

MARKET STUDY

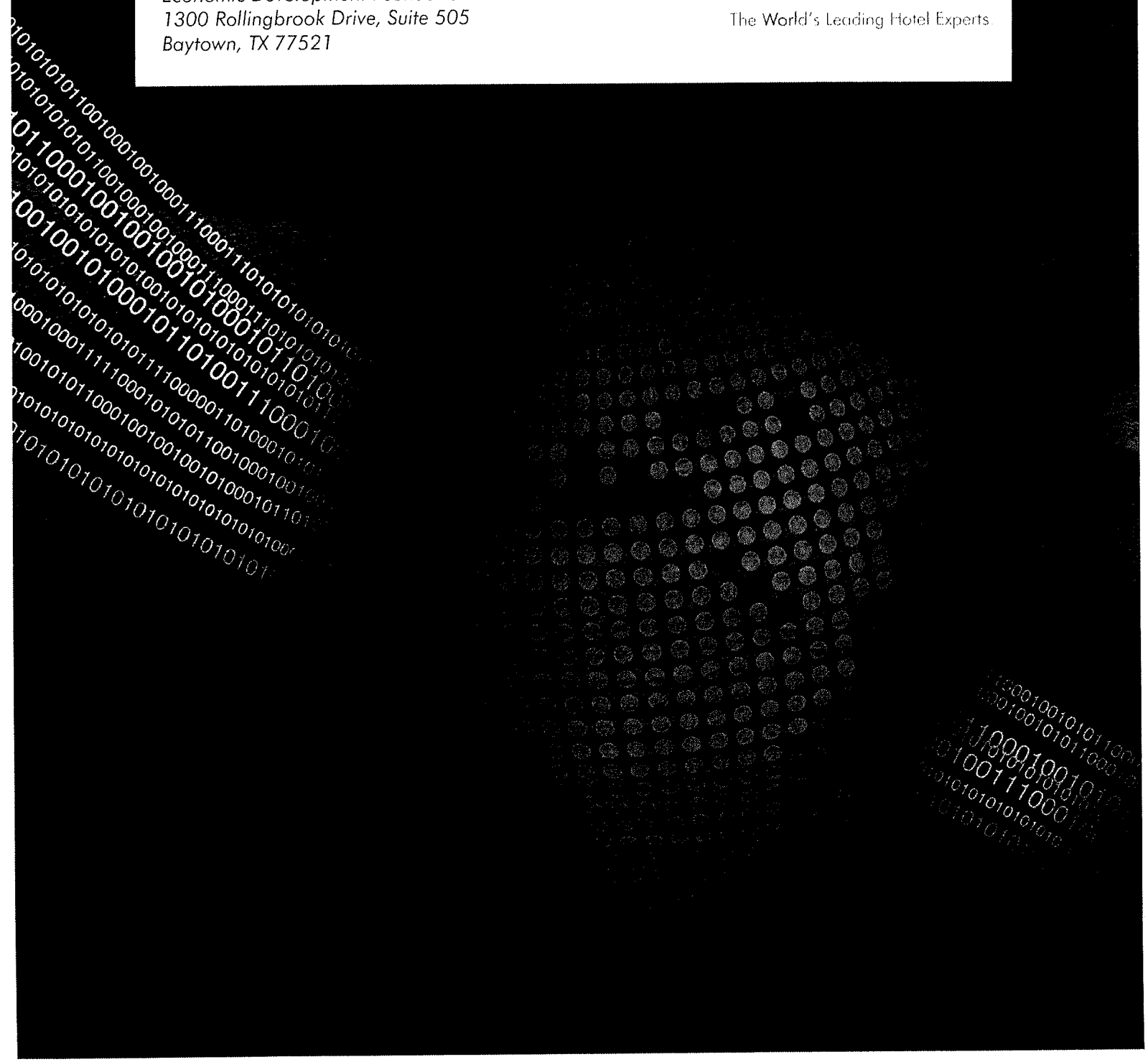
Proposed Hotel and Conference Center
Baytown, Texas

17-484HO-0048

Mr. B. J. Simon
Associate Executive Director
Baytown-West Chambers County
Economic Development Foundation
1300 Rollingbrook Drive, Suite 505
Baytown, TX 77521

CBRE HOTELS

The World's Leading Hotel Experts.



September 27, 2017

Mr. B. J. Simon
Associate Executive Director
Baytown-West Chambers County
Economic Development Foundation
1300 Rollingbrook Drive, Suite 505
Baytown, TX 77521

Dear Mr. Simon:

In accordance with our engagement letter dated August 24, 2017, we have completed an update to our previous market study with estimates of prospective financial performance for the proposed Hotel and Conference Center to be located in Baytown, Texas. The previous study was completed in August of 2016. The conclusions reached are based upon our present knowledge of the competitive market resulting from our fieldwork completed September 18, 2017.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive position of the project from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions that occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project. This report is subject to the Terms and Conditions presented in the Addenda.

Although they have been conscientiously prepared using information obtained during the course of this study and our experience in the industry, the proposed property's future performance is based on estimates and assumptions, which are subject to uncertainty and variation, and we do not represent them as results that will actually be achieved.

We would be pleased to hear from you if we may be of further assistance in the interpretation and application of our findings and conclusions. We appreciate the cooperation extended to us by you and your associates during the course of this assignment.

Respectfully submitted,

CBRE Hotels

G. Randle McCaslin, CRE
Managing Director

**MARKET STUDY WITH
PROSPECTIVE FINANCIAL ANALYSIS
PROPOSED HOTEL AND CONFERENCE CENTER
BAYTOWN, TEXAS**

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MARKET STUDY WITH
PROSPECTIVE FINANCIAL ANALYSIS
PROPOSED HOTEL AND CONFERENCE CENTER
BAYTOWN, TEXAS

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ADDENDA

- A. Photographs of Subject Site
- B. Photographs of Competitive Supply
- C. Map of Competitive Supply
- D. Terms and Conditions
- E. Certification

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SECTION I
EXECUTIVE SUMMARY

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SCOPE AND METHODOLOGY

In preparing this study, we completed the research and analysis listed below:

- Assembled, reviewed and analyzed economic, demographic and real estate market data pertaining to the Houston area in general and City of Baytown specifically to evaluate the present economic climate and to estimate future growth potential, particularly as it relates to lodging demand.
- Interviewed representatives of the Baytown area, local hotels and chain representatives to gather data on current and future area growth and the demand for lodging.
- Evaluated the existing supply of lodging in the market to determine the degree of competition that they are likely to offer the proposed Hotel and Conference Center.
- Prepared a summary of historical market performance, including available rooms, occupied rooms, market occupancy and average daily room rate for the period 2012 to 2016 and year-to-date August 2017 compared to the same period in 2016.
- Identified other proposed hotels to assess their probability of completion and the degree to which they will compete with the subject project.
- Based on an analysis of historical market growth and factors determined from review of the economic climate and interviews in the market area, prepared estimates of future growth in hotel demand.
- Based on estimates of future growth in demand and the potential additions to competitive supply, prepared estimates of future occupancy and average daily rate for the proposed hotel for the period 2020 to 2022, the stabilized year.
- Provided an estimate of prospective cash flow before debt service and income taxes for the proposed hotel for the period 2020 to 2029.

CONCLUSIONS

A concise summary of the conclusions of this report follows:

- Low oil prices will limit growth in Houston but the economy should narrowly avoid an outright downturn, supported by gains in a variety of other industries, including nonresidential construction, transportation, healthcare and local government. Gradual strengthening in the global recovery should boost demand for energy, stabilizing oil prices and exploration. Longer term, above-average population additions and expansion in energy, housing and distribution industries will help propel above-average gains for the metropolitan area.
- With a booming economy, Baytown is experiencing unprecedented growth in industry, retail and housing. The city has maintained high quality of life while becoming a major center for economic growth. Baytown will continue to expand despite the drop in oil prices and the decrease in construction jobs. Additional chemical plant and distribution/logistics expansions, the retirement of long-time employees, growth in healthcare and the maritime industry are pushing the city to the forefront as one of the nation's fastest growing and most prosperous regions.
- The following table presents the proposed facilities for the proposed Hotel and Conference Center.

Proposed Facilities			
Proposed Hotel and Conference Center			
Baytown, Texas			
Number of Guestrooms	200		
Type of Hotel	Full-Service		
Meeting Space			
Ballroom	12,000	sq. ft.	divisible by 3 or 4
Meeting Rooms	5,000	sq. ft.	various sizes
Boardrooms	<u>1,000</u>	sq. ft.	2 Boardrooms
Total Meeting Space	18,000	sq. ft.	
Amenities			
	Three-Meal Restaurant		
	Lobby Lounge		
	Room Service		
	High Speed Internet		
	Business Center		
	Fitness Center		
	Swimming Pool		
Brands			
	Delta Marriott		
	DoubleTree		
	Sheraton		
Source: CBRE Hotels			

With the proposed facilities, the Hotel will offer many of the amenities and services necessary to serve both the local community and outside visitors and conferences. Based on CBRE's interviews, the 200 rooms should suit the market well.

According to interviews and surveys, the Conference Center's 12,000-square foot ballroom will be capable of seating up to 800 people for a banquet. It should also be divisible to accommodate several smaller meetings at the same time. The hotel should also offer a number of smaller meeting rooms to accommodate smaller meetings/conferences, local social events/wedding and company functions.

- The proposed Hotel and Conference Center will be well-located on the waterfront on Bayland Island in Baytown, Texas with easy access to the surrounding areas via SH 146. We consider the subject site to be well-suited for hotel development.

- Based upon our review of the area, we have identified 11 hotels containing 898 rooms as the Subject hotel's competitive set. These properties were included in the competitive supply based upon their location, facilities, brands, markets served and/or average daily rates.

The market currently consists of only economy, limited-service and select-service hotels. While it is likely that most of the existing hotels will not compete directly with a full-service hotel and conference center because of their limited-service nature, they were considered the competitive set for the subject hotel since they are where the base of existing demand is currently staying.

- The proposed Hotel and Conference Center will likely attract additional demand to the area that is currently being turned away due to lack of adequate facilities. The existing properties were used as a base for current hotel occupancy and rates in the Baytown market area with the proposed Hotel being positioned above the performance of the existing hotels.
- Supply for the set increased at a compounded average annual rate of 5.7% over the past five years. Total occupied rooms increased 6.4%. The total competitive set achieved an occupancy of 70.1% in 2012. Occupancy increased significantly to 73.1% in 2013 and to a high of 77.7% in 2014. As a result of construction demand slowing, additions to supply and the drop in the price of oil, 2015 and 2016 market occupancy decreased to 76.4% and 71.9%, respectively. However, year-to-date August 2017 occupancy achieved 76.4% compared to 72.9% during the same period in 2016 as additional new chemical plant projects began construction.
- Overall, ADR in the market increased at an average annual rate of 2.3%. With the completion of major construction projects and the slowdown in the oil and gas sector, the Baytown market decreased 4.4% in ADR and 10.0% in RevPAR in 2016. However, there are several additional chemical plant expansions which began in 2017 that are increasing construction demand. This resulted in year-to-date 2017 RevPARs increasing by 6.7%.
- The 125-room Hilton Garden Inn Baytown and the 95-room Home2 Suites Baytown is projected to open in mid-2017. The 85-room TownePlace Suites Baytown is scheduled to open in 2018. The 92-room Home2 Suites La Porte is scheduled to open in mid-2018. The Subject 200-room proposed Hotel and Conference Center is scheduled to open in 2020.
- The majority of the lodging demand at the competitive set hotels is generated by the Corporate Individual segment at 70%, followed by Group at 25% and Leisure demand at 5%.

- The market is projected to increase to 74% in 2017 due to Hurricane Harvey and the increase in construction demand. Occupancy is expected to decrease to 68% in 2018 due to the additions to supply. Market occupancy will slightly increase to 70% in 2019 as the new supply is absorbed and the price of oil begins to rebound. With the addition of the proposed Hotel and Conference Center, occupancy will decrease slightly to 69% in 2020. With no other additions to supply, the market is expected to increase to 72% in 2021 and stabilize at 74% in 2022.
- Estimated market segmentation for the proposed Hotel and Conference Center is summarized, as follows:

Proposed Hotel & Conference Center 2022 Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Corp Individual	35,800	64%	101%
Leisure	2,200	4%	70%
Group	17,800	32%	114%
Total	55,800	100%	103%

Source: CBRE Hotels

The proposed Hotel and Conference Center is projected to receive more than its fair share of demand from the Group segment due to its large conference center component. The Subject will also receive more than its fair share of demand from the Corporate Individual segment due to the full-service nature of the hotel. The proposed Hotel and Conference Center will receive less than its fair share from the Leisure demand segment due to its higher rates.

- We project that the Subject would achieve an ADR at \$140 in 2017 dollars. The hotel will likely achieve rates above the existing hotels in the market. The estimated performance for the proposed Hotel and Conference Center is shown in the following table.

Estimated Performance Proposed Hotel & Conference Center			
Year	Annual Occupancy	Average Daily Rate*	Net Operating Income
2020**	70%	\$153	\$3,291,000
2021	73%	\$158	\$3,640,000
2022	76%	\$162	\$3,939,000
2023	76%	\$167	\$4,063,000
2024	76%	\$172	\$4,186,000

* Stated Year Dollars, rounded to the nearest dollar.

Based on an ADR of \$140 in 2017 dollars.

** The subject hotel is estimated to open in 2020

Source: CBRE Hotels

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SECTION II
AREA OVERVIEW

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INTRODUCTION

It is generally recognized that the relative success of a hotel is influenced by factors that can be broadly categorized as economic, governmental and environmental. Therefore, it is necessary to evaluate the dynamics of these factors within a market to understand their effect on the projected utilization levels of real estate property.

The Houston Metropolitan Statistical Area (MSA) includes six counties: Chambers, Fort Bend, Harris, Liberty, Montgomery, and Waller. Houston is the largest city in Texas and the fourth largest city in the U.S. Houston has a broad business base, NASA and the aerospace industry, an internationally recognized medical center, the international oil and gas industry, and a varied base of local businesses and nationally recognized service firms.

The proposed Hotel and Conference Center will be located in Baytown, Texas. The hotel will be located on Bayland Island adjacent to the existing marina. The site is located on the waterfront with scenic views of the bay and the Fred Hartman Bridge.

ECONOMIC AND DEMOGRAPHIC TRENDS

Note: Moody's Analytics provided the following demographic and economic data. Information relating to other topics has been obtained through a variety of media, including websites, publications, interviews or other sources considered reliable. CBRE Hotels has reviewed and analyzed the Moody's Analytics data.

The following pages present an economic snapshot of the United States, the South Region and Houston, respectively.



UNITED STATES

EMPLOYMENT GROWTH RATE

2016-2018: **1.4%**

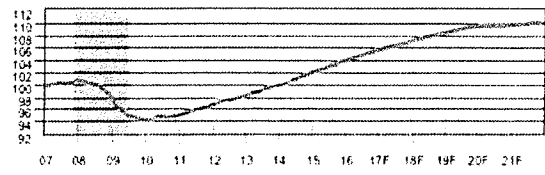
2016-2021: **1.0%**

GROSS DOMESTIC PRODUCT

2016-2018: **2.6%**

2016-2021: **2.2%**

RELATIVE EMPLOYMENT PERFORMANCE (JAN 2007=100)



Source: Moody's Analytics

STRENGTHS & WEAKNESSES

STRENGTHS

- Very productive workforce.
- Labor market that attracts skilled and unskilled immigrants.
- High innovation and entrepreneurship
- Mobile labor force, flexible labor system

WEAKNESSES

- Many labor market nonparticipants
- Large budget, current account deficits
- Skewed income and wealth distribution
- Polarized and fractured political system

ANALYSIS

Recent Performance. It is almost boring. Regardless of what is happening around the globe—and a lot seems to be happening—the U.S. economy continues to plug away. The U.S. economic expansion is eight years old and counting, and growth remains remarkably stable.

Real GDP growth ebbs and flows on a quarterly basis, but that seems mostly due to the Bureau of Economic Analysis' problems measuring GDP. Abstracting from the quarterly ups and downs, it has been growing at a 2% annualized pace since the expansion began, and that is what it likely grew during the first half of this year (see Chart 1).

Job growth has been equally unwavering. There have been months with soft employment gains and others with strong gains, but this too can be chalked up mostly to measurement issues and transitory events like weather. Looking through monthly noise, job additions have averaged just under 200,000 per month since job gains resumed—about the size of gains enjoyed so far this year.

A boring economy is exactly what global investors hope for, and one reason they have been bidding up asset prices. Stock prices are at record highs, credit spreads in the bond market are narrow, and capitalization rates in real estate markets are low. There are other reasons for the investor euphoria—easy global monetary policy quickly comes to mind—but investors are feasting on businesses' steady-as-she-goes revenue growth, costs, and profitability.

Despite the boring economy, there have been a few recent surprises. None is a game changer, at least not yet. But let us consider them in turn.

Global revival. A very happy surprise has been the global economy's performance (see Chart 2). Just over a year ago came the shocking British vote to leave the European Union. There was widespread fear that the Brexit vote signaled a resurgence of anti-EU sentiment, which would manifest itself in elections this year across the Continent.

Those fears have not proven out. The pro-union political center has held firm in each of the key elections, most notably in Emmanuel Macron's election as the French president. German Chancellor Angela Merkel, the EU's staunchest advocate, is up next, but she seems to be a shoo-in.

Instead of fracturing, the European political system has come together more strongly, and that has been key to the European economy getting its groove back. The economy is growing well above its potential, and while full employment is still a ways off, it now seems very achievable. The European economy is in a self-reinforcing virtuous cycle for the first time since the financial crisis.

A stable Chinese economy is an equally happy global surprise. Not long ago the Chinese seemed to have lost their mojo, given the collapse in their stock market and the global kerfuffle created by their botched effort to delink the yuan from the dollar. China's growth had slowed sharply, undermining global oil and other commodity prices, making things very difficult for many previously high-flying emerging economies.

But Chinese authorities got their act together and put a priority on stability over reform. This is an important political year in China—President Xi Jinping is up for another term—and policymakers are leaving nothing to chance. Chinese growth has stabilized, sticking closely to policymakers' script, and the yuan is trading within a narrow range.

With the revival in the global economy, investors have re-evaluated their expectations for global monetary policy. They still expect the Federal Reserve to lead the way on policy normalization, but other global central banks are probably not as far behind as previously thought. The gap between U.S. interest rates and those in other developed nations is narrowing.

(Continued next page)

CURRENT EMPLOYMENT TRENDS

% CHANGE YR AGO, 3-MO MA

	Oct 16	Feb 17	Jun 17
Total	1.8	1.6	1.6
Construction	3.4	2.7	2.8
Manufacturing	-0.1	-0.1	0.4
Trade	1.2	1.0	0.4
Trans/Utilities	1.9	1.7	1.6
Information	0.7	0.4	1.4
Financial Activities	2.1	2.2	2.0
Prof & Business Svcs	2.7	2.9	3.1
Edu & Health Svcs	2.7	2.5	2.3
Leisure & Hospitality	2.8	2.1	2.0
Other Services	1.4	1.0	1.3
Government	1.1	0.9	0.7

FORECAST RISKS

SHORT TERM ↑

UPSIDE

- Low energy prices and rising wages act as tailwinds for consumer spending
- Long-term interest rates remain low for much longer, fueling housing's recovery and spurring more business investment

LONG TERM ↑

DOWNSIDE

- Weak global demand and high dollar detract from exports longer than expected
- Household formation remains subdued, hurting the housing recovery.

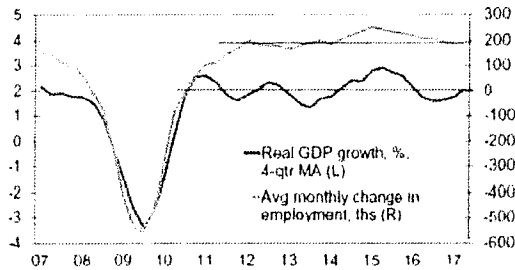
MOODY'S RATING

Aaa

2011	2012	2013	2014	2015	2016	INDICATORS	2017	2018	2019	2020	2021	2022
15,021	15,355	15,612	15,982	16,397	16,662	Gross domestic product (C09S bil)	17,057	17,534	17,911	18,163	18,540	18,971
7.6	2.2	1.7	2.4	2.6	7.6	% change	2.4	2.8	2.1	1.4	2.1	2.3
131.9	134.2	136.4	138.9	141.8	144.3	Total employment (mil)	146.4	148.4	150.0	150.8	151.3	152.7
7.2	1.7	1.6	1.9	2.7	1.8	% change	1.5	1.3	1.1	0.5	0.3	0.9
8.9	8.1	7.4	6.2	5.3	4.9	Unemployment rate (%)	4.4	4.0	3.9	4.2	4.7	4.8
6.2	5.0	1.1	5.2	4.4	3.4	Personal income growth (%)	3.8	5.0	5.0	4.4	3.8	4.0
311.7	314.0	316.2	318.6	320.9	323.1	Population (mil)	325.6	328.0	330.3	332.4	334.6	336.9
0.434	0.537	0.620	0.647	0.712	0.784	Single-family starts (mil)	0.879	1.184	1.402	1.379	1.370	1.386
0.178	0.247	0.308	0.355	0.395	0.393	Multifamily starts (mil)	0.395	0.427	0.419	0.346	0.376	0.435
1,428	2,051	1,844	1,267	1,677	1,894	Mortgage originations (\$ bil)	1,580	1,466	1,421	1,365	1,484	1,597
1,363	1,181	1,039	910	820	771	Personal bankruptcies (ths)	782	782	786	867	1,015	1,195
0.1	0.1	0.1	0.0	0.1	0.3	91-day Treasury bill (%)	0.8	1.4	2.9	3.4	3.1	2.6
2.8	1.8	2.3	2.5	2.1	1.8	10-year Treasury bond (%)	2.5	3.5	4.3	4.3	4.1	4.2

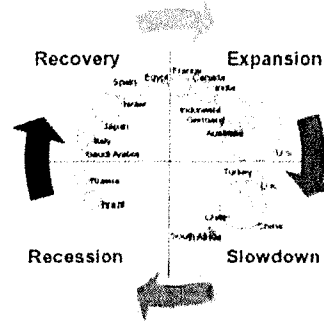
PRÉCIS® U.S. METRO SOUTH » United States

Remarkably Steady Growth



Sources: BLS, BEA, Moody's Analytics

The World Turns for the Better



veloped economies has thus narrowed, putting a bit of a damper on the stronger dollar.

A better global economy and more stable dollar mean that the U.S. trade deficit, which had been a significant drag on U.S. growth, is leveling off and soon may even improve a bit. It is a pleasant surprise how quickly the weight on the U.S. economy from global trade has lifted.

Homebuilding disappoints. The biggest recent disappointment may be single-family homebuilding's painfully slow recovery. By my calculation, the new single-family home market is woefully undersupplied. New single-family starts are running close to 800,000 units per annum, but underlying demand for new homes is closer to 1.2 million units.

The demand for new homes is equal to the sum of household formations, what is needed to replace the homes that are obsolete, and second and vacation homes (see Chart 3). Annual formations are close to 1.2 million, 200,000 homes are needed to meet obsolescence, and 200,000 second and vacation homes are built each year. That sums to 1.6 million units. Of this, approximately 400,000 units should be multifamily dwellings—about the current level of new construction—leaving the need for 1.2 million new single-family units.

Homebuilders have not been able to ramp things up for a host of reasons, including labor shortages in the construction trades and restrictions on land development. The most immediate implication of the dearth of homebuilding is

that vacancy will continue to decline and house price growth will remain strong. At some point the higher prices will be enough to prompt more building in more areas. This could take a while, meaning that homebuilding will not provide the expected boost to near-term growth.

Inflation goes MIA. The most perplexing surprise to me has been the slump in core inflation since the beginning of the year. Core consumer prices have unambiguously decelerated from well over 2% at the end of last year to well below 2% currently. Inflation as measured by the core consumer expenditure deflator has slid to 1.4% on a year-over-year basis, well below the Federal Reserve's 2% target.

This is a shocker, coming when unemployment has fallen sharply. At just over 4%, joblessness is below most everyone's estimate of full employment. Wage growth has picked up, consistent with the tightening job market, but only modestly, and has clearly not translated into stronger overall inflation, at least not yet (see Chart 4).

To be sure, there seem to have been a number of measurement problems and one-off events that will only temporarily depress the inflation statistics. For example, prices for physician services have inexplicably plunged in recent months. This is unprecedented and seems related to a big decline in physicians' response rate to the Bureau of Labor Statistics survey. Rent growth has slowed but may have more to do with the way the BLS strips out the cost of utilities from its rent esti-

mate. A recent sharp decline in cell phone prices due to the adoption of unlimited cell phone minute plans is a one-time hit on inflation.

However, soft inflation readings may go deeper and persist longer. For example, goods prices are deflating quickly despite the stable dollar and energy and other commodity prices, which are significant inputs for many goods.

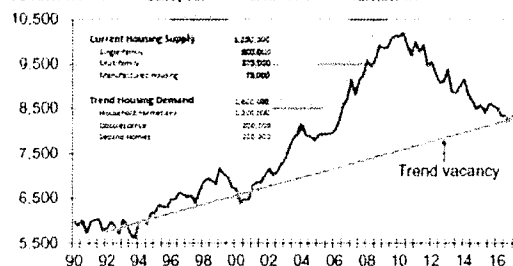
Surprisingly soft inflation has yet to impact Federal Reserve policy. Like me, policymakers appear to think that whatever has constrained inflation in recent months will give way soon. The economy continues to expand at a pace above its potential, and any remaining unused labor and other capacity is quickly being put to use. But this bears close watching, the outlook for inflation and interest rates are particularly difficult to get right.

Do not be complacent. It is a boring economy, notwithstanding the modest surprises I have outlined. However, this is no time to be complacent. If history is a guide, it is in these times that (big) mistakes are made. Remember the Great Moderation—the quarter century leading up to the financial crisis when there were few ups and downs in the economy. The economic calm of that period probably led to the complacency that proved to be the fodder for the Great Recession. We are a long way from that, but it would be wise to stay vigilant, so that future surprises remain as modest as the current ones.

Mark Zandi
July 2017

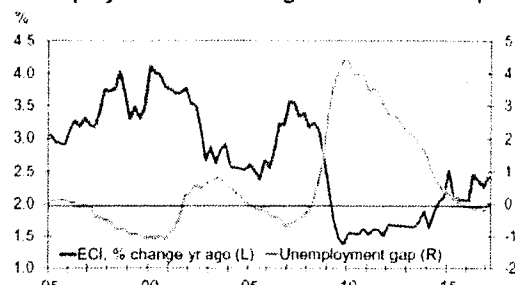
BUILDERS ARE NOT BUILDING

Vacant homes for sale, for rent and held off market, ths



Sources: Census Bureau, Moody's Analytics

Unemployment Falls... Wage Growth Picks Up



Sources: BLS, Moody's Analytics

MOODY'S ANALYTICS

SOUTH

RELATIVE EMPLOYMENT PERFORMANCE (JAN 2007=100)

EMPLOYMENT GROWTH RATE

2016-2018	2016-2021
1.7%	1.3%

GROSS DOMESTIC PRODUCT

2016-2018	2016-2021
3.0%	2.6%

Source: Moody's Analytics

STRENGTHS & WEAKNESSES

STRENGTHS

- ▶ Lower costs, including taxes, attract businesses and households
- ▶ Above-average population growth in some states drives household spending

WEAKNESSES

- ▶ Workforce quality still lags in many places, and per capita incomes are low
- ▶ Globalization in manufacturing erodes the South's competitive advantage

ANALYSIS

Recent Performance. The South's job growth, both in recent and year-over-year comparisons, has drawn even with that of the West, which was the unchallenged leader for nearly five full years. Whereas the West has decelerated sharply, the South is expanding steadily at just above the national rate on a year-over-year basis. Some granular comparisons now favor the South. For example, professional services are rising at triple the pace of the West on a year-over-year basis. Likewise, manufacturing is up during that time compared with a modest decline in the West. In consequence, because these industries are often higher-paying, for once the South has measurably outperformed in high-wage job growth.

Energy producers up. The oil patch should rebound over the coming year and in some cases outperform the region. For example, Texas employment has accelerated since mid-2016, returning to a pace that is faster than the national average, on the back of a recovery in oil drilling. But this above-trend rebound will be muted. Despite firming of global growth and therefore oil demand, rising supply from countries such as Libya, Nigeria and Iran has extended the global glut, in turn causing oil prices to fall back to the mid-\$40s range. Still, rising exports, elevated homebuilding and industrial diversity will support growth.

In contrast, neither Oklahoma nor Louisiana has yet to recover overall. Oklahoma's exploration is up somewhat but not by enough to lift the economy as a whole, because energy industry tax cuts enacted in 2014 squeezed state government spending. In Louisiana's case, although active rigs have rebounded, mining employment has continued to fall as companies have aggressively lowered costs of exploration.

Southeast still solid. Florida and Georgia, the largest states in the Southeast, will continue to be regional leaders in job growth, though their margins over Texas will diminish as they decelerate. In Florida, outside growth in low-wage jobs has constrained income gains. Additionally, with the national economy reaching full employment, growth in tourism from outside the state is now likely to be limited to the long-term trend. On the positive side, residential construction is still rising based on population growth twice the national average.

Georgia is likely to fare better, driven by still-strong growth in professional services, especially in Atlanta, which makes up a large chunk of the state economy. Residential and nonresidential construction is also rising. Unlike Florida, a more important driver is that the state's recovery was initially slower, leaving room to grow at an above-trend pace. In contrast, the profiles of North Carolina and South Carolina look more like that of the nation, with comparable unemployment rates and job growth. Therefore, these states have likely slowed to their long-term trend.

Mid-South performance will vary. In the region's midsection, Tennessee will remain the best performer, getting support from strong population growth and relatively high industrial diversity that dilutes the state's exposure to the auto industry, where unit sales are starting to trend down. Alabama, Kentucky and Mississippi still have some slack, implying room to grow before returning to the long-term trend, but weak population trends will limit the potential to expand.

The South will be the near-term regional leader as the oil patch rebounds. Texas will vie with the Southeast for the lead within the region. Longer term, the South will derive support from demographics, the energy industry, and low business costs.

*Edward Friedman
July 2017*

CURRENT EMPLOYMENT TRENDS

	% CHANGE YR AGO, 3-MO MA		
	Oct 17	Feb 17	Jun 17
Total	1.7	1.8	1.9
Construction	3.4	3.5	3.3
Manufacturing	0.1	0.5	1.4
Trade	1.2	1.3	0.6
Trans/Utilities	2.3	2.3	2.3
Information	0.4	1.4	2.0
Financial Activities	1.9	2.1	2.4
Prof & Business Svcs	2.3	2.5	3.2
Edu & Health Svcs	3.0	2.8	2.7
L Leisure & Hospitality	3.1	2.7	2.3
Other Services	1.8	1.9	2.4
Government	1.2	1.1	0.8

FORECAST RISKS


SHORT TERM	LONG TERM
<p style="font-weight: bold; font-size: small;">UPSIDE</p> <ul style="list-style-type: none"> ▶ Stronger-than-expected rebound in oil patch lifts entire region ▶ Low costs enable some reshoring of manufacturing 	<p style="font-weight: bold; font-size: small;">DOWNSIDE</p> <ul style="list-style-type: none"> ▶ In-migration to the Southeast rebounds less than anticipated ▶ Decline in U.S. vehicle sales slows growth in auto-producing states in the mid-South

COST OF DOING BUSINESS

97%

2011	2012	2013	2014	2015	2016
4,600.3	4,703.7	4,812.9	4,925.8	5,074.9	5,137.0
44,016	44,844	45,705	46,745	47,830	48,714
1.4	1.9	1.9	2.3	2.3	1.8
8.7	7.7	6.9	5.9	5.2	5.0
6.6	5.0	1.0	5.8	4.5	3.4
108,690	109,857	110,919	112,135	113,430	114,670
594.0	654.6	588.8	713.0	818.3	778.8
216,101	263,641	315,269	328,063	362,601	389,925
83,519	141,025	152,063	165,732	182,944	177,061
267	266	275	289	307	327
369	520	508	366	456	520
4,753.0	5,438.8	5,787.9	6,163.4	6,475.1	6,530.1
455,228	406,310	370,059	340,879	310,963	294,152

INDICATORS	2017	2018	2019	2020	2021	2022
Gross regional product (C09S bil)	5,273.9	5,454.0	5,603.7	5,712.6	5,876.8	6,065.1
Total employment (ths)	49,600	50,432	51,096	51,498	51,850	52,522
% change	1.8	1.7	1.3	0.8	0.7	1.3
Unemployment rate (%)	4.6	4.2	4.0	4.3	4.7	4.8
Personal income growth (%)	4.0	5.7	5.6	4.8	4.7	5.2
Population (ths)	116,097	117,604	119,124	120,617	122,087	123,607
Net migration (ths)	977.3	1,064.7	1,086.0	1,068.3	1,056.2	1,119.0
Single-family permits (#)	439,830	547,793	640,574	646,748	647,940	653,560
Multifamily permits (#)	164,599	164,953	159,297	132,243	155,396	180,528
House price (1980Q1=100)	343	354	361	366	373	384
Mortgage originations (\$ mil)	461	443	429	408	437	469
New vehicle registrations (ths)	6,135.5	6,220.7	6,172.0	6,065.8	6,187.2	6,558.0
Personal bankruptcies (#)	285,204	281,344	282,225	304,753	359,226	433,268




HOUSTON-THE WOODLANDS-SUGAR LAND TX

Data Buffer: MSA Code: IUSA_MHOU

ECONOMIC DRIVERS



ENERGY &
RESOURCES



MANUFACTURING



LOGISTICS

EMPLOYMENT GROWTH RANK

2016-2018

53

1st quintile

2018-2021

24

1st quintile

Best=1, Worst=409

RELATIVE COSTS

LIVING

107%

U.S. = 100%

BUSINESS

105%

U.S. = 100%

VITALITY

RELATIVE

136%

U.S. = 100%

RANK

9

Best=1, Worst=402

BUSINESS CYCLE STATUS

»

EXPANSION

«

Recovery

At Risk

Moderating Recession

In Recession

STRENGTHS & WEAKNESSES

STRENGTHS

- » Leadership in oil and gas technology supports technical and professional services jobs
- » Significant trade and export links, owing to location on Texas Gulf Coast

WEAKNESSES

- » Unpredictable energy markets add to the economy's volatility
- » Industrial diversity is lower than in other metro areas of comparable size

FORECAST RISKS

SHORT TERM ▲

LONG TERM ▲

RISK EXPOSURE 2017-2022 **23** 1st quintile Highest=1 Lowest=402

UPSIDE

- » Oil prices rise faster than forecast, boosting mining, manufacturing recovery
- » Improvement of distribution facilities boosts trade and transportation
- » Population growth turns out to be stronger

DOWNSIDE

- » Rising housing costs lower affordability
- » Winding down of petrochemical plant construction accelerates faster than expected.

MOODY'S RATING

Aaa

COUNTY

AS OF MAR 17, 2017

						INDICATORS		2017	2018	2019	2020	2021	2022
354.5	380.3	404.0	418.2	439.1	434.6	Gross metro product (C095 bil)	440.2	458.2	472.7	483.3	499.5	517.8	
3.1	7.3	6.2	3.5	5.0	-1.0	% change	7.3	4.1	3.2	2.2	3.3	3.7	
2,633.3	2,737.7	2,840.2	2,940.8	2,995.9	3,000.0	Total employment (ths)	3,053.9	3,134.4	3,198.5	3,239.4	3,284.1	3,345.7	
2.6	4.0	3.7	3.5	1.9	0.1	% change	7.8	2.6	2.0	1.3	1.4	1.9	
7.7	6.6	5.9	4.9	4.6	5.3	Unemployment rate (%)	5.3	4.4	4.1	4.3	4.6	4.6	
8.7	11.0	0.9	8.1	3.8	0.8	Personal income growth (%)	3.6	6.7	6.6	5.9	5.8	6.2	
55.0	55.8	57.1	59.6	61.5	61.3	Median household income (\$ ths)	62.8	65.5	68.0	70.3	72.6	75.1	
6,057.4	6,180.8	6,324.2	6,488.0	6,647.5	6,772.5	Population (ths)	6,904.5	7,037.6	7,168.4	7,295.1	7,424.5	7,559.2	
1.8	2.0	2.3	2.6	2.5	1.9	% change	1.9	1.9	1.9	1.8	1.8	1.8	
50.6	65.4	85.2	102.1	97.0	63.1	Net migration (ths)	69.9	70.3	67.2	62.7	64.7	69.7	
22,887	28,624	34,543	38,319	36,786	35,367	Single-family permits (#)	41,874	44,177	47,954	51,619	53,059	52,655	
8,382	14,662	16,791	25,426	20,115	9,365	Multifamily permits (#)	11,519	12,637	9,220	8,448	11,555	14,321	
181.8	187.1	198.3	220.0	238.7	249.5	FHFA house price (1995Q1=100)	259.0	264.0	266.6	269.2	273.9	280.3	

Recent Performance. The recovery in Houston-The Woodlands-Sugar Land has not abated despite the downward trend in oil prices throughout 2017. Total job growth has gradually accelerated, and the year-over-year pace again matches the national average. The local PMI has been positive for eight months running, and manufacturing employment has risen as well. Only construction and retail have been weak. May's 5.5% unemployment rate reflected the first significant monthly decline in two years and occurred amid solid growth in the labor force. Various housing market indicators, including home sales, house prices, and single-family permits have begun to improve significantly.

Exploration and factory activity. The recovery in mining will boost manufacturing, much of which is drilling equipment and related supplies. Active Texas rigs tripled over the year following the May 2016 trough, though that growth has paused. Both industries should continue to advance, but no return to the boom years of 2013 and 2014 is in prospect. This is because growth in the global oil supply is still outstripping demand, keeping prices subdued. Rising production by countries such as Libya, Nigeria and Iran is offsetting efforts by Saudi Arabia to limit supply.

Commercial real estate. The boom in petrochemical plant building that began about four years ago will wind down over the coming year, keeping growth in overall construction employment subdued. For example, Dow's massive ethylene plant is almost done, and Chevron's \$6 billion project and an Exxon plant will be completed this year. Since construction is labor-intensive but running a chemical plant is not, the net effect of the winding down will be negative for overall employment. However, an upside risk is that some of these companies still have tentative plans for additional plants. A more fundamental offset will be warehousing and logistics, which will rise as plastics manufacturing and retail distribution increase.

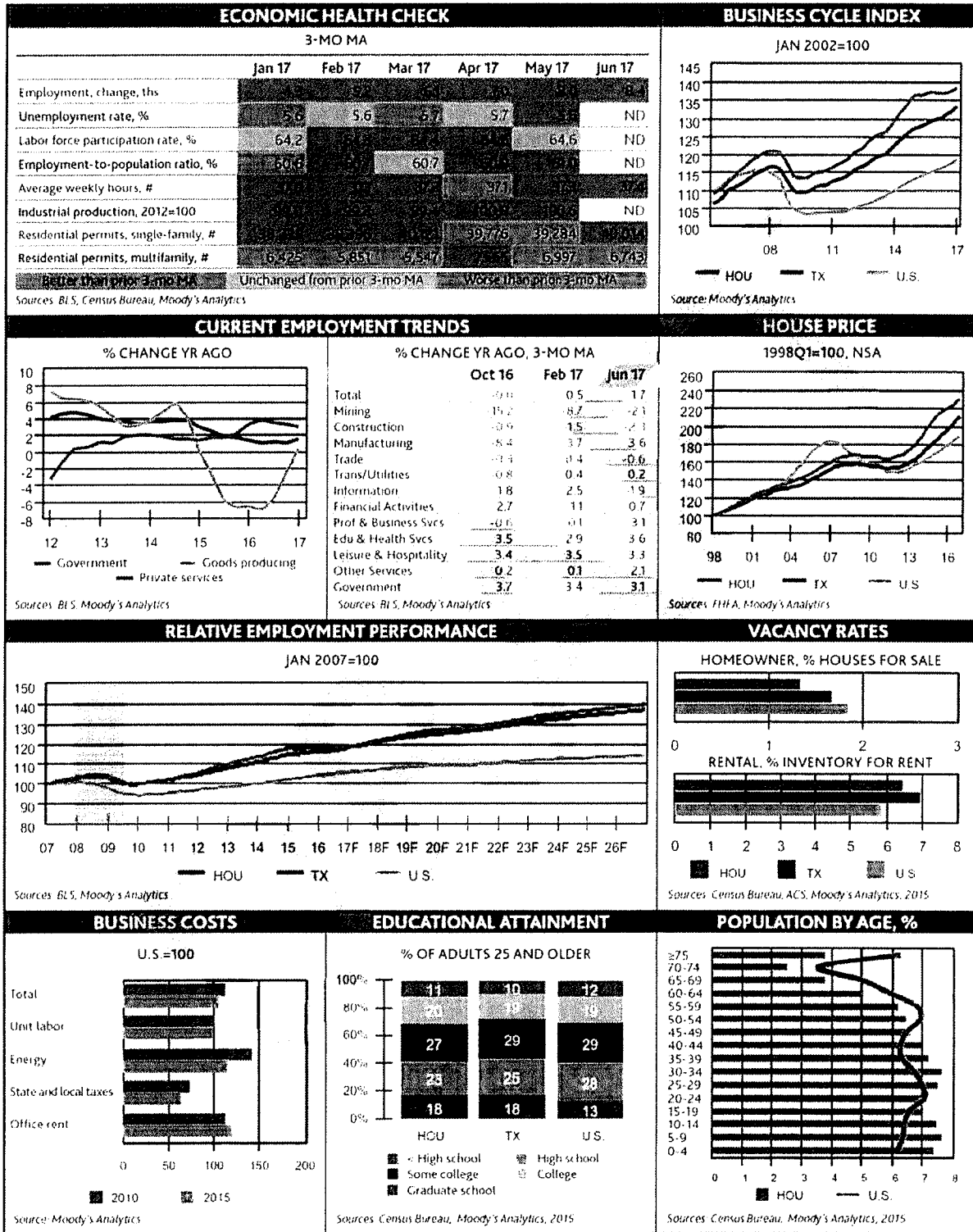
Residential. The housing market will recover along with employment and personal income. Home sales have rebounded, and house prices are rising steadily at a pace equal to the national average on a year-over-year basis. However, different segments of homebuilding will diverge in performance. New permits for single-family homes have rebounded from their 2015-2016 weakness to their pre-boom rate in 2004, well above most other metro areas in the country. In addition, foreclosures did not rise much during the downturn and affordability remains relatively high compared with Dallas or Austin. Multifamily will not fare as well, though. Demand is correlated with the level of employment in mining, which has not recovered much yet. Consequently, the vacancy rate has risen.

Shipping and transportation. Firming global demand and rising chemical production will lift distribution industries. Shipments of goods through the HOU customs district during the first five months of 2017 were 23% higher than in the comparable period in 2016. Exports and imports were each up by more than 20%. Air travel will take longer to rebound, with passenger traffic flat in year-over-year comparisons in the first half of 2017.

Houston-The Woodlands-Sugar Land will recover over the coming year as energy exploration and related manufacturing gradually rise. However, weakness in oil prices is a downside risk. Longer term, the concentration of upstream and downstream energy industries, above-average population growth, and expansion in housing and the transportation and distribution will help propel above-average gains for the metropolitan area.

Edward Friedman 7-866-274-3246
July 2017 help@econanly.com

PRÉCIS® U.S. METRO SOUTH » Houston-The Woodlands-Sugar Land TX



PRÉCIS® U.S. METRO SOUTH » Houston-The Woodlands-Sugar Land TX

EMPLOYMENT & INDUSTRY				MIGRATION FLOWS																																																																																																																							
TOP EMPLOYERS Wal-Mart Stores Inc 28,780 University of Texas 22,441 Insperity 20,816 H-E-B 17,000 National Oilwell Varco 14,581 Memorial Hermann Healthcare System 13,847 Exxon Mobil Corp 13,200 Cameron International 11,000 The Methodist Hospital 10,150 Halliburton Co 8,600 Hewlett-Packard Co 8,500 Schlumberger 8,400 Baylor College of Medicine 8,052 Baker Hughes 8,000 Chevron Corp 7,000 BP 7,000 JPMorgan Chase and Co 6,750 Jacobs Engineering Group 6,500 Harris County Hospital District 6,454 University of Houston 6,381 <small>Sources: Houston Business Journal, Book of Lists 2014, Houston Chronicle, April 2012</small>		INDUSTRIAL DIVERSITY Most Diverse (U.S.) Least Diverse		INTO HOUSTON TX Number of Migrants Dallas TX 8,593 Austin TX 7,225 San Antonio TX 5,486 Beaumont TX 4,298 New York NY 4,268 Fort Worth TX 3,807 Chicago IL 3,418 Los Angeles CA 3,271 Atlanta GA 2,836 New Orleans LA 2,485 Total in-migration 182,782																																																																																																																							
PUBLIC Federal 28,351 State 83,580 Local 290,281 2016		EMPLOYMENT VOLATILITY Due to U.S. fluctuations Relative to U.S. 118 100 Legend: Not due to U.S., Due to U.S., HOU, U.S.		FROM HOUSTON TX Austin TX 10,807 Dallas TX 7,409 San Antonio TX 5,347 Fort Worth TX 3,090 Beaumont TX 2,898 Los Angeles CA 1,982 New Orleans LA 1,945 College Station TX 1,870 New York NY 1,596 Denver CO 1,591 Total out-migration 143,426 Net migration 39,356																																																																																																																							
COMPARATIVE EMPLOYMENT AND INCOME				NET MIGRATION, # 2013 2014 2015 2016 Domestic 55,763 68,520 61,674 28,090 Foreign 29,460 33,596 35,344 35,000 Total 85,223 102,076 97,018 63,090 <small>Sources: IRS (top), 2014, Census Bureau, Moody's Analytics</small>																																																																																																																							
<table border="1"> <thead> <tr> <th rowspan="2">Sector</th> <th colspan="3">% of Total Employment</th> <th colspan="3">Average Annual Earnings</th> </tr> <tr> <th>HOU</th> <th>TX</th> <th>U.S.</th> <th>HOU</th> <th>TX</th> <th>U.S.</th> </tr> </thead> <tbody> <tr> <td>Mining</td> <td>2.9%</td> <td>1.8%</td> <td>0.4%</td> <td>\$241,180</td> <td>\$163,095</td> <td>\$110,528</td> </tr> <tr> <td>Construction</td> <td>7.3%</td> <td>5.8%</td> <td>4.7%</td> <td>\$85,890</td> <td>\$69,811</td> <td>\$64,354</td> </tr> <tr> <td>Manufacturing</td> <td>7.4%</td> <td>7.0%</td> <td>8.6%</td> <td>\$116,660</td> <td>\$93,861</td> <td>\$80,667</td> </tr> <tr> <td> Durable</td> <td>63.3%</td> <td>63.9%</td> <td>62.5%</td> <td>nd</td> <td>\$89,272</td> <td>\$82,450</td> </tr> <tr> <td> Nondurable</td> <td>36.7%</td> <td>36.1%</td> <td>37.5%</td> <td>nd</td> <td>\$102,342</td> <td>\$77,689</td> </tr> <tr> <td>Transportation/Utilities</td> <td>4.7%</td> <td>4.3%</td> <td>3.8%</td> <td>nd</td> <td>\$76,810</td> <td>\$67,456</td> </tr> <tr> <td>Wholesale Trade</td> <td>5.5%</td> <td>4.8%</td> <td>4.1%</td> <td>nd</td> <td>\$89,593</td> <td>\$82,548</td> </tr> <tr> <td>Retail Trade</td> <td>10.2%</td> <td>11.0%</td> <td>11.0%</td> <td>\$37,675</td> <td>\$35,749</td> <td>\$34,289</td> </tr> <tr> <td>Information</td> <td>1.1%</td> <td>1.7%</td> <td>1.9%</td> <td>nd</td> <td>\$79,535</td> <td>\$110,216</td> </tr> <tr> <td>Financial Activities</td> <td>5.2%</td> <td>6.1%</td> <td>5.7%</td> <td>\$57,954</td> <td>\$49,244</td> <td>\$54,785</td> </tr> <tr> <td>Prof. and Bus. Services</td> <td>15.6%</td> <td>13.5%</td> <td>14.0%</td> <td>nd</td> <td>\$65,022</td> <td>\$67,615</td> </tr> <tr> <td>Educ. and Health Services</td> <td>12.7%</td> <td>13.6%</td> <td>15.7%</td> <td>nd</td> <td>\$52,623</td> <td>\$53,853</td> </tr> <tr> <td>Leisure and Hosp. Services</td> <td>10.4%</td> <td>10.7%</td> <td>10.8%</td> <td>nd</td> <td>\$25,963</td> <td>\$27,201</td> </tr> <tr> <td>Other Services</td> <td>3.6%</td> <td>3.5%</td> <td>3.9%</td> <td>\$38,165</td> <td>\$35,822</td> <td>\$36,830</td> </tr> <tr> <td>Government</td> <td>13.4%</td> <td>16.0%</td> <td>15.4%</td> <td>\$71,736</td> <td>\$67,574</td> <td>\$75,980</td> </tr> </tbody> </table> <small>Sources: Percent of total employment -- BLS, Moody's Analytics, 2016, Average annual earnings -- BEA, Moody's Analytics, 2015</small>				Sector	% of Total Employment			Average Annual Earnings			HOU	TX	U.S.	HOU	TX	U.S.	Mining	2.9%	1.8%	0.4%	\$241,180	\$163,095	\$110,528	Construction	7.3%	5.8%	4.7%	\$85,890	\$69,811	\$64,354	Manufacturing	7.4%	7.0%	8.6%	\$116,660	\$93,861	\$80,667	Durable	63.3%	63.9%	62.5%	nd	\$89,272	\$82,450	Nondurable	36.7%	36.1%	37.5%	nd	\$102,342	\$77,689	Transportation/Utilities	4.7%	4.3%	3.8%	nd	\$76,810	\$67,456	Wholesale Trade	5.5%	4.8%	4.1%	nd	\$89,593	\$82,548	Retail Trade	10.2%	11.0%	11.0%	\$37,675	\$35,749	\$34,289	Information	1.1%	1.7%	1.9%	nd	\$79,535	\$110,216	Financial Activities	5.2%	6.1%	5.7%	\$57,954	\$49,244	\$54,785	Prof. and Bus. Services	15.6%	13.5%	14.0%	nd	\$65,022	\$67,615	Educ. and Health Services	12.7%	13.6%	15.7%	nd	\$52,623	\$53,853	Leisure and Hosp. Services	10.4%	10.7%	10.8%	nd	\$25,963	\$27,201	Other Services	3.6%	3.5%	3.9%	\$38,165	\$35,822	\$36,830	Government	13.4%	16.0%	15.4%	\$71,736	\$67,574	\$75,980		
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U.S.	13,565.7	9.4																																																																																																																									

HOUSTON OVERVIEW

Houston is the U.S. energy headquarters and world center for almost every segment of the petroleum industry. Houston is home to 43 of the nation's largest publicly traded oil and gas exploration and production firms, including six of the top 20. Houston is also the largest petrochemical center in the U.S. with 45% of the nation's base chemical manufacturing capacity, 39% of the total polyethylene capacity and 61% of the nation's total propylene capacity. The area's industrial infrastructure is particularly attractive because of its deep-water port, competitively priced industrial sites, extensive pipeline network, abundant gas and electrical power, and excellent rail and barge systems.

The Houston economy slowed over the past two years due to the drop in the price of oil. However, economists are forecasting that oil prices will stabilize and hiring and drilling will begin in 2018 and the oil industry will recover in 2019 and 2020.

The following table reflects the projected growth of key economic indicators for Houston for the period 2017 through 2021.

Key Economic Indicators Compound Annual Growth 2017 through 2021		
	Houston	United States
Gross Domestic Product (GDP)	3.2%	2.1%
Population	1.8%	0.7%
Total Employment	1.8%	0.8%

Source: Moody Analytics

Key economic indicators for Houston are forecasted to grow at a rate well above the U.S. over the next few years.

EMPLOYMENT

Houston's economy has a broad industrial base in the energy, aeronautics and technology industries. 24 Fortune 500 companies are headquartered in Houston and only New York City is home to more. Houston's Fortune 500 companies are listed in the following table.

Fortune 500 Companies Headquartered in Houston			
Company (Rank)	Revenues (\$ billions)	Company (Rank)	Revenues (\$ billions)
Phillips 66 (30)	87.169	Huntsman (277)	10.299
Sysco (57)	48.681	Cameron International (319)	8.782
Conoco Phillips (90)	30.935	EOG Resources (322)	8.757
Enterprise Products Partners (104)	27.028	Anadarko Petroleum (324)	8.698
Halliburton (117)	23.633	Quanta Services (352)	7.632
Plains GP Holdings (121)	23.152	CenterPoint Energy (363)	7.386
Baker Hughes (178)	15.742	Targa Resources (387)	6.659
National Oilwell Varco (192)	14.757	Apache (388)	6.654
Kinder Morgan (198)	14.403	Calpine (402)	6.472
Waste Management	12.961	FMC Technologies (410)	6.363
Occidental Petroleum (225)	12.699	Marathon Oil (438)	5.861
Group 1 Automotive (267)	10.633	Spectra Energy (493)	5.234

Source: Fortune, June 2016

62 of the world's 100 largest non-U.S.-based corporations have a presence in Houston. Houston's commercial infrastructure is also strengthened by three airports, which form the sixth-largest airport system in the world, and a large trucking and rail system that links the southern, south central, mid-western and western U.S.

Houston's employment base has become increasingly diverse. In 1981, the economic base was dominated by energy-related businesses with nearly 85% of all jobs in those sectors. Today, nearly half of all jobs are in non-energy fields such as business services, technology, aerospace, medicine/healthcare and manufacturing. The City of Houston also offers a wide range of financial incentives to encourage business and industry to choose Houston when making expansion or relocation decisions, which increases potential room night demand for the hotel industry.

According to Moody's, Houston will recover over the coming year as energy exploration and related manufacturing gradually rise. However, weakness in oil prices is a downside risk. Longer term, the concentration of upstream and downstream energy industries, above-average population growth, and expansion in housing and the transportation and distribution will help propel above average gains for the metropolitan area.

The following table illustrates the variety of major employers that are located in Houston. Many of the largest employers are in the oil and gas, retail, and healthcare sectors. Some of the recent layoffs in the oil and gas industry may not yet be reflected in the employment numbers.

Largest Houston Employers

Company	Industry	Number of Employees
Wal-Mart Stores	Retail	28,780
University of Texas	Health Care	22,441
Insperty	Human Resources	20,816
H-E-B	Retail	17,000
National Oilwell Varco	Oil and Gas	14,581
Memorial Hermann Healthcare System	Health Care	13,847
Exxonmobil Corp.	Oil and Gas	13,200
Cameron International	Oil and Gas	11,000
The Methodist Hospital	Health Care	10,150
Halliburton Co.	Oil and Gas	8,600
Hewlett-Packard Co.	Information Technology	8,500
Schlumberger	Oil and Gas	8,400
Baylor College of Medicine	Health Care	8,052
Baker Hughes	Oil and Gas	8,000
Chevron Corp.	Oil and Gas	7,000
BP	Oil and Gas	7,000
JPMorgan Chase and Co.	Financial	6,750
Jacobs Engineering Group	Oil and Gas	6,500
Harris County Hospital District	Health Care	6,454
University of Houston	Education	6,381

Source: Moody Analytics

Unemployment

The table on the following page shows the Houston unemployment rates compared to national, state and other Texas MSAs for 2012 through July 2017.

Unemployment Comparison*						
	2012	2013	2014	2015	2016	Jul-17
United States	8.1%	7.4%	6.2%	5.3%	4.9%	4.6%
Texas	6.7%	6.2%	5.1%	4.5%	4.6%	4.3%
Austin	5.7%	5.1%	4.2%	3.4%	3.2%	3.2%
Dallas/Fort Worth	6.6%	6.0%	5.0%	4.1%	3.8%	3.7%
Houston	6.6%	6.0%	4.9%	4.6%	5.2%	4.9%
San Antonio	6.3%	5.7%	4.6%	3.8%	3.7%	3.7%

* Not seasonally adjusted

Source: Texas Work Force Commission

The increase in unemployment for 2016 is attributed to the low price of oil, resulting in industry layoffs. According to the Moody Analytics July 2017 forecast, the Houston unemployment rate is forecasted to be 5.3% in 2017, 4.4% in 2018, 4.1% in 2019, 4.3% in 2020 and 4.6% in 2021 and 2022. Low unemployment over the next few years translates to greater corporate travel and the resulting increase in consumer confidence leads to increased leisure travel.

TRANSPORTATION

Airports

The Houston Airport System (HAS) includes the Bush Intercontinental Airport (IAH), the William P. Hobby Airport (HOU) and Ellington Field, a civil/military airport. The HAS recorded more than 54 million in total passenger activity during calendar year 2016 and is the sixth largest airport system in the world.

HAS offers Houston an advantage over many of the regional convention markets with its affordability and number of daily flights. This is especially true of Hobby Airport due to the presence of Southwest Airlines. Additionally, HAS provides excellent national and international service that competes with many of the top multi-airport systems in the country. Passenger activity has increased to the Houston MSA. This bodes well for the hotel industry as increasing airline travel typically translates to an increase in hotel demand.

Bush Intercontinental Airport (IAH) is located approximately 19 miles from Downtown. It is the City's primary airport facility. Houston has become one of the major centers for international air transportation in the southwest; the airport has five runways and five passenger terminals and provides service to international, interstate and intrastate markets.

Bush Intercontinental Airport is the fourth largest and ninth busiest airport in the U.S. in terms of passenger activity and as an international passenger gateway. The airport served almost 42 million passengers in 2016. Houston is home to some of United's corporate offices and remains a major hub for the airline.

The following table illustrates the historical airport passenger and cargo activity at IAH over the period 2005 through June 2017.

Bush Intercontinental Airport				
	Passenger Activity		Cargo Activity	
Year	Total Passengers	Percent Change	Total (Metric Tons)	Percent Change
2005	39,714,818	---	341,672	---
2006	42,550,432	7.1%	359,027	5.1%
2007	42,979,207	1.0%	384,263	7.0%
2008	41,708,580	-3.0%	372,007	-3.2%
2009	40,007,354	-4.1%	336,069	-9.7%
2010	40,479,569	1.2%	389,075	15.8%
2011	40,187,442	-0.7%	412,688	6.1%
2012	39,890,756	-0.7%	407,223	-1.3%
2013	39,799,414	-0.2%	401,771	-1.3%
2014	41,254,384	3.7%	433,763	8.0%
2015	42,984,304	4.2%	397,295	-8.4%
2016	41,615,689	-3.2%	407,661	2.6%
CAAG⁽¹⁾	0.5%	---	1.8%	---
YTD June 2016	20,739,345	---	195,247	---
YTD June 2017	20,517,270	-1.1%	208,571	6.8%

⁽¹⁾CAAG = Compound Annual Average Growth

Source: Department of Aviation, Houston Airport System

In 2016, passenger activity decreased 3.2% and cargo activity increased 2.6%. The decline in passenger activity can be attributed to the decrease in oil and gas related corporate travel. Year-to-date June 2017 is experiencing a modest decrease in passenger activity. However, cargo activity increased by 6.8%.

William P. Hobby Airport (HOU) is located approximately 10 miles from Downtown. The terminal building has three concourses with a total of 31 gates. HOU has eight scheduled passenger airlines with non-stop or direct service to over 65 cities throughout the U.S. The airport served over 12 million passengers in 2015. Southwest Airlines is the airport's main carrier and accounts for more than 80% of the total passengers. HOU also maintains a major general aviation operation including six fixed based operators and several hundred corporate jets.

In November 2015, Southwest Airlines completed a \$156 million, five-gate international terminal at HOU. The addition of this terminal allows Southwest Airlines to fly internationally to destinations in Mexico, South America and parts of the Caribbean and has greatly increase passenger activity at Hobby Airport. This growth is expected to continue as Southwest is planning to add more international destinations in the future. Historical passenger and cargo volumes for HOU are shown in the following table.

William P. Hobby Airport				
Year	Passenger Activity		Cargo Activity	
	Total Passengers	Percent Change	Total (Metric Tons)	Percent Change
2005	8,257,159	---	6,941	---
2006	8,548,955	3.5%	8,448	21.7%
2007	8,819,521	3.2%	7,820	-7.4%
2008	8,775,798	-0.5%	7,417	-5.2%
2009	8,498,441	-3.2%	11,524	55.4%
2010	9,054,001	6.5%	11,224	-2.6%
2011	9,843,302	8.7%	10,492	-6.5%
2012	10,437,648	6.0%	11,981	14.2%
2013	11,109,449	6.4%	12,914	7.8%
2014	11,947,924	7.5%	12,705	-1.6%
2015	12,163,344	1.8%	11,780	-7.3%
2016	12,909,075	6.1%	9,813	-16.7%
CAAG ⁽¹⁾	4.6%	---	3.5%	---
YTD June 2016	6,308,492	---	5,560	---
YTD June 2017	6,682,614	5.9%	5,427	-2.4%

⁽¹⁾CAAG = Compound Annual Average Growth

Source: Department of Aviation, Houston Airport System

Passenger activity increased in 2014 by 7.5%. In 2015, passenger activity increased 1.8%. Year end 2016 experienced the effects of the new international terminal with passenger activity up 6.1%. Year-to-date June 2017 is experiencing an increase of 5.9%. Despite the decrease in passenger activity at IAH, Hobby has increased its passenger activity significantly making up for any losses. Overall, between the two airports, Houston had an increase of over 150,000 people in passenger traffic through year-to-date June 2017.

Port of Houston

The Port of Houston is one of the busiest ports in the U.S. and ranks first in international waterborne tonnage handled due to the high volume of liquid bulk (oil) that is shipped into Houston for processing. The Port is also the second busiest in total cargo tonnage handled. The Port of Houston is a man-made port that has 25 miles of public and private port facilities and it provides more than 53,000 direct jobs in the Houston area.

In 2014, Port tonnage increased to 46.6 million tons, an increase of 4.2%. Due to the low oil prices, 2015 experienced a 3.4% decrease to 45.2 million tons. As of December 2016, Port tonnage totaled 44.8 tons, a 1.5% decrease over the same period in 2015. However, the completion of the Panama Canal expansion in 2016 should dramatically increase port tonnage in the future.

Highways

Highway transportation systems and ease of access can significantly affect demand for hotel accommodations. Houston and its surrounding areas are well served by major highways that provide good regional access. Interstate 10 (I-10) is the major east/west highway connecting Houston to Louisiana in the east and San Antonio and New Mexico to the west. Interstate 45 (I-45) connects the city to Galveston in the south and Dallas to the north. Interstate 69 (I-69) runs from Brownsville in southwest Texas to Texarkana in northwest Texas. Houston is encircled by two ring roads, Interstate 610 (I-610) and Beltway 8 (Sam Houston Tollway), which connect the major interstates and highways

The Grand Parkway (State Highway 99) was extended from I-10 to U.S. Highway 290 (US 290) and opened to traffic in December 2013. This portion of the Grand Parkway is expected to stimulate substantial residential development in what will be the Houston PSMA's largest master-planned community since The Woodlands.

The Texas Department of Transportation (TXDOT) has begun a redesign of US 290. Major progress on the project began in 2013. The redesign and expansion of US 290 will span approximately 40 miles from I-610 to FM 2920. Since many additional motorists are anticipated to use Hempstead Road during the US 290 construction project, TXDOT put down a new asphalt overlay on Hempstead Road between Brittmoore Road and Mangum Road.

OFFICE MARKET

Houston's office market, which posted its sixth consecutive negative absorption, continues to feel the impact of the energy downturn. Houston's vacancy increased to 17.4% as several large sublease terms expired, adding more than 600,000 square feet of direct available space. However, leasing activity has nearly doubled this quarter to 3.2 million square feet, a level Houston has not seen since 2014. A leading oil and gas exploration and production company renewed their 500,000 square-foot lease at Post Oak Central for the second time in two years.

Flight to quality will continue as tenants benefit from lower rates and increasing concessions. Long term leases in prime properties offer an average of 12 months free rent and \$100 per square feet in tenant improvements. Space under construction rose to two square feet and is 38.9% pre-leased. New or recently renovated buildings offering modern space and more efficient floor plans will have an advantage over older properties.

The following table highlights the trends in Houston office market performance from 2005 through second quarter of 2017.

Houston Office Market Trends						
Year	Net Rentable Area	Vacancy %	Average Asking Lease Rates	Class A Net Rentable Area	Class A Vacancy	Average Asking Lease Rates
2005	177,882,370	14.5%	\$17.78	86,980,155	12.5%	\$20.60
2006	179,245,857	12.0%	\$18.93	87,540,457	8.3%	\$24.02
2007	180,762,302	11.0%	\$21.67	87,943,191	6.5%	\$29.54
2008	185,141,631	11.9%	\$23.57	87,262,635	7.6%	\$31.88
2009	190,629,965	15.9%	\$24.00	91,403,844	11.9%	\$31.29
2010	190,022,296	16.3%	\$22.82	90,756,974	12.1%	\$30.47
2011	190,720,329	15.0%	\$22.84	92,818,878	10.6%	\$30.52
2012	190,776,946	12.9%	\$23.23	91,384,585	8.2%	\$32.77
2013	193,551,155	11.8%	\$24.62	94,406,022	7.3%	\$35.52
2014	199,151,013	11.6%	\$25.79	99,560,955	7.9%	\$36.13
2015	210,906,913	14.2%	\$28.67	111,379,529	11.7%	\$37.73
2016	212,554,233	15.7%	\$28.71	115,016,749	13.7%	\$37.78
Q2 2017	213,518,374	17.4%	\$29.40	115,805,185	15.5%	\$38.25

Source: CBRE Inc.

The largest concentration of office space is located in Downtown Houston followed by the West Loop (Uptown/Galleria), Westchase and Energy Corridor market areas.

TOURISM ACTIVITY

Houston's leisure and tourism base has been undergoing a revitalization that began in the late 1990s. Several projects that have been completed include NRG Stadium Complex (Houston Texans of the National Football League), Minute Maid Park (Houston Astros of Major League Baseball) and the Toyota Center (Houston Rockets of the National Basketball Association). A professional soccer stadium for the Houston Dynamo has been completed in the East Downtown Management District, just east of downtown.

In addition to regularly-scheduled season games, the Toyota Center hosted the 2013 National Basketball Association All-Star Game and NRG Stadium once again was the venue for the National Collegiate Athletic Association (NCAA) Men's Final Four Basketball tournament in 2016 and for the Super Bowl in 2017.

The Theater District is one of five in the U.S. with permanent professional resident companies in all of the major performing art disciplines: opera, ballet, symphony, and theater. It has 12,948 seats for live performances and 1,480 movie seats. Downtown boasts nine stages located in five performance venues and one eight-screen movie-theater. The Theater District is also home to the 130,000-square foot Bayou Place entertainment complex.

The Houston Museum District is located along the light rail line, approximately two miles south of Downtown. Thanks to the Museum District, Houston has become an internationally recognized arts center and the Museum of Natural Science is one of the top-10 most visited museums in the country. The district is home to 15 additional institutions, including: the Museum of Fine Arts; the Contemporary Arts Museum; the Menil Collection; the Children's Museum; the Holocaust Museum; the Houston Zoo; Rice University Art Gallery and the Miller Outdoor Theater.

Buoyed by some of the largest donations in the city's history, the Museum of Fine Arts Houston unveiled a \$450 million project that envisions its campus as the cultural heart of the city. The plan includes two new buildings designed to complement the existing structures in a way that will enhance the museum's attractions. Civic and cultural (including educational) facilities downtown include the Heritage Society Museum, Houston Public Library, City Hall, University of Houston Downtown, Jones Hall, Wortham Theater, Alley Theatre, Bayou Place, Hobby Center for the Performing Arts, and numerous squares and plazas that together work to create an impressive and highly visual civic and cultural gateway to downtown Houston from the western and northern sections of the city.

Discovery Green is Houston's 12-acre downtown park adjacent to the George R. Brown Convention Center which opened in 2008. The transformation of Discovery Green has led to additional economic growth in the area. Green Street is a three-block entertainment development that includes restaurants, retail and office space which was also completed in 2008. It will also include Valencia's Hotel Alessandra, which is expected to open in June 2017.

The north/south light rail system, which was completed in early 2004, connects NRG Stadium (Houston Texans), the Texas Medical Center, the Museum District and the downtown area. The new east/west light rail system, which was completed in early 2015, connects the Performing Arts District on the west end of downtown to Minute Maid Park (Houston Astros), George R. Brown Convention Center and BBVA Compass Soccer Stadium (Houston Dynamo) on the east end of downtown and then on to the main campus of the University of Houston. Other attractions in the greater Houston area include the Lyndon B. Johnson Space Center, Galveston Island and Moody Gardens. Several expansions to the light rail system were completed in mid-2015.

Medical Tourism brings increasing numbers of visitors to Houston each year. The Texas Medical Center (TMC) Campus, which covers over 1,000 acres and encompasses 290 permanent buildings, is located about five miles southwest of downtown Houston to which it connects via the light rail system. The TMC is the world's largest medical complex and the medical, academic and research institutions of the TMC are Houston's largest employers. Overall, there are over 106,000 employees in 54 institutions which accommodate more than 7.2 million patient visits to the complex each year. It is estimated that the TMC provides the City of Houston with more than \$10 billion of economic impact on an annual basis.

More than 90,000 people attend classes at the various institutions in the TMC, which include the University of Texas System Cancer Center, the Baylor College of Medicine and the Texas Heart Institute.

The following table lists the major annual events for the City of Houston.

Houston Annual Events	
Month	Event
January	Chevron Houston Marathon
February/March	Houston Livestock Show and Rodeo
March	Tour de Houston Azalea Trail Bayou City Art Festival HEB Children's Festival Houston Open Golf Tournament
April	Art Car Parade U.S. Men's Clay Court Championships Worldfest Houston International Film Festival San Jacinto Day Festival and Battle Re-Enactment
May	Houston Water Festival
June	Free Press Summer Fest
July	July 4th Festival
August	Theater District Open House
October	Texas Renaissance Festival Wings Over Houston Air Show Bayou City Art Festival
November	Thanksgiving Day Parade Uptown Tree Lighting Ceremony
December	Downtown Houston Holiday Celebration Christmas Candlelight Tour Texas Bowl at NRG Stadium

Source: www.houstontx.gov

CONVENTION ACTIVITY

The City of Houston operates the George R. Brown Convention Center, which completed a major expansion in January 2004. The 1.2 million-square foot center is one of the 10 largest convention centers in the U.S. The expanded center now offers seven exhibit halls with a total of 862,000 square feet.

At the same time, the 1,203-room Hilton Americas Hotel opened, adjacent to and connected by crosswalks to the convention center. The hotel serves primarily as a headquarters hotel to the convention center and this has enabled the Houston Convention & Visitors Bureau (CVB) to market Houston aggressively as a major convention destination.

Discovery Green is a 12-acre urban oasis across the street from the convention center. The park provides an area for attendees and clients to escape and unwind. For meeting planners, Discovery Green offers outdoor options for events taking place inside the convention center.

The Greater Houston Convention and Visitors Bureau recently completed \$175 million in upgrades to the convention district. The upgrades include a remodeled lobby and exhibition concourse for the convention center itself, as well as a new facade that incorporates highly transparent windowpanes to capitalize on the view of Discovery Green. Nearly 30,000 square feet in new commercial space is being developed on the street level in front of convention center that will include as many as seven new retail, restaurant, sidewalk cafe and entertainment tenants in a bold streetscape makeover. The restaurants and other venue spaces will face Avenida de las Americas with large patios out front and range in size from about 1,500 square feet to more than 10,000 square feet. The goal is to redesign Avenida de las Americas into a high-energy gathering spot that focuses on pedestrian mobility.

Historical Activity

The Houston Convention & Visitors Bureau books group business for all of Houston's hotels and meeting venues, including the George R. Brown Convention Center. The following table shows the historical bookings by the Bureau.

Historical Group Bookings Hosted
Houston Convention and Visitors Bureau

Calendar Year	Number of Bookings	Room Nights Booked	Percent Change	Average Room Nights per Booking	Percent Change
2007	293	375,464	-	1,281	-
2008	269	514,130	36.9%	1,911	49.1%
2009	195	327,799	-36.2%	1,681	-12.0%
2010	216	397,280	21.2%	1,839	9.4%
2011	230	358,990	-9.6%	1,561	-15.1%
2012	349	426,165	18.7%	1,221	-21.8%
2013	321	495,707	16.3%	1,544	26.5%
2014	387	557,120	12.4%	1,440	-6.8%
2015	371	527,181	-5.4%	1,421	-1.3%
2016	445	574,016	8.9%	1,290	-9.2%
Average	308	455,385	-	1,519	-

Source: Houston Convention & Visitors Bureau

Total room night bookings have been strong from 2012 through 2014. Bookings declined slightly in 2015 due to the decline in oil and gas. The Bureau has recently introduced several targeted initiatives to attract a variety of meetings and leisure demand to the City, including targeted sales blitzes and successful bids that brought the NBA All-Star game to Houston in February 2013, the return of the NCAA Men's Final Four Basketball tournament to Houston in 2016 and the Super Bowl in 2017. As a result, bookings in 2016 increased 8.9% compared to 2015.

Future Bookings

Houston's ability to increase convention bookings has been constrained by the lack of adequate hotel rooms to attract the larger conventions. However, this constraint has now been lifted. In December 2016, the 1,000-room Marriott Marquis Convention Center Hotel opened directly across from and connected to the Convention Center.

The following table presents future convention bookings by the Houston CVB as of December 2016.

Room Nights Booked Houston Convention & Visitors Bureau as of December 2016				
Calendar Year	CVB Target	Definite Room Nights	Amount Over/(Under) Target	Tentative Room Nights
2017	525,729	575,512	49,783	169,607
2018	432,041	490,409	58,368	228,784
2019	359,588	377,531	17,943	216,458
2020	273,410	210,405	(63,005)	340,443
2021	166,992	120,279	(46,713)	285,505

Source: Houston Convention & Visitors Bureau (CVB)

Bookings for 2017 through 2019 are well above the targets for each year. As the Marriott Marquis ramps up, the CVB will be able to increase the targeted number of room nights associated with events booked going forward. As the impact of the addition of the Marriott Marquis is fully realized, the CVB will adjust their targets upward to be a more accurate reflection of the number of room nights they will be able to capture. The current definite room nights booked being well above current targets is a good sign for things to come.

NEIGHBORHOOD REVIEW

Located just 30 miles east of downtown Houston, Baytown is the third largest city in Harris County. Baytown is easily accessible via Interstate 10 (I-10), State Highway 146 (SH 146) and The Grand Parkway (State Highway 99). The city's strategic location has encouraged a successful and diverse blend of employment opportunities and recreational activities centered on the area's waterways. Major employers include ExxonMobil, Goose Creek Consolidated Independent School District and San Jacinto Methodist Hospital. Located in the Texas Independence Trail region, Baytown is rich in history. General Sam Houston was an early resident and the area played a significant role in the Battle of San Jacinto in 1836.

Demographics

Demographic information for the Houston MSA and City of Baytown is shown in the following table.

Demographic Information		
	Houston MSA	Baytown
Total Population		
2010 Census	5,920,416	72,214
2017 Estimate	6,896,170	81,718
2022 Projection	7,657,236	88,400
CAC ⁽¹⁾	2.4%	1.9%
Number of Households		
2017 Estimate	2,383,382	28,212
Income (2017 Estimate)		
Average Household	\$92,677	\$67,521
Median Household	\$63,212	\$50,893
Per Capita	\$32,376	\$23,561
⁽¹⁾ CAC = Compound Annual Change		
Source: Esri		

Baytown has seen steady population growth over the past five years with 2017's population estimated at 81,718. As new petrochemical plants are continuing to be developed in the area, the population is projected to grow to 88,400 by 2022. Overall, the area is estimated to grow at a compound average annual rate of 1.9% from 2010 to 2022.

Employment

The largest employers in the City of Baytown are shown in the following table.

Largest Baytown Employers		
Company	Industry	Number of Employees
Exxon Mobil	Oil and Gas	3,785
Goose Creek Consolidated ISD	Education	3,012
San Jacinto Methodist Hospital	Health Care	1,687
Bayer, Inc	Health Care	1,100
JSW Steel	Manufacturing	800
Lee College	Education	750
Chevron Chemical/Cedar Bayou Plant	Oil and Gas	685
Wal-Mart	Retail	600
Home Depot	Retail	325
TMK-IPSCO	Manufacturing	145
Exel Logistics	Logistics	200
NRG Energy	Oil and Gas	170
LCY Elastomers, LLP	Specialty Chemicals	125
Source: Baytown Economic Development Foundation		

Much of the area relies heavily on the downstream sector within the oil and gas industry. Global prices for oil are projected to remain low for the duration of 2017 and, despite National Oilwell Varco closing its operation in the area, Baytown's economy has not been heavily affected. The low price for crude oil may be a disadvantage to some energy producers, but in the downstream sector, it enables the refineries and most petrochemical plants in the area to increase profits.

New construction and expansion projects in Baytown and Mont Belvieu represent \$10 to \$13 billion of capital investment that brought in nearly 22,000 construction jobs and will add 1,100 permanent jobs over the next decade. However, as most of the projects are either finished or nearing completion, the construction hotel demand has been decreasing since the beginning of 2016 and, until the additional planned projects begin construction in 2017, 2016 will experience a slight slowdown.

The demand for healthcare support paraprofessionals will increase 30% by 2020. More than 40% of these jobs require a postsecondary vocational certificate or associate degree.

Major Industrial Parks and Petrochemical Plant Developments

AmeriPort

AmeriPort is a 723-acre, rail-served, industrial development focused on logistics to significantly improve efficiencies and savings for businesses. Located just east of Baytown, Texas and in close proximity to the Port of Houston, this master-planned business park has all the right connections – from rail service and rail storage to heavy haul, barge terminals and easy interstate access.

Developed by National Property Holdings, AmeriPort's versatile concept is unequalled in the Gulf Coast Region encompassing build-to-suit sites, warehouse/distribution and cross-dock buildings for lease, land purchase opportunities, a rail terminal, equipment storage yards and transloading facilities. Situated in Chambers County, AmeriPort is located on FM 565, just south of Interstate 10, with direct connectivity to the Grand Parkway (SH 99), SH 146, and FM 1405. AmeriPort is just minutes to the Houston Ship Channel and both Bayport and Barbours Cut terminals.

TGS Cedar Port

TGS Cedar Port is the world's fifth largest industrial park, located across the Houston Ship Channel from the Barbours Cut and Bayport container terminals. There are 56 miles of rail with storage capacity of 1,750 rail cars and a barge dock for commercial/industrial use for improved efficiency of transporting goods and containers from the Port of Houston. Rail service is provided by both Union Pacific and Burlington-Santa Fe.

TGS Cedar Port Industrial Park comprises 15,000 prime acres with utilities and an industrial and commercial transportation infrastructure. The location and access to major freeway's, the Port of Houston, rail lines, air transportation and a pipeline distribution system, make it one of the largest intermodal logistics facilities in the world. CCIP's multi modal transportation choices offer an unequalled opportunity in transportation, storage and manufacturing and has attracted such companies as Wal Mart, Exel, Home Depot, JSW Steel, Tapco Enpro, Century Asphalt and GE to name just a few. Plans are also underway to construct a one million-square foot IKEA distribution center. Due to Houston's recent growth, the demand for retail logistics and distribution has expanded significantly.

Major improvements to rail and port infrastructure and roads have come online. TGS Cedar Port Partners finished its \$22 million rail and site improvement expansion in early 2016. Of the many improvements, the construction of two additional 9,000-foot interchange tracks on the north end of the property were key to facilitating more and better rail service for the industrial park. These tracks opened up over 4,000 additional acres of the industrial park for future rail served customers. The rail infrastructure upgrade project will also increase the carrying capacity of much of the existing railroad to 286,000-pound loaded railcars from 263,000-pound standard loads. Adding the interchange tracks will increase rail capacity and eliminate future rail congestion as the park expands.

Chevron

Chevron Phillips Chemical Company LP received Board of Directors approval and obtained the necessary environmental permits from the Texas Commission on Environmental Quality (TCEQ) to expand normal alpha olefin (NAO) production capacity at its Cedar Bayou plant in Baytown, Texas. This investment will provide an additional 100,000 metric tons per year of capacity. Construction completion is anticipated in mid-2015. Houston-based S&B Engineers and Constructors Ltd. will execute the engineering, procurement and construction, and expects to support up to 600 jobs during the construction phase. The project will utilize Chevron Phillips Chemical's proprietary NAO technology.

Chevron Phillips Chemical Company also broke ground on the first component of a \$6 billion expansion that executives say could be transformative for the company. Crews are preparing a site at the company's Baytown facility for a massive new ethane cracker, which will be the first new major facility of its type built in the U.S. in a decade. The investment, which officials say will contribute to the creation of about 400 jobs, represents a huge step for the company that is jointly owned by Chevron and Phillips 66. The other component of the endeavor, in nearby Old Ocean, consists of two polyethylene units, which convert ethylene into polyethylene pellets that can be sold, melted and formed into a variety of industrial and household plastics. The entire project was slated to come online in 2017 but has been delayed due to the flooding from Hurricane Harvey. It will finish in 2018.

Chevron Phillips Chemical is planning yet another expansion to its Baytown plant to increase the capacity to produce polyalphaolefins, synthetic lubricants used in high-performance motor oils.

ExxonMobil

In June 2014, ExxonMobil Chemical Company started construction of a multi-billion dollar ethane cracker at its Baytown, Texas, complex and associated premium product facilities in nearby Mont Belvieu. This project and major investments ExxonMobil has made to develop oil and natural gas resources in the United States, including the merger with XTO Energy, demonstrates the company's continuing commitment to American economic growth and job creation.

The steam cracker will have a capacity of up to 1.5 million tons per year and provide ethylene feedstock for downstream chemical processing, including processing at two new 650,000 tons per year high performance polyethylene lines at the company's Mont Belvieu plastics plant. The project employed about 10,000 construction workers, will create 4,000 related jobs in nearby Houston communities and add 350 permanent positions at the Baytown complex. It is expected to increase regional economic activity by roughly \$870 million per year and generate more than \$90 million per year in additional tax revenues for local communities. By the end of 2017, the ethane cracker is expected to be fully operational.

ExxonMobil's polyethylene plant along US 90 is also undergoing an expansion. This \$1.2 billion expansion will increase the plants production by 65% which will add 40 permanent and 1,400 construction jobs. The project is slated to be finished by mid-2019. Overall, ExxonMobil has invested \$20 billion in 11 projects from 2013 to 2022 along the Gulf Coast, which is expected to add 45,000 jobs.

Enterprise Products

Enterprise Products Partners LP (EPP), Houston, will build a new isobutane dehydrogenation (iBDH) unit at the US Gulf Coast as part of a strategy to boost utilization capacity at the company's existing downstream octane-enhancement and petrochemical operations in the region. To be built in Mont Belvieu, Texas, the iBDH unit will be able to produce 425,000 tons/year of both high and low-purity isobutylene for use primarily as feedstock at EPP's olefins assets to expand production of lubricants, rubber products, alkylate for gasoline blendstock, and methyl tertiary butyl ether (MTBE) for export.

Supported by long-term contracts with investment-grade customers, the iBDH unit is scheduled to complete construction during fourth-quarter 2019. The new iBDH project comes as part of EPP's \$6.7 billion capital investment in growth projects planned for startup between now and 2019, including the previously announced propane dehydrogenation unit (PDH) at Mont Belvieu. The new Mont Belvieu PDH unit, which is the largest of these capital-growth projects, is slated to begin commercial operations in late 2017.