

MARKET DEMAND STUDY

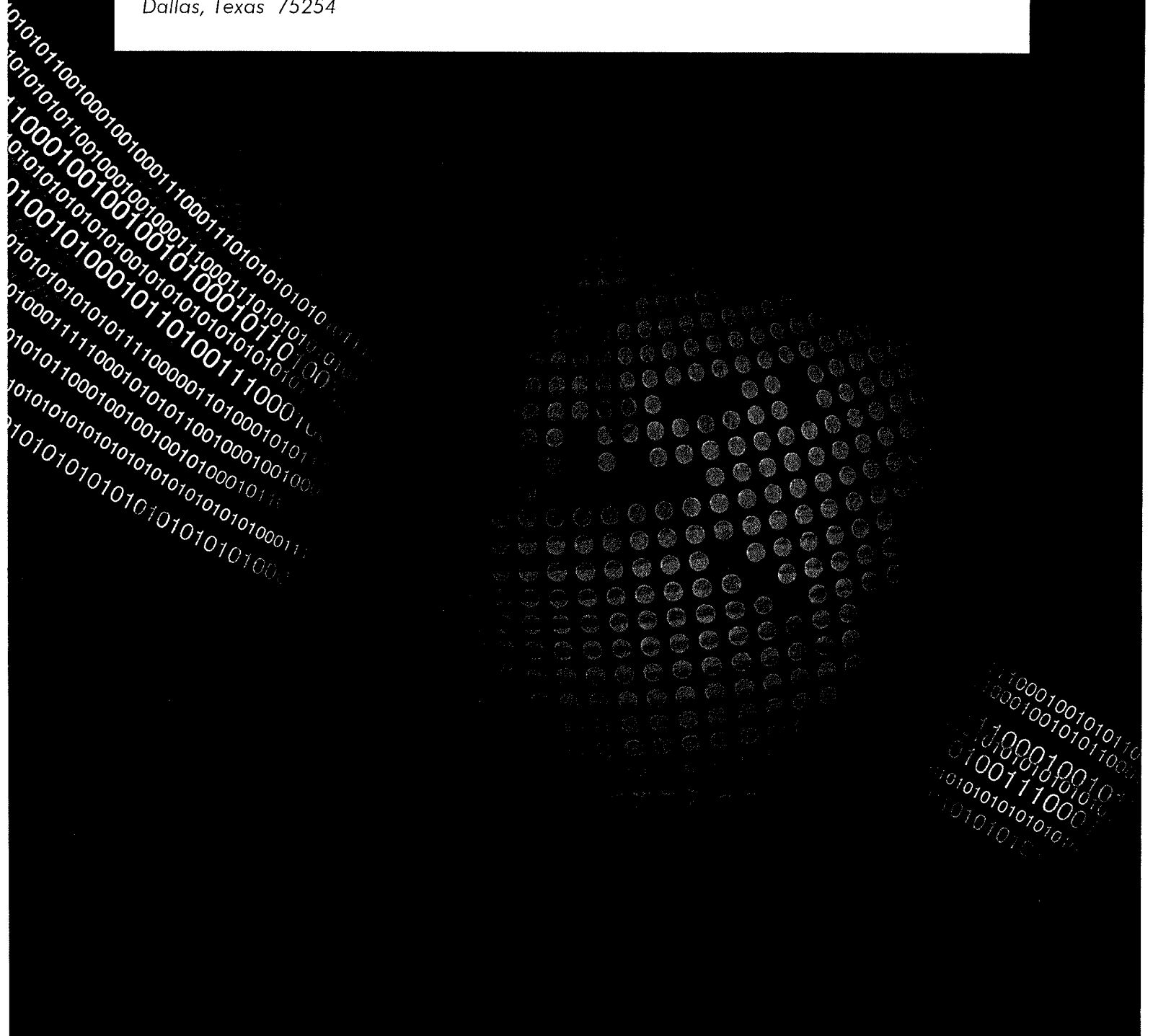
Proposed Hyatt Regency Hotel
Baytown, Texas

Client # 20-414NH-0711-1

Mr. Raymond Garfield, Jr.
Chairman
Garfield Public/Private
14911 Quorum Drive
Suite 380
Dallas, Texas 75254

CBRE HOTELS

The World's Leading Hotel Experts.





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January 22, 2021

Mr. Raymond Garfield, Jr.
Chairman
Garfield Public/Private LLC
14911 Quorum Drive, Suite 380
Dallas, TX 75254

Dear Mr. Garfield:

In accordance with our engagement letter dated October 30, 2020, we completed a market study with financial projections for the proposed 208-room Hyatt Regency Hotel and Conference Center planned in Baytown, Texas. The conclusions reached are based upon our present knowledge of the competitive market resulting from our fieldwork completed December 14, 2020.

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.

Although the proposed property's future performance has been conscientiously prepared using information obtained during the course of this study and our experience in the industry, it 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 express our appreciation to you and your associates for the cooperation extended to us during the course of this assignment.

Respectfully submitted,

CBRE Hotels Advisory

Jeffrey W. Binford
Executive Vice President

MARKET DEMAND STUDY WITH
PROSPECTIVE FINANCIAL ANALYSIS
PROPOSED 208-ROOM
HYATT REGENCY HOTEL AND CONFERENCE CENTER
BAYTOWN, TEXAS

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MARKET DEMAND STUDY WITH
PROSPECTIVE FINANCIAL ANALYSIS
PROPOSED 208-ROOM
HYATT REGENCY HOTEL AND CONFERENCE CENTER
BAYTOWN, TEXAS

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ADDENDA

- A. Photographs of Subject Property
- B. Photographs of Competitive Properties
- C. Map of Competitive Properties
- D. Statement of Assumptions and Limiting Conditions
- E. Certification

SECTION I
EXECUTIVE SUMMARY

SCOPE AND METHODOLOGY

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

- Conducted an inspection of the subject site and the surrounding area in order to determine its impact on the proposed hotel.
-
- Assembled, reviewed and analyzed economic, demographic and real estate market data pertaining to the Houston market area in general and the Baytown area in particular to evaluate the present economic climate and to estimate future growth potential, particularly as it relates to lodging demand.
-
- Interviewed representatives of hotel owners and operators, hotel brand representatives, area brokers and developers to gather data on current and future area growth and the demand for lodging and meeting facilities.
-
- Evaluated the existing supply of lodging in the market to determine the degree of competition that they are likely to offer the proposed hotel.
-
- Prepared a summary of historic market performance, including available rooms, occupied rooms, market occupancy, market segmentation, and average daily room rate for the period 2015 to 2019 and October 2020 year-to-date compared to October 2019.
-
- Identified other proposed hotels to assess their probability of completion and the degree to which they will compete with the subject project.
-
- Estimated future market performance for the competitive set for the period 2020 through 2025.
-
- Assessed the appropriateness of the concept, facilities and amenities for the proposed hotel.
-
- Estimated future competitive position and market performance of the subject proposed hotel for the period 2022 to 2024, the stabilized year.
-
- Based on the estimated future competitive position of the subject proposed hotel, prepared a schedule of prospective cash flow before debt service and income taxes for the subject hotel for the fiscal year periods 2022/23 to 2031/32.

CONCLUSIONS

A concise summary of the conclusions of this report follows:

-
- Baytown is a city within Harris County along the Gulf Coast region in Texas. It lies on the northern side of the Galveston Bay near the San Jacinto River and Buffalo Bayou. Baytown is the sixth-largest city in the Houston Metropolitan area.
-
- The proposed Hotel and Convention Center will be in Baytown, Texas. The hotel will be located on Bayland Island adjacent to the existing marina. The site is surrounded by waterfront with scenic views of the bay, the Fred Hartman Bridge and further northward along the Houston Ship Channel from both the north and south side of the hotel. Below is a drawing of the current site plan. Photographs of the site can be found in Addendum A.
-
- The proposed hotel is expected to be affiliated and managed by Hyatt Hotels Corporation as a Hyatt Regency. No other Hyatt-brand is within 20 miles of the Subject hotel. The affiliation with Hyatt should provide significant strength to the hotel, due to its marketing reservation systems, loyalty members and reputation.
-
- 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 208 rooms should suit the market well, providing an ample number of rooms for meetings and conventions, yet small enough to yield rates efficiently.
-
- The primary competitive supply is comprised of four hotel properties totaling 960 rooms, while the secondary set comprises eight hotels comprising a total of 742 rooms for a collective total of 1,702 rooms. The competitive sets are summarized in the table below. All hotels within both competitive sets are branded within the brand families of Hilton, Marriott and Intercontinental Hotels. All hotels within both sets are located east of Hobby Airport and south to the Clear Lake area. The oldest hotel is approaching forty years, and the newest is just over two years of age.
-
- Collectively, the supply of new hotel rooms increased 6.6 percent compounded annually from 2015 through 2019, while the demand for those rooms increase 4.9 percent compounded annually over the same period. Average Daily Rate declined only slightly at -1.5 percent compounded annually from 2015 through 2019, and resulting RevPAR declined 3.1 percent during the same period.

- Demand captured by the competitive set shows a strong Corporate Individual segment, followed by the Leisure segment. By comparison, the Group segment is relatively small since only a few hotels have the facilities to accommodate groups, as indicated in the following table.

Competitive Market 2019 Mix of Demand		
Market Segment	Room Nights	Ratio
Corp Individual	250,200	58%
Leisure	101,200	23%
Group	81,400	19%
Total	433,000	100%

Source: CBRE Hotels

- Based on fieldwork, no additions to supply were identified, other than the Subject.
-
- Occupancy is estimated to have declined to 44 percent in 2020 directly attributed to the pandemic. Occupancy is expected to increase to 55 percent in 2021. Despite the opening of the subject which frequently drops market occupancy, market occupancy is projected to increase to 65 and 67 percent in 2022 and 2023, respectively. The market continues to increase in occupancy, resulting in 71 percent in 2024 and stabilizing in 2025 at 73 percent.
-
- Estimated market segmentation for the proposed 208-room Hyatt Regency Hotel and Conference Center is, as follows:

Proposed Hyatt Regency Baytown 2024 Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Corp Individual	31,900	58%	100%
Leisure	12,000	22%	95%
Group	11,200	20%	125%
Total	55,100	100%	103%

Source: CBRE Hotels

- The proposed Hyatt Regency Baytown is expected to penetrate the market at approximately 95 percent of its fair share in its partial opening year of operation in 2022, resulting in an occupancy of 62 percent in. In its first full calendar year of operations, penetration is estimated to increase to 100 percent of its fair share, increasing occupancy to 66 percent. The Subject is expected to stabilize its market penetration by 2024 at 103 percent, resulting in a stabilized occupancy of 73 percent.
-
- The estimated operating performance of the proposed 208-room Baytown Hotel and Convention Center is, as follows:

Estimated Performance Proposed Hyatt Regency Baytown			
Year	Annual Occupancy	Average Daily Rate*	Net Operating Income
2022/23	65%	\$158	\$3,311,000
2023/24	71%	\$163	\$3,903,000
2024/25	73%	\$168	\$3,985,000
2025/26	73%	\$173	\$4,123,000
2026/27	73%	\$178	\$4,235,000

* Stated Year Dollars, rounded to the nearest dollar.

Based on an ADR of \$152 in 2020 dollars.

The subject hotel is estimated to open in October 2022/23

Source: CBRE Hotels

SECTION II
AREA OVERVIEW

INTRODUCTION

It is generally recognized the relative success of a hotel is influenced by factors which 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 boasts 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 Hyatt Hotel and Convention Center is planned to be developed in Baytown, Texas. The hotel's site is located on Bayland Island adjacent to the existing marina. The site is on the waterfront with scenic views of the bay, the Houston Ship Channel and the Fred Hartman Bridge.

DEMOGRAPHIC AND ECONOMIC TRENDS

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

An analysis of the economic characteristics of a given market area is critical in assessing historical and future growth patterns and their impact on levels of lodging demand. Such an analysis also contributes to a proper evaluation of market risks. For instance, a market heavily oriented towards a single demand generator (e.g., a military installation) often carries a high level of inherent risks. Conversely, a market having a diverse economy typically is less vulnerable to downturns. Further, the sheer size of a market can impacts risks through its ability to recover from conditions of oversupply.

HOUSTON OVERVIEW

Houston–The Woodlands–Sugar Land is the fifth-most populous metropolitan statistical area (MSA). Montgomery County is included within the Houston MSA and is heavily influenced by the Houston economy. Houston is the U.S. energy headquarters and world center for almost every segment of the petroleum industry. 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 is relatively sensitive and began slowing in 2014 with the decrease in oil and gas prices. However, market interviews indicate oil prices will increase and stabilize within the next 5 years, resulting in increased hiring and drilling, as well as general signs of recovery.

As of September 2020, the graph below depicts population, households, and household income for the City of Houston and includes current year estimates and projections, according to ESRI.

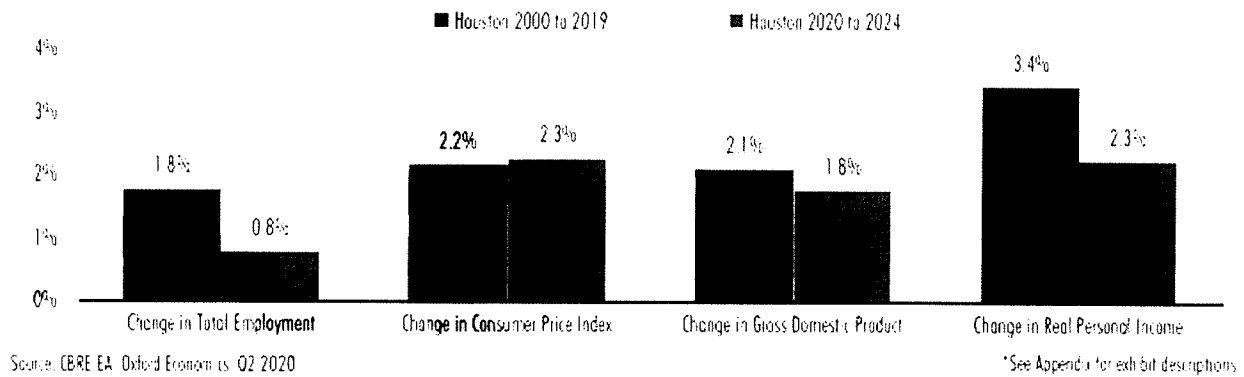
POPULATION		Houston, TX
2020 Population - Current Year Estimate		2,419,240
2025 Population - Five Year Projection		2,592,082
2010 Population - Census		2,134,191
2000 Population - Census		1,991,226
2010-2020 Annual Population Growth Rate		1.23%
2020-2025 Annual Population Growth Rate		1.39%
HOUSEHOLDS		
2020 Households - Current Year Estimate		904,055
2025 Households - Five Year Projection		971,420
2010 Households - Census		794,888
2000 Households - Census		732,420
2010-2020 Annual Household Growth Rate		1.26%
2020-2025 Annual Household Growth Rate		1.45%
2020 Average Household Size		2.63
HOUSEHOLD INCOME		
2020 Average Household Income		\$69,777
2025 Average Household Income		\$91,554
2020 Median Household Income		\$52,290
2025 Median Household Income		\$55,715
2020 Per Capita Income		\$31,321
2025 Per Capita Income		\$34,304

The population of the City of Houston in 2020 is estimated to be 2,419,240, which increased 1.23 percent compounded annually since 2010. During the next five years, the population is projected to increase 1.39 percent compounded annually. By comparison, the United States population is projected to increase by 0.72 percent compounded annually over the next five years, from its estimated population of 333,793,107.

Houston has an estimated 904,055 households representing a 1.26 percent compounded annual increase over 2010. During the next five years, households are projected to increase 1.45 percent compounded annually. The United States has an estimated 126,038,849 households in 2020, which increased 0.76 percent compounded annually since 2010. Over the next five years households are projected to increase 0.72 percent compounded annually.

Median household income in Houston is estimated at \$52,290. By comparison, the United States' median household income is estimated at \$62,304. Current year estimated per capita income in Houston is estimated at \$31,321, compared to an estimated \$34,136 for the United States.

The chart below depicts the Average Annual Growth Rates for the Houston Economy. From 2020 through 2024, total employment, GDP and Real Personal Income should decline in large part, due to COVID-19 and its impacts on the economy.



EMPLOYMENT

Houston’s economy has a broad industrial base in the energy, aeronautics and technology industries. Houston is headquarters for 22 fortune 500 companies and only New York City is home to more, according to the Greater Houston Partnership.

Houston is also home to 62 of the world’s 100 largest foreign corporations. Houston’s commercial infrastructure is strengthened by three airports, forming the sixth-largest airport system in the world, as well as a large trucking and rail system linking 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 percent 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 select Houston expansion or relocation decisions, which increases potential room night demand for the hotel industry.

Houston's economy should continue to recover over the coming years as energy exploration and related manufacturing gradually rise. Weakness in oil prices is a downside risk. Longer term, the concentration of upstream and downstream energy industries, above-average population growth, housing expansion and the transportation and distribution infrastructure should help propel above-average gains for the metropolitan area.

Largest Employers

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

MAJOR HOUSTON EMPLOYERS

Company	Industry	Number of Employees
Memorial Hermann Health System	Health Care	24,000
The University of Texas MD Anderson	Health Care	20,000
United Airlines	Airline	15,000
The Methodist Hospital System	Health Care	14,985
Exxon Mobil Corporation	Oil and Gas	13,000
UTMB Health	Health Care	12,448
Kroger Company	Retail	12,000
Shell Oil Company	Oil and Gas	11,892
National Oilwell Varco	Oil and Gas	11,563
Schlumberger Limited	Oil and Gas	10,000
Chevron	Oil and Gas	9,000
Baylor College of Medicine	Health Care	8,924
ARAMARK	Food Service	8,500
Halliburton	Oil and Gas	8,000
Pappas Restaurants, Inc.	Food Service	8,000
HCA	Health Care	7,855
Hewlett Packard Enterprise	Technology	7,500
The Dow Chemical Company	Chemicals	7,000
AT&T	Telecommunications	6,900
CHI St. Luke's Health	Health Care	6,800

Source: Greater Houston Partnership Database

UNEMPLOYMENT

The following table presents the U.S., Texas and its major market's unemployment rates, for 2015 through August 2020. The increase in unemployment in 2016 and 2017 in Houston is attributed to low oil prices, resulting in industry layoffs. Houston's 2018 unemployment at 4.3 percent was the lowest unemployment rate the city experienced from 2015 to 2019, thus indicating a recovering market. To date, unemployment increased across the nation, the state and in each major metro in Texas due to COVID-19.

Annual Unemployment Comparison*						
	2015	2016	2017	2018	2019	August 2020
United States	5.3%	4.9%	4.4%	3.9%	3.7%	7.9%
Texas	4.5%	4.6%	4.4%	3.9	3.5%	6.8%
Austin	3.4%	3.2%	3.2%	2.9%	2.7%	5.5%
Dallas/Fort Worth	4.1%	3.8%	3.7%	3.5%	3.3%	6.3%
Houston	4.6%	5.3%	5.0%	4.3%	3.8%	8.1%
San Antonio	3.8%	3.7%	3.6%	3.3%	3.1%	6.6%

* Not seasonally adjusted
Source: U.S. Bureau of Labor Statistics

OFFICE MARKET OVERVIEW

RECENT PERFORMANCE

The following table summarizes historical and projected performance for the overall metropolitan Houston - TX office market, as reported by Costar.

HOUSTON - TX OFFICE MARKET								
Year Ending	Inventory (SF)	Completions (SF)	Occupied Stock (SF)	Occupancy	Asking Rent (\$/SF Gross)	Asking Rent Change	Net Absorption (SF)	Transaction Price Per Area (SF)
2010	293,495,302	1,167,134	255,056,528	86.9%	\$24.40	-5.10%	1,433,926	\$158.00
2011	295,275,047	1,779,745	257,555,872	87.2%	\$24.87	1.91%	2,516,490	\$283.66
2012	297,161,446	1,886,399	262,831,040	88.4%	\$26.72	7.45%	5,283,626	\$230.59
2013	302,056,332	4,727,324	267,518,016	88.6%	\$28.16	5.38%	4,529,213	\$198.28
2014	309,570,460	7,514,128	276,784,480	89.4%	\$29.60	5.09%	9,059,134	\$168.14
2015	322,432,543	12,862,083	280,703,072	87.1%	\$29.08	-1.74%	3,914,036	\$267.71
2016	327,580,665	5,143,122	280,083,328	85.5%	\$28.08	-3.44%	-597,395	\$255.62
2017	330,635,766	2,947,627	277,901,120	84.1%	\$28.09	0.03%	-2,298,626	\$184.39
2018	332,175,321	1,451,809	278,534,560	83.9%	\$28.45	1.29%	318,073	\$142.93
2019	333,915,138	1,727,317	278,689,248	83.5%	\$28.78	1.15%	143,141	\$250.63
2020 Q1	334,531,407	616,269	278,413,056	83.2%	\$28.73	0.67%	-303,650	\$279.23
2020 Q2	335,145,586	614,179	277,047,072	82.7%	\$28.56	-0.30%	-1,365,992	\$332.42
2020 Q3	335,870,903	725,317	275,396,544	82.0%	\$28.47	-0.77%	-1,650,513	\$105.81
2020 Q4*	336,503,487	632,584	275,638,944	81.9%	\$28.30	-1.68%	265,394	\$68.06
2021*	339,670,590	3,167,103	277,238,720	81.6%	\$27.82	-1.70%	1,600,181	\$0.00
2022*	342,453,988	2,783,398	281,369,568	82.2%	\$29.06	4.49%	4,129,756	\$0.00
2023*	345,850,090	3,396,102	285,555,936	82.6%	\$30.36	4.45%	4,185,188	\$0.00
2024*	350,528,898	4,678,808	289,857,184	82.7%	\$31.29	3.07%	4,300,065	\$0.00
2025*	354,827,554	4,298,656	293,835,168	82.8%	\$31.97	2.17%	3,976,624	\$0.00

* Future Projected Data according to Costar
Source: Costar, 3rd Quarter 2020

The Houston - TX office market consists of approximately 335,870,903 square feet of office space. The following observations are noted from the table above:

- As of 3rd Quarter 2020, approximately 275,396,544 square feet of office space (including sublet space) was occupied, resulting in an occupancy rate of 82.0% for the metro area. This is a decrease from the previous quarter's occupancy of 82.7%, and a decrease from an occupancy rate of 83.5% from last year.
- The area experienced negative 1,650,513 square feet of net absorption for the current quarter. This indicates a decline from the previous quarter's negative 1,365,992 square feet of net absorption, and a decline from the positive 143,141 square feet of net absorption from last year.
- The area had completions of positive 725,317 square feet for the current quarter, which indicates an increase from the previous quarter's completions of positive 614,179 square feet, and indicates a decline from completions of positive 1,727,317 square feet from last year.
- The area achieved average asking rent of \$28.47 per square foot, which indicates a decrease from the previous quarter's asking rent of \$28.56 per square foot, and a decrease from the asking rent of \$28.78 per square foot from last year.

SUBMARKET SNAPSHOT

The following table summarizes the supply of office square footage for each submarket within the Houston - TX market as of 3rd Quarter 2020.

HOUSTON - TX SUBMARKET SNAPSHOT				
Submarket	Inventory (SF)	Completions* (SF)	Asking Rent (\$/SF Gross)	Occupancy
Austin County	260,627	0	\$23.12	95.4%
Baytown	1,862,514	0	\$23.50	94.5%
Bellaire	5,301,590	52,825	\$25.66	85.6%
CBD	51,463,478	0	\$36.37	79.4%
Conroe	2,726,807	7,787	\$24.05	88.8%
E Fort Bend Co/Sugar Land	10,336,370	252,237	\$27.85	87.8%
FM 1960/Champions	4,353,348	7,194	\$18.86	84.5%
FM 1960/Hwy 249	9,802,757	235,922	\$25.84	83.2%
FM 1960/I-45 North	2,514,794	0	\$20.46	71.6%
Galleria/Uptown	16,850,298	0	\$32.87	81.6%
Greenspoint/IAH	3,283,410	0	\$19.14	76.6%
Greenspoint/N Belt West	11,077,899	0	\$19.01	55.2%
Greenway Plaza	12,634,679	0	\$31.06	83.7%
Gulf Freeway/Pasadena	8,259,402	1,590	\$22.03	86.6%
I-10 East	1,437,502	30,500	\$21.30	90.4%
Katy Freeway East	11,975,955	161,800	\$31.80	89.2%
Katy Freeway West	28,089,344	24,800	\$29.92	77.7%
Katy/Grand Parkway West	6,556,053	261,369	\$29.07	85.6%
Kingwood/Humble	3,763,026	116,156	\$25.14	88.4%
Liberty County	456,210	0	\$22.28	98.2%
Midtown	10,019,822	15,532	\$30.22	88.4%
NASA/Clear Lake	10,313,761	20,167	\$23.91	86.7%
North Loop West	6,396,035	125,367	\$22.62	82.7%
Northeast Near	2,260,763	0	\$24.39	93.9%
Northeast Outlier	968,294	0	\$24.97	94.7%
Northwest Far	4,360,841	0	\$19.63	83.5%
Northwest Near	1,588,021	24,850	\$19.81	87.8%
Northwest Outlier	2,073,042	64,165	\$26.58	87.2%
Outlying Chambers County	177,023	0	\$23.95	95.0%
Outlying Montgomery Cnty	1,636,575	41,708	\$24.67	85.1%
Outlying Waller County	131,621	8,000	\$21.67	91.9%
Post Oak Park	4,814,311	120,237	\$31.72	67.2%
Richmond/Fountainview	2,242,066	0	\$20.60	91.8%
Riverway	3,198,125	0	\$27.13	76.4%
San Felipe/Voss	5,346,729	0	\$26.41	77.6%
South	3,340,396	81,004	\$27.36	89.0%
South Hwy 35	872,138	3,000	\$21.04	93.8%
South Main/Medical Center	13,477,126	5,000	\$28.93	93.1%
Southeast Outlier	4,328,306	0	\$22.82	93.4%
Southwest Bellway 8	7,306,814	0	\$18.20	79.2%
Southwest Far	1,522,433	0	\$23.60	78.3%
Southwest Outlier	2,084,436	58,042	\$25.37	86.1%
Southwest/Hilcroft	5,322,656	5,000	\$17.41	84.0%
The Woodlands	23,747,503	348,113	\$32.21	85.5%
West Belt	6,329,035	19,227	\$28.84	74.4%
Westchase	18,931,015	0	\$27.38	75.4%

*Completions include trailing 4 quarters

Source: CoStar, 3rd Quarter 2020

BAYTOWN SUBMARKET

Important characteristics of the Baytown office market are summarized below:

BAYTOWN OFFICE SUBMARKET								
Year Ending	Inventory (SF)	Completions (SF)	Occupied Stock (SF)	Occupancy	Asking Rent (\$/SF Gross)	Asking Rent Change	Net Absorption (SF)	Transaction Price Per Area (SF)
2010	1,918,339	11,084	1,829,818	95.4%	\$18.53	-2.12%	-736	\$0.00
2011	1,940,204	21,865	1,845,418	95.1%	\$18.86	1.76%	15,600	\$0.00
2012	1,940,204	0	1,869,061	96.3%	\$19.94	5.72%	23,643	\$0.00
2013	1,881,665	-58,539	1,733,080	92.1%	\$20.67	3.68%	-135,981	\$0.00
2014	1,881,665	0	1,772,501	94.2%	\$22.49	8.77%	39,421	\$0.00
2015	1,896,615	14,950	1,802,580	95.0%	\$22.74	1.13%	30,079	\$0.00
2016	1,896,615	0	1,817,752	95.8%	\$21.93	-3.56%	15,172	\$0.00
2017	1,896,615	0	1,743,769	91.9%	\$22.20	1.24%	-73,983	\$0.00
2018	1,862,514	-34,101	1,767,007	94.9%	\$22.80	2.71%	23,238	\$62.28
2019	1,862,514	0	1,773,641	95.2%	\$23.17	1.59%	6,634	\$0.00
2020 Q1	1,862,514	0	1,760,086	94.5%	\$23.49	1.41%	-13,555	\$0.00
2020 Q2	1,862,514	0	1,763,000	94.7%	\$23.43	-0.27%	2,914	\$0.00
2020 Q3	1,862,514	0	1,760,484	94.5%	\$23.50	0.31%	-2,516	\$0.00
2020 Q4*	1,862,514	0	1,761,096	94.6%	\$23.35	-0.66%	611	\$0.00
2021*	1,862,514	0	1,755,247	94.2%	\$23.15	-0.87%	-5,849	\$0.00
2022*	1,862,514	0	1,751,703	94.1%	\$24.37	5.28%	-3,544	\$0.00
2023*	1,862,514	0	1,751,588	94.0%	\$25.64	5.21%	-115	\$0.00
2024*	1,862,514	0	1,749,423	93.9%	\$26.61	3.81%	-2,165	\$0.00
2025*	1,862,514	0	1,745,646	93.7%	\$27.38	2.89%	-3,777	\$0.00

*Future Projected Data according to Costar
Source: Costar, 3rd Quarter 2020

The Baytown office submarket consists of approximately 1,862,514 square feet of office space. The current submarket inventory represents approximately 0.6% of the overall market inventory. The following observations were noted from the table above:

- As of 3rd Quarter 2020, approximately 1,760,484 square feet of occupied office space (including sublet space), resulting in an occupancy rate of 94.5% for the submarket. This reflects a small decrease from the previous quarter's occupancy of 94.7%, and a decrease from an occupancy rate of 95.2% from last year. The submarket occupancy is above the 82.0% market occupancy.
- The submarket experienced negative 2,516 square feet of net absorption for the current quarter. This indicates a decline from the previous quarter's positive 2,914 square feet of net absorption, and a decline from the positive 6,634 square feet of net absorption from a year ago. Overall, the submarket experienced negative 13,157 square feet of net absorption for the current year-to-date period. The submarket's current net absorption of negative 2,516 square feet compares favorably with the overall market net absorption of negative 1,650,513 square feet.
- The submarket had zero completions for the current quarter, which indicates no change from the previous quarter's zero completions, and no change from the zero completions from last year.

- The submarket achieved average asking rent of \$23.50 per square foot, which indicates an increase from the previous quarter's asking rent of \$23.43 per square foot, and an increase from the asking rent of \$23.17 per square foot from last year. The submarket's current asking rent of \$23.50 per square foot is below the overall market asking rent of \$28.47 per square foot.

CONCLUSION

The broad Metropolitan Office Market has been challenged with its dependence on the energy industries. Vacancies are relatively high, and the area has seen recent negative absorption in recent years. Due to the pandemic, absorption should increase by late 2021, but vacancies remain high for the foreseeable future. In Baytown however, the market shows much more stability. Vacancies are relatively low, and absorption is stable, indicating the stability of the submarket. This is significant for considering long-term investments. The stability of the office market should provide steady sources of commercial-related room-night and meetings demand.

INDUSTRIAL MARKET OVERVIEW

RECENT PERFORMANCE

The following table summarizes historical and projected performance for the overall metropolitan Houston - TX industrial market, as reported by Costar.

HOUSTON - TX INDUSTRIAL MARKET								
Year Ending	Inventory (SF)	Completions (SF)	Occupied Stock (SF)	Occupancy	Asking Rent (\$/SF NNN)	Asking Rent Change	Net Absorption (SF)	Transaction Price Per Area (SF)
2010	560,578,034	4,572,738	525,273,248	93.7%	\$6.00	-1.21%	7,757,939	\$49.19
2011	565,152,514	4,574,480	532,980,064	94.3%	\$6.12	1.89%	7,706,826	\$59.68
2012	568,343,790	3,191,276	539,663,296	95.0%	\$6.25	2.24%	6,683,205	\$44.53
2013	576,106,144	7,331,927	544,385,344	94.5%	\$6.42	2.57%	4,284,150	\$39.92
2014	586,392,931	10,202,707	557,623,360	95.1%	\$6.63	3.28%	13,153,166	\$62.66
2015	601,157,061	14,738,958	570,169,280	94.8%	\$6.89	4.01%	12,195,482	\$79.83
2016	613,973,080	12,816,019	580,435,072	94.5%	\$6.94	0.71%	9,781,654	\$80.95
2017	623,951,046	9,867,686	591,092,160	94.7%	\$7.15	3.05%	10,474,316	\$64.43
2018	640,109,118	13,447,669	603,870,720	94.3%	\$7.30	2.05%	10,135,061	\$72.88
2019	655,184,535	14,847,585	611,868,160	93.4%	\$7.40	1.45%	7,674,684	\$91.16
2020 Q1	665,389,426	10,196,091	614,990,080	92.4%	\$7.42	1.11%	3,117,267	\$84.68
2020 Q2	672,459,990	7,070,564	618,191,424	91.9%	\$7.37	-0.35%	3,201,378	\$90.11
2020 Q3	676,654,918	3,911,890	619,972,096	91.6%	\$7.38	-0.60%	1,497,614	\$74.76
2020 Q4*	682,015,295	5,360,377	622,127,552	91.2%	\$7.32	-1.10%	58,812	\$77.41
2021*	696,296,777	14,281,482	628,890,176	90.3%	\$7.24	-1.07%	6,764,253	\$0.00
2022*	707,970,547	11,673,770	640,626,176	90.5%	\$7.50	3.52%	11,725,218	\$0.00
2023*	722,537,679	14,567,132	656,259,712	90.8%	\$7.73	3.01%	15,604,345	\$0.00
2024*	735,718,750	13,181,071	670,872,512	91.2%	\$7.87	1.90%	14,582,367	\$0.00
2025*	746,543,465	10,824,715	683,893,312	91.6%	\$8.00	1.62%	12,991,544	\$0.00

* Future Projected Data according to Costar
Source: Costar, 3rd Quarter 2020

The Houston - TX industrial market consists of approximately 676,654,918 square feet of industrial space. The following observations are noted from the table above:

- As of 3rd Quarter 2020, approximately 619,972,096 square feet of occupied industrial space (including sublet space), resulting in an occupancy rate of 91.6% for the metro area. This reflects a decrease from the previous quarter's occupancy of 91.9%, and a decrease from an occupancy rate of 93.4% from last year.
- The area experienced positive 1,497,614 square feet of net absorption for the current quarter. This indicates a decline from the previous quarter's positive 3,201,378 square feet of net absorption, and a decline from the positive 7,674,684 square feet of net absorption from last year.
- The area had completions of positive 3,911,890 square feet for the current quarter, which indicates a decrease from the previous quarter's completions of positive 7,070,564 square feet, and indicates a decline from completions of positive 14,847,585 square feet from last year.
- The area achieved average asking rent of \$7.38 per square foot, which indicates a small increase from the previous quarter's asking rent of \$7.37 per square foot, and a small decrease from the asking rent of \$7.40 per square foot from last year.

SUBMARKET SNAPSHOT

The following table summarizes the supply of industrial square footage for each submarket within the Houston - TX market as of 3rd Quarter 2020.

HOUSTON - TX SUBMARKET SNAPSHOT				
Submarket	Inventory (SF)	Completions* (SF)	Asking Rent (\$/SF NNN)	Occupancy
Austin County	2,353,773	0	\$8.51	91.6%
CBD-NW Inner Loop	12,482,400	-68,066	\$7.94	94.2%
Downtown Houston	32,547,352	-33,022	\$5.45	94.6%
East I-10 Outer Loop	13,797,571	0	\$6.00	97.6%
East-Southeast Far	85,356,215	4,457,137	\$7.27	89.5%
Hwy 290/Tomball Pky	29,219,514	3,240,949	\$7.52	84.8%
Hwy 59/Hwy 90 (All)	27,967,070	1,656,120	\$7.74	90.1%
Liberty County	2,341,625	0	\$6.46	98.8%
North Fwy/Tomball Pky	33,731,842	2,483,762	\$7.87	86.9%
North Hardy Toll Road	40,725,934	1,964,214	\$7.43	90.2%
North Inner Loop	5,630,182	-45,000	\$5.71	96.5%
North Outer Loop	26,189,995	1,023,727	\$6.86	92.3%
Northeast Hwy 321	1,911,796	0	\$9.66	98.3%
Northeast Hwy 90	22,972,566	779,978	\$7.20	91.4%
Northeast I-10	4,492,146	0	\$6.83	98.2%
Northeast Inner Loop	12,242,270	0	\$5.21	95.4%
Northwest Hwy 6	14,199,689	539,819	\$8.86	93.1%
Northwest Inner Loop	64,100,805	94,860	\$7.21	92.5%
Northwest Near	20,113,371	3,604	\$6.93	95.2%
Northwest Outliers	32,370,130	3,598,623	\$8.31	89.6%
South Hwy 35	40,804,705	492,975	\$6.83	96.2%
South Inner Loop	12,704,985	-528,943	\$6.29	91.3%
Southeast Outer Loop	18,156,995	176,201	\$5.48	90.1%
Southwest Far	19,773,502	2,793,779	\$7.98	84.9%
Southwest Inner Loop	7,017,516	-79,792	\$9.53	90.3%
Southwest Outer Loop	14,874,952	4,500	\$9.30	92.2%
Sugar Land	24,114,425	681,828	\$7.99	95.6%
The Woodlands/Conroe	26,109,487	1,288,321	\$9.43	91.9%
West Outer Loop	28,711,264	304,697	\$7.70	94.1%

*Completions include trailing 4 quarters
Source: CoStar, 3rd Quarter 2020

Baytown is part of the East-Southeast Far Submarket.

EAST-SOUTHEAST FAR SUBMARKET

Important characteristics of the East-Southeast Far industrial market are summarized below:

EAST-SOUTHEAST FAR INDUSTRIAL SUBMARKET								
Year Ending	Inventory (SF)	Completions (SF)	Occupied Stock (SF)	Occupancy	Asking Rent (\$/SF NNN)	Asking Rent Change	Net Absorption (SF)	Transaction Price Per Area (SF)
2010	55,304,219	387,912	48,631,340	87.9%	\$5.97	-1.14%	1,731,507	\$53.82
2011	56,288,820	984,601	50,695,348	90.1%	\$6.08	1.79%	2,064,010	\$20.59
2012	57,572,213	1,283,393	52,690,744	91.5%	\$6.20	2.03%	1,995,396	\$61.84
2013	58,340,901	768,688	53,540,448	91.8%	\$6.35	2.47%	849,701	\$25.73
2014	59,924,637	1,529,656	56,110,804	93.6%	\$6.55	3.13%	2,516,279	\$73.73
2015	62,446,446	2,521,809	59,244,024	94.9%	\$6.82	4.15%	2,767,493	\$66.80
2016	65,997,420	3,550,974	62,699,972	95.0%	\$6.86	0.61%	3,473,125	\$84.36
2017	70,579,214	4,581,794	67,117,400	95.1%	\$7.06	2.87%	4,417,426	\$162.91
2018	76,871,850	5,672,429	71,513,504	93.0%	\$7.20	1.96%	3,775,897	\$79.84
2019	81,251,154	4,364,196	75,312,352	92.7%	\$7.31	1.48%	3,683,740	\$119.12
2020 Q1	82,533,930	1,282,776	76,020,816	92.1%	\$7.33	0.27%	708,463	\$97.21
2020 Q2	84,975,939	2,442,009	76,695,016	90.3%	\$7.26	-0.92%	674,206	\$79.24
2020 Q3	85,356,215	289,289	76,395,640	89.5%	\$7.27	0.21%	-390,369	\$88.89
2020 Q4*	87,063,561	1,707,346	77,235,104	88.7%	\$7.23	-0.62%	736,606	\$0.00
2021*	89,662,234	2,598,673	78,697,504	87.8%	\$7.15	-1.12%	1,462,544	\$0.00
2022*	92,287,056	2,624,822	81,717,200	88.5%	\$7.39	3.45%	3,017,893	\$0.00
2023*	95,562,497	3,275,441	85,620,520	89.6%	\$7.61	2.97%	3,898,910	\$0.00
2024*	98,522,938	2,960,441	89,283,224	90.6%	\$7.76	1.90%	3,658,054	\$0.00
2025*	100,952,099	2,429,161	92,277,752	91.4%	\$7.89	1.67%	2,990,199	\$0.00

*Future Projected Data according to Costar

Source: Costar, 3rd Quarter 2020

The East-Southeast Far industrial submarket consists of approximately 85,356,215 square feet of industrial space. The current submarket inventory represents approximately 12.6% of the overall market inventory. The following observations were noted from the table above:

- As of 3rd Quarter 2020, approximately 76,395,640 square feet of occupied industrial space (including sublet space), resulting in an occupancy rate of 89.5% for the submarket. This reflects a decrease from the previous quarter's occupancy of 90.3%, and a decrease from an occupancy rate of 92.7% from last year. The submarket occupancy is below the 91.6% market occupancy.
- The submarket experienced negative 390,369 square feet of net absorption for the current quarter. This indicates a decline from the previous quarter's positive 674,206 square feet of net absorption, and a decline from the positive 3,683,740 square feet of net absorption from a year ago. Overall, the submarket has experienced positive 992,300 square feet of net absorption for the current year-to-date period. The submarket's current net absorption of negative 390,369 square feet is below the overall market net absorption of positive 1,497,614 square feet.
- The submarket had completions of positive 289,289 square feet for the current quarter, which indicates a decrease from the previous quarter's completions of positive 2,442,009 square feet, and a decrease from the completions of positive 1,136,827 square feet from last year.

- The submarket achieved average asking rent of \$7.27 per square foot, which indicates a small increase from the previous quarter's asking rent of \$7.26 per square foot, and a small decrease from the asking rent of \$7.31 per square foot from last year. The submarket's current asking rent of \$7.27 per square foot is below the overall market asking rent of \$7.38 per square foot.

CONCLUSION

Large industries in the area play a significant role in understanding the economic dynamics of this market and submarket. Industrial space provides a good measure of activities, as companies expand and relocate to the area. The broad Metropolitan Industrial Market has shown some volatility in recent years, related to fluctuations in the energy industries. Despite huge increases in new industrial completions, according to projections, the new space should readily be absorbed. Similar trends are found in the submarket containing Baytown. Occupancies are expected to show a small increase in 2021 due to the reduction of GDP due to the pandemic, but expected to increase over the next five years. New industrial space is expected to increase, and should also be absorbed quickly, and rents have remained relatively stable, showing moderate increases. Again, this stability highlighted in and around the Baytown area indicate a steady base of commercial and industrial businesses. The outlook for the area is stable, which bodes well for long-term investments, and especially well for hotels seeking commercial and group business.

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 58 million in total passenger activity during calendar year 2019 and is the sixth largest airport system in the world.

Houston Airport Systems 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 which competes with many of the top multi-airport systems in the country. Prior to the impact of COVID-19, both major commercial airports, IAH and HOU experienced growth in total passenger activity.

Bush Intercontinental Airport (IAH) is located approximately 19 miles from Downtown. It is the City's primary airport facility. Houston became 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 45 million passengers in 2019. 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 2015 through 2019 and year-to-date through August 2020 compared to the same period in 2019.

Bush Intercontinental Airport				
Year	Passenger Activity		Cargo Activity	
	Total Passengers	Percent Change	Total (Metric Tons)	Percent Change
2015	42,984,304	4.2%	397,295	-6.9%
2016	41,615,689	-3.2%	407,661	2.6%
2017	40,696,216	-2.2%	424,362	4.1%
2018	43,807,720	7.6%	524,716	23.6%
2019	45,276,595	3.4%	518,698	-1.1%
CAAG ⁽¹⁾	1.3%	---	6.9%	---
YTD August 2019	30,529,042	---	324,322	---
YTD August 2020	9,598,029	-68.6%	294,384	-9.2%

⁽¹⁾CAAG = Compound Annual Average Growth

Source: Department of Aviation, Houston Airport System

At IAH, domestic passengers increased 3.4 percent from 2018 to 3.15 million, breaking the previous record of 33.07 million in 2018. International passengers increased 3.6 percent year over year to 11.12 million, second only to the record of nearly 10.84 million in 2016. Combined, IAH saw a record 45.2 million passengers in 2019, up 3.4 percent from 2018. Year-to-date through August 2020 IAH total passengers declined 68.6 percent due to travel restrictions related to COVID-19.

William P. Hobby Airport (HOU) is located approximately 10 miles from Downtown. The terminal building has three concourses with a total of 31 gates. Non-stop or direct service to over 65 cities throughout the U.S are available from HOU. The airport served over 14 million passengers in 2019. Southwest Airlines is the airport's main carrier and accounts for more than 90 percent of the total passengers. The airport 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 greatly increased passenger activity at Hobby Airport. This growth should 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
2015	12,164,429	7.5%	11,782	-7.0%
2016	12,909,443	6.1%	10,646	-9.6%
2017	13,435,672	4.1%	10,569	-0.7%
2018	14,476,469	7.7%	11,393	7.8%
2019	14,455,307	-0.1%	11,915	4.6%
CAAG ⁽¹⁾	4.4%	---	0.3%	---
YTD August 2019	9,673,333	---	7,635	---
YTD August 2020	3,984,794	-58.8%	6,443	-15.6%

⁽¹⁾CAAG = Compound Annual Average Growth

Source: Department of Aviation, Houston Airport System

In 2018, total passengers at HOU broke the 14 million mark for the first time with a record of nearly 14.48 million, up 7.7 percent from 2017. In 2019, domestic passengers increased 1.2 percent to nearly 13.60 million, higher than Hobby's previous total passenger record of nearly 13.44 million in 2018. International passengers broke the 1 million mark for the first time in 2018 since international service resumed in 2015, jumping 16.3 percent year over year to 1.03 million. Year-to-date through August 2020, total HOU passengers declined 58.8 percent due to travel restriction from COVID-19

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) which 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 with 25 miles of public and private port facilities and provides more than 63,039 direct jobs in the Houston area, according to the Houston Chronicle in 2019.

In 2019, Port tonnage increased to 43.1 million tons, an increase of 5.6 percent. As of September 2020, Port tonnage totaled 34.68 tons, a 5.6 percent decrease over the same period in 2019. Year to date through September 2020, the total export tonnage increased two percent over the same period last year, bringing the total tonnage to 19.9 million.

In 2019, the greater Port of Houston complex ranked 6th U.S. container port by total Twenty-Foot Equivalent Units (TEU), largest Gulf Coast container port (handling 69 percent of U.S. Gulf Coast container traffic) and largest Texas port (with 45 percent of market share by tonnage and 96 percent market share in containers).

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 which 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 should stimulate substantial residential development in what is Houston PSMA's largest master-planned community since The Woodlands.

Medical

Houston Methodist San Jacinto Hospital

Since opening its doors in April 1948, Houston Methodist San Jacinto Hospital has provided Baytown with quality medical care. In 1978, San Jacinto marked its 30th anniversary and expanded to 331 beds. The University of Texas Medical School became affiliated with the hospital in 1981. In 1983, Houston Methodist San Jacinto Hospital became affiliated with Houston Methodist Hospital in the Houston Medical Center. Through this arrangement, San Jacinto can provide residents of Baytown and the surrounding area with access to specialized tertiary care services. In 1987, San Jacinto's Board of Directors made the decision to construct a new major health care facility, enhancing and expanding the range of services available to residents of East Harris County and the surrounding counties of Chambers, Liberty and Montgomery. Today, Houston Methodist San Jacinto Hospital offers comprehensive care for patients at every stage of life. Houston Methodist San Jacinto Hospital is a fully accredited, full-service hospital.

Higher Education

Lee College

Established in 1934, Lee College offers more than 100 associate degree and certificate programs in a wide variety of engaging, high-demand disciplines and fields. A diverse body of more than 6,000 students enroll each fall in credit courses with additional students enrolling in non-credit and continuing education courses. Through an associate degree or certificate, students prepare for successful entry into the workforce, advancement in higher education and a variety of sought-after careers and professions.

The college serves a geographic region of more than 220,000 residents encompassing 11 independent school districts: Goose Creek, Anahuac, Barbers Hill, Crosby Dayton, Devers, East Chambers, Hardin, Huffman, Hull-Daisetta and Liberty. The main college campus and McNair Center are in Baytown with a satellite office in nearby Liberty County.

CONCLUSION

Long term, the concentration of upstream and downstream energy industries; steady population growth, strength in the housing market, employment increases, transportation, and distribution industries will help propel gains for the Metro. Outlook is largely positive, but much like all markets, some uncertainty regarding the COVID-19 pandemic.

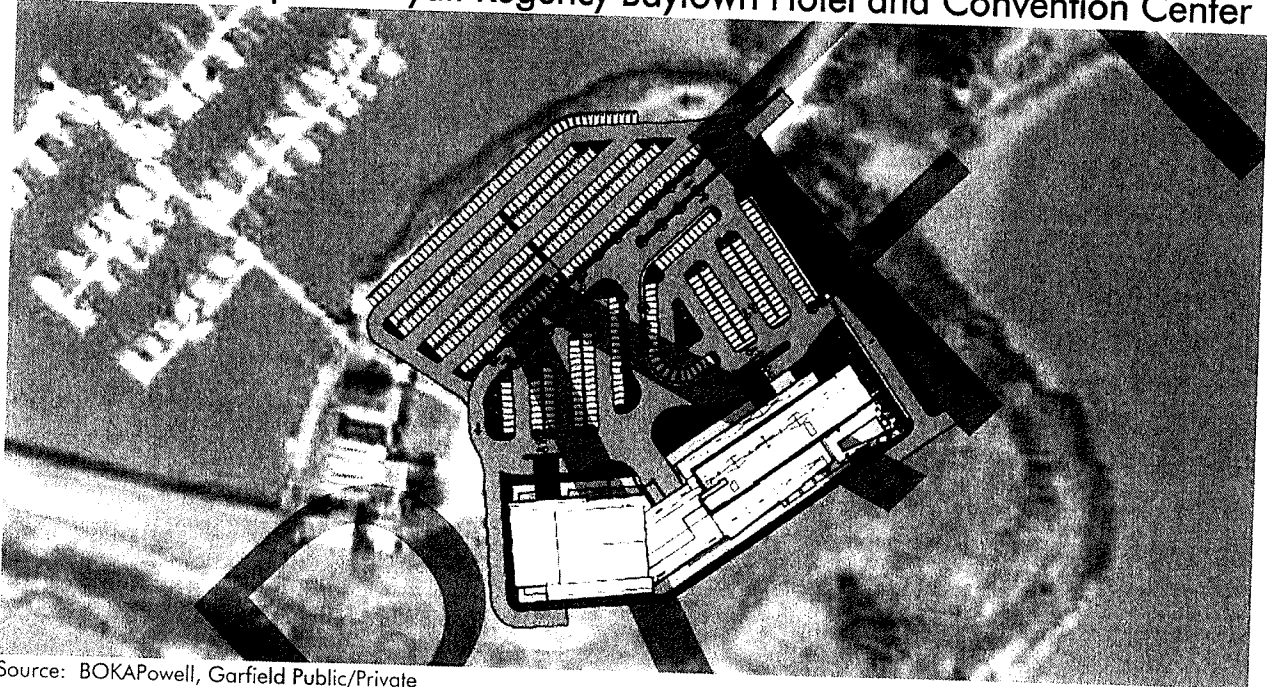
With a solid and stable local and area economy, Baytown's strengths are in its industry, retail and housing. The city maintains a high quality of life while becoming a major center for economic growth. Baytown is expected to continue to expand despite the fluctuations in oil prices and construction jobs. Additional chemical plant and distribution/logistics expansions, the retirement of long-time employees, growth in healthcare and the maritime industry help support this strong, stable area.

SECTION III
PROPERTY DESCRIPTION

LOCATION

The proposed Hotel and Convention Center will be in Baytown, Texas. The hotel will be located on Bayland Island adjacent to the existing marina. The site is surrounded by waterfront with scenic views of the bay, the Fred Hartman Bridge and further northward along the Houston Ship Channel from both the north and south side of the hotel. Below is a drawing of the current site plan. Photographs of the site can be found in Addendum A.

Site Plan – Proposed Hyatt Regency Baytown Hotel and Convention Center



Source: BOKAPowell, Garfield Public/Private

SITE DESCRIPTION

Visibility

The proposed Hotel and Convention Center will be visible from State Highway 146 (SH 146) to traffic travelling in both directions as well as from the surrounding area and across the bay.

Signage

Building signage is recommended as well as appropriate locations on traffic corridors and roads leading to the property.

Access

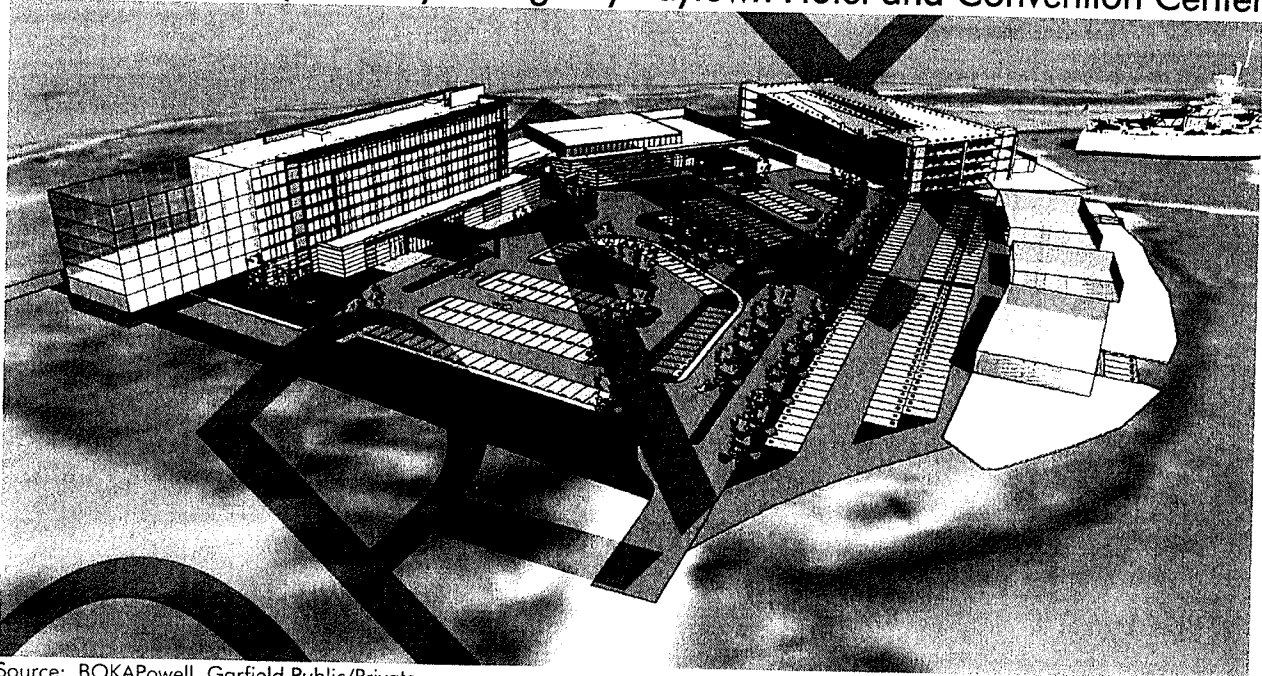
The site is easily accessible for travelers from either direction on SH 146. The proposed hotel's site is located approximately one quarter of a mile from SH 146 via Wyoming Road to access Bayland Island and directly to the site. For travelers along I-10, SH 146 intersects

I-10 on the east side of Baytown, but travelers along I-10 west of the city may want to exit SH 330 for a more direct route, which terminates at SH 146.

Surrounding Area

The Subject site is located on the waterfront adjacent to the existing marina on Bayland Island. Land north of the hotel's site is Bayland Park, which extends north, beyond SH 146. Only land parcels immediately surrounding the site are available on Bayland Island, and long-term plans call for additional restaurants, retail, and parking with flexibility to expand both the meeting facilities and the hotel if warranted. The unique views of the bays the ship channel and marina provide an appealing ambiance, not found by many hotels in the region. Drawings showing the hotel's elevation and planned future developments are shown in the following table.

Future Uses– Proposed Hyatt Regency Baytown Hotel and Convention Center



Source: BOKAPowell, Garfield Public/Private

PROPOSED FACILITIES

The following table presents the proposed facilities for the proposed Baytown Hotel and Convention Center.

Proposed Facilities		
Proposed Hyatt Regency Baytown		
Type of Hotel		
Number of Guestrooms	208	
Meeting Space		
Ballroom	12,000	SF
Breakout Rooms	5,040	SF
Boardroom	850	SF
Total	17,890	SF
Food and Beverage		
	Open-Kitchen Restaurant	
	Outdoor Terrace	
	Lobby Lounge	
	Room Service	
Amenities		
	Outdoor Swimming Pool	
	Business Center	
	Fitness Center	
	Gift Shop	
Source: BOKAPowell, Garfield Public/Private		

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 208 rooms should suit the market well, providing a sufficient number of rooms for meetings and conventions, yet small enough to yield rates efficiently.

According to interviews and surveys, the Convention 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 will also offer ample smaller meeting rooms to accommodate smaller meetings/conferences, local social events/wedding and company functions.

CONCLUSION

The proposed Hyatt Regency and Convention Center should be well-located on the waterfront on Bayland Island in Baytown, Texas with easy access to the surrounding areas via SH 146. The site is unique with excellent water views of the Bay and the Houston Ship Channel. We consider the subject site to be well-suited for hotel development and a well-received hotel development in the market.

SECTION IV
HOTEL MARKET ANALYSIS

Market Analysis

Understanding the relationship between supply and demand is a critical component of any market analysis, particularly with respect to hotels. Unlike other property types however, hotels essentially lease their rooms daily. While this characteristic allows an immediate response to changes in market conditions, it also requires a high level of management intensity. An inverse relationship between occupancy and Average Daily Rate (ADR) occurs, and raising or lowering rates can immediately impact room-nights sold. Effective management entails finding the proper balance of occupancy and rates which allows for the maximization of revenue and measured as Revenue Per Available Room (RevPAR).

In this section the Subject property's competitive set (e.g., those hotels which tend to compete for the same sources of demand) is identified. Then relevant demand sources are identified, historical growth patterns are analyzed and the potential for growth (or lack thereof) in demand by segment is assessed. The result is a projection of future market performance measured in room night demand and expressed as a percentage of occupancy.

Some hotels are more directly competitive than others based on their locations, facilities, branding, etc. This disparity in the level of competitiveness can be handled in several ways. Some assign a percentage to each property and include only a portion of their guest rooms in the competitive set. This technique, while theoretically sound, is highly subjective and the overall analysis can be extremely sensitive to the assumptions made. Alternatively, this report addresses the issue is addressed by performing a fair-share market penetration analysis. Regardless of the method employed, properly assessing the relationship between supply and demand and its impact on the Subject property and market occupancy requires a level of professional judgment.

NATIONAL OVERVIEW

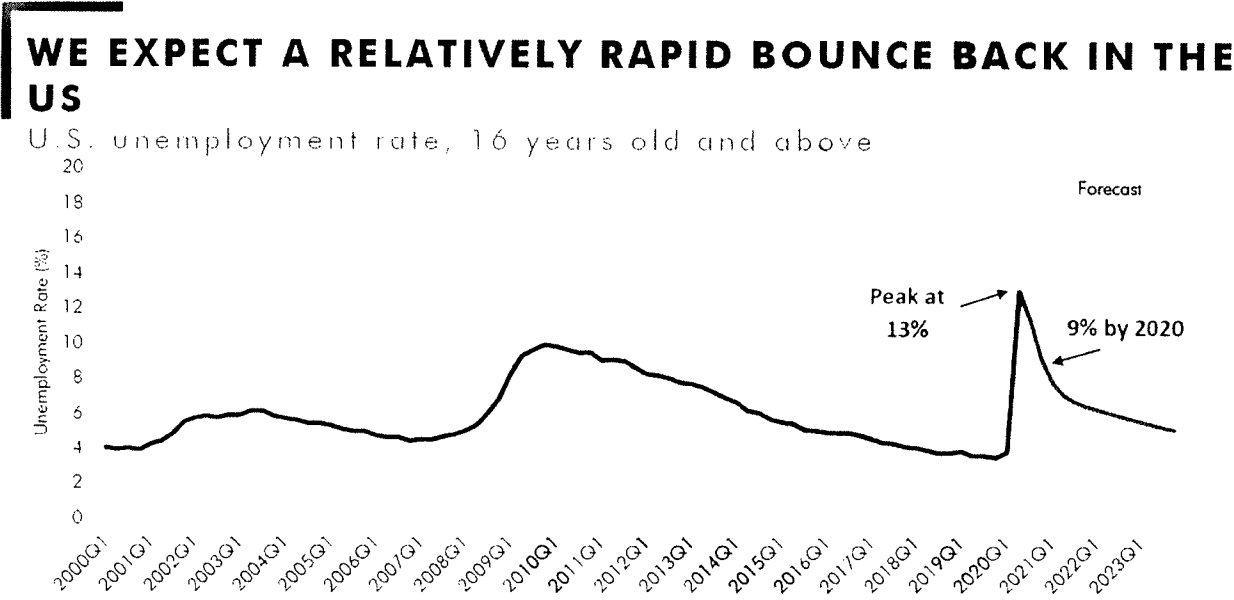
Hotel Market Summary

The following overview was derived primarily from Hotel Horizons© CBRE Q3 2020 report for the United States, as well as CBRE Econometric Advisors (CBRE-EA), and Kalibri Labs.

Inflation, as measured by the Consumer Price Index (CPI), picked up slightly in response to renewed economic activity, increasing 1.4% year-over-year. CBRE EA forecasts CPI to increase by only 1.1% in 2020. Any changes in ADR in 2020 are expected to closely reflect real value changes rather than nominal changes only.

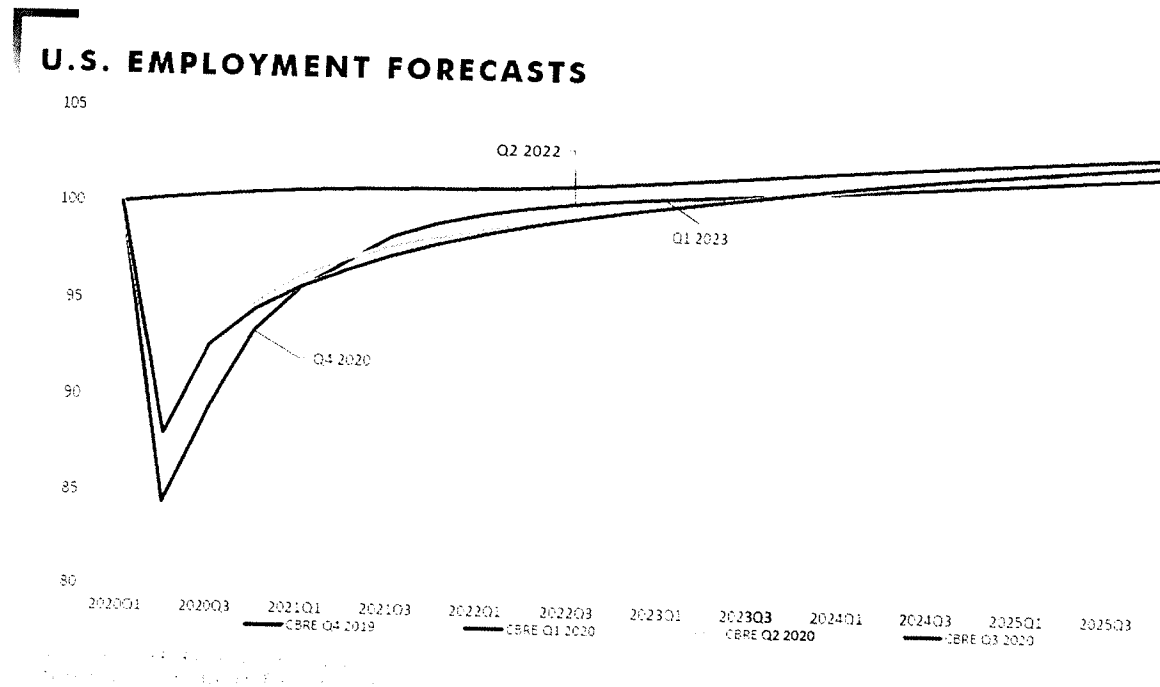
The CBRE Research's baseline outlook for the U.S. predicts real GDP change of -3.4% in 2020. Forecasts anticipate introduction of useful COVID-19 therapeutics by mid-2021. Until then, the pandemic will limit hotel recovery. After mid-2021, hotel recovery should occur steadily until previous performance is achieved, likely in 2024.

The following chart illustrates the magnitude of the effect on U.S. unemployment levels relative to past economic cycles since 2000 due to the COVID-19 Pandemic. As shown, the COVID-19 Pandemic profoundly impacted the economic cycle unlike anything seen in recent history.



COVID-19’s full impact on the hotel industry took hold in April with a 70% year-over-year drop in demand before rebounding slightly to close Q2, down by 60%. Supply growth fell to 1.3% from 1.5% in Q1. Gross Domestic Product (GDP) fell 5.0% at an annual rate, driven by large reductions in consumption of services and durable goods. Hotel closures peaked in May, with luxury hotels showing the largest percentage of reopening by the quarter’s close in June.

Economic activity bottomed out in April with 20.5 million jobs lost, sending the unemployment rate to 14.7%. The large-scale shutdown of the economy caused an average of 4.4 million job losses per month in Q2. Leisure & hospitality employment fell by 39% in Q2 as hotels scaled down operations. An estimated two-year employment recovery means roughly the same for lodging demand; however, recent employment data shows encouraging growth in the overall economy. October finished with an overall unemployment rate of 6.9 percent. This is the sixth consecutive month of decreasing unemployment rates.



While the pandemic caused upheaval in the broader economy, it is not as bad as some economists were predicting. Overall employment figures continue to improve every month.

Hotel Industry Headwinds

Spurred by the COVID-19 pandemic, the U.S. lodging sector has been hit by two headwinds in 2020: a contraction in overall economic activity and the need for social distancing. Accordingly, CBRE’s current 2020 Baseline forecast calls for -37.4% decrease in occupancy. Combined with a -21.5% drop in ADR, results in a projected annual decline in RevPAR of 50.9% during 2020.

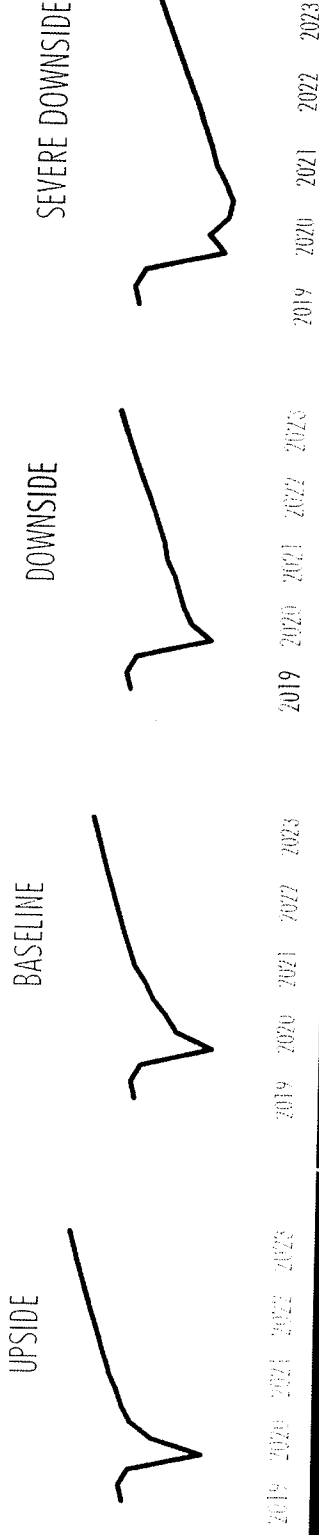
The table on the following page details CBRE Hotels’ macroeconomic assumptions which drive the current Baseline forecast followed by a summary of CBRE Hotels’ most likely economic scenarios for the U.S. lodging market and the core underlying assumptions associated with each.

DETAILED MACROECONOMIC ASSUMPTION THAT DRIVE OUR BASELINE FORECAST

Topic	Current Conditions	Key Observations and Forecast Assumptions	Downside Risks
Top Line Expectations	BOTTOMING DECLINING	Economic activity bottomed in April. We expect the US economy will contract by a quarterly average of about 5% for the entirety of 2020, followed by 5% growth in 2021. US trade is roughly a quarter below pre-COVID levels.	Failing to extend unemployment benefits would erode household income and cause the broader economy to contract. Slowdown amongst key US trade partners and/or an escalation of the US/China trade conflict.
US Policy	AGGRESSIVE UNCERTAIN	The Fed policy rate will remain near zero through 2022. The Committee will continue with unlimited quantitative easing. Unemployment benefits will continue, albeit the second round of stimulus now be negotiated will likely be less generous than the first.	Unlimited QE inflates asset prices beyond sustainable levels. Government stimulus has had a limited multiplier effect as many of the funds allocated to households and businesses have been used to paydown revolving and bank debt respectively.
Business Sector	UNCERTAIN WEAK DECLINING	Many firms are tapping the bond markets to pay down shorter-term bank debt. Activity indices are improving but conditions are strained. Business investment is poised to decline by nearly 7% in 2020.	A wave of corporate bankruptcies shocks the banking sector. US equities could decline. Sales volume fails to meet already low expectations. Lack of progress with the virus prevents clarity on business investment decisions.
Labor Market and Consumption	IMPROVING WEAK IMPROVING IMPROVING	The demand for labor is returning but unemployment remains historically high, at over 11%. Employment increases by 6% in 2021. Sentiment remains very weak and expectations for the next 6 months are very downbeat. Sales grew by 7.5% in June, exceeding expectations. A rising case count will likely harm future sales and closure of drinking places is certain to strain near-term activity. Record low mortgage rates are maintaining steady sales activity.	Although hospitality companies re-call workers many corporates begin to cut front-office staff. Many temporary layoffs become permanent. Deterioration in the labor market causes consumers to reign in spending. The combination of a weak labor market and stock market correction would curtail high-value discretionary spending. Low for-sale inventory and fragile consumer sentiment threaten the market.
Public Health and Response	PEAKING MIXED	The closure of bars and enactment of mask-wearing rules will pull down the number of new cases in Sunbelt states. No additional lockdowns will be necessary. States will not return to full, shelter-in-place lockdowns. Northeastern states will continue to reopen their economies.	Reopening in the Northeast escalates the number of new cases. Case count remains high across the Sunbelt, straining the health system and economic activity. Large states, such as California and Texas, that account for a sizable share of US GDP struggle to reopen. Schools remain closed, further straining productivity.

Source: CBRE Hotels

U.S. ECONOMIC SCENARIOS AND UNDERLYING ASSUMPTIONS



Scenario	Upside	Baseline	Downside	Severe Downside
Likelihood	Low	High	High	Low / Medium
COVID-19 Situation	Nationwide social distancing measures cause the number of new cases to quickly fall and remain low in Q3. The discovery of an effective therapy or vaccine begins distribution by 1H 2021.	Broad compliance with mask-wearing and widespread testing slows the spread of COVID-19 nationwide. An effective therapy/vaccine is ready for distribution by late-2021.	The US is plagued by regional flare-ups of COVID-19 cases that cause many states to delay the pace of reopening their economies.	The virus makes a resurgence in Europe, East Asia and across most US regions in the fall. The US health system is severely strained, and all states go back into 'lock-down' mode for over a month.
Time to Full Economic Recovery (GDP)	5 quarters	1.75 years	3.5 years	4.5 years
Economic Impact	A steadily falling case count allows for a broad-based reopening of the economy. Robust government stimulus paired with successful trials of a therapy unleashes a wave of pent-up demand that drives an impressive recovery in 2H 2020 and early 2021.	18.2 million jobs will be lost in 2020Q2, pushing the unemployment rate to over 10% and many firms will not survive the drop in demand. However, aggressive stimulus and a consistent reopening of the economy supports sturdy growth in 2H 2020 and into 2021.	The reopening of the economy proves to be a slow process. High bankruptcies and unemployment will prevent a stronger recovery from gaining traction. Pre-virus employment levels are not regained before 2025.	A prolonged, deep recession causes a wave of bankruptcies that severely stresses the financial system. Corporate bankruptcies are not limited to vulnerable sectors, such as retail and oil & gas firms.

Source: CBRE Hotels

Baseline Forecast

According to Kalibri Labs, U.S. lodging demand fell by 36.8 percent during Q3 2020 compared to Q3 2019. While the drop is dramatic, it is less than the 42.4 percent decline forecast by CBRE in the August 2020 edition of Hotel Horizons®. Based on the stronger than anticipated summer season, CBRE raised its projected 2020 annual occupancy level from 39.8 percent to 41.8 percent.

Unfortunately for U.S. hoteliers, CBRE's outlook for ADR change in 2020 diminished. The anticipated lack of commercial and group demand during the fall of 2020 limited the revenue generated by hotels, particularly the higher priced full-service properties. In turn, this serves to reduce ADR growth. CBRE is currently forecasting a 21.5 percent decline in the nationwide ADR for 2020, which is greater than the 20.4 percent decrease forecast in August 2020.

Looking forward, CBRE foresees sluggish lodging performance in the first half of 2021. Comparisons to Q1 2020 performance will likely still yield negative changes in occupancy and ADR during Q1 2021. CBRE anticipates the U.S. lodging industry will experience a measurable benefit during the second half of 2021, assuming a mass deployment of an effective COVID-19 vaccine early in the year. Occupancy during H2 2021 is forecast to be 960 basis points greater than H1 2021.

The favorable leisure travel trends observed during 2020 should repeat during the summer of 2021, and commercial demand is expected to begin returning in Q3 2021. Group demand is expected to lag, thus negatively impacting the performance of the upper-tier properties. The 1.3 percent decline in ADR projected for 2021 is attributable to the unfavorable prior year comparisons during Q1 2021, and continued lag in the higher-priced chain-scales.

The current slowdown in construction starts is also expected to limit competition from new supply beyond 2021 and serve to accelerate occupancy and ADR recoveries. CBRE forecasts the lower-priced chain-scales to return to 2019 nominal RevPAR levels sooner than the higher-priced chain-scales.

CBRE HOTELS – Q32020 BASELINE FORECAST

Year	Occ	ΔOcc	ADR	ΔADR	RevPAR	ΔRevPAR	RevPAR % of 2019
2018	67%	-0.4%	\$ 130.53	2.2%	\$ 86.84	1.8%	
2019	67%	0.4%	\$ 131.17	0.5%	\$ 87.65	0.9%	100%
2020	42%	-37.4%	\$ 102.94	-21.5%	\$ 43.06	-50.9%	49%
2021	50%	19.7%	\$ 101.65	-1.3%	\$ 50.89	18.2%	58%
2022	57%	14.4%	\$ 111.06	9.3%	\$ 63.60	25.0%	73%
2023	64%	11.4%	\$ 121.35	9.3%	\$ 77.40	21.7%	88%
2024	67%	5.3%	\$ 134.07	10.5%	\$ 90.01	16.3%	103%
2025	67%	-0.2%	\$ 144.99	8.1%	\$ 97.13	7.9%	111%

The forecasted annual decline in RevPAR is worse than that experienced in the 2001 and 2009 economic downturns combined. However, given the expected rebound in economic growth and historic resiliency of travel demand, hotel revenue recovery is anticipated during 2021 through 2023, and RevPAR could return to pre-recession levels by 2024. The four-year recovery in nominal RevPAR is expected to be driven by the relatively quicker rise in occupancy. Average Daily Rates on the other hand, are expected to lag in its recovery until 2024.

The Demand for Travel

Stays in hotels, short-term rentals, and on cruise ships are driven by leisure and the need for face-to-face business meetings. People avoid travel when they feel unsure about their future financial state (constraint #1) and when they feel afraid to make trips (constraint #2). In the wake of the 2008 financial crisis, for example, future cash flow and wealth uncertainties severely impacted travel. Fear of travel is a broader and more complicated phenomena than financial insecurity. Following the tragic 9/11 events for example, potential travelers avoided boarding airplanes for fear of being entangled in terrorist acts.

The most complex constraint impairing travel comes from the fear of contracting communicable diseases or infections. In recent years, the world experienced outbreaks of several forms of transmissible viruses such as SARS, Ebola, and H1N1 (Swine Flu). These illnesses took a large human toll, but while the effects on the paid accommodation industry were measurable, they were not devastating. COVID-19 virus is far more dangerous, and the travel industry must brace for a continued reduction in business and leisure trips until travelers feel safe again.

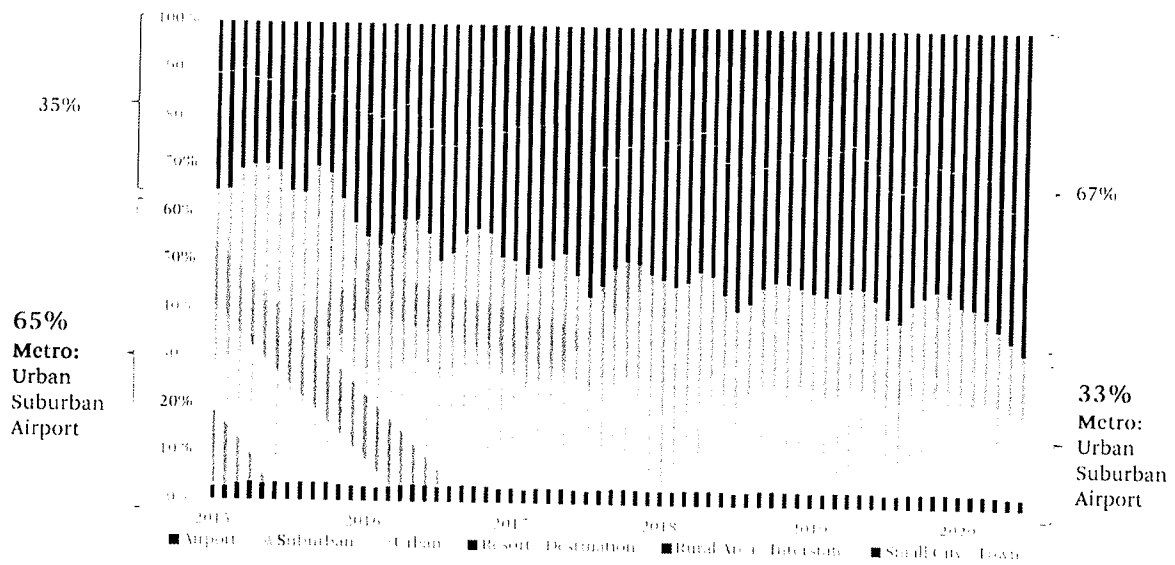
Market and Chain Scale Impacts

Gateway cities which cater to international and business travelers, and those which accommodate large groups for conventions and conferences were impacted the worst. Similarly, 9/11 primarily impacted these same markets and spared many drive-to markets.

Markets with peak seasons during the spring (March-May) witnessed more severe impacts since these months generate a significant portion of their full-year revenues and profits. U.S. hotels average about 5% more revenue during the spring travel season. These hotels not only see declines in occupancy, but also lose out on rate premiums typically achieved during the peak season.

The following chart illustrates year-over-year ADR, occupancy, and RevPAR performance data across all chain scales from February 8th through July 17th, 2020. As shown, all segments experienced generally positive trends over the past three months, with a downtick in recent weeks related to virus spikes across the country.

A SHIFTING BASE OF DEMAND FROM URBAN TO RESORT LOCATIONS
 % OF TOTAL DEMAND BY LOCATION TYPE



Source: [unreadable] October [unreadable]

Urban and suburban locations bore the brunt of impact while the share for interstate, small city locations and resort locations increased (as a percentage of total demand). During the summer months, resort locations witnessed an uptick in occupancy, exceeding the urban and airport locations.

Impact on Profits

To provide context to the expected declines in profits for U.S. hotels during 2020, the operating performance of properties during 11 economic recessions from 1938 through 2009 were

analysed. The greatest declines in revenues and profits were experienced by U.S. hotels during the two most recent recessions, which more closely mirror expectations for the year ahead.

In 2001, of the sample properties which experienced a decline in RevPAR, only 2% saw RevPAR fall by more than 30%. On average, these properties suffered a 35.3% drop in total revenue which resulted in a 54.2% decline in gross operating profit (GOP). During the 2009 recession, 10.2% of the properties which experienced a decline in RevPAR saw their rooms revenue drop by more than 30%. On average, these properties also suffered a 35.3% drop in total revenue, but the decline in GOP averaged 57.0%.

Concurrently, the historical relationship between declines in RevPAR to estimate the potential decreases in profits were analysed. For example, a 20.0% decline in RevPAR for a full-service hotel during 2009 resulted, on average, in a 39.0% decline in gross operating profits (GOP) and a 52.0% drop in earnings before interest, taxes, depreciation and amortization (EBITDA). As the forecast updates progressed, the magnitude of the projected declines in RevPAR surpassed anything seen over the past 90 years. Based on the current Baseline forecast by CBRE Hotels Research, the U.S. lodging industry is projected to achieve an annual occupancy level of 42% in 2020. To put in perspective, the lowest annual occupancy level ever achieved by the CBRE Trends® sample was 44.5% in 1933. With such low levels of occupancy forecasted, hotel owners and operators responded by reducing fixed costs as much as possible and spending minimal amounts on variable costs. As expected, a correlation between the occupancy level and the achieved profit margins is clear. The lower the occupancy level, the lower the GOP and EBITDA margins.

Fortunately, a low inflation period should help keep the costs of goods, services, and utilities low. Further, recent changes in Food and Beverage operations and marketing practices also helped to lower fixed operating costs. The following chart illustrates U.S. hotel performance by chain-scale groups based on the estimated 2020 annual occupancy level.