

A dirt path leads through a field of tall, golden-brown grass under a clear blue sky filled with stars. The path is in the foreground, leading towards the horizon. The grass is dense and reaches up to the path. The sky is a deep, clear blue, and numerous stars of varying brightness are scattered across it. A few small, dark trees are visible on the horizon line.

APPENDIX. B
Economic Analysis

ECONOMIC ANALYSIS

BACKGROUND

The housing character within Dripping Springs takes advantage of the natural surroundings by incorporating hill country views, proximity to creeks, and treescapes to neighborhoods and home sites. Single family housing units have traditionally been quite rural on large lots or significant acreage. Though as the population has risen, more master planned residential developments have been developed to accommodate the growing population. Various housing types have been developed or introduced throughout the city, including duplexes, triplexes, and multifamily. Currently the City of Dripping Springs is known for its high price luxury homes on mid- to large-sized lots. One issue that has arisen is the decreasing affordability for a large segment of the population. The housing within Dripping Springs is not affordable to many including those employed by Dripping Springs ISD, the City of Dripping Springs, retail and restaurants within Dripping Springs.

NATIONAL MARKET

The US Department of Housing & Urban Development (HUD) reported in their July 2022 Housing Market Update that the last 12 months have seen existing home sales decline by 14.3% from July of 2021. Inventory of new and existing homes for sale has risen, with new homes up from 8.4 months in May 2022 to 9.3 months in July 2022. The inventory of existing homes has seen an increase to 3.0 months in July 2022, up from 2.6 months in May 2022. Lastly, the average inventory of homes for sale is 6 months. Based on research by HUD, the overall national housing market is slowing which could offer a more affordable market. With housing inventory rising and home sales decreasing there is the possibility that the power in the housing market will shift in favor of homebuyers and away from home sellers.

Another observable trend in terms of residential development is the fall in homeownership rates. Since 2006, there has been a growing share of households that are characterized as renter-occupied although there has recently been a brief increase in ownership rate observed in 2020. The trend of declining home ownership has been especially pronounced among younger families (head of household at ages 35 to 44). The rate of homeownership has declined by over 9% for families ages 35 - 44 years of age during the period of Q4 2007 to Q4 2020, compared to an overall decline of 2.9% for all households in the United States.

Change In National Homeownership Rate
2000 to Q4 2007 Q4 2007 to Q4
2020

All Ages	1%	-2.9%
Ages < 35	1.2%	-6.1%
Ages 35 - 44	-0.1%	-9.2%
Ages 45 - 54	-1.2%	-7.1%
Ages 55 - 64	-0.5%	-5.5%
Ages > 65	0.2%	-0.1%

There are a variety of factors that influence the decision-making process when it comes to ownership or rentership including price (loan amount), location, access to jobs, neighborhood design, family transition (e.g. empty nesters), and other factors. Demographic factors such as age, household composition, income, and current housing situation impact the decision to buy or rent a home. The major factors impacting younger buyers' decisions include mortgage accessibility, student loan debt, and the potential delayed onset of marriage and children. For younger households, student loans present one of the biggest impediments to homeownership, potentially disqualifying this generation from mortgage loans because of low credit scores and high debt ratios.

Homeownership rates have generally declined since 2000 for all age groups, but the 35 to 44 year old group has experienced the largest decline. At the peak of ownership, 70% of this age group identified as homeowners in 2005, and that proportion has fallen to 61% in 2020. While the homeownership rate of all households remains stable around 61% it is interesting to note that the two age groups with less than national average ownership rates are the under 35 years old group, and the 35 to 44 year old group. As well, there is an observable trend in propensity for ownership and age, the 65 years or older group has the highest ownership rate, followed by the 55 to 64 years old group, and the 45 to 54 year old group, all of which are above the national average.

With increasing land and material costs, housing supply shortages, and increased construction costs, development continues to create pressure on housing prices. However, an anticipated slowing of home sales and appreciation within certain price segments looms on the horizon. An increase in interest rates and/or tightening of credit could soften housing prices and increase supply. However, the low interest rates experienced over the last few years have enabled buyers to afford higher-cost housing. A major economic shift would likely result in an increase of existing inventory and slowing of price appreciation, which would primarily impact the entry-level and middle-market product.

Homebuyers in the United States are currently facing difficult housing market factors and conditions including rising construction costs, rising land costs, rising regulatory costs, low inventory, and rising mortgage rates. Rising home prices also cause buyers to spend more on property taxes and property insurance. In the first week of September 2022, 30Y fixed rates reached 5.66%, the highest point since July of 2009 and a sharp rise from the lowest recorded rates of 2.65% in January of 2021. With a loaned amount of \$400,000 (\$500,000 home with 20% down payment), the monthly payment at 2.65% is \$1,612 and at 5.66% is \$2,311. Ultimately, lower mortgage rates increase buyers' purchasing power as they spend less of their mortgage payment on interest, however, mortgage costs are increasingly exceeding national Fannie and Freddie maximums of 36% debt-to-income ratio of manually underwritten loans (or 45% with qualifying credit score and financial reserves). Future pressure will continue to create housing instability and decreased affordability.



In 2020 the US Census Bureau and the US Department of Housing & Urban Development Office of Policy Development and Research conducted a survey of new homes constructed in the United States. Their research showed that the average home sold had a median size of 2,333 sf, a median lot size of 7,905 sf, and a median sales price of \$391,300. Of those homes sold, 52% had four or more bedrooms, 37% had three bedrooms, 93% had a two or more car garage. Since the US Census Bureau and the US Department of Housing & Urban Development began tracking this data, median home sizes have increased from the smallest size of 1,530 sf in 1982 to hovering around 2,300 to 2,500 sf since 2010. Median lot sizes have been decreasing, reaching their peak of 10,000 sf in 1990, with 2019 and 2020 the first years showing median lot sizes under 8,000 sf. Many of these decreases in lot sizes for master planned developments are due to buyers favoring more amenitized developments and being willing to purchase smaller lots to be able to have those amenities.



AUSTIN & TEXAS MARKET

The Texas A&M Real Estate Center reported the Austin-Round Rock Metropolitan Statistical Area (MSA) has reported overall housing unit sales have decreased 28.3% from July 2021 while inventory for housing units has risen steadily since April of 2022. Housing cost has continued to increase within the Austin Round-Rock MSA as the median sales price rose from \$477,000 in July 2021 to \$515,000 in July 2022. Lastly, homes increased in how much time they spent on the market, from 53 to 74 days. Overall the regional housing market is trending toward a buyer's market as inventory grows and the volume of sales decreases. The Texas A&M Real Estate Center reported that in July of 2022 the Austin-Round Rock MSA had 2.7 months of housing inventory. A balanced market is said to be one that has an average of 6 months of housing inventory. In this month the Austin-Round Rock MSA had a total of 2,849 sales with an average sale price of \$645k and a median sale price of \$515k.

DRIPPING SPRINGS MARKET

As of 2021, the City of Dripping Springs had 1,983 housing units and the Dripping Springs ETJ (which includes the city) had 10,565 housing units. The significant difference is attributed to the large ETJ boundary that Dripping Springs has established. Most homes in Dripping Springs (66.52%) have been built in the 1990s or later, with 20.90% of the total housing stock having been built in 2014 or later. Compared to Austin-Round Rock MSA data, Dripping Springs and its ETJ have much newer housing stock with a higher percentage of homes being built in the 2000s due to the recent growth seen in the Dripping Springs area.

The median home value in Dripping Springs at \$418,343 was significantly above the state median home value at \$224,879 (1.86x). If residents don't have comparable incomes to match the elevated home values, a reduction in disposable income can occur due to relatively higher housing costs. The average household size within Dripping Spring is 2.71, slightly lower than the ETJ's at 2.86.

The City of Dripping Springs' housing stock is mostly owner-occupied at 85.7%, significantly higher than rates of Texas at 63.4% and the Austin-Round Rock MSA at 59.5%. It is projected that the Austin-Round Rock MSA will increase to 60.5% owner occupied in 2027 and 87.6% owner occupied in Dripping Springs. Therefore the regional and local housing market is trending towards owner occupied housing units. Vacancy among housing units is low at 3.4% and is predicted to stay at that rate through 2026.

HOUSING CHARACTER IN DRIPPING SPRINGS

Single family detached units make up the majority of the housing stock within Dripping Springs, taking up 66.4% while single family attached units make up an additional 3.4%. The housing character within Dripping Springs embodies the Germanic architecture of the hill country, focusing on stone exteriors and exposed wood rafters and pillars. Residential development can be found all throughout the city with historic homes in close proximity to downtown and larger master planned communities on the outskirts of the city limits. Below are examples of housing character in the Dripping Springs area.

SUBURBAN RESIDENTIAL



Source: Zillow

GARDEN HOME



Source: Zillow

ESTATE RESIDENTIAL



Source: Zillow

MOBILE HOME



Source: Zillow

RURAL RESIDENTIAL



Source: Zillow

The table below shows the current (2022) and projected (2027) values of owner-occupied housing units within Dripping Springs. The majority of the owner-occupied housing stock in Dripping Springs (68.1%) is valued between \$300K to \$750K with the largest segment being the \$500K to \$750K range at 26.0%.

Owner-Occupied Housing Units by Value	2022	2027
Less than \$100k	2.9%	0.1%
\$100k to \$200k	1.3%	0.2%
\$200k to \$300k	10.1%	6.5%
\$300k to \$400k	22.0%	21.5%
\$400k to \$500k	22.1%	29.7%
\$500k to \$750k	26.0%	30.4%
\$750k to \$1M	12.8%	9.7%
\$1M to \$1.5M	2.5%	1.8%
\$1.5M to \$2M	0.2%	0.2%
\$2M or greater	0.1%	0.1%

Hays County Appraisal District parcel data was analyzed to group housing types into buckets of similar character and the associated market values recorded by Hays CAD. The numbers displayed in each table is the ratio of that home character and value to the total housing units within the Dripping Springs city limits. The character types are described as below:

- Suburban Residential - traditional suburban or tract home development with lots generally ranging from 5,000 SF to 1 acre.
- Garden Homes - homes built on small lots with minimal setbacks

- Estate residential - homes in neighborhoods with lots 5 acres or larger
- Rural residential - homes built outside of a traditional suburban neighborhood development
- Mobile homes - manufactured housing within or outside of a neighborhood development

Type	Home Value									
	< \$100k	\$100k- \$200k	\$200k- \$300k	\$300k- \$400k	\$400k- \$500k	\$500k- \$600k	\$600k- \$800k	\$800k- \$1M	\$1M- \$1.5M	> \$1.5M
Suburban Residential	1.1%	5.2%	8.6%	23.2%	22.8%	13.5%	8.9%	1.6%	0.3%	0.1%
Garden Homes			1.8%	2.4%	1.0%	0.1%				
Estate Residential				0.1%	0.1%		0.4%	0.1%	0.9%	0.4%
Rural Residential		0.4%	0.1%	0.3%	0.4%	0.1%	0.3%			
Mobile Homes	4.1%	0.7%	0.1%	0.2%	0.1%	0.1%	0.1%			

some apartments are under construction. Would change absorption of demand from 0

Multifamily units within Dripping Springs make up 8.6% of the total housing units, ranging from 5 or more units in structure. Multifamily developments can be found off of Creek Rd, RR 12, and U.S. Route 290.

There are currently 412 existing multifamily units across 5 properties within the City of Dripping Springs, with a healthy vacancy rate of 1.7%. Current market rent of multifamily products is high at \$1,673 per unit (\$1.76 PSF) compared to \$1,659 per unit in the Austin-Round Rock MSA, up 5.5% from the prior period. The rise in market rent is most likely associated with rising inflation and high demand for housing. Lastly, The Local multifamily development will deliver an additional 172 rental units upon completion, absorbing additional demand for multifamily units. Below is a list of multifamily projects within the Dripping Springs city limits.

The Ridge at Headwaters

- Built in 2019
- 168 units
- Vacancy - 0%
- Asking rent - \$1,786/unit (\$2.03 PSF)

Western Springs Apartments

- Built in 2020
- 72 units

- Vacancy - 2.8%
- Asking rent - \$1,598/unit (\$1.49 PSF)

Merritt Hill Country Senior Living

- Built in 2018
- 80 units
- Vacancy - 0.1%
- Asking rent - \$1,832/unit (\$2.02 PSF)

The Springs Apartments

- Built in 2000
- 76 units
- Vacancy - 5.3%
- Asking rent - \$1,353/unit (\$1.39 PSF)

Chestnut Ridge Townhomes

- 16 units
- Built in 1998
- Vacancy 4.8%
- Asking rent - \$1,552/unit (\$1.19 PSF)

DUPLEX



Source: Zillow

MULTIFAMILY



Source: Zillow

MULTIFAMILY (THE RIDGE AT HEADWATERS)



Source: The Ridge at Headwaters

DRIPPING SPRINGS SALES (MLS)

To better understand the Dripping Springs housing market, Catalyst Commercial looked through Austin Board of Realtors Multiple Listing Service data going back to the 1990s. Of 143 single family housing sales closed in 2021 within the Dripping Springs city limits on properties less than two acres and having a single family home larger than 1,000 square feet, the average sale price was \$609,832 (\$248 PSF) and the median sale price was \$585,000 (\$244 PSF). Overall, the ETJ (including the sales within the city) saw higher closing prices on its 325 sales within the same time period at an average sale price of \$750,927 (\$273 PSF) and median sale price of \$669,999 (\$259 PSF). 45% (65 of 143) of the sales within Dripping Springs and 62% (202 of 325 sales) of the sales within the ETJ were closed at a price of \$600k or more. As prices for homes within Dripping Springs and the Dripping Springs ETJ increase, affordability decreases. Using a current (September 2022) 30 year mortgage rate and an assumption of 30% of gross income spent on a mortgage, a home costing \$600,000 with a 20% down payment (mortgage of \$480K) would require a household income of at least \$120,000.

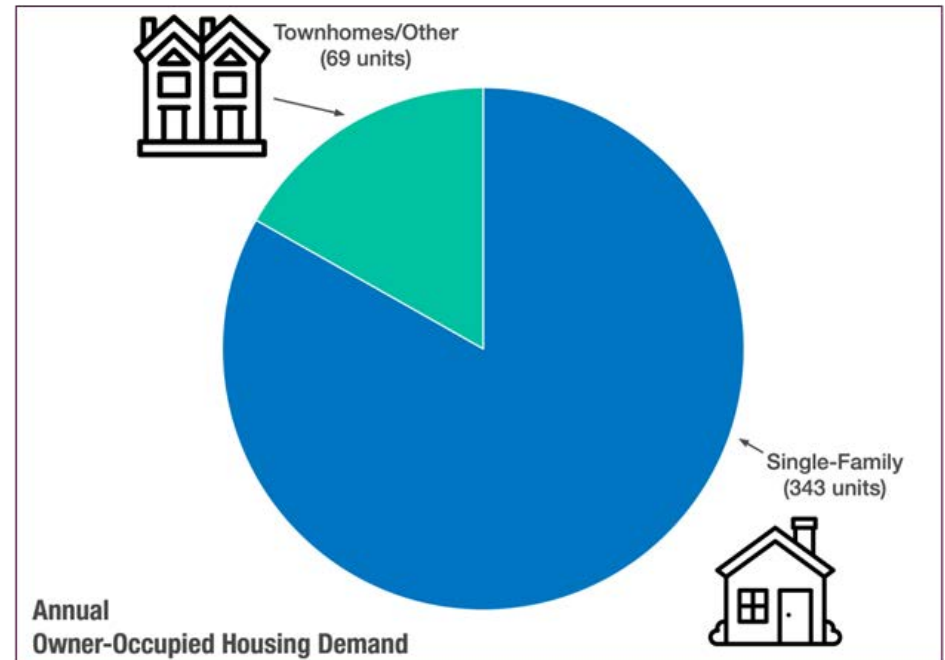
As migration of population towards the Austin-Round Rock MSA continues, the demand for properties in Dripping Springs and the surrounding area will continue to remain strong. In 2021, over 25% of the homes sold within Dripping Springs closed at \$750,000 or more. The average home sold within the city in 2021 had 3.5 bedrooms, was 2,445 square feet, and was on a lot of

21,747 square feet (0.5 acres). The average home sold within the ETJ in 2021 had 3.7 bedrooms, was 2,755 square feet, and was on a lot of 61,702 square feet (1.42 acres).

OWNER-OCCUPIED RESIDENTIAL DEMAND

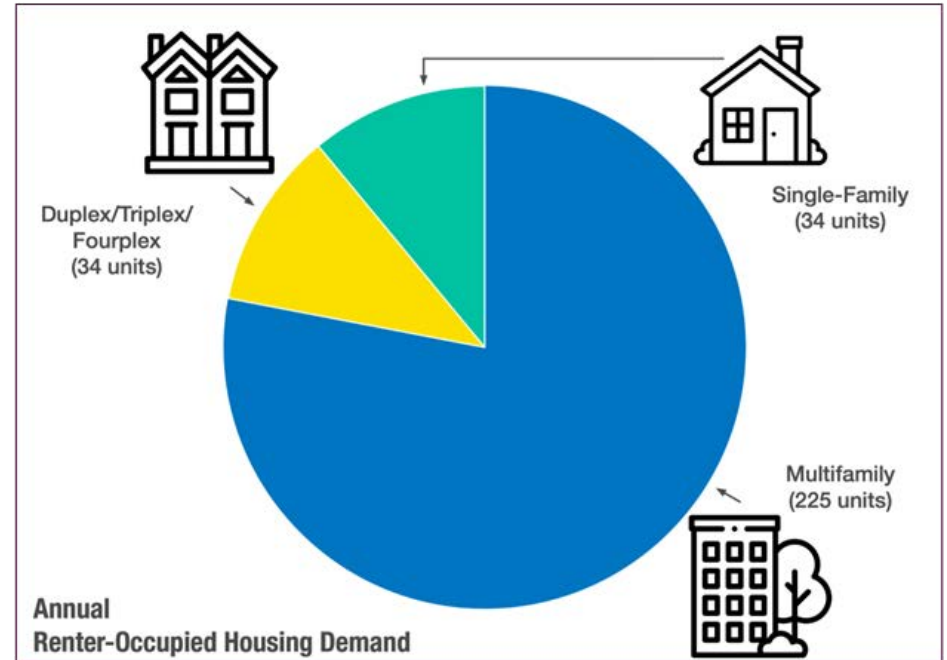
In an effort to understand the capacity of the single family residential market, an analysis was performed using historical data and projected growth rates within Hays County. It is estimated that Dripping Springs could capture up to 343 new owner-occupied, single family detached units annually. Just over half of the demand (59%) is for units at a price point above \$250k, a total of 204 units annually. There is additional demand (not shown in the table to chart below) for an additional 70 owner-occupied units annually in the form of duplex/triplex/fourplex, townhomes, rowhomes, or condos. This represents just over 16% of the owner-occupied demand within Dripping Springs. These annual demand numbers do not represent what the City of Dripping Springs must absorb but represent the annual amount that Dripping Springs could absorb if development of all types and price points were targeted.

Traditional Single-Family Detached Annual Demand					343 units Total
	Ages 25-34	Ages 35-54	Ages 55-64	Ages 65+	
Homes < \$200k	21	29	9	42	101
Homes \$200k - \$250k	9	16	4	9	38
Homes \$250k - \$350k	15	43	11	15	84
Homes \$350k - \$450k	10	35	9	11	65
Homes \$450k+	5	29	10	11	55
Alternative Owner-Occupied Product Annual Demand					70 units



RENTER-OCCUPIED RESIDENTIAL DEMAND

In addition to single family demand, an analysis on the region was also performed to understand the renter-occupied residential market. It is estimated that Dripping Springs could capture and absorb 225 units annually of renter-occupied housing in the form of multifamily residential. There is additional capacity for 68 units of renter-occupied housing in other formats such as duplex/triplex/fourplex or single family build to rent. A majority 50% (114 units) of the multifamily demand is for units commanding rents of \$2,000+ per unit. Demand for units with rents of \$1,000 up to \$1,999 per unit is at 37%, or 116 units annually. Just like owner-occupied demand, these annual demand numbers do not represent what the City of Dripping Springs must absorb but represent the annual amount that Dripping Springs could absorb if development of all types and price points were targeted.



Annual Multifamily Demand					225 units
	Ages 25-34	Ages 35-54	Ages 55-64	Ages 65+	Total
Rental Rate <\$1,000	7	7	1	13	28
Rental Rate \$1,000 - \$1,500	14	16	4	16	50
Rental Rate \$1,500 - \$2,000	8	12	3	10	33
Rental Rate \$2,000+	20	54	13	27	114
Alternative Renter-Occupied Housing Demand					68 units

PROGRAM JUSTIFICATION

The tables below are a summary of the previous sections to show the current demand and opportunities for residential development, while keeping in mind the challenges associated with those types of developments. This program justification is intended to align with Dripping Springs' intended goals and vision.

Category	Owner-Occupied Residential	Renter-Occupied Residential
Demand	343 Units	225 Units
Opportunities	<ul style="list-style-type: none"> • more middle class/affordable housing • more units in the form of duplex, triplex, and quadplex 	<ul style="list-style-type: none"> • more multifamily developments to suit a wide array of residents • proximity to downtown
Challenges	<ul style="list-style-type: none"> • Land and water preservation • High costs of construction • Infrastructure 	<ul style="list-style-type: none"> • land and water preservation • Preservation of Dripping Springs existing character • Infrastructure
Target	<ul style="list-style-type: none"> • more affordable homes without losing the character of Dripping Springs 	<ul style="list-style-type: none"> • boutique multifamily, matching local character, and offering amenities
Market Values	\$585,000 (Median)	\$1,673/unit/month

EXISTING PLANNED DEVELOPMENTS

<i>Name</i>	<i>Area (acres)</i>	<i>Multifamily Homes</i>	<i>Neighborhood Commercial Area (acres)</i>	<i>Single-family Homes</i>
Anarene	1279.2	-	-	1600
Big Sky Ranch	200	-	-	800
Blue Blazes	34.5	-	17.25	30
Cannon - Oryx	80	-	-	920
Cannon Ashton Woods	100.5	-	-	363
Carter Ranch	196	-	-	146
Cynosure / Wildridge	80	-	-	960
Esperanza	107.8	-	-	106
Gateway Village	97.4	-	-	307
Headwaters Commercial	166.8	-	166.8	-
Heritage	83.4	-	10	700
Legacy Trails	58.8	-	-	54
Madelynn Estates	51.8	-	-	113
Merritt Hill Country/Senior Apts	6.8	80	-	-
New Growth	36	288	-	-
Parten Tract	532	-	-	575
PDD 11	8.57	270	-	-
Penn Tract	526	-	-	-
Village Grove	112	311	-	180
Total	3757.57	949	194.05	6854

This chart illustrates all planned development projects in the City and ETJ, as well as the remaining single family and multifamily units to be built as of beginning of 2024.