



MARKET STUDY

JULY 10, 2019

Proposed Hyatt Regency Hotel

BAYTOWN, TEXAS



SUBMITTED TO :

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Mr. Raymond Garfield
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Re: Proposed Convention Center Hotel
Baytown, Texas

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Dear Mr. Garfield:

Attached you will find our Market Study of the Proposed Convention Center Hotel in Baytown, Texas.

We certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

It has been a pleasure working with you. Please let us know if you have any questions.

Sincerely,
HVS Convention, Sports & Entertainment
Facilities Consulting

Tom Hazinski
Managing Director

Brian Harris
Senior Director



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1. Executive Summary

Subject of the Market Study

Garfield Public Private (the “Developer”) engaged HVS Convention, Sports, and Entertainment Facilities Consulting (“HVS”) to conduct a Market Study of a Proposed Hyatt Regency Hotel (“Proposed Hotel”). The site for the Proposed Hotel is adjacent to the Bayland Marina in Baytown, Texas.

The City of Baytown, Texas (“City”) selected the Developer to develop the Baytown Hotel and Convention Center project (“Hotel Project”). The Proposed Hotel will be owned by a Public Facility Corporation (“Hotel Owner”). The City will own and finance certain facilities (“City Facilities”) composed of (a) public conference rooms and meeting space of approximately 33,600 square feet, including a ballroom of approximately 12,000 square feet, and public facilities or infrastructure ancillary to the conference rooms and meeting space and (b) site improvement and surface parking adjacent to the Proposed Hotel and the City Facilities. The City will own the land under the Proposed Hotel and lease it to the Hotel Owner for \$1.00 per year for 40 years with an extension option of up to an additional 20 years. The City will contract with the Hotel Owner to operate the City Facilities in conjunction with the Proposed Hotel under a City Facilities lease for the life of the land lease.

For this study, HVS assumes the Proposed Hotel will open on July 1, 2021, as a 208-room full-service hotel, associated with the Hyatt Brand. The property will feature a restaurant, lounge, 17,890 square feet of meeting space in the City Facilities, outdoor pool, fitness center, business center, and gift shop. The hotel would also include the appropriate back-of-the-house space necessary to support hotel operations.

Hyatt Hotels Corporation, headquartered in Chicago, is a leading global hospitality company. The company’s subsidiaries manage, franchise, own, and develop hotels and resorts under the Hyatt, Park Hyatt, Andaz, Grand Hyatt, Hyatt Regency, Hyatt Place, Hyatt House, Hyatt Centric, Hyatt Zilara, and Hyatt Ziva brand names, with locations on six continents. The Hyatt Regency is an upper-upscale, full-service brand with up to over 2,000 guestrooms per property. Hyatt Regency is differentiated from its competitors by its authentic service, well-designed accommodations, creative food and beverage outlets, superior conference/meeting facilities, and services for groups of all sizes. As of year-end 2018, there were 192 Hyatt Regency properties (84,137 hotel rooms) in operation. In 2018, the brand operated at an average occupancy level of 73.6%, with an average daily rate of \$180.14 and an average RevPAR of \$132.60.

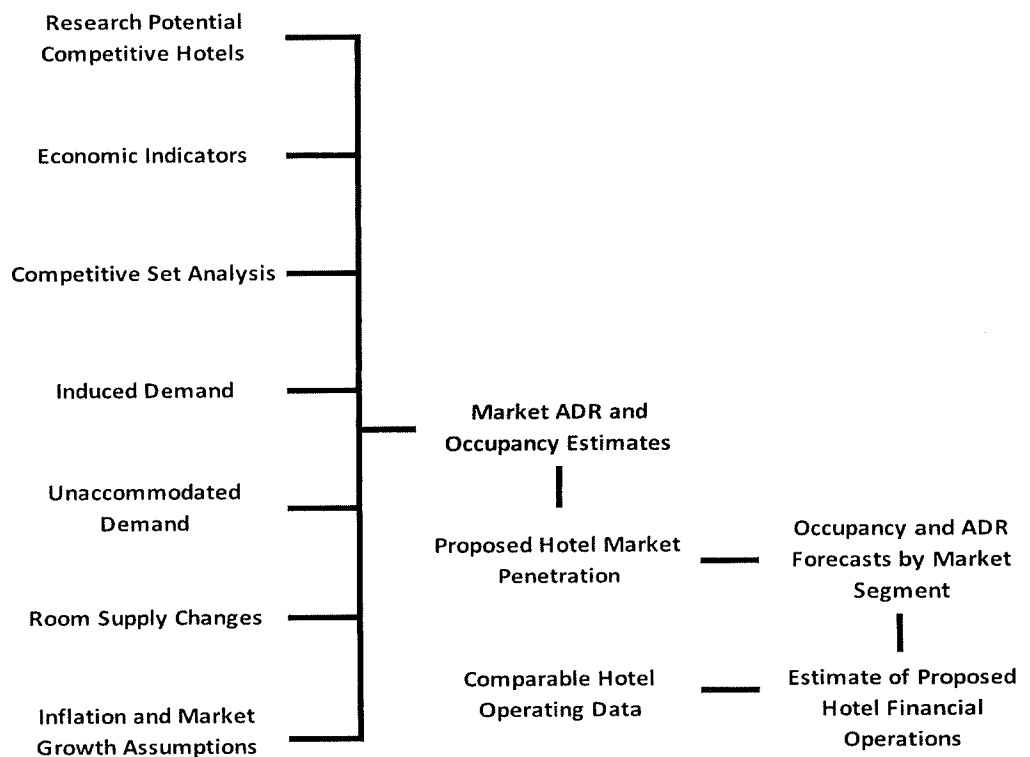


The Proposed Hotel would attract the corporate, leisure, and meeting and group market segments because of the national brand affiliation, extensive meeting space, and waterfront location. Hotel guests would include price-sensitive independent travelers who are willing to pay a higher rate for a new product, groups that negotiate lower group rates for large room blocks and banquet space, and more price-sensitive leisure travelers that seek discounted room rates offered on shoulder days and weekends.

Methodology

This study employs the methodology illustrated in the figure below.

**FIGURE 1-1
HOTEL MARKET STUDY METHODOLOGY**



HVS 1) analyzed the historical performance of a competitive set of hotels, 2) estimated the amounts of induced and unaccommodated demand in the market, and 3) researched potential changes in room supply. Based on these hotel market trends and economic and demographic indicators of future changes in hotel demand, HVS projected the future performance of a competitive set of hotel properties. Through a market penetration analysis, we estimated the average daily room rate and occupancy of the Proposed Hotel in each of the three market segments—commercial, leisure, and meeting and group. An estimate of average

daily room rates and occupancies generates a projection of room revenues, which, when combined with the operating data on comparable hotels, yields a ten-year estimate of financial operations.

The methodology used to develop this study is based on market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,³ *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,⁴ and *Hotels and Motels – Valuations and Market Studies*.⁵ All information was collected and analyzed by the staff of HVS Convention, Sports & Entertainment Facilities Consulting.

Pertinent Dates

The effective date of the report is July 10, 2019. Brian Harris inspected the site for the Proposed Hotel on October 23, 2018. All projections are expressed in inflated dollars inflated at 2.5% for 2019, and 3.0% for 2020 and thereafter.

Site

The site for the Proposed Hotel is located adjacent to the Bayland Marina in Baytown, Texas.

Baytown

Baytown, Texas is a city within Harris County, and partially in Chambers County, in the Gulf Coast region of Texas. Located within the Houston–Sugar Land–Baytown metropolitan area, the city lies along both State Highway 146 and U.S. Interstate 10. The major driver of Baytown’s economy is the downstream portion of the oil and gas sector engaging in the manufacture of plastics and other chemicals from the raw material. Three main corporate anchors of Baytown are ExxonMobil, Chevron Phillips Chemical, and Covestro LLC. The ExxonMobil Baytown Complex, founded in 1919, is one of the world’s largest industrial complexes; the Baytown Refinery located there is the largest in the United States. The Covestro manufacturing site is their largest in North and Central America, producing a variety of high-tech polymer

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*, (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*, (Chicago: American Institute of Real Estate Appraisers, 1983).

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*, (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

⁵ Stephen Rushmore and Lrich Baum, *Hotels and Motels – Valuations and Market Studies* (Chicago: Appraisal Institute, 2001).

materials, and the Cedar Bayou plant, in operation since 1963, is Chevron Phillips Chemical's largest manufacturing site in the United States. The availability of relatively cheap natural gas over the last several years has allowed several of those major manufacturing facilities to undergo multi-billion-dollar expansions. Continued growth is expected, including expected expansions in the midstream and downstream petrochemicals sectors, logistics & distribution, and heavy manufacturing in the City and the west side of Chambers County, largely driven by shale gas production.

Hotel Management

The Proposed Hotel will operate as a Hyatt Regency, full-service property. The term sheet with Hyatt Hotels Corporation ("Hyatt") calls for a basic management fee equal to 3.0% of gross receipts (all revenues from the operation of the Proposed Hotel) for the initial 12 months of operations, 4.0% of gross receipts for months 13 through 24, and 5.0% for months 25 and thereafter. The management agreement is for a term of 30 years. The Proposed Hotel will be managed by the brand throughout the forecast period; as such, it will not be subject to franchise fees.

In addition to the basic management fee, Hyatt may be paid an incentive management fee calculated as 1.0% of gross revenues, in accordance with the order of priority set forth on the indenture cash waterfall schedule, which was not established as of the date of this study. The Developer informed HVS that the incentive management fee would be paid after financing costs.

The hotel operating agreement is intended to be and shall constitute a "Qualified Management Agreement" not resulting in private business use of the Proposed Hotel within the meaning of Section 141(b)(6) of the Internal Revenue Code and Section 1.141-3(b)(4) of the Income Tax Regulations and related regulatory guidance, including, without limitation, IRS Revenue Procedure 2017-13, I.R.B. 2017-6. The agreement will have a term of 30 years, subject to renewal rights.

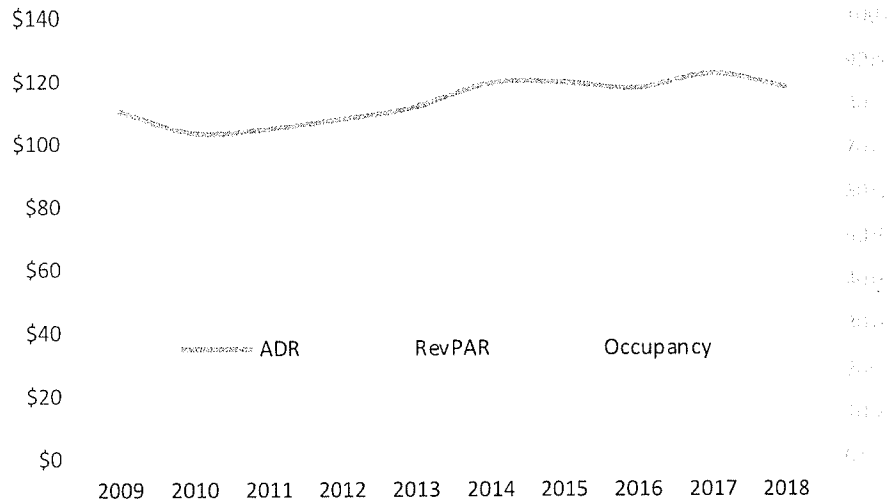
Summary of Hotel Market Trends

HVS analyzed the performance of a set of hotels that would compete with the Proposed Hotel ("Competitive Hotels"). Six properties would compete with the Proposed Hotel on a primary basis, and six properties would compete on a secondary basis, for a total of 12 competitors. We weighted the room count of each secondary competitor based on its projected competitiveness with the Proposed Hotel. Section 4 of this report, Supply and Demand Analysis, provides a detailed discussion of the weighting of the secondary competitors.

The following figure provides a long-term perspective on the supply and demand trends the Competitive Hotels, with data provided by Smith Travel Research ("STR"). STR is an independent research firm that compiles data on the lodging industry.



FIGURE 1-2
HISTORICAL COMPETITIVE HOTELS ADR, OCCUPANCY, AND REVPAR TRENDS



Source: STR

Average daily room rate (“ADR”) is the annual revenue of the hotel divided by the number of occupied room nights. Occupancy is a percentage calculated by dividing the annual number of occupied room nights by the annual number of available room nights. Revenue per available room, (“RevPAR”) is a common hotel industry metric, calculated by multiplying the occupancy rate by ADR and provides a combined measure of rate and occupancy.

In 2018, the ADR of Competitive Hotels decreased by -3.6%, and occupancy decreased by -7.3%, causing RevPAR to decrease by 10.7%. Demand decreased by -2.3% in 2018. This decrease, combined with an increase in available room nights of 5.4%, caused the occupancy rate to decline to 69.9%.

The following figure reflects HVS estimates of operating performance of the weighted Competitive Hotels for the years 2016 through 2018.

**FIGURE 1-3
WEIGHTED HISTORICAL SUPPLY, DEMAND, OCCUPANCY, ADR, & REVPAR (2016 - 2018)**

Year	Room Nights Available	Room Nights Sold	Competitive Hotels Occupancy	Competitive Hotels ADR	Competitive Hotels RevPAR
Amount					
2016	526,000	368,000	70.0%	\$119.04	\$83.28
2017	542,000	403,000	74.4%	\$123.59	\$91.89
2018	572,000	396,000	69.2%	\$119.08	\$82.44
Percent Change					
2017	3.0%	9.5%	6.3%	3.8%	10.3%
2018	5.5%	-1.7%	-6.9%	-3.6%	-10.3%


Since 2016, accommodated room nights increased by 7.6%, while the number of available room nights increased by 8.7%. As a result, market occupancy decreased -1% during the same period. Average daily room rate did not materially change 0% since 2015. The combined effect of changes in occupancy and ADR caused RevPAR to decline -1% over the three-year period analyzed here.

Monthly Room Night Demand

HVS also analyzed changes in Competitive Hotels over the last 12 months as reported to STR.

**FIGURE 1-4
UNWEIGHTED HISTORICAL 12 MONTH COMPETITIVE HOTEL DEMAND TRENDS**

Month	Occupied Room Nights	Prior Year	Difference	Change in Demand
Apr-18	40,592	37,912	2,680	7.1%
May-18	38,361	36,048	2,313	6.4%
Jun-18	38,361	36,048	2,313	6.4%
Jul-18	39,194	36,825	2,369	6.4%
Aug-18	37,438	33,500	3,938	11.8%
Sep-18	32,877	46,651	-13,774	-29.5%
Oct-18	39,599	49,166	-9,567	-19.5%
Nov-18	31,948	40,454	-8,506	-21.0%
Dec-18	28,390	35,193	-6,803	-19.3%
Jan-19	33,037	39,225	-6,188	-15.8%
Feb-19	36,686	39,026	-2,340	-6.0%
Mar-19	42,756	44,192	-1,436	-3.2%
12 Month Total	439,239	474,240	-35,001	-7.4%



Source: STR



**Summary of Forecast
Occupancy and
Average Rate**

Demand within the competitive set showed a decline of 7.4% over the last 12 months as one-time demand generated left the market. Interviews with hotel managers indicate that demand growth was caused by citizens displaced by Hurricane Harvey in late August 2017. Demand also increased in January and February of 2018 due to NFL Super Bowl LII game in Houston on February 4, 2018. Demand has decreased for the last six months as demand levels have normalized.

To forecast the occupancy of the Proposed Hotel, HVS performed a market penetration analysis of three market segments: commercial, leisure, and meeting and group. The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. For the demand analysis, the overall market is divided into three market segments based on the nature of travel. The following figure summarizes estimates of accommodated room night demand by market segment, assuming the Proposed Hotel begins operation on a fiscal year starting July 1, 2021.

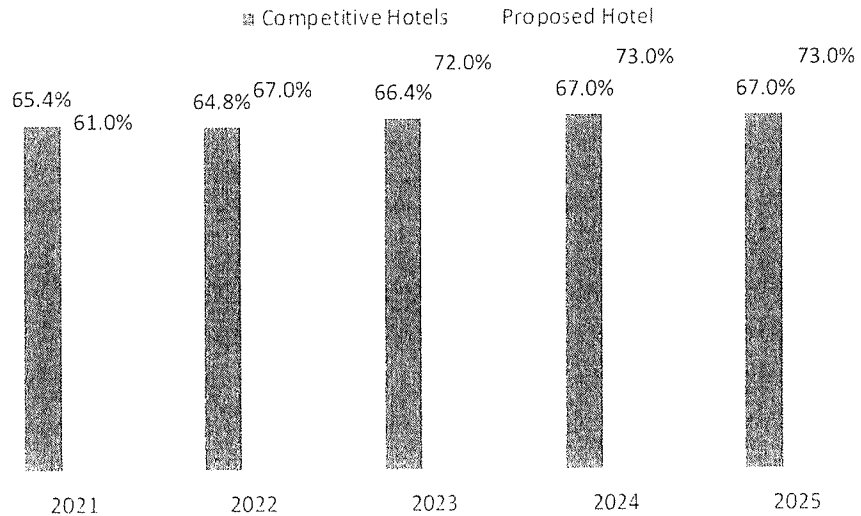
**FIGURE 1-5
PROPOSED HOTEL OCCUPANCY FORECAST**

Calendar Year	2021	2022	2023	2024
Available Room Nights	37,960	75,920	75,920	75,920
Absorption by Segment				
Commercial	11,100	23,000	23,900	24,200
Meeting and Group	8,000	18,600	21,100	21,300
Leisure	4,200	9,600	9,800	9,900
Total Absorption	23,300	51,200	54,800	55,400
Projected Occupancy	61%	67%	72%	73%
Percent Segmentation				
Commercial	48%	45%	44%	44%
Meeting and Group	34%	36%	39%	38%
Leisure	18%	19%	18%	18%

The following figure compares the projected occupancy of the Proposed Hotel with the Competitive Hotels for the first four years of operation.



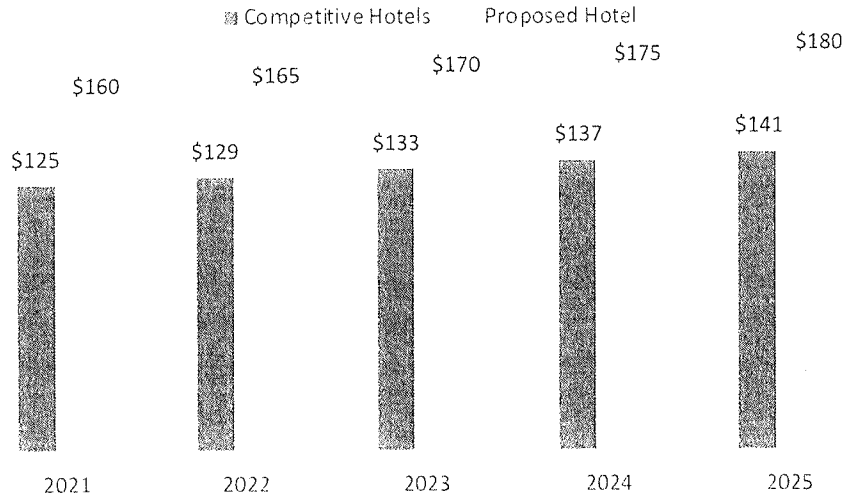
**FIGURE 1-6
COMPETITIVE HOTELS AND PROPOSED HOTEL OCCUPANCY FORECAST**



The Proposed Hotel would open on July 1, 2021, and for this analysis, we assume would take three years to stabilize. Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, in a stabilized year of demand, the property could absorb room nights and achieve a stabilized occupancy level of 73%.

In positioning the ADR, we consider the ADR of Competitive Hotels as well as the location of the Proposed Hotel, its brand and quality, and extensive meeting space. The figure below compares the estimated ADR of the Proposed Hotel with the Competitive Hotels for fiscal years starting July 1, 2021.

**FIGURE 1-7
COMPETITIVE HOTELS & PROPOSED HOTEL AVERAGE RATE FORECAST**



We positioned the ADR in the base year (2018) at an average rate of \$150.00, declining by -1.0% in 2019, and growing by 3.0% in 2020 and 3.0% thereafter. The projected decline in 2018 is related to the loss of hurricane-related demand. The positioned ADR is discounted by 3.0% in 2021/22 and 1.0% in 2022/23 to reflect typical management practices during the years before the hotel stabilizes in the market.

**Summary of Forecast
Income and Expense
Statement**

HVS supports its estimates of revenue and expense levels using data on the operations of comparable hotels and factors specific to this market. The following figure presents the HVS forecast of income and expense for a stabilized year of operation.



**FIGURE 1-8
FINANCIAL OPERATIONS IN THE STABILIZED YEAR 2023/24**

STATISTICS		
Number of Rooms	208	
Occupied Room Nights	55,422	
Occupancy	73%	
Average Rate	\$169.62	
RevPAR	\$123.83	
	\$000	% of Gross
Operating Revenue		
Rooms	\$9,401	66.1%
Food	3,764	26.5%
Beverage	584	4.1%
Other Operated Departments	389	2.7%
Miscellaneous Income	88	0.6%
Total Operating Revenues	\$14,225	100%
Departmental Expenses*		
Rooms	\$1,974	21.0%
Food & Beverage	2,609	60.0%
Other Operated Departments	245	63.0%
Total Expenses	\$4,828	33.9%
Departmental Income	\$9,397	66.1%
Undistributed Operating Expenses		
Administrative & General	\$1,138	8.0%
Marketing	1,138	8.0%
Prop. Operations & Maint.	526	3.7%
Utilities	455	3.2%
Info & Telecom Systems	171	1.2%
Total Expenses	\$3,428	24.1%
Gross House Profit	\$5,969	42.0%
Management Fee	\$711	5.0%
Income Before Non-Opr. Inc. & Exp.	\$5,258	37.0%
Non-Operating Income & Expenses		
Insurance	161	1.1%
Reserve for Replacement	569	4.0%
Total Expenses	\$730	5.1%
EBITDA Less Reserve	\$4,528	31.9%

*Departmental expense ratios are calculated as a percentage of departmental revenue.



Pro Forma Conclusion

Our analysis projects a profitable hotel operation. The stabilized total revenue comprises primarily of rooms and food and beverage revenue, with a relatively small portion derived from other income sources. On the cost side, departmental expenses total 33.9% of revenue in a stabilized year for the Proposed Hotel, while undistributed operating expenses total 24.1% of total revenues; this assumes that the property would be operated competently by a well-known hotel operator. After a 5.0% of total revenues management fee, and 5.1% of total revenues in fixed expenses with no allowance for property taxes, a net income ratio of 31.9% (\$4.53 million) is forecast by 2023/24 for the Proposed Hotel.

2. Description of Site and Proposed Hotel

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. The site for the Proposed Hotel will be adjacent to the Bayland Marina in Baytown, Texas. The key site characteristics that affect the viability of a hotel property include its capacity to accommodate the project, accessibility, visibility, and supporting road and utility infrastructure. The quality of a lodging facility's physical improvements has a direct influence on marketability, occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability.

Ownership and Management Assumptions

The Proposed Hotel will be owned by a Public Facility Corporation ("Hotel Owner"). The City will own and finance certain facilities ("City Facilities") composed of (a) public conference rooms and meeting space of approximately 33,600 square feet, including a ballroom of approximately 12,000 square feet, and public facilities or infrastructure ancillary to the conference rooms and meeting space and (b) site improvement and surface parking adjacent to the Proposed Hotel and the City Facilities. The land under the Proposed Hotel will be owned by the City and leased to the Hotel Owner for \$1.00 per year for 40 years with an extension option of up to an additional 20 years. The City will contract with the Hotel Owner to operate the City Facilities in conjunction with the Proposed Hotel during the life of the land lease for the Proposed Hotel.

The Proposed Hotel will operate as a Hyatt Regency, full-service property. The term sheet with Hyatt Hotels Corporation ("Hyatt") calls for a basic management fee equal to 3.0% of gross receipts (all revenues from the operation of the Proposed Hotel) for the initial 12 months of operations, 4.0% of gross receipts for months 13 through 24, and 5.0% for months 25 and thereafter. The management agreement is for a term of 30 years. The Developer informed HVS that the incentive management fee would be paid after financing costs. The Proposed Hotel will be managed by the brand throughout the forecast period; as such, it will not be subject to franchise fees.

In addition to the basic management fee, Hyatt would be paid an incentive management fee calculated as 1.0% of gross revenues, in accordance with the order of priority set forth on the indenture cash waterfall schedule which was not established as of the date of this study. The Developer informed HVS that the incentive management fee would be paid after financing costs.



The hotel operating agreement is intended to be and shall constitute a “Qualified Management Agreement” not resulting in private business use of the Proposed Hotel within the meaning of Section 141(b)(6) of the Internal Revenue Code and Section 1.141-3(b)(4) of the Income Tax Regulations and related regulatory guidance, including, without limitation, IRS Revenue Procedure 2017-13, I.R.B. 2017-6. The agreement will have a term of 30 years, subject to renewal rights.

Description of the Proposed Hotel

HVS assumes that the hotel will be a full-service hotel conforming to the brand specific guidelines, construction, and operational brand standards. Our forecast assumes that the property will be maintained in a competitive condition, undergoing regular renovations of soft goods and case goods funded primarily by a reserve for replacement.

EXTERIOR RENDERING OF MEETING SPACE OF THE PROPOSED HOTEL



Source: Developer

The following figure shows the proposed building program of the Proposed Hotel.



**FIGURE 2-1
PROPOSED HOTEL FACILITIES**

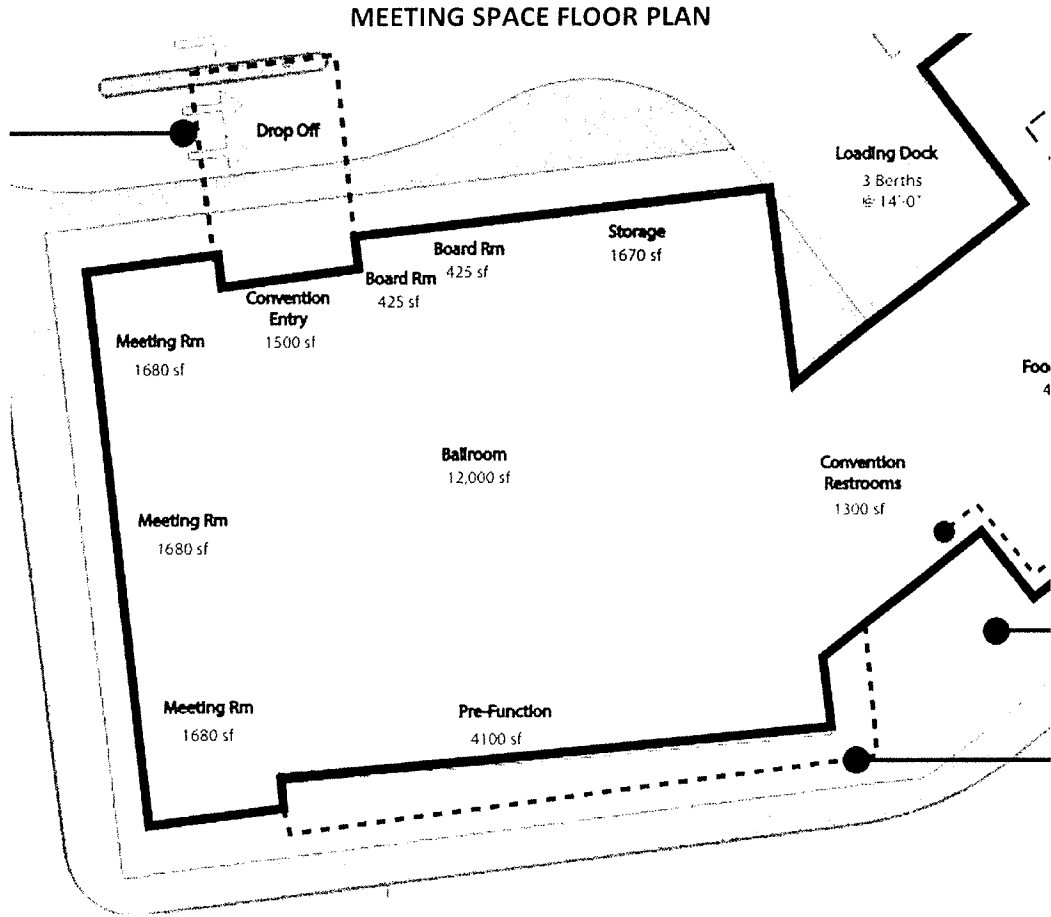
Guestroom Configuration	Bays	Keys
Kings	117	117
Queen/Queen	84	84
2-Bay Suites	12	6
3-Bay Suites	3	1
Total (ADA-Compliant Rooms per Local Code)	216	208
 Food & Beverage Facilities		Seating Capacity
Restaurant		TBD
Lounge		TBD
 Indoor Meeting & Banquet Facilities		Square Feet Combined
Ballroom		12,000
Meeting Rooms		5,040
Board Room		850
Total Square Feet of Meeting Space		17,890
 Amenities & Services		
Outdoor Pool	Business Center	
Fitness Center	Gift Shop	
 Infrastructure		
Parking Spaces Hotel	324 plus 200 at Marina	
Elevators	2 Guest/1 Service	
Life Safety Systems	Sprinklers, Smoke Detectors	
Construction Details	Steel/Concrete	

The lobby will be appropriate for a full-service hotel with extensive meeting space. The Proposed Hotel will offer a restaurant, lounge, room service, and banquet operations. The hotel will feature standard and suite-style guestroom configurations. Guestroom bathrooms will be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The Proposed Hotel is expected to become one of the premier lodging and meeting facilities in the City of Baytown.

Ample parking will be available at both the hotel and the adjacent Marina parking lot.



The Proposed Hotel's ballroom and meeting space will allow the property to host one event while simultaneously setting up for the next group.



Source: Developer

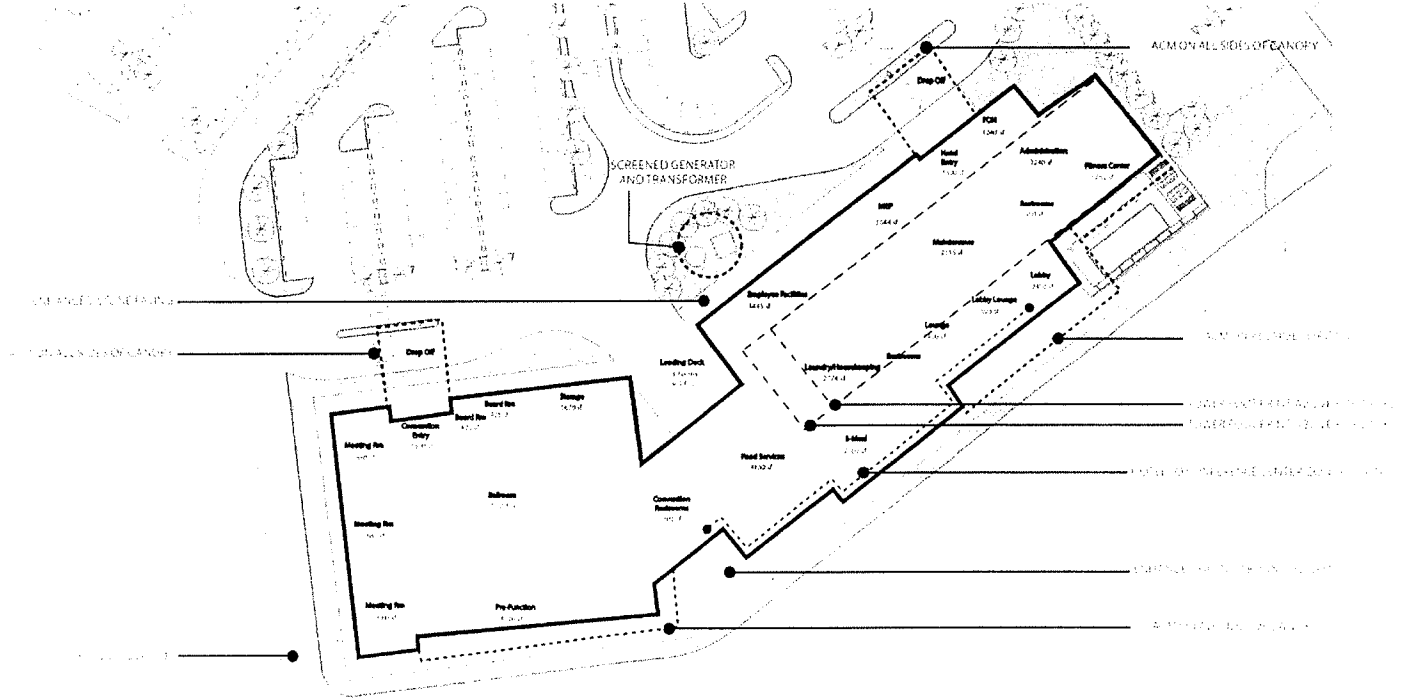
The following figure shows the meeting space capacity for the Proposed Hotel.

**FIGURE 2-2
PROPOSED HOTEL MEETING SPACE CAPACITY**

Function Space	Floor Area (square feet)	Boardroom 0	Approximate Guest Capacity		
			Banquet	Classroom	Reception
Ballroom	12,000		750	480	900
Meeting Rooms	5,040		315	202	378

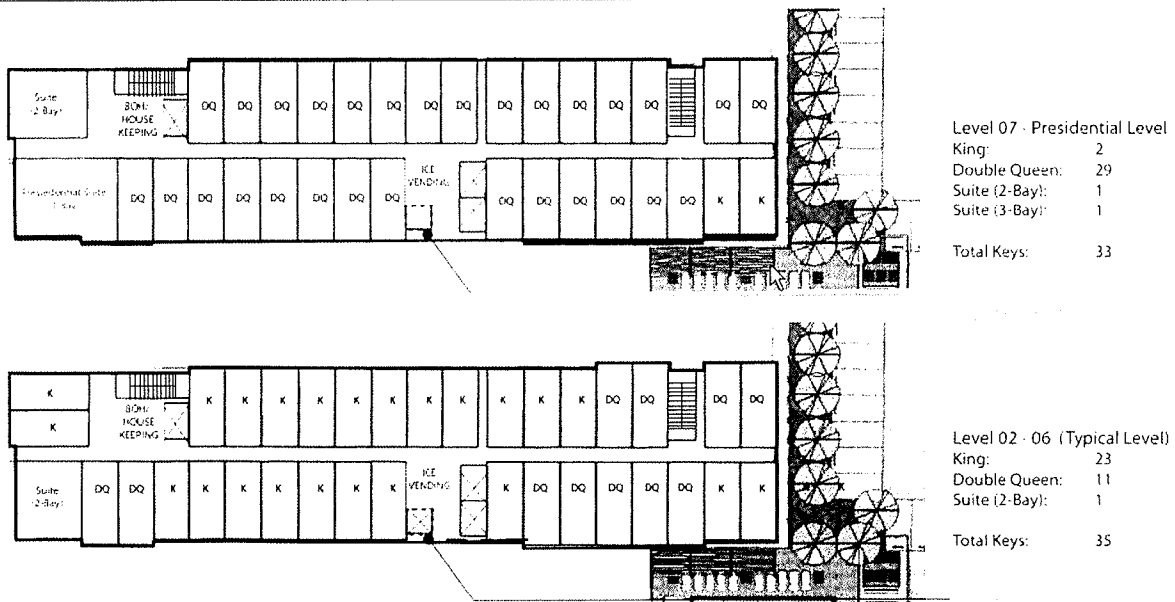


FLOOR PLANS



Source: Developer

FLOORS TWO THROUGH SEVEN



Source: Developer



For this study, we assume the Proposed Hotel would include the following:

- The Proposed Hotel would open on July 1, 2021
- A well-designed, functional layout of support areas, restaurant & lounge, ballroom & meeting space, and guestrooms.
- The hotel staff would be adequately trained to allow for a successful opening.
- Pre-marketing efforts would have introduced the product to major local accounts for at least six months in advance of the opening date.
- Meet all pertinent codes and brand standards.
- Open and operational on the assumed opening date and would meet all local building codes.
- Construction would not create any environmental hazards.
- Comply with the Americans with Disabilities Act.

Capital Expenditures

After its opening, the Proposed Hotel would require ongoing upgrades and periodic renovations to maintain its competitive level in this market. The forecasted reserve for replacement should adequately fund these costs if the hotel's staff employs a successful, ongoing maintenance program.

Site Utility

The topography of the site is generally flat, and the shape permits efficient use of the site for building and site improvements, including ingress and egress. The site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. The site will be fully developed with building and site improvements.

According to Developer, the site is served by all necessary utilities.

Soil and Subsoil Conditions

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by visual inspection of the surface; no extraordinary conditions were apparent.

Nuisances and Hazards

The Developer did not inform HVS of any site-specific nuisances or hazards at the proposed site, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

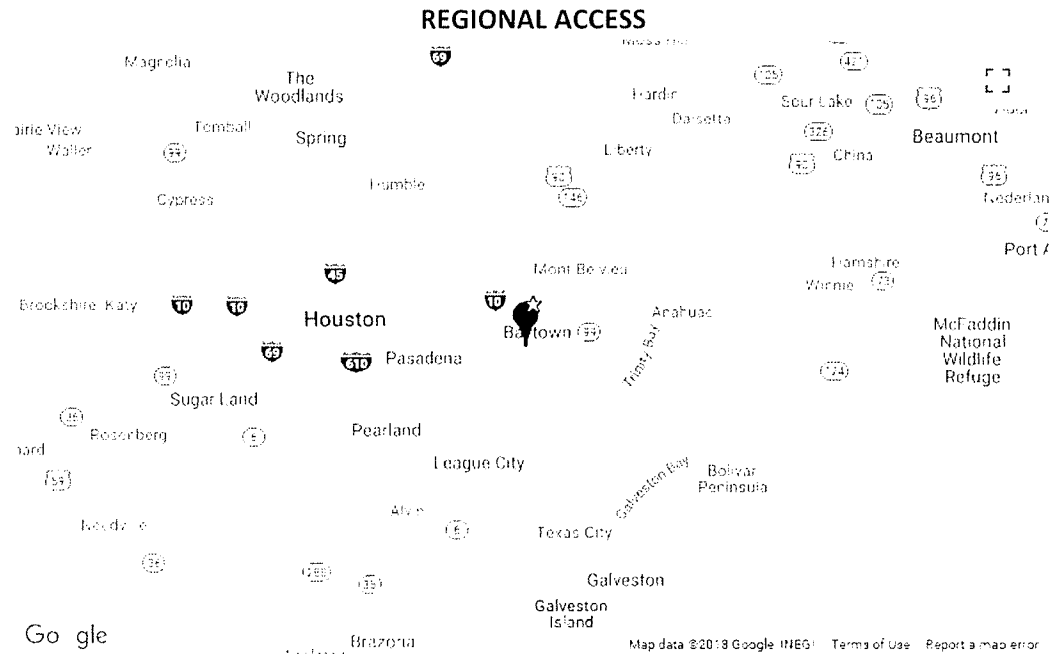
VIEW OF AREA SURROUNDING THE SITE



Access and Visibility

Primary regional access through the area is provided by east/west Interstate 10, which provides access to such cities as New Orleans, Louisiana to the east and San Antonio to the west. North/south Interstate 45 is another major highway, which provides access to such cities as Dallas to the north and Galveston to the south.

State Highway 146 ("SH 146") is a north-south highway in southeastern Texas beginning in Livingston, starting at U.S. Highway 59 and proceeds south to Liberty, where it meets US 90. It continues in Dayton at US 90 and proceeds south through Baytown, terminating at I-45 near La Marque and Texas City. SH 146 provides primary access to the site of the Proposed Hotel.



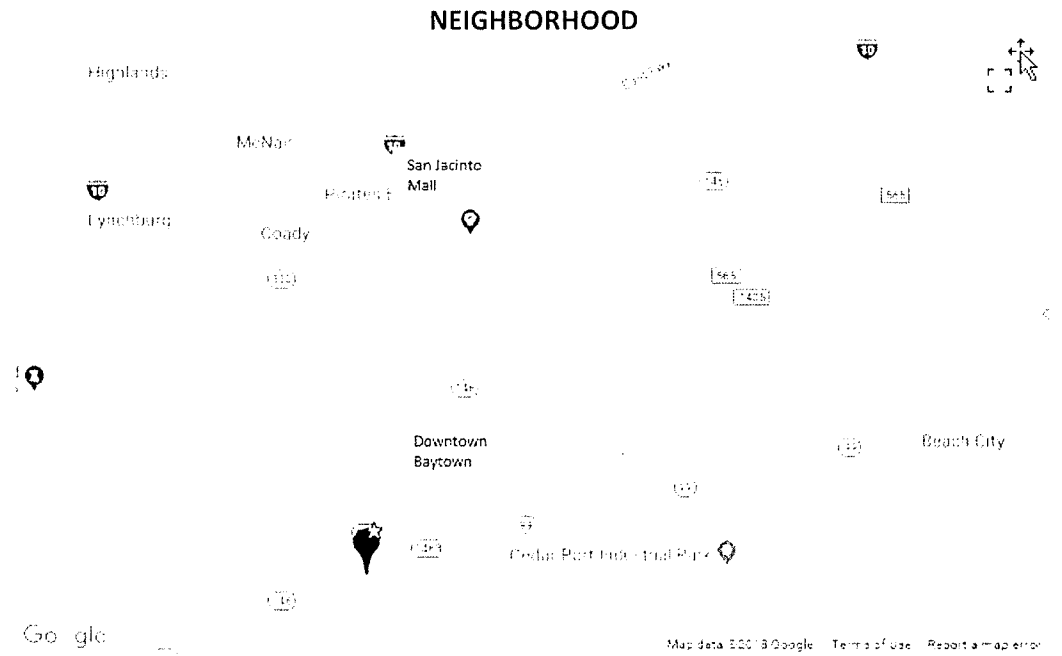
Airport Access

William P. Hobby Airport, which is the nearest commercial air access for hotel guests, is located approximately twenty miles west of the site for the Proposed Hotel. George Bush Intercontinental Airport, which is located approximately forty miles to the northwest of the site, will provide also provide commercial air access.

Neighborhood

The neighborhood surrounding a lodging facility affects a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a market segment.

The Proposed Hotel neighborhood is located on a peninsula at the entry to Baytown with access to La Porte on the Fred Hartman Bridge. Several restaurants are located one to two miles from the site around downtown Baytown. The major dining and entertainment venues in Baytown are seven miles from the site located at and around the San Jacinto Mall, as shown in the following figure. The site for the Proposed Hotel is adjacent to the Bayland Marina.



Flood Zone

According to the Federal Emergency Management Agency map illustrated below, the site is in flood zone AE.



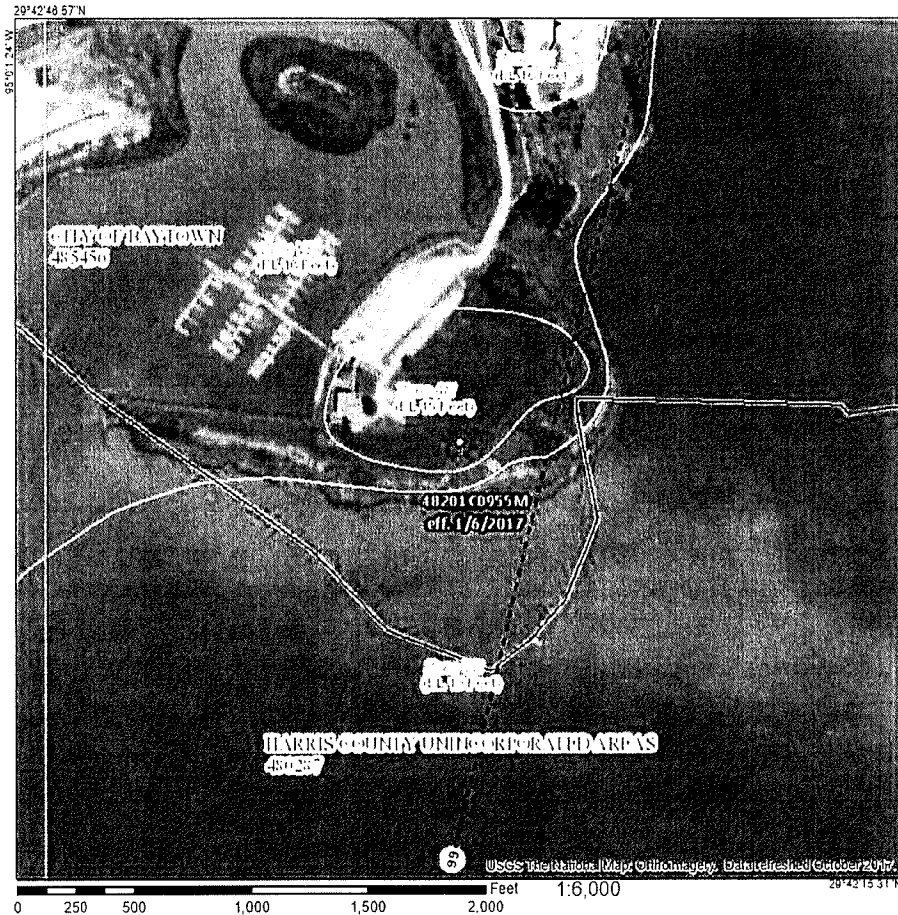
COPY OF FLOOD ZONE MAP

National Flood Hazard Layer FIRMette



Legend

SEE FIS REPORT FOR DETAILED LEGEND AND INDEX MAP FOR FIRM PANEL LAYOUT



SPECIAL FLOOD HAZARD AREAS	Without Base Flood Elevation (BFE) Zone A, V, A99
	With BFE or Depth Zone AE, AO, AH, VE, AR Regulatory Floodway
OTHER AREAS OF FLOOD HAZARD	0.2% Annual Chance Flood Hazard, Areas of 1% annual chance flood with average depth less than one foot or with drainage areas of less than one square mile
	Future Conditions 1% Annual Chance Flood Hazard Area with Reduced Flood Risk due to Levee. See NOTES. Area with Flood Risk due to Levee
OTHER AREAS	No Screen Area of Minimal Flood Hazard Effective LOMIRs
	Area of Undetermined Flood Hazard
GENERAL STRUCTURES	Channel, Culvert, or Storm Sewer
	Levee Dike, or Floodwall
OTHER FEATURES	Cross Sections with 1% Annual Chance Water Surface Elevation
	Coastal Transect
	Base Flood Elevation Line (BFE)
	Limit of Study
	Jurisdiction Boundary
MAP PANELS	Digital Data Available
	No Digital Data Available
	Unmapped
	The pin displayed on the map is an approximate point selected by the user and does not represent an authoritative property location.

This map complies with FEMA's standards for the use of digital flood maps if it is not void as described below. The basemap shown complies with FEMA's basemap accuracy standards.

The flood hazard information is derived directly from the authoritative NFHL web services provided by FEMA. This map was exported on 11/9/2018 at 4:52:03 PM and does not reflect changes or amendments subsequent to this date and time. The NFHL and effective information may change or become superseded by new data over time.

This map image is void if the one or more of the following map elements do not appear: basemap imagery, flood zone labels, legend, scale bar, map creation date, community identifiers, FIRM panel number, and FIRM effective date. Map images for unmapped and unadorned areas cannot be used for regulatory purposes.

Flood hazard areas identified on the Flood Insurance Rate Map are identified as a Special Flood Hazard Area (SFHA). SFHA are defined as the area that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year. The 1-percent annual chance flood is also referred to as the base flood or 100-year flood. SFHAs are labeled as Zone A, Zone AO, Zone AH, Zones A1-A30, Zone AE, Zone A99, Zone AR, Zone AR/AE, Zone AR/AO, Zone AR/A1-A30, Zone AR/A, Zone V, Zone VE, and Zones V1-V30. Moderate flood hazard areas, labeled Zone B or Zone X (shaded) are also shown on the FIRM and are the areas between the limits of the base flood and the 0.2-percent-annual-chance (or 500-year) flood. The areas of minimal flood hazard, which are the areas outside the SFHA and higher than the elevation of the 0.2-percent-annual-chance flood, are labeled Zone C or Zone X (unshaded).



The site is in a Zone AE defined as the area that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year. The developer provided an estimate of the cost of insurance, which is incorporated into this study.

Zoning

The site is zoned Livable Center ("LC"). LC zoning permits the construction of hotels based on discussions with the Developer.

Easements and Encroachments

We are not aware of any easements attached to the possible sites that would significantly affect the utility of the property or marketability of this project.

Conclusion

The site is well suited for future hotel use, with acceptable access, zoning, visibility, and topography for effective operation. The building program for the Proposed Hotel provides the needed elements for a competitive full-service hotel.



3. Baytown Market Overview

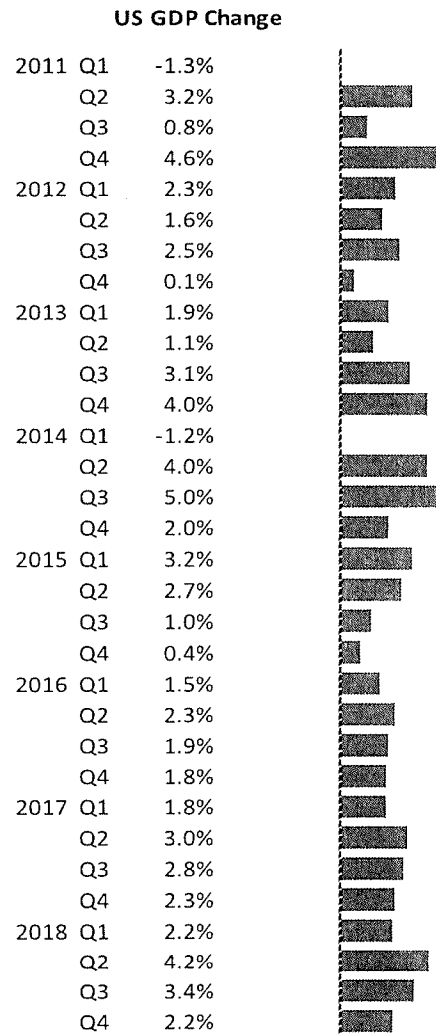
HVS explored economic and demographic factors that affect the level of lodging demand in the market, including population, income, employment, retail sales, business presence, major tourist attractions, and transportation access. We relied on third-party data sources to review historical trends and provide forecasts of the rate of growth or decline of the local economy. We also assessed whether the neighborhood surrounding the site would support the development of the Proposed Hotel. This market overview provides a framework for projections of lodging demand and revenue growth in the local market.

National Economic Trends

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded at an overall rate of 2.9% in 2018, compared to 2.2% in 2017, the highest growth registered since 2015. Growth hit a high of 4.2% in the second quarter of 2018, declining to 2.6% in the fourth quarter of 2018. The partial shutdown, which began on December 22, 2018, is estimated to have lowered fourth-quarter GDP growth by about 0.1 percentage point when accounting for the impact of reductions in services provided by the federal government. GDP growth in 2018 was stimulated by the Tax Cut and Jobs Act, which was passed in December 2017, driven primarily by fixed investments and strong consumer spending, particularly personal consumption expenditures (PCE) and spending related to both non-durable and durable goods. Investment in equipment and intellectual property rose, while investment in structures and residential real estate declined.



**FIGURE 3-1
UNITED STATES GDP GROWTH RATES**



Source: Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand. In 2018, demand growth registered 2.5%, just under the 2.7% level recorded in 2017. The economic growth, low unemployment, higher levels of personal income, and stability in the U.S. economy as of early 2019 is helping to maintain strong interest in hotel investments by a diverse array of market participants.

Baytown

Baytown, Texas is a city within Harris County, and partially in Chambers County, in the Gulf Coast region of Texas. Located within the Houston–Sugar Land–Baytown

metropolitan area, the city lies along both State Highway 146 and U.S. Interstate 10. The major driver of Baytown's economy is the downstream portion of the oil and gas sector engaging in the manufacture of plastics and other chemicals from the raw material. Three main corporate anchors of Baytown are ExxonMobil, Chevron Phillips Chemical, and Covestro LLC. The ExxonMobil Baytown Complex, founded in 1919, is one of the world's largest industrial complexes; the Baytown Refinery located there is the largest in the United States. The Covestro manufacturing site is their largest in North and Central America, producing a variety of high-tech polymer materials, and the Cedar Bayou plant, in operation since 1963, is Chevron Phillips Chemical's largest manufacturing site in the United States. The availability of relatively cheap natural gas over the last several years has allowed several of those major manufacturing facilities to undergo multi-billion-dollar expansions. Continued growth is expected, including expected expansions in the midstream and downstream petrochemicals sectors, logistics & distribution, and heavy manufacturing in the City and the west side of Chambers County, largely driven by shale gas production.

Recent Economic Development Activity

Baytown has several major projects either underway or in the planning stage, including:

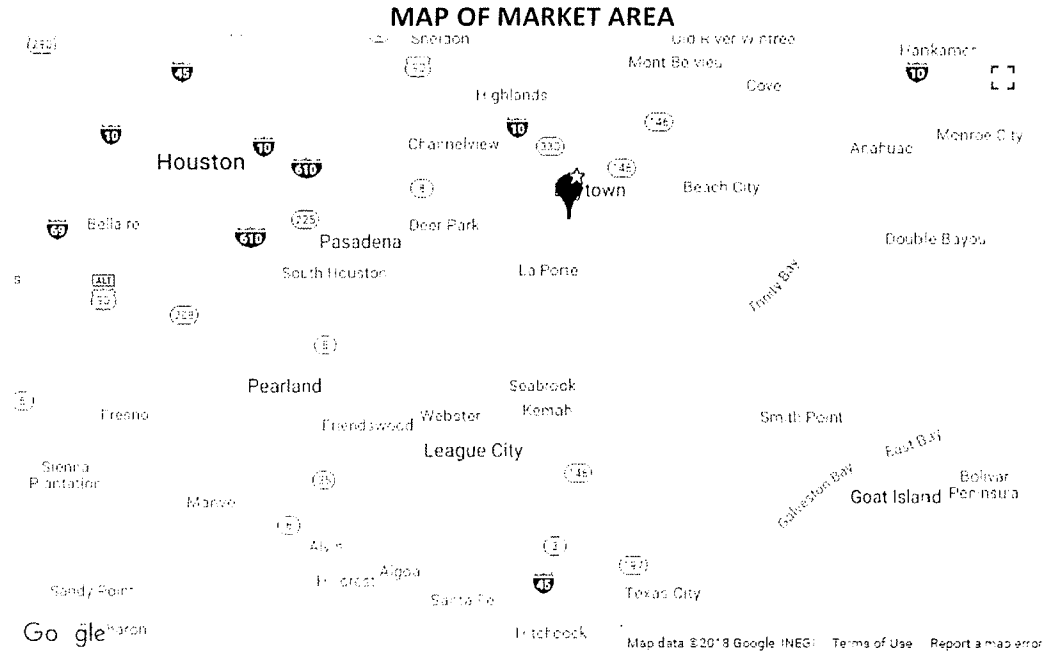
- The San Jacinto Mall in Baytown is changing from an indoor mall to outdoor shopping areas. When completed, up to \$100 million will be invested in the redevelopment.
- Exxon Mobile Corporation has announced a \$2.1 billion project in the Baytown Industrial Districts.
- Covestro AG has also announced a \$2.1 billion project in the Baytown Industrial Districts.
- Enterprise Products Partners announced plans to construct two new NGL fractionators adjacent to its Mont Belvieu complex. Fractionators 10 & 11 are expected to come online in 2020. Capital investment is estimated to be \$790 million and enroll 25 full-time employees. Feasibility analysis is in progress for 2 additional Propane Dehydrogenation facilities which represent an additional \$2 billion in capital investment. This is in addition to completing the Isobutane Dehydrogenation facility, Fractionator 9, and the Propane Dehydrogenation facility, announced in 2017, a \$1.9 billion dollars in capital investment.

These projects will generate 1,000s of construction job and 100s of permanent jobs in Baytown.



Market Area Definition

The market area includes all of Baytown, Texas, and the surrounding area, as illustrated in the following map.



Economic and Demographic Review

HVS used the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc., a well-regarded forecasting service based in Washington, D.C. as a source of economic and demographic data. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Census data and information published by the Bureau of Economic Analysis provide the basis for historical statistics. Woods & Poole formulates the projections, and all dollar amounts have been adjusted for inflation, thus reflecting real change. The following figure summarizes this data.



**FIGURE 3-2
ECONOMIC AND DEMOGRAPHIC DATA SUMMARY**

Economic Indicator/Area	Beginning Amount	2000	2010	2018	2025	Ending Amount	Estimated Annual Compound Change 2018 to 2025
Resident Population (millions)							
Harris County	3.41					5.24	1.5%
Houston-The Woodlands-Sugar Land, TX MSA	4.7					7.9	1.7%
Houston-The Woodlands, TX CSA	4.9					8.1	1.7%
State of Texas	20.94					31.98	1.5%
United States	282.16					350.94	0.9%
Per-Capita Personal Income* (thousands)							
Harris County	\$41.47					\$55.5	1.2%
Houston-The Woodlands-Sugar Land, TX MSA	\$39.96					\$53.7	1.1%
Houston-The Woodlands, TX CSA	\$39.40					\$53.3	1.1%
State of Texas	\$33.86					\$47.5	1.2%
United States	\$36.81					\$50.2	1.2%
W&P Wealth Index							
Harris County	\$113.99					\$112.57	-0.1%
Houston-The Woodlands-Sugar Land, TX MSA	\$109.93					\$108.68	-0.2%
Houston-The Woodlands, TX CSA	\$108.37					\$107.73	-0.2%
State of Texas	\$93.35					\$95.67	0.0%
United States	\$100.00					\$100.00	0.0%
Food and Beverage Sales* (billions)							
Harris County	\$5.19					\$12.13	2.2%
Houston-The Woodlands-Sugar Land, TX MSA	\$6.51					\$16.71	2.4%
Houston-The Woodlands, TX CSA	\$6.67					\$17.01	2.4%
State of Texas	\$27.75					\$64.07	2.2%
United States	\$368.83					\$662.61	1.5%
Total Retail Sales* (billions)							
Harris County	\$50.11					\$90.90	1.9%
Houston-The Woodlands-Sugar Land, TX MSA	\$65.48					\$127.67	2.2%
Houston-The Woodlands, TX CSA	\$67.35					\$130.54	2.1%
State of Texas	\$291.22					\$519.65	2.0%
United States	\$3,902.83					\$5,598.24	1.4%

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Workforce Characteristics

The characteristics of an area's workforce indicate the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate ("FIRE"); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and



mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (“TCPU”) employers can also be important, depending on the company type.

The following figure shows the estimated change in employment in the top ten sectors in the Stanislaus County workforce distribution by the various business sectors in 2000, 2010, and 2018, and a forecast for 2025.

**FIGURE 3-3
TOP TEN EMPLOYMENT SECTORS IN HARRIS COUNTY**

Sector/Geographic Area Employment	Beginning Amount (thousands)	2000	2010	2018	2025	Ending Amount (thousands)
Harris County						
Health Care And Social Assistance	164					372
Retail Trade	230					323
Professional And Technical Services	185					301
State And Local Government	202					289
Administrative And Waste Services	184					287
Construction	180					285
Accommodation And Food Services	136					271
Other Services, Except Public Administration	127					230
Manufacturing	195					200
Finance And Insurance	104					187
Other	569					910
Total Harris County	2,277					3,654
U.S.	165,372					223,254

Source: Woods & Poole Economics, Inc.

All the top ten employment sectors are expected to grow from 2018 to 2025, which matches the expected overall growth in the local economy. Health Care And Social Assistance have the highest estimated growth from 2018 to 2025 at 21%. The construction sector has continued to recover from the significant decline due to the last recession, the resulting tight credit market, and the decline in oil prices in late 2008 and early 2009.

Unemployment Statistics

The following figure presents historical unemployment rates for the Proposed Hotel’s market area.



**FIGURE 3-4
UNEMPLOYMENT STATISTICS**

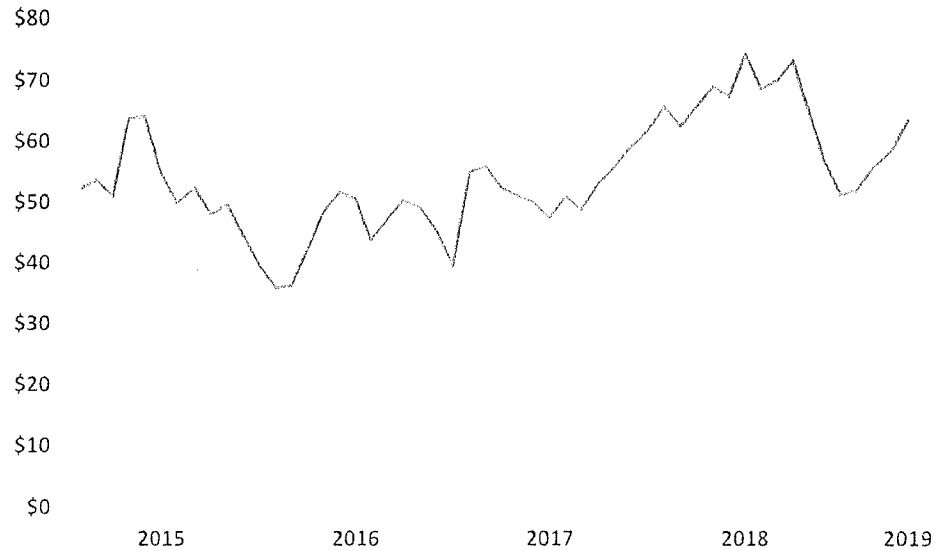
Year	Baytown	MSA	Texas	USA
2009	10.7 %	7.6 %	7.6 %	9.3 %
2010	12.3	8.3	8.1	9.6
2011	11.8	7.8	7.8	8.9
2012	10.6	6.6	6.7	8.1
2013	9.3	6.0	6.3	7.4
2014	7.4	4.9	5.1	6.2
2015	6.9	4.6	4.4	5.3
2016	8.7	5.3	4.6	4.9
2017	10.3	5.0	4.3	4.4
2018	8.9	4.3	3.9	3.9
Recent Month - Apr				
2018	8.4 %	4.2 %	3.7 %	3.9 %
2019	6.2	3.2	3.0	3.6

Source: U.S. Bureau of Labor Statistics

Locally, the unemployment rate was 8.9% in 2018; for this same area in 2019, the most recent month's unemployment rate was registered at 6.2%, versus 8.4% for the same month in 2018. Unemployment rates in Baytown have historically exceeded those of the state and nation. The price of oil declined in 2016, as shown in the following figure, contributing to a slowing of the local economy in 2016 and 2017. Hurricane Harvey, which impacted the Houston region in August of 2017 disrupted the local economy contributing to the high unemployment in 2017. The NFL Super Bowl LII was held in Houston on February 4, 2018, providing a one-time stimulus to the economy contributing to improving unemployment.



**FIGURE 3-5
PRICE OF A BARREL OF OIL**

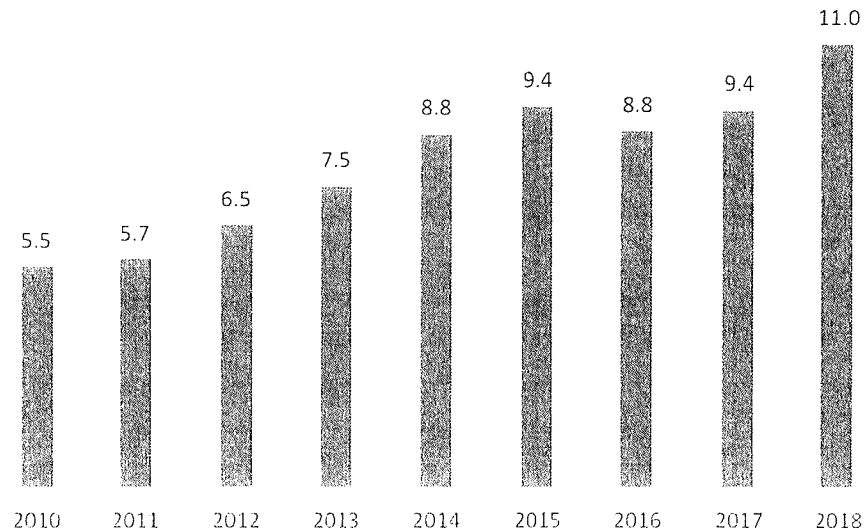


Source: Macrotrends

The decline in the price of oil in 2015 caused upstream energy-related companies like Schlumberger and Halliburton to announce thousands of layoffs in 2015. The market recovered as the price of petroleum products has stabilized and risen from the lows of 2015. Downstream energy-related companies are continually expanding in this market due to the recent surplus of affordable natural gas. The price of oil declined in 2018, but increased efficiencies in oil production offset the decline in the price of oil. The price of oil has increased through the first four months of 2019. U.S. oil production recovered in 2017 as producers became more efficient and demand increased, as shown in the following figure.



FIGURE 3-6
US OIL PRODUCTION IN MILLIONS OF BARRELS PER DAY



Source: U.S. Energy Information Agency

The continued growth in oil production provides the raw materials for the growth of the downstream industrial facilities in Baytown and the overall Houston area. Annual crude oil production in the United States reached a record level of 10.96 million barrels per day (“b/d”) in 2018 exceeding the prior record of 9.64 million b/d in 1970.

In 2018, Texas crude oil production averaged 4.4 million b/d, an increase of almost 950,000 b/d from 2017. The increased production was generated within the Permian region in western Texas. The 2018 increase in b/d in Texas was nearly 60% of the increase in the total U.S. The increasing production in Texas provides a growing supply of raw materials to the downstream sector of the oil and gas sector engaging in the manufacture of plastics and other chemicals from the raw material in Baytown Industrial Districts. In 2018, Texas reached a record-high monthly production level of 4.9 million b/d in December.

Major Business and Industry

The following bullet points highlight major demand generators for this market:

- The petroleum refining and petrochemical processing sectors are predominant in Houston's Bay Area. According to the Bay Area Houston Economic Partnership, the Bay Area comprises over 400 chemical manufacturing entities and employs over 40,000 people. The ExxonMobil Baytown Refinery is the largest in the United States, with a production

capacity of 560,640 barrels of oil per day. Additionally, the Bayport Industrial District, spanning from Pasadena to La Porte, is home to over 70 chemical and plastics-manufacturing firms, including Baker Hughes, Clariant, and DuPont. Aerospace and medical industries also play an important role in the area economy.

- The aerospace industry plays an important role in the greater Bay Area market as well. One of the largest employers in the market is NASA - Johnson Space Center ("JSC"). As the central hub for America's space program, JSC is responsible for overseeing all training, equipment, and activities relating to astronauts, as well as the development of all vehicles and operational oversight of all missions relating to manned space exploration. In September of 2014, NASA announced its public-private partnership with Boeing and SpaceX to develop and operate crew transportation systems traveling to the International Space Station. Boeing and SpaceX were awarded \$4.2-billion and \$2.6-billion contracts, respectively. According to the Bay Area, Houston Economic Partnership, over 50 contractor companies support the JSC, including Aerospace Corp., Oceaneering Space Systems, and Paragon Space Development Corporation. The largest aerospace contractor in the area, Lockheed Martin, was awarded a \$3.9-billion contract in January of 2007 to design, develop, and test the new Mars Orion Multi-Purpose Crew Vehicle. In December of 2014, the Orion Spacecraft completed its first successful test flight. Orion is expected to fly to the International Space Station and become part of the spaceflight system to conduct sustained human exploration of the moon and Mars.
- For the past decade, the Bay Area's emergence as a regional hub for medical care has been fueled by impressive state-of-the-art facilities powered by physicians who perform comprehensive procedures and services. The Clear Lake Regional Medical Center comprises approximately 2,000 staff members and 900 physicians in multiple specialties. In 2013, the Clear Lake Regional Medical Center completed a \$92-million expansion project, which included the construction of a new 155,000-square-foot tower. In July of 2014, the Bay Area Regional Medical Center reopened; in February of 2015, the facility announced plans to begin construction on its second phase, doubling its patient capacity which opened in 2018. Additional healthcare providers in the Bay Area include the Bayshore Medical Center, Houston Methodist San Jacinto Hospital, and Moody Health Center.

A period of rapid growth during the last ten years brought an influx of new residents, housing communities, commercial developments, and employers to the region. The Bay Area's economy is diversified among a multitude of industries and sectors, including health care, aerospace, and petrochemical production. The



greater Bay Area remains in a growth phase, with multiple new hotels, residential, retail, and office developments planned or under construction. This growth can be primarily attributed to the surplus of affordable natural gas, which petrochemical companies use to produce various products including plastic, jet fuel, lubricant, and wax. According to the Bay Area Houston Economic Partnership, \$50 billion of new petrochemical projects are planned or have been completed in the Bay Area.

Significant investment continued in Baytown in 2017 and 2018. Air Products' \$395 million Hydrogen facility opened in 2017 at the Covestro campus in Baytown. Lone Star GNL finished construction of its 5th fractionator in 2018 located in Industrial District Two, in the City of Baytown, a \$308 million investment, representing continued growth in the midstream sector. Enterprise Products completed construction of a Propane Dehydrogenation facility in the first quarter of 2018, representing a \$1.7 billion in capital investment, which will produce polymer-grade propylene, a mainstay feedstock for plastics manufacturing. In 2017, Enterprise Products started construction of an Isobutane Dehydrogenation facility located in Industrial District #2, in the City of Baytown and its 9th fractionator, representing a \$1.9 billion in capital investment expected to be completed by 2019. Exxon Mobil completed a substantial plastics plant expansion in Mont Belvieu as part of a multibillion-dollar petrochemical growth effort in the Houston region integrated with its large ethane cracker in Baytown which added 350 jobs, the two plastics facilities added 1.3 million metric tons of annual polyethylene manufacturing capacity in 2018 with a total investment of \$6.2 billion. Chevron Phillips 1.5 million ton/year ethane cracker project at its Cedar Bayou complex in Baytown representing a \$4.2 billion investment, which started production in 2018. In April of 2019, Exxon Mobil announced an additional investment of two billion dollars into the 3,400-acre Baytown complex.

Katoen Natie, Ravago, Vinmar, Plantgistix, PBP, DHL and Palmer Logistics constructed over 4 million square feet of warehouse space by the end of 2017 to accommodate the export of massive amounts of polyethylene through the Port of Houston. Another significant logistics addition is the IKEA Distribution Facility, two 500,000-square-foot rail-served warehouses, joining the Wal-Mart and Home Depot import distribution centers in the Cedar Port Industrial Park in Industrial District One in the City.



**FIGURE 3-7
CITY OF BAYTOWN TOP EMPLOYERS**

Rank	Employer	Number of Employees	Percentage of Total City Employment
1	Exxon Mobil-Baytown Complex	3,785	11.99%
2	Goose Creek Consolidated Independent School District	3,012	9.54%
3	San Jacinto Methodist Hospital	1,687	5.35%
4	Bayer Corporation	1,100	3.49%
5	JW Steel	800	2.54%
6	Chevron Phillips Chemical Company	685	2.17%
7	Wal-Mart Distribution Center	600	1.90%
8	Home Depo Distribution Center	325	1.03%
9	TMK-IPSCO	245	0.78%
10	Exel Logistics	200	0.63%
Totals		12,439	39.42%

Source: City of Baytown Comprehensive Annual Financial Report Fiscal Year Ending 9/30/2018

The following figure shows the top ten property taxpayers in the City of Baytown.

**FIGURE 3-8
BAYTOWN TOP PROPERTY TAXPAYERS**

Property Taxpayer	Taxable Assessed Value	% of Taxable Assessed Value
CenterPoint Energy Inc.	\$50,750,747	1.38%
RC 2015 I TX Properties	41,500,000	1.13%
LCY Elastomers LP	30,209,996	0.82%
Stanmore Adef Baytown Delaware LL	29,457,835	0.80%
SI Group Inc.	24,886,114	0.68%
EGW Rollingbrook Investments	23,000,000	0.62%
Drever Watercolors PR	22,739,154	0.62%
Advenir The Preserve	21,675,047	0.59%
619 Rollingbrook Street LP	19,789,771	0.54%
Kroger Texas LP	18,023,076	0.49%
Totals	\$282,031,740	7.67%

Source: City of Baytown Comprehensive Annual Financial Report Fiscal Year Ending 9/30/2018

Exxon Mobile would be the top property taxpayer, but the corporation's property was disannexed in fiscal year 2010, and the tax revenues the city receives on such property is now accounted for as industrial district agreement revenue, not property tax revenue.



Industrial Districts

The City has created within its extraterritorial jurisdiction, but outside of the City limits, three industrial districts (“Industrial Districts”) and has entered into industrial district agreements (“IDAs”) with companies within such Industrial Districts. The IDAs specify payments to be made to the City in lieu of ad valorem taxes and provide limited immunity from annexation during the seven-year term of the IDAs. The IDA payments are due on or before December 31st of each year of the IDA and are calculated as shown in the following figure.

**FIGURE 3-9
BAYTOWN INDUSTRIAL DISTRICTS TAX METHODOLOGY**

Industrial District Payment	=	Base Value Industrial District Payment + Added Value Industrial District Payment
 Base Value Industrial District Payment	=	Base Year Value ¹ x Tax Rate ² x Yearly Payment Rate ³
 Added Value Industrial District Payment ⁵	=	Added Value ⁴ x Tax Rate ² x Added Value Industrial District Payment Rate ⁵

1 Base Year Value is stipulated in the IDAs for each year of the seven-year term and may fluctuate if there is anticipated new construction

2 The City’s tax rate per \$100.00 of assessed valuation is currently \$0.82203.

3 The Applicable Yearly Payment Rate is 66%.

4 Added Value is the increase in value over the base year value.

5 Added value payment rate starts at 0.00 for the first two years and increases 25% in year three, 35% in year four, 45% in year five, .55% in year six and 66% in year seven.

Source: City of Baytown

After seven years, the IDAs are renewed using a new base year value. The following figure shows the top five IDAs for the Industrial Districts.

**FIGURE 3-10
BAYTOWN INDUSTRIAL DISTRICT TOP FIVE IDAS**

Account Description	Contract Expires end of Tax Year	Established Fiscal Year 2019/Tax Year 2018 Values and forward Negotiated Values (\$ millions)	Industrial District Payment FY 2019 (\$ millions)
ExxonMobil Corporation	2022	\$4,302	\$23.06
Chevron Phillips Chemical Company LP	2023	2,049	10.98
Covestro AG	2019	1,241	6.35
Enterprise Products Operating, LLC	2022	1,352	3.39
Enterprise Products Operating, LLC (#2)	2024	300	1.61
Total Top Five Industrial Districts		\$9,244	\$45.39

Source: City of Baytown



The Industrial Districts currently have 71 contracts with a negotiated value of \$11.63 billion producing payments of \$58.23 million in fiscal year 2019.

Airport Traffic

George Bush Intercontinental Airport (“IAH”) is located approximately 37 miles from the site of the Proposed Hotel. The airport features five terminals and five runways. In addition to its status as a primary hub for United Airlines, IAH is served by most major domestic and international commercial airlines. The airport’s strategic location in the south-central portion of the United States promises to keep it as one of the country’s major gateways to the world. In March 2017, the new 265,000-square-foot Terminal C North opened, representing a \$277-million investment from United Airlines and the Houston Airport System. The old Terminal C North is expected to be demolished to make room for a major redevelopment of the Mickey Leland International Terminal. The new terminal will feature twelve gates with the capacity to accommodate the Airbus A380 used for international travel. Construction on the program management offices and utilities began in 2017, while the full project is not anticipated to open until 2024.

**FIGURE 3-11
AIRPORT PASSENGERS
GEORGE BUSH INTERCONTINENTAL AIRPORT**

Year	Passenger Traffic	Annual Percentage Change
2009	40,007,354	
2010	40,479,569	1.2%
2011	40,128,741	-0.9%
2012	39,890,756	-0.6%
2013	39,799,414	-0.2%
2014	41,254,384	3.7%
2015	43,023,224	4.3%
2016	41,692,372	-3.1%
2017	40,733,266	-2.3%
2018	43,087,539	5.8%
YTD through Mar		
2018	13,327,000	
2019	14,123,000	6.0%

Source: George Bush Intercontinental Airport

Passenger traffic has declined for the last two years after several years of growth. The decline in the price of oil and the increased passenger traffic at Hobby Airport



contributed to the decline. Through the most recent monthly data of 2019, passenger traffic has grown to 14,122,904 from 13,326,896 an increase of 6.0%.

Houston’s William P. Hobby Airport (“HOU”), commonly referred to simply as Houston Hobby, is located 22 miles from the site of the Proposed Hotel. The airport features one main terminal, consisting of three concourses with over twenty aircraft gates, and four runways. Several major commercial airlines service the airport. In 2010, the airport completed a \$250-million renovation, which included the expansion of the airport’s concourse and terminal, new ticket counters, a new entryway, a new baggage claim area, and general improvements to the décor of the facility. In October 2015, Southwest Airlines opened a new international concourse as part of a \$130-million project that included a new parking garage, a new satellite central utility plant, and upgrades to the airport roadways, as well as a new Federal Inspection Services facility. In 2018, Southwest Airlines began construction on a new, \$97-million hangar that will house up to six 737 Boeing aircraft, offices, and maintenance facilities. Construction on the new hangar is expected to be finished in 2019.

FIGURE 3-12
AIRPORT PASSENGERS
WILLIAM P. HOBBY AIRPORT

Year	Passenger Traffic	Annual Percent Change	
2009	8,498,000		
2010	9,054,000	6.5%	
2011	9,843,000	8.7%	
2012	10,438,000	6.0%	
2013	11,109,000	6.4%	
2014	11,948,000	7.6%	
2015	12,164,000	1.8%	
2016	12,909,000	6.1%	
2017	13,436,000	4.1%	
2018	14,476,000	7.7%	
YTD through Mar			
2018	3,331,000		
2019	3,405,000	2.2%	

Source: William P. Hobby Airport



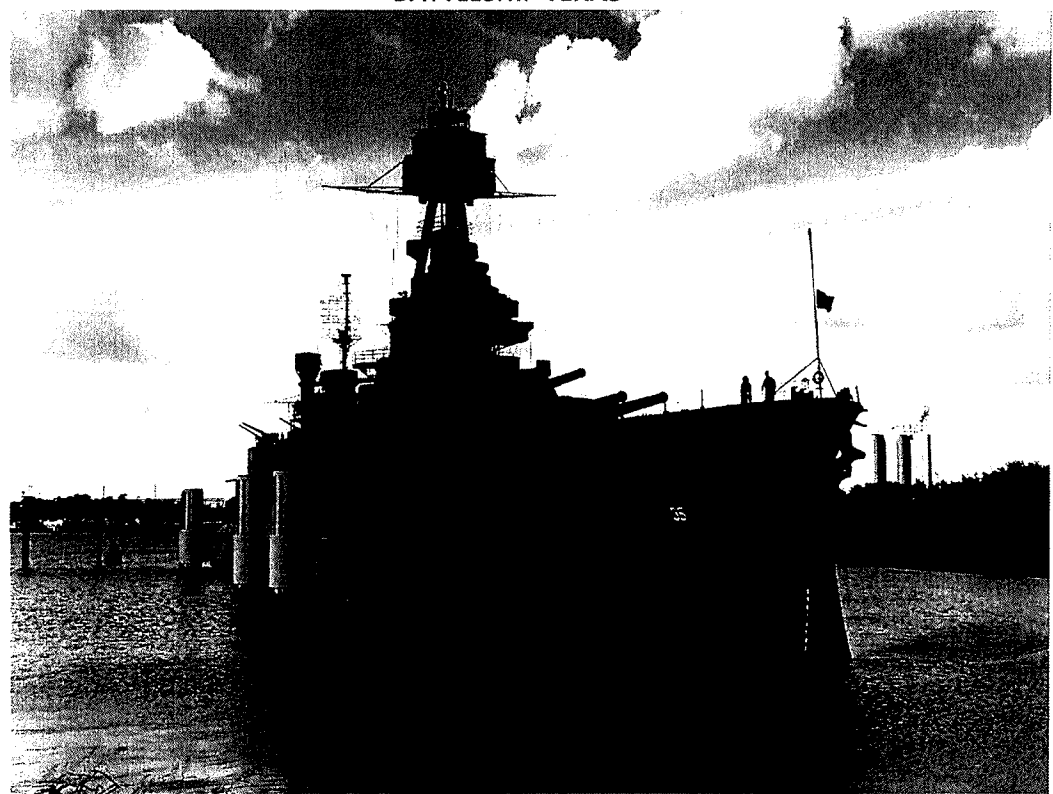
Passenger traffic has increased every year since 2009. Through the most recent monthly data of 2019, passenger traffic has grown to 3,405,000 from 3,331,000, an increase of 2.2%.

Tourist Attractions

The greater Baytown market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from March to September. During other times of the year, weekend demand comprises travelers passing through in route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- The San Jacinto Battleground State Historic Site is a 1,200-acre National Historic Landmark comprising the Battleship Texas and the San Jacinto Battleground, Monument, and Museum.
- The Kemah Boardwalk is the waterfront home to a multitude of restaurants, retail stores, shows, and games that can be enjoyed by the entire family.
- At the Space Center Houston, at NASA, visitors can see astronauts train for missions, touch moon rocks, and fly a mock shuttle landing. This Disney-operated facility offers tours, exhibits, and hands-on activities daily.
- Big League Dreams sports complex houses replicas of four major league baseball parks that are scaled to little league baseball and softball configurations. In addition to batting cages, the facility has a 20,000-square-foot pavilion and a restaurant. This facility hosts adult softball leagues, little league and softball tournaments, and special events.

BATTLESHIP TEXAS



Conclusion

The greater Baytown area market is recovering from lower petroleum product prices it experienced in 2015. Hurricane Harvey in August of 2017 did substantial damage to the area which is currently in the process of rebuilding for the significant amount of storm-related damage. The stimulus provided by the recovery from Hurricane Harvey and the increases in the price of petroleum products is leading to a general improvement in the economic outlook for the area. The continued increase in oil and gas production in the Permian Basin in northern Texas provides the basis of continued expansion in the Baytown Industrial Districts. The current outlook for the area economy is positive.



4. Supply and Demand Analysis

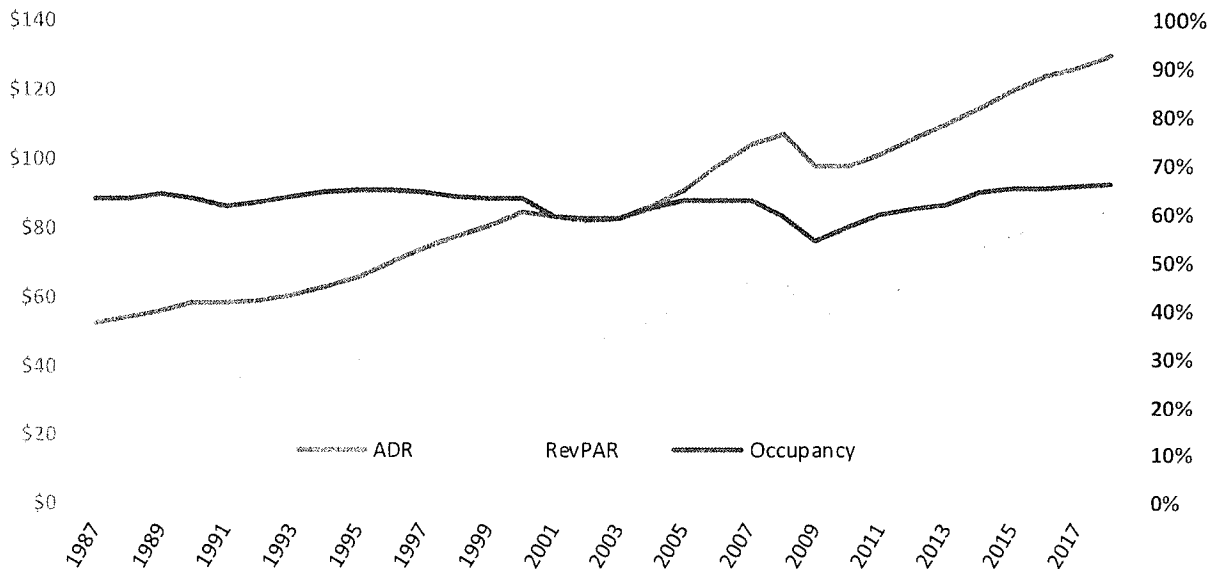
National Hotel Market Trends

Changes in the national lodging market indirectly affect local markets. We reviewed national lodging trends to provide context for the forecast of the supply and demand for the Proposed Hotel’s competitive set.

Figure 4-1 presents annual hotel occupancy, average rate, and RevPAR data since 1987. RevPAR, the product of occupancy and average rate provides a combined measure of rate and occupancy.

The figure below shows the hotel occupancy, average rate, and RevPAR throughout the U.S.

FIGURE 4-1
U.S. OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS



Source: STR

Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half

of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

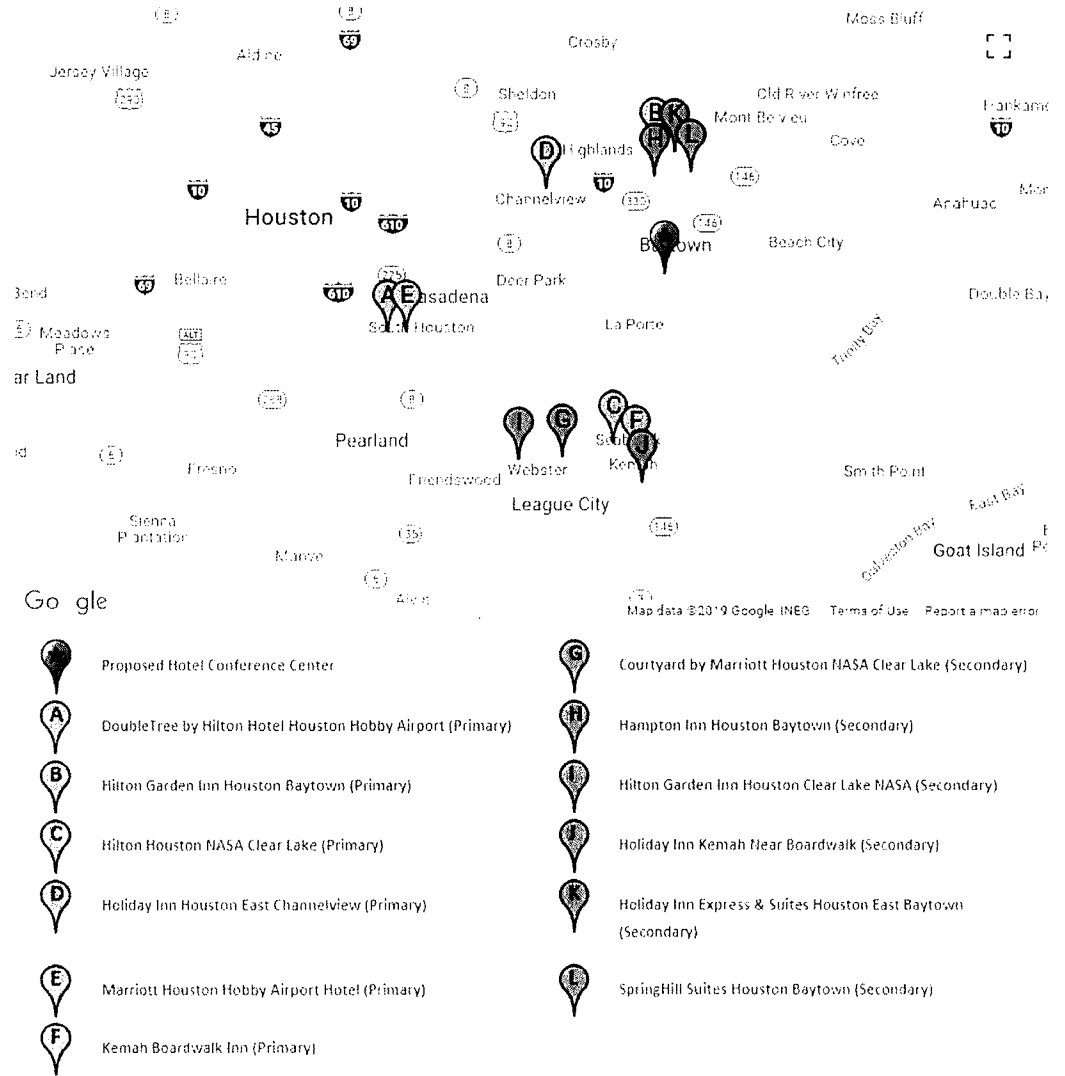
In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.7% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy showed virtually no change, as demand growth kept pace with supply additions. Occupancy then moved even higher in 2017 and 2018, to new highs of 65.9% and 66.2%, respectively. Average rate increased 2.1% and 2.4% in 2017 and 2018, respectively. By year-end 2018, the net change in RevPAR was 2.9%, reflecting a healthy lodging market overall. Year-to-date statistics through March reflect a 0.3-point occupancy increase, while average rate increased by just over \$1.00, resulting in a 1.5% upward change in RevPAR.

Defining the Competitive Set

HVS selected a set of competitive local hotels. Six properties would compete with the Proposed Hotel on a primary basis and six properties on a secondary basis, for a total of 12 competitors ("Competitive Hotels"). We weighted the room count of each secondary competitor based on its projected competitiveness with the Proposed Hotel.

The following map illustrates the locations of the Proposed Hotel and its primary and secondary competitors.

MAP OF PRIMARY AND SECONDARY COMPETITION BY HVS



HVS relied on STR data and market research to determine the room count of each hotel. The weighted competitive set currently includes 1,123 rooms in primary competitors and 640 rooms in the secondary competitors with a weighted room count of 444. The total number of primary and weighted secondary competitors is 1,567 room, as shown in the figure below.



**FIGURE 4-2
THE WEIGHTED COMPETITIVE SET**

Hotel	Number of Rooms	Competitive Level	Weighted Room Count
Six Primary Competitors			
DoubleTree by Hilton Hotel Houston Hobby Airport	303	100%	303
Hilton Garden Inn Houston Baytown	125	100%	125
Hilton Houston NASA Clear Lake	242	100%	242
Holiday Inn Houston East Channelview	111	100%	111
Marriott Houston Hobby Airport Hotel	287	100%	287
Kemah Boardwalk Inn	55	100%	55
Total	1,123	100%	1,123
Courtyard by Marriott Houston NASA Clear Lake	124	70%	87
Hampton Inn Houston Baytown	70	70%	49
Hilton Garden Inn Houston Clear Lake NASA	126	65%	82
Holiday Inn Kemah Near Boardwalk	128	65%	83
Holiday Inn Express & Suites Houston East Baytown	91	80%	73
SpringHill Suites Houston Baytown	101	70%	71
Six Secondary Competitors Total/Weighted	640	69%	444
12 Primary & Secondary Competitors Total/Weighted	1,763	89%	1,567

Sources: STR and HVS

The following figure shows the age of Competitive Hotels.

**FIGURE 4-3
THE AGE OF COMPETITIVE HOTELS**

Property	STR Classification	Years Old	Rooms
DoubleTree by Hilton Hotel Houston Hobby Airport	Upscale Class	36.14	303
Hilton Houston NASA Clear Lake	Upper Upscale Class	35.98	242
Marriott Houston South @ Hobby Airport	Upper Upscale Class	32.97	290
Hampton Inn Houston Baytown	Upper Midscale Class	22.38	70
Boardwalk Inn Kemah Boardwalk	Luxury Class	20.55	58
Hilton Garden Inn Houston Clear Lake NASA	Upscale Class	9.29	126
Holiday Inn Kemah Near Boardwalk	Upper Midscale Class	8.46	128
Springhill Suites Houston Baytown	Upscale Class	8.12	101
Holiday Inn Houston East-Channelview	Upper Midscale Class	7.79	111
Courtyard Houston NASA Clear Lake	Upscale Class	6.46	124
Holiday Inn Express & Suites Houston East Baytown	Upper Midscale Class	4.71	91
Hilton Garden Inn Houston Baytown	Upscale Class	1.28	125
		16.18	Average Age

Sources: STR



The Competitive Hotels contain three hotels with significant amounts of meeting space: The DoubleTree Houston Hobby Airport, the Hilton Houston NASA Clear Lake, and the Marriott Houston Hobby Airport Hotel, which are all older than 30 years. The Proposed Hotel will be the first full-service hotel with meeting space built in the local market in over three decades.

Our survey of the local market shows a range of lodging types and facilities. We inspected the primary competitors and evaluated all the Competitive Hotels.

Primary Competitors

The primary competitors consist of six hotels with 1,123 rooms. The figure below presents a summary of the operating performance of the primary competitors for the past two years.

FIGURE 4-4
2016 & 2017 PERFORMANCE OF THE PRIMARY COMPETITIVE SET

Property	Number of Rooms	Estimated 2017			Estimated 2018		
		Occ.	ADR	RevPAR	Occ.	ADR	RevPAR
DoubleTree by Hilton Hotel Houston Hobby	303	70 - 75 %	\$110 - \$115	\$80 - \$85	65 - 70 %	\$110 - \$115	\$75 - \$80
Hilton Garden Inn Houston Baytown	125	70 - 75	130 - 140	100 - 105	60 - 65	130 - 140	80 - 85
Hilton Houston NASA Clear Lake	242	70 - 75	130 - 140	90 - 95	65 - 70	125 - 130	85 - 90
Holiday Inn Houston East Channelview	111	70 - 75	130 - 140	95 - 100	65 - 70	120 - 125	80 - 85
Marriott Houston Hobby Airport Hotel	287	65 - 70	115 - 120	80 - 85	65 - 70	115 - 120	75 - 80
Kemah Boardwalk Inn	55	70 - 75	180 - 190	125 - 130	65 - 70	170 - 180	120 - 125
Totals	1,123	72.2%	\$125	\$90	68.1%	\$122	\$83

Sources: STR and HVS

HVS ranked the primary competitors on four criteria related to the attractiveness of the property to potential customers.

1. Access – the ease with which customers can gain vehicular or pedestrian access to the property. Simple and direct access routes are rated higher than more complicated routes.
2. Visibility – is particularly important to hotels that attract walk-in customers who do not have prior reservations. Signage and building facades typically provide visibility.
3. Neighborhood – means the quality of the surrounding neighborhood, the compatibility of adjacent land uses, the perceived safety of the neighborhood.
4. Physical condition – refers to the overall physical condition of the hotel. Based on an inspection of each property, HVS rated the physical condition of each hotel in comparison to other hotels of a similar scale or class.