



Market Study

Proposed Hotel & Conference Center in Baytown, Texas

Prepared for:
Baytown-West Chambers County
Economic Development Foundation
1300 Rollingbrook Drive, Suite 505
Baytown, Texas 77521

Prepared By:
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May 13, 2015

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

Dear Mr. Simon:

In accordance with our engagement letter dated September 26, 2014, we have completed a market study with financial projections for the proposed Hotel and Conference Center in Baytown, Texas. The conclusions reached are based upon our present knowledge of the competitive market resulting from our fieldwork completed April 10, 2015.

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

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

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

Respectfully submitted,

PKF Consulting USA
A Subsidiary of CBRE, Inc.

A handwritten signature in cursive script that reads "G. Randle McCaslin".

G. Randle McCaslin, CRE
Senior Vice President

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

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

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ADDENDA

- A. Photographs of Subject Site
- B. Photographs of Competitive Supply
- C. Map of Competitive Supply
- D. Surveys
- E. Statement of Assumptions and Limiting Conditions
- F. Certification

SECTION I
EXECUTIVE SUMMARY

SCOPE AND METHODOLOGY

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

- Assembled, reviewed and analyzed economic, demographic and real estate market data pertaining to the Houston area in general and City of Baytown specifically to evaluate the present economic climate and to estimate future growth potential, particularly as it relates to lodging demand.
- Interviewed representatives of the Baytown area, local hotels and chain representatives to gather data on current and future area growth and the demand for lodging.
- Conducted surveys of local businesses, organizations and the community with the help of the Baytown Chamber of Commerce.
- Evaluated the existing supply of lodging in the market to determine the degree of competition that they are likely to offer the proposed Hotel and Conference Center.
- Prepared a summary of historical market performance, including available rooms, occupied rooms, market occupancy and average daily room rate for the period 2010 to 2014 and year-to-date February 2015 compared to the same period in 2014.
- Identified other proposed hotels to assess their probability of completion and the degree to which they will compete with the subject project.
- Based on an analysis of historical market growth and factors determined from review of the economic climate and interviews in the market area, prepared estimates of future growth in hotel demand.
- Based on estimates of future growth in demand and the potential additions to competitive supply, prepared estimates of future occupancy and average daily rate for the proposed hotel for the period 2018 to 2020, the stabilized year.
- Provided an estimate of prospective cash flow before debt service and income taxes for the proposed hotel for the period 2018 to 2027.

CONCLUSIONS

A concise summary of the conclusions of this report follows:

- Houston will continue to expand in 2015, although at a slower pace than previously projected because of lower oil prices. Nonresidential construction, housing, healthcare and local government will lead the way. There is some risk, though, that further oil price declines would generate a significant pullback in local investment spending. Longer term, above-average population growth and expansion in energy, housing and distribution industries will help propel above-average gains for the metropolitan area.
- With a booming economy, Baytown is experiencing unprecedented growth in industry, retail and housing. The city has maintained high quality of life while becoming a major center for economic growth. Baytown will continue to expand despite the drop in oil prices. Plant expansions, the retirement of long-time employees, growth in healthcare and the maritime industry are pushing the city to the forefront as one of the nation's fastest growing and most prosperous regions.
- The following table presents the recommended facilities for the proposed Hotel and Conference Center.

Recommended Facilities			
Proposed Hotel & Conference Center			
Baytown, Texas			
Number of Guestrooms		180 to 220	
Type of Hotel		Full-Service	
Meeting Space			
Ballroom	12,000	sq. ft.	divisible by 3 or 4
Meeting Rooms	3,000 to 5,000	sq. ft.	various sizes
Boardrooms	1,000	sq. ft.	2 Boardrooms
Total Meeting Space	16,000 to 18,000	sq. ft.	
Amenities			
Three-Meal Restaurant			
Lobby Lounge			
Room Service			
High Speed Internet			
Business Center			
Fitness Center			
Swimming Pool			
Potential Brand Affiliation			
Doubletree by Hilton			
Embassy Suites			
Marriott			
Sheraton			
Source: PKF Consulting USA			

With the recommended facilities, the Hotel will offer many of the amenities and services necessary to serve both the local community and outside visitors and conferences. Based on PKF's interviews, the proposed Hotel needs to have enough rooms to act as a host hotel for the Conference Center. Therefore, we have recommended 180 to 220 rooms.

According to interviews and surveys, the Conference Center should offer a large ballroom capable of seating up to 800 people for a banquet that is divisible to accommodate several smaller meetings at the same time. The hotel should also offer a number of smaller meeting rooms to accommodate smaller meetings/conferences, local social events/wedding and company functions. The majority of the interviewees agreed that the proposed Hotel and Conference Center would need to be a full-service, nationally branded franchise to be successful.

- The proposed Hotel and Conference Center will be well-located on the waterfront on Bayland Island in Baytown, Texas with easy access to the surrounding areas via SH 146. We consider the subject site to be well-suited for hotel development.
- Based upon our review of the area, we have identified 10 hotels containing 811 rooms as the Subject hotel's competitive set. These properties were included in the competitive supply based upon their location, facilities, brands, markets served and/or average daily rates.

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

- The proposed Hotel and Conference Center will likely attract additional demand to the area that is currently being turned away due to lack of adequate facilities. The existing properties were used as a base for current hotel occupancy and rates in the Baytown market area with the proposed Hotel and Conference Center being positioned above the performance of the existing hotels.
- Total occupied rooms increased 23.9% annually over the past five years. The total competitive set achieved an occupancy of 49.6% in 2010. Occupancy increased to 54.2% in 2011. Occupancy increased significantly to 70.1% in 2012, 73.1% in 2013 and to 77.9% in 2014. Year-to-date February 2015 occupancy is 76.2% compared to 76.7% during the same period in 2014.
- Rates in the market remained stable from 2010 through 2012. In 2013 and 2014, rates began to trend upwards. Year-to-date February 2015 shows an 5.5% ADR growth compared to the same period in 2014. RevPAR has increased 15.4% annually over the past five years.
- The 115-room Hilton Garden Inn Baytown is projected to open in 2017. The 85-room TownePlace Suites Baytown is scheduled to open in mid-2017. The Subject 200-room proposed Hotel and Conference Center is scheduled to open in 2018.
- The majority of the lodging demand at the competitive set hotels is generated by the Corporate Individual segment at 70%, followed by Group at 25% and Leisure demand at 5%.
- The market is projected to increase from 78% in 2014 to 79% in 2015 and to 80% in 2016. Occupancy is expected to decrease to 72% in 2017 with the addition of the Hilton Garden Inn Baytown and the TownePlace Suite Baytown mid-year and to 68% in 2018 with the addition of the Subject proposed Hotel and Conference Center. The market is projected to increase to 70% in 2019 and, with no new additions to supply, the market is expected to rebound to 72% in 2020.

- Estimated market segmentation for the proposed Hotel and Conference Center is summarized, as follows:

Proposed Baytown Hotel & Conference Center 2020 Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Corp Individual	36,300	66%	105%
Leisure	2,300	4%	85%
Group	16,800	30%	112%
Total	55,400	100%	106%
Source: PKF Consulting USA			

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

- We project that the Subject would achieve an ADR at \$140 in 2015 dollars. The hotel will likely achieve rates above the existing hotels in the market. The estimated performance for the proposed Hotel and Conference Center is shown in the following table.

Estimated Performance Proposed Hotel & Conference Center			
Year	Annual Occupancy	Average Daily Rate*	Net Operating Income
2018**	70%	\$153	\$3,068,000
2019	73%	\$158	\$3,386,000
2020	76%	\$162	\$3,701,000
2021	76%	\$167	\$3,817,000
2022	76%	\$172	\$3,934,000
* Stated Year Dollars, rounded to the nearest dollar.			
Based on an ADR of \$140 in 2015 dollars.			
** The subject hotel is estimated to open in 2018			
Source: PKF Consulting USA			

SECTION II
AREA OVERVIEW

INTRODUCTION

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

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

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

ECONOMIC AND DEMOGRAPHIC TRENDS

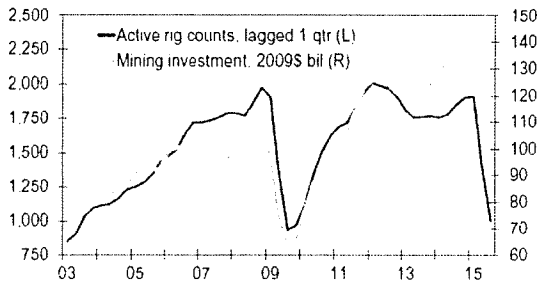
Note: Moody's Analytics provided the following demographic and economic data. Information relating to other topics has been obtained through a variety of media, including websites, publications, interviews or other sources considered reliable. PKF Consulting USA has reviewed and analyzed the Moody's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

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

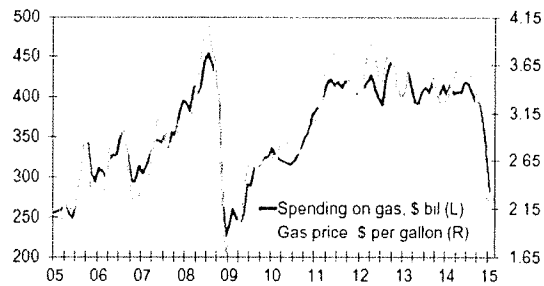


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The Decline In Oil Prices Stings Now...



...But Will Ultimately Feel Good



last summer, vis-à-vis the Japanese yen and the euro it is up an astonishing more than 20%.

It is rare for the dollar's value to move as sharply or broadly against almost every other currency. It is up big against currencies such as the Brazilian real, the Turkish lira, the Thai baht, and Russian ruble. Even the Chinese yuan is struggling to hold its own relative to the dollar, the first time that has happened in almost a quarter century.

The catalyst for the dollar's rapid appreciation was the European Central Bank's decision in the fall to engage in quantitative easing. The ECB's bond-buying is so aggressive—about €60 billion per month through late 2016—that many European interest rates have gone negative. Thus, if you lent money to the German government for a year, when the time was up you would get back less money than you lent. But if you lent money to the U.S. Treasury you would get all your money back plus some interest, so you would prefer to invest in the U.S. Thus, with money flowing into the U.S. and out of Europe, the dollar is soaring against the euro. The same dynamics are playing out with the yen given the Bank of Japan's even more aggressive quantitative easing program.

The dollar gets a boost each time a geopolitical hot spot boils over, driving investors to the U.S. safe haven. And hot spots abound, including those created by Russian President Vladimir Putin's belligerence, ISIS, the Israeli-Palestinian standoff, and negotiations over Iran's nuclear program. China's crackdown on corruption and speech has

persuaded nervous wealthy Chinese to buy more American real estate, stocks and other assets.

The stronger dollar reinforces the greenback's status as the world's reserve currency. That is, most trade and transactions done globally are done in dollars. This reserve status provides enormous economic benefits.

U.S. consumers are also basking in the strong dollar. It lowers the cost of imported goods, making everything from clothes to cars more affordable. Now is also a great time to travel. The dollar goes much further in Paris, Rio or Tokyo than it has in years.

The decline in oil prices is also due in part to the stronger dollar. Since oil is sold across the globe in dollars, when the dollar appreciates, the price of oil in dollar terms declines, if it did not, overseas buyers could not afford it.

However, the loftier dollar is hurting American companies, especially large multinationals. U.S. exports are more expensive for foreign buyers, and multinationals do not make as much money in dollar terms on their overseas operations. With U.S. households buying more imported products and U.S. companies exporting less, the nation's trade deficit will go deeper into the red. This will hurt economic growth and jobs. Based on simulations of the Moody's Analytics macro model, the dollar's appreciation to date will reduce real GDP growth this year by about half a percentage point (see Chart 3). Simulations of the Federal Reserve's model show less of an impact, although it is still sizable.

Unhealthy reign. In the Moody's Analytics baseline outlook, much of the dollar's apprecia-

tion is over, at least on a broad trade-weighted basis. Although dollar parity against the euro is likely, and the Japanese yen is expected to weaken further, most other currencies should hold up better against the dollar.

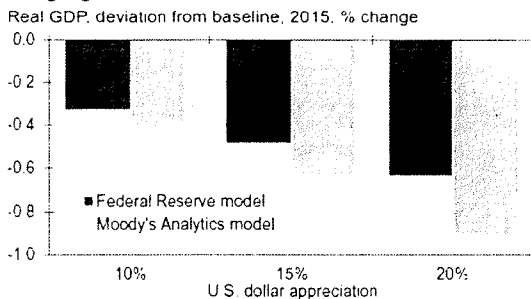
The U.S. economy is strong enough to manage this scenario in part because the dollar's appreciation is really not that great when we take the long view. On a real broad trade-weighted basis the dollar is close to its average since the adoption of freely floating exchange rates (see Chart 4).

However, if the dollar's rise continues, the economic damage will mount and upend the baseline outlook. This is a significant risk, as financial markets do not appear to have fully discounted how quickly the Federal Reserve will normalize interest rates. Futures markets expect the federal funds rate to be near 1.5% at the end of 2017, compared with more than 3% in the Fed's forecast, and 3.5% in the Moody's Analytics baseline. If investors ultimately adjust their interest rate outlook, this could also translate into a much stronger dollar.

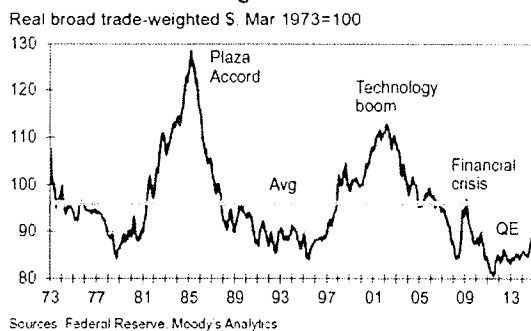
There is also the risk of a currency war. In times past, countries would directly weaken their currencies to prop up their exports and economies. This beggar-thy-neighbor strategy would lead to a breakdown in global trade. While there is no currency war today, as most countries are not overtly managing their currencies lower, there are fissures that bear close watching.

Mark Zandi
March 2015

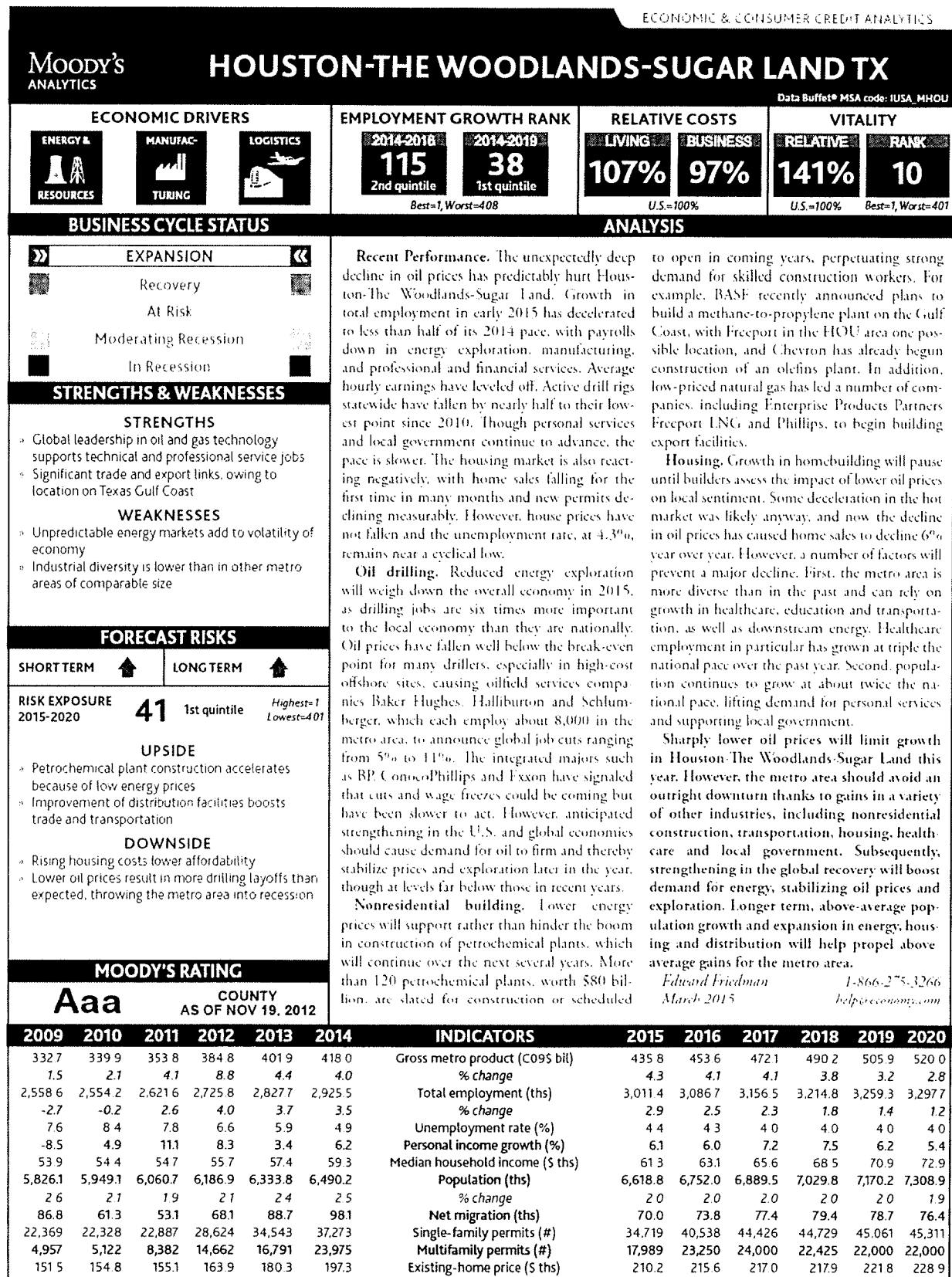
Surging Value of the Dollar Will Hurt Growth...



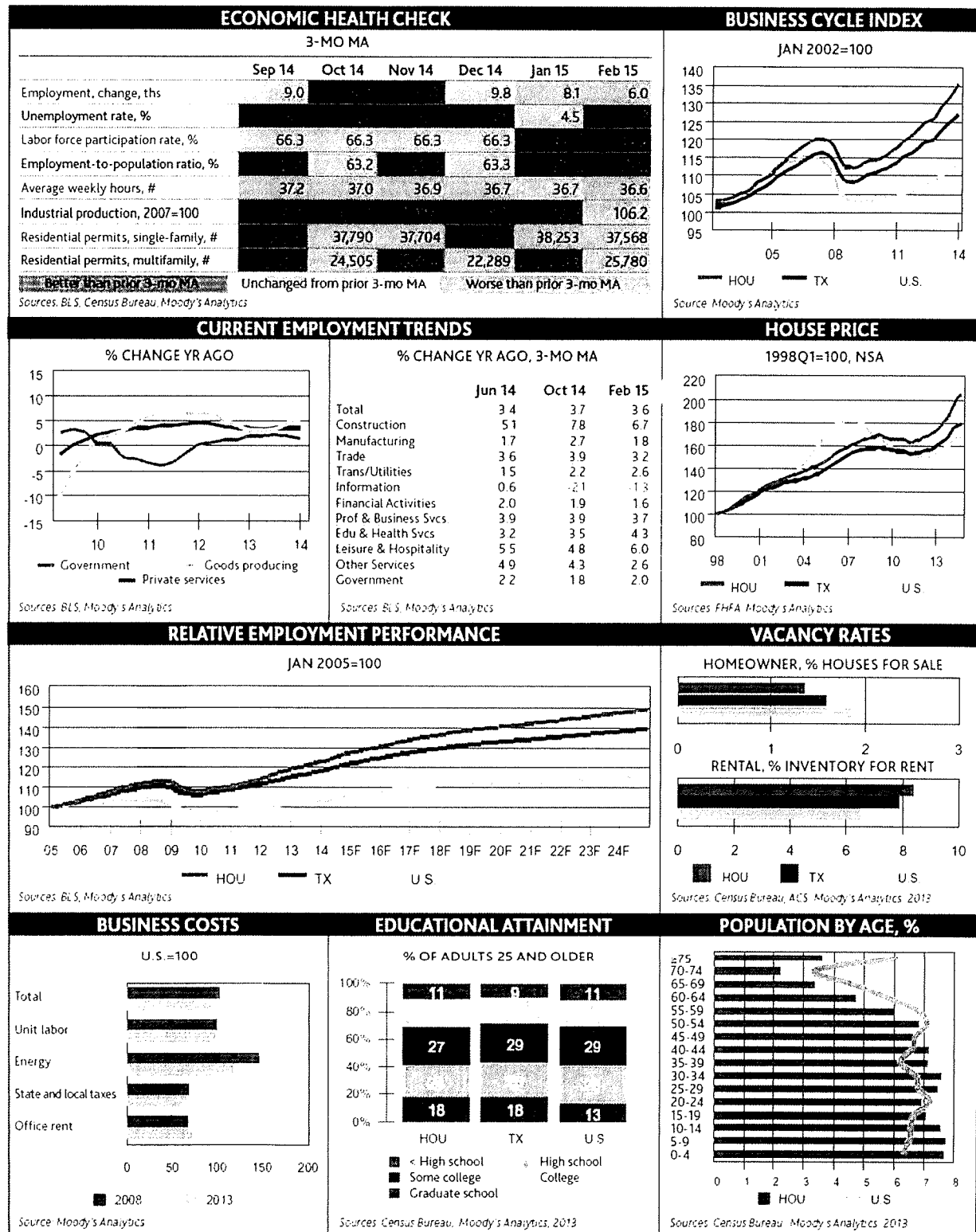
...But It Will Be Manageable



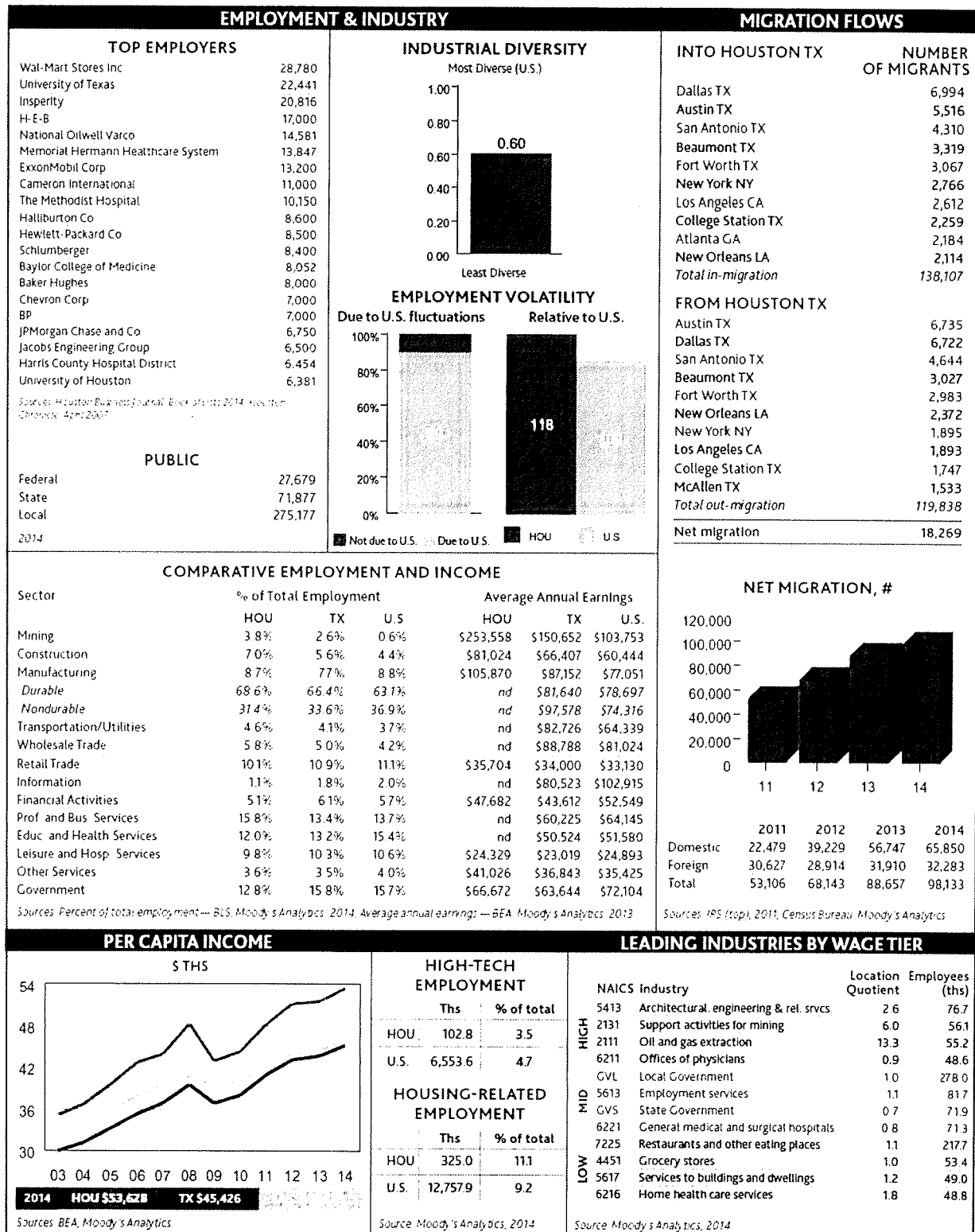




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HOUSTON OVERVIEW

Houston is the fourth-largest city in the U.S. and is the largest city in Texas. It covers approximately 8,778 square miles and had a population of 2,099,451 per the U.S. 2010 Census. In 2010, Houston MSA's population was 5.95 million and Harris County's population was 4,092,459. The City of Houston had 1.1% compound annual population growth from 2000 to 2010, the County and the MSA compound annual growth was 1.8% and 2.1%, respectively, over the same 10-year period. The MSA ranks among the top three U.S. metropolitan areas for business expansions, relocations and employment growth.

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

The recent drop in global oil prices has had some impact on the Houston economy. The energy sector is experiencing slower growth than before. However, prices are predicted to rebound over the next two years and Houston and the energy sector will continue to experience positive growth.

ExxonMobil recently announced the relocation and consolidation of its headquarters from Downtown, Galleria, West Houston and Greenspoint to a new campus under development just south of The Woodlands. Relocation began during 2014 and should be complete by the end of 2015.

The following table reflects the growth of key economic indicators for Houston for the period 2013 through 2018.

Key Economic Indicators Compound Annual Growth 2013 through 2018		
	Houston	United States
Gross Domestic Product (GDP)	5.3%	2.4%
Population	1.4%	0.7%
Total Employment	2.6%	1.5%
Source: Moody Analytics		

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

EMPLOYMENT

Houston's economy has a broad industrial base in the energy, aeronautics and technology industries. 23 Fortune 500 companies are headquartered in Houston and only New York City is home to more. 62 of the world's 100 largest non-U.S.-based corporations have a presence in Houston. Houston's commercial infrastructure is also strengthened by three airports, which form the sixth-largest airport system in the world, and a large trucking and rail system that links the southern, south central, mid-western and western U.S.

Houston's employment base has become increasingly diverse. In 1981, the economic base was dominated by energy-related businesses with nearly 85% of all jobs in those sectors. In 2012, nearly half of all jobs are in non-energy fields such as business services, technology, aerospace, medicine/healthcare and manufacturing. The City of Houston also offers a wide range of financial incentives to encourage business and industry to choose Houston when making expansion or relocation decisions, which increases potential room night demand for the hotel industry.

According to Moody's Analytics, Houston's economy will continue to grow steadily in 2014. The major drivers will be energy exploration, related commercial construction, and residential construction. Related manufacturing, technical and professional services will also benefit as large companies relocate more of their headquarters operations or desire to establish a presence in Houston. Additionally, the improvement of distribution facilities will boost trade and related transportation businesses.

The global petroleum market has a direct effect on Houston's energy sector. The falling oil prices will slow employment growth as some employers will operate with tightened budgets in 2015. However, the price is predicted to rebound over the next two years.

The following table illustrates the variety of major employers that are located in Houston. Many of the largest employers are in the oil and gas, retail, and healthcare sectors.

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

Source: Moody Analytics

Unemployment

The table on the following page shows that Houston unemployment rates are in line with the State levels and considerably below the U.S. Houston experienced a reduction in unemployment of 0.6 percentage points from 2012 to 2013, resulting in an unemployment rate of 6.0%.

Unemployment Comparison*					
	2011	2012	2013	2014	Mar-15
United States	8.9%	8.1%	7.4%	6.2%	5.6%
Texas	7.8%	6.7%	6.2%	5.1%	4.2%
Austin	6.6%	5.7%	5.1%	4.2%	3.3%
Dallas/Fort Worth	7.6%	6.6%	6.0%	5.0%	4.0%
Houston	7.8%	6.6%	6.0%	4.9%	4.2%
SanAntonio	7.1%	6.3%	5.7%	4.6%	3.7%
* Not seasonally adjusted					
Source: Texas Work Force Commission					

According to the Moody Analytics November 2014 forecast, the Houston unemployment rate is forecasted to be approximately 5.0% in 2015, 4.8% in 2016, 4.5% in 2017 and 4.4% in 2018. Decreasing unemployment translates to greater corporate travel and the resulting increase in consumer confidence leads to increased leisure travel.

TRANSPORTATION

Airports

The Houston Airport System (HAS) includes the Bush Intercontinental Airport (IAH), the William P. Hobby Airport (HOU) and Ellington Field, a civil/military airport. The HAS recorded more than 50 million in total passenger activity during calendar year 2014 and is the sixth largest airport system in the world.

HAS offers Houston an advantage over many of the regional convention markets with its affordability and number of daily flights. This is especially true of Hobby Airport due to the presence of Southwest Airlines. Additionally, HAS provides excellent national and international service that competes with many of the top multi-airport systems in the country. Both of the major commercial airports, IAH and HOU, are experiencing positive growth in total passenger activity. This bodes well for the hotel industry as increasing airline travel typically translates to an increase in hotel demand.

Bush Intercontinental Airport (IAH) is located 23 miles north of Houston's CBD. It is the City's primary airport facility. Houston has become one of the major centers for international air transportation in the southwest; the airport has five runways and five passenger terminals and provides service to international, interstate and intrastate markets.

Bush Intercontinental Airport is the fourth largest and ninth busiest airport in the U.S. in terms of passenger activity and as an international passenger gateway. The airport served almost 40 million passengers in 2013. In the second quarter of 2010, the merger between Continental Airlines and United Airlines was approved. While many of the corporate offices have been relocated to Chicago, Houston maintains some offices and remains a major hub for the airline.

The following table illustrates the historical airport passenger and cargo activity at IAH over the period 2005 through 2014 and year-to-date February 2015 compared to the same period in the previous year.

Bush Intercontinental Airport				
Year	Passenger Activity		Cargo Activity	
	Total Passengers	Percent Change	Total (Metric Tons)	Percent Change
2005	39,714,818	---	341,672	---
2006	42,550,432	7.1%	359,027	5.1%
2007	42,979,207	1.0%	384,263	7.0%
2008	41,708,580	-3.0%	372,007	-3.2%
2009	40,007,354	-4.1%	336,069	-9.7%
2010	40,479,569	1.2%	389,075	15.8%
2011	40,187,442	-0.7%	412,688	6.1%
2012	39,890,756	-0.7%	407,223	-1.3%
2013	39,799,414	-0.2%	401,772	-1.3%
2014	41,251,015	3.6%	433,433	7.9%
CAAG ⁽¹⁾	0.4%	---	2.7%	---
YTD Feb 2014	6,117,967	---	65,196	---
YTD Feb 2015	6,325,819	3.4%	72,903	11.8%

⁽¹⁾CAAG = Compound Annual Average Growth

Source: Department of Aviation, Houston Airport System

Passenger and cargo activity declined in 2008 and 2009 due to the cut back in capacity to reduce costs and the national recession. During 2010, both sectors showed positive growth with passenger and cargo activity increasing 1.2% and 15.8% respectively, compared to 2009. Passenger activity declined slightly in 2011 and cargo activity increased 6.2%. In 2012, passenger activity continued a slight decline of 0.7% and cargo activity declined 1.3%. In 2013, passenger activity declined 0.2% and cargo suffered another decline of 1.3% compared to 2012. In 2014, passenger activity has increased 3.6% and cargo activity 7.9%. Year-to-date February 2015 is already showing continued growth over the same period the previous year. Both passenger and cargo volume at IAH should continue to increase over the next several years.

William P. Hobby Airport (HOU) is located approximately seven miles southeast of downtown. The terminal building has three concourses with a total of 31 gates. HOU has eight scheduled passenger airlines with non-stop or direct service to over 65 cities throughout the U.S. The airport served over 11 million passengers in 2013. Southwest Airlines is the airport's main carrier and accounts for more than 80% of the total passengers. HOU also maintains a major general aviation operation including six fixed based operators and several hundred corporate jets.

Southwest Airlines has acquired AirTran Airways and the acquisition has greatly expanded Southwest Airlines' network by increasing its ability to reach additional markets. In September 2013, Southwest Airlines began construction on a \$156 million, five-gate international terminal at HOU. The addition of this terminal will allow Southwest Airlines to fly internationally to destinations in Mexico, South America and parts of the Caribbean. International Service out of HOU is anticipated to begin in late 2015.

Historical passenger and cargo volumes for HOU are shown in the following table.

William P. Hobby Airport				
Year	Passenger Activity		Cargo Activity	
	Total Passengers	Percent Change	Total (Metric Tons)	Percent Change
2005	8,257,159	---	6,941	---
2006	8,548,955	3.5%	8,448	21.7%
2007	8,819,521	3.2%	7,820	-7.4%
2008	8,775,798	-0.5%	7,417	-5.2%
2009	8,498,441	-3.2%	11,524	55.4%
2010	9,054,001	6.5%	11,224	-2.6%
2011	9,843,302	8.7%	10,492	-6.5%
2012	10,437,648	6.0%	11,981	14.2%
2013	11,109,449	6.4%	12,914	7.8%
2014	11,945,825	7.5%	12,705	-1.6%
CAAG ⁽¹⁾	4.2%	---	6.9%	---
YTD Feb 2014	1,686,044	---	2,045	---
YTD Feb 2015	1,654,885	-1.8%	1,761	-13.9%

⁽¹⁾CAAG = Compound Annual Average Growth

Source: Department of Aviation, Houston Airport System

Hobby Airport experienced a slight decline in passenger activity in 2008 and a 3.2% decline in 2009 due to the national recession. Year-over-year passenger activity increased 6.5% in 2010 and 8.7% in 2011. Passenger activity continued to increase in 2012 by 6.0%, 2013 by 6.4% and 2014 by 7.5%. Year-to-date February 2015 passenger activity slightly decreased 1.8% when compared to the same period in 2014.

Port of Houston

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

The Port of Houston experienced a 14% decline in tonnage during 2009 because of the national and global recession. Tonnage increased from 42.5 million tons in 2011 to 44.0 million tons in 2012, an increase of 3.1%. This increase continued in 2013 to 44.7 million tons, a slight increase of 1.4%.

As of year-end 2014, port tonnage totaled 46.6 tons, a 4.2% increase over 2013. As the global economy continues to recover, the tonnage is expected to continue to increase.

Highways

Highway transportation systems and ease of access can significantly affect demand for hotel accommodations. Houston and its surrounding areas are well served by major highways that provide good regional access. Interstate 10 (I-10) is the major east/west highway connecting Houston to Louisiana in the east and San Antonio and New Mexico to the west. Interstate 45 (I-45) connects the city to Galveston in the south and Dallas to the north. U.S. Highway 59 (US 59) runs from Brownsville in southwest Texas to Texarkana in northwest Texas. Houston is encircled by two ring roads, Interstate 610 (I-610) and Beltway 8 (Sam Houston Tollway), which connect the major interstates and highways.

The Grand Parkway (State Highway 99) was extended from I-10 to U.S. Highway 290 (US 290) and opened to traffic in December 2013. This portion of the Grand Parkway is expected to stimulate substantial residential development in what will be the Houston PSMA's largest master-planned community since The Woodlands. The next three stages of the project are currently under construction and will extend from US 290 to US 59. The project is expected to open to traffic in late 2015.

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

A TXDOT representative reported that the freeway would be widened to 10 lanes (and 12 in some places) between I-610 and Beltway 8. One additional lane will be added in each direction from Beltway 8 to Fairfield and one lane will be added from Fairfield to FM 2920. In November 2009, the Texas Transportation Commission approved \$315 million to fund the I-610/US 290 interchange.

As of April 2012, TxDOT has agreed to invest an additional \$400 million into the US 290 project (funds will come from a recent statewide supplemental pool of \$2 billion) and HCTRA will invest up to \$400 million to develop the US 290 toll and HOV lanes. US 290 will add an additional lane in each direction in addition to the 2-3 lane toll and HOV lanes.

OFFICE MARKET

After very good years from 2005 through most of 2008, Houston's economic and real estate environment changed as the effect of the nation's recession finally hit. In spite of the weakness in 2009 and 2010, the fundamentals for commercial real estate in Houston are remarkably good compared to many markets nationwide. In 2013, vacancy rates for both the total Houston market and Class A office space experienced significant decreases with 11.8% and 7.3%, respectively. Class A average asking rates achieved an 8% increase over the rates from 2012.

Through 2014, the amount of office space continued to increase with the addition of 26 buildings and 5.5 million square feet of space. Despite this large addition of space, vacancies remained relatively flat and asking rates continued to climb.

The following table highlights the trends in Houston office market performance from 2001 through the first quarter of 2015.

Houston Office Market Trends								
Year	Buildings	Net Rentable Area	Vacancy %	Average Asking Lease Rates	Class A Buildings	Class A Net Rentable Area	Class A Vacancy	Average Asking Lease Rates
2001	966	142,741,647	13.2%	\$19.13	175	66,414,950	9.7%	\$23.86
2002	984	143,957,209	15.1%	\$18.31	184	66,847,989	12.7%	\$22.01
2003	1,099	176,020,342	15.7%	\$18.01	230	86,353,361	13.1%	\$21.47
2004	1,137	178,982,587	16.2%	\$17.81	232	86,471,939	14.6%	\$20.93
2005	1,138	177,882,370	14.5%	\$17.78	235	86,980,155	12.5%	\$20.60
2006	1,149	179,245,857	12.0%	\$18.93	237	87,540,457	8.3%	\$24.02
2007	1,159	180,762,302	11.0%	\$21.67	239	87,943,191	6.5%	\$29.54
2008	1,180	185,141,631	11.9%	\$23.57	249	87,262,635	7.6%	\$31.88
2009	1,216	190,629,965	15.9%	\$24.00	268	91,403,844	11.9%	\$31.29
2010	1,209	190,022,296	16.3%	\$22.82	263	90,756,974	12.1%	\$30.47
2011	1,208	190,720,329	15.0%	\$22.84	267	92,818,878	10.6%	\$30.52
2012	1,210	190,776,946	12.9%	\$23.23	265	91,384,585	8.2%	\$32.77
2013	1,221	193,551,155	11.8%	\$24.62	276	94,406,022	7.3%	\$35.52
2014	1,247	199,151,013	11.6%	\$25.79	301	99,560,955	7.9%	\$36.13
Q1 2015	1,257	201,947,638	12.6%	\$27.17	310	102,322,212	9.4%	\$37.27

Source: CB Richard Ellis

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

TOURISM ACTIVITY

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

In addition to regularly-scheduled season games, the Toyota Center hosted the 2013 NBA All-Star Game and Reliant Stadium will once again be the venue for the NCAA Final Four tournament in 2016 and the Super Bowl in 2017.

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

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

Civic and cultural (including educational) facilities downtown include the Heritage Society Museum, Houston Public Library, City Hall, University of Houston Downtown, Jones Hall, Wortham Theater, Alley Theatre, Bayou Place, Hobby Center for the Performing Arts, and numerous squares and plazas that together work to create an impressive and highly visual civic and cultural gateway to downtown Houston from the western and northern sections of the city.

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

The light rail system, which was completed in early 2004, connects Reliant Stadium (Houston Texans), the Texas Medical Center, the Museum District and the downtown area. Other attractions in the greater Houston area include the Lyndon B. Johnson Space Center, Galveston Island and Moody Gardens. Several expansions to the light rail system are currently under construction with completions scheduled early 2015.

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

More than 90,000 people attend classes at the various institutions in the TMC, which include the University of Texas System Cancer Center, the Baylor College of Medicine and the Texas Heart Institute. The total medical space increased from 28 million square feet in 2007 to over 45 million square feet in 2012.

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

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

CONVENTION ACTIVITY

The City of Houston operates the George R. Brown Convention Center, which completed a major expansion in January 2004. The 1.2 million-square foot center is one of the 10 largest convention centers in the U.S. The expanded center now offers seven exhibit halls with a total of 862,000 square feet. At the same time, the 1,203-room Hilton Americas Hotel opened, adjacent to and connected by crosswalks to the convention center. The hotel serves primarily as a headquarters hotel to the convention center and this has enabled the Houston Convention & Visitors Bureau (CVB) to market Houston aggressively as a major convention destination.

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

The George R. Brown Convention Center has several green initiatives. In 2009, the center installed 270 photovoltaic modules and 360 solar panels on its rooftop as a pilot program for the City of Houston to assess the viability of utilizing solar energy on a wide scale basis. The convention center has also implemented a complete recycling and conservation program throughout its operation.

Historical Activity

The following table shows the historical growth in convention bookings at the George R. Brown Convention Center.

Historical City-Wide Conventions George R. Brown Convention Center					
Fiscal Year (ending June)	Number of Bookings	Room Nights Booked	Percent Change	Average Room Nights per Booking	Percent Change
2004	50	229,854	-	4,597	-
2005	61	221,421	-3.7%	3,630	-21.0%
2006	64	224,019	1.2%	3,500	-3.6%
2007	75	249,710	11.5%	3,329	-4.9%
2008	114	333,569	33.6%	2,926	-12.1%
2009	85	298,120	-10.6%	3,507	19.9%
2010	72	215,043	-27.9%	2,987	-14.8%
2011	79	251,284	16.9%	3,181	6.5%
Average	75	252,878	-	3,457	-
July-Dec 2011	31	95,597	-	3,084	-
2012*	60	295,537	-	4,926	-
2013	66	430,001	45.5%	6,515	32.3%

*In January 2012, Houston First Corporation's fiscal year was changed to the calendar year.

Source: Houston First Corporation

In 2008, convention activity increased dramatically with an increase of 39 events over the previous year and an increase in room nights booked of 33.6%. The 2009 and 2010 national recession had a dramatic effect on convention attendance. Room nights booked declined by 10.6% and 27.9% in 2009 and 2010, respectively. However, convention activity rebounded with 251,000 room nights captured in 2011, an increase of 16.9% over 2010. In 2012, the George R. Brown changed from a fiscal year to a calendar year tracking system. 2013 was a great year for convention center attendance with an increase of 45.5% in room nights booked from 2012.

Additionally, the Houston Convention & Visitors Bureau books group business for all of Houston's hotels and meeting venues, including the George R. Brown Convention Center.

The following table shows the historical bookings by the Bureau.

Historical Group Bookings Hosted Houston Convention and Visitors Bureau					
Calendar Year	Number of Bookings	Room Nights Booked	Percent Change	Average Room Nights per Booking	Percent Change
2004	258	498,191	-	1,931	-
2005	255	430,720	-13.5%	1,689	-12.5%
2006	307	569,003	32.1%	1,853	9.7%
2007	293	375,464	-34.0%	1,281	-30.9%
2008	269	514,130	36.9%	1,911	49.1%
2009	195	327,799	-36.2%	1,681	-12.0%
2010	216	397,280	21.2%	1,839	9.4%
2011	230	358,990	-9.6%	1,561	-15.1%
2012	349	426,165	18.7%	1,221	-21.8%
2013	321	495,707	16.3%	1,544	26.5%
Average	269	439,345	-	1,651	-
Source: Houston Convention & Visitors Bureau					

While total room night bookings declined in 2009 due to the recession, booking activity began to recover in 2010. The Bureau has recently introduced several targeted initiatives to attract a variety of meetings and leisure demand to the City, including targeted sales blitzes and successful bids that brought the NBA All-Star game to Houston in February 2013 and will return the NCAA Final Four tournament to Houston in 2016 and the Super Bowl in 2017.

Future Bookings

Houston's ability to increase convention bookings has been constrained by the lack of adequate hotel rooms to attract the larger conventions. However, this constraint will soon be lifted. In March 2014, Rida Development broke ground on the 1,000-room Marriott Marquis Convention Center Hotel directly across from the Convention Center. The Marriott Marquis is expected to open in early 2017.

The following table presents future convention bookings by the Houston CVB as of November 2014.

Future Convention Bookings As of November, 2014					
Year	Number of Bookings ⁽¹⁾	Room Nights Booked			Average Room Nights Per Booking
		Definite	Tentative	Total	
2014	389	547,570	707	548,277	1,409
2015	388	426,673	143,341	570,014	1,469
2016	168	372,579	189,486	562,065	3,346
2017	105	321,525	238,569	560,094	5,334
2018	56	230,433	178,770	409,203	7,307
2019	27	125,746	156,621	282,367	10,458
2020	21	26,167	169,591	195,758	9,322
2021	14	36,093	164,580	200,673	14,334

⁽¹⁾Includes Definite and Tentative Bookings

Source: Houston Convention and Visitors Bureau

For 2014, bookings were slightly below the CVB's pace target by approximately 4,000 room nights. However, definite bookings for 2015, 2016 and 2017 are already very strong with a substantial amount of tentative bookings in the pipeline.

HIGHER EDUCATION

Houston is home to several Colleges and Universities which provide room nights to local area hotels for sporting events, graduation and other campus-wide activities. The three largest colleges/universities are shown on the following table.

Houston Institutions of Higher Education	
School	Current Enrollment*
Houston Community College System	75,235
Rice University	6,082
University of Houston System	39,820

* Enrollment figures are estimates based upon the most recently published figures

Source: School Websites

Houston Community College

Houston Community College System (HCCS) is a community college system that operates community colleges in Houston, Missouri City and Stafford, Texas. HCCVS is one of the largest institutions of higher education in the country with more than 70,000 students each semester, including more international students (nearly 8%) than any community college in the country. HCCS offers the Associate in Arts, the Associate of Arts in Teaching and the Associate in Science degrees. Studies include humanities and fine arts, social sciences, communication, teacher education, mathematics, and science.

Rice University

William Marsh Rice University commonly referred to as Rice University or Rice, is a private research university that was founded in 1912 and is located on a 295-acre campus. The university is situated near the Houston Museum District and adjacent to the Texas Medical Center.

Rice is a preeminent research university with a distinct undergraduate focus. Its emphasis on undergraduate education is demonstrated by a small student body and a 5:1 student-faculty ratio which is among the lowest in the top American universities including the Ivy League. The university has produced 101 Fulbright Scholars, 20 Marshall Scholars, and 12 Rhodes Scholars. The university has a very high level of research activity for its size, with \$115.3 million in sponsored research funding in 2011. Rice is noted for its applied science programs in the fields of artificial heart research, structural chemical analysis, signal processing, space science, and nanotechnology. It was ranked first in the world in materials science research by the Times Higher Education (THE) in 2010. Rice competes in 14 NCAA Division I varsity sports and is a part of Conference USA, often competing with its cross-town rival the University of Houston.

University of Houston

Founded in 1927, the University of Houston (UH) is the leading public research university in the City of Houston. Each year, UH educates more than 40,000 students in more than 300 undergraduate and graduate academic programs on campus and online. UH awards more than 7,800 degrees annually and has more than 200,000 alumni. Undergraduate students choose from 120 majors and minors. The various graduate programs offer 139 masters, 54 doctoral, and three professional degree programs.

In January 2011, UH joined the ranks of the top research universities in the nation with the announcement by the Carnegie Foundation for the Advancement of Teaching that it had placed UH in its top category of research universities. The designation makes the University of Houston one of only three public Carnegie-designated Tier One research universities in Texas.

The threshold for being ranked as a top-tier research university is at least \$150 million in research expenditures annually, according to ranking organizations like the Carnegie Foundation for the Advancement of Teaching. This means that elevating the University of Houston to top-tier status will create:

- 5,000+ new jobs
- \$129 million in wages to the regional economy
- \$7.5 million in additional state revenue
- \$202 million in local sales

The UH Cougars have won 55 NCAA individual championships and 17 NCAA team titles, have been in 19 bowls, have appeared in five NCAA Finals Fours in men's basketball and have earned a berth to the College World Series. In addition, UH has produced more than 660 All-America award winners and 35 Olympic medal winners (including 16 Gold Medals). The American Athletic Conference recently extended to UH an invitation for membership and Houston will compete in all American Athletic-sponsored sports.

NEIGHBORHOOD REVIEW

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

Demographics

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

Demographic Information		
	Houston MSA	Baytown
Total Population		
2010 Census	5,920,416	71,378
2015 Estimate	6,467,776	75,782
2020 Projection	6,967,200	80,276
CAC ⁽¹⁾	1.8%	1.3%
Number of Households		
2015 Estimate	2,249,176	26,519
Income (2015 Estimate)		
Average Household	\$83,316	\$63,532
Median Household	\$62,026	\$50,979
Per Capita	\$28,973	\$22,232
⁽¹⁾ CAC = Compound Annual Change		
Source: Claritas		

Baytown has seen steady population growth over the past five years with 2015's population estimated at 75,782. As new petrochemical plants are continuing to be developed in the area, the population is projected to grow to 80,276 by 2020. Overall, the area is estimated to grow at a compound average annual rate of 1.3% from 2010 to 2020.

Employment

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

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

Much of the area relies heavily on the downstream sector within the oil and gas industry. Although global prices for oil are projected to remain low for the duration of 2015 and into 2016, Baytown's economy will continue to expand. The low price for crude oil may be a disadvantage to some energy producers, but in the downstream sector, it enables the refineries and most petrochemical plants in the area to increase profits.

New construction and expansion projects in Baytown and Mont Belvieu represent \$10 to \$13 billion of capital investment that will create nearly 22,000 construction jobs and add 1,100 permanent jobs over the next decade. These numbers do not take into account the number of openings due to retiring baby boomers or the increased workforce required for plant maintenance and turnarounds.

The region is facing a similar situation in the healthcare industry. The demand for healthcare support paraprofessionals will increase 30% by 2020. More than 40% of these jobs require a postsecondary vocational certificate or associate degree. With Baytown's expansion, healthcare is poised to be the largest industry in the Greater Houston area.

Major Industrial Parks and Petrochemical Plant Developments

AmeriPort

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

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

TGS Cedar Port

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

TGS Cedar Port Industrial Park comprises 15,000 prime acres with utilities and an industrial and commercial transportation infrastructure. The location and access to major freeway's, the Port of Houston, rail lines, air transportation and a pipeline distribution system, make it one of the largest intermodal logistics facilities in the world. CCIP's multi modal transportation choices offer an unequaled opportunity in transportation, storage and manufacturing and has attracted such companies as Wal Mart, Exel, Home Depot, JSW Steel, Tapco Enpro, Century Asphalt and GE to name just a few.

Major improvements to rail and port infrastructure and roads are planned. TGS Cedar Port Partners are initiating a \$22 million rail and site improvement expansion which will be completed by the end of 2015. Of the many scheduled improvements, the construction of two additional 9,000-foot interchange tracks on the north end of the property are key to facilitating more and better rail service for the industrial park. These tracks will open up over 4,000 additional acres of the industrial park for future rail served customers. The rail infrastructure upgrade project will also increase the carrying capacity of much of the existing railroad to 286,000-pound loaded railcars from 263,000-pound standard loads. These two tracks are currently under construction and will be completed in the 4th quarter of 2015. Adding the interchange tracks will increase rail capacity and eliminate future rail congestion as the park expands.

Chevron

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

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

Chevron Phillips Chemical is also considering adding yet another expansion to its Baytown plant and is studying how to increase the plant's capacity to produce polyalphaolefins, synthetic lubricants used in high-performance motor oils.

ExxonMobil

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

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

Medical

Houston Methodist San Jacinto Hospital

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

Higher Education

Lee College

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

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

CONCLUSION

Houston will continue to expand in 2015, although at a slower pace than previously projected because of lower oil prices. Nonresidential construction, housing, healthcare and local government will lead the way. There is some risk, though, that further oil price declines would generate a significant pullback in local investment spending. Longer term, above-average population growth and expansion in energy, housing and distribution industries will help propel above-average gains for the metropolitan area.

With a booming economy, Baytown is experiencing unprecedented growth in industry, retail and housing. The city has maintained high quality of life while becoming a major center for economic growth. Baytown will continue to expand despite the drop in oil prices. Plant expansions, the retirement of long-time employees, growth in healthcare and the maritime industry are pushing the city to the forefront as one of the nation's fastest growing and most prosperous regions.

SECTION III
PROPERTY DESCRIPTION

LOCATION

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

SITE DESCRIPTION

Visibility

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

Signage

We recommend signage to be placed atop the building as well as in appropriate locations on traffic corridors and roads leading to the property.

Access

Primary access to the subject site is by auto. The site is easily accessible traveling either direction on SH 146. The hotel site is located approximately one quarter of a mile off of SH 146 via Wyoming Road to access Bayland Island.

Surrounding Area

The site for the proposed Hotel and Conference Center project is located on the waterfront adjacent to the existing marina on Bayland Island. The remaining adjacent sites are vacant and ready for additional future use.

RECOMMENDED FACILITIES

The following table presents the recommended facilities for the proposed Hotel and Conference Center.

Recommended Facilities Proposed Hotel & Conference Center Baytown, Texas			
Number of Guestrooms	180 to 220		
Type of Hotel	Full-Service		
Meeting Space			
Ballroom	12,000	sq. ft.	divisible by 3 or 4
Meeting Rooms	3,000 to 5,000	sq. ft.	various sizes
Boardrooms	1,000	sq. ft.	2 Boardrooms
Total Meeting Space	16,000 to 18,000	sq. ft.	
Amenities	Three-Meal Restaurant Lobby Lounge Room Service High Speed Internet Business Center Fitness Center Swimming Pool		
Potential Brand Affiliation	Doubletree by Hilton Embassy Suites Marriott Sheraton		
Source: PKF Consulting USA			

With the recommended facilities, the Hotel will offer many of the amenities and services necessary to serve both the local community and outside visitors and conferences. Based on PKF's interviews, the proposed Hotel needs to have enough rooms to act as a host hotel for the Conference Center. Therefore, we have recommended 180 to 220 rooms.

According to interviews and surveys, the Conference Center should offer a large ballroom capable of seating up to 800 people for a banquet that is divisible to accommodate several smaller meetings at the same time. The hotel should also offer a number of smaller meeting rooms to accommodate smaller meetings/conferences, local social events/wedding and company functions. The majority of the interviewees agreed that the proposed Hotel and Conference Center would need to be a full-service, nationally branded franchise to be successful.

CONCLUSION

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

SECTION IV
HOTEL MARKET ANALYSIS

MARKET INTERVIEWS

In order to understand the needs of the Baytown community, as well as the facilities needed in the market, PKF Consulting USA conducted a series of interviews. The companies/organizations that we interviewed indicated a strong desire for a new full-service hotel in Baytown. Other comments included that the hotel should be a major brand with full-service amenities and that quality meeting space is needed in the market.

SURVEYS

In order to maximize the input from the community and other potential users, PKF Consulting conducted an email survey to identify the types, number and size of the potential events, number of breakout rooms, number of hotel rooms and the potential average daily room rate for the proposed Hotel and Conference Center. The survey results are summarized below.

We surveyed the Baytown Chamber of Commerce member list to maximize the input from the community since members include corporations, business owners, healthcare and educational institutions, non-profit organizations, community organizations, existing meeting facilities, hotels, restaurants, churches, performing arts groups, etc.

Number of Events

The following table presents the number of conference center events that were identified by the survey and the number of respondents that indicated that they would relocate their events to the proposed Hotel and Conference Center.

Baytown Proposed Hotel and Conference Center						
Survey Results - Potential Number of Events						
Type of Survey	Total # of Events Identified	# of Events Would Use Conf Center	% of Events Would Use Conf Center	Additional Events Identified	New Events That Could be Attracted to Area	Total # Events Would Use Conf Center
Chamber of Commerce	130	104	80.0%	88	104	296
Source: PKF Consulting, Inc.						

The survey identified 130 events which are currently held by the companies and organizations that responded to the survey. Of these events, the respondents indicated that 104 events or 80% of those events could be relocated to the proposed Hotel and Conference Center. The same respondents identified an additional 88 events that they are aware of that could be held at the proposed Hotel and Conference Center. Additionally, respondents were aware of 104 new events that could be attracted to the area that cannot be accommodated currently. Therefore, the number of potential events that could be held at the new Hotel and Conference Center totaled 296 events.

Size of Events

The following table shows the number of events by the number of attendees at each event.

Baytown Proposed Hotel and Conference Center								
Conference Center Events By Number of Attendees								
Type of Survey	Less Than 25	25 to 50	50 to 100	100 to 200	200 to 400	400 to 600	More Than 600	Total
Chamber of Commerce	36	24	31	32	12	10	6	151
Percent of Total	23.8%	15.9%	20.5%	21.2%	7.9%	6.6%	4.0%	100.0%
Source: PKF Consulting USA								

The events identified range fairly evenly among different number of attendees for groups under 200 in size. This indicates a need to have a variety of meeting room sizes that can be divided into smaller rooms. Additionally, there are several events that require a large ballroom.

Hotel Demand

The table below provides a breakdown of the number of events by the number of hotel rooms needed for each event.

Baytown Proposed Hotel and Conference Center								
Conference Center Events By Number of Hotel Rooms Needed								
Type of Survey	None	Less Than 25	25 to 50	50 to 100	100 to 150	150 to 200	More Than 200	Total
Chamber of Commerce	108	36	6	5	3	8	2	168
Percent of Total	64.3%	21.4%	3.6%	3.0%	1.8%	4.8%	1.2%	100.0%
Source: PKF Consulting USA								

A large number of the events (64.3%) do not need hotel rooms. This is to be expected since most of the respondents are local residents. Many of the events are banquets, galas, meetings, training and other events that are attended by local residents. However, 35.7% of the events do need hotel rooms with 25% needing up to 50 rooms. This will allow the booking of several smaller events at the same time.

The survey identified 18 events that need 50 rooms or more, with 2 events needing more than 200 rooms. Most of these events are conferences and conventions that will bring new hotel demand to Baytown. The proposed Hotel has been sized to accommodate the larger groups that require the majority of their attendees be booked into one hotel, while being small enough to allow overflow to the existing Baytown hotels.