

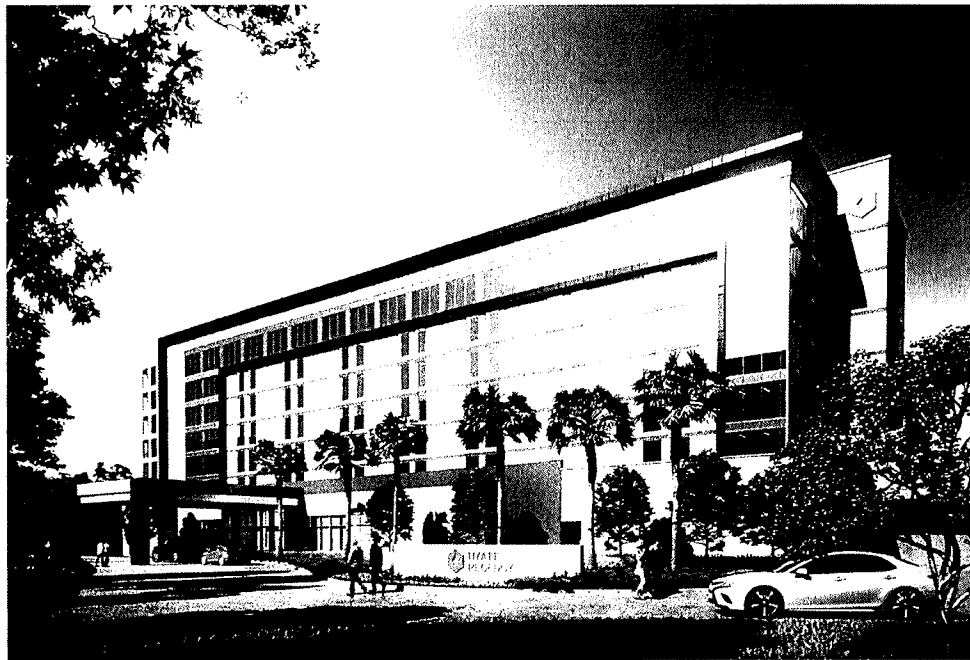


MARKET STUDY

JUNE 15, 2020

Proposed Hyatt Regency Hotel

BAYTOWN, TEXAS



SUBMITTED TO :

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Mr. Raymond Garfield
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Re: Proposed Hyatt Regency Hotel
Baytown, Texas

Dear Mr. Garfield:

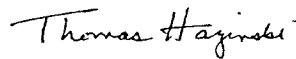
Attached you will find our Market Study of the Proposed Hyatt Regency Hotel in Baytown, Texas.

This report was produced amid significant market disruption related to COVID-19. The potential impact of the pandemic is addressed throughout and considers market perspectives and information available on or about the effective date of the report, whereas the prevailing market outlook is that the direct impact of the pandemic on the travel industry will be temporary, with demand being affected at varying levels through the upcoming summer months. However, the situation is unprecedented and, as of the effective date of this report, remains highly uncertain. A recovery in the hospitality industry is anticipated to begin at some point during the summer months. While the extent of impact to the regional and national economies is also uncertain, our market research reflects a general expectation that recovery of hotel demand and average daily room rates will take over four years.

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 Hyatt Regency”). The site for the Proposed Hyatt Regency 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 Hyatt Regency 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 center of approximately 33,600 square feet, with total meeting space of 17,890 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 Hyatt Regency and the City Facilities. The City will own the land under the Proposed Hyatt Regency 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 Hyatt Regency under a City Facilities lease for the life of the land lease.

For this study, HVS assumes the Proposed Hyatt Regency will open on February 1, 2022, as a 208-room full-service hotel, associated with the Hyatt Brand. The property will feature a restaurant with show kitchen and wood-burning oven, 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. Hyatt Regency is an upper-upscale, full-service brand; it 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 2019, there were 205 Hyatt Regency properties (88,082 hotel rooms) in operation. In 2019, the brand operated at an average occupancy level of 73.5%, with an average daily rate of \$180.38 and an average RevPAR of \$132.58.

Impact of the COVID-19 Pandemic

The Proposed Hyatt Regency 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 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.

COVID-19, a strain of the coronavirus, was identified in China in December 2019. It has since spread to most countries around the globe. As of this writing, the impact of the virus in the United States has been felt throughout the nation. Federal, state, and local governments, individual corporations and other institutions have imposed travel restrictions and other safety measures. As of June 3, 2020, all 50 states have reported cases of COVID-19 with 34 jurisdictions reporting over 10,000 cases.¹ In many areas of the country, the growth curve of infections, hospitalizations and deaths has flattened or begun to decline. Currently, there is limited insight into how long it will take for the infection rate to decrease to an acceptable level. Growth in testing, improved treatments, and ultimately, a widely available vaccine will be necessary before a return to normalcy.

In addition to the cost of human life, the broader impact of the spread of the COVID-19 and the response to it, has triggered an unprecedented economic contraction, from which the negative effects are likely to be longer lived than the virus itself. As of the date of the STR Trend reported used in the study, data covering approximately the first six weeks of the impact of travel restrictions and social distancing requirements were available.

Starting in April 2020 and continuing through the date of this study, most convention centers and convention center hotels have temporarily ceased normal operations. Suspension of normal operations caused STR to revise their 2020 forecast for hotel supply across the United States down to a 5.2% loss in supply.² Travel is being severely restricted by most businesses as a precautionary measure or in response to government mandates. In fact, Tourism Economics' President suggested that hotel demand may not fully recover until 2023.³ While industry professionals provide different projections for when the economy and industry may

¹ "Coronavirus Disease 2019 (COVID-19): Cases in the U.S.," Centers for Disease Control and Prevention, June 3, 2020

<https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html>

² "STR and TE Further Downgrade U.S. Hotel Forecast," STR, May 18, 2020
<https://str.com/press-release/str-and-te-further-downgrade-us-hotel-forecast>

³ "STR and TE Further Downgrade U.S. Hotel Forecast," STR

recover, all signs point to COVID-19 having a profound impact on the supply and demand of the lodging industry.

Health experts offer a wide range of opinions on how long restrictions on travel or on large gatherings of people should remain in place. Government responses have varied from state to state and among cities throughout the US. While the short-term impact on the hotel market is severe, it is difficult to assess the impact on future rate and occupancy given the lack of understanding of the longer-term impacts on travel and the economy as a whole. For this analysis, we have adjusted the performance of the competitive hotels to reflect the early known and anticipated future impacts of the COVID-19 pandemic.

Ultimately, the impact of the COVID-19 pandemic on the hospitality industry will depend on its course, the extent and duration of travel restrictions, as well as the public's responses to these events. For the purposes of this study, HVS assumes a gradual easing of travel restrictions and social distancing requirements through the end of the year.

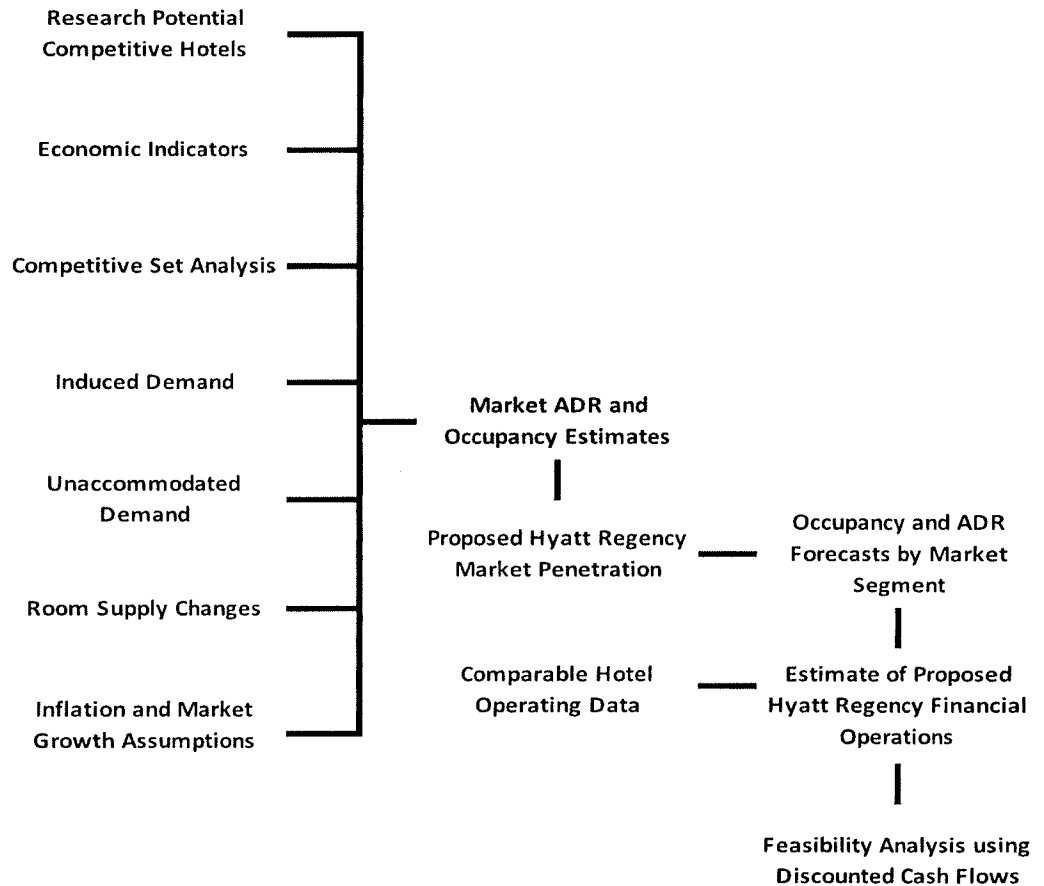
Beginning in the second quarter of 2020, HVS assumes that the US economy will enter a recession. HVS analyzed historical data to determine the lengths and patterns of prior recoveries from major economic downturns and based projections on those historical precedents. The recovery from an economic downturn spurred by the COVID-19 pandemic may mirror earlier recovery patterns in shape; however, the rate of recovery for the economy remains unknown. Given the lack of certainty surrounding several key economic variables, HVS projections produced in this report should be considered to reflect assumptions and conditions at the time of publication.

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 Hyatt Regency 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*,⁴ *Hotels, Motels and Restaurants: Valuations and Market Studies*,⁵ *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,⁶ *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,⁷ and *Hotels and Motels – Valuations and Market Studies*.⁸ 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 June 15, 2020. Brian Harris inspected the site for the Proposed Hyatt Regency on October 23, 2018. All projections are expressed in inflated dollars inflated at 2.0% for 2020 , and 2.5% for 2021 and 3.0% thereafter.

Site

The site for the Proposed Hyatt Regency 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 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.

⁴ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

⁵ Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

⁶ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁷ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

⁸ Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).

Continued growth is expected, including expected expansions in the midstream and downstream petrochemical 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 Hyatt Regency 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 Hyatt Regency) 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 Hyatt Regency 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 Hyatt Regency 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.

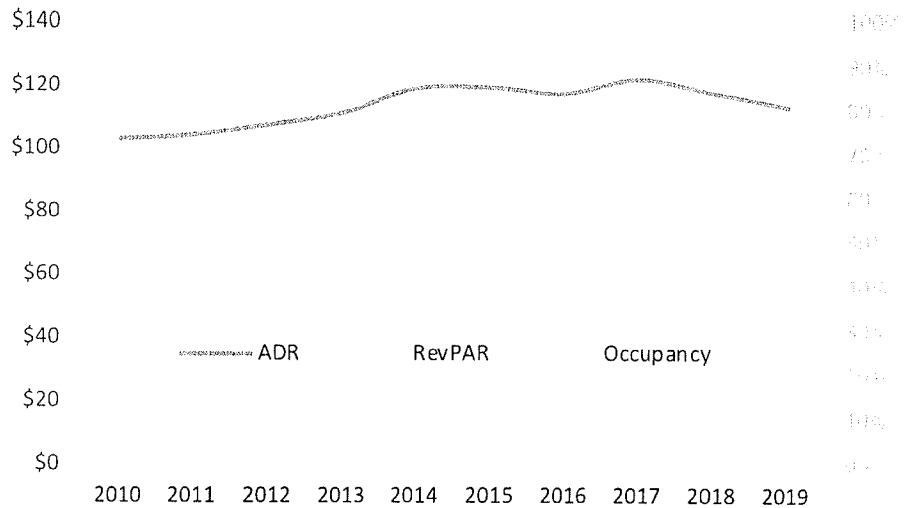
Summary of Hotel Market Trends

HVS analyzed the performance of a set of hotels that would compete with the Proposed Hyatt Regency (“Competitive Hotels”). Six properties would compete with the Proposed Hyatt Regency on a primary basis, and seven properties would compete on a secondary basis, for a total of 13 competitors. We weighted the room count of each secondary competitor based on its projected competitiveness with the Proposed Hyatt Regency. 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 of 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 2019, the ADR of Competitive Hotels decreased by 3.8%, and occupancy decreased by 2.6%, causing RevPAR to decrease by 6.3%. Demand increased by 1.3% in 2019. This increase, combined with an increase in available room nights of 4.0%, caused the occupancy rate to decline to 68.1% from 69.9% in 2018.

The following figure reflects HVS estimates of operating performance of the weighted Competitive Hotels for the years 2017 through 2019.



**FIGURE 1-3
WEIGHTED HISTORICAL SUPPLY, DEMAND, OCCUPANCY, ADR, & REVPAR (2017 - 2019)**

Year	Room Nights Available	Room Nights Sold	Competitive Hotels Occupancy	Competitive Hotels ADR	Competitive Hotels RevPAR
Amount					
2017	542,000	405,000	74.7%	\$124.05	\$92.69
2018	574,000	405,000	70.6%	\$119.33	\$84.20
2019	590,000	403,000	68.3%	\$114.14	\$77.96
Percent Change					
2018	5.9%	0.0%	-5.6%	-3.8%	-9.2%
2019	2.8%	-0.5%	-3.2%	-4.4%	-7.4%

Since 2017, accommodated room nights decreased by 0.5%, while the number of available room nights increased by 8.9%. As a result, market occupancy decreased during the same period. Average daily room rate fell since 2017. The combined effect of changes in occupancy and ADR caused RevPAR to decline 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. The impact of the COVID-19 pandemic on the market began in March of 2020 as shown in the figure below.



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

Month	Occupied Room Nights	Prior Year	Difference	Change in Demand
May-19	42,848	40,592	2,256	5.6%
Jun-19*	37,831	38,361	-530	-1.4%
Jul-19	39,887	39,194	693	1.8%
Aug-19	38,744	37,438	1,306	3.5%
Sep-19	36,235	32,877	3,358	10.2%
Oct-19	42,611	39,599	3,012	7.6%
Nov-19	36,068	31,948	4,120	12.9%
Dec-19	30,128	28,390	1,738	6.1%
Jan-20	35,558	33,037	2,521	7.6%
Feb-20	37,874	36,686	1,188	3.2%
Mar-20	25,120	42,756	-17,636	-41.2%
Apr-20	9,804	40,819	-31,015	-76.0%
12 Month Total	412,708	441,697	-28,989	-6.6%

* Staybridge Suites opens

Source: STR

Demand within the competitive set showed a decline over the last 12 months due to the impact of COVID-19.

Summary of Forecast Occupancy and Average Rate

To forecast the occupancy of the Proposed Hyatt Regency, 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 Hyatt Regency begins operation on a fiscal year starting February 1, 2022.

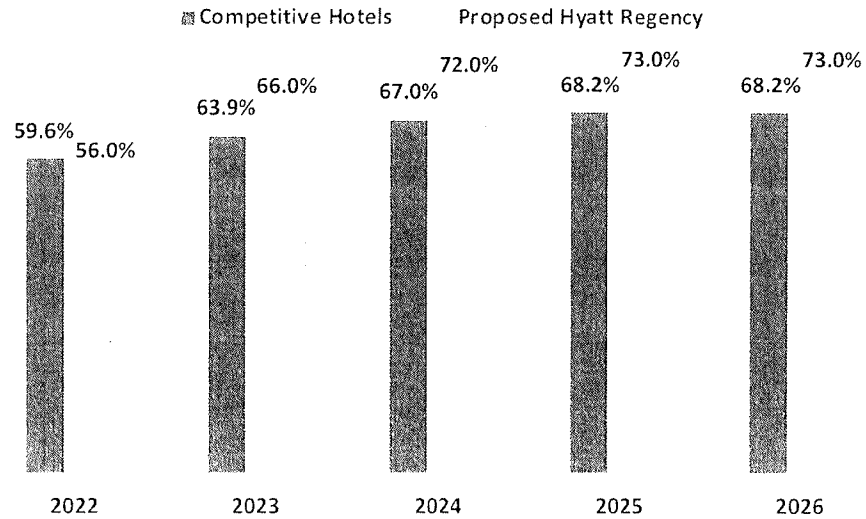
**FIGURE 1-5
PROPOSED HYATT REGENCY OCCUPANCY FORECAST**

Calendar Year	2022	2023	2024	2025	2026
Available Room Nights	25,307	75,920	75,920	75,920	75,920
Absorption by Segment					
Commercial	19,400	23,300	25,000	25,500	25,500
Meeting and Group	11,600	16,500	18,800	19,200	19,200
Leisure	7,700	10,100	10,500	10,700	10,700
Total Absorption	38,700	49,900	54,300	55,400	55,400
Projected Occupancy	56%	66%	72%	73%	73%
Percent Segmentation					
Commercial	50%	47%	46%	46%	46%
Meeting and Group	30%	33%	35%	35%	35%
Leisure	20%	20%	19%	19%	19%
Fiscal Year Starting February	2021/22	2022/23	2023/24	2024/25	2025/26
Occupancy Forecast		57%	66%	72%	73%

The following figure compares the projected occupancy of the Proposed Hyatt Regency with the Competitive Hotels for the first five calendar years of operation.



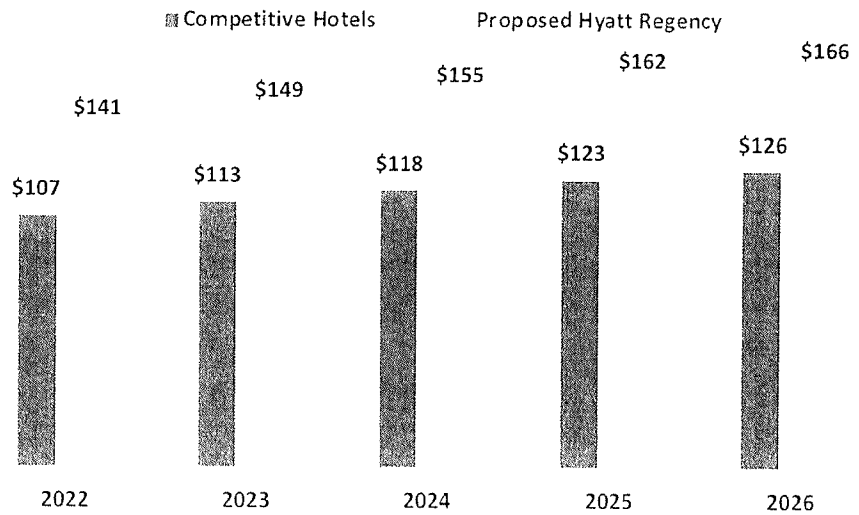
**FIGURE 1-6
OCCUPANCY FORECAST
COMPETITIVE HOTELS AND PROPOSED HYATT REGENCY**



The Proposed Hyatt Regency would open on February 1, 2022, and for this analysis, we assume it would take four 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 Hyatt Regency, its brand and quality, and extensive meeting space. The figure below compares the estimated ADR of the Proposed Hyatt Regency with the Competitive Hotels for the first five calendar years.

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



We positioned the ADR in the base year (2019) at an average rate of \$150.00, declining by 14.0% in 2020, and growing by 2.0% in 2021, 6.8% in 2022, 5.6% in 2023, 4.4% in 2024, 4.0% in 2025, and 3.0% thereafter. The positioned ADR is discounted by 3.0% in 2022/23 and 1.0% in 2023/24 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 2025/26**

STATISTICS		
Number of Rooms		208
Occupied Room Nights		55,422
Occupancy		73%
Average Rate		\$161.51
RevPAR		\$117.90
	\$000	% of Gross
Operating Revenue		
Rooms	\$8,951	63.9%
Food	3,923	28.0%
Beverage	654	4.7%
Other Operated Departments	392	2.8%
Miscellaneous Income	88	0.6%
Total Operating Revenues	\$14,008	100%
Departmental Expenses*		
Rooms	\$2,059	23.0%
Food & Beverage	2,746	60.0%
Other Operated Departments	247	63.0%
Total Expenses	\$5,052	36.1%
Departmental Income		
	\$8,956	63.9%
Undistributed Operating Expenses		
Administrative & General	\$1,135	8.1%
Marketing	1,107	7.9%
Prop. Operations & Maint.	546	3.9%
Utilities	462	3.3%
Info & Telecom Systems	182	1.3%
Total Expenses	\$3,432	24.5%
Gross House Profit		
	\$5,524	39.4%
Management Fee		
	\$700	5.0%
Income Before Non-Opr. Inc. & Exp.		
	\$4,824	34.4%
Non-Operating Income & Expenses		
Insurance	168	1.2%
Reserve for Replacement	560	4.0%
Total Expenses	\$728	5.2%
EBITDA Less Reserve Available for Debt Service		
	\$4,095	29.2%

*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 36.1% of revenue in a stabilized year for the Proposed Hyatt Regency, while undistributed operating expenses total 24.5% 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 (excluding incentive management fee), and 5.2% of total revenues in fixed expenses with no allowance for property taxes, a net income ratio of 29.2% (\$4.10 million) is forecast by 2025/26 for the Proposed Hyatt Regency.

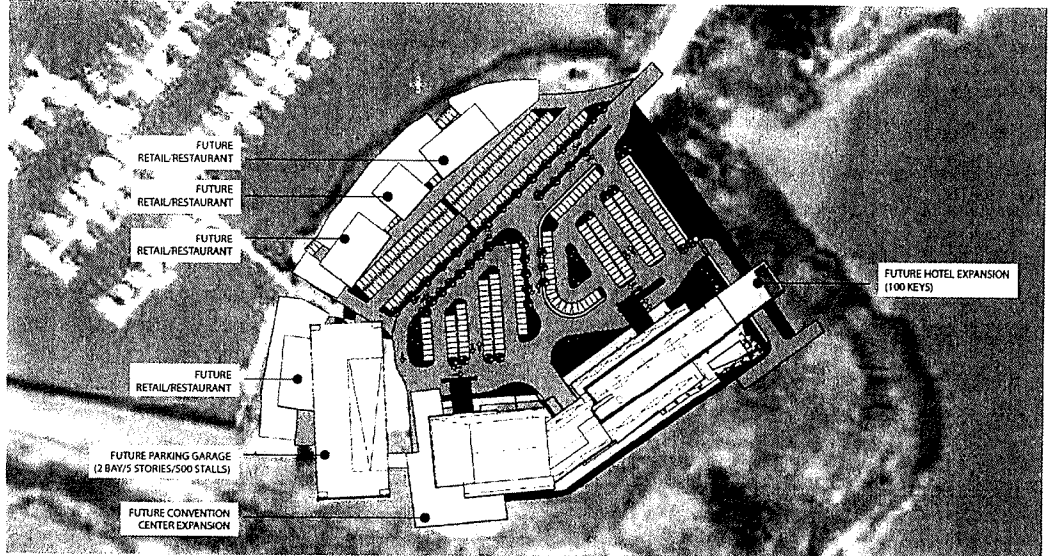
2. Description of Site and Proposed Hyatt Regency

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 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.

Site

The site for the Proposed Hyatt Regency is located adjacent to the Bayland Marina in Baytown, Texas. The site plan for the Proposed Hyatt Regency, City Facilities, and Baytown Marina with possible future additions is shown in the figure below.

SITE PLAN INCLUDING REDEVELOPMENT OF THE BAYLAND MARINA



Source: Developer

Ownership and Management Assumptions

The Proposed Hyatt Regency 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 Hyatt Regency and the



City Facilities. The land under the Proposed Hyatt Regency 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 Hyatt Regency during the life of the land lease for the Proposed Hyatt Regency.

The Proposed Hyatt Regency 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 Hyatt Regency) 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 Hyatt Regency 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 Hyatt Regency 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 Hyatt
Regency**

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.

**PROPOSED HYATT REGENCY
EXTERIOR RENDERING OF THE ENTRY TO THE MEETING FACILITIES**



Source: Developer

The following figure shows the proposed building program of the Proposed Hyatt Regency.

**FIGURE 2-1
PROPOSED HYATT REGENCY 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 with Show Kitchen and Wood-Burning Oven		98
Outdoor Terrace		20
Lounge and Lobby		65
 Indoor Meeting & Banquet Facilities		Square Feet Combined
Ballroom		12,000
Meeting Rooms		5,040
Boardroom		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 Hyatt Regency will offer a restaurant including show kitchen and wood-burning oven with terrace seating, 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 Hyatt Regency is expected to become the premier lodging and meeting facility in the City of Baytown.

EXAMPLE HYATT REGENCY SHOW KITCHEN

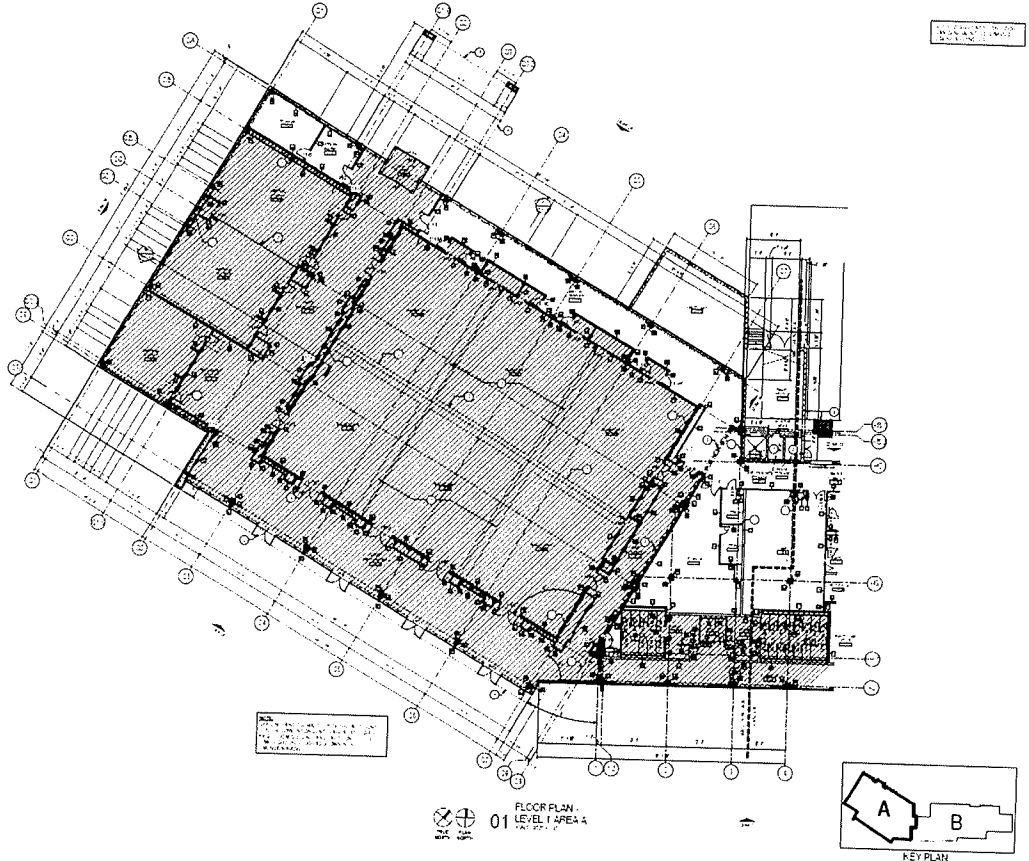


Source: Developer

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

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

CITY FACILITIES MEETING SPACE FLOOR PLAN



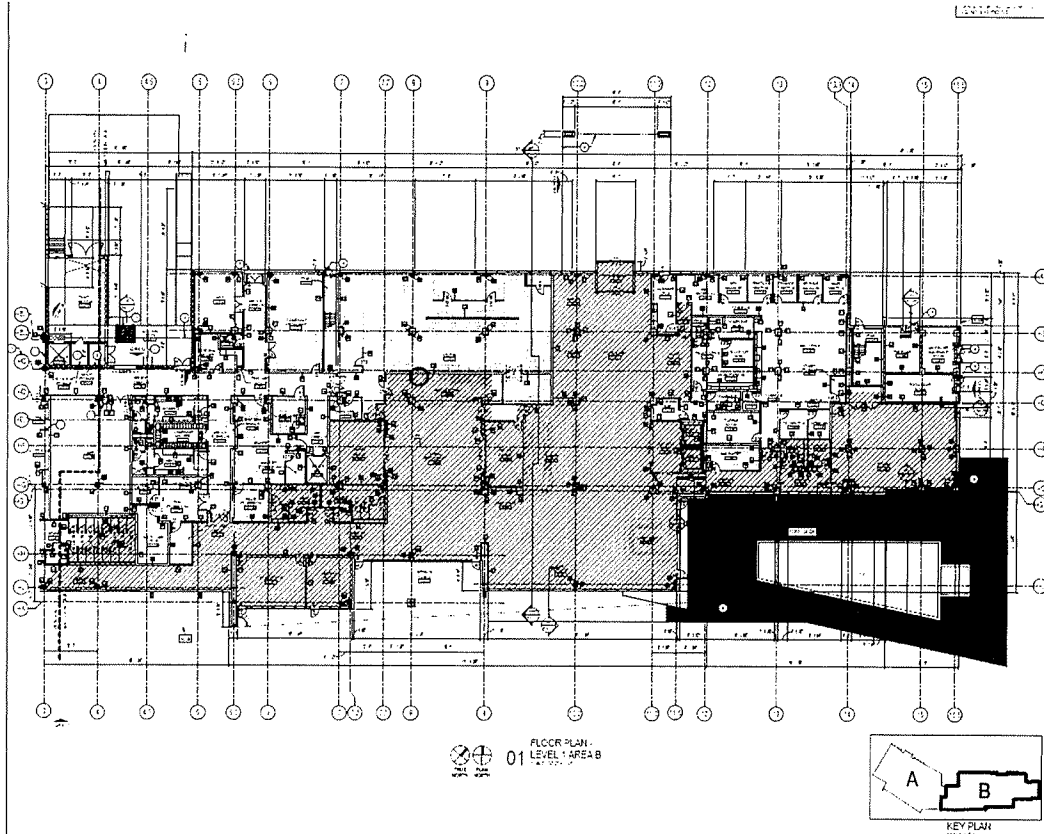
Source: BOKA Powell Architects

The following figure shows the meeting space capacity for the Proposed Hyatt Regency.

**FIGURE 2-2
PROPOSED HYATT REGENCY MEETING SPACE CAPACITY**

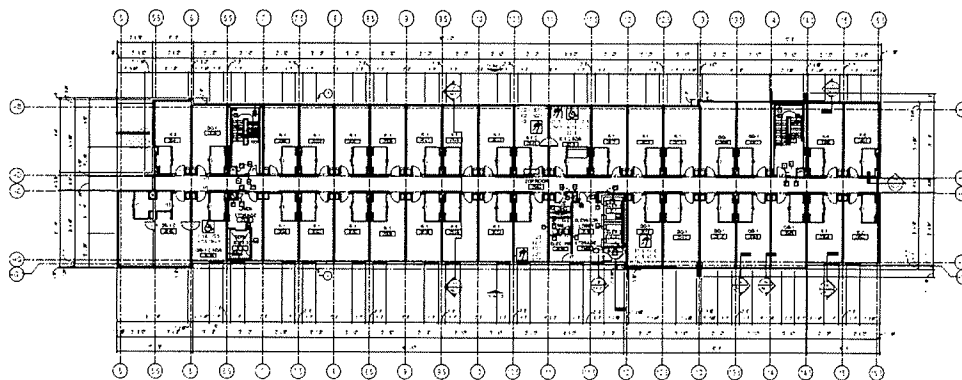
Function Space	Floor Area (square feet)	Boardroom	Approximate Guest Capacity		
			Banquet	Classroom	Reception
Ballroom	12,000		750	480	900
Meeting Rooms	5,040		315	202	378
Boardroom	850	17			

1ST FLOOR PROPOSED HYATT REGENCY

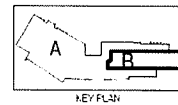


Source: BOKA Powell Architects

FLOORS TWO THROUGH SIX PROPOSED HYATT REGENCY

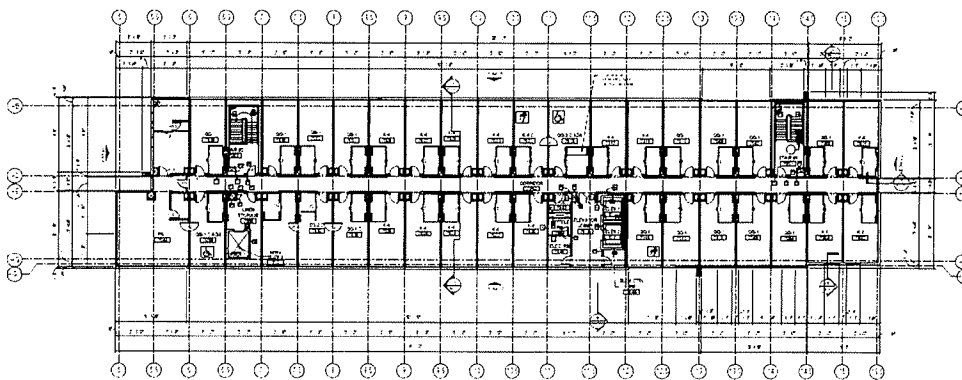


01
COMPOSITE FLOOR PLAN
LEVELS 2-6

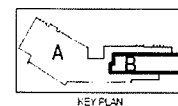


Source: BOKA Powell Architects

FLOOR SEVEN PROPOSED HYATT REGENCY



01
COMPOSITE FLOOR PLAN
LEVEL 7



Source: BOKA Powell Architects



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

- The property would open on February 1, 2022
- 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 Hyatt Regency 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.

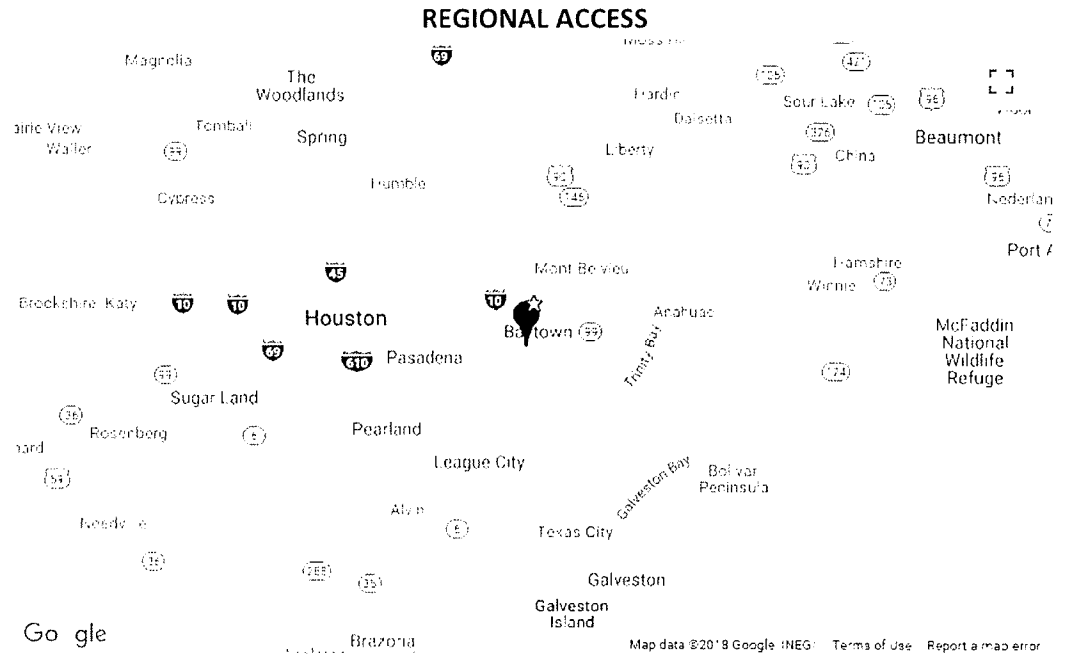
VIEW OF AREA SURROUNDING THE SITE



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 like 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 Hyatt Regency.



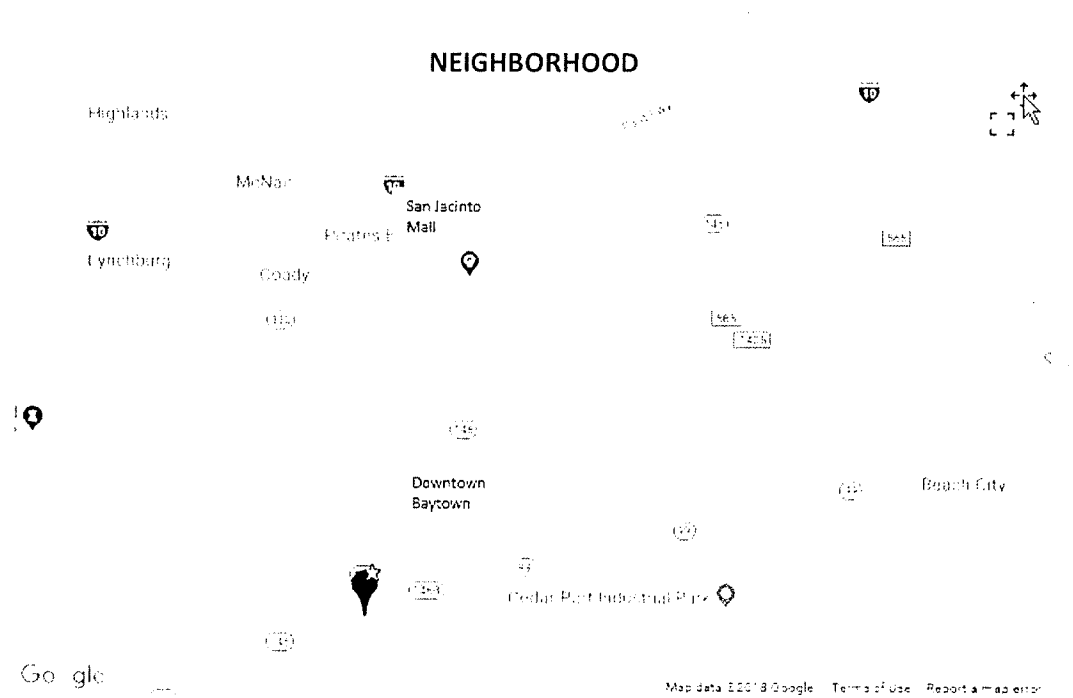
Airport Access

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 Hyatt Regency. George Bush Intercontinental Airport, which is located approximately forty miles to the northwest of the site, will 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 Hyatt Regency neighborhood is located on a peninsula at the entry to Baytown with access to the City of 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 Hyatt Regency is adjacent to the Bayland Marina.



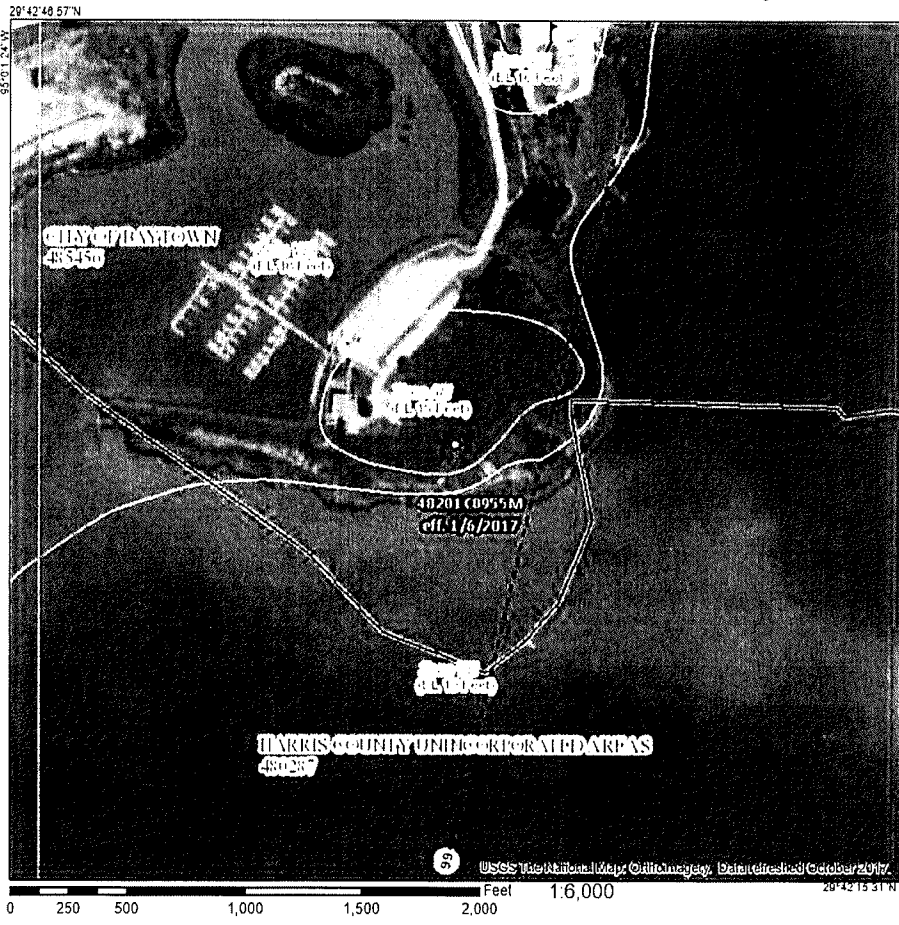
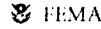
Flood Zone

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
 - 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
- OTHER AREAS OF FLOOD HAZARD**
- Area with Reduced Flood Risk due to Levee. See Notes.
 - Area with Flood Risk due to Levee.
- OTHER AREAS**
- Area of Minimal Flood Hazard
 - Effective LOMIRs
 - Area of Undetermined Flood Hazard
- GENERAL STRUCTURES**
- Channel, Culvert, or Storm Sewer
 - Levee, Dike, or Floodwall
- CROSS SECTIONS**
- Cross Sections with 1% Annual Chance Water Surface Elevation
 - Coastal Transact
 - Base Flood Elevation Line (BFE)
- OTHER FEATURES**
- Limit of Study
 - Jurisdiction Boundary
 - Coastal Transact Baseline
 - Profile Baseline
 - Hydrographic Feature
- 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 4:51:03 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 unmodernized 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 Hyatt Regency provides the needed elements for a competitive full-service hotel.

3. Baytown Market Overview

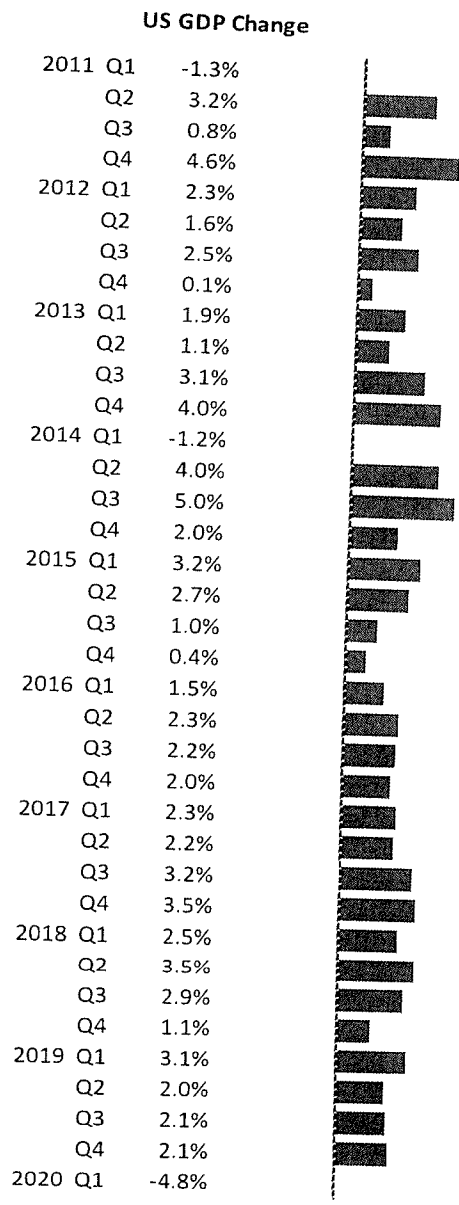
HVS explored economic and demographic factors that affect the level of lodging demand in the market, including population, income, employment, retail sales, business presence, major tourist attractions, and transportation access. We relied on third-party data sources to review historical trends and provide 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 Hyatt Regency. 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 2.3% in 2019, a decline from the 2.9% level achieved in 2018, but similar to the 2.2% rate in 2017. A strong 3.1% growth rate in the first quarter of 2019 was followed by more moderate growth rates of 2.0%, 2.1%, and 2.1% in the following three quarters of 2019. Abnormally strong 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. Although GDP growth slowed to a more sustainable level in 2019, economic expansion was driven by strong consumer spending and a rebound in the housing sector; these gains were balanced by declines in business investment, largely related to escalating trade tensions.



FIGURE 3-1
UNITED STATES GDP GROWTH RATES



Source: Bureau of Economic Analysis

U.S. economic growth continued to support expansion of lodging demand through early 2020, albeit at lower levels. However, the presence of COVID-19 and the public fear of it spreading began to negatively affect hotel demand, as well as other travel-related industries, in late February/early March 2020. By mid-March, economists

began to revise their GDP forecasts for 2020 sharply downward. The degree of anticipated contraction ranges widely among economists, depending on assumptions of how quickly and to what extent the spread of the virus can be controlled, as well as what the offsetting impact of new government programs will be. On March 23, the Federal Reserve pledged to maintain liquidity in debt markets by purchasing as many government and corporate-backed bonds as necessary. On March 27, a \$2-trillion economic-aid package was signed into law, providing support to state unemployment systems, credit for small and large businesses, and direct cash payments to low- and middle-income Americans, among other items.

Texas

Texas is situated in the southern United States and measures roughly 262,015 square miles. It is bordered by Louisiana and Arkansas to the east, the Gulf of Mexico to the southeast, Mexico to the south and southwest, New Mexico to the west, and Oklahoma to the north. Texas is the second largest state and is characterized predominantly by open plains. Interstate 35 bisects the state on a north/south axis, while Interstates 10 and 20 provide regional east/west access.

The capital of Texas is Austin, located in the central part of the state. Other major cities include Dallas/Fort Worth (north), Houston (south), San Antonio (south), among many others that provide economic benefits. Although the weather varies somewhat among the state's different regions, winters are mild and summers are warm. Precipitation is plentiful in areas, allowing the state to be the nation's greatest cotton producer. Oil is an important element of Texas' natural resource production. Manufactured goods include chemical and allied products, petroleum and coal products, food and kindred products, and transportation equipment.

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 to be known as San Jacinto Marketplace. The recently announced bankruptcy of J.C. Penney has delayed the 1Q20 construction start.
- ExxonMobil Corporation continues its development of a \$2.1 billion project in the Baytown Industrial Districts. The Vistamaxx project is one of four major chemical operations projects planned across sites in Baytown, Baton Rouge, and Corpus Christi. Coincidental with these projects, announcements at ExxonMobil's Annual Meeting, held May 27, 2020 indicate near-term adjustments in capital and operating expenses which do not include layoffs. Chemicals and petrochemical operations remain steady, buttressed by demand for polyethylene, polypropylene, and other specialty polymers used in petrochemical end markets for disposables, medical equipment, and disinfectants. Covestro AG announced a \$2.1 billion project in the Baytown Industrial Districts, with expected start now scheduled to 2023.
- Covestro AG has also announced a \$2.1 billion project in the Baytown Industrial Districts. The project is now scheduled to start construction in 2022.
- Enterprise Products Partners L.P. is constructing two new NGL fractionators in the City of Baytown's Industrial District adjacent to its Enterprise's Mont Belvieu complex. Fractionators 10 & 11 are expected to come online 1Q & 3Q2020, respectively. Capital investment is estimated to be \$790 million and enroll 50 full-time employees. Feasibility analysis has been completed for 2 additional Propane Dehydrogenation (PDH) facilities which represent an additional \$2.4 billion in capital investment. Enterprise Products Partners L.P. and LyondellBasell Industries have announced their respective affiliates have executed long-term contracts that support the construction of Enterprise's second propane dehydrogenation plant, referred to as PDH 2. PDH 2 will have the capacity to consume up to 35,000 barrels per day of propane and produce up to 1.65 billion pounds per year of polymer grade propylene, a mainstay feedstock for production of various polymers. Enterprise has modified its 2020 capital expenditure forecast to ~ \$2.5 - \$3 billion, deferring \$1B to the 2021-2022-time frame.

- The PDH 2 is now expected to start construction in 2Q-3Q 2021. PDH 2 is going to be built at Enterprise's complex in Mont Belvieu. The facility will begin service in the first half of 2024. Construction of PDH 2 is expected to provide about 1,500 to 2,000 jobs. 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 thousands of construction jobs and hundreds of permanent jobs in Baytown.
- Another Baytown Industrial District Project is Lone Star NGL completing Fractionators 6-8 in the City of Baytown ETJ. The estimated capital investment is \$750 million. Construction of F8 is expected to be completed in 1Q21.

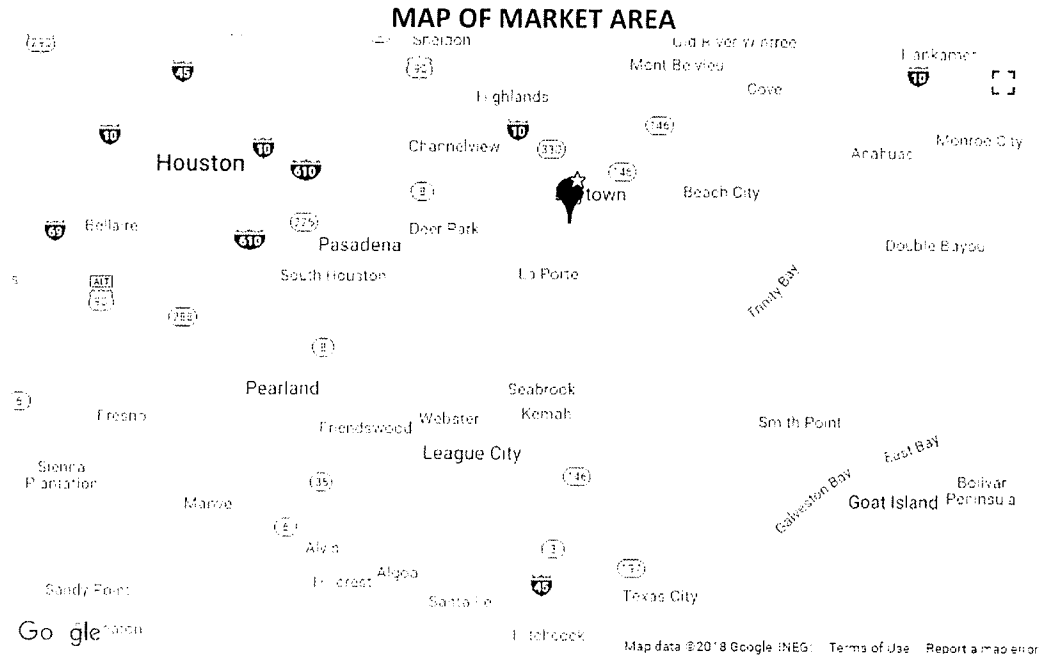
Additional midstream investments in the Mont Belvieu midstream complex also have significant impact on the Baytown economy:

- Targa Resources announced in February 2018 its \$1.1 billion development joint venture with Stonepeak Infrastructure Partners, integral components of which are Fractionator 6 (\$350 million) and 2 - 100,000 BPD fractionation trains at its Mont Belvieu complex (Fractionators 7 & 8). Fractionator 7 started production 1Q20. F8 will start-up 3Q20. Estimated capital investment is \$550 million.
- ONEOK announced plans to invest \$2.3 billion through year 2021 to construct a new 400,000 bpd NGL pipeline that will create additional NGL transportation capacity between its Mid-Continent infrastructure in Oklahoma and its existing NGL facilities in Mont Belvieu. In complement, ONEOK will also invest in 2 new 125,000 bpd NGL fractionators in Mont Belvieu, Texas (MB4, MB5).

These projects will generate thousands of construction jobs and hundreds of permanent jobs in Baytown.

Market Area Definition

The market area consists of the geographical region that offers transportation access, lodging, and other amenities to users of the Proposed Hyatt Regency. 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. Please note that the Woods and Poole forecasts were formulated prior to the COVID-19 pandemic.

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

Economic Indicator/Area	Beginning Amount	2000	2010	2019	2025	Ending Amount	Estimated Annual Compound Change 2019 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	1.1%
Houston-The Woodlands-Sugar Land, TX MSA	\$39.96					\$53.7	1.0%
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	-0.1%
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	2.3%
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	2.1%
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 Harris County workforce distribution by the various business sectors in 2000, 2010, and 2019, and a forecast for 2025.

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

Sector/Geographic Area Employment	Beginning Amount (thousands)	2000	2010	2019	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 2019 to 2025, which matches the expected overall growth in the local economy. Health Care And Social Assistance have the highest estimated growth from 2019 to 2025 at 17%. 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 Hyatt Regency’s market area.

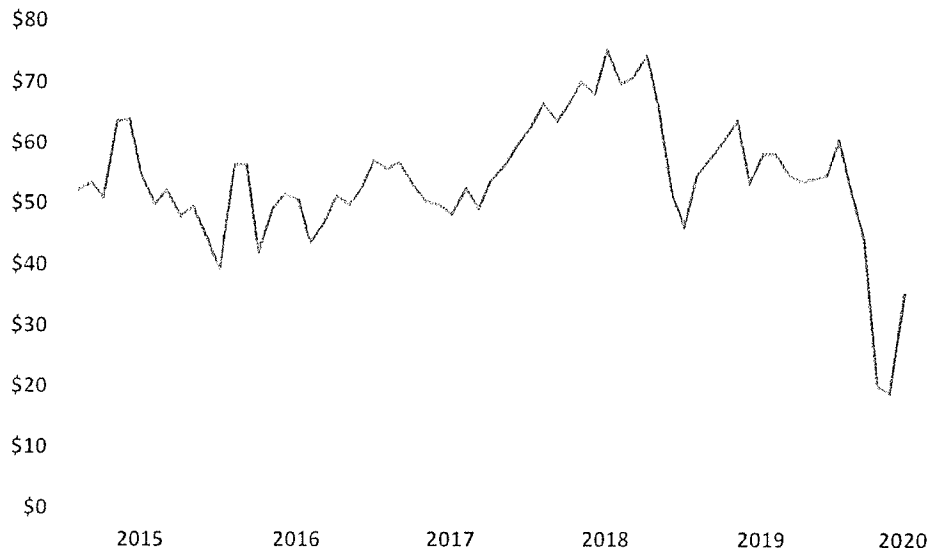
**FIGURE 3-4
UNEMPLOYMENT STATISTICS**

Year	Baytown	MSA	Texas	USA
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	9.0	4.3	3.8	3.9
2019	7.5	3.8	3.5	3.7
Recent Month - Mar				
2019	7.0 %	3.7 %	3.5 %	3.8 %
2020	10.2	5.1	4.7	4.4

Source: U.S. Bureau of Labor Statistics

Locally, the unemployment rate was 7.5% in 2019; for this same area in 2020, the most recent month's unemployment rate was registered at 10.2%, versus 7.0% for the same month in 2019. 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. The introduction of COVID-19 into the county in early 2020 and actions taken to reduce it spreading began to negatively impact employment, in late February/early March 2020.

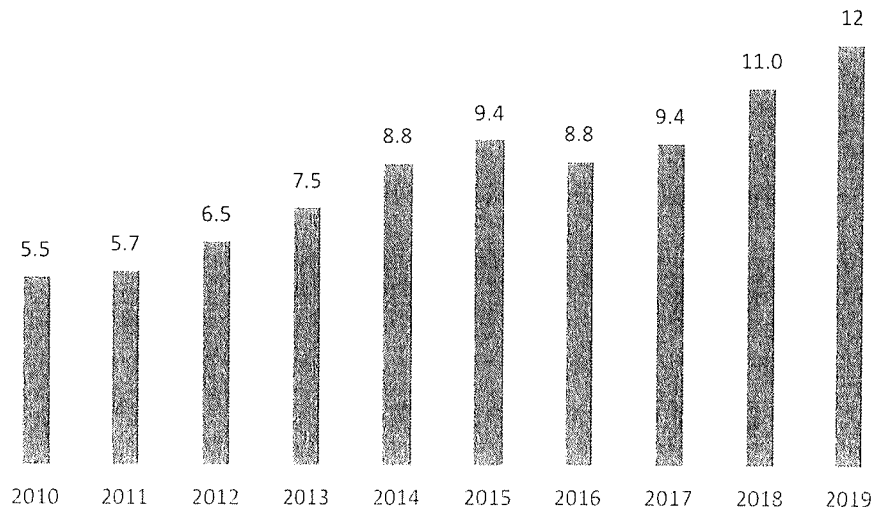
**FIGURE 3-5
PRICE OF A BARREL OF WEST TEXAS INTERMEDIATE OIL**



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. The market began recovering in 2016 as the price of petroleum products stabilized. U.S. oil production recovered in 2017 as producers became more efficient, and demand increased, as shown in the above figure. The price of oil rose in 2018 and decreased in most of 2019 but ended the year higher. In March of 2020, the dual impacts of COVID-19 and Saudi Arabia initiating a price war with Russia caused a significant drop in the price of oil. On April 9th of 2020, Saudi Arabia and Russia ended the price war and agreed to cut output with other members of the OPEC+. The price of oil began to recover as shown in the above 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 12.23 million barrels per day (“b/d”) in 2019, exceeding the prior record of 10.96 million b/d in 2018.

Oil production hit an all-time high of 13.1 million b/d in February of 2020 but dropped 900,000 b/d in March as the dual impacts of COVID-19 and Saudi Arabia initiating a price war with Russia. On April 9th of 2020 Saudi Arabia and Russia ended the price war and agreed to cut output with other members of the OPEC+. The price of oil began to recover as shown in Figure 3-5.

The U.S. Energy Information Administration (“EIA”) reported that 2019 Texas crude oil production averaged 5.07 million b/d, an increase of almost 660,000 b/d from 2018. Much of the increased production was generated within the Permian region in western Texas. The 2019 increase in b/d in Texas was nearly 53% 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 in the Baytown Industrial Districts. In December of 2019, Texas reached a record-high monthly production level of 5.35 million b/d.

The EIA reported that Texas crude oil production in 2020 averaged 5.4 million b/d in January, 5.4 million b/d in February, and 5.4 million b/d in March, the most recent data currently available. Recent news reports have indicated that due to impact of COVID-19 on demand and the short-term impact of the one-month Saudi Arabia/Russian price war in March/April of 2020 production was declining in April and May of 2020.

The COVID-19 pandemic has impacted cost advantages previously enjoyed by Baytown's midstream and downstream petrochemical sectors over the past several years. The dissipated ethane advantage over naphtha-derived feedstock, combined with upstream volatility and COVID-depressed consumer demand has created the need to rationalize and stabilize capital expenditures in the near-term. Nevertheless, the Baytown economy can be characterized as stable and poised for recovery and growth.

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.

An additional 3.5 million square feet is now under construction in the AmeriPort Industrial Park, AmeriPort Business Park, the Port 10 Industrial Park, the Cedar Port Industrial Park, and the Katoen Natie Complex. These expansions are driven by plastics and e-commerce supply chains.

**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**

$$\begin{aligned}
 \text{Industrial District Payment} &= \text{Base Value Industrial District Payment} + \text{Added Value Industrial District Payment} \\
 \text{Base Value Industrial District Payment} &= \text{Base Year Value}^1 \times \text{Tax Rate}^2 \times \text{Yearly Payment Rate}^3 \\
 \text{Added Value Industrial District Payment}^5 &= \text{Added Value}^4 \times \text{Tax Rate}^2 \times \text{Added Value Industrial District Payment Rate}^5
 \end{aligned}$$

- 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

Houston's William P. Hobby Airport ("HOU"), commonly referred to simply as Houston Hobby, is located 22 miles from the site of the Proposed Hyatt Regency. 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 currently near completion.

**FIGURE 3-11
AIRPORT PASSENGERS
WILLIAM P. HOBBY AIRPORT**

Year	Passenger Traffic	Annual Percentage Change
2010	9,054,001	
2011	9,843,302	8.7%
2012	10,437,648	6.0%
2013	11,109,449	6.4%
2014	11,947,924	7.5%
2015	12,164,429	1.8%
2016	12,909,443	6.1%
2017	13,435,672	4.1%
2018	14,476,469	7.7%
2019	14,455,307	-0.1%
YTD through Apr		
2019	4,617,000	
2020	2,792,000	-39.5%

Source: William P. Hobby Airport

Passenger traffic increased from 2010 to 2018 with a small decline in 2019. Through the most recent monthly data of 2020, passenger traffic has declined to 2,792,354 from 4,617,176 , an decrease of 39.5% due to the negative impact on air travel from travel restrictions and reduced demand related to the response to the COVID-19 pandemic.

George Bush Intercontinental Airport (“IAH”) is located approximately 37 miles from the site of the Proposed Hyatt Regency. 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