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Prepared for the City of Myrtle Beach
January 31, 2022

MARKET ANALYSIS FOR MIXED-USE DEVELOPMENT

ARTS & INNOVATION DISTRICT

Myrtle Beach, South Carolina

ABOUT RCLCO

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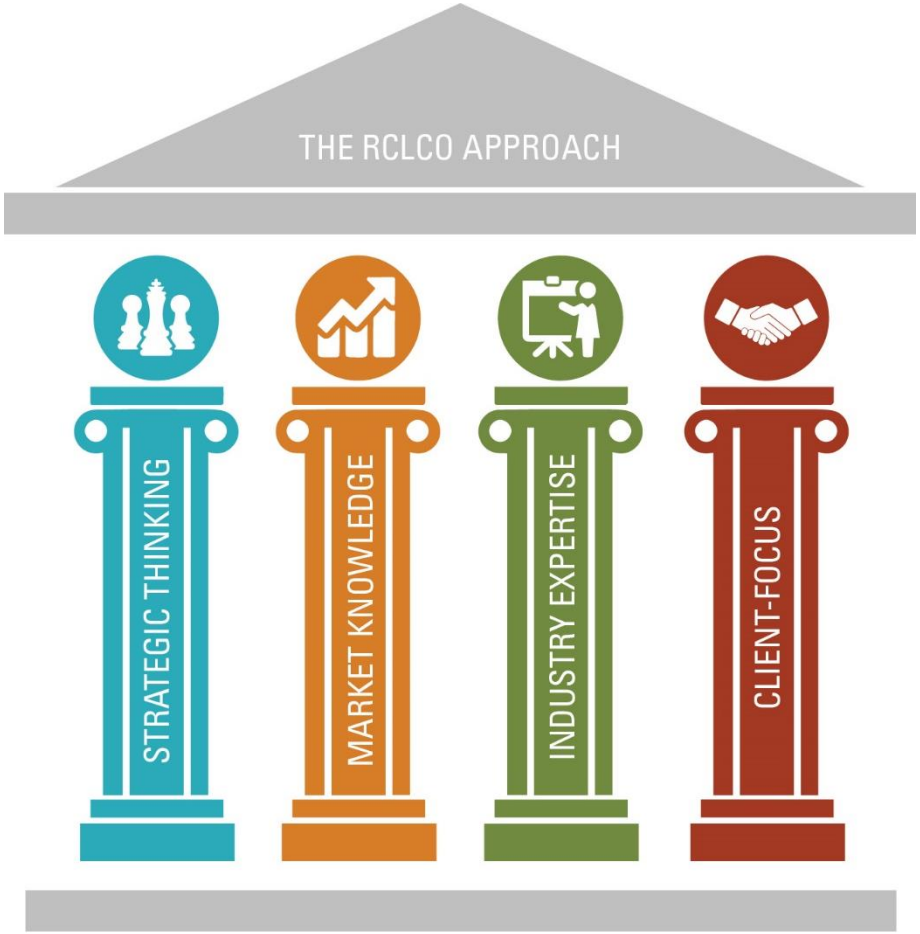

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OBJECTIVES

As RCLCO understands the situation, the City of Myrtle beach has developed a master plan to redevelop a number of urban districts in the City's downtown, including the Arts & Innovation District, the area that "primarily consists of the superblock and links together the Oceanfront, Kings Corridor, and Historic Main Street Areas." Recent advanced planning outlines a sophisticated urban design framework and programming direction to include a broad range of cultural, civic, and arts uses including a children's museum, City offices, civic space, a library, public art, and more.

While RCLCO plans to serve in an advisory role throughout the process, including throughout the RFQ/RFP selection, the following report specifically analyzes the current market opportunity in Myrtle Beach, the feasibility of various land uses at the site, and the expected return on investment given the current master planning. Specifically, RCLCO's report addresses the following questions:

- How large is the market for each land use and what is appropriate scale of development in the region and for the site in particular?
- What mix of customer/tenant types are active in the market and may be captured in Downtown?
- What rent levels are achievable today and in the foreseeable future? Are the proposed development types construction feasible?
- What is the optimal development solution for each space identified in the Advanced Plan for market-driven real estate?
- How should projects be phased and over what period of time might they be delivered and stabilized?
- What types of uses could have a meaningful impact on the market opportunity in the Arts District and the surrounding area?
- What are the development economics of the site? What is the expected value of the land given the current plans?

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EXECUTIVE SUMMARY

MYRTLE BEACH OFFERS SIMILAR ECONOMIC & DEMOGRAPHIC CHARACTERISTICS TO OTHER HIGH-GROWTH METRO AREAS BUT HAS NOT SEEN THE SAME LEVEL OF MARKET RATE DEVELOPMENT

- The Myrtle Beach, SC MSA has seen exceptionally strong household growth since 2010, growing at a rate of over 2.5% per year. Meanwhile, other markets that have garnered significant national attention like Charleston, Savannah, and Greenville have experienced growth rates below 2% annually. Despite strong growth coupled with comparable incomes and net worth, Downtown Myrtle Beach has seen very little new multifamily or office development since 2000. Smaller markets like Panama City, Wilmington, and Savannah have seen thousands of new units deliver and new office space developed, far more than Downtown Myrtle Beach.

CASE STUDIES DEMONSTRATE DIRECT PUBLIC INVOLVEMENT CAN ENCOURAGE HIGH-QUALITY INFILL DEVELOPMENT AND GUIDE FUTURE CONSTRUCTION THROUGH POSITIONING OF PUBLIC SPACE

- Visitor-oriented cities like Wilmington, Virginia Beach, and Charleston have all been able to successfully reposition their downtown submarkets as vibrant, busy mixed-use neighborhoods. Each city underwent significant infrastructure and public space improvements that helped to spark development from the private sector, particularly via new multifamily housing. In order to establish a new Downtown in Myrtle Beach, the Arts & Innovation District will likely need to be the first mover in order to demonstrate feasibility and build the base of retail in the area. Additionally, the current planning and public investment to date indicates the city's desire to see significant change in Downtown.

MULTIFAMILY MARKET UNDERSUPPLIED DESPITE STRONG NET NEW DEMAND FROM YOUNG RENTERS

- Demand for multifamily housing has rapidly outpaced new deliveries. Although 2020 saw a record number of deliveries in Horry County, the market remains under-supplied for new multifamily housing. With limited new supply delivering in 2021, occupancies plummeted and rents grew significantly, at a rate of over 20%, exceeding rent growth seen in other fast-growing Sun Belt markets. With vacancy well below 3% in the market, the rental apartment market is extremely tight, meaning any new units that come online can likely push rents even further. Additionally, young professionals and post-grads comprise 43% of all multifamily renters in the marketplace, many of whom earn sufficient incomes to rent market rate or luxury apartments. Likely, these will be the primary renters in the Arts & Innovation District, especially in the early years as the neighborhood begins to establish itself with new retail and multifamily housing.

OFFICE A MORE LIMITED OPPORTUNITY DUE TO SMALL SCALE OF PROFESSIONAL/OFFICE-USING EMPLOYMENT

- Much of Myrtle Beach's employment growth over the past decade has come from the expansion of the education and health services sector. As Myrtle Beach has become a destination for retirees, the medical field has seen significant job growth, and much of the office development in the market has catered toward these medical office users. Medical office users tends to concentrate around hospitals; therefore, the Arts & Innovation District is unlikely to capture a significant share of medical office users given its distance from the hospitals in the market. The office-using professional services tenants that do rent office space in the market are mostly small companies that occupy under 5,000 square feet of space. Small professional services companies tend to rent small, retail-like spaces rather than large-scale traditional office; thus, they are well-suited for renovation of existing commercial buildings and ground floor spaces that front streets not ideally suited for traditional retail. While there may be unanticipated future demand from a large office-user, it is unlikely that this will comprise a significant amount of demand.
- New retail in the market like Broadway at the Beach and TheBLVD overwhelmingly attracts tourists; however, there is little retail in Downtown that caters to residents of Myrtle Beach. The Arts & Innovation District has the opportunity to deliver a critical mass of space that targets primarily local-serving retail like restaurants, bars, and other small local-owned shops and can be supported primarily by residents of Myrtle Beach with ancillary spending coming from tourists looking for a local experience. The retail should be concentrated in one small corridor rather than spread around the district to ensure a critical mass, with 9th Ave and Broadway presenting the most compelling location.

ARTS & INNOVATION ROI WILL BE REALIZED THROUGHOUT DOWNTOWN MYRTLE, NOT JUST IN ARTS AND INNOVATION DISTRICT, BY SPARKING REDEVELOPMENT OPPORTUNITIES ON SURROUNDING LAND

- The City of Myrtle Beach's investment in infrastructure throughout the Arts & Innovation District will not only drive value on the parcels included in the master plan, but it will also lead to additional development on nearby vacant or under-utilized sites. Much of the return on investment in the district will be driven by redevelopment efforts at the Pavilion Site and the old mall site, both of which have the opportunity to deliver large, mixed-use developments at a scale not available in the Arts & Innovation District. RCLCO estimates that the total development opportunity, including parcels around the Arts & Innovation District can generate annual property taxes of about $7.5-$8M (in 2021 dollars) per year from over $600M of total development value at stabilization, assuming a relatively conservative total development footprint.
- The role of the Arts & Innovation District is to catalyze development throughout the Downtown Myrtle Beach submarket by establishing a commercial core that aggregates public uses like the library, children's museum, and theater with mixed-use commercial and multifamily development. Based on current plans, RCLCO projects that the investment from the city into the Arts & Innovation District will generate $16M in total tax revenue within the Arts & Innovation District between 2024-2035. Additionally, surrounding development on the Pavilion Site and the mall site can generate an additional $27M in total tax revenue by 2035, assuming these projects do see development momentum in coming years.
- Additionally, RCLCO analyzed the "tipping point" to encourage owners of underutilized older commercial properties in Downtown to perceive redevelopment as more profitable than their current cash-flow generating use. Due to low operating and capital costs, and the relatively dense construction on small parcels, these under-utilized parcels are unlikely to naturally turnover in the near-term without pressure from local government (aggressive enforcement and fines that increase operating costs) and the presence of other new development to increase land values and development pressures. The capitalized value of the current cash flows per acre from these parcels are consistent and may be higher than a potential multifamily or commercial redevelopment, and the value per acre that is supportable as a purchase price for a redevelopment site is below what a developer is capable of paying today. RCLCO tested the breaking point needed to see redevelopment of these parcels, and in order to see comparable NOI per acre for new multifamily development, rents would need to increase to $2.50 per SF to justify podium construction or the operating costs of the current asset would need to escalate to about 60% of revenues representing an increase of almost $100K per year in expenses.

MULTIFAMILY MOST LIKELY TO GENERATE LAND VALUE THROUGHOUT DEVELOPMENT

- In order to estimate the development feasibility of different product types at the site, RCLCO conducted a residual land value analysis to measure future revenue and the resulting capitalized value against the cost of construction. Based on current costs and anticipated rents, RCLCO projects that garden-style and slightly higher-density "urban-garden" developments could generate a positive land value at the site. However, wood frame over podium construction, even if it is surface parked, is unlikely to be perceived as feasible as the first project to market. This most directly affects the site planned for multifamily with the library and children's museum on the ground floors. The City should expect to provide funding for the cost of the library space as represented by the incremental cost of building a concrete podium for the building, as opposed to a pro rata share of the building's square footage. This catalytic project will require a public-private partnership and a creative, sophisticated development partner to deliver the project as envisioned.
- Ground-up retail and office development is also unlikely to generate positive land value today for multitenant or leased space, but there is substantial opportunity for small-scale renovations in the market where construction costs are lower, and owner-user spaces. Focusing on renovations of existing space produces the added benefit of concentrating private commercial development along Broadway and 9th, where there is space ready for renovation and existing momentum to build on.

KEY DEVELOPMENT QUESTIONS

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1. What are the key components to drive success in the district?

- Attract residents into the district, new multifamily development key to attract long-term residents
- Destinations that convince residents to live/work/play in the district and attract households from the surrounding area

2. How can the city demonstrate to outside developers that Myrtle Beach is ready for new development?

- Commit to the public infrastructure upgrades shown in plans
- Devise an incentive structure where necessary to attract strong retail tenants
- Ensure development parcels are fully entitled to the master plan and try to remove any potential roadblocks in the approval process

3. What is the first project that can come out of the ground early on?

- Multifamily and retail should be early components to bring people and energy to the neighborhood
- Office and other anchor tenants (library, children's museum, etc.) can come whenever parcels are ready

4. How can the City of Myrtle Beach design and program public space in order to ensure year-round activation of the district?

- Frame development parcels adjacent to public space and design a seamless transition from vertical development to public space
- Develop infrastructure for year-round concerts, temporary retail, food truck stations, and other festivals

5. What is the proper scale and location of a civic campus that can bring people on-site without being the only driver of commercial space in the arts & innovation district?

- Little demand from traditional office users means that commercial office is unlikely to be primary driver of office demand on-site
- Civic office campus can bring people to the site, but the space needs to be designed with an intentional separation of public services and more traditional office space, including separate entrances and likely garages
- One large civic campus as a single block, especially without strong retail & street activation, can disrupt or cut off logical development progression

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MARKET COMPARISONS

EMPLOYMENT GROWTH

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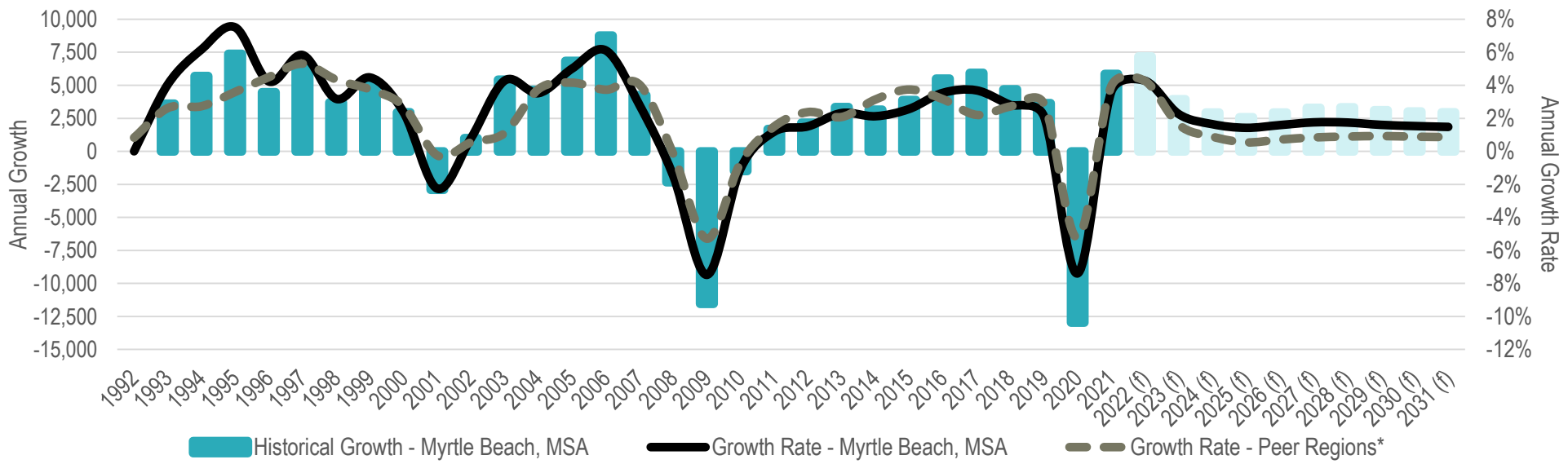
THE MYRTLE BEACH MSA HAS SEEN COMPARABLE EMPLOYMENT GROWTH TO OTHER RAPIDLY GROWING METROS THAT HAVE ATTRACTED INVESTMENT FROM NATIONAL DEVELOPERS

- Since 1992, annual employment growth in the Myrtle Beach MSA has varied relative to peer regions, which include Charleston, SC, and Wilmington, NC. Despite these fluctuations, likely due to Myrtle Beach's status as a beach-oriented tourist destination, average annual employment growth between 2010 and 2019 has matched growth in peer regions, which averaged 2% annual employment growth in the same timeframe.
- With Leisure and Hospitality comprising the Myrtle Beach MSA's largest employment sector, comprising approximately one-quarter of the MSA's total employment, Myrtle Beach has suffered greater employment losses during economic downturns relative to peer regions. Despite COVID's inordinate impact on this sector, the Myrtle Beach MSA nevertheless expects a strong rebound in employment growth through the end of 2021 through 2022.
  - Myrtle Beach's status as a drive-to destination has insulated it from greater employment losses than other tourist destinations, which will likely allow the MSA to reclaim lost jobs more quickly than certain other markets.
- In the decade ahead, Myrtle Beach is expected to restore jobs lost during the COVID-19 Pandemic around 2022. Beyond 2022, Myrtle Beach is expected to exceed average annual employment growth relative to peer regions, with projected annual employment growth about 1% higher than peer regions expected through 2031.

Annual Employment Growth, 1992-2031;
Myrtle Beach MSA & Peer Regions (Charleston, SC & Wilmington, NC)



Source: Moody's; RCLCO

METRO-LEVEL COMPARISON

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AMONG MARKETS THAT HAVE EXPERIENCED A REVITALIZATION OF THE URBAN CORE, MYRTLE BEACH HAS SEEN THE HIGHEST HOUSEHOLD GROWTH RATE

- The Myrtle Beach MSA offers similar economic and demographic dynamics to other major metro areas in the region, even those that have seen greater investment and development over the past decade. As shown in the final column, a primary driver of spending in the market comes from visitors, but many of the other metro areas in the table exhibit this tendency.
- Compared to other comparable metro areas, Myrtle Beach has seen the fastest annual household growth rate over the past 12 years. Much of that household growth has been realized in older age groups, mainly homeowners that have chosen to retire in the Myrtle Beach market. This dynamic is also highlighted by the fact that Myrtle Beach has the highest median age of all metro areas on this list.

Site	2021 Total Households	2010-2021 Annual Household Growth Rate	2021 Median Household Income	2021 Median Net Worth	2021 Total Daytime Population	2021 Median Age	Recreation Businesses per 1,000 HH	Estimated Visitor Retail Spending
Greenville-Anderson, SC MSA	370,005	1.27%	$57,532	$134,405	949,728	39.6	1.4	$7.9B
Charleston-North Charleston, SC MSA	324,186	1.98%	$69,052	$147,507	824,068	37.7	2.1	$5.4B
Chattanooga, TN-GA MSA	232,277	0.86%	$55,316	$120,912	588,083	41.7	1.4	$6.0B
Myrtle Beach, SC-NC MSA	**213,470**	**2.68%**	**$55,446**	**$159,039**	**499,291**	**45.5**	**2.6**	**$5.2B**
Savannah, GA MSA	153,197	1.34%	$59,732	$106,005	405,136	36.7	1.9	$4.6B
Wilmington, NC MSA	126,196	1.53%	$57,015	$110,473	309,129	40.4	2.8	$3.7B
Panama City, FL MSA	69,389	0.12%	$59,296	$138,998	173,244	41.1	2.5	$2.4B

Source: Esri

DOWNTOWN COMPARISON

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DESPITE SIMILAR METRO-LEVEL DYNAMICS, DOWNTOWN MYRTLE BEACH HAS NOT SEEN THE SAME LEVEL OF MULTIFAMILY OR OFFICE DEVELOPMENT AS OTHER COMPARABLE URBAN AREAS IN THE REGION

- Other metropolitan areas in the region have seen rapid revitalizations of their Downtown areas, while Myrtle Beach has not experienced that same level of urban investment. Other comparable downtowns in the region have seen significant multifamily development, bringing thousands of additional households into urban areas, while Myrtle Beach has delivered under 1,000 units in the downtown area.
- While office development hasn't been the primary component of most urban revitalization efforts in comparable Sunbelt markets, there has been substantial new office space built since 2000 in each market, bringing more people into downtown on an average workday.
- This presents an opportunity for Myrtle Beach, which has seen rapid growth, to invest in its urban neighborhoods and attract a greater amount of multifamily, office, and retail space to the neighborhood. The City of Myrtle Beach is well-positioned to establish the building blocks to support new development in the market.

Site	2021 Total Households	2010-2021 Annual Household Growth Rate	2021 Median Household Income	2021 Total Daytime Population	2017 Total Retail Sales	Total MF Units	Total MF Units Since 2000	Total Office Space Since 2000 (SF)
Downtown Greenville	7,133	4.23%	$56,421	37,204	$346.1M	4,970	3,821	1,900,000
Downtown Charleston	13,524	1.58%	$55,953	76,322	$758.8M	4,935	2,459	1,200,000
Downtown Chattanooga	5,758	3.35%	$26,743	51,090	$804.7M	4,364	2,856	1,500,000
Downtown Myrtle Beach	**4,083**	**2.54%**	**$31,020**	**18,906**	**$678.7M**	**1,760**	**764**	**173,000**
Downtown Savannah	13,140	0.55%	$38,536	43,045	$587.1M	7,193	2,508	842,000
Downtown Wilmington	9,657	1.49%	$36,548	24,565	$269.2M	3,813	1,971	816,000
Downtown Panama City	2,710	1.59%	$65,040	7,514	$230.1M	1,876	1,783	448,000

Source: Esri, CoStar

GUIDING PRINCIPLES FROM CASE STUDIES

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SELECTED CASE STUDIES OUTLINE KEY GUIDING PRINCIPLES FOR PUBLIC ENTITIES TO LAY THE GROUNDWORK THAT CAN SPARK URBAN REDEVELOPMENT

- RCLCO analyzed a variety of beach and tourism-driven markets that have experienced targeted and/or large scale urban redevelopment. There are several key takeaways and lessons learned from these other developments that can be used in planning for the redevelopment of Downtown Myrtle Beach.

TOPIC	LESSON LEARNED	IMPLICATIONS FOR MYRTLE BEACH
First Market Mover	• Need a vibrant commercial corridor in-place before private development is likely to begin • Projects feasible today can be first mover/catalyst for neighborhood	• Establish the site as a retail destination with a focus on tenanting food & beverage/entertainment retailers • Incentives may be necessary to attract these retailers
Public Investment	• Creation of scaled development blocks key for private investment • Walkability or clear pedestrian areas can establish path of growth	• Clear development blocks are important, not only for the Arts and Innovation District but also nearby soft sites and key development nodes
Public Space	• Quantity, quality, and programming create successful public spaces • Targeted locations can create development blocks and set the stage for nearby private development	• Programming and activation of public space will be key to differentiating Arts district from standard mixed-use development • Position public space that frame development blocks
Mix of Uses	• Office space was not a core component of urban revitalization in these markets • Outsized focus on people and services: multifamily, hospitality, and retail but don't need to be directly on the oceanfront	• Outside of office space planned for government uses, unlikely that this district will attract an outsized share of office users • Retail and multifamily likely to be core uses in District

Source: RCLCO

WILMINGTON REDEVELOPMENT

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TARGETED PARK SPACE AND A CAPSTONE PUBLIC-PRIVATE PROJECT HELPED TO ENCOURAGE DEVELOPMENT ALONG DOWNTOWN'S RIVERFRONT

- The City of Wilmington approved the Downtown Vision Plan in 2004, directly outlining strategic parcels for redevelopment and a detailed system of parks and open space that would connect throughout the city.
- The City of Wilmington led the redevelopment effort with a reinvigoration of Downtown retail, with a particular emphasis on re-tenanting existing retail space with food & beverage or entertainment concepts. Today, Downtown Wilmington is a vibrant, urban center attracting both local households and beach-going visitors.
- In the initial planning phase, the city also outlined key locations and nodes in which to create open space for public use. In a sense, these parks guided development, as they helped to create clear development blocks, especially along the river.
- In order to attract businesses and new development, the city offered incentives at a variety of levels that encouraged new tenants and developers to enter the market.
- The capstone project, River Place (shown below), was a combination of apartments, condominiums, office, and retail located in the heart of Downtown. As the first high-rise in the market in years, it helped to reset rents, demand, and feasibility for a variety of uses.
- Concurrent with the public/private development, a variety of regional/national developers, including Dewitt Carolinas and Kettler, launched projects in the market. Most new development in Wilmington has been multifamily, with the city doubling the total amount of multifamily space in Downtown since approving the master plan.

Source: Google Images; Wilmington Vision 2020: A Waterfront Downtown

VIBE ARTS AND CULTURAL DISTRICT

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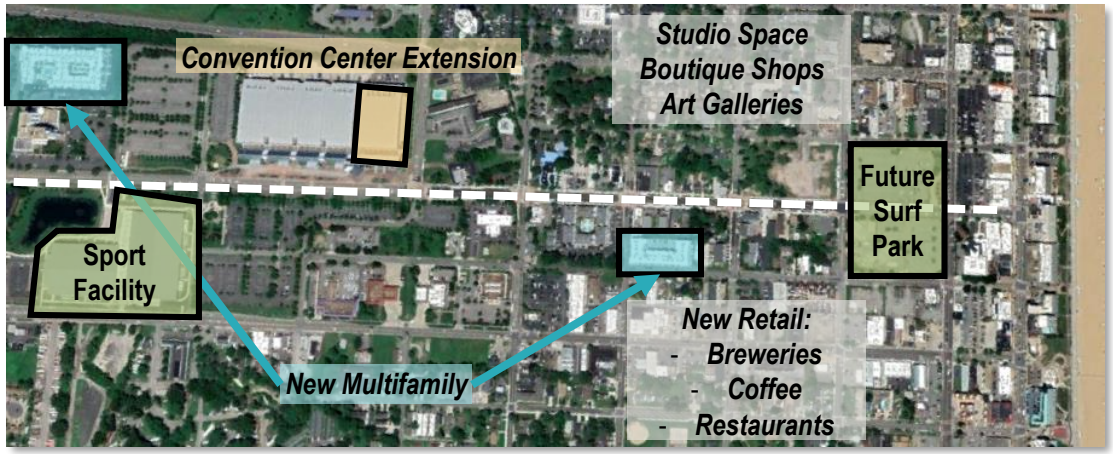
VIRGINIA BEACH ESTABLISHED AN ARTS & CULTURAL DISTRICT, ADJACENT TO THEIR CONVENTION CENTER, SPARKING A VARIETY OF PUBLIC AND PRIVATE DEVELOPMENT ALONG WITH A REVITALIZATION OF RETAIL IN THE MARKET

- The ViBe Arts & Cultural District began with a weekly farmer's market, quickly attracting households from across the metro area. Later, the Commonwealth of Virginia established the neighborhood as the arts and cultural district of the city.
- With this definition, local business owners, artists, and the city created a non-profit to help guide the district and establish a revolving loan program to incentivize the creation of new business.
- Today, the neighborhood is home to numerous local retailers, multiple new multifamily buildings, and a soon to come surf park.
- The neighborhood's mix of local retail tenants, studio space, and art exhibits throughout the neighborhood have helped to create a unique environment not seen anywhere else in Virginia Beach.



Source: Google Images; Google Maps; ViBe Creative District

VIRGINIA BEACH PROJECT SUCCESS

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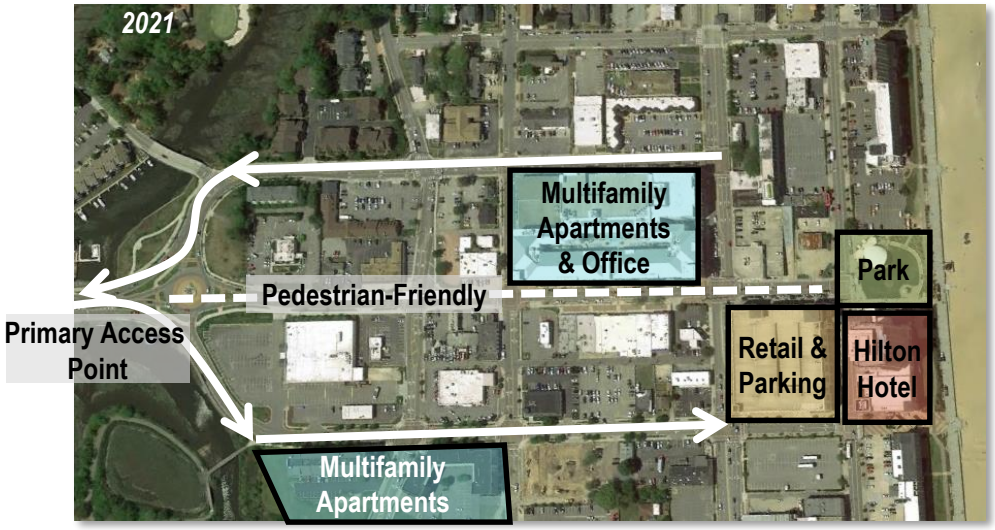
REPOSITIONED INFRASTRUCTURE TO CREATE A WALKABLE STREET, ESTABLISHED NEW CENTER OF GRAVITY ALONG BOARDWALK

- Laskin Road has historically served as one of the most trafficked access points onto the Oceanfront. The intersection of Laskin/31st St and Atlantic Ave was repositioned to allow for one-way traffic to and from the oceanfront as well as a more pedestrian-friendly street.
- The infrastructure created pedestrian-friendly blocks, preventing mega blocks or projects that could break the development grid.
- A hotel with ground-floor retail and public-serving parking garage served as the catalytic project in this location, but public space and accessibility have been the drivers of continued success. The park is used for concerts, festivals, etc. activating the park even in shoulder seasons and winter months.



Source: Google Maps; Google Images;

DOWNTOWN CHARLESTON REDEVELOPMENT

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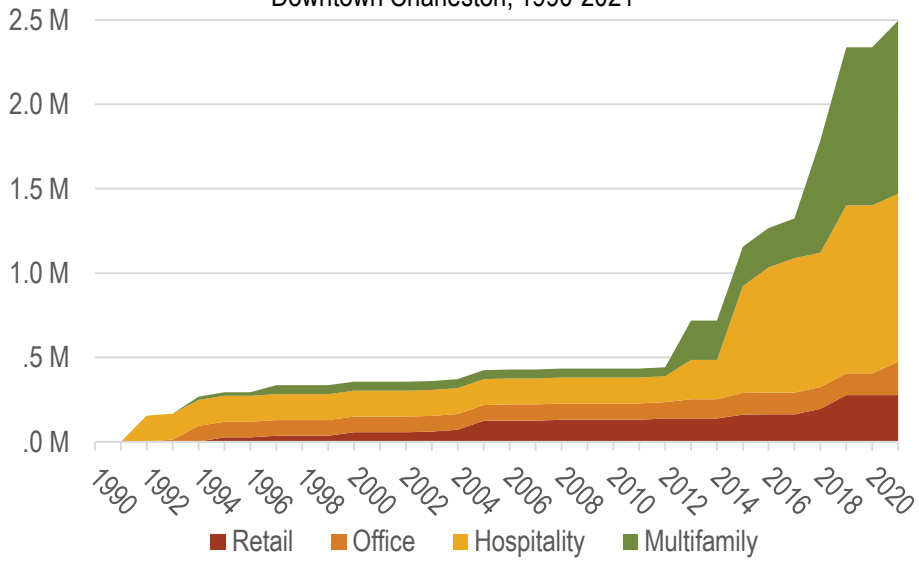
DOWNTOWN CHARLESTON HAS SEEN RAPID REDEVELOPMENT WITH A FOCUS ON MULTIFAMILY AND HOSPITALITY

- Downtown Charleston had historically been a low-growth market despite strong tourism visitation. The City of Charleston approved the Downtown Plan in 1999, establishing key commercial corridors and locations in which to aggressively pursue redevelopment.
- While the southern end of King St. has always been a popular retail corridor, the city focused efforts on improving retail surrounding these parcels. Repositioning of the highway, creation of clear development blocks, and improved retail on-the-ground have helped to spark development in a historically underdeveloped location.
- Shown below, the corridor extending north from Downtown has seen significant new development, mostly in new multifamily and hospitality offerings. These new developments have pushed density and pricing to levels not previously seen in the market due to improved quality and an influx of higher-income renters.

Total Square Feet of Development;
Downtown Charleston, 1990-2021



Source: CoStar; Google maps; Google Images

ANCHOR IMPACTS

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KEY ANCHORS CAN DRIVE FASTER AND MORE VALUABLE REAL ESTATE DEVELOPMENT WITH HIGH-QUALITY EXECUTION

THEME	DESCRIPTION	ANCHOR SITE FIT	RENT PREMIUMS	INCREASED RESIDENTIAL DEMAND	INCREASED COMMERCIAL DEMAND	PERCEPTION OF SAFETY	NAME RECOGNITION
University Expansion	Site could have an offshoot of CCU, with office and classroom space for particular program; wing of library dedicated to university program	STRONG	✓	✓	✓✓✓	✓	✓✓✓
Consolidated City Offices	Substantial city office space attracts significant daytime population but needs balance of residential to activate 24/7	MODERATE			✓	✓✓	✓
Arts & Cultural Centers	Theater likely to attract households throughout the year, especially in down/shoulder seasons; helping to sustain year-long visitation	STRONG			✓	✓✓	✓✓
Library & Museums	Library and museums likely to attract people during the day but need exceptional programming to capture demand/pricing upside	MODERATE			✓	✓	✓✓
Sports Venue	Ballparks and other sports venues attract both locals and tourists, driving demand for retail and adding people at all times of the day/night	MODERATE /STRONG	✓✓	✓	✓✓	✓✓✓	✓✓✓
Incubator & Start-Up Space	Subsidized incubator or start-up space can bring office-users to the site but may be difficult without major anchor or outside interest	MODERATE	✓	✓	✓✓	✓	✓
Large Scale Food Hall/F&B Concept	Market currently lacks F&B concentration, food halls and restaurants attract people and mixed-use tends to drive rents	STRONG	✓✓	✓✓	✓	✓✓✓	✓
Tourist-Specific Retail Destination	Existing tourism destinations attract foot traffic during day and night but this market likely already tapped	LOW			✓✓	✓✓	✓

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MARKET OVERVIEW

LOCAL DEMAND DRIVERS

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TOURISM REPRESENTS THE LARGEST INDUSTRY IN MYRTLE BEACH, ATTRACTING VISITORS FROM ACROSS THE COUNTRY

- The primary employment driver in Myrtle Beach comes from the tourism industry. The Myrtle Beach area attracts an estimated 20.6 million visitors (prior to the impact of the COVID-19 Pandemic) that provide more than $7 billion in economic impact annually.
- Given the Arts and Innovation District's proximity to the beach, it will likely see significant spending and visitors from outside of the market. Additionally, the district should be able to attract a substantial share of hospitality and service workers as residents and customers, looking for an authentic, urban destination that does not exist today.

THE PRESENCE OF COASTAL CAROLINA UNIVERSITY CREATES OPPORTUNITIES FOR PARTNERSHIPS AND A PIPELINE OF COLLEGE GRADUATES IN THE MARKET

- Coastal Carolina University is the largest college in the Myrtle Beach market with over 10,000 students. A university of this size is crucial to the employment base of the region and can help to buoy spending in the region during the tourist off-season.
- The partnership with the Coastal Carolina arts program is a first step in establishing a long-term relationship with the university. Looking forward, the City of Myrtle Beach should continue to look for other potential partnerships with the university, whether in the form of library access, events, or graduate programs, any form of a continued relationship will help to bring students to the budding Arts and Innovation District.

MYRTLE BEACH'S CLIMATE AND AFFORDABILITY MAKE IT AN EXCELLENT PLACE TO RETIRE, ESTABLISHING HEALTH CARE AND CONTINUING CARE AS A PRIMARY DEMAND DRIVER IN THE MARKET

- Myrtle Beach is a popular destination among empty nesters and retirees, both for full-time and part-time residency. Naturally, the health care industry has grown as a result of an influx of elderly households. When looking at the primary employment cores across Myrtle Beach, many of them are driven by the presence of a hospital.
- A few of the largest employers in the Myrtle Beach Market are the Grand Strand Medical Center, Conway Hospital, and McLeod Loris Health System, all of which are hospital systems. This feature is unlikely to change in the coming years, and the City of Myrtle Beach could try to establish partnerships with these health system anchors for future development in Downtown.

Source: Myrtle Beach Visitor's Bureau

EMPLOYMENT GROWTH BY INDUSTRY

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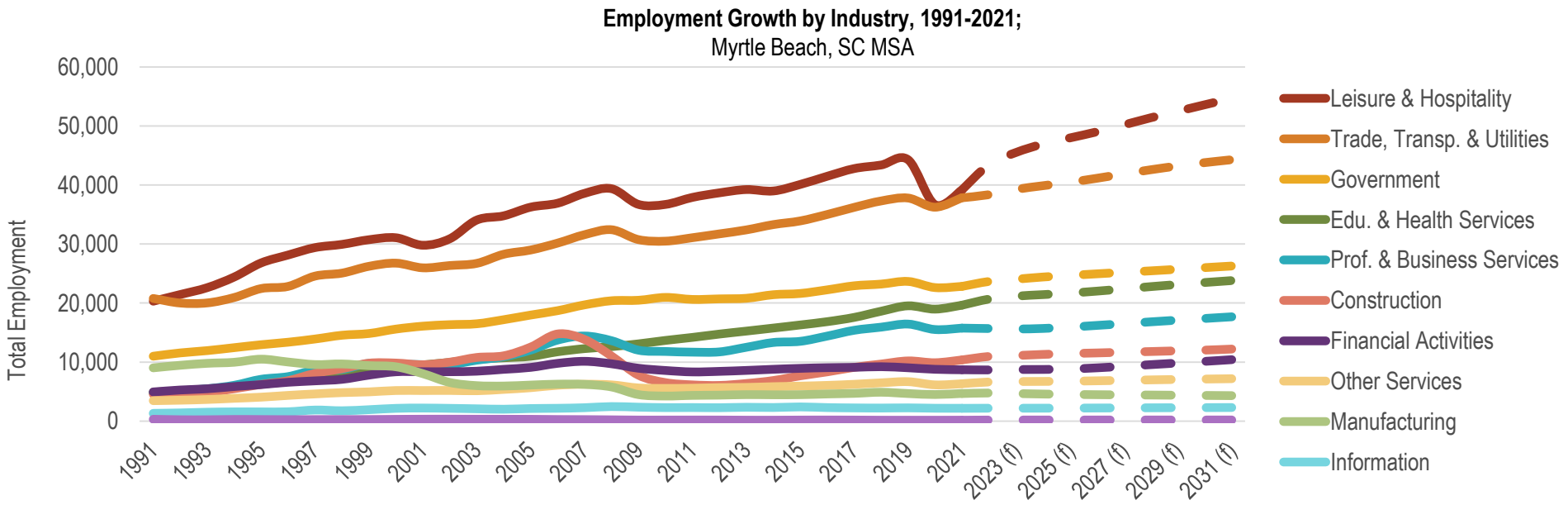
FOLLOWING PANDEMIC DOWNTURN, LEISURE & HOSPITALITY EXPECTED TO DOMINATE EMPLOYMENT GROWTH BY 2025

- During the early stages of the COVID-19 Pandemic in 2020, Myrtle Beach lost approximately 13,000 jobs, with the sharpest losses in the Leisure and Hospitality industry. Losing over 7,600 jobs in 2020, Leisure and Hospitality employment is expected to return to pre-pandemic levels around 2023.
- Experiencing only slight losses during the pandemic, the Trade, Transportation, & Utilities sector expects to see consistently strong growth in the coming years. Employers in this industry are generally clustered along the US-501 corridor between Myrtle Beach and Conway, with clusters in the City of Myrtle Beach located near the US-17/US-501 interchange (Walmart, Home Depot, and warehousing east of US 501) and Myrtle Beach International Airport (North Industrial Park). The development of Myrtle Beach International Technology & Aerospace Park, adjacent to Myrtle Beach International Airport, holds potential to bring further growth to this sector.
  - Likely a transformative project amongst many employment sectors, Interstate 73 is an existing highway in North Carolina with planned extensions to Myrtle Beach. If completed, I-73 could spur additional employment activity throughout the region across a variety of industries.
- Seven of Horry County's top ten employers are in the Education & Health Services and Government sectors, collectively driving these industries as two of the county's top employment sectors overall. Government and Education & Health Services will likely experience continued growth as the region adds additional households, many of which will be older households with need for continuing healthcare services.



Source: Moody's; Myrtle Beach Regional Economic Development Corporation; The State Newspaper; RCLCO

DEMOGRAPHIC MAPS

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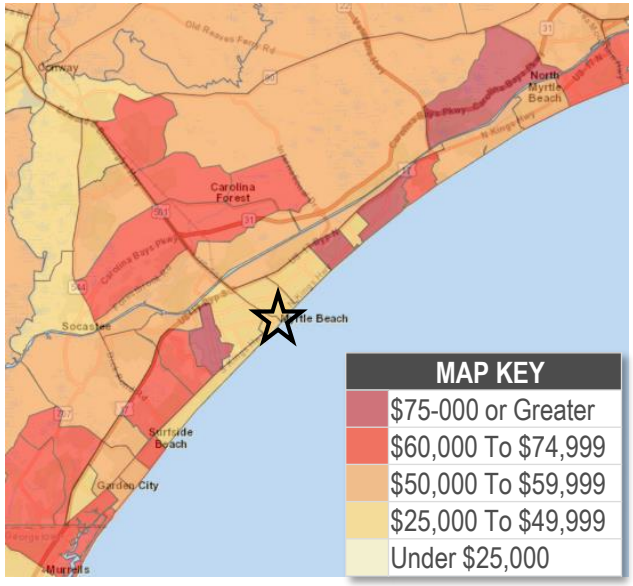
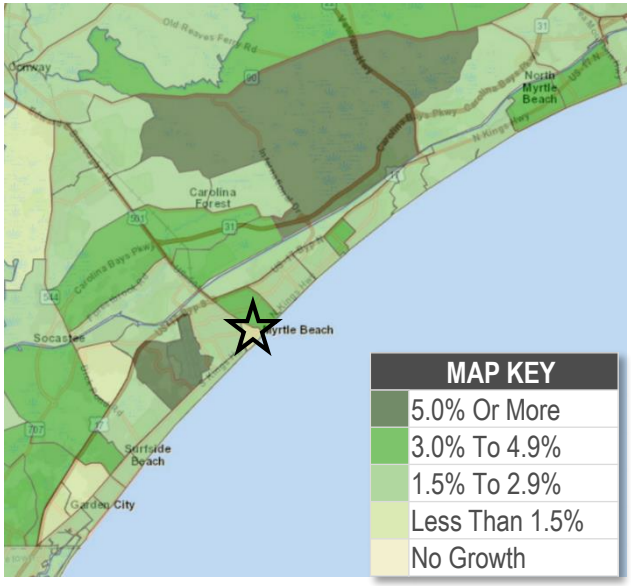
WITH CLOSE PROXIMITY TO MODERATE AND HIGH-INCOME AREAS, THE SUBJECT SITE IS LOCATED IN A CENSUS TRACT WITH A YOUNGER BUT GROWING HOUSEHOLD BASE

- The census tract in which the subject site is located is proximate to high-earning tracts near Market Common, Carolina Forest, and The Dunes. With a central location relative to these areas, the subject site may be able to attract some high-earning renters looking for a more urban and walkable location, proximate to the beach.
- Located in the second fastest-growing metropolitan area in the nation by percentage growth, all census tracts within the City of Myrtle Beach have grown between 2010 and 2021. The fastest growing area of Myrtle Beach is in the city's southern portion, including Market Common, with annual growth rates exceeding 7%. Since 2010, the census tract in which the subject site is located experienced an average annual growth rate around 3.3%, reflecting the MSA's overall rapid growth.
- The census tract in which the subject site is located is the youngest in the City of Myrtle Beach, with a median age under 35 in 2021. As 62% of annual demand for new multifamily units is expected to arise from renters aged 34 and below, the subject site's location is ideally suited to capture younger renters.

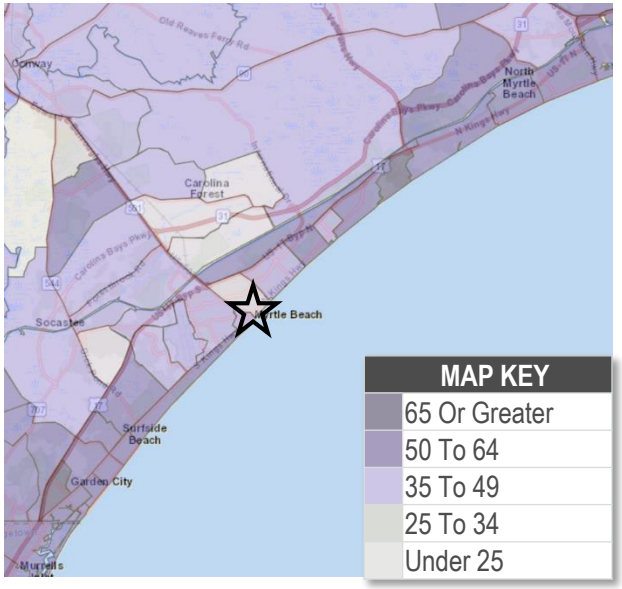
Median Household Income by Census Tract, 2021;
Myrtle Beach, SC



Household Growth by Census Tract, 2010-2021;
Myrtle Beach, SC



Median Age by Census Tract, 2021;
Myrtle Beach, SC



Source: Esri

DEVELOPMENT MAP

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THE SUBJECT SITE IS LOCATED NEAR THE GEOGRAPHIC CENTER OF DOWNTOWN MYRTLE BEACH, WITH CLOSE PROXIMITY TO EXISTING ATTRACTIONS AND FUTURE REDEVELOPMENT SITES

Source: Google Earth

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MULTIFAMILY MARKET

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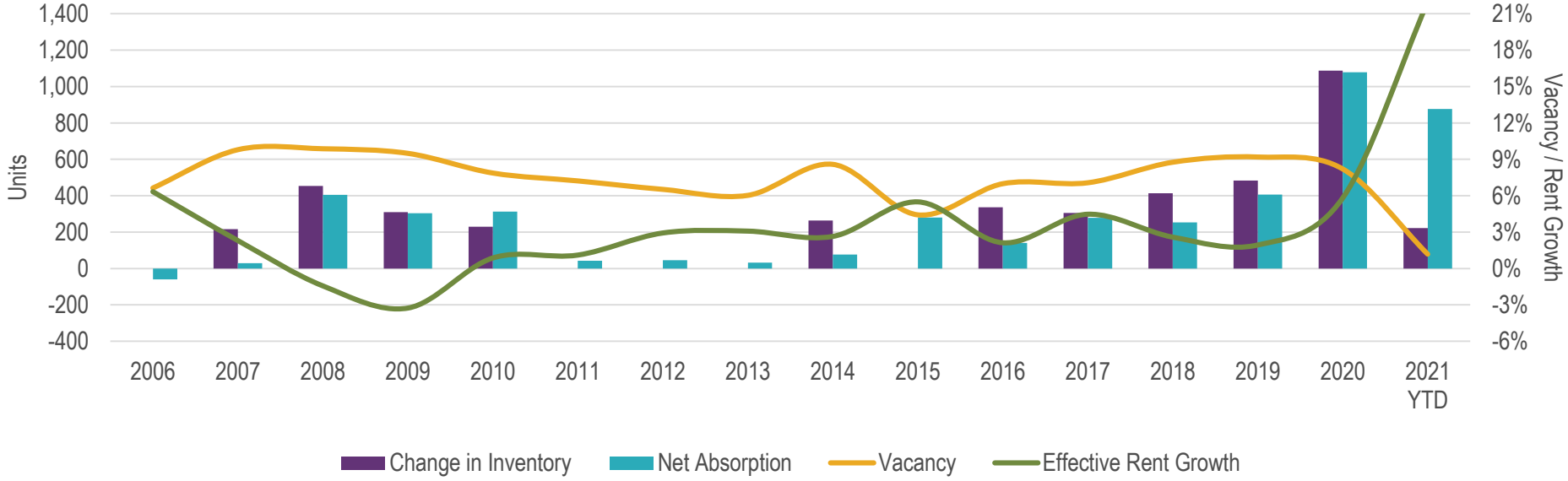
HORRY COUNTY RENTAL APARTMENT MARKET HAS EXPERIENCED SIGNIFICANT GROWTH IN RECENT YEARS, CURRENTLY UNDER-SUPPLIED FOR NEW MULTIFAMILY HOUSING

- Since 2015, Horry County absorption rates have closely tracked multifamily residential deliveries. Despite the COVID-19 pandemic, the apartment market in Horry County continued to perform well in 2020 and 2021, with absorption in line with deliveries, effective rents increasing, and vacancy rates falling below 2%.
  - In 2020, Horry County recorded a record number of deliveries, with nearly 1,100 new units coming online. Despite this increase in supply, vacancies actually decreased and effective rents dramatically increased, demonstrating that the market was likely under-supplied for newer, better product than what currently exists.
  - Horry County rental apartment trends differ from those seen in many other submarkets across the country, especially urban areas, where the pandemic led to elevated vacancies and rent declines. Despite suffering employment losses in the Leisure and Hospitality sector, Horry County saw outsized demand from households moving into the market from more urban locations, as working from home became more prevalent.
- The market has experienced skyrocketing rent growth and extremely low vacancy rates in recent months, a trend that has been observed in other markets but is exacerbated in Horry County. These growth rates are likely to moderate in the future as the economy stabilizes, but this trend serves as further proof that the market is under-supplied for new multifamily housing.

Completions, Absorptions, Vacancy, and Rent Growth, 2006-2021 YTD;
Horry County, SC



Source: CoStar; RCLCO

COMPETITIVE SET

RCLCO REAL ESTATE CONSULTING

EXTREMELY HIGH OCCUPANCY RATES AMONG COMPETITIVE SET INDICATE UNMET DEMAND FOR NEW MULTIFAMILY

- Within the competitive set, all communities are well-occupied, with all properties reporting occupancy rates at 96% or greater. Extremely low vacancy rates across the competitive set likely indicate undersupply within the PMA's multifamily residential market.
- Delivered in 2019, *Seapath on 67th* is achieving top-of-market rents due to its high quality unit finishes and proximity to the oceanfront. Of a similar quality, properties in Carolina Forest are positioned just below *Seapath* but remain near the top of the market, above properties located in Market Common. Multifamily properties in Market Common trail other neighborhoods in pricing, but this may be attributable to extremely high occupancy rates rather than quality or demand for housing in this location.
- Anticipated to be the competitive set's only true urban-oriented multifamily building, the subject site's differentiated status and anticipated quality will likely position it at the top of the market. Like Market Common, retail and open space will be the primary demand driver at the subject site, which will benefit from the surrounding area's central location, existing urban fabric, and pedestrian-oriented infrastructure improvements.

Comparable Apartment Communities, October 2021;
Myrtle Beach, SC

MAP KEY	COMMUNITY NAME	YEAR BUILT	MARKET RATE UNITS	OCC. RATE	AVG. SIZE (SF)	AVG. ASKING RENT	AVG. ASKING $/SF
1	Seapath On 67th	2019	224	98%	933	$1,877	$2.01
2	Mosby Carolina Forest	2020	332	99%	1,074	$1,921	$1.79
3	Haven Pointe at Carolina Forest	2020	304	96%	1,030	$1,923	$1.87
4	The Veranda	2017	287	100%	998	$1,474	$1.48
5	Luxe at Market Common	2020	299	98%	914	$1,384	$1.51
6	The Residences at Market Common	2008	636	99%	1,057	$1,400	$1.32
	AVERAGE	**2017**	**347**	**98%**	**1,014**	**$1,619**	**$1.60**

Source: Axiometrics; CoStar; Interviews with Leasing Agents; RCLCO

RCLCO REAL ESTATE CONSULTING

GOING FORWARD, RCLCO PROJECTS 4,600 RENTAL HOUSEHOLDS IN TURNOVER IN HORRY COUNTY EACH YEAR

- To estimate demand for rental apartments in the local market area, RCLCO used a demographics-based statistical demand model and examined households in Horry County, considering factors such as age, income, tenure, turnover, and product preference to determine the number of nearby households that are likely to rent apartments in the market and at the site. Using this approach, RCLCO projected demand for 4,608 rental apartment units in Horry County each year.

Summary of Demand for Rental Apartments, 2021-2026;
Horry County, SC

151,192 Households in the PMA

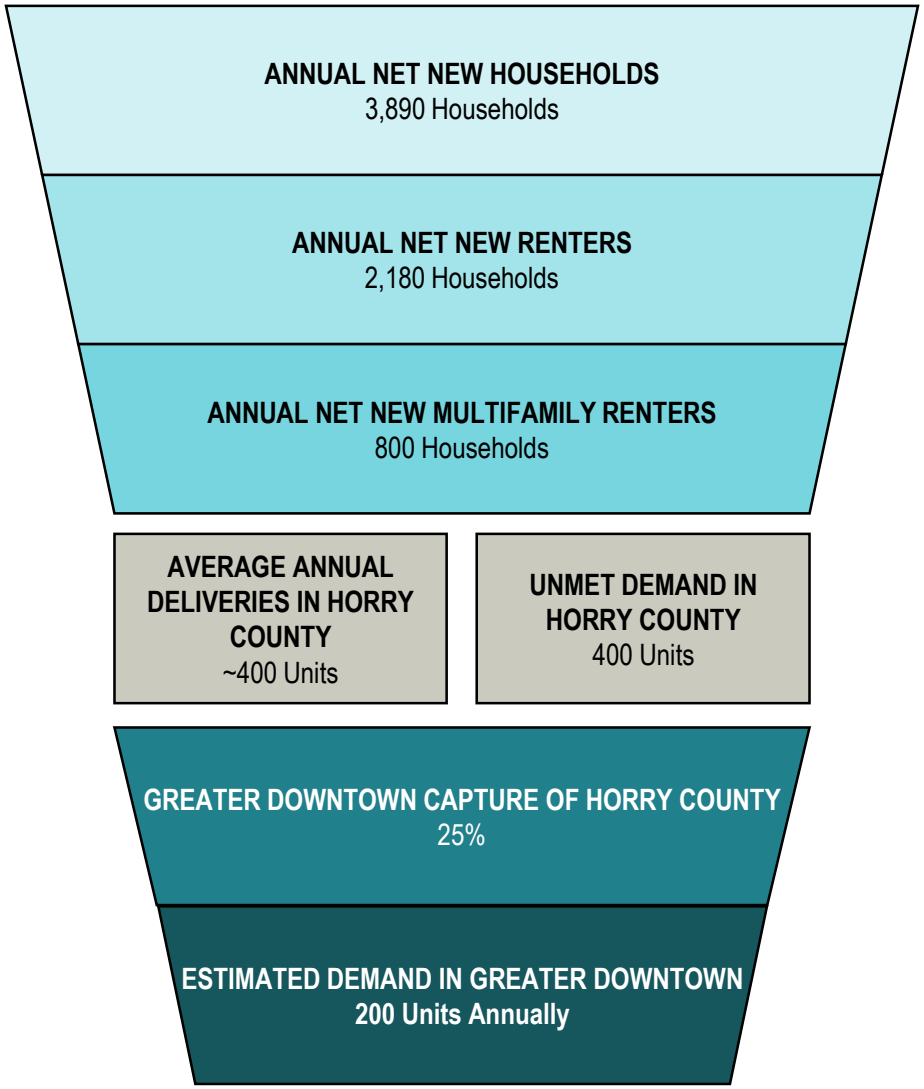
	UNDER 25	25-34	35-54	55-64	65+	TOTAL DEMAND
	4%	13%	30%	19%	34%	
Total Households	6,220	20,362	44,951	28,462	51,197	151,192
% Renters	84%	57%	36%	19%	12%	30%
Total Renters	5,217	11,654	16,215	5,456	6,147	44,690
Move Each Year	1,685	3,721	3,302	830	1,138	10,676
+	+	+	+	+	+	+
Net Tenure Switch	(42)	(276)	(298)	136	183	(298)
+	+	+	+	+	+	+
New Household Growth	922	613	545	173	(74)	2,180
=	=	=	=	=	=	=
Annual Renter Demand	2,564	4,058	3,549	1,139	1,247	12,557
% Rent Multifamily	42%	42%	28%	29%	41%	37%
Annual Multifamily Demand	1,078 Renters	1,694 Renters	990 Renters	331 Renters	515 Renters	4,608 Renters

Source: Esri; American Community Survey PUMS; RCLCO

DOWNTOWN MYRTLE BEACH MULTIFAMILY DEMAND FAR EXCEEDS HISTORICAL & PROJECTED SUPPLY

- Since 2015, Horry County has experienced an average of 410 multifamily unit deliveries annually, with average annual absorption exceeding 470 units in the same timeframe. With absorption exceeding deliveries, historical trends indicate long-term undersupply in Horry County's multifamily residential market .
- Based on Census demographic data, RCLCO projects Horry County will experience annual net new household growth of nearly 3,900 households per year through 2026. Based on anticipated renter behavior, RCLCO expects 800 annual net new multifamily renters in Horry County over the next five years.
- RCLCO has identified four multifamily residential nodes within the county: Market Common, Carolina Forest, Conway//US-501 Corridor, and Greater Downtown Myrtle Beach. Assuming a fair share capture, Greater downtown can expect to capture roughly 25% of annual demand, amounting to demand for 200 new multifamily units per year.
  - Despite high potential demand in the area, Greater Downtown has only seen one delivery of 50 affordable units since 2015, with no market rate multifamily units delivering in that timeframe.
  - In Horry County, only 718 units are under construction with expected delivery by 2023 and 1,130 more units are planned with more uncertain delivery dates. Even if all units deliver, Horry County's multifamily residential market will remain supply-constrained for the foreseeable future.
- With no recent multifamily deliveries and no pipeline projects anticipated, the subject site is likely to absorb a significant share of, if not all, demand in Greater Downtown throughout build-out.

Demand Methodology for Subject Site Market Capture, 2021-2026;
Horry County, SC



Source: RCLCO, CoStar

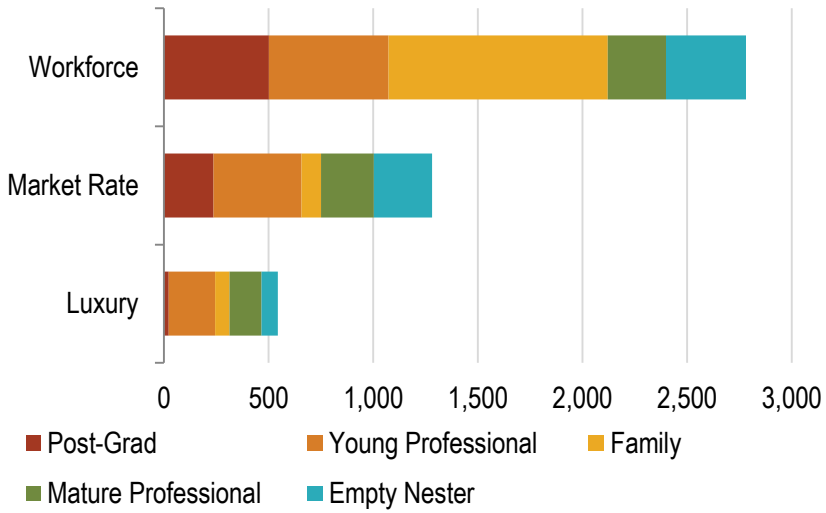
SEGMENTATION OF RENTAL DEMAND

RCLCO REAL ESTATE CONSULTING

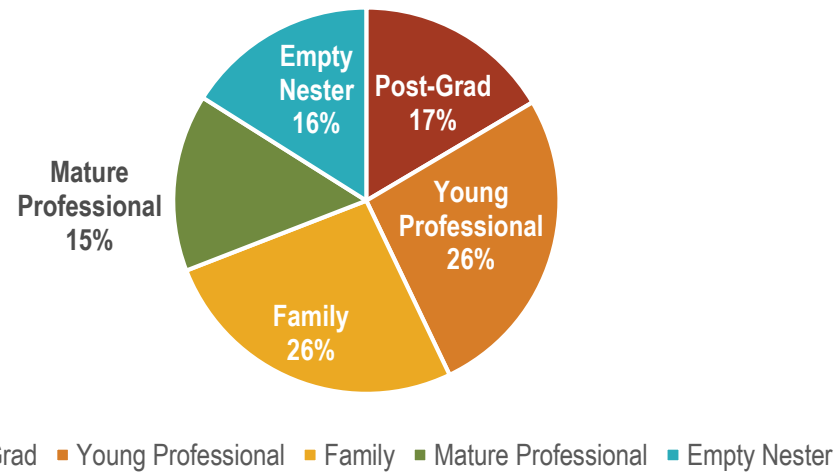
HORRY COUNTY HAS A DIVERSE RENTER DEMAND POOL, WITH A SUBSTANTIAL BASE OF MARKET RATE AND LUXURY HOUSEHOLDS

- Young professionals and post-graduates are the largest combined market segment, collectively representing over 40% of multifamily renter demand in Horry County. These renters will likely be attracted to the subject site due its central location, proximity to anticipated nearby amenities, and short distance to the oceanfront.
  - While established residential locations including Market Common and Carolina Forest currently appeal to younger renters, the subject site may capture renters from these locations by securing high-quality retail tenanting, offering a walkable environment, and providing accessible open space.
- Mature professionals and empty nesters account for a combined 31% of the demand pool, but these renters are unlikely to be the subject site's primary driver of demand in the near-term while it establishes a commercial base, improves infrastructure, and establishes a sense of place.

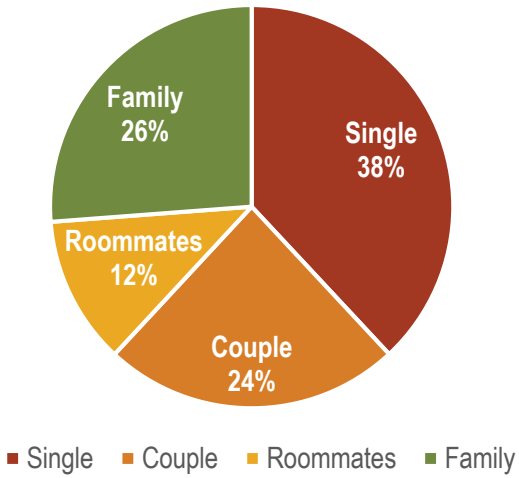
Annual Multifamily Renter Demand by Lifestage and Economic Segment, 2021-2026;
Horry County, SC



Annual Multifamily Renter Demand by Lifestage, 2021-2026;
Horry County, SC



Annual Multifamily Renter Demand by Household Type, 2021-2026;
Horry County, SC



Source: Esri; American Community Survey PUMS; RCLCO

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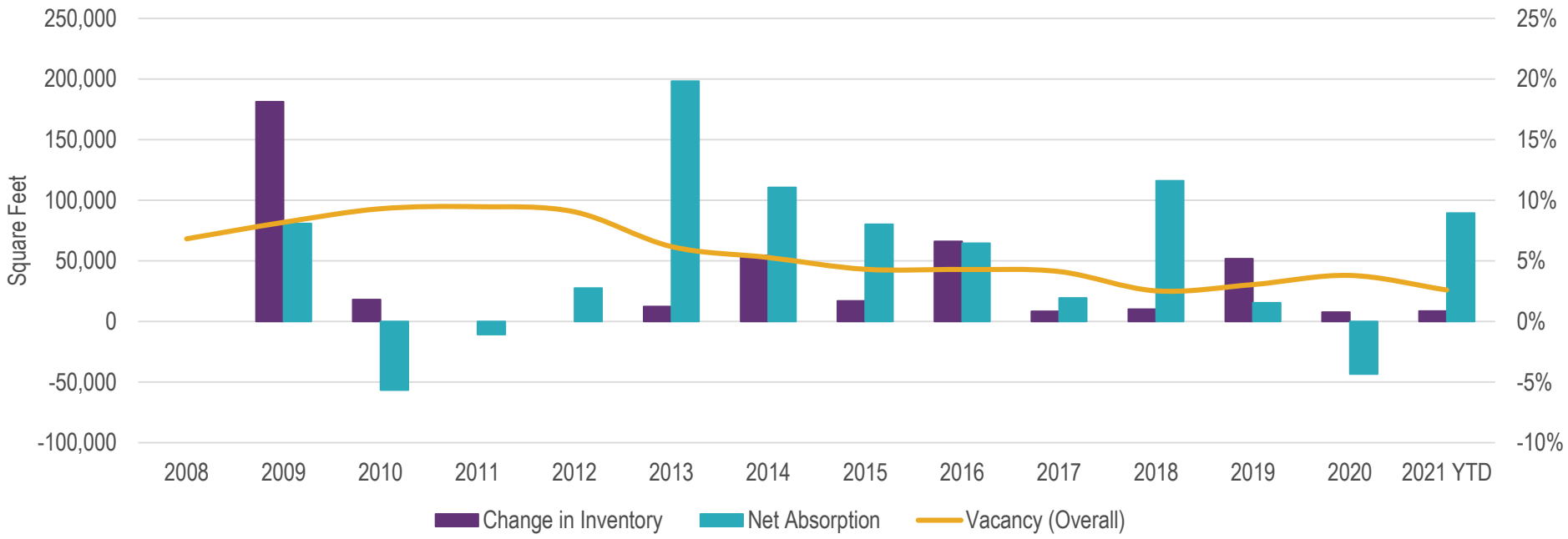
OFFICE MARKET

HORRY COUNTY HAS SEEN LITTLE NEW OFFICE DEVELOPMENT DESPITE CONSISTENT ABSORPTION AND LOW VACANCIES

- Following a large number of office deliveries in 2008 and 2009, Horry County's office market has experienced little change in office inventory over the past decade. Although several years recorded relatively high levels of absorption, lack of new product within the market has driven low vacancy rates, which averaged 3.5% since 2015.
- While the COVID-19 pandemic led to negative net absorption in 2020, vacancies within the local office market did not meaningfully increase. With only one property greater than 5,000 square feet delivering in 2021 and no projects of the same scale in the pipeline, it is likely that Horry County office vacancies will remain low for the foreseeable future.
- Despite some new product deliveries, office rent growth in Horry County has remained stagnant since 2014. Low rent growth may indicate that new office product is not of a higher quality than existing product, and is therefore unable to drive premium rents higher than existing stock in the market.

Completions, Absorption, and Vacancy, 2008-2021 YTD;
Horry County, SC



Source: CoStar; Broker Interviews; RCLCO

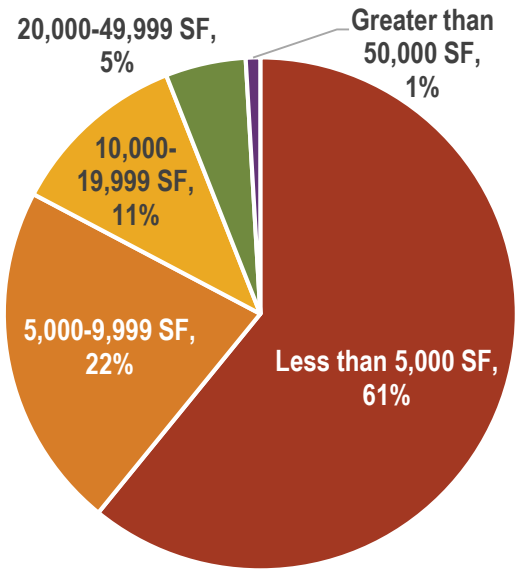
OFFICE SUPPLY DISTRIBUTION

RCLCO REAL ESTATE CONSULTING

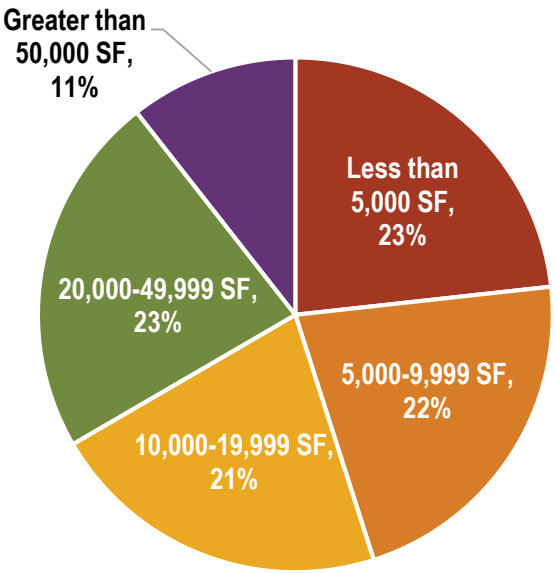
MOST OFFICE-USING TENANTS ARE IN BUILDINGS WITH LESS THAN 5,000 SF OF SPACE, INDICATING MOST DEMAND FOR OFFICE SPACE IN HORRY COUNTY EMANATES FROM SMALL USERS

- Since 2016, most new office deliveries in Horry County have been product under 5,000 square feet, with most larger deliveries serving medical office users. The largest delivery within the past five years, a medical office building delivered 26K square feet in Socastee, while the largest non-medical office delivered in the past five years a 12,500 square foot office building located near Robert M Grissom Pkwy. Within Horry County, there are no known office properties greater than 5,000 square feet in the pipeline.
- In Horry County, about 17% of all office properties are over 5,000 square feet compared to 23% in New Hanover County (Wilmington, NC). Not only does Horry County have less large-scale office space, but it also has less new office space. Only 31% of office space over 10,000 square feet has been built since 2000 compared to 43% in New Hanover County. While this may indicate a lack of demand, it is also indicative of a lack of a downtown office-driven location. The subject site has the potential to be the catalyst for the urbanization of office space in the market.
- Given the limited number of large RBA office buildings in the market and lower growth in office-using industries relative to tourism or trade-based sectors, it is likely that Horry County's office market is unable to support large-scale office development.

Number of Buildings by Rentable Building Area, 2021;
Horry County, SC



Total Square Feet by Rentable Building Area, 2021;
Horry County, SC



Source: CoStar

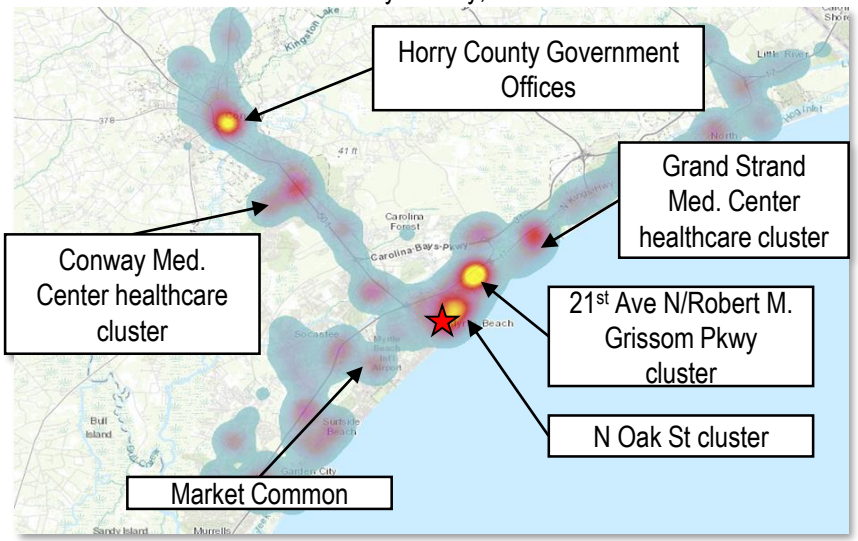
REGIONAL OFFICE DEVELOPMENT

RCLCO REAL ESTATE CONSULTING

WITHIN HORRY COUNTY, OFFICE SPACE IS MOSTLY DECENTRALIZED BUT LOCATED PARALLEL TO THE OCEANFRONT AND NORTH TOWARD CONWAY

- Office development in Horry County is dispersed across several nodes, with medical office clustering near facilities including Conway Medical Center and Grand Strand Medical Center, and some professional services offices clustering near 21st Ave N/Robert M. Grissom Pkwy and N Oak Street.
- Most large, high-quality office product within the PMA delivered over a decade ago, with rents ranging from $14-$25/SF. Reflecting local market trends, vacancies at selected office properties (below) are very low, with most properties recording no vacancy.
- With office clusters widely dispersed across Horry County, the subject site's office component presents an opportunity for centralization that does not yet exist in the market. Though medical office users will likely remain clustered near medical centers, the subject site's potential sense of place, central location, and new office product may entice certain professional services office users to locate downtown. Moreover, the concentration of arts and innovation users are likely to make this site the premier location for technology-focused office users contemplating an entrance into the market.

Heat Map of Existing Office, 2021;
Horry County, SC



Comparable Office Properties, October 2021;
Horry County, SC

MAP KEY	NAME	RBA	YR. BUILT	STORIES	VACANCY	RENT / SF	RENT TYPE
1	Corporate Cntr. 1	31,224	2001	2	11.6%	$19	FS
2	Three Corporate Cntr.	37,149	2002	3	0.0%	$14	FS
3	Founders Cntr. II	42,818	2003	3	8.4%	$25	FS
4	Market Common	43,323	2008	3	0.0%	$0	NNN
5	21st Ave Cntr.	23,000	2007	2	0.0%	$18	FS
6	CMC Health Plaza South	26,400	2019	3	0.0%	$0	0

Source: CoStar; Esri

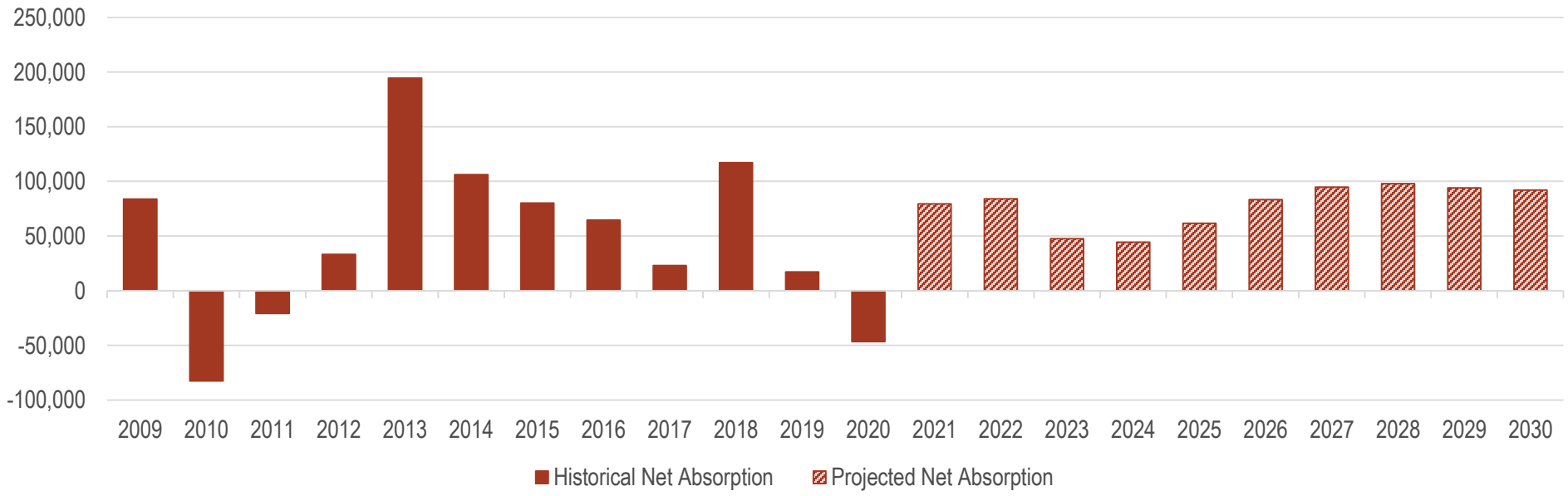
REGIONAL OFFICE DEMAND

RCLCO REAL ESTATE CONSULTING

HORRY COUNTY EXPECTS TO SEE STEADY BUT DIFFUSE DEMAND FOR OFFICE SPACE DUE TO EMPLOYMENT GROWTH

- To estimate demand for office product in the local market area, RCLCO examined historical absorption and employment trends, using prior market behavior to project both office-using employment growth in the region and office space capture relative to the MSA. Tying office-using employment growth to historical square feet per employee, RCLCO is able to project Horry County office absorption through 2030, which is expected to capture 61% of total office growth in the Myrtle Beach MSA.
- Horry County is expected to quickly recover from the COVID-19 Pandemic through the end of 2021. For the remainder of this decade, RCLCO projects Horry County will absorb approximately 78,000 square feet of office space annually; though projected to be marginally lower than the previous decade's trends, office absorption is expected to remain more steady than historical trends, with slightly increased rates anticipated in 2025 and beyond.
- As the subject site potentially delivers commercial space in the latter half of the decade, projections indicate that office absorption will likely remain healthy in Horry County as long as new supply can keep up with demand. Given the limited overall demand for office space coupled with the scale of users that have leased office space in the market, it is unlikely that the demand shown below can result in large-scale office development without a major anchor tenant taking up a large share of office space.

Historical & Projected Annual Office Absorption, 2009-2030;
Horry County, SC



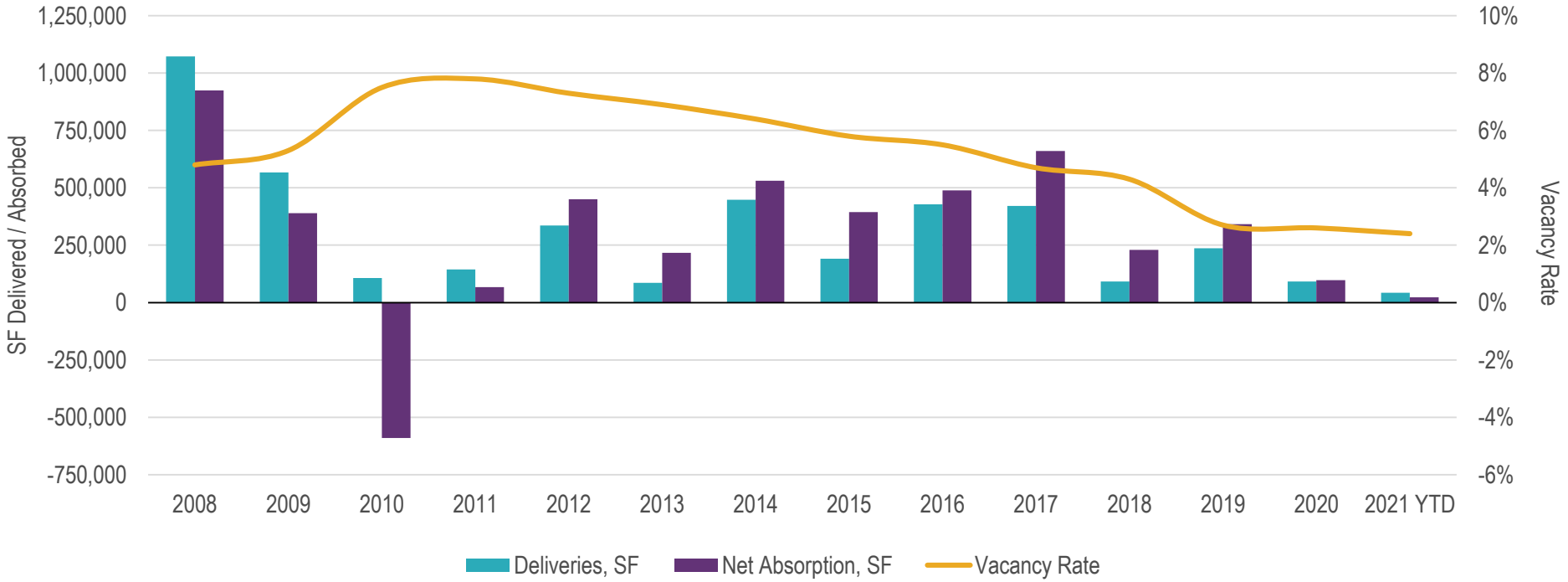
Source: CoStar, Moody's, RCLCO

RETAIL MARKET

HORRY COUNTY REMAINS UNDER-SUPPLIED FOR RETAIL AS NEW DELIVERIES FAIL TO KEEP UP WITH DEMAND

- The metropolitan area has seen sustained household growth over the past decade, leading to sustained demand for new retail space. New retail space has primarily been located near growing suburban residential locations like Market Common and Carolina Forest. Moreover, the Arts & Innovation District has the opportunity to be the new urban retail destination that the market is currently missing but other major beach and destination towns offer.
- Much of the retail demand in the market has come from the need for more neighborhood-serving uses like grocery stores, pharmacies, and restaurants. While the tourist-driven retail market along the oceanfront has remained stable, the growing household base has led to significant under-supply of retail in the market overall. The Arts & Innovation District is poised to deliver ample new retail that will directly serve local households in the form of entertainment, food & beverage, and likely some soft good tenants.

Retail Completions, Net Absorption, and Vacancy Rate, 2008-2021;
Horry County, SC



Note: Above graph displays both direct and sublet net absorption, vacancies, etc. Data includes properties larger than 5,000 SF

Source: CoStar; RCLCO

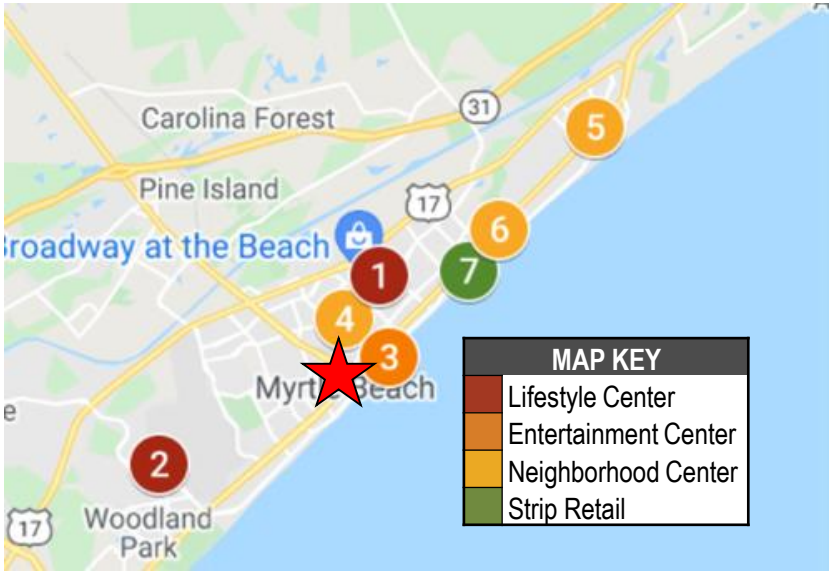
REGIONAL RETAIL DESTINATIONS

RCLCO REAL ESTATE CONSULTING

TOURIST-DRIVEN RETAIL IS LIKELY MAXED-OUT NEAR SUBJECT SITE BUT OPPORTUNITY EXISTS FOR URBAN LOCAL-SERVING RETAIL

- One of Myrtle Beach's primary tourism-driven retail corridors, 21st Ave N hosts TicketReturn.com Field, a future surf park with extensive food and beverage offerings, and Broadway at the Beach, a 600,000 square foot experiential retail destination. Running parallel to the oceanfront, the N Ocean Ave corridor features numerous retail destinations including restaurants, bars, and THEBlvd, a 42,000 square foot space with tourism-oriented dining space and an arcade. Given the scale and established popularity of these two retail corridors, it is likely that tourist-driven demand near the subject site is already met, but there may be an opportunity to attract more local-serving retailers.
- Opened in 2008 on the site of the former Myrtle Beach Air Force Base, Market Common has become Myrtle Beach's premier pedestrian-oriented, mixed-use retail and residential destination. Other neighborhood-serving retail centers like Magnolia Row and Rainbow Harbor have been able to attract strong retailers, especially popular restaurants and soft good tenants.
- While the subject site is located near abundant tourist-driven retail opportunities, there are few local-serving retail opportunities. With Market Common offering the only pedestrian-oriented, local-serving retail in the area, the subject site is well-positioned to capture local retail demand from both its residential component and nearby households.

Select Retail Properties, October 2021;
Myrtle Beach, SC



MAP KEY	PROPERTY NAME	SIZE (SF)	YEAR BUILT	VACANCY RATE	EFFECTIVE RENT - SIGNED LEASES	ASKING RENT - AVAILABLE SPACES
1	Broadway at the Beach	590,446	1995	7.1%		
2	Market Common	352,500	2008	0.0%		
3	THEBlvd	42,472	2018	0.0%		
4	American Athletic Club Plaza	28,000	2005	0.0%		
5	Village Shops at Grande Dunes	69,600	2016	0.0%	$32	
6	Rainbow Harbor	57,300	1972	0.0%	$17	$27
7	Magnolia Row	46,564	2019	32.4%	$20	$20

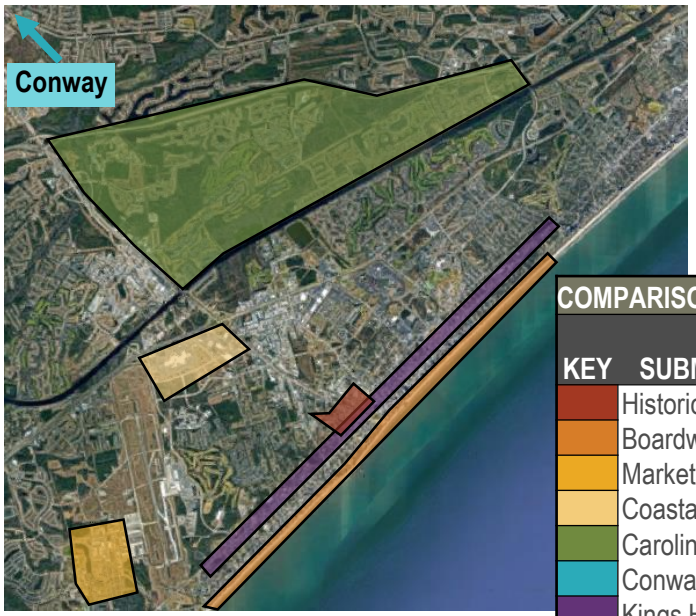
Source: CoStar; Broker Websites; Retailer Websites; RCLCO

SUBMARKET RETAIL

RCLCO REAL ESTATE CONSULTING

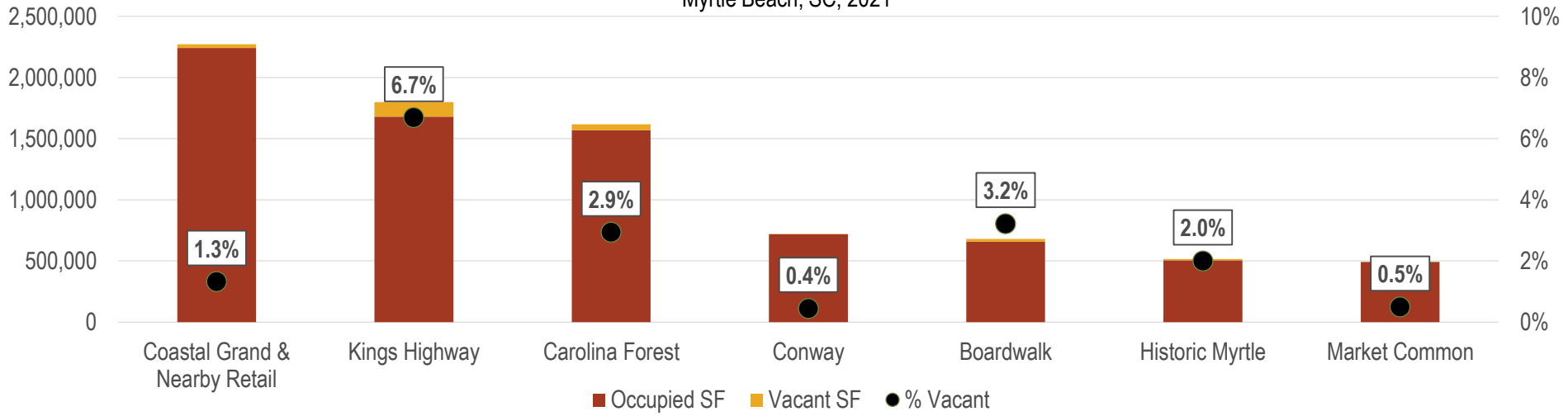
MOST RETAIL CORES ARE WELL-OCCUPIED, FURTHER HIGHLIGHTING THE NEED FOR HIGH-QUALITY DESTINATION RETAIL IN A MORE URBAN SETTING

- Key retail submarkets shown in the map to the right are split between local-serving and tourist-oriented destinations. Most visitors to the market stay near the Boardwalk and frequent retailers along the Boardwalk or Kings Highway. Meanwhile, retail destinations like Market Common, Coastal Grand, and neighborhood-serving retailers in Carolina Forest offer primarily local-serving retailers.
- The only submarket with relatively high vacancy rates is the Kings Highway corridor, which may present further opportunities for redevelopment along the primary commercial corridor in Myrtle Beach. These parcels may turnover and attract better retail tenants or could see new development in the form of multifamily, office, or other uses.



COMPARISON BY SUBMARKET		
KEY	SUBMARKET	INVENTORY (SF)
	Historic Myrtle	515,687
	Boardwalk	680,683
	Market Common	493,139
	Coastal Grand	2,271,429
	Carolina Forest	1,618,021
	Conway	721,702
	Kings Highway	1,799,507
TOTAL SUBMARKETS		**8,100,168**

Total Occupied and Vacant Space by Submarket;
Myrtle Beach, SC, 2021



Source: Google Maps; CoStar; RCLCO

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FEASIBLITY & LAND VALUE

FEASIBILITY OVERVIEW

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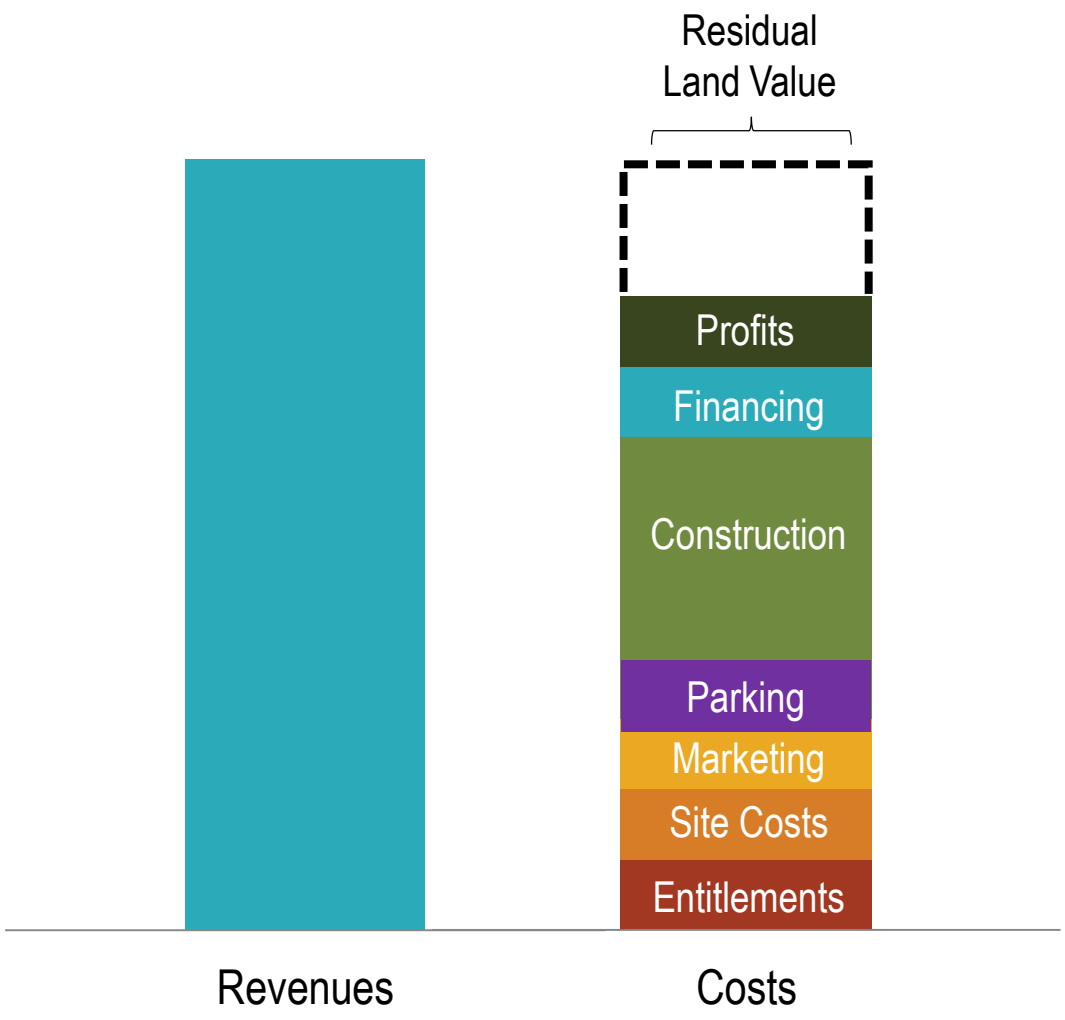
RCLCO EXAMINED THE "RESIDUAL LAND VALUE" TO DETERMINE THE FEASIBILITY OF VARIOUS PRODUCT TYPES IN THE MARKET

- Total Capitalized Value" is the current value of an asset based on total income over the time it is owned, accounting for time value of money.
- Residual land valuation is the process of valuing land with development potential. The value of a parcel of land available for development can be calculated from the value of the completed development less the costs of the development (including profit).
- A potential project is said to have a "positive" land value if the costs of the project are less than the anticipated value of what is built. Conversely, a development concept with "negative" land value has projected costs that are larger than the capitalized value of the project, meaning that prices or rents are unlikely to be high enough to support construction at this time.
- In the case of this project, RCLCO constructed a residual land value model in order to determine the feasibility of each product type and to evaluate the opportunity for development in the market.
- While this approach is not intended to replace detailed financial analyses that typically follow in the development and planning process, it provides an important and dynamic visioning tool, which allows one to evaluate the feasibility of multiple different land uses.



Source: RCLCO

LAND VALUE OVERVIEW

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LOW-DENSITY RESIDENTIAL DEVELOPMENT SUPPORTS A POSITIVE LAND VALUE

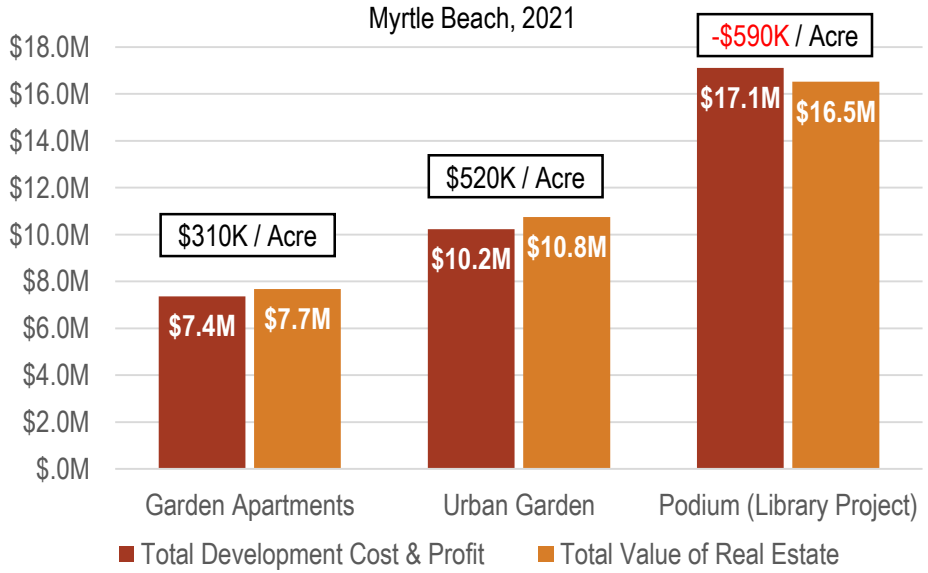
- Garden style multifamily apartments support an estimated land value of $300K per acre, while higher-density "urban garden" apartments support a land value of $520K per acre.
  - Currently, all multifamily projects in the Myrtle Beach market are garden-style with the exception of units at Market Common. With the significant rent growth seen in the market over the past few years, higher-density urban garden product is likely achievable in the Arts & Innovation District and across the Myrtle Beach market.

MULTIFAMILY ABOVE LIBRARY UNLIKELY TO GENERATE POSITIVE LAND VALUE OR CONTRIBUTE TO COST TO CONSTRUCT LIBRARY

- The library project calls for wood-frame construction over a concrete podium, which is a more expensive construction typology due to the cost of the podium and the increased complexity to build on top of the podium. Based on construction costs and estimated current supportable rents, the value of the apartments does not offset the additional costs from more complicated construction, meaning the development does not contribute to land value or provide a subsidy for the library.
  - **Solution:** There are several different ways for the city to partner on the development in order to ensure feasibility. Public-Private Partnerships are often used to counteract higher development costs that come from projects that benefit the public at-large but do not generate revenue for the developer. Based on estimated costs and revenues, an 80 unit building over a library podium creates a gap of about $1M (excluding the cost to build the library itself), which will need to be addressed through upfront capital subsidy, a reduction in operating expenses (likely through tax abatement), or another form of gap finance.

	Total Development Cost per Acre	Total Value of Real Estate per Acre	Land Value per Unit	Total Value for 80 Unit Building
Garden Apartments	$7.4M	$7.7M	$13K	$1M
Urban Garden	$10.2M	$10.8M	$25K	$1.98M
Wood Frame Over Podium (Excluding Cost of Library Space)	$17.1M	$16.5M	$12K	-$944K

Total Development Costs & Value per Acre Excluding Land Value;
Myrtle Beach, 2021



Source: CoStar; RCLCO

COMMERCIAL FEASIBILITY & TURNOVER

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COMMERCIAL LAND VALUES ARE MORE UNCLEAR DUE TO EXISTING SPACE FIT FOR RENOVATION AND UNCERTAIN RENTS

- In order to support a positive land value on newly constructed commercial uses, a development would likely need to generate rents of at least $23-$25/SF NNN per year; however, it is unlikely that professional users or retail tenants would be willing to pay that today, as current rents in the district are likely in the $15-$19/SF NNN range. In addition, existing storefront space throughout Myrtle Beach is relatively affordable to purchase rather than rent, incentivizing many tenants to own rather than rent. However, the critical mass of households and retail expected in the Arts & Innovation District may change the value proposition in later years such that retail and small-scale office tenants may be more willing to rent in a location with additional urban amenities not available in other submarkets.
- Additionally, given the profile of office users in the Myrtle Beach market, most office development is likely to be a smaller, build-to-suit or city office space. It is unlikely that a developer would build a speculative office building given expected rents and construction costs as well as the time required to lease up a reasonably sized building.
  - **Solution:** Capitalize on existing commercial space along Broadway and 9th where renovation costs are far lower than ground-up development costs. Not only are these spaces more likely to be financially feasible, it will also help to concentrate retail space along one corridor in the district. Success along this corridor may drive commercial rents in the future, allowing for ground-up commercial development in later phases. It may also produce spillover demand that encourages turnover of underutilized spaces along other sections of Broadway to turn over into more active and profitable uses.

SUPPORTABLE LAND VALUES AND PRODUCT TYPES DEMONSTRATE WHY REDEVELOPMENT OF EXISTING INCOME-PRODUCING COMMERCIAL ASSETS HAS BEEN SLOW OR NON-EXISTENT

- Underutilized sites in prime locations surrounding the Arts & Innovation District generate relatively strong, consistent income due to dense construction and low operating costs. In order to see redevelopment or sale of these assets, the operating income must be sufficiently low that a rational owner would prefer to build new housing or commercial space on the parcel or the City of Myrtle Beach will need to pay market rate for the asset and land value.
- Another potential issue with these under-utilized parcels is that many are small in size, less than half an acre. This means that any larger development would require an owner to aggregate several parcels before any market-rate use, other than small-scale commercial is feasible on-site.
  - **Solution: The fastest path to redevelopment is reducing the cash flow of existing properties through stricter requirements on maintenance/safety and greater fines to enforce violations.** These sites are unlikely to turn over until incentives are aligned and the income from the existing asset is low enough such that the opportunity cost of new development is too great.

NOI per Acre by Use Type

	Estimated Annual NOI per Acre
Existing Asset	$670,000
Garden Apartments	$346,000
Urban Garden Apartments	$484,000
Podium Apartments	$743,000

Estimated Economics of Existing Assets

	Est. Annual
Est. Revenue	$447,000
Est. Operating Expense	($179,000)
Annual NOI	**$268,000**
Est. Capitalized Value of Asset	**$3,154,000**
Est. Capitalized Value of Asset per Acre	**$7,884,000**

Source: CoStar; RCLCO

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DISCLAIMERS

CRITICAL ASSUMPTIONS

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Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and real estate markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

It has become increasingly clear that the U.S. economy is in a recession, and yet the extent of the damage to the economy and the ability to rebound from a still unfolding disruption are unknown. These events underscore the notion that stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is particularly difficult to predict inflection points, including when economic and real estate expansions will end, and when downturn conditions return to expansion.

Our analysis and recommendations are based on information available to us at the time of the writing of this report, including the likelihood of a downturn, length and duration, but it does not consider the potential impact of additional/future shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology. As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, any project and investment economics included in our analysis and reports should be “stress tested” to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause unacceptable levels of risk or failure.

In addition, and unless stated otherwise in our analysis and reports, we assume that the following will occur in accordance with current expectations by market participants:

- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive supply (both active and future) will be delivered to the market as planned, and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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