated, expanded, partly demolished, or any combination of these? Or should it be replaced with a use different in type or intensity? The use that maximizes
the investment property's net operating income (NOI) on a long-term basis is its highest and best use.

Analysis

For highest and best use of both land as though vacant and property as improved, a use must meet four criteria. The criteria are that the highest and best use must be 1) legally permissible, 2) physically possible, 3) financially feasible, and 4) maximally productive. These criteria should usually be considered sequentially; it makes no difference that a use is financially feasible if it is physically impossible to construct an improvement or if such a use is not legally permitted. Only when there is a reasonable possibility that one of the prior unacceptable conditions can be changed is it appropriate to proceed with the analysis (Appraisal Institute).

1) Legally Permissible: The subject lots are zoned R3-A - Apartments. There is no apparent deed or contractual restrictions that would prohibit multifamily residential use.

2) Physically Possible: The average lot size is approximately 28,811 square feet (subject to survey) which provides adequate space for a wide variety of uses that are legally permissible.
ANALYSIS AND STATEMENT OF 
HIGHEST AND BEST USE (continued)

The lots have good access from Hibiscus Avenue and a private paved fire lane. All city utilities and services are available.

3) Financially Feasible: All of the uses considered physically possible and legally permissible are also considered financially feasible. The amount of net income, which can be produced, should exceed the combined operating expenses, financial expenses, and capital amortization. Based on the previous criteria, multifamily residential use is expected to produce positive returns and is regarded as financially feasible.

4) Maximally Productive: Among the financially feasible uses, the use that provides the highest rate of return, or value, is the highest and best use. Multifamily residential use is expected to produce the highest rate of return.

Highest & Best Use - As Vacant

Based upon the preceding discussion, the highest and best use as vacant is expected to be for multifamily residential apartments.
Probable Future Success

The probable future success of the subject project is largely dependent on the following factors:

1. The ability of owner/investor to effectively promote and aggressively market the project within a reasonable marketing period; and,

2. The ability of owner/investor to assume all financial responsibility and required maintenance of the property throughout the marketing period.
An appraisal is an estimate of value; it is an opinion of value. Its accuracy depends on the basic competence and integrity of the appraiser and on the soundness and skill by which he processes the data. The professional appraiser seeks current facts and seeks to be practical. The appraiser's opinion must be without bias. As with other types of "markets" the real property appraiser does not make the market, but rather interprets the market.

The three classic approaches to value, namely the Cost Approach, the Income Approach, and the Sales Comparison Approach, each discussed separately below, are all comparative approaches in that the basic data comes from direct comparisons in the market, indirect comparisons in the market, and/or the appraiser's judgment which is based on market experience.

In the Cost Approach, the cost to reproduce the property at the date of the appraisal, less an appropriate allowance for depreciation (physical deterioration, functional obsolescence, and economic obsolescence) is made by market comparisons of cost and depreciation. When the value of the land is added, a good measure of the overall property value is realized. The subject property is developed and the Cost Approach is no longer applicable.
In the traditional Income Approach, the projected operating experience is estimated from comparable market data. Gross rental schedules, vacancy and collection losses, fixed expenses, operating expenses, and reserves are estimated and result in an estimate of net income. This net income is converted to an estimate of value by a capitalization process. The capitalization rate (interest rate and recapture rate) is based on demonstrated rates found in the market. The method and technique of capitalization is determined by the nature of the property in the market. In the case of the subject, income is derived through the sales of lots from the owner to an end user. The approach to such value is Subdivision Development Analysis. In Subdivision Development Analysis, the Sales Comparison Approach is utilized to estimate the summation of value (gross sales income) of the subject individual lots. Direct and indirect costs are deducted from an estimate of the anticipated gross sales income of the lots and, the resultant net sales proceeds are then discounted to present value at a market-derived rate over the absorption period to indicate a value. The Income Approach is utilized to estimate the prospective market value of the subject project "as if sold in a single transaction".
In the Sales Comparison Approach, the overall property is compared to sales of similar properties. The sales are analyzed to bring out similar characteristics to common denominators which may include price per square foot, price per lot, etc. Where necessary, adjustments are made to allow for differences such as date of sale, location, size and other factors. No sales of similar subdivisions as the subject which were sold in a single transaction were discovered; therefore, the Sales Comparison Approach is only applicable to estimate the individual lot values which will comprise gross sales income as previously discussed.
Perhaps the most difficult yet most critical conceptual aspect of subdivision valuation concerns the proper appraisal approach to value. Numerous questions continue to arise relative to what exactly is market value for a subdivision. Certain advocates promote the idea that gross sell-out of lot (summation of retail sales prices) constitutes market value, whereas other advocate the use of the discounted value of unit sales (wholesale value). Actually, both are correct under certain circumstances due to what can be best described as a double-tiered market phenomenon.

The two-tier participants are the end-product users or final lot owners and the “interim” purchasers. It is the basic purchase motivation and investment goal that differentiates these two tiers and ultimately results in dramatically different actual prices or value levels. Simply stated, in the case of a single lot, the applicable market tier is the retail or end-product users' tiers; whereas, a sizable number of lots or an entire project represents the entrepreneurial/investor tier which anticipates resale of individual lots to the end-product user.

From a practical standpoint, the appropriate market value tier for project development and/or financing of large numbers of completed lots is the latter described entrepreneurial/investor
INCOME APPROACH (continued)

tier. Only in the case of a single lot or a readily marketable quantity of lots is the end-use or retail market tier applicable.

Income Approach to Income-Producing Properties

An investor purchases the property for the benefits (income) that the property is expected to produce. Valuation of income-producing property is accomplished by discounting these benefits to a present worth estimate. In a typical income-producing property, the result of the capitalization process is the amount that a prudent, informed purchaser would be willing to pay at a fixed time for the right to receive the income stream produced by a particular property.

Discount Cash Flow Analysis or Interim Period Discounting

The process of valuing a subdivision by the Development Approach is typically referred to as the Discounted Cash Flow Analysis. This methodology of discounting the net cash flow is essentially the same as the income capitalization process. Both procedures essentially consist of a discounted or capitalized cash flow where net income streams generated by the respective properties are discounted or capitalized into present worth or value.
In a typical income-producing property, the income stream tends to be long term and stable, whereas, the revenue stream for a typical subdivision tends to have a relatively short duration which fluctuates dramatically. While not an appropriate procedure for typical income stabilization and overall capitalization often used for investment properties, interim period discounting is both conceptually and mathematically commensurate with overall capitalization; furthermore, it is considered the most appropriate income approach methodology for this subdivision appraisal.

The following appropriate expenses must be subtracted from the gross sell-out revenue to derive discounted value: the necessary absorption period holding cost or general overhead (including such items as taxes, insurance, advertising, grounds management, security or maintenance, unsold-lot real estate taxes, legal and accounting fees, etc.), and entrepreneurial incentive.
Discounted Cash Flow Analysis or Development Method

The appraisers explored methods of disposing of the subject property. In the “Development Approach”, the subject is subdivided into several smaller units in order to sell the property. Development costs and carrying charges are subtracted from the estimated proceeds and the net income is discounted over the sell-out period developed from the absorption rate.

Subdivision Development Analysis

Subdivision development analysis is an applicable method of estimating land value when subdivision and development represent the highest and best use of the land and when sales data on finished lots is available. The number and size of the finished lots, their likely sales prices, the length of development, length of marketing periods, and the absorption rate are estimated.

Subdivision development analysis is a complex appraisal process whereby direct and indirect costs are deducted from an estimate of the anticipated gross sales price of the finished lots and, the resultant net sales proceeds are then discounted to present value at a market derived rate over the development and/or absorption period to indicate value.
The development of any project extends over a construction stage and a marketing stage. Data on development sales and costs for the developed lots must be available. The developer usually provides the necessary information, including the subdivision plat; the development costs; the feasibility, marketability, and/or absorption study; and a schedule of prices. When the developer supplies this information, the appraiser has a responsibility to compare the information with other data in the market to see if the information reflects the actual market.

Subdivision development analysis may involve tracts of residential, commercial, or industrial land (or mixes of land uses) that are large enough to be subdivision into smaller lots or parcels and sold to builders or end users. A planned subdivision can create a higher, better, and more intense use of the property when zoning, available utilities, access, and other influential elements are favorably combined.

To estimate land value by subdivision development approach the appraiser is required to:

- accurately estimate the highest and best use of the land;
- create or affirm a supportable subdivision development plan;
• estimate the timing and cost for approval and development (including mitigation needs and costs of obtaining development entitlements);

• forecast a realistic pricing schedule over time;

• accurately forecast the lot absorption rate and price mix (including properly supported projections of community or market growth over the absorption period);

• accurately estimate the staging or phasing of land development and related expenses;

• forecast marketing and related holding expenses over the absorption period;

• estimate the annual real estate taxes;

• estimate the overhead and an entrepreneurial incentive as a line item allocation or within the discount rate; and,

• estimate the appropriate discount rate consistent with the selection of the line item allocation for entrepreneurial incentive.

In simplified form, the appraiser begins the analysis of a subdivision development by estimating the number and size of the lots that can be created from the appraised land, physically, legally, economically, and maximally productive. The proposed lots must conform to jurisdictional and zoning requirements with regard to size, frontage, topography, soil quality, and off-site improvements - i.e. water facilities, drainage, sewage, streets, curbs, and gutters. The lots must also meet the demands of the market in which the property is located. Without surveys and
INCOME APPROACH (continued)

engineering studies, an appraiser cannot know exactly how many lots can be created from a particular parcel of land. However, a reasonable estimate of the number of potential lots can often be deduced from zoning information, subdivision ordinances, or preferably, the number of lots or typical unit density reflected in similar subdivision. Allowances must be made for land area needed for streets, green space, water retentions, and any common areas.

A preliminary development plan for the hypothetical subdivision of the vacant land being appraised will specify many of the appraisers’ needed data. These items include:

- number and size of lots;
- construction work to be accomplished;
- probable time period for subdivision and construction of on-site and off-site infrastructure; and,
- expenses to be incurred during the marketing time.

The appraiser then undertakes a preliminary marketability analysis to assess the supply and demand situation and the probable absorption rate and marketing period needed for the absorption of the proposed lots. Accurate forecasts of product demand and competitive supply can reduce development risk and are critical to the analysis because the raw land value can vary widely depending on the rate at which lots are absorbed over time.
When appraising a larger portion of an already developed subdivision such as the subject, the steps are altered or modified to correspond with the scope of work. This has been defined previously and will be demonstrated later. The appraiser must estimate the projected retail prices of the lots by applying the Sales Comparison Approach. In some models, the appraiser may also estimate the amount of profit a typical developer would require to develop the land or, alternatively, to both develop and market the lots.

The next step in subdivision development analysis requires the appraiser to project the income and expenses associated with selling lots over the absorption period. Depending on the project size and sales velocity, annual, semi-annual, quarterly, or monthly periods are used. The projected periods begin with the property as is and continues until sell-out is completed or stabilized occupancy is achieved. For raw land conclusions, the net cash flows for each period are discounted back to time zero to arrive at the present value of the net cash flows. For raw land the discount rate applied, which is derived from and supported by the market, should reflect the risk involved. (Appraisal Institute)
Absorption Rate

The subject consists of (7) multifamily residential lots. The general consensus of opinion based on interviews with local developers is that a reasonable absorption period to sell-out the subject project would be approximately one year.

Gross Sales Revenue

In order to estimate the gross sales revenue, the appraisers must first estimate the average price per lot. The following recent comparable lot sales in the area are presented in order to estimate the average price per lot.
Comparable Sale #1

Location: 2129 Ebony Avenue, McAllen, Texas
Date of Sale: April 26, 2017
Consideration: $35,000.00 - (Original List Price $39,900.00 - DOM 109)
Unit Price: $5.00 per square foot
Financing: Cash
Description: Rectangular shaped corner lot; 50’ x 140’; frontage along Ebony Avenue and 21st Street; approximately 7,000 square feet; zoned multifamily residential; all utilities available; FIRM zone "B"; improved with residence to be moved.
Legal Description: Lot 8, Block 14, Hammond’s Addition, City of McAllen, Hidalgo County, Texas
Grantor: Sergio Moya
Grantee: Marco A. Leale
Recording: Document #2809646, HCDR
Verification: Agent/MLS#: 202585/Deed
Comparable Sale #2

Location: 1000 East Daffodil Avenue, McAllen, Texas
Date of Sale: December 8, 2017
Consideration: $160,000.00 - (Original List Price $190,000.00 - DOM 109)
Unit Price: $7.33 per square foot
Financing: Cash
Description: Rectangular shaped inside lot; 140’ x 156’; approximately 21,840 square feet; zoned multifamily residential; all utilities available; FIRM zone "B"; purchased for development.
Legal Description: Lot 15A, Willow Ridge Subdivision, City of McAllen, Hidalgo County, Texas
Grantor: CA-AM Investments, LLC
Grantee: James and Cheryl D. Johnson Hughes
Recording: Document #2871614, HCDR
Verification: Agent/MLS#: 211056/Deed
Comparable Sale #3

Location: 1718 West Ivy Avenue, McAllen, Texas
Date of Sale: February 14, 2018
Consideration: $115,000.00 - (Original List Price $125,000.00 - DOM 512)
Unit Price: $8.22 per square foot
Financing: Cash
Description: Rectangular shaped corner lot; 93.32’ x 150’; frontage along Ivy Avenue and Bicentennial Boulevard; approximately 13,998 square feet; zoned commercial which allows multifamily residential; all utilities available; FIRM zone "B"; purchased for development.
Legal Description: W92.32’ Lots 7, 8 and 9, Block 20, Ewing’s Addition, City of McAllen, Hidalgo County, Texas
Grantor: Sergio A. and Elsa Morfin
Grantee: Roberto H. and Beatriz Sylvia Gonzalez
Recording: Document #2890430, HCDR
Verification: Agent/MLS#: 199641/Deed
COMPARABLE SALES MAP
INCOME APPROACH (continued)

COMPARABLE SALES GRID

Seven Vacant Multifamily Residential Lots
2400-2504 Hibiscus Avenue, McAllen, Texas 78501

<table>
<thead>
<tr>
<th>Adjustment</th>
<th>Subject</th>
<th>Comp 1</th>
<th>Comp 2</th>
<th>Comp 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Price</td>
<td>$35,000</td>
<td>$160,000</td>
<td>$115,000</td>
<td></td>
</tr>
<tr>
<td>Price/SF</td>
<td>$5.00</td>
<td>$7.33</td>
<td>$8.22</td>
<td></td>
</tr>
<tr>
<td>Financing Terms</td>
<td>Cash</td>
<td>Cash</td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Conditions of Sale</td>
<td>Arms</td>
<td>Arms</td>
<td>Arms</td>
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</tr>
<tr>
<td></td>
<td>Length</td>
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<td>Length</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Market Conditions</td>
<td>Apr-17</td>
<td>Dec-17</td>
<td>Feb-18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>Adjusted Price/SF</td>
<td>$5.00</td>
<td>$7.33</td>
<td>$8.22</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>Hibiscus</td>
<td>Ebony/21</td>
<td>Daffodil</td>
<td>Ivy/Bicen</td>
</tr>
<tr>
<td></td>
<td>+30%</td>
<td>-5%</td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>Access</td>
<td>Equal</td>
<td>Equal</td>
<td>Equal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>Size/SF</td>
<td>28,811</td>
<td>7,000</td>
<td>21,840</td>
<td>13,998</td>
</tr>
<tr>
<td></td>
<td>-20%</td>
<td>-0-</td>
<td>-10%</td>
<td></td>
</tr>
<tr>
<td>Net Adjustments</td>
<td>+10%</td>
<td>-5%</td>
<td>-15%</td>
<td></td>
</tr>
<tr>
<td>Adj. Value/SF</td>
<td>$5.50</td>
<td>$6.96</td>
<td>$6.99</td>
<td></td>
</tr>
</tbody>
</table>
Explanation of Adjustments

Adjustments are based on a paired sales analysis tempered by the appraisers’ knowledge of the market. Location adjustments are based on surrounding development. Etc. Size adjustments are based on the market phenomenon that smaller units typically command higher unit values. The subject and comparable sales are considered equal for other aspects with no adjustments necessary.

Comparable #1 ---------- $5.50 per square foot
Comparable #2 ---------- $6.96 per square foot
Comparable #3 ---------- $6.99 per square foot

Summation of Retail Sales

Based on the adjusted range, $6.50 per square foot is considered to be reasonable and supportable for the subject lots. Thus, 28,811 square feet average size lot times $6.50 per square foot equals $187,272.00 average price per lot. The total estimated anticipated gross retail sales are calculated on the following page.
INCOME APPROACH (continued)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Lots Sold</th>
<th>Average Price/Lot</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7</td>
<td>$187,272.00</td>
<td>$1,310,904.00</td>
</tr>
</tbody>
</table>

General Overhead, Sales Expense, and Sales Commissions

After examining the operating budget for other comparable projects in the area and considering the subject’s total number of lots, the appraisers estimate the general overhead and sales expenses to be 6% of the gross sales.

Real Estate Taxes

The real estate taxes will eventually be the responsibility of each individual lot owner. Annual taxes are estimated at $26,388.00 per year based on actual. Because the taxes will eventually be the responsibility of each individual lot owner, taxes for the developer are estimated at $13,194.00 for the projected one year holding period.

Maintenance

This allowance is to keep the lots clean, mowed, and ready for sale. This item is estimated at about at $1,800.00 for the one year holding period.
Entrepreneurial Incentive

Entrepreneurial incentive is defined as “A market-derived figure that represents the amount an entrepreneur expects to receive from his or her contribution to a project and risk.” (Subdivision Valuation, Appraisal Institute, 2008, page 229) The appraisers estimate a rate of 10% of the gross sales for entrepreneurial incentive based on local investor survey.

Discount Rate

To estimate the market value of the subject, the appraisers must estimate the discount rate. The discount rate is the rate used for the discounting process. Discounting is a general term used to describe the process of converting future cash flows into a present value based on the concept that benefits received in the future is worth less than the same benefits received today. The discount rate is established by interpreting the current market investment rates. One method of establishing a discount rate is called the “built-up rate” or the “summation rate”. This rate is comprised of the sum of four basic elements. These are the safe rate, burden of management, liquidity, and risk. This discount rate is, then, used to discount the net income over the projected
sell-out period of one year. To select the applicable rate for the subject, and gauge the market effectively, the appraisers survey the current earning rate of alternative investments available. The alternative investments include the following:

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year Treasury</td>
<td>2.320%</td>
<td>7/18</td>
</tr>
<tr>
<td>2 Year Treasury</td>
<td>2.570%</td>
<td>7/18</td>
</tr>
<tr>
<td>5 Year Treasury</td>
<td>2.750%</td>
<td>7/18</td>
</tr>
<tr>
<td>1 Year CD</td>
<td>2.550%</td>
<td>7/18</td>
</tr>
<tr>
<td>2 Year CD</td>
<td>2.800%</td>
<td>7/18</td>
</tr>
<tr>
<td>5 Year CD</td>
<td>3.100%</td>
<td>7/18</td>
</tr>
<tr>
<td>*Local Investor Survey</td>
<td>8%-12%</td>
<td>7/18</td>
</tr>
</tbody>
</table>

*In an informal local survey conducted by the appraisers, the question posed was “What rate of return would it take for you to invest in the purchase of the subject's seven (7) multifamily residential lots located in McAllen, Texas?

As can be noted, the range of actual and expected returns is wide. The primary reason is the risk associated with the different investment alternatives. The investments with the lower rates are considered to be “safe”. Typically, the higher the risk associated with an investment, the higher the expected rate of return. Since real estate is considered an investment with higher risk, the expected rate of return is usually greater than those of “safe” investments.
In recognition of the preceding information, an interest rate appropriate to real property investment may be rationalized in terms presented on the following page.

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe Rate (minimum risk)</td>
<td>2.50%</td>
</tr>
<tr>
<td>Add for Additional Risk</td>
<td>3.00%</td>
</tr>
<tr>
<td>Add for Non-Liquidity</td>
<td>3.00%</td>
</tr>
<tr>
<td>Add for Burden of Management</td>
<td>1.50%</td>
</tr>
<tr>
<td>Rate Applicable</td>
<td>10.00%</td>
</tr>
</tbody>
</table>

In the appraisers' opinion, the discount rate falls within a range considered typical of real estate investments. In the subject’s scenario, the line-item profit has been included as part of the expenses in the discounted cash flow analysis; therefore, a discount rate of 10.0% is considered reasonable.

Valuation Conclusion

From the expected revenues (summation of retail sales), deductions are made for sales commissions, general overhead and sales expenses, real estate taxes, maintenance and entrepreneurial incentive. The discounted market value estimate for the subject property as if sold in a single transaction is calculated on the following page.
## INCOME APPROACH (continued)

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Inventory</strong></td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td><strong>Number of Lots Sold</strong></td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td><strong>Ending Inventory</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Average Price Per Lot</strong></td>
<td>$187,272</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$---</td>
</tr>
<tr>
<td><strong>Gross Sales Income</strong></td>
<td>$1,310,904</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$1,310,904</td>
</tr>
<tr>
<td><strong>Less Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead</td>
<td>6.0%</td>
<td>$78,654</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>78,654</td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td>$13,194</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9,839</td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
<td>$1,800</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,800</td>
</tr>
<tr>
<td>Entrep. Incentive</td>
<td>10%</td>
<td>$131,090</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>131,090</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$224,739</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$224,739</td>
</tr>
<tr>
<td><strong>Net Sales Proceeds</strong></td>
<td>$1,086,165</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Discount Rate</strong></td>
<td>10.0%</td>
<td>x</td>
<td>(0.909091)</td>
<td>(0.826446)</td>
<td>(0.751315)</td>
<td>(0.683013)</td>
<td>(0.620921)</td>
</tr>
<tr>
<td><strong>Total Discounted Cash Flow</strong></td>
<td>$987,423</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$987,423</td>
</tr>
<tr>
<td>Year 1</td>
<td></td>
<td>$987,423</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Year 2</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Year 3</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Year 4</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Year 5</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Year 6</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Est. Discounted Market Value</strong></td>
<td>$987,423</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$987,423</td>
</tr>
<tr>
<td>ROUNDED TO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$985,000</td>
</tr>
</tbody>
</table>
The only approach to value was the Income Approach. The Income Approach estimates gross income and expenses based on actual projection data, which is abstracted from the market. In this case, the Income Approach is a subdivision development analysis whereby direct and indirect costs were deducted from an estimate of the anticipated gross sales price of finished lots and the resultant net sales proceeds was then discounted to present value at a market-derived rate over the projected absorption period to indicate value. The approach indicates a value of the subject lots as if sold in a single transaction. The Income Approach produced a value estimate “as if sold in a single transaction” of $985,000.00.
CERTIFICATE OF VALUE

As a result of the appraisal and analysis, it is the appraisers’ opinion that the prospective market value "as if sold in a single transaction" of the subject property as of July 23, 2018, is expected to be as follows:

NINE HUNDRED EIGHTY-FIVE THOUSAND DOLLARS
($985,000.00)

Extraordinary Assumptions: Two of the seven subject lots, Lots 6 and 7, are encumbered with a high-pressure gas line which traverses both lots diagonally from southwest to northeast. The prospective market value opinion is predicated on the assumption that the two encumbered lots could be developed without diminution in value from the location of the gas line. The prospective market value opinion is intended to reflect current expectations and perceptions of market participants along with available factual data. The appraisers cannot be held responsible for unforeseeable events that alter market conditions prior to completion of the projected sell-out period of one year. The use of extraordinary assumptions in this appraisal report might have affected the assignment results (see page 19 "Extraordinary Assumption Defined").

Exposure Period: Based upon the appraisers' analysis of past events assuming a competitive and open market, the appraisers estimate a reasonable exposure period for this type of property at the prospective market value "as if sold in a single transaction" estimated in this report would not have exceeded twelve months.

Joe Patterson, MAI, SRA
TX-1321595-G

Joe Cheaney, MNAA
TX-1322541-G
Texas Appraiser Licensing and Certification Board
P.O. Box 12188 Austin, Texas 78711-2188

Certified General Real Estate Appraiser

Number: TX 1321595 G
Issued: 12/19/2017 Expires: 12/31/2019
Appraiser: JOSEPH WILLIAM PATTERSON III

Having provided satisfactory evidence of the qualifications required by the Texas Appraiser Licensing and Certification Act, Texas Occupations Code, Chapter 1103, is authorized to use this title, Certified General Real Estate Appraiser.

Douglas E. Oldmixon Commissioner
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III

State Licensing and Certification
Licensed and certified by the State of Texas as a General Real Estate Appraiser: License Number - TX-1321595-G (Date of Issue: December 19, 2017; Date of Expiration: December 31, 2019)

Professional Designations
Member of Appraisal Institute with MAI and SRA Designations

Education
Bachelor of Business Administration from Baylor University, Waco, Texas

Graduate Study at Baylor University Law School, Waco, Texas

Continuing Education in Real Estate and Appraising at University of Houston, University of Texas, University of North Carolina, San Diego University, University of Colorado, University of Illinois, Mills College (Oakland), and University of Texas Pan American

Professional Affiliations
Member of the McAllen Association of Realtors

Member of the Texas Association of Realtors

Member of the National Association of Realtors

Professional Offices Held
President of Rotary Club of McAllen, Texas, Chapter #2076, 1996-1997

President of the Society of Real Estate Appraisers, Rio Grande Valley, Chapter #144 - 1983-1984

Board of Directors of the Society of Real Estate Appraisers, Waco, Texas, Chapter #145 - 1975-1977
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III (continued)

Board of Directors of the Society of Real Estate Appraisers, Rio Grande Valley, Chapter #144 - 1976-1991

Board of Directors of the American Institute of Real Estate Appraisers, South Texas Chapter #29 - 1986 - 1991

Teaching Experience
Instructor for Real Estate Appraising and Real Estate Law at Hill Junior College, Hillsboro, Texas

Substitute Instructor for Real Estate Principles, Real Estate Law, Real Estate Finance, Real Estate Appraising, and Business

Professional Experience
Appraising since 1971, Joe Patterson was an independent appraiser with Smith Real Estate Association in Waco, Texas for five years. He was also a staff appraiser for First Federal Savings and Loan Association in Waco, Texas, for one year. He then associated himself with D.U. Buckner, a local MAI, for seven years as an independent fee appraiser. In 1984 he opened his own office and currently covers the Rio Grande Valley area from his McAllen office.

As an appraiser for the past 45 years, he has worked on the following types of properties: single family residences, duplexes, apartments, manufacturing properties, shopping centers, discount houses and supermarkets, hospitals, hotels and motels, funeral homes, restaurants, storage buildings, office buildings, country clubs, golf courses, mobile home parks, nursing homes, gasoline stations, taverns, land developments, churches, schools, medical clinics, international bridges and border stations, fire stations, warehouses, banks, farms, ranches, bowling alleys, convention centers, grain elevators, gins, condominium projects, flood processing plants, civilian airport facilities, and "FIRREA" affordable housing program. Other assignments include partial taking, right of ways, eminent domain, easements, and partial interests.

Joe has also served as the guest speaker and lecturer for numerous local service clubs, professional organizations and schools, including University of Texas Pan American.
Recently Completed Course Studies

Basic Appraisal Principles, offered by the Appraisal Institute, North Texas Chapter, Arlington, Texas, May 2007

Scope of Work & Appraiser Due Diligence, No. 036, offered by the Columbia Institute, San Antonio, Texas, April, 2007

USPAP Update #101, offered by the Columbia Institute, San Antonio, Texas, April, 2007

Fundamentals of Appraisal Review, No. 105, offered by the Columbia Institute, Harlingen, Texas, April, 2007

FHA, the URAR & the 1025, No. 104, offered by the Columbia Institute, Harlingen, Texas, April, 2007

Business Practices and Ethics, offered by the Appraisal Institute, San Antonio Chapter, February, 2007

Uniform Standards of Professional Practice, USPAP Update, offered by the Appraisal Institute Houston Chapter, September, 2005

Litigation Skills for this Appraiser, offered by the Appraisal Institute Houston Chapter, September, 2005

Ethics & Special Purpose Properties, offered by the Appraisal Institute Houston Chapter, September, 2005

Appraising from Blueprints and Specifications offered by The Appraisal Institute Online Continuing Education Program, Chicago, Illinois, February 1, 2005.

Uniform Standards of Professional Practice, USPAP Update, offered by the Appraisal Institute North Texas Chapter, June 6, 2003

Small Hotel/Motel Valuation Offered by the Appraisal Institute Online Continuing Education Program, Chicago, Illinois, November 4, 2002
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III (continued)

Appraisal Procedures Offered by the Appraisal Institute at Daniels College of Business, Denver, Colorado, August 26-31, 2002

Techniques of Appraisal Review, offered by the Columbia Institute in San Antonio, Texas, Course #108, October 13, 2001

Residential Appraisal Update, offered by the Columbia Institute in San Antonio, Texas, Course #117, October 12, 2001

Standards of Professional Practice, Part C, offered by the Appraisal Institute in Austin, Texas, September 13-14, 2001

GIS and Appraising offered by the Appraisal Institute in Austin, Texas, August 27, 1999

1999 FHA Appraisal Rules #119 offered by the Columbia Institute in McAllen, Texas, September 10, 1999

Standards of Professional Practice, Part C offered by the Appraisal Institute in Austin, Texas, September 23-24, 1999

Comprehensive Examination Prep offered by the Appraisal Institute in Bryan/College Station, Texas, February 3-7, 1998

Columbia Institute, Harlingen, Texas, February 28 and March 1, 2011

Practice of Appraisal Review - FHA Protocol, No. 145  8 Hours
2010-2011 USPAP Update, No. 101          7 Hours
Total Appraiser Continuing Education (ACE)           15 Hours

Columbia Institute, Harlingen, Texas, August 1 and 2, 2011

The Mortgage Loan System, No. 015             5 Hours
Report Writing-the UAD, No. 120           8 Hours
Total Appraiser Continuing Education (ACE)         13 Hours

USPAP Update 2012/2013, No. 101, offered by the Columbia Institute, Austin, Texas, January 18, 2013

Appraising in a Depressed Market, No. 125, offered by the Columbia Institute, Austin, Texas, January 16, 2013
QUALIFICATIONS OF THE APPRAISER
JOSEPH W. PATTERSON, III (continued)

Interagency Rules of Banks and Credit Unions, No. 011, offered by the Columbia Institute, Austin, Texas, January 15, 2013

Write It Right, No 148, offered by the Columbia Institute, Austin, Texas, January 17, 2013

Online Appraisal Curriculum Overview – Residential, offered by the Appraisal Institute, January 14, 2013

Online Business Practices and Ethics, offered by the Appraisal Institute, December 12, 2012

Real Estate Principals, offered by 003FreeMCEhours online, February 19, 2015

TREC Ethics MCE, offered by 003FreeMCEhours online, February 3, 2015

TREC Legal Update, offered by 003FreeMCEhours online, January 16, 2015
Texas Appraiser Licensing and Certification Board
P.O. Box 12188 Austin, Texas 78711-2188
Certified General Real Estate Appraiser

Number: TX 1322541 G
Issued: 01/11/2018 Expires: 02/29/2020
Appraiser: JOE EDWARD CHEANEY

Having provided satisfactory evidence of the qualifications required by the Texas Appraiser Licensing and Certification Act, Texas Occupations Code, Chapter 1103, is authorized to use this title, Certified General Real Estate Appraiser.

Douglas E. Oldmixon
Commissioner
QUALIFICATIONS OF THE APPRAISER
JOE CHEANEY

State Licensing and Certification
Licensed and certified by the State of Texas as a General Real Estate Appraiser since February, 1992: License Number – TX-1322541-G (issued January 11, 2018, and expiring February 29, 2020)

Professional Designations
Member of the National Association of Appraisers with MNAA Designation

Education
Pan American University, Accounting Major

Over 364 hours of appraisal continuing education (ACE) courses from Robinson Real Estate School, Houston, Texas, Columbia Institute, Houston, Texas, and McKissock School of Appraisal Education, E-Campus. Most recently completed courses:

McKissock School of Appraisal Education, E-Campus, January 31, 2014, February 1, 2 & 4, 2014

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<td>Even Odder - More Oddball Appraisals</td>
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McKissock School of Appraisal Education, E-Campus, March 12, 2015; November 4, 2015; December 15, 2015; January 7, 2016

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<td>Advanced Hotel Appraising – Full Service Hotels</td>
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<td>2016-2017 7-hour National USPAP Update Course</td>
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<td>Appraisal of Fast Food Facilities</td>
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<td>Total Appraisal Continuing Education (ACE)</td>
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</table>
Professional Experience

Joe Cheaney joined the staff of Aguirre & Patterson, Inc. as a licensed appraiser in February, 1990. As an independent fee appraiser, he has worked on the following types of properties throughout the Rio Grande Valley: Duplexes, apartments, packing sheds, shopping centers, discount warehouses, restaurants, self-storage projects, public and vocational schools, office buildings, golf courses, green houses, bowling alleys, mobile home parks, lumber yards, international bridges and border stations, Laundromats, convenience stores, land developments, churches, hospitals, medical offices, outpatient clinics, fire stations, car wash facilities, truck stops, miniature golf courses, arcades, partial interests, partial takings, marinas, night clubs, grain elevators and related grain storage facilities, civilian airport facilities, acreage, food processing plants, hotels, convention/civic centers, lake property, warehouses, “FIRREA” affordable housing disposition program, expert witness, HUD/FHA Fast Track Appraisal Processing and the Uniform Appraisal Standards for Federal Land Acquisitions.
July 20, 2018

MCALENN HOUSING AUTHORITY
c/o Mr. Daniel Delgado
2301 Jasmine Avenue
McAllen, Texas 78501

RE: Appraisal Report of seven (7) multifamily residential lots located at 2400-2504 Hibiscus Avenue, McAllen, Texas 78501

Pursuant to your request, I am sending you the following proposal to perform an appraisal report of the above-referenced property legally described as Lots 1, 2, 3, 4, 5, 6 and 7, W.H. Graner Subdivision, Unit No. 2, an Addition to the City of McAllen, Hidalgo County, Texas. Prior to engagement and acceptance of this assignment, we are required to notify you as the potential client that we have performed an appraisal related service with regards to this property within the past three (3) years. An appraisal report is intended to comply with the minimum reporting requirements set forth in Standards Rule 2-2(a) of the current 2018-2019 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP).

The scope of work to be performed for McAllen Housing Authority as our client relative to the subject property will include research and analysis of comparable lot sales, entrepreneurial incentive, absorption rates, holding expenses, discount rates and opinion of market value.

The fee for services will be $750.00. Barring any unforeseen circumstances, delivery of the report via email will be within ten (10) working days from engagement of the assignment.
MCALLLEN HOUSING AUTHORITY
C/O MR. DANIEL DELGAZO

Please, sign and return as written confirmation. If you have any questions, please, contact me via my email address jccheoney@gmail.com or by phone at (956) 686-4532.

Respectfully submitted,

Joe Cheaney, MNAA
TX-1322541-G

Daniel Delgado
Aguirre & Patterson, INC.
3315 N. McColl Road
McAllen, Tx 78501
Hidalgo

Voice: (956) 686-4532
Fax: (956) 686-6011

Bill To:
MCALLEN HOUSING AUTHORITY
c/o Mr. Daniel Delgado
2301 Jasmine Avenue
McAllen, Texas 78701

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<td>An Appraisal report of seven (7) Vacant multifamily residential lots located at 2400-2504 Hibiscus Avenue, west of 23rd Street, McAllen, Texas 78501</td>
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Subtotal 750.00
Sales Tax 0.00
Total Invoice Amount 750.00
Payment/Credit Applied
TOTAL 750.00