Southern Downtown / CBD Market Assessment, 2013

Downtown Management District

Houston, Texas

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CDS Market Research
Community Development Strategies

TABLE OF CONTENTS

CDS Market Research
Community Development Strategies

LIST OF EXHIBITS

Introduction

CDS Market Research was engaged by the Houston Downtown Management District for an assessment of market potential of the southern portion of downtown Houston. This report contains the findings of this assessment, with primary consideration given to the following basic land uses:

- Office
- Multifamily residential
- Hotel

These land uses were chosen due to their role as the primary private sector drivers of land use change in downtown Houston, particularly in the southern downtown study area. The other chapters of this report deal with these land uses individually. Other land uses which may impact the study area are discussed in the "General Conclusions" section below.

The portion of downtown Houston considered for this study encompasses the entire east-west breadth of downtown south of Polk Street. This area includes but is not limited to an area represented by a group of property owners under the name "CBD Vision." The CBD Vision sub-area includes 36 blocks centered on Main Street between Clay Street and the Pierce Elevated.

Summary of Findings and General Conclusions

Southern Downtown Land Use

1. The area of focus for this report is bounded by Polk Street to the north, Highway 59 to the east, Interstate Highway 45 to the south and west.
2. The current land uses include:
    a) 8,628,207 sq. ft. of office space
    b) 7,739,019 sq. ft. (land area) of garage parking area
    c) 2,117,713 sq. ft. (land area) surface parking
    d) 1,217,963 sq. ft. of hospital use

   e) 777,269 sq. ft. hotel/motel
   f) 573,120 sq. ft. multi-family
   g) 639,357 sq. ft. of vacant buildings
   h) Other smaller uses include industrial, institutional, religious, retail, park, and utilities/undevelopable space.

3. The southeast corner of the study area is dominated by the St. Joseph Medical Center complex. The northeast portion of the study has several blocks covered by the Toyota Center arena and its associated parking structure.
4. There are two large buildings in the study area which are in derelict condition and have been essentially abandoned, the Days Inn on St. Joseph Parkway and the Savoy Houston at Main and Pease.
5. Freeways border the study area on three sides, separating with the adjacent neighborhoods of Midtown, 4th Ward, and East Downtown. On the north, adjacent land uses range from high rise offices to the northwest, religious and retail uses (Houston Pavilions) directly north, and largely undeveloped (surface parking) blocks near the Toyota Center and Discovery Green to the northeast. Amidst the office towers to the northwest, the Sheraton Houston was recently demolished and re-purposed to parking.
6. There is one building under construction at Main and Bell. Skanska Commercial Development is constructing a 10,000-square-foot child care center. Recent construction includes the Tellepsen Family YMCA at 808 Pease, a 120,000sf facility that replaced the 67-year-old downtown YMCA building a few blocks west.
7. The George Thomas "Mickey" Leland Federal building is also under major exterior and interior renovation, with estimated completion 2013.
8. There is an abundance of surface and garage parking in the study area. Currently there are 14 tracts available (for sale) in the southern portion of downtown; several of these are surface parking lots and vacant lots.
9. There is very little publicly accessible green space in the study area. Root Memorial Square, adjacent to Toyota Center, is the only significant public park. There is a playground at Young Scholars Academy for Excellence on Louisiana Street which participates in the SPARK Park program (accessible to the public). Office properties along Smith Street have privately owned green space that is generally accessible to the public.
10. CBD Vision is an independent group of property owners in the southwest sector of downtown who meet periodically to share information and discuss mutual interests with the objective of encouraging further development in the area. The area is characterized by numerous full-block property ownerships. During 2011-12, CBD Vision engaged Kirksey Architecture to prepare an urban design proposal. In particular, the Kirksey design concept addresses east-west streetscape improvements as public space to catalyze private development (see Appendix B.)

Demographic Trends

1. The Downtown District area includes a household population of 2,384 of which 508 are located in southern downtown per the 2010 Census.
2. The overall downtown area, including the study area, had an increase in households of 4.4% in the age group 0 to 20, 3.3% increase in 21 to 34 group, 3% increase in 34 to 54 age group and a significant increase of 10% in the age 55+ cohort. Older households are increasing in number at a greater rate than for the market area as a whole.
3. There were 13,500 housing units in the total residential market area (the downtown and adjacent districts) in 2010 compared to 7,348 in 2000. The southern downtown study area includes 555 housing units.
4. Southern downtown is consistent with the market area with 82% of households being a single person.
5. 18% of households in the downtown area earn $150,000 and over while 25% earn between $74,999 and $149,999.

Office Market

1. The downtown market area could capture from 480,000 to 720,000 square feet of office demand annually in the near term, rising to a range of 840,000 to 1,200,000 square feet annually after 2015. Not all of this demand is necessarily for Class A buildings with high rents. A 600,000 to 800,000 square foot Class A office tower could be supportable in downtown within the next three to four years, with continued tightening of existing supply in the interim.
2. Without any interventions by the public, civic, or collective private sector – meaning no incentive programs, proactive tunnel / skywalk extensions, investments in new green space or other public amenities beyond basic streetscape improvements – the odds of southern downtown being the location of the next new office tower are not likely. If financially feasible given the expensive renovation and remediation costs (including tunnel or skywalk extension), a return of the 1.1 million sq.ft. 800 Bell (Exxon) building to the marketplace could capture much of the increased demand in the downtown.
3. Further Class A tower office development east of Block 319 and / or 800 Bell is essentially dependent upon an extension of tunnels or skywalks from those properties or from somewhere else.
4. Small-scale stand-alone projects such as was done in 2009 with 1712 Pease could theoretically occur east of Main but would be infrequent, one-off projects and should not be expected to constitute a dominant use in that part of the study area. It is not expected that large-scale medical office uses will be a major driver of development in southern downtown, though medical tenants might contribute demand for new small-scale buildings.

5. While investments and policies such as parks and economic development incentives could produce some additional impetus to spur new office development in southern downtown, CDS concludes that a proactive extension of the tunnel / skywalk system (or incentive to ease the financial burden of doing so for the developer) would easily have the greatest impact, particularly if it could reach the cluster of whole-block ownerships along Main Street. This would make these sites among the most desirable in downtown for new office tower development. Public or civic intervention to extend the tunnel / skywalk system would be largely unprecedented, however.
6. 800 Bell – As announced in January 2013, Shorenstein Properties has negotiated the purchase of the 44-story ExxonMobil building, reportedly for $50 million. As part of the deal, ExxonMobil will lease back the tower through 2015 or until its new campus is completed. Reportedly, the building contains asbestos and needs major redevelopment. It is assumed that Shorenstein will restore the building to a Class A office which will have a signifcant impact on the study area as well as the downtown and the CBD in general.

Residential Market

1. The competitive pricing of townhomes in areas adjacent to downtown, while providing larger interior space and lower association fees, shrinks the potential market of for-sale multifamily. Rental apartments will initially be the residential use that is most supportable in the study area, with condominiums following after a more complete environment is established.
2. West of Fannin, land values are high enough that high-rise residential apartment developments will be the preferred structure type. These projects necessitate rents near the top of market in terms of rates per square foot (well over $2.00). The TIRZ #3 Downtown Living Chapter 380 Program is applicable in this part of the study area, but only for the blocks along Main Street east of Travis.
3. East of Fannin, land values decrease and mid-rise structure types are feasible, with rents per square foot under $2.00. Feasibility is enhanced by the Downtown District's incentive program, the Downtown Living Initiative, as recently applied to this area.
4. With no other civic or public intervention measure besides the current incentive programs, a scenario of 1-2 new mid-rise apartment projects east of Fannin, at 300 units each is reasonable over the next 6 years. The areas west of Fannin, along Main Street, have a moderate chance of supporting a high-rise rental tower with lease rates well above $2.00 per square foot, but other development sites in downtown (such as near Discovery Green or in the Historic District) may be seen as more appealing to the market. In this scenario, one such tower in southern downtown is reasonable to assume over the next 8 to 9 years. The recent announcement of the 24-story, 336-unit luxury rental high-rise by Atlanta-based Novare Group, Inc. at 1625 Main will account for a large share of the existing demand, helping provide credibility to the area for future residential uses, but likely delaying additional announcements for similar projects until it is fully absorbed.
5. Beyond the current incentive programs, the most effective intervention that would help the residential market would be a green space initiative to significantly change the general "feel" of the Main Street Corridor and adjacent blocks. Similar to what Discovery Green did for the east side of downtown, such an intervention would make southern downtown sites more competitive for the top of market renter that

would reside in a new apartment tower. If this public green space intervention could occur in the near term, at least two and possibly three new towers of 250 to 300 units apiece could be a reasonable expectation within a 10 year time frame. (See Appendix B.)

6. Removing or rehabilitating the derelict structures (Days Inn and Savoy) would also enhance market appeal for upscale residential, though not as much as the green space initiative.

Hotel Market

1. The Market Area has a total of 5,119 rooms, of which 4,299 are full service/boutique/luxury hotels.
2. Downtown Houston currently has two large hotels: the Hilton Americas (1200 rooms), which is attached to the Convention Center, and the Hyatt Regency (947 rooms), which is far enough away to require shuttle buses to the entertainment and convention venues. In September 2012, Houston First Corporation announced their selection of Houston's Rida Development for a new 1,000 room convention hotel at blocks 99 and 121, immediately north of Discovery Green, with skywalk connections to the Convention Center and a new 1,800 car garage at blocks 160 and 175.
3. According to the Houston Convention & Visitors Bureau, Houston has lost business from a significant amount of groups requiring 2,500 to 4,500 rooms which supports the addition of another convention hotel in the CMA.
4. Downtown development will be forced southward due to lack of land available. The area needs to have a destination for demand growth.
5. A mixed-use development in the southern downtown study area could create a destination with office, residential, commercial and a hotel use (i.e. Sorella type hotel and development such as City Centre).

Other Land Uses and General Conclusions

1. Retail uses are generally expected to be an incidental use to the other three major potential land use drivers. Given the need to fill existing retail space in the Houston Pavilions and nearby buildings just to the north of the study area, CDS does not recommend promoting competitive retail-driven development south of Polk. Any retail development in the study area in the near term would either need to feature a regional destination tenant that cannot locate in the existing properties to the north or be in small increments (example: the new deli at Houston House) that caters to the limited amount of adjacent active uses.
2. There does not appear to be great demand for civic or public developments in the study area, apart from parks. Any such development added to the study area would be of significant benefit to private uses only if it is bringing positive activity and liveliness to the area during a broad range of hours (as opposed to a building that only hosts the occasional evening event, for example). The Tellepsen YMCA fits this criterion. It should also provide an attractive interface with the sidewalk, avoiding long stretches of blank walls.

3. CDS finds the most viable land use to drive new development in the near to middle term is multifamily rental. This residential use also has greater potential to transform a larger swath of southern downtown than office uses during this period. The region's employment growth, increase in urban core living demand, and success of One Park Place and Houston House indicate a greater depth to this market than might have been estimated a few years ago.

4. Land costs from Fannin westward will likely limit multifamily development to upscale high rises, which require fairly high rents (minimum $2.00 per sq.ft. for this type of physical structure). East of Fannin, lower land costs can enable a greater range of physical structure types that can require lower rents – and hence a broader potential market. While multifamily development may prove feasible on its own as attainable rents have been generally increasing across the urban core, the City of Houston and Downtown District have implemented a Chapter 380 incentive program east of Fannin to help reduce developer costs through a type of tax reimbursement program. Similarly, TIRZ #3 offers a parallel residential development incentive program through the Downtown Redevelopment Authority west of Fannin, east of Travis. Jointly, these residential incentive programs could have an effect of accelerating residential development in the majority of the study area. It should be noted, however, that much of the property in this area is controlled by two entities which may reduce the chances of near term development: St. Joseph Medical Center, which has indicated that it plans to keep its surface parking lots, and Golconda Venture, which has a history of holding onto its properties for investment and not engaging with developers.

5. In terms of helping increase demand (lease rate levels and potential absorption rate), the intervention that would be most effective would be green space, particularly near Main Street, where it is totally absent. Whether done as a full-block park or alternative schemes as have been proposed by CBD Vision (see Appendix B), such green space would need to be highly meaningful to the casual user; not only aesthetically attractive but well managed and programmed to avoid being underutilized (contrast with Root Memorial Square). The recently redone Market Square Park might provide an inspiration for this type of improvement, although programming might be more passive for a more residentially-oriented park – softscape and shade should be the vital emphasis, with low-key amenities such as a dog run. For an optimal impact, the appeal must be immediate and unquestionable (no security concerns).

6. Helping to extend the tunnel and skywalk system toward the properties along Main Street under full-block single ownership (Main Bell Realty, Skanska, Amegy, etc.) would have a dramatic effect in increasing these properties' appeal for office development; it would also be critical to the market viability of 800 Bell for repositioning and refurbishment as a Class A multi-tenant office property. Demand for office space in downtown will grow along with the region's population and overall economy. However, there are no current indicators that space downtown is likely to experience the same level of demand growth as other parts of the region which are home to a greater number rapidly expanding employers related to the oil and gas industry, particularly technical support services such as engineering firms. So choosing an intervention, like the tunnel / skywalk strategy, designed specifically for the office market will have a much longer time horizon for achieving an objective of reducing the amount of underutilized land in southern downtown.

7. The feasibility of repositioning 800 Bell for Class A multi-tenant use is a question that will take serious architectural and engineering analysis as well as financial analysis to answer. Shorenstein Properties typically develops and owns Class A properties. If upgrade to Class A is possible, its entry into this segment of the multi-tenant office inventory would have a significant delaying effect on the potential for office development on other southern downtown sites until its space is fully absorbed.
8. A green space intervention strategy will benefit the potential for office development on Main Street Corridor sites as well but is not as critical for success as is tunnel / skywalk extension.
9. The other one significant potential intervention that would be beneficial to development would be the demolition, or (less likely) refurbishment and reuse of the old Days Inn and Savoy structures. Because of their locations which are less attractive to new nearby office development, this action would be primarily beneficial to demand for new residential development.
10. There is potential for hotel development in the study area. In the near term, this would be restricted to limited-service hotel development, probably on less expensive sites east of Fannin. The pursuit of convention hotel development north of Discovery Green by Houston First will likely delay the development of another such hotel on the south side of the Convention Center for at least a short time frame until the increase in meeting activity and attendance is borne out.
11. Full service, first class hotel development in the western half of the study area may be feasible in the long term, but is predicated on the growth of other uses on surrounding sites, most critically office uses.
12. With a number of undeveloped or underdeveloped blocks throughout southern downtown, opportunities for transit-oriented development should be seen as a positive for the study area. With fewer constraints of existing buildings, the potential for a mixed-use residentially-focused neighborhood offers promise. With immediate access to METRO's Transit Center and the Main Street light rail line, southern downtown presents development opportunities that likely do not exist at this scale in other U.S. metropolitan centers.

Downtown District Overview

The Houston Downtown Management District (Downtown District) is bounded largely by the freeway ring around Houston's central business core, including Interstate 10, Highway 59 and Interstate 45. The map at right shows the boundaries of the District.

The Downtown District was formed by an act of the Texas Legislature in 1995 and has been in operation since 1996. During this time, downtown has experienced an exciting renaissance and a remarkable economic rebound.

1. $5.76 billion of construction has been completed and another $1 billion is under construction for a total of $6.7 billion of redevelopment activity in over 130 public and private projects.
2. Over 3,400 residential lofts and apartment units are opened, under construction or in development in over 30 projects.
3. The number of restaurants in downtown now approaches 300 including those at tunnel and street level.
4. Retail space has increased by 380,000 square feet to 2,700,000 square feet, an increase of 16%.
5. 2,919 hotel rooms in 12 projects have been or are being added bringing total rooms to 5,024 in 16 properties, and total room revenue has increased by over 200%.
6. 4.9 million square feet of new Class A office space has been constructed.
7. A $40 million Texas Cultural Heritage Center was recently announced to be located on an adjacent site to Minute Maid Park. The tourism boost from the center has the potential to create 2,400 jobs, to generate $31 million a year in tourist spending and to increase state and local government tax and

Houston Downtown Management District Boundaries

Source: Central Houston

fee collections by $1.8 million annually, according to a study by the Greater Houston Partnership.

8. $500 million of infrastructure improvements by the City of Houston, Downtown Redevelopment Authority/ TIRZ#3, METRO, TxDOT and the Downtown District include the reconstruction of 23 streets. Over 80% of all blocks in downtown have had some level of streetscape improvement, one of the most dramatic transformations of its kind in the nation. A new east-west light rail corridor is under construction on Capitol and Rusk.
9. 9,166 garage and lot parking spaces were added to an inventory of 91,000. The Cotswold Project and the Southeast Streetscape Project added 1,500 on-street spaces to an inventory of 4,500.
10. The Mickey Leland Federal Building is undergoing extensive remodeling. The work includes replacement of the building exterior façade, and related new lighting controls, upgrade building interior for ADA compliance; alteration to the first floor lobby, including relocation of the security check-point, and relocate existing cafeteria; replacement of the building's HVAC system; upgrades to the adjacent parking garage, including structural, lighting, and ADA improvements; replacement of the exiting breeze-way from the parking garage to the building lobby; install new elevator, and reconstruct existing stairway for access from parking garage tunnel to breeze-way; reconstruction Plaza Area; and upgrades to the perimeter security barriers. Estimated cost: $80 million.

The Downtown's District is operated under the direction of a 30-member Board of Directors whose primary focus is to leverage public funds with private resources to improve facilities and services, as well as accelerate area improvements with widespread benefit above and beyond the level presently provided by local government or voluntary effort.

The Downtown's District services and capital improvements are financed through an assessment based on the certified tax rolls of the Harris County Appraisal District and a rate determined annually by the Board of Directors. The current 5-year Service & Improvements and Assessment Plan is for tax years 2010 through 2014. The current assessment rate of .135 (.1065 for services and .0285 for capital improvements) was levied against the 2010 certified valuation, as annually supplemented and is payable in five installments (13.5 cents each year) for the tax years 2010 through 2014.

An operations budget and plan are developed and approved by the Board. The mission of the plan is to sustain and manage downtown while continuing redevelopment to make it a diverse, accessible and perpetually active core of the Houston region both in perception and reality.

2011-15 Service and Improvement Plan and Assessment Plan

The following plan was adopted by the Board of Directors of the Downtown District in November 2010. It sets forth the goals to be achieved, services rendered and improvements made in support of the goals, costs, and a proposal for funding these within the 1,173 acre area of the District.

The Plan goals can be summarized as:

1. Downtown feels comfortable and safe at all times (crime rate/police enforcement, street lighting, cleanliness)
2. Public realm that is charming, inviting, beautiful and celebrates the life of the city (public spaces)
3. Accessible to entire region all of the time and easy to get around (transit, connected neighborhoods, parking)
4. Vibrant, sustainable mixed use place (neighborhoods, shopping, destination for visitors)
5. Downtown's vision and offerings understood by all (marketing)
6. District's governance and service known for excellence (preservation of assets)

Downtown Districts

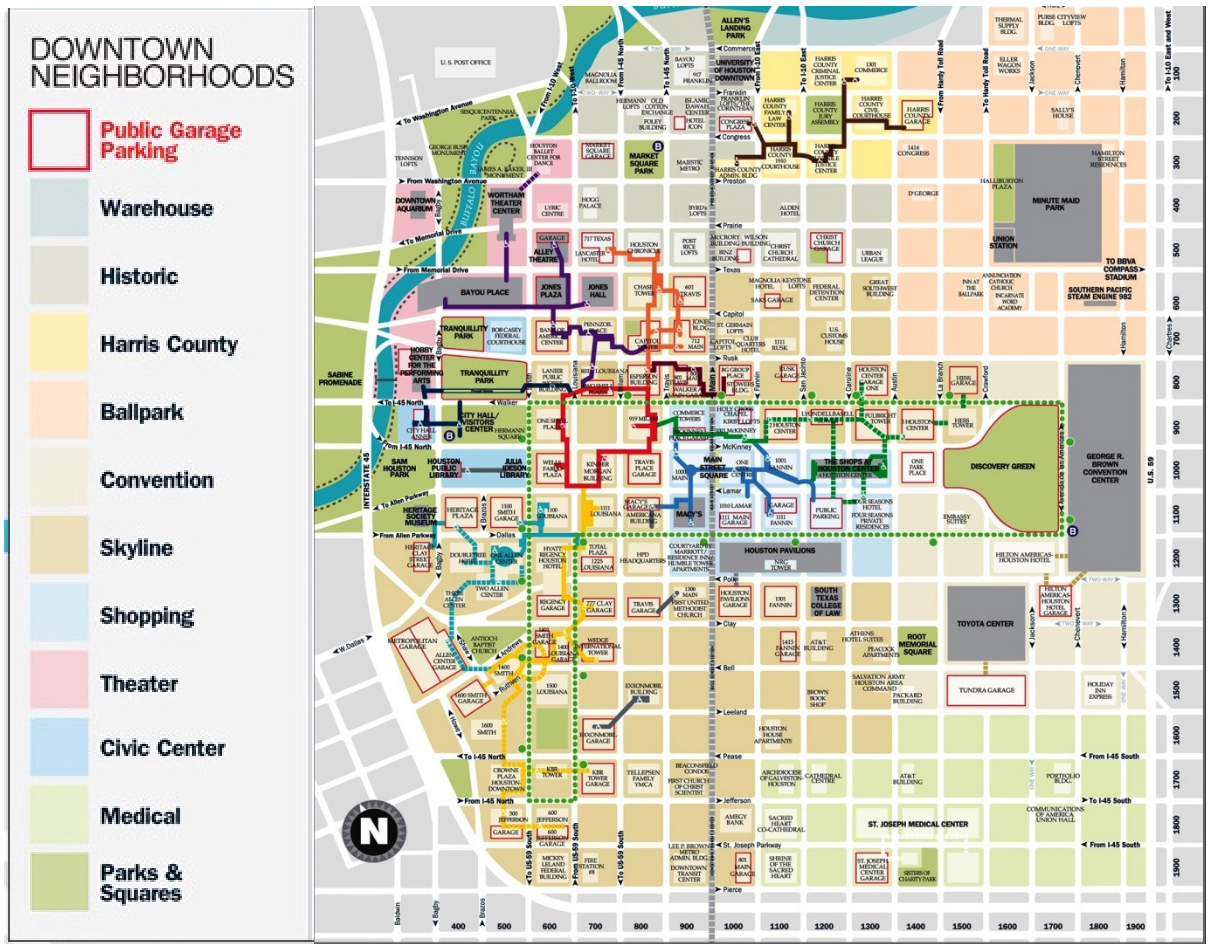
The Downtown District is subdivided into 10 districts. They are as follows: warehouse, historic, Harris County, ballpark, convention, skyline, shopping, theatre, civic center, and medical. The map to the right outlines the districts.

The study area in this report includes significant portions of the medical district and the skyline district.

The skyline district is the heart of the business community, with office towers housing corporate headquarters and major white-collar firms.

The medical district is populated by the St. Joseph Medical Center, various residential properties and the Sacred Heart Co-Cathedral campus (built in 2005).

Downtown Districts



Source: DowntownHouston.org

Southern Downtown

The area of focus for this report is bounded by Polk Street to the north, Highway 59 to the east, Interstate Highway 45 to the south and west.

Within this study area is the St. Joseph Medical Center complex, Holiday Inn Express Downtown, Crown Plaza Hotel, Houston House (apartments) and Beaconsfield Condos, Central Fire Station, Root Memorial Square, Toyota Center, YMCA, Metro Headquarters and transit center, Pappas Barbeque, several churches, Amegy Bank, and the Mickey Leland Federal Building.

Office development includes Three and Four Allen Centers, Wedge International Tower, 1500 Louisiana, Continental Center I & II, Exxon Building, Cullen Center, KBR Tower, 1415 Fannin, 1621 Milam, Seafarers International, 1210 Jefferson, 1301 Leeland, 1300 Main, 1301 Fannin, and 1521 Austin.

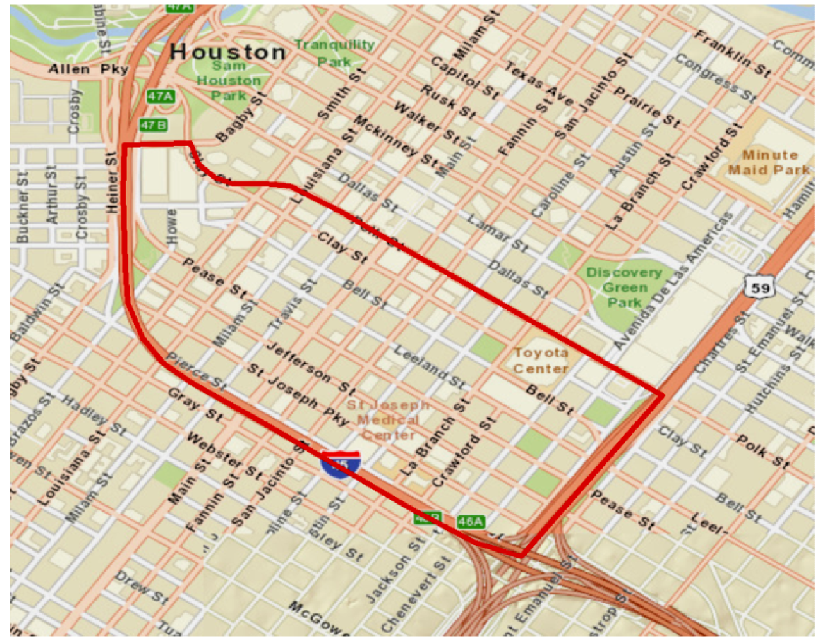
There are also numerous parking garages and lots in this area of downtown Houston.

There are two buildings in the area which are in need of demolition, given that they suffer from abandoned building blight. These are the Days Inn and Savoy Houston. The Sheraton Houston was recently demolished and re-purposed as surface and underground parking, with potential for half-block development.

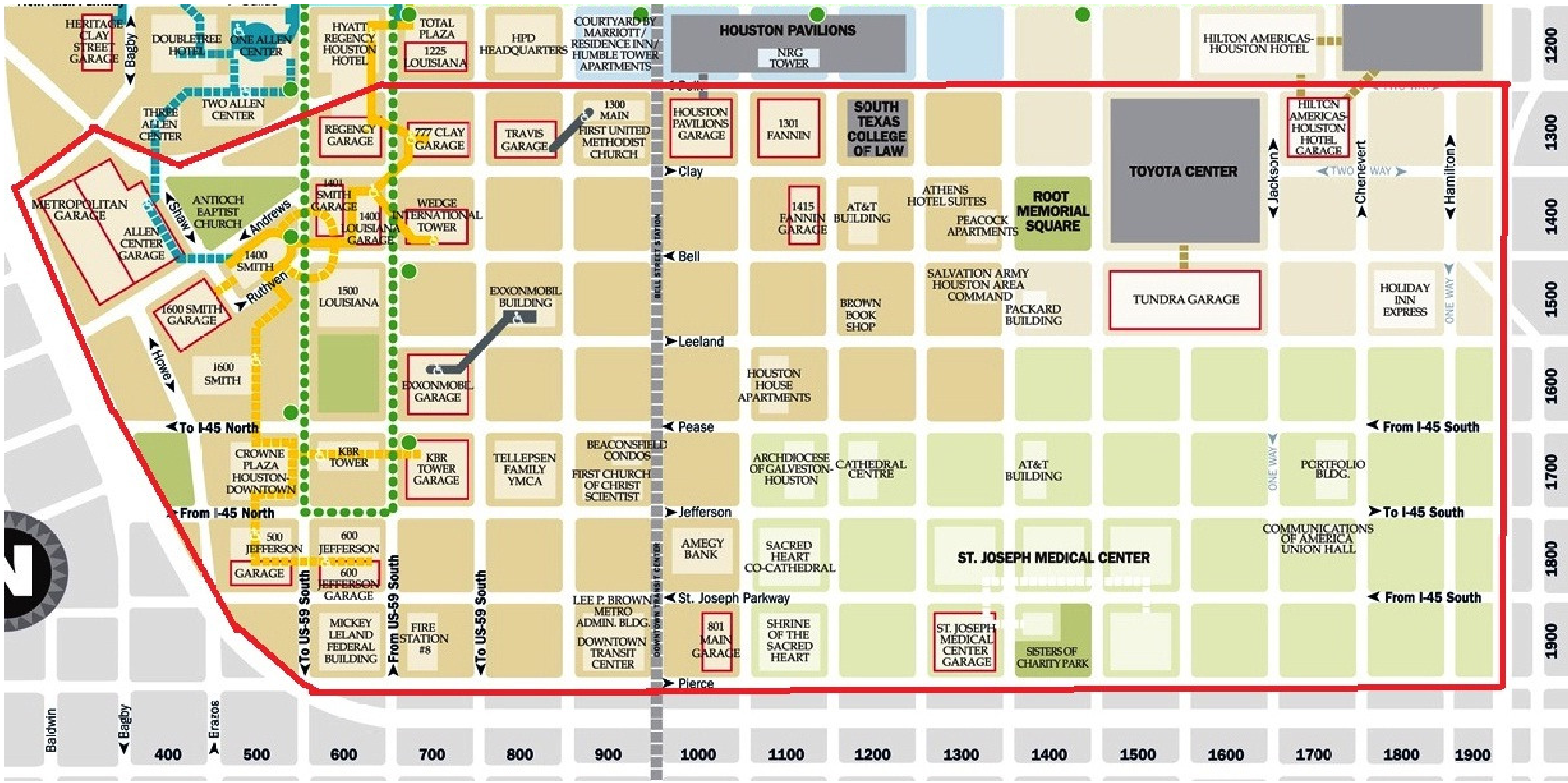
There is one building under construction at Main and Bell (block 317). Skanska Commercial Development is constructing a 10,000-square-foot child care center, nearing completion in first quarter 2013.

The following map details the development in the southern downtown area.

Southern Downtown Study Area



Southern Downtown Development Map

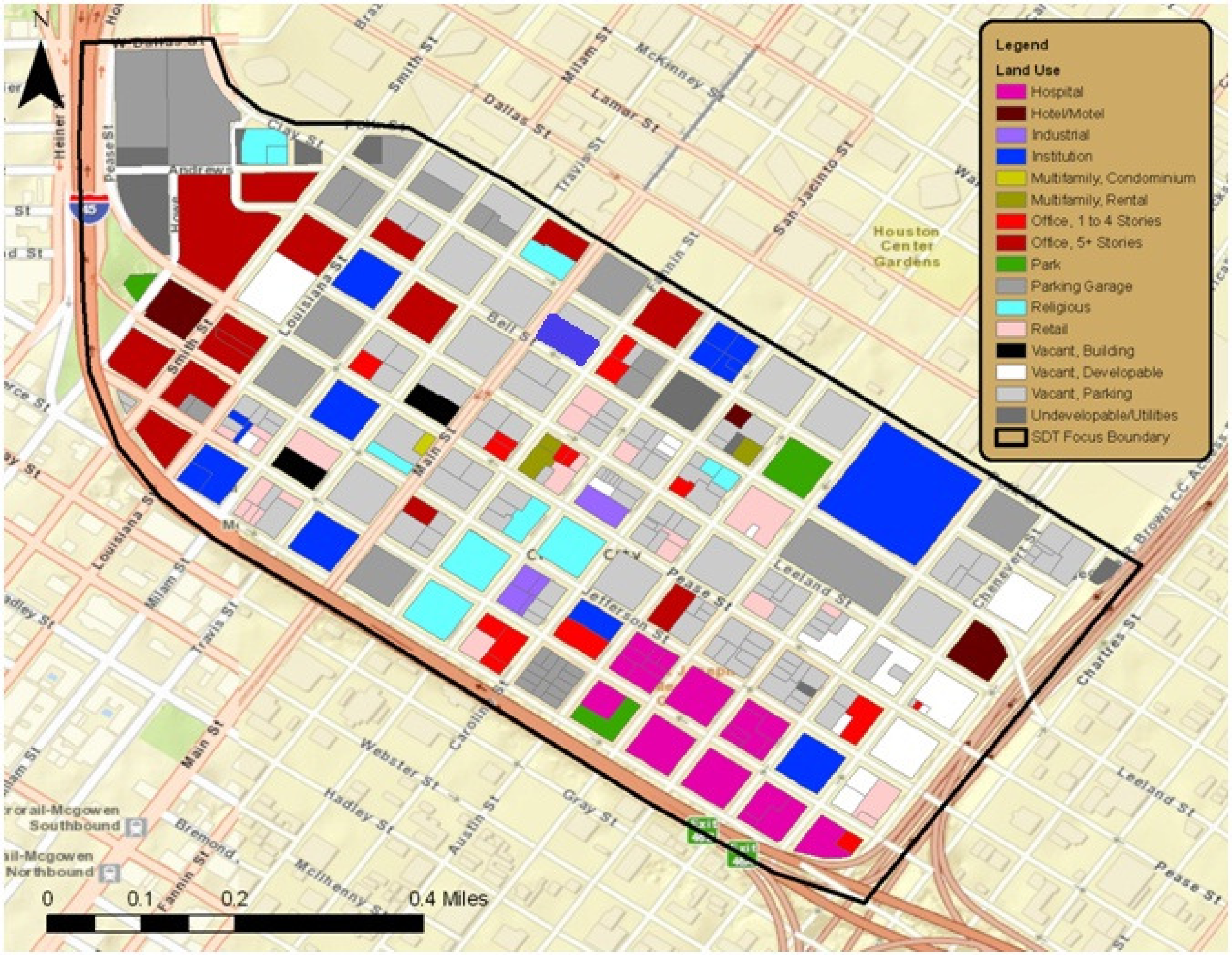


There is an abundance of surface and garage parking in the study area as shown on the map to the right. Surface parking is indicated in blue and garage parking in red.

Garage and Surface Parking

Source: CDS Market Research

Southern Downtown Land Use



Source: CDS Market Research

CDS Market Research Community Development Strategies

Land Use Data and Inventory

The following table summarizes land use in the southern downtown area. This land use data was compiled using the final 2011 property tax roll data from the Harris County Appraisal District (HCAD). Land use was determined by the state land use classification code assigned to every parcel for which HCAD is responsible. It should also be noted that the state classification codes for industrial parcels use a narrower definition for industrial property than CDS and its other sources use. The state codes classify much of what is considered industrial by others as commercial, thus the significant difference between HCAD's square footage totals and the CDS building inventory.

Aggregate Land Use Data

Land Use / Property Type	Building Area (SF in 000s)	Land Area (SF in 000s)	Land Area (Acres)	Total Appraised Value	Units	Average Value/Unit
Hospital	1,218	464	10.7	$ 73,342,109		
Hotel/Motel	777	131	3.0	$ 40,461 ,033	394	$ 102,693
Industrial	68	70	1.6	$4,203,075		
Institution	30	688	15.8	$15,093,731		
Multifamily, Condominium	35	0	0.0	$ 2,251,500	38	$ 59,250
Multifamily, Rental	573	35	0.8	$ 15,810,679	424	$ 37,289
Office	8,628	1,064	24.4	$945,149,088		
Park	0	98	2.3	-		
Parking Garage	7,739	920	21.1	$221,361,937		
Religious	200	291	6.7	$ 134,850		
Retail	155	269	6.2	$16,018,676		
Vacant, Building	639	65	1.5	$ 6,769,003		
Vacant, Developable	0	429	9.8	$13,916,579		
Vacant, Parking	31	2,118	48.6	$102,779 ,391		
Undevelopable/Utilities	96	213	4.9	$ 12,350,224		
Parcel Totals	**20,189**	**6,855**	**157.4**	**$1,469,641 ,865**	**856**	
Road ROW/Unparceled Land		5,731	131.6			
Totals	**20,189**	**12,586**	**288.9**	**$1,469,641 ,865**	**856**	

Source: Harris County Appraisal District, CDS Market Research

CDS Market Research
Community Development Strategies

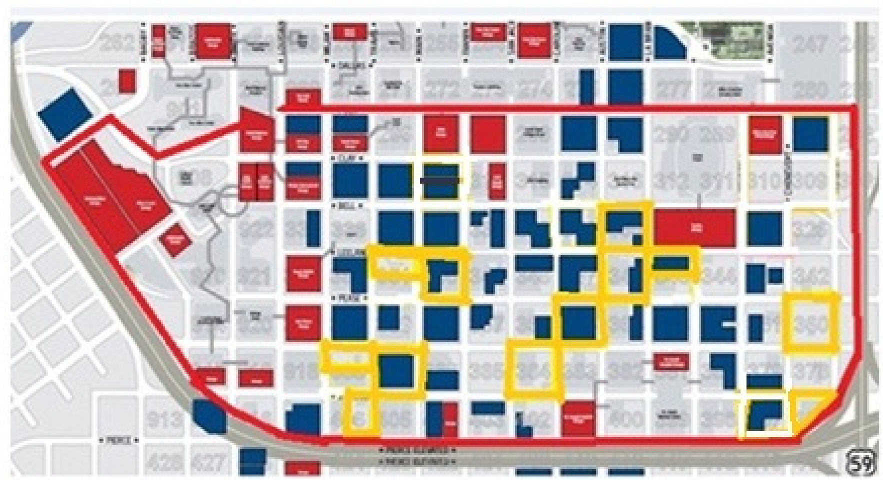
Real Estate Activity in Southern Downtown

The table below lists various vacant tracts within the study area which are currently "active listings" or recently sold. The map highlights the vacant tracts, shaded yellow below.

Southern Downtown Vacant Land Tracts	Land Size (SF)	Listing/ Sales Price	Anticipated Use
Block 317 – SOLD 12/11	31,500	$108.82/sf	Day Care/Office
Block 330	62,500	$125/sf	
Block 345 –under contract	37,500	$78/sf	Hotel
Block 346	62,500	$125/sf	
Block 350- under contract	63,630	$100/sf	Multi-family Rental
Block 351	32,499	$230/sf	
Block 360	62,500	$80/sf	
Block 365	62,500	$125/sf	
Block 384	62,500	$100/sf	
Block 387	63,998	$125/sf	
Block 388	32,757	$98/sf	
Block 396	48,689	$62/sf	
Block 406	24,750	$200/sf	

Source: CommGate, Cushman & Wakefield, CBRE,
CDS Market Research

Map of Real Estate Activity in Southern downtown



Development and Transaction Activity in Southern Downtown

The following public and private sector projects are occurring in southern downtown:

- George Thomas "Mickey" Leland Federal Building – estimated completion 2013. Renovation of the 22-story federal building at 1919 Smith Street. Estimated cost $80 million.
- JP Morgan Chase Daycare Building – estimated completion February 2013. Construction of a new 10,000sf daycare building located at 1414 Fannin. Estimated cost $2 million.
- Houston House Apartments – 1617 Fannin. Renovations recently completed on this 31-story, 396-unit high-rise apartment building built in 1966. Estimated cost $10 million.
- New construction – Tellepsen Family YMCA at 808 Pease. The new 120,000sf facility replaced the 67-year-old downtown YMCA building. Capacity for 10,000 members featuring exercise rooms, chapel, women's wellness center, daycare, suspended running track, and indoor pool. Estimated cost $47 million.
- 800 Bell – As announced in January 2013, Shorenstein Properties has negotiated to purchase of the 44-story ExxonMobil building, reportedly for $50 million. As part of the deal, ExxonMobil will lease back the tower through 2015 or until its new campus is completed. Reportedly, the building contains asbestos and needs major redevelopment. It is assumed that Shorenstein will renovate the building to Class A office.
- Block 350 – Recently sold to an Atlanta based high-rise residential developer (Novare Group, Inc.)
- Block 396 and 397 (block and a half total) was purchased by Pappas restaurants according to Colliers.
- Blocks 371 and 372 were purchased by W.P. Carey from Brookfield, and includes KBR Tower (1,050,000 sq.ft.) and garage (1,500 spaces). The purchase price is estimated at approximately $175 million.

Other developments relevant to southern downtown outside the study area:

- METRORail North and Southeast Corridors – estimated completion October 2014. North Corridor construction will continue the Main Street Red Line and connect the University of Houston-Downtown to the Northline Station, north of 610. The downtown portion of the Southeast Alignment will connect residents and businesses to the East End Alignment and the Main Street Red Line.

- 1225 Louisiana Parking Garage - Floor-by-floor dismantling of the former Sheraton-Lincoln Hotel, renovation of the 3-level below grade parking garage and construction of a new surface lot and entrance via elevator to the south side of Total Plaza. Total of 125 parking spaces, estimated cost $10 million.

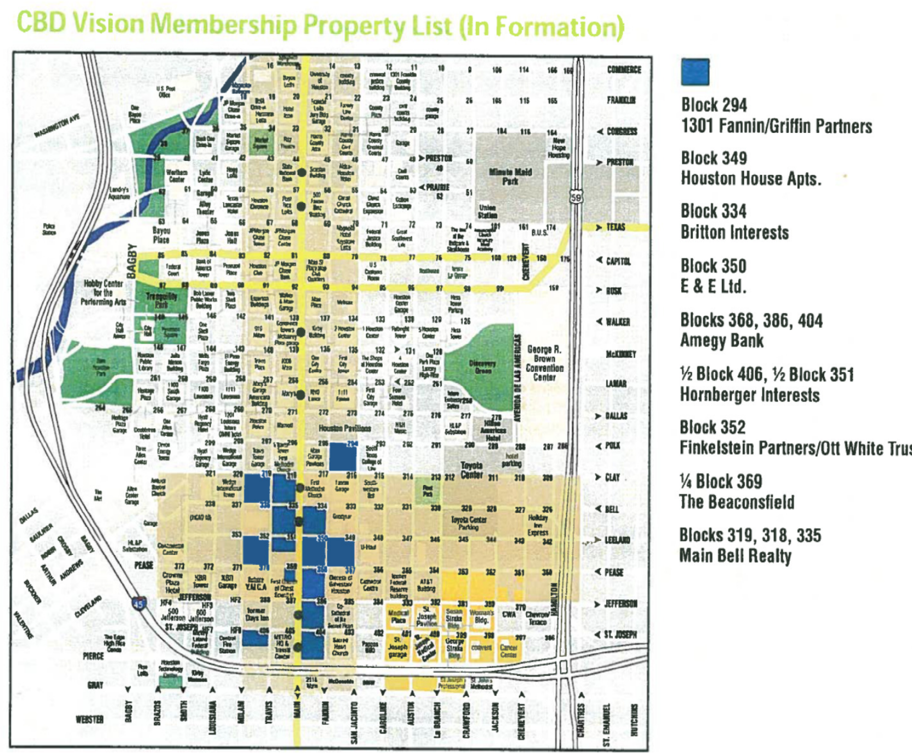
CBD Vision

CBD Vision is an independent group of property owners in the southwest sector of downtown who are working to revitalize the area. Active officers include Fred B Griffin, John J Avlon and George M Britton. The group is made up of property owners in the southern area of downtown including Amegy Bank, The Beaconsfield, Britton Interests, Brookfield Properties, E&E Ltd., Griffin Partners, Hornberger Bros. Properties, Inc., Houston House, Main Bell Realty Company, Skanska USA, and Sumar Realty Corporation. This cadre of strong ownership interests control large parcels of land – including full block and multi-block assemblages – that are ripe for development.

In 2009, CBD Vision contested a multifamily workforce housing development proposed for the northern half of block 351. The group believed the residential project would be a deterrent to growth in the area. After encountering resistance with the group, the developer Covington Neighborhoods pulled out of the deal to purchase the half block on Main at Leeland.

The diagram at right indicates full block and half block ownerships in the CBD Vision area. *Note: for a larger-scale map of downtown block numbering, please see the Appendix.*

CBD Vision Membership



CDS Market Research Community Development Strategies

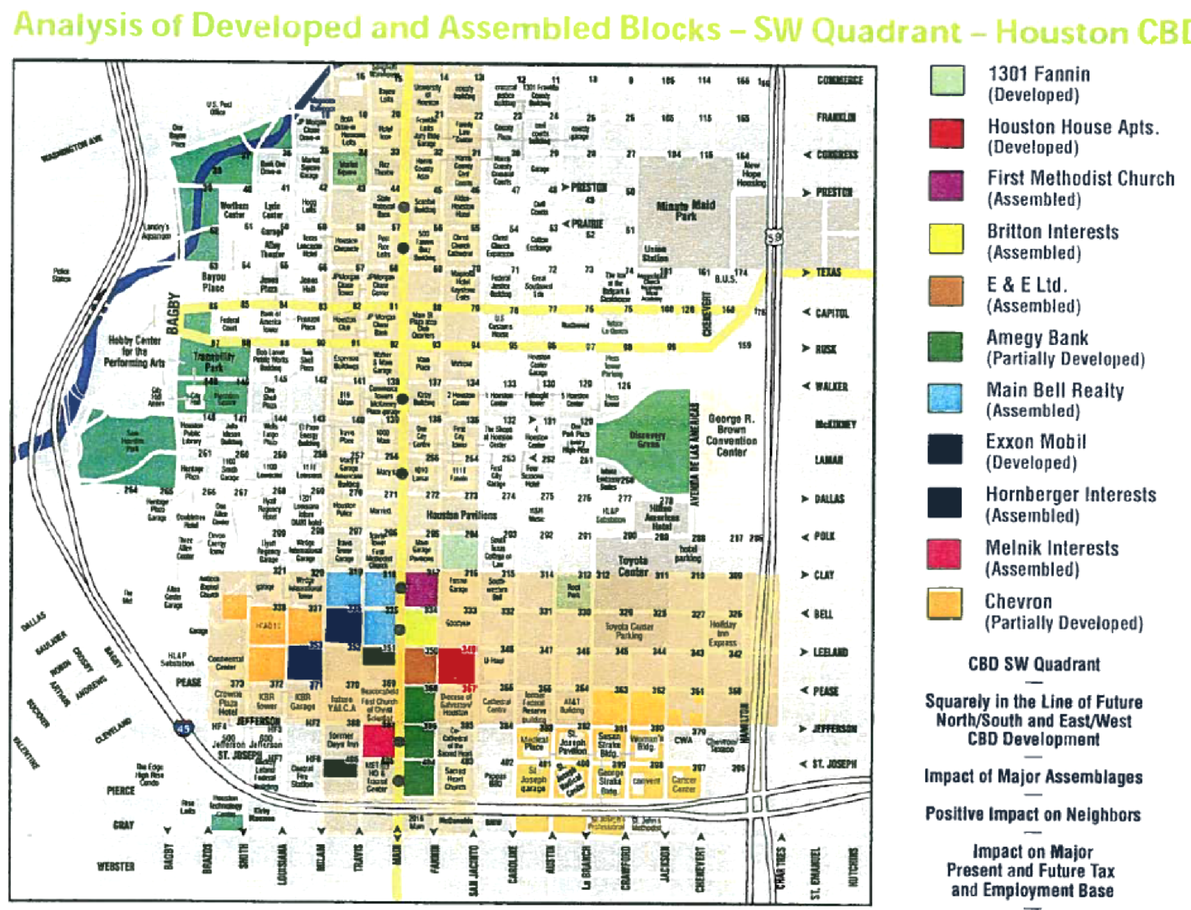
As shown on the map to the right, consolidated ownership is prevalent in southern downtown.

Property ownership patterns in this area have been that of obtaining several large blocks of land (assemblage). As shown, Main Bell Realty owns 3 full blocks as well as Amegy Bank. Chevron is also a major owner with 3.5 blocks.

The assemblage of properties under few owners is a positive attribute of the area that may facilitate future development.

A primary activity of CBD Vision stakeholders has been the urban design proposal or conceptual plan by by Kirksey Architecture (see Appendix B).

CBD Vision Assembled Blocks



Notes: The block denoted as First Methodist Church has been purchased by Skanska, who is constructing a day care center. The block denoted as E & E, Ltd. (block 350) is under contract by the Novare Group of Atlanta, which plans to construct a residential apartment tower and garage.

Houston Economic Overview

The southern downtown study area is located in the city of Houston, in Harris County, one of ten counties that comprise the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA) (see exhibit at right). No matter the attributes specific to downtown and the southern downtown study area, the potential for development is dependent upon the prospects and nature of regional economic growth.

Houston Sugar Land Baytown Metropolitan Statistical Area (MSA)

The Houston Area Economy

Houston's preeminence in the energy industry led to a boom during the energy shortages of the 1970s. But after a period of rapid growth during the 1974-1981 period as crude oil prices climbed, a plunge in the world oil market had a devastating effect on the Houston economy. From 1982 to 1987 Houston lost 221,900 jobs. This was one out of every seven jobs available in 1982. The majority of the losses, 184,200 jobs, were related to oil and gas exploration and production, oil field equipment manufacturing and sales, and pipeline transportation. But with the return to more normal supply/demand conditions in the industry, Houston was able to regain its lost jobs by 1990.

Since 1986, Houston's economy has become diversified thereby lessening dependence on the energy industry as the economic engine for the metropolitan area. Today, upstream energy sectors account for roughly a third of Houston's economic base jobs. Since 1986, the non-energy sectors of Houston's economic base have grown at an annual rate of 6.1%. As a result, Houston MSA employment in these sectors grew from less than 2.3% in 1986 to over 50% in 2011, while the proportion of basic employment in both upstream energy (exploration and production) and downstream energy (refining and marketing) declined (See chart on the next page).

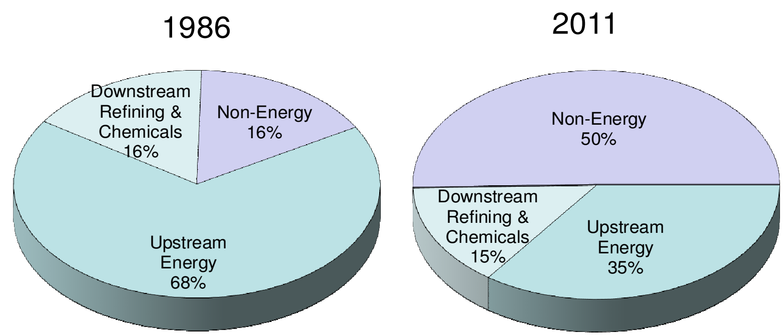
Over the years, Houston's economy has evolved from a manufacturing economy to a services based economy. Service-providing organizations now account for 80% of Houston MSA jobs and represented 82% of net job growth over the 14 years leading up to 2012. More and more, Houston is evolving to an economy based on engineering, computer, legal, accounting and administrative services. Houston's diversification and growth in the services sector is reflected in the following charts depicting industry shares of new jobs and employment by industry.

The chart on the bottom right illustrates the most recent 12 months of job change by industry sector. In the past year, job growth in "Trade, Transportation and Utilities" accounted for the largest share of overall job growth, followed by "Education and Health Services" and "Leisure and Hospitality."

Recently the upstream energy sector ("Mining and Logging") represented 9.3% of the job growth, and "Manufacturing" which includes the downstream energy sectors accounted for 9.3% of the overall growth. The continued job growth in these sectors presents a very positive picture for Houston's energy-related industries.

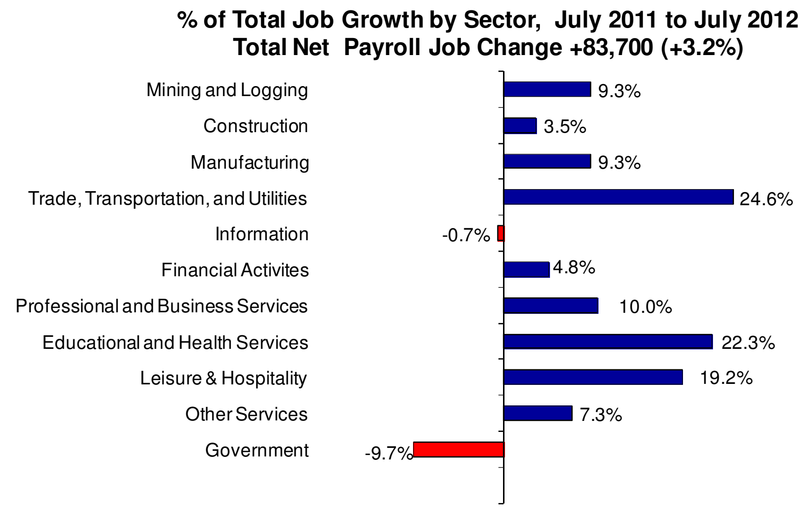
Only the "Government" sector lost a substantial number of jobs (8,100) over the July 2011 – July 2012 period. In that sector, all of the losses were in local government and half of those losses were in public education.

Houston Economic Diversification



Source: University of Houston, Institute for Regional Forecasting, 2012

Houston Region Shares of Job Growth by Sector

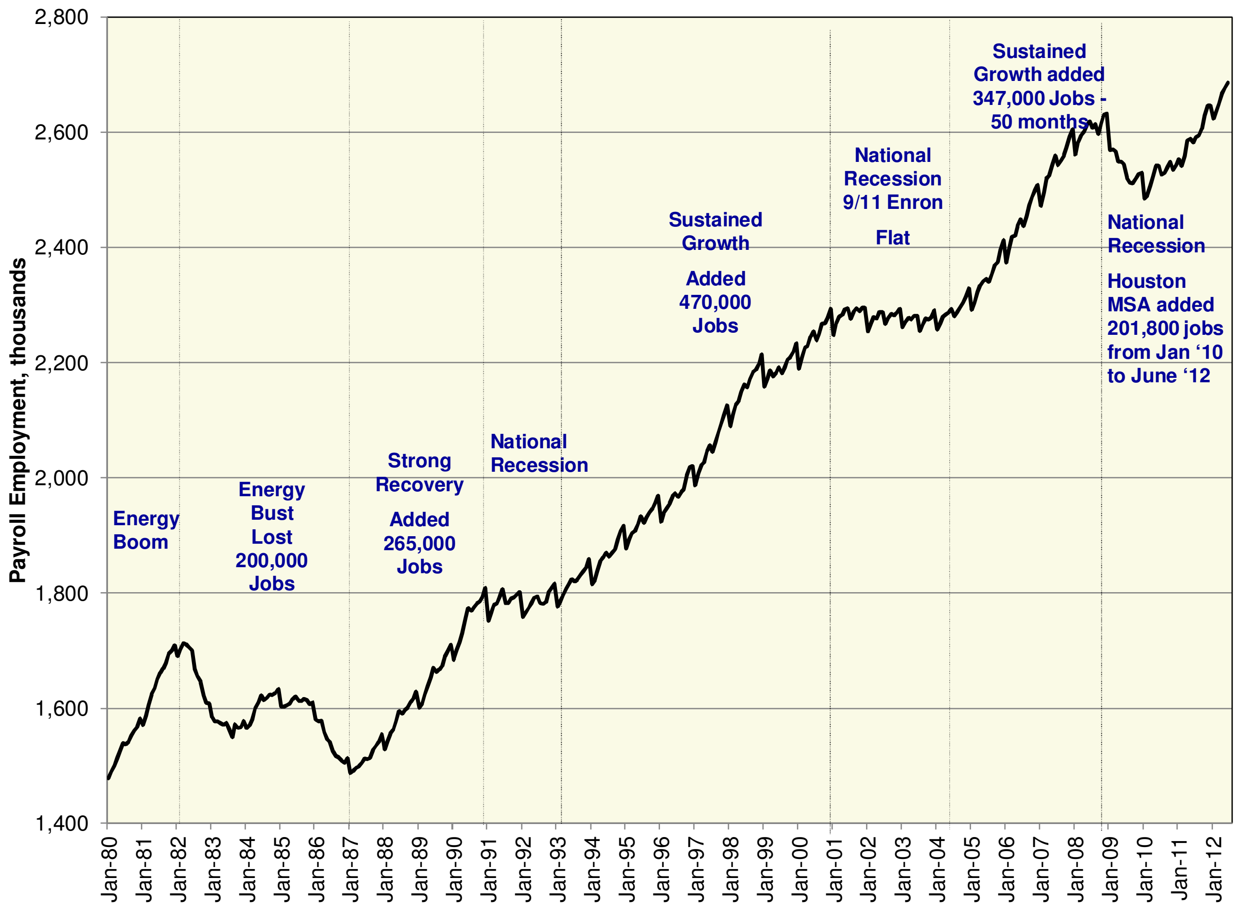


Source: Texas Workforce Commission

According to the Perryman Group, the Houston MSA's Gross Area Product (GAP) reached $435.9 billion in 2008 but in 2009, with the onset of recession, declined to $378.1 billion; its rebound began in 2010, rising to $395.4 billion.

The chart on the right depicts the Houston MSA job growth. The chart demonstrates that Houston's economy was flat during national recessions in the early 90s and early 00s following the 9/11 attacks but very robust during the intervening and subsequent years up to 2008. Houston has participated in the national recession with job losses beginning in January 2009. Recent data show Houston's recovery began in early 2010 and from January 2010 to June 2012, the region added 201,800 jobs.

Houston MSA Long-Term Employment Growth Trends



Source: Texas Workforce Commission April 2012 from Greater Houston Partnership

Factors Affecting Future Regional Economic Growth

According to research by the Federal Reserve as reported by the Greater Houston Partnership, three factors have governed the state of Houston's economy for the past 10 years:

- The health of the national economy,
- The value of the U.S. dollar against foreign currencies, and
- Energy prices.

All of these drivers entered a period of decline starting in mid 2008: real GDP began to drop, the value of the dollar began to rise and oil prices began a sharp decline. These factors began to have an effect on the Houston economy.

The National Economy—According to the Bureau of Economic Analysis, U.S. real gross domestic product (GDP) reached a pre-recession peak of $13.36 trillion in the fourth quarter of 2007. Over the course of the current recession, real GDP fell by $555.0 billion, or 4.2%, by mid-2009. GDP has since rebounded, increasing 5.0% over the past seven quarters and stands at an estimate of $13.44 trillion in the first quarter of 2011. Currently, GDP growth remains sluggish due to weak consumer spending, weakness in construction, government budget cuts, and lack of business confidence.

The U.S. Dollar – The U.S. Dollar is at a relatively high level today as compared to the long-term historical trend of the dollar Index of the Federal Reserve Bank. It is, however, substantially lower than the peak level of 129.7, set in early 2002. As of August 2012, the index was 100.78 (22.5% below the 2002 peak) and has rebounded since the low point of late 2009. The low dollar stimulates trade which benefits Houston's manufacturing/ export sectors.

Energy Prices – Higher oil and gas prices stimulate demand for oil field equipment and services which is a strong sector within the Houston economy. Prices for West Texas Intermediate (WTI) crude began the decade in the $20-$30/Bbl range and remained there until 2004 when they began a steady climb to a peak of over $140/Bbl during the first half of 2008. The worldwide recession, accompanied by a fall-off in demand, resulted in a decrease in WTI oil prices to less than $40/Bbl. WTI price has rebounded in the vicinity of $100/Bbl. Concurrently, natural gas remained under $10/mm Btu before falling to a low of $2/mm BTU and then rebounding to $6 in late 2009. Spot natural gas prices again fell to $2 in the spring of 2012 and by July had rebounded slightly to the $4 level. According to the U.S Energy Information Administration' *Annual Energy Outlook 2012* (June 2012), oil prices are expected to remain near current levels of $95/barrel for the next 5-6 years.

At the current time, two of the three factors that affect the Houston economy, "Energy Prices" and the "Value of the U.S. Dollar", present positive signs for the Houston economy fueling the rebound that has replaced all of the jobs lost in this recession. Only the U.S. economic malaise is a negative for the Houston economy. There is concern that this factor could worsen in 2013, particularly if Congress fails to reach agreement on spending and revenue policies, resulting in a massive retrenchment across spending categories due to a previously passed "sequestration" measure.

Historic Growth and Projections

Population growth is one of the principal measures of the economic vitality of any Market Area because increasing population is generally the result of more jobs, a high level of immigration and a stable or expanding economy.

The Houston Metropolitan Statistical Area has undergone tremendous growth in recent decades – from 3.1 million in 1980 to 4.7 million in 2000, a 2.6% per year increase for the 20 year period. In 2010, the population reached 5,891,999, also an increase of 2.6% per year for the period between 2000 and 2010.

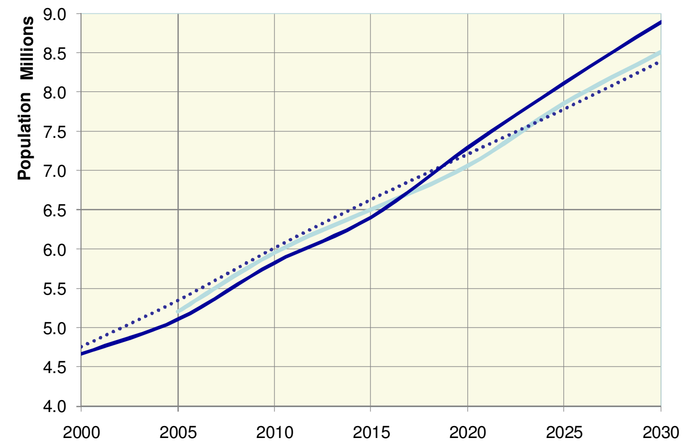
Even in light of the current national recession and tough economic times for all Americans, Houstonians can take some comfort in the fact that economic growth has continued and will likely continue into the future. Houston has a long history as a growth oriented community with conditions that are generally supportive of business expansion – low cost of living, low real estate prices, low unionization rates, and pro-business regulations.

The charts at right illustrate three projections of Houston regional growth. The first is from the Perryman Group, a respected Texas economic research organization, the second is from Moody's Analytics, a national economic research company and the third is from the University of Houston – Institute for Regional Forecasting.

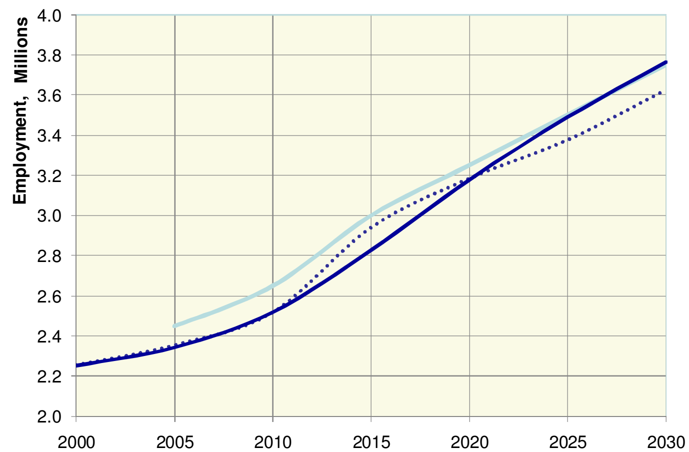
The projections are similar. By the year 2030, Perryman is projecting almost 3.8 million jobs and 8.5 million population. Moody's is slightly less optimistic, projecting 3.6 million jobs and 8.4 million population by

Economic Projections from Three Sources

Population



Employment



2030. The UH – IRF forecasts predicts 3.8 million jobs and 8.9 million population by 2030. Based on these forecasts, the region will add about between 2.4 and 3.0 million new residents from 2010 to 2030.

The predicted pace of population and job growth in these forecast is substantial – amounting to an average net increase of about 130,000 residents and 56,000 jobs each year. By way of comparison, the region has been adding population and jobs at a faster pace in the past 2 years, and the Greater Houston Partnership projects that, during 2012, the region will add 84,600 net new jobs.

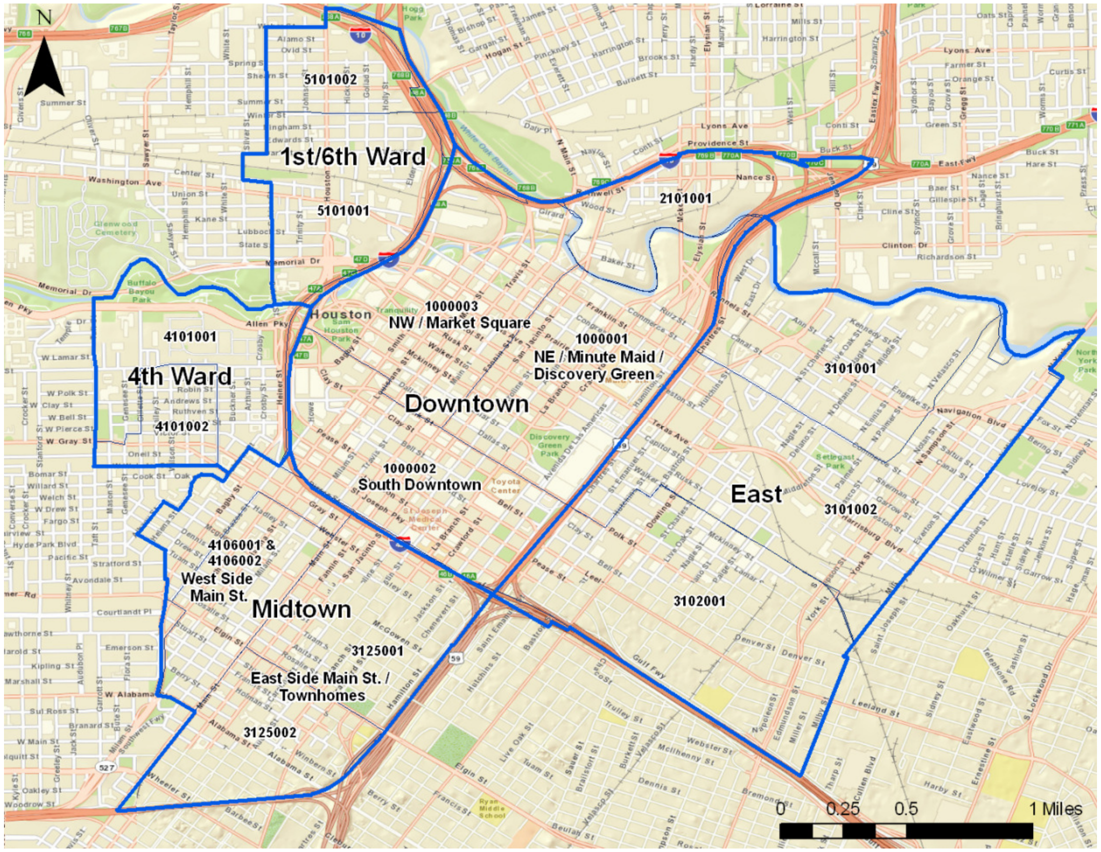
Demographic Trends

Demographic Market Area

CDS has defined the Market Area for demographics as the area encompassed by census tracts as diagramed in the map at right. This area includes those districts of Houston commonly referred to as Downtown Houston, East Downtown, 4th Ward, 1st and 6th Ward, and Midtown. These areas include existing mid-rise and high-rise condominiums, townhomes and apartments, single-family homes, downtown office buildings, retail and entertainment venues.

The selection of these areas represents a large percentage of the business owners, managers and professionals that work in the Galleria, Midtown, Downtown, or in the Texas Medical Center and the area includes most of the existing office, entertainment/tourist attractions.

Market Area Map



Census Comparisons

Household Population

The table below provides data from the 2000 and 2010 decennial Census. For this study, only household population was considered, in order to exclude the population living in group quarters such as jails and shelters.

According to the 2010 Census, the southern downtown study area had a household population of 508. That population represented a decrease of 21 from 2000.

The total market area population in 2010 is 20,470, an increase of 6,574 over the 2000 Census. According to the Census, all areas in the market area had an increase with the exception of southern downtown.

Household Population

Geographic Area	2000	2010	Change	
			Number	Ann. Rate
Total analysis area	13,896	20,470	6,574	3.9%
Downtown	1,535	2,384	849	4.5%
NW / Market Square	622	1,088	466	5.8%
Warehouse District	100	101	1	0.1%
NE / Minute Maid / Discovery Green	284	687	403	9.2%
Southern downtown	529	508	(21)	-0.4%
Midtown	3,564	5,987	2,423	5.3%
West side Main St.	1,739	3,119	1,380	6.0%
East side Main St	1,825	2,868	1,043	4.6%
Fourth Ward	1,756	3,792	2,036	8.0%
1st Ward / 6th Ward	1,819	1,839	20	0.1%
East Downtown / 2nd Ward	5,222	6,468	1,246	2.2%

Source: US Census Bureau; American Community Survey; CDS Market Research

Age of population

The market area's population had a significant increase (8.1% annually) in the 25 to 34 cohort from 2000 to 2010. The age cohort 55 to 64 also saw an increase of 1,066 persons over the ten-year period. The market area had a decrease in all cohorts under the age of 20.

Population by Age Groups

	2000 Census		2010 Census		Difference	
Age Group	Count	Share	Count	Share	Count	Ann. Rate
Age 0 to 4	1,045	7.5%	931	4.5%	(114)	-1.1%
Age 5 to 9	1,081	7.8%	822	4.0%	(259)	-2.7%
Age 10 to 14	894	6.4%	686	3.4%	(208)	-2.6%
Age 15 to 20	1,145	8.2%	840	4.1%	(305)	-3.1%
Age 21 to 24	1,110	8.0%	1,938	9.5%	828	5.7%
Age 25 to 34	3,028	21.8%	6,599	32.2%	3,571	8.1%
Age 35 to 44	2,094	15.1%	3,070	15.0%	976	3.9%
Age 45 to 54	1,619	11.7%	2,543	12.4%	924	4.6%
Age 55 to 64	850	6.1%	1,916	9.4%	1,066	8.5%
Age 65 to 74	596	4.3%	661	3.2%	65	1.0%
Age 75 to 84	333	2.4%	342	1.7%	9	0.3%
Age 85 and over	101	0.7%	122	0.6%	21	1.9%

Source: US Census Bureau; ACS; CDS Market Research

Further analysis of the age groups by specific areas indicates that the downtown area, which includes the southern downtown study area, had an increase of 4.4% in the age cohort 0 to 20, 3.3% increase in 21 to 34 cohort, 3% increase in 34 to 54 age group and a significant increase of 10% in the age 55+ cohort.

Age Group Growth 2010

Geographic Area	Age 0-20			Age 21-34			Age 34-54			Age 55+		
	2010 HH Pop	Growth Since 2000	Ann. Rate	2010 HH Pop	Growth Since 2000	Ann. Rate	2010 HH Pop	Growth Since 2000	Ann. Rate	2010 HH Pop	Growth Since 2000	Ann. Rate
Total analysis area	**3,279**	**-886**	**-2.4%**	**8,537**	**4,399**	**7.5%**	**5,613**	**1,900**	**4.2%**	**3,041**	**1,161**	**4.9%**
Downtown	91	32	4.4%	781	215	3.3%	903	228	3.0%	609	374	10.0%
Midtown	432	-170	-3.3%	3252	1,660	7.4%	1,590	561	4.4%	713	372	7.7%
Fourth Ward	831	244	3.5%	1508	1,014	11.8%	931	567	9.8%	522	211	5.3%
1st Ward / 6th Ward	300	-384	-7.9%	617	214	4.4%	578	130	2.6%	344	60	1.9%
East Downtown / 2nd Ward	1,625	-608	-3.1%	2379	1,296	8.2%	1,611	414	3.0%	853	144	1.9%

Source: US Census Bureau; ACS; CDS Market Research

Housing Units

According to the 2010 Census as compared with 2000, the percentage of housing units has increased by 6.3% annually over the ten-year period. There were 13,500 housing units in the market area in 2010 compared to 7,348 in 2000.

Housing Units

			Change	
Geographic Area	2000	2010	Number	Ann. Rate
Total analysis area	7,348	13,500	6,152	6.3%
Downtown	1,728	2,409	681	3.4%
NW / Market Square	745	989	244	2.9%
Warehouse District	87	87	-	0.0%
NE / Minute Maid / Discovery Green	365	778	413	7.9%
Southern Downtown	531	555	24	0.4%
Midtown	2,345	4,518	2,173	6.8%
West side Main St.	1,525	2,700	1,175	5.9%
East side Main St.	820	1,818	998	8.3%
Fourth Ward	943	2,126	1,183	8.5%
1st Ward / 6th Ward	620	1,049	429	5.4%
East Downtown / 2nd Ward	1,712	3,398	1,686	7.1%

Source: US Census Bureau; ACS; CDS Market Research

The market area is largely comprised of one-person households. These households increased by 8.1% annually over the past ten years, considerably faster than non-singleton households. Southern downtown has shifted slightly away from two-person households toward singleton households.

Household Types

	One-Person Households				Two-or-More-Person Households				Households with Children			
			Change				Change				Change	
Geographic Area	2000	2010	#	Ann. %	2000	2010	#	Ann. %	2000	2010	#	Ann. %
Total analysis area	2,810	6,101	3,291	8.1%	3,112	5,332	2,220	5.5%	1,242	1,287	45	0.4%
Downtown	940	1,332	392	3.5%	270	477	207	5.9%	21	51	30	9.3%
NW / Market Square	358	507	149	3.5%	125	268	143	7.9%	7	25	18	13.6%
Warehouse District	47	50	3	0.6%	23	22	(1)	-0.4%	3	3	-	0.0%
NE / Minute Maid / Disc. Green	225	426	201	6.6%	28	120	92	15.7%	2	14	12	21.5%
Southern Downtown	310	349	39	1.2%	94	67	(27)	-3.3%	9	9	-	0.0%
Midtown	1,052	2,226	1,174	7.8%	874	1,602	728	6.2%	215	218	3	0.1%
West side Main St.	773	1,419	646	6.3%	444	787	343	5.9%	30	48	18	4.8%
East side Main St.	279	807	528	11.2%	430	815	385	6.6%	185	170	(15)	-0.8%
Fourth Ward	316	927	611	11.4%	363	1,045	682	11.2%	158	356	198	8.5%
1st Ward / 6th Ward	122	379	257	12.0%	430	503	73	1.6%	206	111	(95)	-6.0%
East Downtown / 2nd Ward	380	1,237	857	12.5%	1,175	1,705	530	3.8%	642	551	(91)	-1.5%

Source: US Census Bureau; ACS; CDS Market Research

Income

The following income information shows the 2010 real dollar median income in the market area increased significantly from the 2000 Census. The households with incomes over $50,000 increased from 30% in 2000 to 54% in 2010. Currently 26% of all households in the area earn over $100k.

CMA Household Income

	2000 Census		2010 Census/ACS		Difference	
Income Measurement / Group	Count	Share	Count	Share	Count	% Change
Total Households	6,042		10,392		4,350	72.0%
Less than $15,000	1,802	29.8%	1,893	18.2%	91	5.0%
$15,000 to $24,999	966	16.0%	776	7.5%	(190)	-19.7%
$25,000 to $34,999	598	9.9%	1,015	9.8%	417	69.7%
$35,000 to $49,999	836	13.8%	1,016	9.8%	180	21.5%
$50,000 to $74,999	776	12.8%	1,698	16.3%	922	118.8%
$75,000 to $99,999	371	6.1%	1,255	12.1%	884	238.3%
$100,000 to $149,999	383	6.3%	1,421	13.7%	1,038	271.0%
$150,000 or more	310	5.1%	1,318	12.7%	1,008	325.2%
Median Household Income*	$39,648		$67,162		$33,699	69.4%

Source: US Census Bureau; ACS; CDS Market Research

*Adjusted to 2012 dollars. Does not include households in Warehouse District.

CDS has analyzed income by area within the market area. As shown below, the Midtown area has the highest median income followed by downtown (includes southern downtown).

Household Income by Area

	2010 ACS Household Income Estimates								
	Under $35,000		$35,000 - $74,999		$74,999 - $149,999		$150,000 and over		Median HH
Geographic Area	Count	Share	Count	Share	Count	Share	Count	Share	Income*
Total analysis area	3,684	35.5%	2,714	26.1%	2,676	25.8%	1,318	12.7%	NA**
Downtown	491	34.9%	307	21.8%	353	25.1%	257	18.3%	$60,935
Midtown	746	19.5%	1,011	26.4%	1,264	33.0%	587	15.3%	$67,162
Fourth Ward	777	39.4%	469	23.8%	470	23.8%	167	8.5%	$48,524
1st Ward / 6th Ward	411	46.6%	259	29.4%	59	6.7%	44	5.0%	$36,910
East Downtown / 2nd Ward	1,259	42.8%	668	22.7%	530	18.0%	263	8.9%	$45,670

* Does not include households in warehouse district.

** Median household income not available for overall analysis area.

Source: US Census Bureau; American Community Survey; CDS Market Research

Economic Geography of the Houston Region

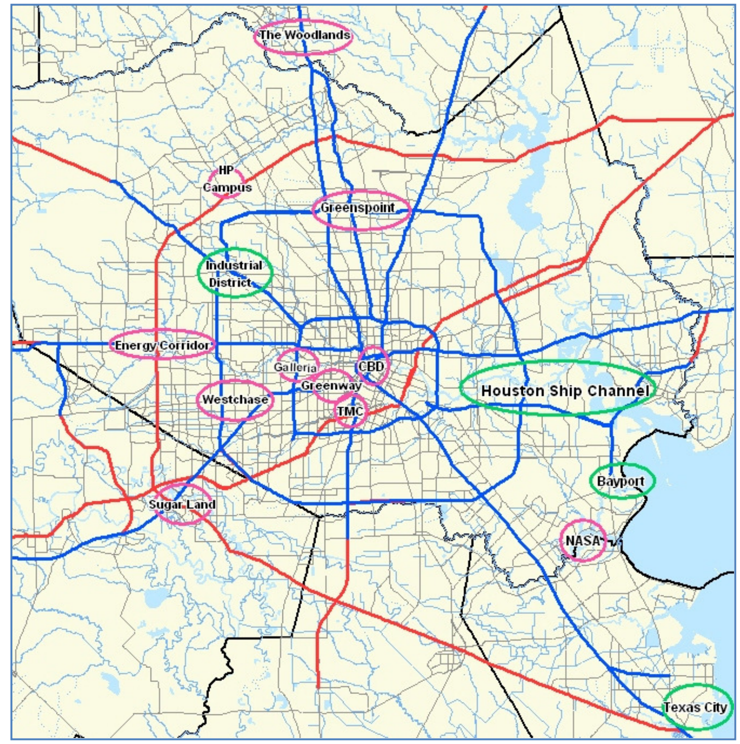
The Houston MSA has developed in a low-density suburban form, uninhibited by natural geographic boundaries or excessive political regulation. The region's central business district presently accounts for about 6% of regional employment. Other loosely-defined 'activity centers' comprise a large portion of the region's employment base. These typically are made up of a loose cluster of office, medical office, hotel, and supportive retail land uses. Examples within the Houston area include the Uptown/Galleria area, the Energy Corridor, the Texas Medical Center, Greenway Plaza, Sugar Land, Westchase, and Greenspoint. The region's heavy industries are clustered around the Houston Ship Channel. A significant number of jobs are spread among Houston's suburbs in office parks, retail centers and light industrial facilities. The map on the right illustrates the locations of the principal activity centers (red) and industrial districts (green) in the Houston area.

Houston Area Business Activity Centers

The 9 principal business activity centers in the Houston region are, in alphabetical order:

- Downtown / Central Business District
- Clear Lake / NASA
- Energy Corridor
- Greenspoint
- Greenway Plaza

Major Regional Employment & Activity Centers



- Sugar Land
- The Woodlands
- Uptown/Galleria
- Westchase

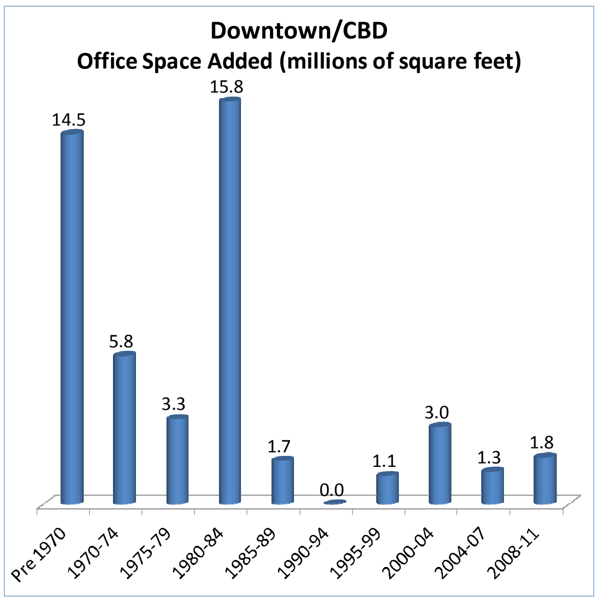
CDS Market Research
Community Development Strategies

While the Texas Medical Center is certainly one of the largest concentrations of jobs and the greatest concentration of medical institutions in the nation, for the purposes of this report, they are not included here as a "Business" center.

Historical Growth of the Houston Activity Centers

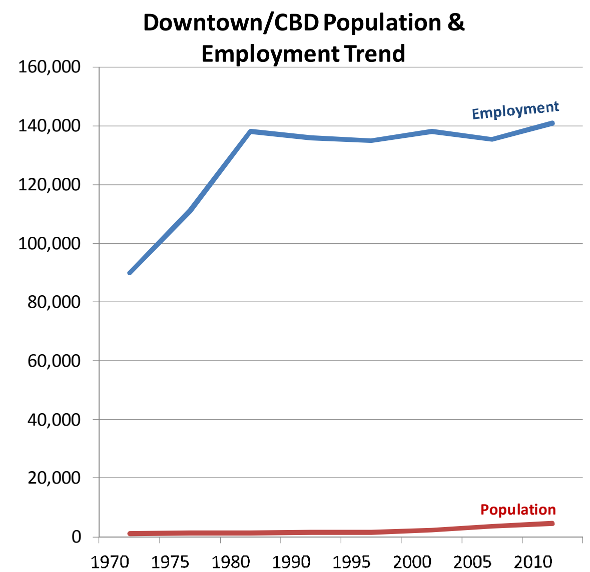
The following descriptions of the activity centers use data provided by O'Connor & Associates, Rice Center, the Houston-Galveston Area Council, and the various management districts representing these areas.

Downtown/Central Business District



Downtown has been the center of the region's economic activity since the city's founding. Downtown has the highest concentration of jobs in Houston.

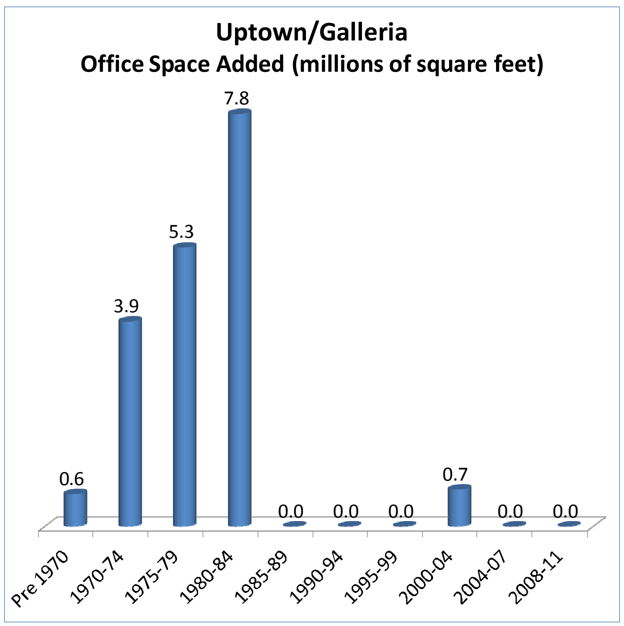
Downtown added 50,000 jobs during Houston's energy boom, 1970 to 1980. But the oil bust of the early to mid-80s resulted in employment decline. No new office buildings were constructed downtown from 1986 until 2002 when 5 Houston Center was completed. 717 Texas Avenue, 1500 Louisiana and 1000 Main followed in 2003. Hess Tower and BG Group Place (totaling almost 2 million SF) were completed in 2010 and 2011, respectively. One Park Place, a luxury high-rise apartment tower with 346 units, is now 96% occupied and downtown's population is rising, though still small.

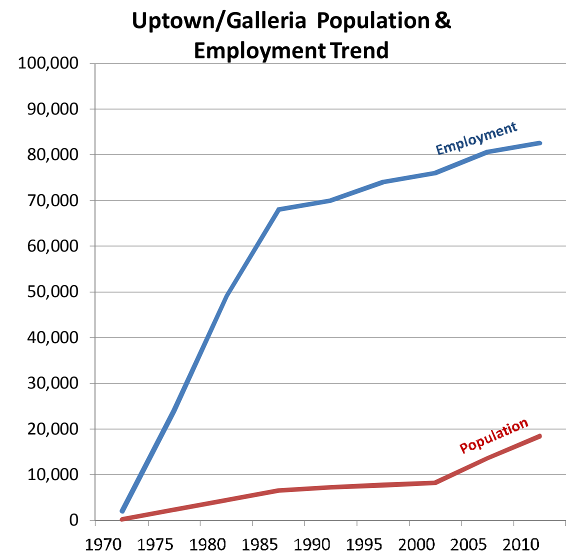


Uptown/Galleria Area

Uptown Houston is second only to downtown as an employment center. The area boasts a broad mix of office, retail, hotel, and residential development. The stimulus to the development of the area was the opening of the Galleria Mall in 1970 by Gerald Hines. Hines and others followed with a series of Class A office buildings, with construction peaking in the early 80s. This ended abruptly with no new office buildings constructed in Uptown for the next 15 years.

Market conditions have become strong enough at present that two office buildings, 1600 West Loop South and BBVA Compass Plaza at 2200 Post Oak Boulevard, are currently under construction. Other office buildings may be built in the near future; most notably, Apache Corporation has purchased a site within the BLVD Place project just north of its current headquarters.





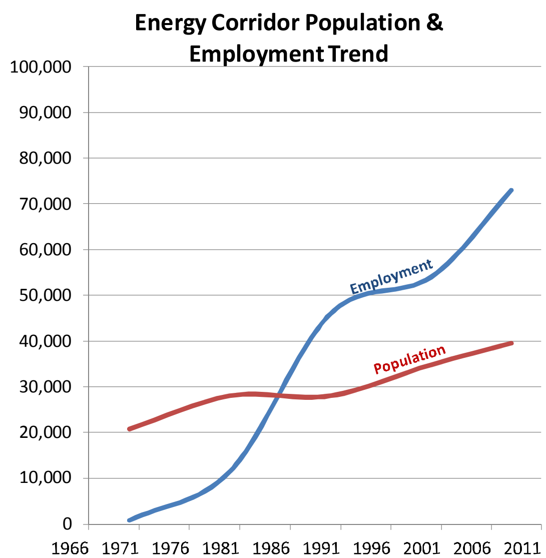
In recent years, luxury high-rise residential projects (condo and rental) have dominated the Uptown landscape. Since 2000, seven residential towers, containing more than 3,500 units have been completed; several more are under construction.

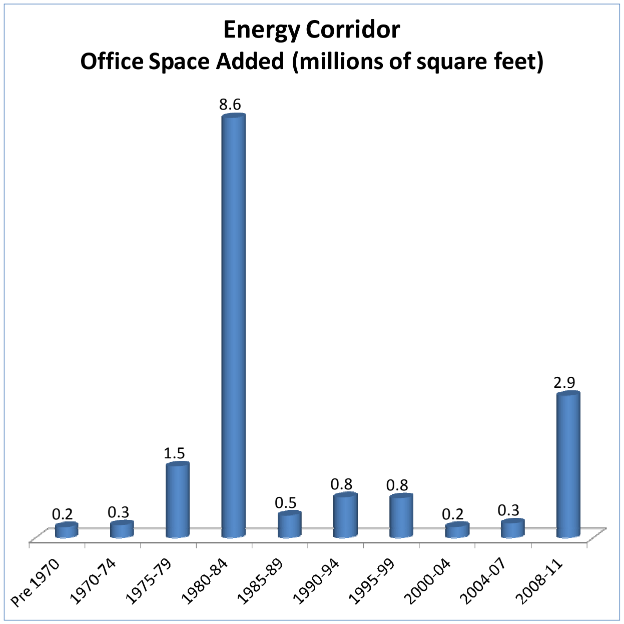
Other significant new projects include BLVD Place and River Oaks District, mixed-use urban centers with office, residential, retail and hotels.

Energy Corridor Area

The Energy Corridor contains the headquarters and regional offices of several prominent energy and energy services firms including BP America, Shell, ExxonMobil Chemical, ConocoPhillips, and CITGO. The Energy Corridor's residential growth took off in the late 60s as an extension of the desirable Memorial corridor.

With the energy crises of the mid to late 1970s, the area became an attractive location for expanding energy companies who felt the need to locate offices close to their key employees. The office growth first peaked in the early 1980s.



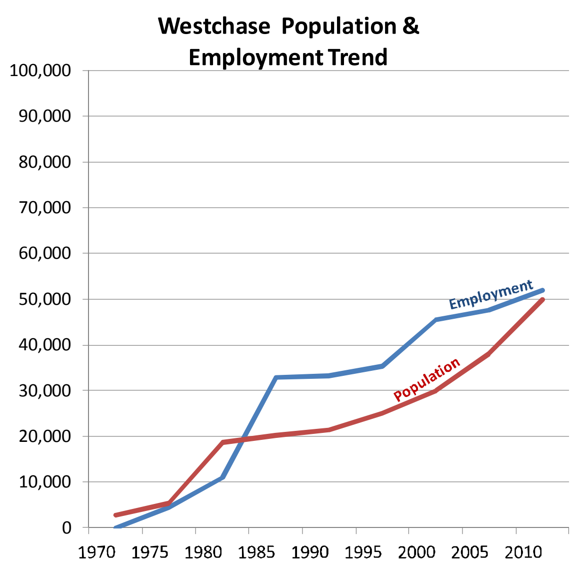


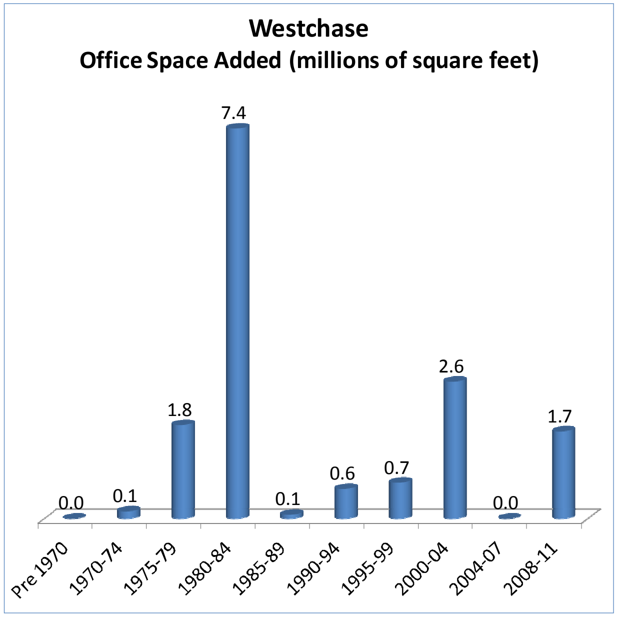
Recently office growth has again accelerated in the Energy Corridor with 3 million SF recently completed, and nearly 5.4 million SF under construction or proposed.

Westchase Area

Westchase began its growth in 1969 when Friendswood Development purchased the land at Westheimer and Gessner to create Woodlake Square. In 1973, the Westchase Corporation purchased 760 acres of land from the R.E. "Bob" Smith family.

The first 12 office buildings were built between 1975 and 1979 with a total of almost 1.8 million SF. The boom expanded in 1980 when 13 new buildings (670,000 SF) were completed. Commercial development slowed from the mid-80s to the mid 90s. Westchase saw a resurgence of over 4 million SF of office space completed 2000-2007. Office building in 2008 included 2.1 million sf (Granite Westchase II, Plaza at Enclave, City West Place V, City West Place VI, One Oak Park, and PGAL Architects).





Current office development in the area includes 15.3 million sq.ft. in 108 office buildings with an overall occupancy of 90.1%.

Under Construction/Pre-leasing and Planned:

Granite Properties on Briarpark, 300,000 sq.ft. (under construction)

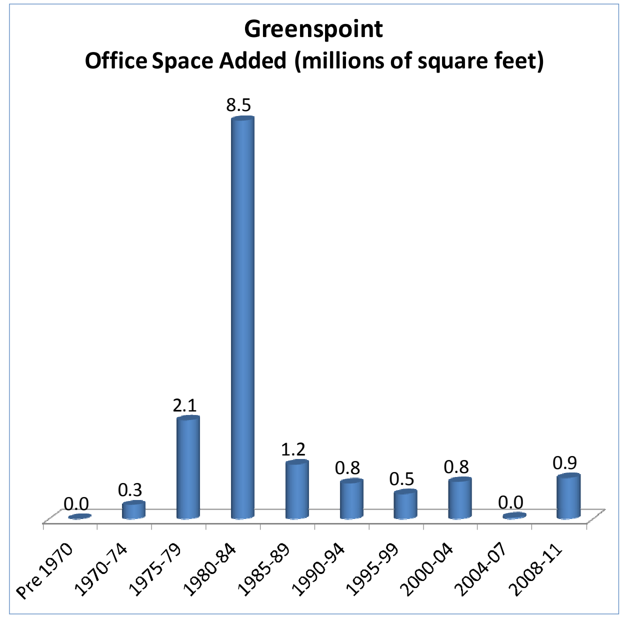
Two Oak Park, 53,342 sq.ft.

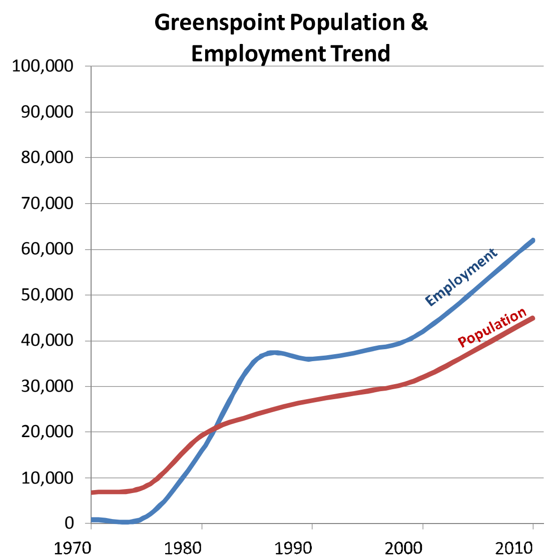
Two Briarlake Plaza, 332,000 sq.ft.

Greenspoint Area

Greenspoint has benefited from a location close to some of Houston's fastest growing residential areas and proximity to Bush Intercontinental Airport. A significant growth spurt occurred from 1978 to 1985 when Friendswood Development Company developed Greenspoint Plaza (6 office buildings totaling almost 2 million SF).

The 80s saw rapid construction of office buildings in Greenspoint – capturing 9% of regional office space construction during that period.



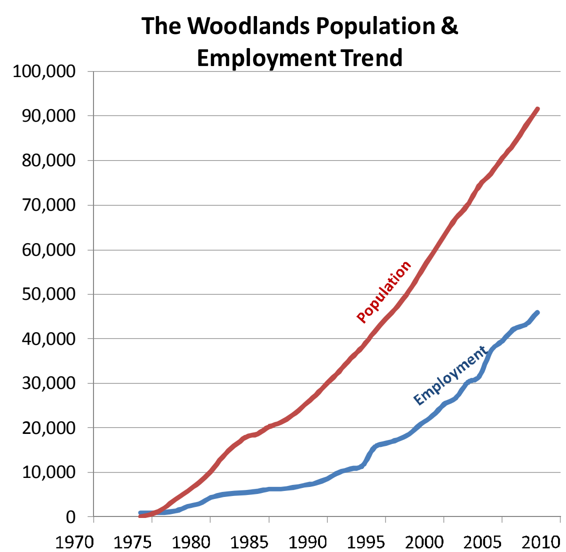


Since the 80s there has been substantial growth of office warehouse and flex space in the area around Greenspoint. A major tenant for the area's Class A buildings, ExxonMobil, will be vacating as the company's new campus is built near The Woodlands over the next several years.

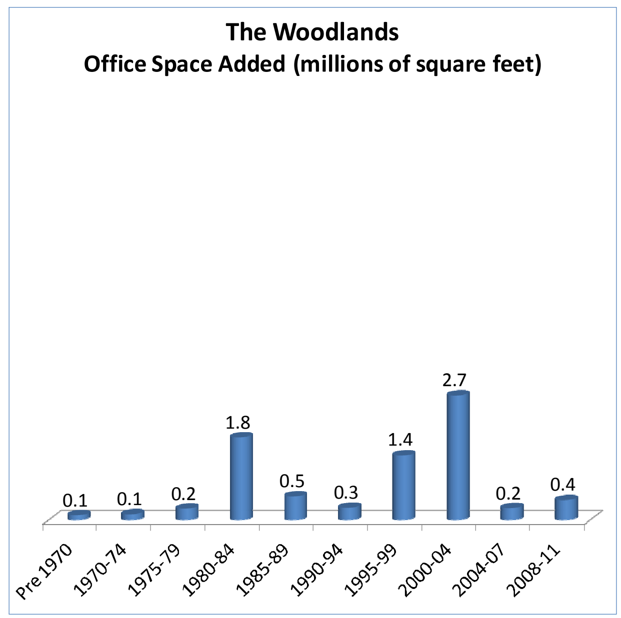
The Woodlands

The Woodlands, one of the most successful “new town” master-planned communities in the U.S, was developed by George Mitchell who began acquiring the original 12,000 acres in 1964 and began development in 1974. Today The Woodlands contains over 28,000 acres, much of which is built out.

Office and industrial development began in The Woodlands in 1982 with the establishment of Research Forest, an office park and a center for advanced research. In 1993, The Woodlands Town Center district was formed and the Town Center officially opened in 1994, containing The Woodlands Mall, Cochran’s Crossing and Market Street shopping centers.

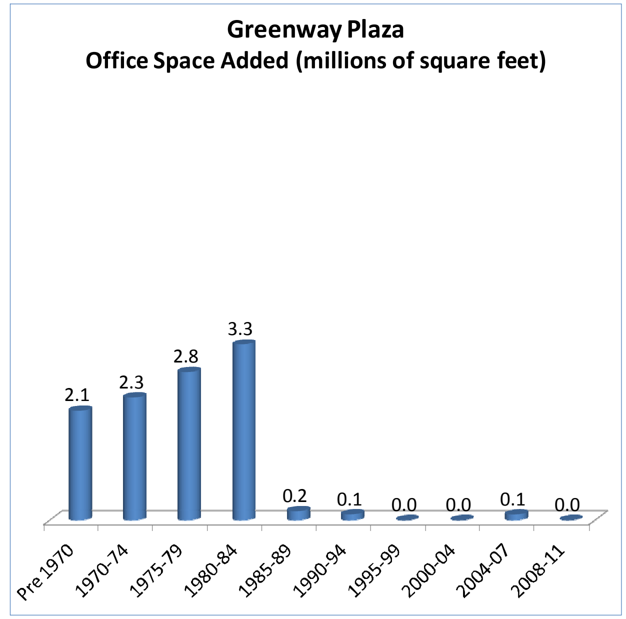


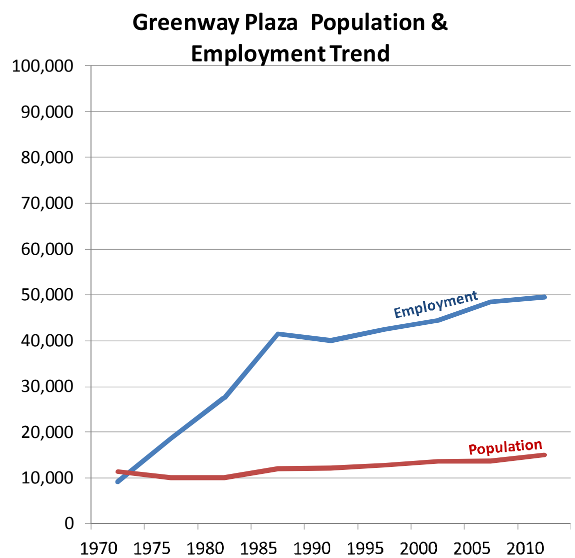
New office development projects for The Woodlands commercial district include the 220,000 SF 4 Waterway building, which is under construction and the planned 200,000 SF Vision Park office building. In early 2012, Anadarko began construction on a second office tower in The Woodlands. Howard Hughes Corporation, now the major developer of the community, has also announced a new office and retail district along Lake Woodlands, with construction to start soon on a speculative office building.



Greenway Plaza Area

Greenway Plaza is the smallest of the office activity centers in land area, totaling only 900 acres. An innovative project of Century Development Company, Greenway is built on the site of a residential subdivision whose homes covered by deed restrictions were purchased one-by-one. The project grew quickly during the late 70s and early 80s and was one of Houston's first mixed-use projects combining office space, retail, hotel, entertainment, private club and high rise residential buildings. Growth slowed in the late 80s through the early part of this century.



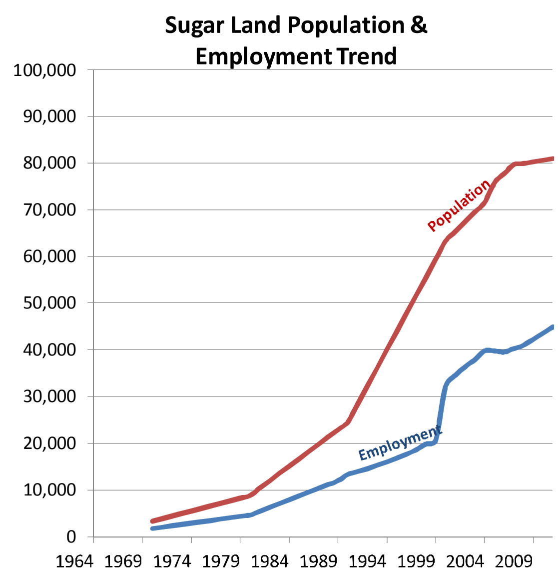


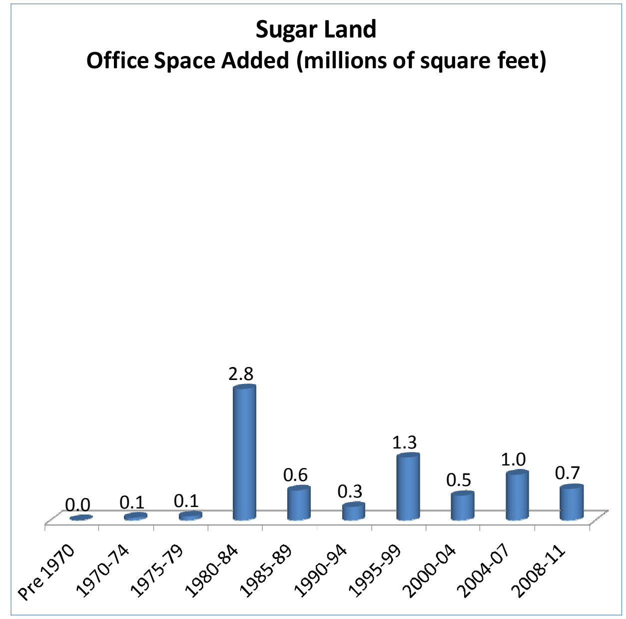
In 2004, the 271-unit Camden Plaza apartments were completed. In 2007, the 34,000 SF Summit Plaza retail center was completed. Other new multifamily developments have been occurring immediately north of the office district along Richmond Avenue.

Sugar Land Area

Sugar Land is one of the fastest-growing cities in Texas. Its strong development history dates to 1968 when the Imperial Cattle Ranch sold 1,500 acres to create Sugar Creek, the area's first master-planned community. Additional impetus occurred in 1976 when Gerald Hines began the development of First Colony, a 9,700 acre master-planned community.

The city ranks as the third-largest in population and second-largest in economic activities in the Houston region. Sugar Land is now a strong employment center with 40,000 employees working in retail, offices and industrial parks.





Sugar Land is home to regional headquarters of well-known employers including: Chevron; Fluor Daniel; National Oilwell Varco; Nalco Energy Services; Schlumberger Companies Tramontina and Minute Maid.

The Sugar Land Town Square is a successful mixed use center with retail, office, and hotel.

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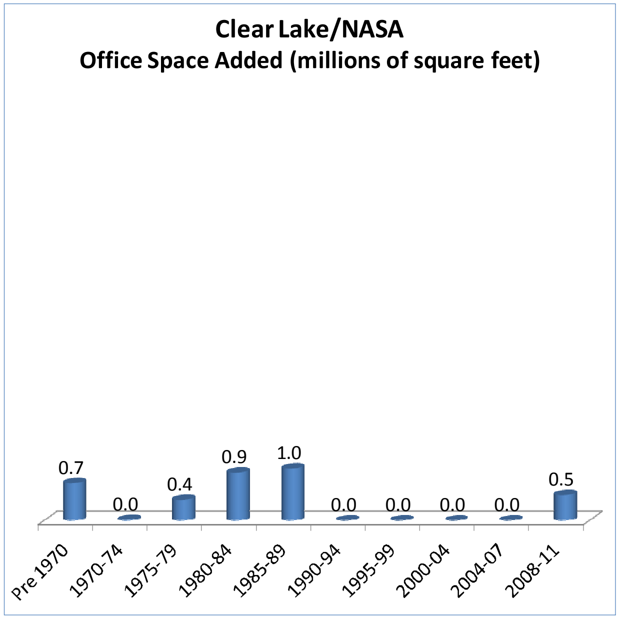
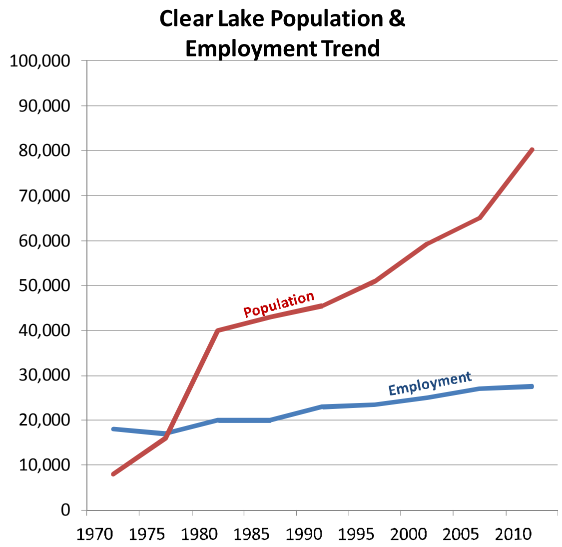
Community Development Strategies

Clear Lake Area

Clear Lake City was one of the first master-planned communities of the Friendswood Development Company on land owned by Humble Oil (now ExxonMobil). The spark for Clear Lake was its selection, in 1961, as the site for the NASA manned spacecraft center. In 1963, residential development was initiated coincident with the construction of the space center. Clear Lake was unique to Houston as the first suburban area with substantial employment — everyone who worked in the area could live nearby. The Clear Lake/NASA area includes Clear Lake, Nassau Bay Seabrook, Webster and smaller cities.





The Nassau Bay Town Square, a new mixed-use project including a hotel, office, retail and residential is well underway along NASA Parkway.

Office Market

In this section, the overall growth expected for the Houston region will be assessed and the share of that growth expected to be captured by the Downtown Market Area is estimated.

Expected Overall Houston Area Office Space Demand

Since 1970, the Houston area has averaged adding approximately 5 million SF of office space annually.

Using the regional jobs forecasts from the UH – Institute for Regional Forecasting (UH-IRF), CDS Market Research employed two methods to estimate future office space demand for the region.

Method 1 used a straight ratio of regional office space per job. Method 2 used a ratio of the change in occupied office space in 5-year periods to the net addition of jobs in the region. The table below illustrates the results of those methods, the average of the two methods and the average annual office space demand. Based on this analysis, CDS Market Research estimates that annual office space demand will be approximately 4.0 million SF per year up to 2015, increasing to approximately 6 million SF between 2015 and 2020, and then declining slightly to 5.6 million SF annually between 2020 and 2025.

Projections for market area absorption later in this report are based on these regional estimates.

Overall Houston Office Space Demand Calculations

Period	Net New Jobs	Office Space Added		5-yr. Average	Estimated Annual Avg
		Method 1	Method 2		
2010-2015	222,865	22,110,348	16,714,908	19,412,628	4,000,000
2015-2020	342,779	32,392,615	25,708,425	29,050,520	6,000,000
2020-2025	320,461	30,283,589	24,034,594	27,159,091	5,600,000

Source: Employment forecasts from University of Houston, Institute for Regional Forecasting, January 2011. Future office space estimates from CDS Market Research.

CDS Market Research
Community Development Strategies

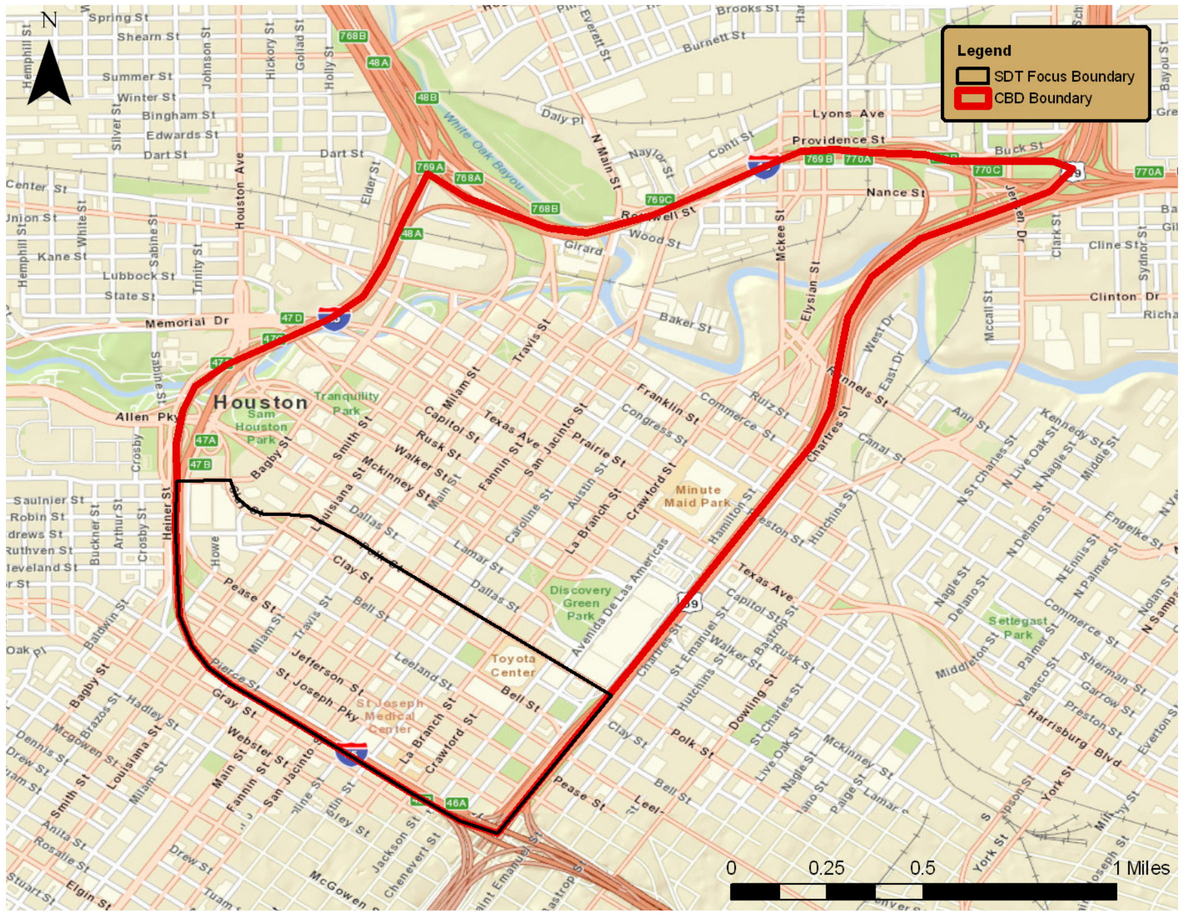
Market Area Capture

The Market Area used for this analysis is focused on the Downtown District area outlined in Red on the map to the right. Its boundaries are congruent with the freeway ring made up of highways IH 10, IH 45, and US 59.

The downtown market area, including the southern downtown study area, competes against the regional activity centers previously described in this report.

The market performance data provided in this section generally represent conditions as of the end of the second quarter of 2012.

Southern Downtown Market Area



Activity Center Historical Shares of Regional Office Space Growth

	Regional SF	Downtown / CBD	Uptown	Energy Corridor	West-chase	Greens-point	Sugar Land	Wood-lands	Green-way	Clear Lake
Pre 1970	24,099,732	60.35%	2.53%	0.92%	0.00%	0.00%	0.00%	0.41%	8.64%	2.92%
1970-74	23,680,054	24.58%	16.28%	1.11%	0.58%	1.26%	0.21%	0.51%	9.84%	0.05%
1975-79	37,073,860	9.03%	14.18%	3.95%	4.78%	5.70%	0.22%	0.64%	7.58%	1.05%
1980-84	97,009,846	16.32%	8.01%	8.89%	7.65%	8.78%	2.88%	1.83%	3.44%	0.93%
1985-89	15,074,193	11.34%	0.00%	3.04%	0.49%	7.73%	4.25%	3.40%	1.13%	6.50%
1990-94	4,215,778	0.00%	0.00%	19.78%	13.28%	18.16%	6.91%	6.11%	2.54%	0.00%
1995-99	9,235,992	12.12%	0.00%	8.82%	7.33%	5.82%	14.45%	15.08%	0.00%	0.00%
2000-04	14,972,788	20.28%	4.64%	1.50%	17.37%	5.32%	3.54%	17.87%	0.00%	0.00%
2004-07	10,034,558	12.81%	0.00%	2.95%	0.00%	0.33%	9.69%	2.48%	1.04%	0.00%
2008-11	12,290,902	14.98%	0.00%	23.69%	13.45%	7.14%	5.49%	3.51%	0.00%	3.91%
Total	247,687,703	19.60%	7.35%	6.50%	6.01%	6.10%	2.98%	3.13%	4.42%	1.40%
'90-'11	50,750,018	14.35%	1.37%	10.01%	10.82%	5.93%	7.49%	9.87%	0.42%	0.95%

Sources: O'Connor and Associates, Office Database, 2012, CDS Market Research for Activity Center Designations

The table above summarizes the historical multi-year shares of office market achieved by each of the previously mentioned office activity centers. Downtown has historically captured almost 20% of the office growth in the region. Recently, downtown captured 15% of the office growth in the 4-year period 2008 to 2011. The only activity center to capture a higher share of the office growth in that period was the Energy Corridor.

The office building stock in the southern downtown study area will be described in more detail later in this section.

The table below summarizes the likely range of potential office demand within downtown. It should be noted that these demand figures include all classes of office space types; demand for Class A properties would be a subset of total demand.

Southern downtown's potential office demand capture would be a subset of these amounts and is discussed later in this section.

CBD Projected Shares of Regional Office Space Growth

		CBD Share of Regional Office Demand		Annual Office Capture	
Period	Regional Office Demand	High Capture	Low Capture	High	Low
2010-2015	4,000,000	18%	12%	720,000	480,000
2015-2020	6,000,000	20%	14%	1,200,000	840,000
2020-2025	5,500,000	20%	14%	1,100,000	770,000

Source: CDS Market Research

Southern Downtown Office Market

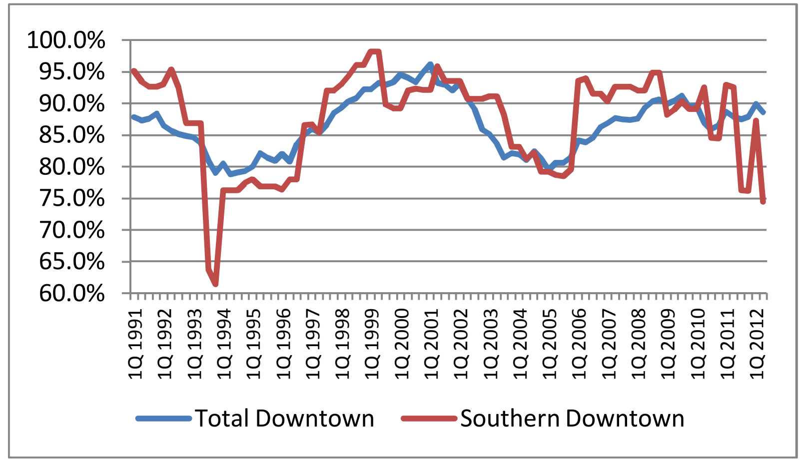
Inventory and Market Performance

The office market in southern downtown is situated in the context of the overall downtown office market area (also known as the Central Business District or CBD). Currently, the bulk of Class A office properties sit along two axes: the north-south axis along the western edge of the area (Smith, Louisiana, Milam, and Travis streets) and an east-west axis across the center of the area (Walker, McKinney, Lamar, and Dallas streets). Class A properties are defined as those with the highest level of architectural finishes, tenant amenities, and usually direct connections to the tunnel and skywalk system (with rare exceptions). Many Class A properties also have an associated parking structure. The downtown market area has about 30 million square feet of multi-tenant Class A space in larger properties; including all other office properties, its inventory is about 45 million square feet.

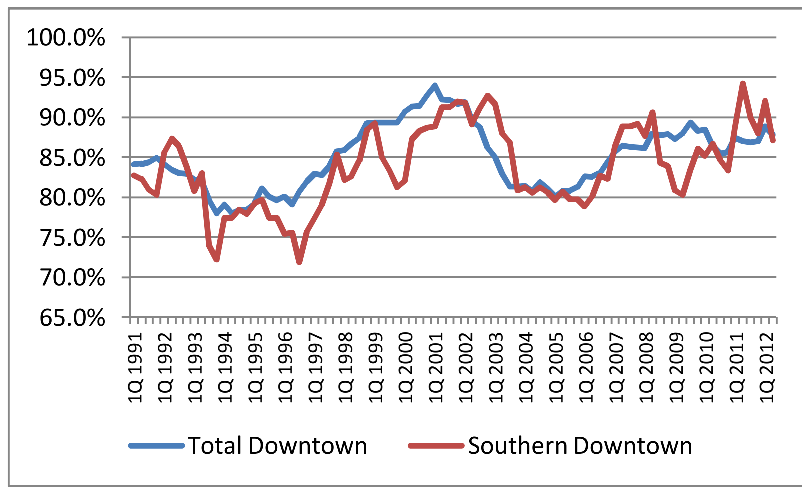
The tables on the following pages provide an inventory of multi-tenant office properties in the southern downtown study area. There is a total of approximately 5.2 million square feet of multi-tenant space in ten properties with at least 50,000 square feet of leasable area. Of this inventory, approximately 1.9 million square feet in two properties are considered Class A quality.

The two multi-tenant southern downtown Class A properties both have significant vacancy at present, partly due to the cutbacks following the Continental-United merger. The charts at right compare the historical occupancy rates for multi-tenant properties in southern downtown and downtown overall. Southern downtown's total multi-tenant inventory has generally tracked with the overall downtown occupancy. The occupancy statistics for southern downtown's Class A inventory is more variable due to small sample size.

Multi-tenant Class A Occupancy Trends



All Multi-tenant Office Space Occupancy Trends



Note: Does not include medical professional buildings.

Southern Downtown Multi-tenant Office Properties

Property	Address	Year Built	Year Renov	Leasable Sq.Ft.	Class	Tunnel / Skywalk Access	Major Tenants	Parking	Current Occ. Rate	Lease Rate / Sq.Ft.	Rent Type
MULTI-TENANT CLASS A 50,000 SQ.FT.+											
1600 Smith	1600 Smith St	1983	0	1,098,399	A	x	United/Continental Airlines, Chevron Federal Credit Union	411	69.6%	$ 24.00	NNN
1301 Fannin	1301 Fannin St	1984	2009	784,143	A		JP Morgan Chase Bank	None	81.4%*	$ 16.50	NNN
Subtotal				**1,882,542**					**74.5%**		
OTHER MULTI-TENANT 50,000 SQ.FT.+											
KBR Tower	601 Jefferson St	1975	1991	1,047,748	B		KBR, Cullen Center Bank, Exxon	None	100.0%	$ 17.00	Gross
Wedge International Tower	1415 Louisiana St	1983	1993	520,471	B	x	Eagle Rock Energy, NFR Energy, Wedge Services	None	71.1%	$ 16.50	Gross
1300 Main	1300 Main St	1955	1999	509,280	B		Energy Transfer, Linebarger Goggan Blair & Sampson, Samson Lonestar	None	100.0%	$ 15.50	NNN
600 Jefferson	600 Jefferson St	1972	1998	449,087	B	x	United Airlines, Interactive Response Technologies, Legacy Trust	None	95.1%	$ 15.50	NNN
500 Jefferson	500 Jefferson St	1962	2000	390,479	B	x	KBR	None	97.8%	$ 13.50	NNN
Amegy Bank Bldg.	1801 Main St	1956	2000	219,052	B		Amegy Bank, City of Houston Casa De Amigos Health Clinic	None	99.3%	$ 26.00	Gross
Archdiocese Bldg	1701 San Jacinto St	1940	0	72,380	D		Giesecke & Devirent America Inc, Sodexho Services Of Texas	None	100.0%	NA	Gross
1621 Milam St	1621 Milam St	1923	0	59,109	D		Houston Press, Myrtle Cruz Inc, West Publishing	None	100.0%	$ 14.00	Gross
Subtotal				**3,267,606**					**94.4%**		
TOTAL ALL MULTITENANT				**5,150,148**					**87.1%**		

* Occupancy at 1301 Fannin had risen to 87.9% by 4th quarter 2012.
Sources: O'Connor & Associates; CDS Market Research; data from 2nd quarter 2012

Other Southern Downtown Office Properties

Property	Address	Year Built	Year Renov.	Leasable SF	Class	Tunnel / Skywalk Access	Major Tenants	Parking	Current Occ. Rate	Current Lease Rate per Sq.Ft.
SMALL BUILDINGS										
1415 Fannin St	1415 Fannin St	1968	0	40,619	C		Lone Star Legal Aid	None	100.0%	NA
1301 Leeland St	1301 Leeland St	1930	0	10,000	D		Bolton & Baer, Condon Claims Mgmt	None	51.0%	$ 10.00
Portfolio Building	1712 Pease St	2009	0	19,006	B		NA	None	0.0%	$ 27.00
Subtotal				**69,625**					**65.7%**	
SINGLE TENANT / OWNER OCC.										
Exxon Bldg	800 Bell St	1962	0	1,109,000	B		Exxon and subsidiaries	None	100.0%	
1400 Smith	1400 Smith St	1984	0	1,150,681	A	x	Chevron	None	100.0%	
1500 Louisiana	1500 Louisiana St	2000	0	1,156,636	A	x	Chevron	None	100.0%	
The Lee P. Brown Metro Administration Building	1900 Main St	2005	0	300,000	B		METRO	None	100.0%	
Mickey Leland Federal Bldg	1919 Smith St	1982	0	362,499	B		US Government	None	100.0%	
Seafarers Internatl	1221 Pierce St	1970	0	23,616	C		Seafarers International Union	None	100.0%	
Chancery Galv-Hstn Diocese	1700 San Jacinto St	1961	2008	37,536	D		Diocese of Galveston-Houston	None	100.0%	
1210 Jefferson Ave	1210 Jefferson Ave	1950	0	12,500	D		NA	None	100.0%	
Subtotal				**4,152,468**					**100.0%**	
MEDICAL										
Medical Place One	1315 St Joseph Pky	1984	0	170,554	B		Med./Prof. Building	None	80.4%	$ 23.00
St Joseph Pavilion	1919 La Branch St	1940	2000	458,569	B		St. Joseph Medical Center	None	100.0%	
St. Joseph Professional Bldg	2000 Crawford St	1964	2001	135,586	D		Med./Prof. Building	None	58.1%	$ 23.00
Subtotal				**764,709**					**88.2%**	
TOTAL ALL OFFICE SPACE				**10,136,950**					**92.3%**	

Sources: O’Connor & Associates; CDS Market Research

As previously noted, there are two large Class A buildings in southern downtown, both fully occupied by Chevron. Three other large single tenant buildings, 800 Bell (Exxon), METRO, and the Mickey Leland Federal Building, do not have tunnel or skywalk connections, excluding them from Class A status.

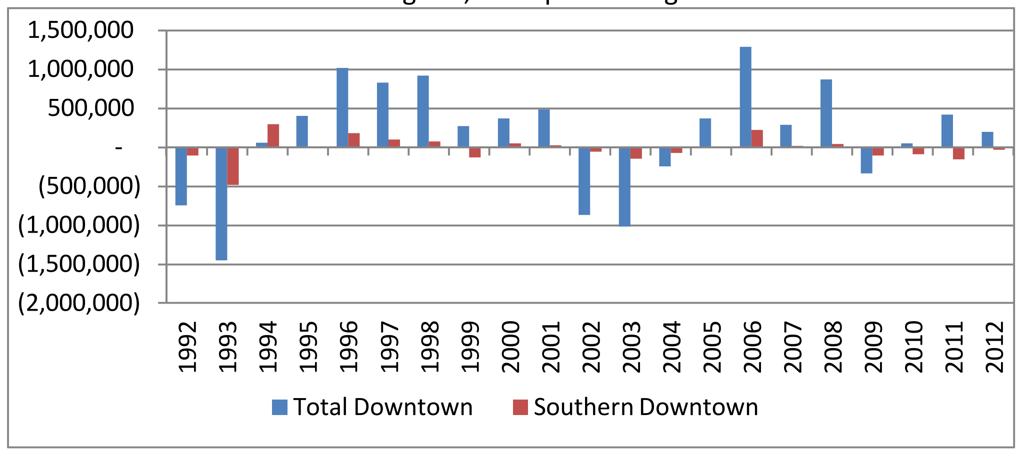
When adding in smaller, single user, and medical professional properties, the study area has approximately 10.1 million square feet of office space. Southern downtown has the only significant stock of medical and medical office buildings in the market area, all associated with St. Joseph Hospital.

Space absorption in the larger Class A multi-tenant properties has historically also tended to track the overall downtown market until the last three years. The charts at right illustrate absorption trends since 1992 for both the downtown overall and southern downtown. Before 2010, there were only two years when southern downtown Class A absorption was significantly opposite (positive or negative) to the overall downtown performance.

Downtown has experienced some increased vacancy due to corporate relocation (such as United Continental and the upcoming Devon move) and consolidation (Kinder Morgan's acquisition of El Paso); however, commercial brokers report that related vacancy is leasing up and the negative impacts on absorption are not significant. Southern downtown has had a net negative absorption of about 32,000 square feet for 2012 through June.

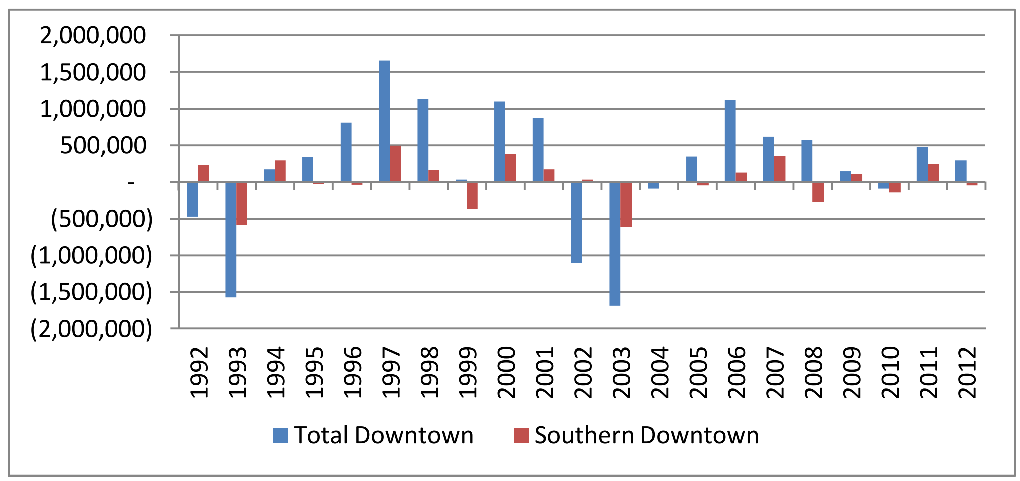
Absorption Trends - Multi-tenant Class A Properties

Buildings 50,000 Sq.Ft. or Larger



Absorption Trends – All Multi-tenant Properties

Buildings 50,000 Sq.Ft. or Larger



Note: Does not include medical professional buildings.

Average Asking Lease Rates 3rd Quarter 2012

Office Submarket	Avg. Gross Asking Lease Rate / Sq.Ft.
Downtown / CBD	$34.42
Allen Parkway	$24.95
Clear Lake	$17.76
East	$16.08
Energy Corridor	$23.54
FM 1960 / Highway 249	$17.81
Greater Pearland	$33.14
Greenway Plaza	$24.22
Katy Freeway	$28.15
Kingwood	$19.61
North Belt / Greenspoint	$16.68
North Loop / Highway 290	$17.52
South Main / Medical Center	$21.81
Southwest Freeway	$18.06
Westchase	$19.95
West Loop / Uptown / Galleria	$26.77
Woodlands	$23.77
Total	$23.30

Source: CBRE

Downtown continues to have the highest lease rates in the Houston region. Lease rates, after being flat or declining for a number of years, began to rise in 2006 across the region and have remained elevated despite the national recession which affected Houston starting late 2008 through 2009. CBRE reports that rent growth has been occurring again since 2011, with Class A asking rates in the downtown reaching $36.00 to $40.00 per square foot (depending on the reporting source). Other submarkets where job growth has been exceptionally strong, most notably the Energy Corridor, are also reportedly experiencing strong lease rate increases. Concessions (free rent, elevated improvement allowance, etc.) have been decreasing as conditions are shifting to favor property owners in several submarkets.

Downtown's office market, despite some unique demand reductions related to specific companies (United Airlines, Devon etc.), is thus benefiting from Houston's surging economy at the present time. Its occupancy rate for Class A multi-tenant space, close to 90%, is healthy when compared to historical performance. Local economists and commercial brokers expect this to continue in the short term, barring any major nationwide or global economic downturns in 2013 or negative effects from unanticipated M&A activity.

However, other submarkets are capturing a greater share of demand at the present time owing to the nature of Houston's economic expansion, which is centered on the oil and gas industry and related service providers. Submarkets favored by this industry sector are experiencing strong absorption and rent growth, as new supply is not yet ready to accommodate increased demand. The Energy Corridor and Westchase submarkets are particularly notable in this regard (see submarket descriptions earlier in the Economic Overview section).

Downtown and Southern Downtown Comparative Analysis

As a subset of the downtown market area, southern downtown's potential for capturing growth in office demand depends in large part on the competitiveness of the downtown overall. Therefore, the market area's competitiveness in the regional context should be understood as well as that of southern downtown specifically. This evaluation is produced from both interviews with real estate professionals and CDS's overall experience in Houston.

Downtown competitive strengths. The downtown market area has some unique assets and qualities that help its competitiveness in capturing regional office demand.

Access and centrality: Downtown is at the center of the hub-and-spoke regional freeway system, supplemented by the Hardy Toll Road toward the north. Nearly all desirable suburban areas of the region plus central city neighborhoods connect via straightforward routes. Multiple ingress / egress points to the highway and street system helps disperse traffic.

Transit: Commuter transit service to downtown (park and ride) is of far higher quality than any other activity center and serves most major suburban commute corridors. It is a major selling point for the office market. Downtown's role as the hub of local transit service is helpful but a relatively minor point for the office market.

Walking distance amenities: Workers have good pedestrian access via both outdoor sidewalks and the climate-controlled tunnel and skywalk system to a wide variety of dining, convenience services, and some shopping. Outdoor amenities such as parks, sports arenas, and evening restaurants and bars are also walkable, which is of importance to younger workers.

Quality buildings: A large share of Houston's highest quality office buildings, with notable architecture, appealing common area finishes, and strong property management services are located in downtown.

Prestige and agglomeration: For some types of firms, especially finance, law, and some major energy companies, there is an intangible prestige benefit to a downtown location. In addition, there are a large number of such firms within these industry sectors in close proximity, which can create agglomeration economies and improve competition for personnel.

Downtown challenges and weaknesses. Downtown's strengths are partially offset by weaknesses and ongoing challenges that reduce its total office space demand.

Distance from workforce: Over time Houston's primary residential areas for the portion of the educated workforce that has school-aged children at home has made a steady progression further away from downtown. Closely aligned with the perception of the zoned school districts, these residential areas are now typically at least 20 miles from downtown except for neighborhoods catering to the most affluent households which can afford to live closer in. While households with children make up only a minority of regional households, they are still an influential group when it comes to desirable employees for which office-dwelling companies compete.

Deteriorating traffic conditions: A related issue is that as regional population and employment growth continue, traffic conditions on highways worsen, such that commutes from outer suburbs to downtown can take over an hour. Many suburban residents are unable or unwilling to use public transit services, so some feel that a job location downtown adds stress and fuel cost, decreases potential personal time and lowers quality of life.

Unconventional and expensive parking: Office tenants may find typical downtown parking costs and practicalities to be a burden relative to the ample attached garages and free surface lots that often accompany locations in more suburban areas.

Distance from energy service companies: The firms which service the energy industry (engineering and technical services firms) have clustered near the major oil and gas company campuses in West Houston and nearby suburban locations. The mass of educated employees working at these firms tends to live in suburban locations ranging from the northwest to southwest portions of the region. Downtown is thus outside the range of work locations that this portion of the energy industry is used to considering.

Lease rates: Downtown's relatively high lease rates will discourage users that need lower occupancy costs. This is especially true for users that are satisfied with existing buildings rather than new. The difference in rates for newly built Class A properties between downtown and other prime submarkets may be less dramatic, however.

Urban blight and the homeless: The public nature of downtown's streets means that office workers have closer interaction with things they may find distasteful, such as deteriorated buildings and the homeless or panhandlers. This contrasts with non- downtown locations where there may be more private controlled space and fewer older buildings that are underutilized.

Diversity of retail and quiet streets: Although many retail and dining establishments are easily accessed for daytime workers in downtown, certain other office market areas have a greater range of dining and shopping activities which carry on in the evenings and weekends. This lack of evening and weekend retail activity downtown translates into relatively "dead" streets and sidewalks which can feel uncomfortable for some workers. This issue is closely related to the low population that actually resides within downtown.

Building floorplates: For certain office users, the nature of the less expansive and flexible floorplates offered in downtown's high rise buildings is unable to meet their needs.

Increased efficiency: Many office users are occupying less space for the same activity level than they would have in the past. While this tendency is not across the board for all office users, it does lessen demand growth somewhat at least marginally.

Southern downtown competitiveness. Southern downtown's Class A market, though it has had similar performance to the overall downtown Class A market in recent years, is currently in a slight lag behind the rest of downtown in terms of market performance. This is partly due to higher vacancy levels at two properties: Continental Center I and Wedge International Tower.

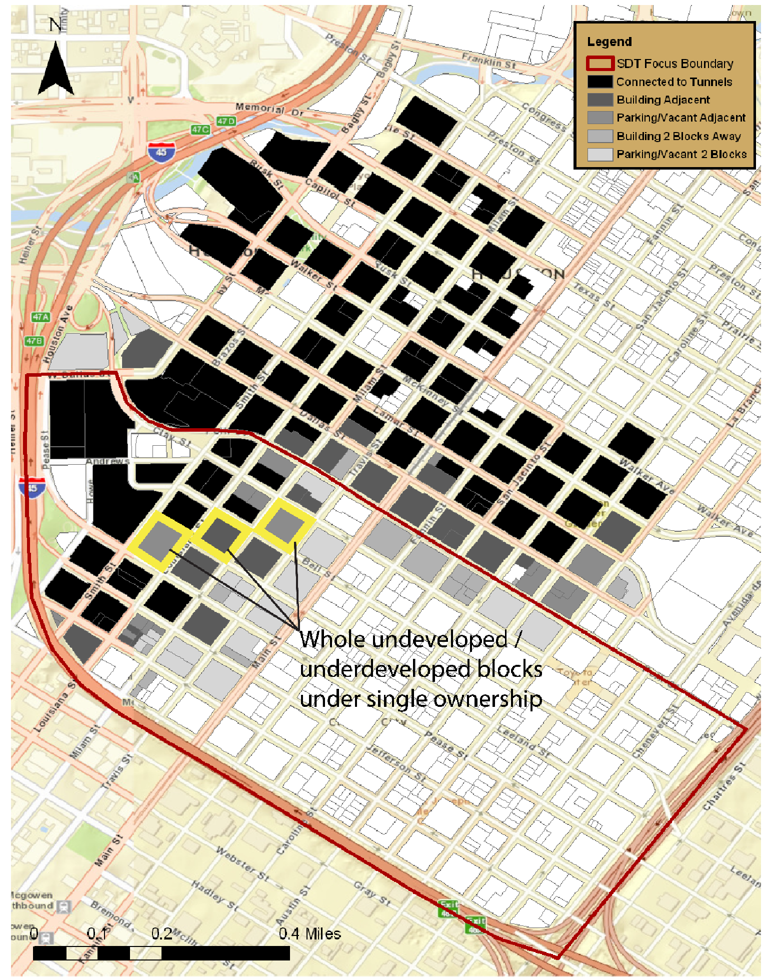
Furthermore, the most recent new Class A development (except for a small owner/user development at 1712 Pease) has not occurred in southern downtown. The most recent large property built in the study area is 1500 Louisiana (originally built for Enron, now owned and occupied by Chevron) which was completed in the early 2000s. In contrast, the central and eastern portions of downtown offer several more recently built properties to entice tenants, including BG Group Place, 1000 Main, 5 Houston Center, and Houston Pavilions. Another relatively new property, Hess Tower, is single tenant.

These recent trends lead to the question of whether southern downtown is as competitive as other areas of downtown for new office development, particularly large Class A properties. Some factors which influence this include the following:

Attractors

1. The southern downtown study area contains numerous vacant whole blocks under single ownership. This facilitates the construction of office buildings with the larger floorplates that have come to be desired in today's marketplace. Major whole-block property owners include Skanska, Main Bell Realty, Chevron, and Amegy Bank.
2. The tunnel and skywalk system extends north-south along the western portion of the study area. Thus several undeveloped sites, including three whole-block single ownership parcels, are either directly adjacent, across the street or cater-corner from an existing tunnel-served property (see map at right).
3. Public transit park-and-ride commuter service extends through the western portion of southern downtown. This further enhances the appeal of underdeveloped sites west of Main Street for office occupants. Although less important than park-and-ride service, the Main Street light rail line is generally considered as a positive.
4. Access to freeways is generally good with less rush hour congestion

Tunnel / Skywalk System Development Opportunities



Source: CDS Market Research

than other portions of downtown. Only access to US 59 northbound requires relatively distant and / or convoluted routes. Interstate 10 is accessed via northbound ramps to the Pierce Elevated (Interstate 45).

5. The central northern edge of the study area has close proximity to the above-ground retail amenities of Houston Pavilions, Phoenicia, and the Shops at Houston Center. With the January 2013 announcement that the downtown Macy's will close at the end of February, block 256 is positioned for future redevelopment, likely office and mixed-use.
6. Lower land values east of Main Street allow the possibility of smaller office building development catering to users who want to be in a modern building downtown but will not pay typical Class A office tower rents.

Deterrents

1. The development of the much-loved Discovery Green and One Park Place apartment tower with the Phoenicia market has shifted development momentum toward the east-west office tower axis through downtown.
2. Most southern downtown blocks – including all of them east of Travis – are at least two blocks from a tunnel- or skywalk-served building (see map on previous page). It is highly unlikely that a stand-alone Class A office tower would have sufficient market appeal without a connection to that system unless it discounted rents. Extending the system for more than a block to reach a new property would be expensive (estimated at $1,000 per foot) and difficult, particularly if the intervening block(s) were held by owners not interested in developing at the same time. Yet, it could be an almost-required investment: according to the Houston Downtown Management District, the last four buildings constructed without tunnel or skywalk access reverted to their lenders.
3. Southern downtown lacks widely appealing amenities, other than the new Tellepsen YMCA. The expanses of surface parking and lack of green space (aside from Root Square) create a placelessness that is empty of the intangible factors which help boost market demand. These conditions help make distances to relatively nearby amenities such as Houston Pavilions feel much longer than they really are; the lack of buildings to provide shade, accelerate breezes, and create adjacent visual interest along sidewalks further dampens the appeal to typical users.
4. The prominent derelict buildings – the former Days Inn, the Savoy, and even the Central Bank complex across the Pierce Elevated – dominate the landscape and contribute a negative feel that symbolizes urban blight. The lack of surrounding development and general vitality allows these properties to have more impact than they otherwise would, creating a bit of a vicious circle which in turn discourages investment, including office development.
5. The southern portion of the study area near Main Street experiences negative impacts from the Greyhound bus terminal just two blocks south from the Pierce Elevated. Whether it is merely perception or reality, there is a sense that the station results in a greater prevalence of undesirable and / or unstable pedestrians, reinforcing feelings of unease for the average office worker or visitor already sparked by the conditions described above.

6. Office users seeking more affordable, smaller-scale new space (see point #6 under "Attractors") could likely find sites in more vibrant areas that would be more appealing to employees than the portion of the study area east of Main Street.

Realistic Market Potential – General Office

Given the previously described current regional economic trends, office market conditions, realistic potential capture of regional office growth, and competitiveness factors for downtown and the southern downtown study area, CDS has estimated what might be a realistic expectation of office development. The impact of potential public, civic, or collective private sector interventions have also been considered.

No-Intervention Scenario. Past history of downtown's capture of regional growth led to general estimates that the total CBD market area could capture from 480,000 to 720,000 square feet of office demand annually in the near term, rising to a range of 840,000 to 1,200,000 square feet annually after 2015 (refer to table on Page 48). Not all of this demand is necessarily for Class A buildings with high rents. Assuming the regional economy remains strong, this would imply a 600,000 to 800,000 square foot prime site Class A office tower could be supportable in downtown within the next three to four years, with continued tightening of existing supply in the interim.

Without any interventions by the public, civic, or collective private sector – meaning no incentive programs, proactive tunnel / skywalk extensions, investments in new green space or other public amenities beyond basic streetscape improvements – the odds of southern downtown being the location of this new office property are limited. Several other full-block sites are available elsewhere in downtown that could more readily connect to the tunnel / skywalk system, which would be an imperative to achieve the rents necessary to justify high-rise Class A construction. Two of the three underdeveloped, single ownership full blocks that are tunnel / skywalk adjacent in the study area are owned by Chevron, which would have other motivations for development instead of investing in multi-tenant demand capture. Block 319, owned by Main Bell Realty, would be the most obvious location as it could extend the tunnel serving Wedge International Tower across the street. The time constraints of obtaining an anchor tenant to start such a project (assuming financing arrangement require it) could easily push delivery past the four-year time frame.

The wild card is 800 Bell (ExxonMobil), now owned by Shorenstein Properties. To capture Class A demand growth, the building would need to remediate asbestos and undergo an extensive renovation to bring its systems and finishes up to competitive standards. It would also need to extend the tunnel from Wedge International Tower or from Chevron's properties via the garage at Louisiana and Leeland. If financial modeling indicates that these fairly expensive investments would generate satisfactory return (accounting as well for the holding cost with little or no income during renovation) and such a project went forward, the substantial size of the building (1.1 million square feet) means it could capture much of the increased short term demand for downtown.

Class A tower office development east of Block 319 or 800 Bell is essentially dependent upon an extension of tunnels and/or skywalks from those properties or from somewhere else (unlikely).

Small-scale stand-alone projects such as was done in 2009 with 1712 Pease could theoretically occur east of Main but would be infrequent, one-off projects and should not be expected to constitute a dominant use in that part of the study area.

Intervention scenario. While investments and policies such as parks and economic development incentives could produce some additional impetus to spur new office development in southern downtown, CDS concludes that a proactive extension of the tunnel / skywalk system (or incentive to ease the financial burden of doing so for the developer) would be necessary to have a significant impact, particularly if it could reach the cluster of whole-block ownerships along Main Street. This would put several more development sites in play, increasing the odds that southern downtown could capture a greater share of office demand. Whereas the non-intervention scenario offers a minimal likelihood of one new office tower in southern downtown (assuming other downtown sites do not develop first and / or 800 Bell does not succeed in capturing most of the demand), a tunnel / skywalk extension scenario toward Main Street could increase the odds of demand capture in southern downtown such that even two new office towers would not be unreasonable to consider by 2020. The blocks near Main along Bell are also close to the amenity of the Houston Pavilions, which is not a feature of other downtown development sites.

It should be noted that this type of intervention is not unprecedented in downtown's history (TIRZ #3 assisted the development of 1000 Main).

Medical Office

The St. Joseph Medical Center complex includes two medical office buildings, one of which is south of the Pierce Elevated and outside the boundaries of the study area and has relatively low occupancy. A newer building at the intersection of Austin Street and St. Joseph Parkway is over 90% occupied and likely to increase its occupancy further as the hospital is adding up to 30 doctors in the next several months. Despite this staffing increase, the hospital states that its undeveloped properties north of Jefferson Street will remain as surface parking.

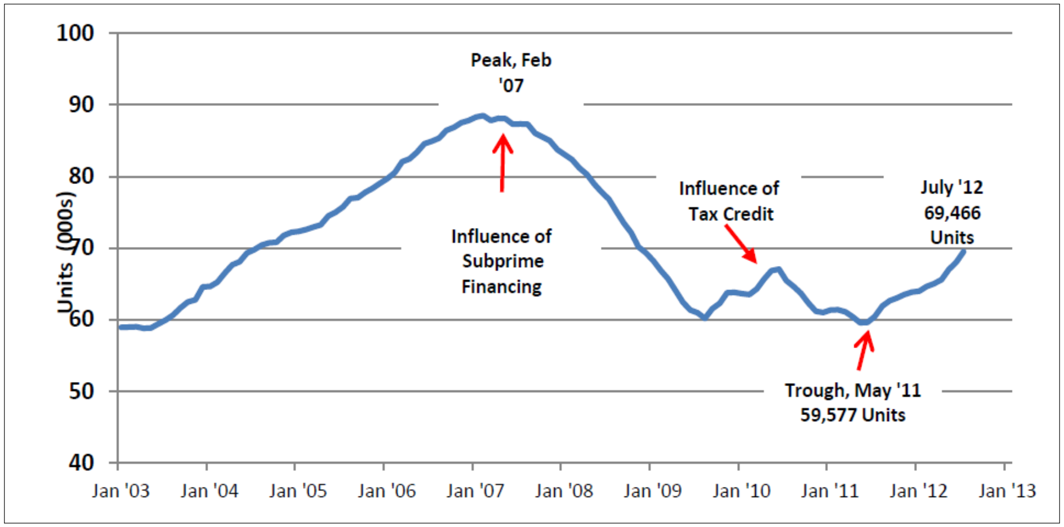
CDS believes it is unlikely that large scale medical office will be a driving force in land use change, although medical-related tenants could be a source of demand for smaller scaled office buildings east of Main Street.

Residential Market

Though Houston suffered the after effects of sub-prime financing, the region has fared much better than other areas. Houston values fell 2 to 3 percent for about three years, according to the Houston Association of Realtors (HAR). The typical Houston homeowner has recouped value lost, while homeowners in many other metros remain underwater.

HAR reports that local realtors are on track to close on more than 70,000 homes in 2012 and builders will start more than 23,000 houses. While still below the pre-recession peak, job and income growth now drive demand. As a result, today's market is healthier than it was at the previous peak.

Housing Unit Sales 2003-2012

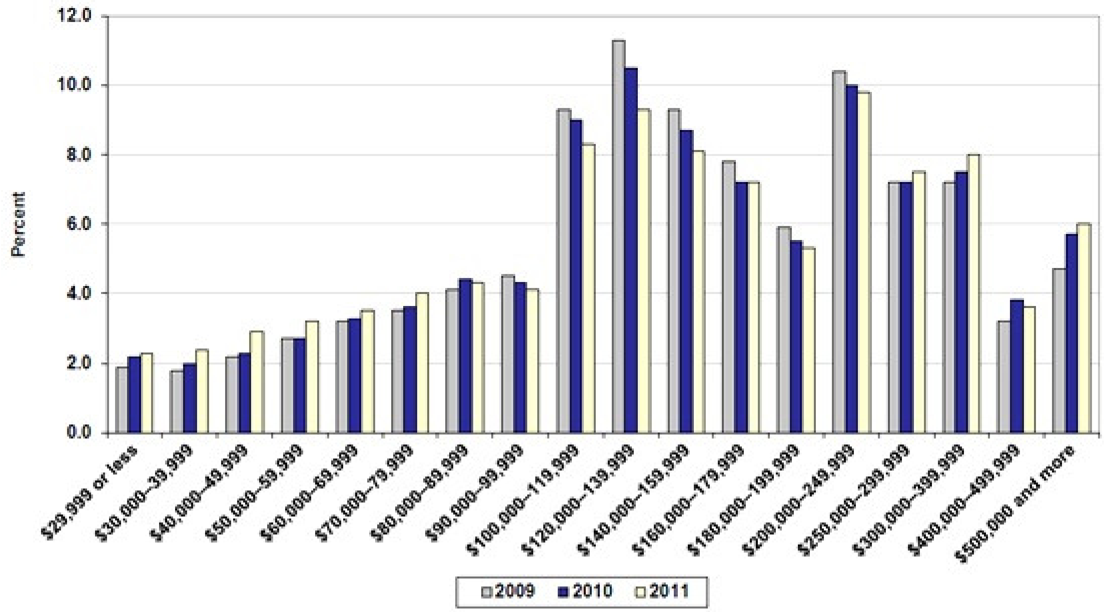


Source: Houston Association of Realtors

The Houston Metro area leads the nation in residential building construction, having issued 23,800 permits valued at more than $3.9 billion through July 2012 per the Greater Houston Partnership. Given that the Houston area sold more than 70,000 homes in 2012—the most in four years—and the region is at its lowest level of single-family inventory since February '07, construction can be expected to continue to rise.

The majority of homes sold on the Houston MLS in 2011 ranged in price from $200,000 to $249,999. The second price cohort was $120,000 to $139,999.

2011 Home Sales



Source: Houston Association of Realtors

The Texas Real Estate Center reported that home sale prices in 2011 were highest in Montgomery County which has been a trend since 2007. Fort Bend County followed closely while Brazoria County continues to have the lowest sales prices in the area.

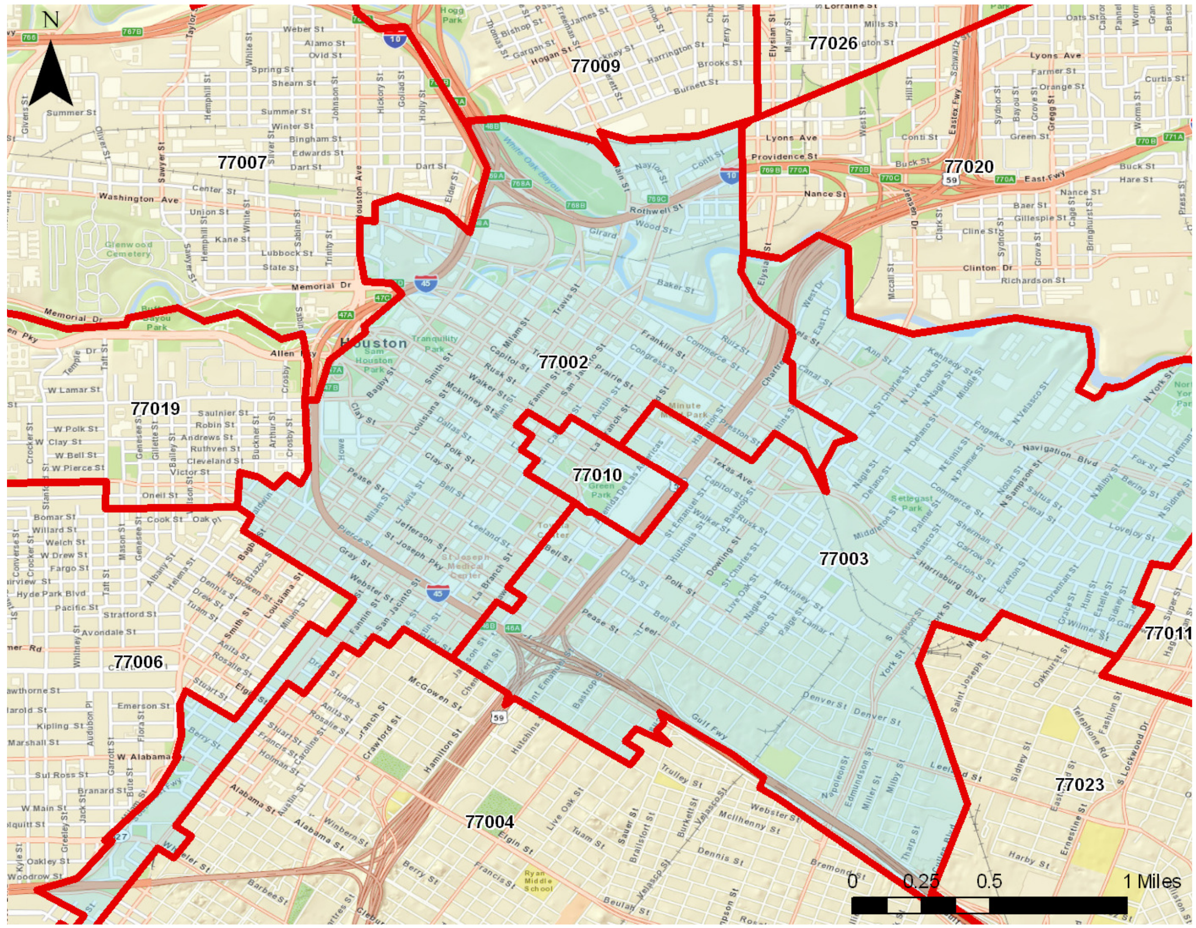
The number of building permits for single family residential units has not changed significantly over the past three years, remaining around 22,000 for the MSA. This is down significantly from the 42,217 permits in 2007 prior to the economic downturn.

Overview of Downtown Market Area

The downtown residential market area includes 77002, 77003, and 77010 zip codes, as shown on the map.

The market performance data provided in this section generally represent conditions as of September/October 2012.

Downtown Market Area Map



The following is a list of apartments, condominiums, and lofts in the market area, totaling 5,535 units. These units are for sale and for lease as noted. Only one condominium project is located in the southern downtown area – Beaconsfield. Two apartment developments, Houston House and Plaza & Peacock, are also located in southern downtown.

Downtown Area Multi-family Rental and Condo/Loft Properties

Name	Location	Rent / Sale / SRO	No. of Units
2222 Smith	2222 Smith	R	152
Alexan Lofts (Marquis Downtown)	2115 Runnels	R	244
Camden City Centre	301 St Joseph	R	379
Camden Midtown	2303 Louisiana	R	337
Club Quarters	720 Fannin	R	70
Dakota Lofts	711 William	R	53
Eller Wagon Works	101 Crawford / 100 Jackson	R	32
Hogg Palace	401 Louisiana	R	79
Houston House Apts	1617 Fannin	R	394
Humble Tower Apts	1212 Main	R	82
Lofts at the Ballpark	610 St. Emanuel	R	375
One Park Place	1400 McKinney	R	346
Plaza & Peacock Apts	1414, 1416 Austin	R	32
Post Midtown Square I & II	302 Gray	R	529
Post Rice Lofts	909 Texas	R	308
Sabine Street Lofts	150 Sabine	R	198
Tennison Lofts	110 Bagby	R	39
White Oak Lofts	1011 Wood	R	12
2016 Main	2016 Main	R & S	353
Bayou Lofts	915 Franklin	R & S	108
Byrd's Lofts	919 Prairie	R & S	5
Commerce Towers	914 Main	R & S	132

Name	Location	Rent / Sale / SRO	No. of Units
East Downtown Lofts	2323 Polk	R & S	29
Four Seasons	1300 Lamar	R & S	76
Rise Lofts	2000 Bagby	R & S	143
CityView Lofts	15 N. Chenevert	S	57
The Edge Condos	300 St Joseph	S	*93*
Kirby Lofts on Main	917 Main	S	65
Herrin Lofts	2205 McKinney	S	52
Foley Building	214 Travis	S	2
Hermann Lofts	204 Travis	S	26
St. Germain Lofts & Condos	705 Main	S	108
Keystone Lofts	1120 Texas	S	31
Capitol Lofts	711 Main	S	37
San Jacinto Lofts	915 N. San Jacinto	S	16
Stanford Lofts	505 Bastrop	S	40
Franklin Lofts	201 Main	S	62
Beaconsfield Condos	1700 Main	S	19
Canal Street Apartments	2821 Canal	SRO	133
New Hope I, II, III (SRO)	320 Hamilton	SRO	130
1414 Congress (SRO)	1414 Congress	SRO	57
D'George	1418 Preston	SRO	100
	Total		**5,535**

Source: CDS Market Research, Central Houston, Downtown Management District; Highlighted properties are within southern downtown

For-Sale Single Family

The majority of single family residences are in the form of recent townhome construction. There are scattered single family detached homes throughout the downtown area in various degrees of condition.

According to HAR, there are currently 20 single family detached properties available for sale in the downtown market area. They range from $49,500 to $175,900 ($44 per sq.ft. to $180 per sq.ft). As stated above, the listings are in various degrees of condition and age.

Single Family Residential Active Listings

MLS No.	Address	Subdivision	Lot Size	SF	List Price	LP/SF	YB	BR	Bth	DOM
57767651	2712 COMMERCE	SETTEGAST 3	2,494	440	$49,500	$112	40	2	1/0	45
89859903	34 COLBY ST	LEON & SAMPS	3,640	1,632	$75,000	$45	40	0	1/2	251
91425755	204 DRENNAN ST	KENDALL PLAC	5,000	1,920	$84,921	$44	35	3	2/0	142
65493185	3924 JEFFERSON	MEAST DOWNTOWNW LAWN	3,875	1,452	$89,921	$61	30	3	2/0	175
44707068	36 SAINT CHAR	LUBBOCK GROV	5,000	1,076	$100,000	$92	60	3	1/0	315
41044701	213 N HUTCHESON	MERKELS 1	7,500	1,717	$109,000	$63	38	3	2/0	206
53497083	305 GRACE ST	BRADY PL BLK	5,000	1,263	$115,000	$91	28	3	2/0	33
6537737	210 NAGLE STRE	SETTEGAST 3	5,800	818	$118,610	$145	30	2	1/0	32
86125946	240 YORK ST	HERMAN & LEA	4,700	1482	$130,000	$87	38	4	2/0	79
46819758	117 HUNT ST	BRADY PL BLK	5,000	1,440	$132,900	$92	49	2	2/0	447
36729996	2721 ENGELKE ST	FACTORY	5,655	1,441	$134,995	$93	30	3	1/1	84
80365993	212 Nagle St	SETTEGAST 3	5,800	751	$135,000	$179	30	2	1/0	32
93821558	218 GRACE ST	BRADY PL BLK	5,000	1880	$149,000	$79	38	4	3/0	163
25588117	2110 HUTCHINS	SSBB	5,000	2,712	$150,000	$55	35	5	2/0	637
67984278	3405 MCASHAN	HERMAN & LEA	5,000	1,890	$150,000	$79	39	2	1/0	149
76841968	1708 LIVE OAK S	ENGELKE SSBB		1,564	$150,000	$95	35	2	2/0	48
97705498	204 NAGLE	SETTEGAST 3	5,800	858	$154,440	$180	30	3	1/0	32
70021530	406 ESTELLE ST	BRADY PL BLK	5,000	1,029	$164,000	$159	27	2	1/0	68
39096311	916 CHAPMAN ST	MC KEE	3,525	1,308	$175,000	$133	10	2	2/0	41
21146280	3409 POLK ST	SSBB BLKS 28	7,491	1,908	$175,900	$92	30	4	3/1	157

Source: HAR, CDS Market Research

In 2012 there was one sale in 77002, twenty sales in 77003 and no sales in 77010. As with listings, sales vary in prices according to age and condition of the property which varies throughout the market area.

Single Family Residential 2012 Sales

77002 Sales										
MLS No.	Address	Subdivision	Lot Size	SF	KM	YB	BR	Bth	Sale Price	DOM
96566178	2008 HELENA	HELENA PIERC	1,762	2,369	493P	06	3	3/1	$450,000	84
77003 Sales										
MLS No.	Address	Subdivision	Lot Size	SF	KM	YB	BR	Bth	Sale Price	DOM
83034844	12 N EVERTON	PALMER	3,760	973	494N	40	2	1/0	$42,000	14
30131454	3720 BELL ST	EDMUNDSON 1	5,408	1,144	494s	40	4	1/0	$75,100	15
36001442	405 PALMER ST	LEON & SAMPS	4,752	924	494N	40	2	1/0	$61,000	34
46100111	1818 EDMUNDSON	SENESCHAL PL	5,000	938	494S	35	2	1/0	$70,000	200
56190815	3924 PEASE ST	EAST DO LAWN	3,875	1,100	494S	29	3	1/0	$93,500	113
42957324	1760 ADEN MIST	MIDTOWN VILL	1,680	1,286	493V	06	2	2/0	$155,000	2
16291587	1706 DELANO DR	MIDTOWN VILL	1,727	1,414	493V	04	2	2/1	$168,200	7
37946021	1763 ADEN DR	MIDTOWN VILL	1,920	1,382	493V	05	2	2/1	$165,000	36
73436916	108 Sidney	Brady PL BLK	6,812	1,960	494P	39	4	2/1	$155,000	110
4270049	1753 ADEN MIST	MIDTOWN VILL	1,566	1,298	493V	05	2	2/0	$168,000	52
34856244	1711 ADEN DR	MIDTOWN VILL	2,220	1,688	493V	05	2	2/0	$175,000	23
57413634	1772 ADEN MIST	MIDTOWN VILL	2,574	1,622	493V	06	2	2/0	$172,000	24
9953476	930 McKinney P	McKinney Par	2,759	1,632	494S	06	3	2/1	$185,000	12
5888414	3013 A Polk	EAST DOWNTOWN		1,650	493V	11	3	2/0	$229,710	285
60001460	2312 SPERBER LN	WATERHILL HO	1,400	2,006	493R	11	3	3/1	$241,500	28
97477808	2923 PEASE ST	Leeland Gard	1,640	1,730	493V	07	3	3/0	$245,000	43
10661649	1608 BASTROP ST	Leeland View	1,770	2,008	493V	08	2	2/1	$269,900	42
20670647	2721 POLK ST	East Downtown	2,021		493V	12	3	3/1	$289,900	78
91637639	1216 St. Charles	St. Charles			493V	12	3	2/1	$279,900	0
1804034	1121 DELANO	SSBB BLKS 28	5,500	4,704	493V	63	2	2/0	$319,500	6

Source: HAR, CDS Market Research

From 2009-2011 there were 101 sales reported in downtown market area. The average price for these single family detached homes was $114 per sq.ft. or $198,598. Comparatively in the City of Houston the average price per square foot in 2009 was $93.96; in 2010, $98.28; and in 2011, $102.83, thus placing downtown prices slightly higher than the city average.

Single Family Residential Sold 2009-11

	SqFt	Beds	FB	HB	Sale Price	SP/Sq.Ft.	SP/LP %	DOM
Min	916	1	1	0	$14,500	$13.28	60 %	0
Avg	1732	3	2	1	$198,598	$114.66	97 %	77.22
Max	3367	4	3	1	$365,000	$157.26	119 %	595
Median	1712	3	2	1	$207,000	$121.81	99 %	44

Source: HAR, CDS Market Research

Townhome Development

Townhome development has occurred in the market area, predominately in the East Downtown area east of US-59. The townhome development is of recent vintage with virtually all of the new construction occuring since 2000. The following is a list of townhome development currently for sale. There are 16 active listings for townhomes in the downtown market area. They range from $94 per sq.ft. to $153 per sq.ft. The average listing price per square foot is $133.51.

Townhomes Active Listings

MLS No.	Address	Subdivision	Sq.Ft.	List Price	LP/SF	Yr Blt	BR	Bth	DOM
78135273	2204 ANN ST	AMERICAS TOW	1,658	$179,900	$108	03	2	2/0	45
54107940	2356 SPERBER LN	WATERHILL HO	2,074	$196,000	$94	07	3	3/1	6
20726744	2208 BASTROP ST	Bastrop Plaz	1,682	$215,000	$127	06	2	2/1	126
52248117	2935 BELL ST	East Downtown	2,137	$235,000	$109	05	3	2/1	97

MLS No.	Address	Subdivision	Sq.Ft.	List Price	LP/SF	Yr Blt	BR	Bth	DOM
80382071	1524 PALMER	DOWNTOWN	1,888	$246,500	$130	05	3	2/1	58
37872044	2724 CLAY ST	Delano Cross	2,124	$249,700	$117	07	2	2/1	93
88489993	3013 Polk	EAST DWNTWN	1,650	$249,900	$151	11	3	3/1	421
17262060	2722 CLAY ST	DELANO CROSS	2,124	$254,700	$119	07	2	2/1	3
47373225	1629 DELANO ST	Leeland Gard	1,778	$270,000	$151	07	3	3/0	81
35159604	2330 SPERBER LN	WATERHILL HO	2,006	$272,000	$135	07	3	3/1	47
77200494	2201 AUSTIN ST	WEBSTER PINN	1,992	$274,000	$137	03	2	2/1	6
39426087	1522 PALMER ST	DOWNTOWN	2,474	$316,900	$128	05	3	2/1	33
32741624	727 Live Oak	Capitol Oaks		$329,900		12	3	3/1	25
47831994	2704 Clay	Downtown	2,214	$339,500	$153	12	3	3/1	69
73741453	1405 Nagle	Downtown	2,218	$339,500	$153	12	3	3/1	99
16508947	721 Delano	Capitol Oaks	2,550	$384,900	$150	12	3	4/1	6

Source: HAR, CDS Market Research

In 2012 there were six sales in 77002 ranging from $188,000 to $360,500. In 77003 there were 33 sales from $153,000 to $340,000. As seen, townhome prices are similar in the downtown area given that they are in close proximity, similar age, style and condition.

Townhomes 2012 Sales

77002									
MLS No.	Address	Subdivision	Sq.Ft.	KM	YB	BR	Bth	Sale Price	DOM
42853963	207 PIERCE	PIERCE STREE	1,345	493P	08	1	1/0	$188,000	69
26615414	2259 AUSTIN	LA BRANCH ST	1,965	493U	01	3	2/1	$239,000	10
39464914	2256 LA BRANCH	LA BRANCH ST	2,151	493U	01	3	2/1	$239,000	2
74515934	2215 AUSTIN ST	WEBSTER	2,018	493U	03	2	2/1	$270,000	32
85893681	2205 AUSTIN	WEBSTER	2,104	493U	01	2	2/1	$272,500	126
83306035	406 HADLEY ST	MRM-CRM	2,917	493P	00	3	2/1	$360,500	64
77003									
MLS No.	Address	Subdivision	Sq.Ft.	KM	YB	BR	Bth	Sale Price	DOM
21076164	2238 Ann St.	Americas Tow	1,216	494j	03	2	2/0	$153,000	7
23439549	2601 BELL ST	COLLARD NOVA	2,118	493V	04	2	2/1	$170,000	64
92096313	87 SIDNEY ST	A & K Custom	2,318	492p	05	3	3/1	$180,000	37
52437164	2414 Leeland St	ST CHARLES S	1,975	493V	05	3	2/1	$172,699	42
13025148	2248 ANN ST	AMERICAS TOW	1,656	494J	03	2	2/0	$169,000	32
51899710	1244 SAMPSON	POLK AVE GAR	1,228	494S	08	2	2/0	$180,000	247
30924234	2539 RUSK	WATERHILL HO	2,278	493R	06	3	3/1	$202,000	72
14722344	1414 DOWLING	Omni Heights	1,572	493v	03	3	2/1	$195,000	30
95046422	2341 ANN ST	AMERICAS TOW	1,939	494J	04	2	2/0	$194,000	31
18129144	2415 ROUFA RD	Homes on Com	1352	493r	08	2	2/0	$199,000	16
83896409	1326 DOWLING	DOWLING AND	2,587	493V	02	2	2/1	$200,000	14
42334324	2329 ANN ST	Americas Tow	2,035	494J	04	2	2/1	$196,000	17
45145526	2318 SPERBER LN	Waterhill Ho	2,006	493R	07	3	3/1	$214,450	49
89382807	1111 ST CHARLES	Dallas Avenu	1,770	493R	07	2	2/1	$235,500	15
77864148	115 RILEY LN	WATERHILL HO	1,800	493R	07	3	3/1	$215,000	41
3025496	2848 LEELAND ST	Leeland Gard	1,759	493V	06	3	3/0	$235,500	123
70627134	2217 Bastrop	Hadley Ct		493U	12	3	2/1	$234,900	15
1044503	2219 Bastrop	Hadley Ct	1,640	493U	12	3	2/1	$237,900	41

Community Development Strategies

6069180	2830 LEELAND	LEELAND GARD	1,796	493V	06	3	3/0	$231,000	70
2608697	2215 Bastrop	Hadley Ct	1,675	493U	12	3	2/1	$239,900	25
39398375	2213 Bastrop	Hadley Ct	1,675	493U	12	3	2/1	$239,900	0
12561498	719 St. Charle	Waterhill Ho	1,803	493R	06	3	3/1	$235,000	80
41692674	1207 ROBERTS ST	POLK AVENUE	1,737	494S	07	3	3/1	$249,000	96
49308136	2834 POLK ST	Polk Avenue	2,092	493V	08	2	2/1	$267,500	93
30974124	2531 RUSK	WATERHILL HO	2,075	493R	06	3	3/1	$280,000	126
53545604	735 Live Oak	Capitol Oaks	2,241	493R	11	3	3/1	$319,900	0
79293354	707 Live Oak	Capitol Oaks	214	493R	12	3	3/1	$314,900	13
40771669	709 Live Oak	Capitol Oaks		493R	12	3	3/1	$319,900	2
50887111	737 Live Oak	Capitol Oaks	2,241	493R	11	3	3/1	$319,900	0
26634409	717 Live Oak	Capitol Oaks		493R	12	3	3/1	$324,900	44
25531170	715 Live Oak	Capitol Oaks		493R	12	3	3/1	$329,900	1
4398814	904 A Hutchins	MCKINNEY TOW	2,434	493R	12	3	3/1	$340,000	0
99821748	902 Hutchins	MCKINNEY TOW	2,434	493R	12	3	3/1	$350,000	248

Source: HAR, CDS Market Research

Sales from 2009-2011 are as follows. There were no sales in 77010. As shown, prices range from $111 per sq.ft. to $182 per sq.ft. in 77002 and from $32.40 to $161.26 in 77003. Prices are slightly higher in the 77002 zip. The average sales price per square foot was $123.28 in the downtown market area from 2009 to 2011.

Townhomes Sold 2009-2011

77002 – 18 Properties

	SqFt	Beds	FB	HB	Sale Price	SP/SF	SP/LP %	DOM	Year Built
Min	860	1	1	0	$147,750	$111.58	90%	4	1986
Avg	1,570	1.8	2	0	$235,266	$149.85	96%	69	2004
Max	3,003	3	3	1	$440,000	$182.96	100%	211	2009
Median	2,037	2	2	0	$250,000	$157.96	97%	46	2001

77003 – 158 Properties

	SqFt	Beds	FB	HB	Sale Price	SP/SF	SP/LP %	DOM	Year Built
Min	873	1	1	0	$63,500	$32.40	54%	0	1929
Avg	1,944	2	2	0	$237,283	$122.06	97%	80	2000
Max	3,014	4	3	1	$355,000	$161.26	109%	629	2011
Median	2006	3	2	1	$42,238	$124.54	98%	56	2008

Source: HAR, CDS Market Research

Condominium/Lofts Development

There are currently 31 condo/loft units (for sale) in the downtown market area. Of these only one is located in the study area (The Beaconsfield) and listed at $144 per sq.ft. Prices range from $69 per sq.ft. to $265 per sq.ft., with the lowest prices at 2016 Main, one block south of the study area.

High-Rise, Mid-Rise Condos/Lofts Active Listings

MLS No.	Building Name	Loft	SF	List Price	LP/Sq.Ft.	Yr Blt	BR	Bth	DOM
24373345	2016 MAIN	N	431	$59,950	$139	65	0	1/0	5
81884741	2016 MAIN	N	283	$69,500	$245	65	0	1/0	180
89862194	2016 MAIN	N	487	$69,500	$142	65	0	1/0	156
38425023	2016 MAIN	N	436	$74,900	$171	65	0	1/0	169
18809937	2016 MAIN	N	283	$74,995	$265	65	0	1/0	244
44982417	2016 MAIN	N	1,154	$79,950	$69	65	2	2/0	25
84437748	2016 MAIN	N	592	$79,950	$135	65	1	1/0	113
55564937	2016 MAIN	N	487	$83,500	$171	65	0	1/0	156
94695334	2016 MAIN	N	1,144	$89,900	$78	65	2	2/0	64
53040654	2016 MAIN	N	714	$89,950	$125	65	1	1/0	43
6070907	2016 MAIN	N	709	$95,000	$133	65	1	1/0	161
19629614	2016 MAIN	N	1,144	$105,000	$91	65	2	2/0	32
66169256	2016 MAIN	N	737	$107,000	$145	65	1	1/0	397
36824478	HERRIN	Y	1,339	$139,900	$104	29	1	1/0	183

10276250	Live Oak Lofts	Y	873	$151,000	$172	36	0	1/0	18
83902571	HERRIN	N	923	$165,000	$178	29	1	1/0	10
40941624	BAYOU LOFTS	Y	721	$169,900	$235	97	1	1/0	1
76859441	BAYOU LOFTS	Y	934	$185,000	$198	97	1	1/0	12
52159424	KIRBY LOFTS	Y	1,385	$189,000	$136	20	2	2/0	131
50747264	COMMERCE TWR	N	1,078	$219,000	$203	05	1	1/0	63
82671494	BEACONSFIELD	N	1,665	$239,900	$144	1911	2	2/0	119
95847105	RISE LOFTS	Y	1,272	$244,900	$192	04	1	1/1	95
48445441	RISE LOFTS	Y	944	$245,000	$259	04	1	1/1	83
74623292	THE EDGE	N	1,343	$249,999	$186	06	2	2/1	277
5522536	THE EDGE	N	1,311	$269,000	$205	08	2	2/0	343
48954007	THE EDGE	N	1,544	$325,000	$210	06	2	2/1	47
18656641	HERMANN LOFTS	Y	1,771	$349,000	$197	98	2	2/0	43
56859595	HERMANN LOFTS	Y	1,670	$349,900	$209	98	2	2/0	56
84017348	THE EDGE	N	1,491	$389,000	$260	06	2	2/1	328
96222623	THE STANFORD	Y	2,382	$525,000	$220	02	2	2/0	71
13816700	THE STANFORD	Y	2,328	$599,000	$257	02	2	2/0	148

Source: CDS Market Research, HAR

In 2012 there were 27 condos sold in the downtown market area ranging from $49,900 to $275,000. Condos were on the market from two to 667 days. The average sales price was $118 per square foot. There were three sales in the southern downtown area at Beaconsfield Condos in 2012 with the average sales price at $131 per sq.ft., significantly higher per square foot than the downtown market area as a whole. The condominiums at 2016 Main are much lowered priced but are also much smaller units than newer condominium properties.

High-Rise/Mid-Rise Condominium 2012 Sales

77002								
MLS No.	Address	Building Name	Sq.Ft.	Yr Blt	BR	Bth	Sale Price	DOM
52634946	2016 MAIN ST	2016 MAIN	592	65	1	1/0	$49,900	21
69420146	2016 MAIN ST	2016 MAIN	709	65	1	1/0	$54,650	107
45275843	2016 MAIN ST	2016 MAIN	1,599	65	2	3/0	$57,800	236
68782226	2016 MAIN ST	2016 MAIN	436	65	0	1/0	$58,000	176
24373345	2016 MAIN ST	2016 MAIN	431	65	0	1/0	$59,950	11
35785874	2016 MAIN ST	2016 MAIN	737	65	1	1/0	$66,797	137
85924734	2016 MAIN ST	2016 MAIN	1,296	65	1	2/0	$76,000	42
52829756	2016 MAIN ST	2016 MAIN	806	65	1	1/0	$66,200	242
72203745	2016 MAIN ST	2016 MAIN	592	65	1	1/0	$72,500	17
70364974	2016 MAIN ST	2016 MAIN	817	65	1	1/0	$75,400	133
23519724	2016 MAIN ST	2016 MAIN	709	65	1	1/0	$75,000	21
58070461	2016 MAIN	2016 MAIN	809	65	1	1/1	$85,000	312
2402346	2016 Main St	2016 MAIN	809	65	1	1/0	$102,500	260
45734926	1700 MAIN ST	THE BEACONSFIELD	580	11	1	1/0	$103,000	9
31388564	705 MAIN ST	ST GERMAIN	850	21	0	1/0	$97,000	340
70837973	2016 Main	2016 MAIN	1,574	65	2	2/0	$130,000	667
28494211	705 MAIN ST	ST GERMAIN	787	21	1	1/0	$145,000	31
58666624	914 MAIN ST	COMMERCE TOWERS	1,078	95	1	1/0	$167,500	75
19897348	705 MAIN ST	ST GERMAIN	1,562	21	2	1/0	$165,000	142
98686107	705 Main	ST GERMAIN	1,313	21	1	1/1	$170,000	23
69010281	914 Main	COMMERCE TOWERS	1,706	95	2	2/0	$210,000	0
28233543	705 MAIN ST	ST GERMAIN	1,725	21	2	1/0	$215,000	63
25906074	705 MAIN ST	ST GERMAIN	1,250	21	1	1/0	$206,000	11
16321554	1700 MAIN ST	THE BEACONSFIELD	1,950	11	3	3/0	$211,500	136

95734399	914 Main	COMMERCE TOWERS	1,706	95	2	2/0	$215,000	57
63017134	1700 Main	THE BEACONSFIELD	1,665	11	2	2/0	$237,000	72
5522536	300 ST JOSEPH	THE EDGE	1,311	08	2	2/0	$237,500	350
67341192	914 MAIN ST	COMMERCE TOWERS	1,664	95	2	2/1	$269,000	8
41414696	300 ST JOSEPH	THE EDGE	1,311	06	2	2/0	$240,000	74
41164774	914 MAIN ST	COMMERCE TOWERS	1,943	95	2	2/1	$275,000	315
45680874	919 PRAIRIE	BYRDS LOFTS CONDO	1,425	34	2	2/0	$452,500	27
49728985	919 Prairie	BYRDS LOFTS CONDO	1,601	34	2	2/1	$454,000	112
77003								
MLS No.	Address	Building Name	SF	Yr Blt	BR	Bth	Sale Price	DOM
63218751	505 BASTROP	THE STANFORD	1,257	2	1	Jan-00	$144,900	15

Source: CDS Market Research, HAR

From 2009 to 2011 there were 101 condominium sales in 77002, 77003 and 77010 zip codes within the downtown area. Sales ranged from $37 per sq.ft. to $300 per sq.ft. There were no sales in the southern downtown study area.

High Rise/Mid-Rise Condominium Sold 2009-11

101 properties

	SqFt	Beds	FB	HB	Sale Price	SP/SqFt	SP/LP %	DOM
Min	283	0	1	0	$45,000	$37.11	76 %	0
Avg	1,187	1.42	1.57	0.2	$183,163	$154.31	93 %	154
Max	3,076	3	3	1	$890,000	$300.38	113 %	978
Median	1,169	2	2	0	$149,000	$141.53	94 %	83

Source: CDS Market Research, HAR

In 2012 there were 27 reported loft sales with prices from $114 per square foot to $240 per sq.ft. The average sales price was $166 per sq.ft. From 2009 to 2011 there were 125 loft sales in the downtown market area. The average sales price was $214 per sq.ft.

Loft 2012 Sales

	SqFt	Beds	FB	HB	Sale Price	SP/SqFt	SP/LP %	DOM
Min	550	1	1	0	$128,500	$114.7	89 %	0
Avg	1,319	1.41	1.41	0.3	$219,536	$166.44	96 %	61.07
Max	2,557	2	2	1	$329,900	$240.04	101 %	278
Median	1,296	1	1	0	$207,500	$167.58	96 %	42

Source: CDS Market Research, HAR

Lofts Sold 2009-2011

	SqFt	Beds	FB	HB	Sale Price	SP/SqFt	SP/LP %	DOM
Min	586	1	1	0	$69,900	$61.75	74 %	0
Avg	1,392	1.43	1.43	0.23	$180,578	$129.73	93 %	214.57
Max	2,573	2	2	2	$594,900	$252.18	105 %	737
Median	1,293	1	1	0	$160,000	$128.58	94 %	122

Source: CDS Market Research, HAR

Apartment Market

There were 571,259 apartment units in the Houston MSA as of September 2012. The average rent per square foot is $0.92 with average occupancy at 90.2%.

Class A units currently consist of 640 properties totaling 172,294 units. Average occupancy of Class A units is a strong 94.7% with average rents at $1,157 per unit or $1.22 per sq.ft. Occupancy has risen from 91.8% (year end 2011), almost 3% upwards which has been the trend in the MSA since 2009.

Rents are up from $1.18psf in 2009 and 2010. It is estimated that there are 11,392 Class A units under construction and 6,032 units proposed in the MSA, indicating the response of the development community to the improving market conditions.

Houston Apartment Market

	A	B	C	D	Overall
Total # Projects	640	1,115	796	152	2,703
Total # Units	172,294	235,090	143,817	20,058	571,259
Total # Units 0BR	0.10%	1.00%	0.70%	0.00%	1.90%
Total # Units 1BR	14.50%	22.00%	12.70%	1.50%	50.70%
Total # Units 2BR	10.40%	17.10%	11.10%	1.70%	40.30%
Total # Units 3BR	1.30%	3.00%	1.80%	0.40%	6.50%
Total # Units 4BR	0.00%	0.40%	0.10%	0.00%	0.50%
Avg Units per Project	269	211	181	132	211
Avg sq.ft.	953.86	839.87	823.56	885.5	867.63
Total # Units Under Construction	11,392	1,274	N/A	N/A	12,666
Total # Units Proposed	6,032	80	N/A	N/A	6,112
Occupancy					
Avg Physical Occupancy	94.77%	90.30%	85.52%	85.84%	90.24%
Avg Pre-Leased Occupancy	95.72%	91.89%	86.97%	86.40%	91.57%
Rental Rates					
Avg Market Rent/sq.ft.	$1.22	$0.86	$0.74	$0.65	$0.92
Avg Market Rent/Unit	$1,157.66	$705.83	$596.44	$561.85	$792.05
Absorption (In Units)					
Current Month-to-Date	400	-73	271	11	610
Year-to-Date	3,811	5,471	2,672	242	12,196

Source: O'Connor and Associates, CDS Market Research

Market Area Inventory Conditions

In the three zip code market area, there are 21 operating apartment communities with 4,659 units. As shown below the majority of the units are Class A.

Downtown Area Apartment Overview

Property / Unit Information				
	Class A	Class B	Class C	Overall
Total # Projects	17	3	1	21
Total # Units	3,865	462	332	4,659
Avg Units per Project	227	154	332	222
Avg SF	1,056	730	850	999
Total # Units Under Construction	*399*	*262*	*N/A*	*661*
Total # Units Proposed	*640*	*N/A*	*N/A*	*640*
Avg Physical Occupancy	93.95%	95.50%	100.00%	94.54%
Avg Market Rent/SF	$1.82	$1.17	$0.73	$1.65
Avg Market Rent/Unit	$ 1,896	$ 740	$ 625	$ 1,650
Year-to-Date	93	5	9	107

Source: O'Connor and Associates, CDS Market Research

Units under construction include two Class B properties located at 2100 Webster (70 units) and 4500 Travis (192 units). The Class A Post Midtown Square Phase III (136 units) and Camden City Centre Phase II (263 units) are also under construction.

The following table summarizes the apartment complexes located within the downtown market area. The majority of these complexes are older construction. Four of the complexes are either tax credit or affordable housing.

Class definitions for apartments are quite subjective. Class A apartment complexes are often recently constructed, have well-maintained units, nice finishes and landscaping, contain several amenities and security features, and command the highest rent rates in the area. Classes B, C, and D tend to be older complexes with fewer and lower quality amenities. Class U complexes are those considered “unclassifiable”. These complexes are usually age-restricted or require some other characteristic that limits the pool of potential tenants.

All Multi-family Rental Properties in the Market Area (77002, 77003, 77010)

Property	Street No.	Street Name	Zip	Class	Status	Year Built	Year Renov	Property Type	Construction Type
1414 Congress	1414	Congress St	77002	U	Operating	1925	2010	Conventional	Garden Style
2016 Main	2016	Main St	77002	U	Operating	1965	2001	Conventional	High Rise
2222 Smith Street	2222	Smith Street	77002	A	Operating	2004	N/A	Conventional	Midrise
Camden City Centre Ph I	301	Saint Joseph's Pkwy	77002	A	Operating	2007	N/A	Conventional	Garden Style
Camden Midtown	2303	Louisiana	77002	A	Operating	1998	N/A	Conventional	Garden Style
Canal Place Apartments	2104	Canal Street	77002	B	Operating	2007	N/A	Tax Credit	Midrise
Canal Street Apartments	2821	Canal St	77003	U	Operating	2005	N/A	Aff Housing	Garden Style
City View Lofts	15	N Chenevert St	77002	A	Operating	1910	2011	Conventional	Midrise
Clayton Homes	1919	Runnels St	77003	C	Operating	1972	N/A	Pub Housing	Garden Style
Dakota Lofts	711	William	77002	A	Operating	1911	1993	Conventional	Loft
Four Seasons Place	1111	Caroline	77010	A	Operating	1982	2008	Condominium	Highrise
Hamilton Street Residence	320	Hamilton St	77003	U	Operating	1995	N/A	Aff Housing	Garden Style
Hogg Palace Lofts	401	Louisiana	77002	A	Operating	1921	1995	Conventional	Loft
Houston House	1617	Fannin St	77002	A	Operating	1966	2011	Conventional	Highrise
Humble Tower	914	Dallas St.	77002	A	Operating	1928	2003	Conventional	Highrise
Kirby Lofts Condo Apartments	917	Main	77002	A	Operating	1926	2005	Conventional	Garden Style
Lofts at the Ballpark	610	Saint Emanuel St	77003	A	Operating	2002	N/A	Conventional	Loft
Marquis Downtown Lofts	2115	Runnels St	77003	A	Operating	1880	2002	Conventional	Loft
Midtown Terrace Suites	4640	Main St	77002	U	Renovation	1965	2010	Conventional	Garden Style
One Park Place	1400	McKinney	77010	A	Operating	2009	N/A	Conventional	Highrise
Post Midtown Square (Ph I & II)	302	Gray St	77002	A	Operating	2000	N/A	Conventional	Midrise

Property	Street No.	Street Name	Zip	Class	Status	Year Built	Year Renov	Property Type	Construction Type
Post Rice Lofts	909	Texas Avenue	77002	A	Operating	1913	1999	Conventional	Highrise
Camden City Centre Ph II	901	Cleveland	77002	A	U/C	N/A	N/A	Conventional	Garden Style
Post Midtown Square Ph III		Gray St.	77002	A	U/C	N/A	N/A	Conventional	Midrise
Travis Street Plaza	4500	Travis St	77002	B	U/C	N/A	N/A	Tax Credit	Garden Style
Zion Gardens	2100	Webster St	77003	B	U/C	N/A	N/A	Tax Credit	Garden Style
Milhaus Midtown	1400	Gray St	77002	A	Proposed	N/A	N/A	Conventional	Garden Style
Texaco Bldg Conversion	1111	Rusk St	77002	A	Proposed	1915	N/A	Conventional	Highrise

Source: O'Connor and Associates, CDS Market Research; *the pink highlighting indicates projects that are under construction and the purple indicates proposed projects*.

The tables on the following pages summarize rental rates and occupancy rates for complexes within downtown. This analysis will focus on only operating higher-quality class A properties since any new development in the study area will almost certainly be in that segment of the market. Focusing only on the Class A properties in the extended market area produces a total of 15 existing communities including City View Lofts.

The table on the right compares the performance of the downtown market area with the Houston region overall.

There are a total of 3,466 units in the 15 apartment communities in the market area making up approximately 3% of the MSA total. There are 640 units proposed which include 360-units at Texaco Building Conversion and 280-units at Milhaus Midtown.

One bedroom units dominate the market at 63.9% however, some experts suggest that the share of two bedroom units should be increased in future projects in the market maybe to a number closer to the 40% in the region due to the frequent request by clients and shortage in the market.

Occupancy, while reasonably high in the market at 93.8%, is slightly lower than the average for class A apartments in the region.

The overall average market area rental rate, $1.82 per sq.ft., is 42% higher than the regional total but is likely skewed by the significantly higher rents at Four Seasons ($6.31psf) and the greater predominance of smaller units. The rents may also suggest demand by relatively higher income households than typical Class A renters region-wide.

Statistical Overview Class A Apartments

Property / Unit Information	Market Area	Houston MSA
Total # Projects	15	640
Total # Units	3,466	172,294
Total % Units 0BR	7.4%	0.5%
Total % Units 1BR	63.9%	55.1%
Total % Units 2BR	28.4%	39.2%
Total % Units 3BR	0.3%	5.0%
Total % Units 4BR	0.0%	0.0%
Average Units per Project	231	269
Average SF	1,055	953
Total # Units Under Construction	399	11,392
Total # Units Proposed	640	6,032
Physical Occupancy	93.8%	94.7%
Market Rent/Sq.Ft.	$1.82	$1.22
Market Rent/Sq.Ft. 0BR	$1.95	$1.64
Market Rent/Sq.Ft. 1BR	$1.71	$1.28
Market Rent/Sq.Ft. 2BR	$1.68	$1.14
Market Rent/Sq.Ft. 3BR	$1.39	$1.08
Market Rent/Unit	$1,896	$1,157
Market Rent/Unit 0BR	$994	$890
Market Rent/Unit 1BR	$1,515	$1,001
Market Rent/Unit 2BR	$2,392	$1,318
Market Rent/Unit 3BR	$3,082	$1,544
Quarter-to-Date Absorption	146	391
Year-to-Date Absorption	211	3,811

Source: O'Connor & Associates (77002, 77003, 77010), September 2012

The following table lists the 16 properties in the three zip code market area. The rental rates and occupancies are analyzed for downtown. They are mapped on the following page. Only one of the Class A properties, Houston House, is located within the southern downtown study area.

Class A Apartments – Market Area

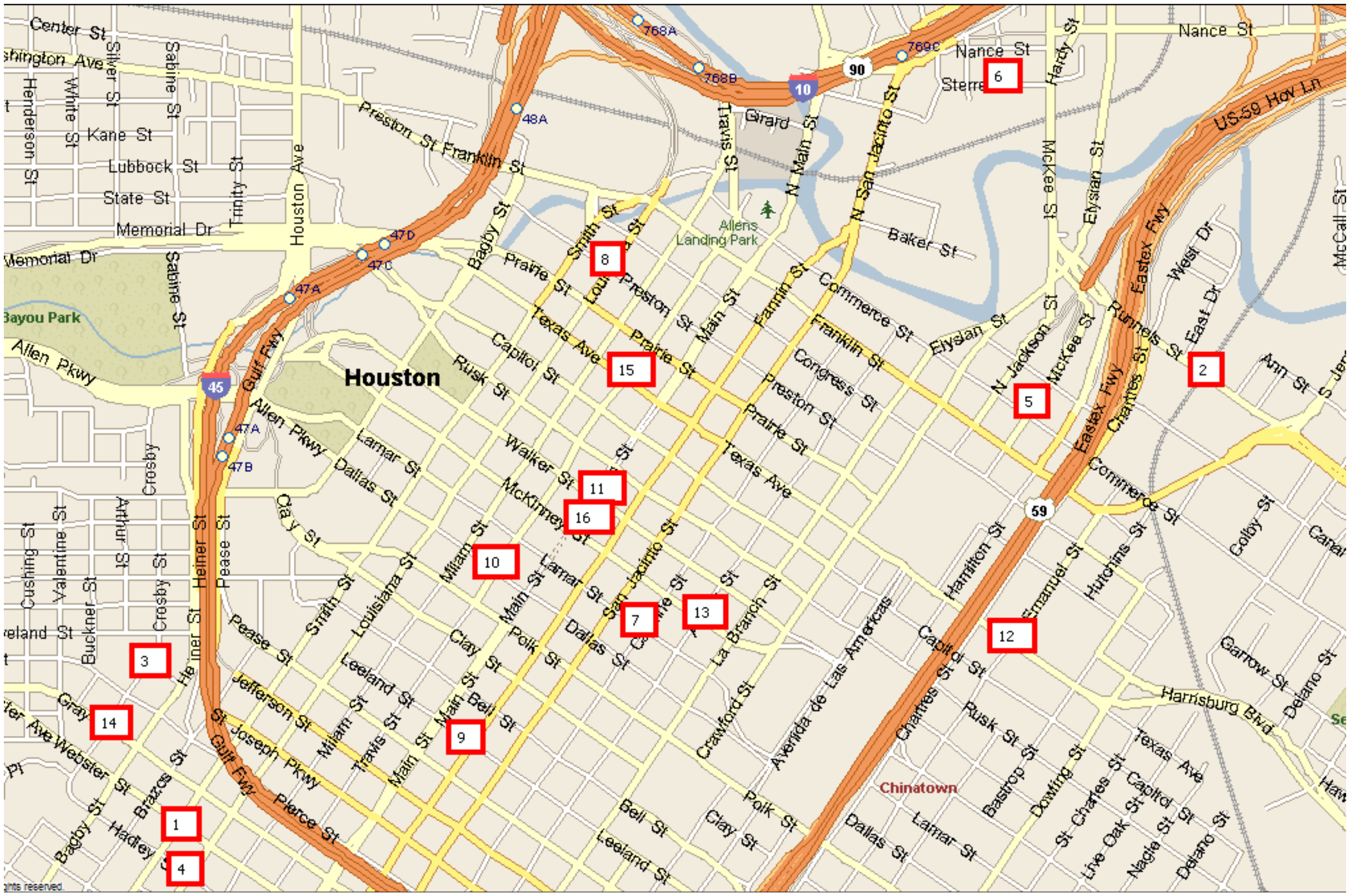
Zips 77002, 77003, 77010

Map #	Complex	Units	Occ	Avg Rent/sf	Avg Rent	Amenities
1	*2222 Smith Street*	*152*	*93%*	*$1.74*	*$1,654*	*Pool, fitness ctr, parking garage, bus. ctr*
2	*Marquis Downtown*	*244*	*93%*	*$1.31*	*$,1307*	*Pool, fitness ctr, parking garage, bus. ctr*
3	*Camden City Centre Ph I*	*379*	*97%*	*$1.79*	*$1,670*	*Pool, fitness ctr, parking garage, bus. Ctr., cable and trash inc*
4	*Camden Midtown*	*337*	*94%*	*$1.84*	*$1,551*	*Pool, fitness ctr, parking garage, bus. ctr*
5	City View Lofts	57	89%	$1.95	$1,992	Concierge, billiard room, theatre room, wine room, 21 floor plans
6	Dakota Lofts	53	100%	$2.35	$1,938	fitness ctr, parking garage
7	Four Seasons Place	64	85%	$6.31	$6,250	Pool, fitness ctr, parking garage, bus. Ctr, concierge, valet parking
8	Hogg Palace Lofts	79	90%	$1.24	$1,723	fitness ctr, parking garage
9	Houston House	396	85%*	$1.97	$1,277	Pool, fitness ctr, parking garage, bus. ctr
10	Humble Tower	82	100%	$1.74	$1,525	Pool, fitness ctr, parking garage,
11	Kirby Lofts Condo Apartments	65	95%	$1.75	$2,354	Pool, fitness ctr, parking garage, bus. Ctr.
12	*The Lofts at the Ballpark*	*375*	*96%*	*$1.45*	*$1,440*	*Pool, fitness ctr, parking garage, bus. Ballard room*
13	One Park Place	346	94%	$2.60	$3,616	Pool, fitness ctr, parking garage, bus. Ctr, concierge, valet parking
14	*Post Midtown Square (Ph I & II)*	*529*	*96%*	*$1.63*	*$1,297*	*Pool, fitness ctr, parking garage, 143 Units SOLD, concierge*
15	Post Rice Lofts	308	96%	$1.68	$1,539	Pool, fitness ctr, parking garage, bus. Ctr, concierge, billiard room
16	Commerce Towers	122	86%	$1.62	$3,450	Pool, fitness ctr, parking garage, bus. Ctr, concierge, valet parking
	Totals/Weighted Averages	**3,588**	**94%**	**$2.06**	**$2,218**	

Source: ALN, O'Connor & Associates, CDS. *Houston House recently completed a $10 million renovation including interior and exterior, plumbing, HVAC, sprinkler system, lobby and amenities; this is the only Class A multi-family property in southern downtown. Italics indicate residential properties outside of the "downtown districts".

Map of Class A Apartments

77002,77003,77010



Planned and Proposed Development

Marvy Finger, president and CEO of The Finger Cos., plans to begin construction in early 2013 on his newest development across from Minute Maid Park. The seven-story apartment complex will include 380 units located at Preston, Crawford, Texas and LaBranch (2 blocks).

Novare Group Inc. recently announced their 24-story, 336-unit luxury high rise rental building to be constructed at 1625 Main Street within the southern downtown study area. The “Skyhouse” has proposed rents at $1.67 per square foot.

On the edge of the downtown market area in the 77002 zip code, Camden is planning a “superblock” development between Travis and Main streets, south of McGowen, with 250-300 units for construction in 2014. Rents are proposed at $1.70 - $1.75 per square foot.

Proposed projects in the market area include the Texaco Building (360 units) at 1111 Rusk and Milhaus Midtown with 280 units at 1500 Gray.

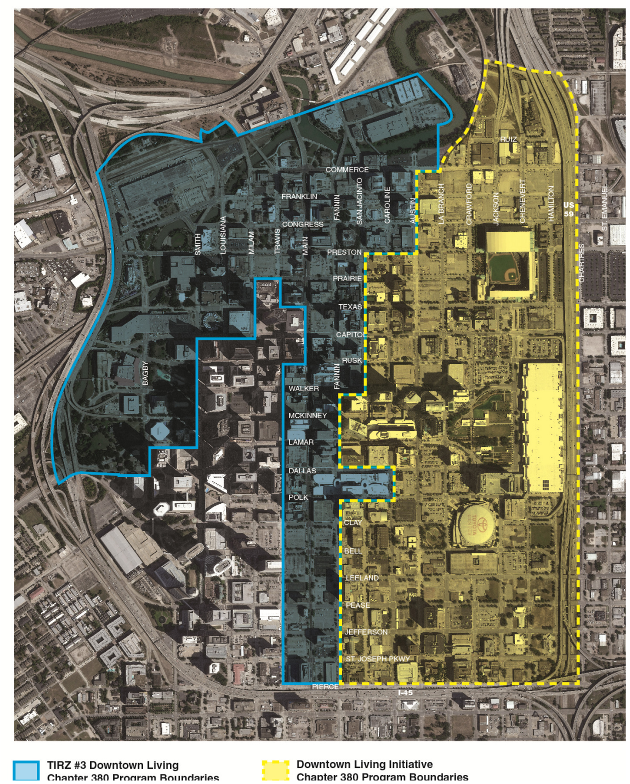
Residential Incentive Programs

Administered by the Houston Downtown Management District, the Downtown Living Initiative Chapter 380 Program, which City Council passed August 22, 2012 provides up to $15,000 per unit in tax rebates to developers who create homes or multifamily projects in the eastern portion of downtown, including a significant portion of the study area. It is intended to double the number of residences downtown and spur development throughout the area by 2016. The program would run for four years and cap out at 2,500 units. Tax Increment Reinvestment Zone (TIRZ) #3 offers a parallel program with essentially the same provisions (except the 2,500 unit cap). Within the southern downtown study area, the TIRZ #3 Downtown Living Chapter 380 Program includes the full blocks on either side of Main Street between Travis and Fannin.

In order to qualify for the financial incentives, developers would have to build within the specified zone (see map to the right) and meet design guidelines focused on the project’s presence which would include adding ground-level active uses such as retail space or building lobbies.

Once projects are built, developers would receive reimbursements from the incremental City of Houston property taxes and Houston Downtown Management District assessment that the project generates.

Downtown Residential Incentive Area



According to a recent article in the Houston Business Journal (Sept. 7, 2012), Andy Icken, the city's chief economic development officer, said more than five developers have come to him since the initiative was passed to ask how the program works. "Each developer may not be ready to tip their hand of what they might do," he said. "Each one would like to be the first to develop because the first one is likely to be more successful."

The Novare project along Main Street is likely to be the first to take advantage of the residential incentive program.

Downtown and Southern Downtown Competitive Evaluation

Downtown competitive strengths. The downtown market area has some unique assets and qualities that help its competitiveness in capturing residential demand. Many of these features are similar to those which also support the office market (see previous section).

Access and centrality: Downtown is at the center of the hub-and-spoke regional freeway system, supplemented by the Hardy Toll Road toward the north. Nearly all desirable suburban areas of the region plus central city neighborhoods connect via straightforward routes. Multiple ingress / egress points to the highway and street system helps disperse traffic. Residents of the downtown area would be going against the traffic to access other employment districts, otherwise they can walk or take transit if their employment is downtown.

Transit: Light Rail is a major selling point for the downtown residents who travel to the medical center employment hub.

Walking distance amenities: There is good pedestrian access via both outdoor sidewalks and the climate-controlled tunnel and skywalk system to a wide variety of dining, convenience services, and some shopping. Phoenicia Downtown and Georgia's specialty food stores are located within downtown. Outdoor amenities such as parks, sports arenas, and evening restaurants and bars are also walkable.

Adjacent neighborhoods: Immediately adjacent neighborhoods such as Washington Avenue, Midtown, and Montrose provide retail and services that are quickly accessible to downtown residents via driving, or bus/rail transit. These include Randall's and Whole Foods grocery stores and Target for household goods.

Downtown challenges and weaknesses. Downtown's strengths are partially offset by weaknesses and ongoing challenges that reduce its total residential demand. Some of these are similar to those which also hinder the office market as previously noted.

Development costs: The cost of land and vertical construction dictates the necessity of high prices and rents to justify the feasibility of new development. Parking also adds cost, especially if it requires placing some or all of it below grade or stacking a tower on top of an above-ground parking structure.

Challenges for children: While households with children make up only a minority of regional households, they still represent a desirable demographic that the downtown market area has difficulty attracting. Besides the lack of yards and play areas (which can be partially mitigated with public parks), obstacles include the scarcity of larger 2 and 3-bedroom units and the lack of desirable zoned public schools.

Urban blight and the homeless: The public nature of downtown's streets means that residents have closer interaction with things they may find distasteful, such as deteriorated buildings and the homeless or panhandlers. This contrasts with non-downtown locations where there may be more private controlled space and fewer older buildings that are underutilized.

Diversity of retail and quiet streets: Although many retail and dining establishments are easily accessed for daytime workers in downtown, certain other office market areas have a greater range of dining and shopping activities which carry on in the evenings and weekends. This lack of evening and weekend retail activity downtown translates into relatively "dead" streets and sidewalks which can feel uncomfortable for some residents. This issue is closely related to the low population that actually resides within downtown, so it results in a "chicken or egg" situation between retail and residential growth.

Southern downtown competitiveness. Southern downtown's Class A apartment market currently consists of the Houston House. This facility which was built in 1966 recently underwent a $10 million renovation. Current rents are over the average for the downtown area at $1.97psf and occupancy is at 85%. Amenities include 9th floor pool, fitness center, theatre room, full-size basketball court, deli/convenience store in lobby, garage parking, large balconies, lounge area and business center.

The Atlanta-based firm, Novare Group Inc. is proposing a 24-story, 336-unit luxury high rise at 1625 Main which is also in the southern downtown study area. The "Skyhouse" development is an example of the Downtown Living Chapter 380 Program at work. Proposed rents are $1.67psf on average, targeted at 25 to 34-year-old singles.

This recent renovation and strong lease-up of the Houston House and proposed Skyhouse are positive indicators of southern downtown's appeal for Class A residential development. Some factors which influence this include the following:

Attractors

1. The southern downtown study area contains numerous vacant whole blocks under single ownership. This facilitates the construction of multi-family development, as it becomes easier to design integrated parking facilities and "amenity decks."
2. The tunnel and skywalk system extends north-south along the western portion of the study area, which provides climate-controlled access to workplaces during inclement weather and/or scorching summers for those who wish to walk to work.
3. The Main Street light rail line is considered as a positive to the area especially to residents that might work in the medical center.
4. Access to freeways is generally good traveling out of downtown to other employment areas.
5. The central northern edge of the study area has close proximity to the above-ground retail amenities of Houston Pavilions, Phoenicia, and the Shops at Houston Center.
6. Lower land values east of Main Street allow the possibility of a broader range of residential development types and rents / prices.
7. The recent incentives offered by the City of Houston, the Downtown District and TIRZ #3 for residential development extends to the southern downtown study area, at least from Travis eastward.

Deterrents

1. Southern downtown lacks widely appealing amenities, other than the new Tellepsen YMCA, which are appealing to residential development. The huge expanses of surface parking and lack of green space (aside from Root Square) create a placelessness which is a deterrent to development. The lack of buildings and streetscapes to provide shade, accelerate breezes, and create adjacent visual interest along sidewalks further dampens the appeal to typical residential users.
2. The prominent derelict buildings – the former Days Inn, the Savoy, and even the Central Bank complex across the Pierce Elevated – dominate the landscape and contribute a negative feel that symbolizes urban blight. The lack of surrounding development and general vitality allows these properties to have more impact than they otherwise would, creating a bit of a vicious circle which in turn discourages investment, including residential development.
3. The southern portion of the study area near Main Street experiences negative impacts from the Greyhound station just two blocks south from the Pierce Elevated. Whether it is merely perception or reality, there is a sense that the station results in a greater prevalence of undesirable and / or unstable pedestrians, reinforcing feelings of unease for the average resident, who is also more likely to be out on the street after dark than office workers.

Overall Observations and Conclusions

1. Not surprisingly, the stock of single family detached homes in the downtown market area is limited. Most such homes were constructed in an earlier era and often have deteriorated physically, leading to relatively low sales prices that may mostly represent land value. Most of these homes are located in 77003 (Second Ward).
2. However, attached townhomes are common in Midtown and East Downtown and of much more recent vintage (since 2000). The prices of these homes are similar to the prices of multifamily condominiums and for-sale lofts but usually offer greater living space. In addition, multifamily for-sale homes usually also have monthly fees which can be substantial. These factors combine to make for-sale multifamily units a difficult proposition, aside from buyers who very specifically want a multifamily product and / or place very high value on a home with destinations within immediate walking distance, a feature less common in townhome areas. As land prices within southern downtown itself are too high for the feasibility of townhome development (except possibly the southeasternmost corner), for-sale product will have a very limited role in study area residential development, likely following a critical mass of other uses in the longer term.
3. Multifamily rental apartments are then likely to be the dominant residential use in southern downtown for some time to come. West of Fannin, land costs dictate high-rise product that must achieve top of market lease rates; One Park Place has demonstrated that such a market exists if the surrounding environment is sufficiently attractive. East of Fannin, mid-rise developments with rents more in line with typical new Class A urban core properties could be possible. These locations are also eligible for the Downtown Living residential incentive program.

Realistic Market Potential

Given the previously described current regional economic trends, residential market conditions, potential capture of growth, and competitiveness factors for the Downtown District, CDS has estimated what might be a realistic expectation of residential development in the southern downtown study area. The impact of potential public, civic, or collective private sector interventions have also been considered.

No-Intervention Scenario. Past reports of downtown capture of regional growth (Downtown Livable Centers Project, 2011) led to general estimates that the downtown market area could capture 350 new units annually in the near term. Not all of this demand is necessarily for Class A apartments but also townhomes and/or condominiums. In the opinion of CDS|Spillette, there is a strong potential for new residential development in the southern downtown area. The recent success of One Park Place luxury high-rise apartments and the recent renovation and lease-up of Houston House suggests that demand exists for additional housing in the downtown area.

Without any interventions by the public, civic, or collective private sector – meaning no additional incentive programs, investments in new green space or other public amenities beyond basic streetscape improvements – the odds of southern downtown being the location of a new high rise residential property, with rents over $2.00 per sq.ft., are not as great. A few other full-block sites exist elsewhere in downtown (closer to Discovery Green, for example) that could more readily justify high-rise Class A construction. The recent announcement of the Novare Group’s proposed development of block 350 carries an elevated level of risk in southern downtown, and other developments which would have to compete for absorption would not be likely until the first project is full.

However, land prices east of Fannin Street enable other possibilities. If property owners in this part of the study area are willing to sell to or partner with a multifamily developer, it is not unreasonable to conceive of 1 or 2 new mid-rise properties of approximately 300 units apiece occurring within the next 4 to 6 years, particularly with the new residential incentive programs that the City, the Downtown District and TIRZ #3 have established. Rents in such properties would be in the range of $1.70 to $2.00 per sq.ft.

Intervention scenario. While investments and policies such as economic development incentives can produce some additional impetus to spur new residential development in southern downtown, CDS concludes that a proactive development of green space in the area would be most likely to have a significant impact, especially in areas along Main Street. The key is that such an investment must transform the overall “feel” of the surrounding properties and public environment away from a bleak concrete hardscape to a more soft-edged people-friendly destination. CDS will not make recommendations on the specific design and location of such an investment in this report. However, one design proposal advanced by CBD Vision is included in this report, see Appendix B.

The principal effect of a transformative green space investment along the Main Street corridor would be to encourage the demand for high rise rental apartments that can achieve the rents necessary for feasibility. Thus instead of only one supportable such project through the near to middle term (up to 8-9 years), there is a greater likelihood that two or even three such projects could be justified, assuming buildings of 250 to 300 units.

Even with green space investments, the demand pool of homebuyers who specifically desire luxury condominiums is small, and a very limited number of units can be brought to market at once. That said, if the southern downtown area can establish itself as a location for luxury apartment rentals, a condominium tower may be feasible in the longer term.

One additional intervention that would help the potential for residential development would be the demolition or refurbishment and reuse of the currently derelict Days Inn and Savoy buildings. Their locations mean that the impact of removing these instances of blight would be most relevant to the enhancement of demand for high-rise residential near Main Street. This intervention is not likely to have as significant an impact as a transformative green space investment, however.

Hotel Market

The 2012 Texas Metro Market Overview from the Texas Real Estate Center indicates that hotel occupancy has increased in 2011 compared to 2010 along with the average daily rate. As shown, the Houston area is fairing above the overall Texas market in average daily rate as well as occupancy.

Hotel Occupancy and Rental Rates

Hotel* Occupancy and Rental Rates

	2010		2011	
	Houston-Sugar Land-Baytown MSA	Texas	Houston-Sugar Land-Baytown MSA	Texas
Number of Rooms (in thousands)	79.3	387.4	81.7	396.6
Average Daily rate**	$88.86	$83.44	$91.41	$86.14
Occupancy Rate (in percent)***	54.6	55.4	58.8	59.1

*Only properties exceeding $25,000 in the current quarter are included; those units below $25,000 only result in 1.5 percent of the total state revenues and have been excluded from the Source Strategies database.

**Estimated with the aid of financial reports, appraisers, private SSI surveys, chain and AAA directories and another reliable industry database.

***Occupancy: nights sold divided by nights available (x 100). Room-nights sold are calculated from estimated rate and actual rooms revenues.

Sources: Office of the Governor—Economic Development and Tourism, and Source Strategies Inc. of San Antonio

Source Strategies 2011 Annual Factbook reports that in the 4th quarter of 2011, prices edged 2.8% higher and REVPAR rose by 9.3% in Texas. The annual occupancy rose to 59.1% compared to 55.4% in 2010, and to 53.9% in 2009. Net supply grew only 1.9% which is appropriate until occupancy can rise above 60%, according to Source Strategies.

Downtown Hotel Market

For the Hotel Market we have considered downtown to be the market area, which consists of 77002, 77003, and 77010 zip codes. The hotels in the Market Area range from smaller, low-rise budget and limited service properties to high-rise full service and luxury hotels. The last ten years have brought considerable hotel development to the Market Area. As recently as 2001, it contained fewer than 2,000 non-budget rooms, very low for a downtown of a city the size of Houston. Today, the Market Area has a total of 5,119 rooms, of which 4,299 are full service/boutique/luxury hotels.

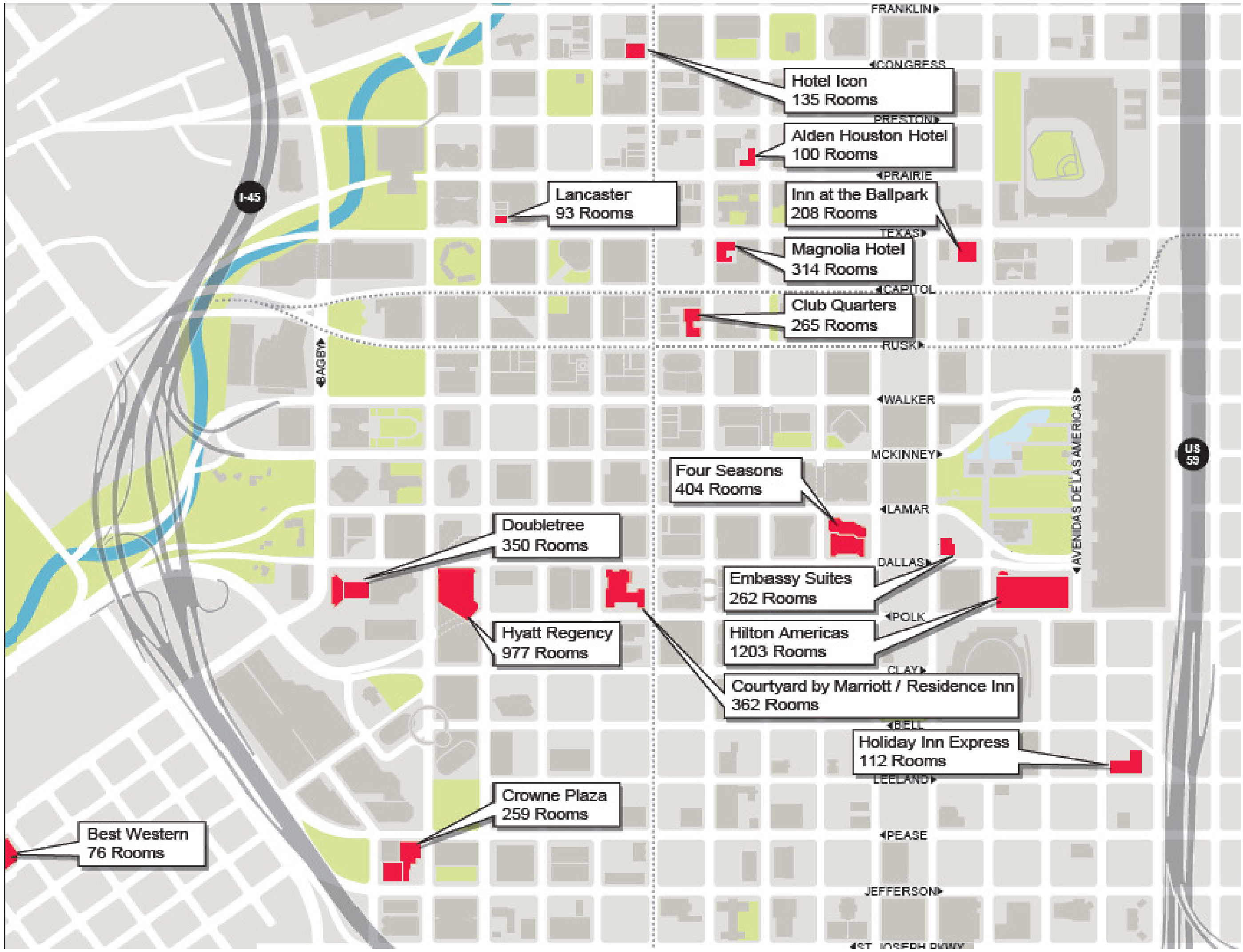
Market Area Hotel Properties – First Quarter 2012

Map No.	Name	Address	Location	# of Rooms	Year Opened	Estimated ADR
1	Scott Inn & Suites **(BUDGET)**	1933 Scott	East Downtown (77003)	32	2003	$ 55.48
2	Athens Hotel	1308 Clay St.	CBD (77002)	20	2009	n/a
3	*Best Western Downtown*	*915 West Dallas St.*	*Fourth Ward (77019)*	*76*	*2001*	*$ 100.91*
4	Club Quarters in Houston	720 Fannin St.	CBD (77002)	240	2004	$ 98.28
5	Courtyard Downtown	916 Dallas St.	CBD (77002)	191	2003	$ 149.66
6	Holiday Inn Express	1810 Bell Ave.	Conv. Center (77003)	90	2001	$ 124.81
7	Residence Inn	904 Dallas St.	CBD (77002)	171	2003	$ 131.77
	Subtotal LIMITED SERVICE HOTELS (weighted average ADR)			**788**		**$ 118.79**
8	Alden Houston	1117 Prairie St.	CBD (77002)	97	2002	$ 129.71
9	Crowne Plaza	1700 Smith	CBD (77002)	259	2001	$ 138.05
10	Doubletree Hotel	400 Dallas	CBD (77002)	350	1980	$ 161.91
11	Embassy Suites	1515 Dallas	Conv. Center (77010)	262	2011	$ 170.54
12	Four Seasons	1300 Lamar St.	CBD (77002)	404	1981	$ 235.35
13	Hilton Americas	1600 Lamar St.	Conv. Center (77010)	1,200	2003	$ 163.41
14	Hotel Icon	220 Main	CBD (77002)	135	2004	$ 173.65
15	Hyatt Regency	1200 Louisiana St.	CBD (77002)	984	1972	$ 144.88
16	Inn at the Ballpark	1520 Texas Avenue	Conv. Center (77002)	201	2004	$ 139.97
17	The Lancaster	701 Texas	CBD (77002)	93	1926	$ 155.91
18	The Magnolia	1100 Texas Avenue	CBD (77002)	314	2003	$ 165.52
	Subtotal FULL SERVICE / BOUTIQUE / LUXURY (weighted average ADR)			**4,299**		**$ 163.17**
	TOTAL ALL ROOMS			**5,119**		**$ 155.66**

It should be noted that #3 is out of the CMA zip codes but within close proximity, therefore it is included in the analysis ADR = Average Daily Rate Sources: Source Strategies, Inc.; State of Texas Comptroller; and CDS Market Research

Map of Market Area Hotels

The major hotels are shown on this map. Excluded are the Scott Inn & Suites (32 rooms) and the Athens Hotel (20 rooms).



Hotel News

- Downtown's **Hotel Alden** has been purchased (8/2012) by Houston hotelier American Liberty Hospitality, the current owner of Downtown Embassy Suites. Enhancing guestrooms, meeting spaces, restaurant and bar along with every aspect of guest service is on the agenda with the new owners.
- On June 11, 2012 it was announced that the **Inn at the Ballpark** was being rebranded with Starwood Hotels and Restaurants into a Westin Hotel. The conversion will include $10 million in renovations and be completed at the end of 2013. Landry's will continue to own and operate the property, which will remain open throughout all the changes. Renovations will include updated furnishings and finishes, an expanded exercise facility and a new lobby, reception area and lobby bar, the company said. Renovations and rebranding will be complete by the end of 2013.
- Houston First has selected a Houston group, Rida Development, for the city's next Convention Center hotel. The organization's goal is the development of an approximately 1,000-room hotel adjacent to the George R. Brown, and an approximately 1,800-space parking garage. In addition, developers have been asked to consider commercial and residential uses as part of the project, which was included in a recent George R. Brown Convention Center 2025 Master Plan.
- In January 2011 it was announced that the **Hotel Icon** had been sold in foreclosure for $27 million. The hotel was converted to a Marriott, Autograph Collection property upon purchase.
- Pearl Hospitality is renovating a 1910 office building, **806 Main**, into a high end, full service hotel. The City is assisting the project with a loan funded by the Section 108 program of the federal Department of Housing and Urban Development. The City's loan agreement with Pearl was approved during summer 2012.

Lost Business From Lack of Hotels

Downtown Houston currently has two large hotels: the Hilton Americas (1,200 rooms), which is attached to the Convention Center, and the Hyatt Regency (947 rooms), which is far enough away to require shuttle buses to the convention and entertainment venues.

Large conventions depend on 1,000-room hotels to house the majority of attendees. Convention organizers prefer large hotels to reserve big blocks of rooms. Large hotels also provide auxiliary services and meeting/function space.

The lack of a third and fourth large hotel complicates arrangements for large conventions and drives some away. Conventions are currently busing attendees from Uptown, the Medical Center, and elsewhere around Houston.

According to the Houston Convention & Visitors Bureau, Houston has lost business from a significant amount of groups requiring 2,500 to 4,500 rooms which suppports the addition of another convention hotel in downtown. From 1997 to 2011, Houston has lost on an annual basis an average of 23 events with an average attendance of 229,400 attendees, which would generate an average of 329,400 room nights and an estimated annual economic impact of $223 million.

Hotel Performance

Room Revenues

The performance of the hotels within the Market Area has reflected the recession which took hold in the Houston region at the end of 2008.

The charts to the right show taxable room revenues collected within the City of Houston overall and at Market Area hotels. After peaking in 2008, both sets of data show a dramatic drop for 2009, with a small recovery in 2010. 2011 showed a significant recovery with rates at those of 2008.

The totals for the City of Houston overall dropped approximately 20% from 2008 to 2009, followed by a 26% increase to 2011.

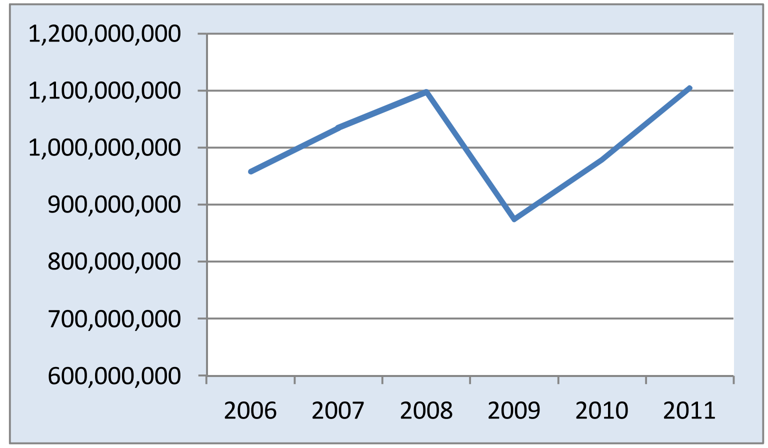
At end of year 2011, Source Strategies reports total City of Houston hotel revenues at $1,104,472,442.

For Market Area hotels, the changes were a slightly more severe decline but perhaps a more aggressive recovery (29%) than the citywide figure.

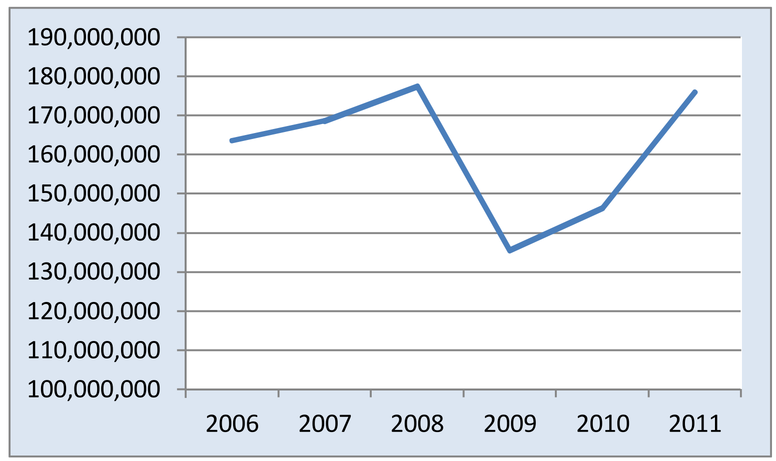
At end of year 2011, Source Strategies reports total downtown hotel revenues at $175,934,388 which is a significant increase over 2010 due to Embassy Suites completion and opening.

Hotel Room Revenue Trends

City of Houston Total



Downtown Market Area



Source: State of Texas Comptroller and CDS Market Research

Occupancy / RevPAR

The previously shown room revenues are a function of occupancy and average daily rates (ADR). The table on the following page summarizes the 2Q 2012 market performance results of these measures by individual hotels in the Market Area. It also shows RevPAR, or Revenue per Available Room, generally used as comparative performance measure for individual hotels, and roughly equal to occupancy multiplied by ADR.

Year 2011 was a generally strong year for Market Area properties. Due to high fixed operating costs, hotels need a minimum occupancy level to be profitable; the industry standard is usually about 65%. Several Market Area properties exceeded this level in 2011 and the first quarter of 2012. The Limited Service class of properties had a slightly higher occupancy than the Full Service / Boutique / Luxury segment in 2011.

Several hotels showed occupancy levels below 60% at year end 2011. For most types of hotel properties, this would not be considered sustainable on a long term basis. These include Scott Inn, Alden, Crowne Plaza, Inn at the Ballpark, and the Lancaster. As discussed previously, the Alden and Inn at the Ballpark have undergone changes which should improve their performance in 2012/13.

A distinctive characteristic of Market Area hotels is the relatively compressed band of ADRs. Instead of a wide spread of rates between Limited Service and Full Service properties, rates mostly fall into a range between $98 and $237. This is partly due to the heavy weekend discounting by the full service and boutique properties, reflecting the lack of weekend leisure travel demand in the Market Area. (ADRs estimates factor in discounting for packages and groups.) In fact, hotel professionals report that the weekend pricing of full service hotels is about equal to limited service property rack rates, with some deals available under $100 per night.

Houston is considered to have relatively affordable downtown full service hotels compared to the downtowns of the other largest U.S. metropolitan areas. Still, owing to the dominance of full service hotels compared to other parts of the region, the Market Area average ADR at $155.66 is far higher than the metropolitan area average of $92.45 (1Q 2012).

In terms of RevPAR, the most successful hotels are the Marriott Courtyard/Residence Inn (located in the same building) and Holiday Inn in the Limited Service class and the Doubletree, Embassy, Four Seasons, Hilton Americas, Magnolia and Hotel Icon in the Full Service / Boutique / Luxury class. The Four Season's RevPAR could possibly be considered low for its status as downtown's only true luxury property, however. It should also be noted that the Club Quarters' seemingly poor performance data could be somewhat offset by its business model, which is partially based on memberships.

Market Performance Trends

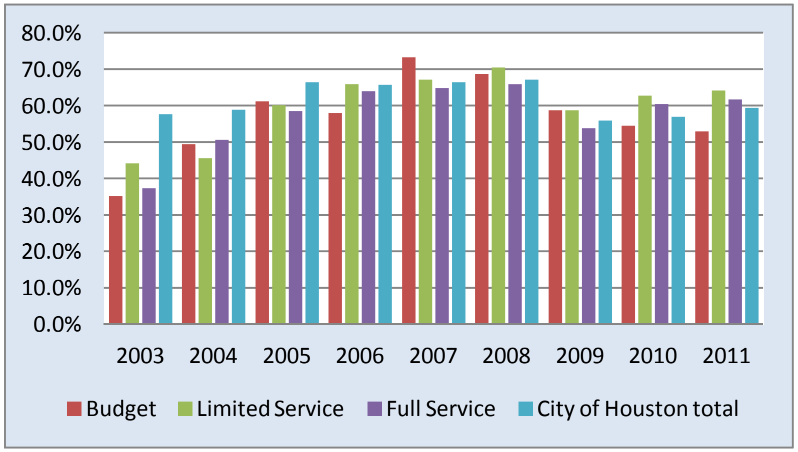
	Occupancy		RevPAR	
Name	**YE 2011**	**1Q2012**	**YE 2011**	**1Q2012**
Scott Inn & Suites **(BUDGET)**	55.7%	50.1%	$ 30.72	$ 27.82
Athens Hotel		n/a		n/a
Best Western Downtown	60.4%	67.8%	$ 54.59	$ 68.43
Club Quarters in Houston	60.3%	53.8%	$ 56.50	$ 52.84
Courtyard Downtown	58.2%	66.6%	$ 83.71	$ 99.64
Holiday Inn Express	66.4%	65.6%	$ 81.04	$ 81.90
Residence Inn	67.7%	71.8%	$ 85.10	$ 94.57
LIMITED SERVICE Subtotal (weighted average)	**60.5%**	**62.1%**	**$70.48**	**$76.72**
Alden Houston	51.6%	62.1%	$ 66.76	$ 78.25
Crowne Plaza	59.6%	66.8%	$ 72.91	$ 86.66
Doubletree Hotel	68.2%	63.6%	$ 104.79	$ 102.94
Embassy Suites	n/a	59.8%	n/a	$ 102.04
Four Seasons	64.4%	68.0%	$ 140.90	$ 159.92
Hilton Americas	61.6%	61.8%	$ 95.63	$ 100.91
Hotel Icon	66.0%	64.7%	$ 108.36	$ 112.27
Hyatt Regency	64.9%	64.0%	$ 86.23	$ 92.65
Inn at the Ballpark	57.1%	58.3%	$ 76.84	$ 81.59
The Lancaster	51.1%	53.4%	$ 76.22	$ 83.19
The Magnolia	62.4%	62.1%	$ 99.59	$ 102.86
FULL SERVICE / BOUTIQUE / LUXURY Subtotal (weighted average)	**58.8%**	**62.9%**	**$90.02**	**$102.64**
TOTAL CMA (weighted average)	**59.0%**	**62.7%**	**$86.64**	**$98.18**
TOTAL HOUSTON METRO	**55.7%**	**60.5%**	**$ 49.72**	**$ 55.94**

RevPAR = Revenue per Available Room Sources: Source Strategies, Inc. and CDS Market Research; 1Q 2012

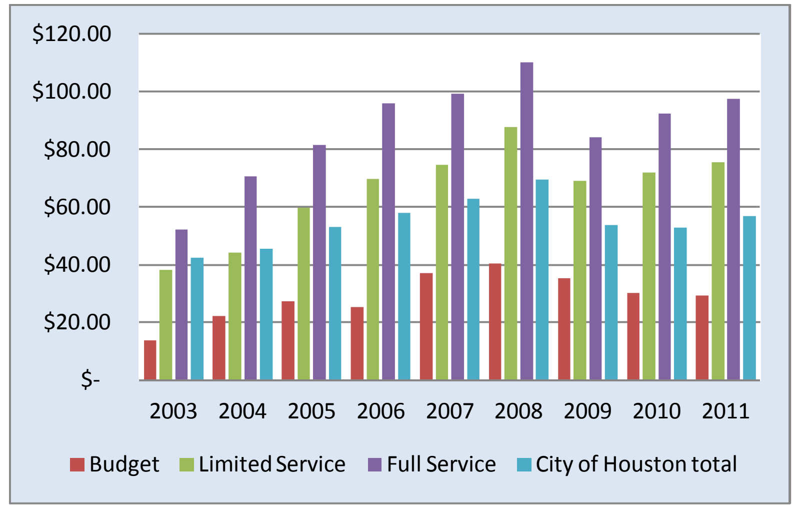
While 2011 was not an outstanding year for Market Area hotels, it was an improvement over 2010 for most properties. The following page shows historical trends in occupancy and RevPAR for Market Area hotel classes and the Houston Metro total. The occupancy chart illustrates the supply in downtown as many new properties were added during 2001-2004, which lowered average occupancy during the new properties' stabilization periods to well below the Houston overall average. Interestingly, since 2009, occupancies have begun to recover in the Market Area in advance of the Metro overall.

The RevPAR chart, as with the earlier room revenues chart, shows that the Market Area Limited Service and Full Service / Boutique / Luxury properties may be recovering in advance of the Metro's overall hotel market.

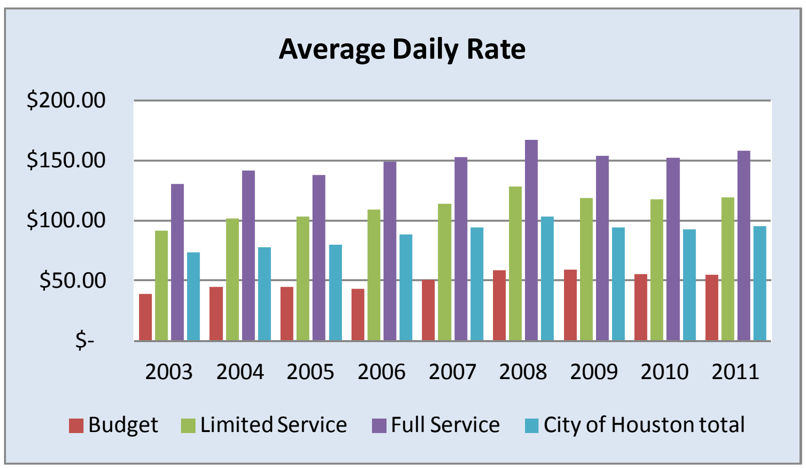
Average Occupancy



RevPAR



Average Daily Rate



Sources: Source Strategies and CDS Market Research

Nature of Market Area Lodging Demand

Interviews with hotel and tourism professionals familiar with the downtown lodging market provided an overview of the components of hotel room demand within the Market Area and the issues that affect it. The key factor driving hotel performance at present is the market mix, in terms of sources of demand, which in the Market Area is fairly distinctive in Houston. The three main classes of demand in the Market Area are group, transient, and contract; the first two are discussed below.

Group Demand

Demand from groups that require significant blocks of rooms in advance of a meeting is particularly relevant to the market area hotels owing to the presence of the George R. Brown Convention Center. In addition, many groups want additional meeting facilities within the headquarters hotel itself, which is by default the Hilton Americas, the only true convention hotel in Houston by virtue of its size (1,200 rooms) and proximity to the Convention Center (connected by skywalk). The Hyatt Regency has the size of a convention hotel but is too far from the Convention Center for groups basing their meetings there to be the headquarters hotel.

Variations by location

The Houston Convention Center Hotel Corporation (HCCHC) reports that about 2/3 of room night demand (room night = one room used for one night) at the Hilton Americas comes from groups. Most groups have two to three night stays between Sunday and Thursday nights, though occasionally groups require a Friday night stay. Groups requiring less than 1,500 rooms can be mostly fully accommodated by the Hilton, the new Embassy Suites, and the Holiday Inn Express. Larger groups overflow primarily to the Hyatt, the Marriott Courtyard, and the Doubletree. The HCCHC reports that having a plentiful supply of limited service hotels can be helpful to the group market, as a component of attendees prefers more affordable lodging to the group rates charged by full service hotels on weeknights.

Group demand decreases at the hotels in the western half of downtown, especially apart from the Hyatt. These hotels are much more oriented toward transient demand (see below). Apart from the overflow demand by larger groups, some group attendees also prefer staying at the "boutique" properties (Hotel Icon, Magnolia, Lancaster, Alden, Inn at the Ballpark) though except for Inn at the Ballpark these properties require motorized transportation to the Convention Center.

Limitations on demand due to supply constraints

According to professionals involved in Houston's convention and convention hotel industry, the group segment is significantly limited by the existing supply of hotel rooms in large downtown properties, particularly within a short walk of the Convention Center. Larger conventions require a larger committable "room block" consolidated to as few walking-distance properties as possible. These professionals state that although the George R. Brown is the nation's 10th largest Convention Center with 1.2 million sf of meeting space, the largest available room block in downtown ranks only 25th in the nation; large groups must scatter their attendees to other downtown and often Galleria-area hotels, traveling to the Convention Center by chartered buses. Furthermore, these other hotels tend to be dominated by single king bed rooms,

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Community Development Strategies

whereas convention hotels often have more double queen rooms so attendees may share rooms. These conditions render the Convention Center mostly uncompetitive for these larger groups of more than 2,500 attendees.

These professionals uniformly report that providing another convention hotel of at least 800 rooms (and preferably more) would easily increase the number and size of groups using the Convention Center. Quantitative estimates of increased demand (not directly available to CDS but verbally paraphrased in interviews) indicate that another convention hotel of this size would increase room night demand sufficiently to make its construction justifiable from a market demand standpoint. Also, being more competitive would allow hotels to increase group rates.

While the room block situation is currently the most significant constraint to group demand, having a more continuous active street-level environment would also enhance Houston's competitiveness for conventions. Discovery Green has provided a better "front door" for the Convention Center and the Hilton, but it has not significantly impacted demand on its own. The Houston Pavilions is an amenity that has a similar impact though of less magnitude because of its distance from the Hilton.

Transient Demand

For most hotel properties in the Market Area, transient demand – travelers who do not generally book rooms far in advance and are not affiliated with a meeting or convention obtaining discounted group rates – is the dominant source of room night demand. Hotel and tourism professionals report that at these hotels, including all hotels in the downtown core except the Hyatt, transient demand constitutes roughly two-thirds of demand. Business travelers constitute the vast majority of transient demand at downtown hotels, with the remainder being leisure travelers.

Transient demand is considerably lower at downtown area hotels (except possibly Inn at the Ballpark) because they are further away from the office core, which is the destination for most business travelers. All of the downtown's non-boutique properties – the Hyatt, Doubletree, Crowne Plaza, and Four Seasons – have connections to the tunnel and skywalk system, which may enhance their attractiveness. That said, some business travelers prefer the uniqueness and atmosphere of boutique properties.

Business travel is quite sensitive to economic conditions. As shown from the occupancy statistics presented earlier, the recession substantially cut back lodging demand from this market segment since its 2008 highs. Recovery in demand, which appears to have already begun in 2010 and continuing, is dependent on the recovery in general business activity at downtown employers. A sustained recovery (multi-year) to 2007-08 performance levels will spark interest in additional hotel development.

Despite the major potential attractions for leisure travelers – sports and entertainment facilities, plus some dining and nightlife – these elements have not translated into large-scale lodging demand. Toyota Center events do increase dining demand at the Hilton but have little impact on lodging. The Lancaster reportedly accommodates hotel guests who are patronizing or affiliated with the Theater District. Still, overall, leisure demand constitutes a small share of room night demand – estimated at just 10 to 15% of total downtown demand.

Proposed/Planned Hotel Projects

Pearl Hospitality has purchased the historic office property at 806 Main and plans to convert the property into a hotel of 255 rooms. The 22-story property will have a full-service restaurant with a well-known chef, a spa, and at least 6,000 square feet of meeting space. The property would be positioned as upscale first class, catering to business travelers during the week and leisure travelers on weekends.

Per the Houston Chronicle, the City is considering loaning Pearl Hospitality $7.4 million to help redevelop the property. In order to make the loan, the city is seeking $1.8 million from the U.S. Department of Housing and Urban Development in a Section 108 loan, as well as $5.6 million in Economic Development Initiative grant funds. Pearl is pursuing historic tax credits from various public entities as well as seeking funds from the Downtown Redevelopment Authority (Tax Increment Zone #3). The building is currently scheduled for opening in late 2014.

Property owner **Dan Nip** has announced the intention to construct a convention hotel on blocks 245 and 282 (Chartres / Polk / St. Emmanuel / Bell) in East Downtown. The hotel would have a projected 1,040 rooms (80% would be convention blocked) with 135,000 square feet of meeting space, restaurant and bar, fitness center, spa services and swimming pool along with ground floor retail . The City of Houston has publicly agreed to offer financial incentives, such as an abatement of hotel, sales, or mixed beverage taxes, in return for obtaining room block commitments to support the Convention Center. The project could include the construction of a pedestrian bridge across US 59 to connect the Convention Center and hotel directly. Potential brands include InterContinental, Radisson Blu and Sheraton according to local sources. At last report, the rpoject was on hold awaiting financing.

Block 99, immediately north of Discovery Green, and owned by the Houston Endowment, is the development site of another convention hotel. Houston First Corporation has selected a Houston group, Rida Development, for the city's next Convention Center hotel. The organization's goal is the development of an approximately 1,000-room hotel adjacent to the George R. Brown, and connected by a skywalk, plus an approximately 1,800-space parking garage. Developers have been asked to consider commercial and residential uses as part of the project, which was included in a recent George R. Brown Convention Center 2025 Master Plan.

A large hotel has also been mentioned for the next block north (**Block 100-120**), though this is considered much more speculative.

A commercial real estate source reports that the majority of of **Block 345**, immediately south of the Toyota Center Tundra Garage, is under contract to build a limited-service hotel (no management flag given). The western half of block 75 is positioning for development of limited service hotel, no management flag is given.

Interview with PKF Consulting

PKF Consulting was recently interviewed regarding the downtown hotel market:

- Despite the economic downturn of 2009, downtown Houston is experiencing strong growth in office, retail, residential and entertainment developments. The city is investing in new parks and improved transportation in order to stimulate the renewal of the downtown area.
- Convention activity has begun to rebound with 347,000 room nights booked in 2011, an increase of 61.3% over 2010. The 2011 level exceeds the pre-recession high of 334,000 room nights achieved in 2008. 2013 and 2014 activity is expected to increase only being constrained by lack of hotel rooms needed for larger conventions.
- According to representatives of the Houston First Corp., the Convention Center is currently under utilized due to a lack of hotel rooms to attract groups of 2,500 to 4,500 attendees. The GRBCC is the 10th largest center in the U.S.; Houston is not in the top 25 cities in the number of hotel rooms available for events.
- There are 248 conventions nationwide that generate more than 2.7 million room nights with 2500 to 4500 at peak attendance according to the Destination Marketing Association International's Listing. Houston's fair share of these events would be 12.5% (1 of 8 cities). At 10% the potential increase is 25 new events with 270,000 room nights.
- Downtown development will be forced to the south due to lack available and affordable land. The area needs to have a destination for demand growth.
- A mixed use development in the southern downtown study area could create a destination with office, residential, commercial and a hotel use (i.e. Sorella type hotel and development such as City Centre).
- The brands/flags lacking in the downtown area include Kimpton, Sorella, Hampton, Hilton Garden, Aloft, Hyatt Place and very upscale such as Ritz Carlton, W, or Waldorf.
- Incentives from the city would promote development in southern downtown in the form of tax abatements, TIRZ, etc.

- Block 921 (old YMCA site) is a good location for a boutique-type hotel, though CDS notes that the site is most likely to remain under Chevron's ownership for potential future office or similar company use.

George R. Brown Convention Center (GRBCC) 2025 Master Plan

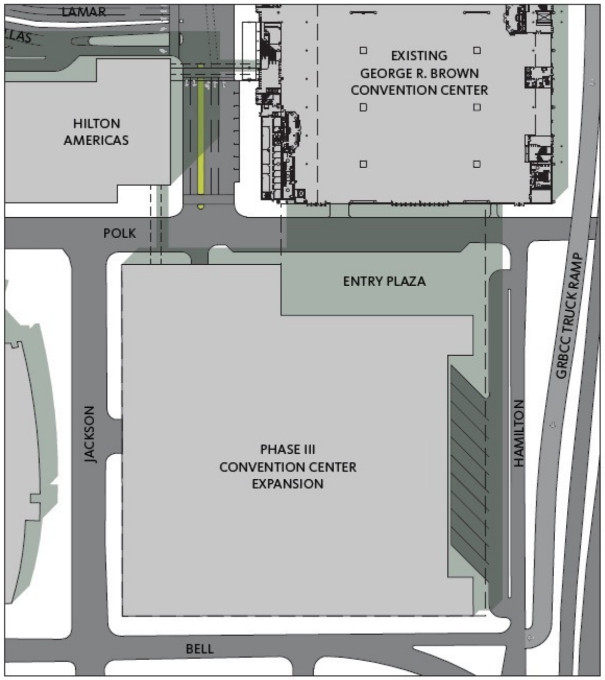
Houston's George R. Brown Convention Center, located downtown, hosted 218 events in 2011, with a record-breaking attendance of more than 930,000 delegates. In January 2012, officials released a master plan detailing a vision for a new convention district. The 2025 Plan illustrates a best-case scenario for the public/private development of the convention district, improvements to existing infrastructure including Avenida de las Americas (ADLA) and, eventually, the future expansion of the GRBCC.

Industry advisors and market analysis by consultants agree that Houston's convention district lacks the number of hotel rooms and hotel mix needed to compete with other cities. Exhibitors and industry experts in hospitality, meeting planning and tourism have repeatedly expressed concern about the lack of attractions (restaurants, bars/clubs, shopping, entertainment) within convenient walking distance to the GRBCC.

The City of Houston and the GRBCC need 2,000 new hotel rooms in the convention district to remain competitive with the lodging capacity of other convention destination cities. There is an immediate need for at least 1,000 new rooms adjacent to or, preferably, attached to the Convention Center.

The 2025 Plan identifies proposed locations for future hotels nearby, adjacent and connected to the Convention Center. The undeveloped parcel between Rusk and Walker Streets (Block 99) is considered a prime hotel location due to its adjacency to Discovery Green and potential for connectivity via pedestrian bridge to the GRBCC. Houston First has selected this block for a private development partner, recently announced as Rida Development, to negotiate a second convention hotel.

Plan of Proposed GRBCC Expansion



There are no near term expansion plans for the Convention Center, and there are a number of things that must happen first, including a significant increase in the Convention Center hotel room supply, before future expansion of the GRBCC facilities can be considered. After exploring a variety of options on both sides of US 59, future expansion is best accommodated on the four city blocks immediately south of the existing GRBCC, in the southern downtown study area. The location, wedged between the GRBCC, US 59, the Hilton Americas and Toyota Center is a difficult space for other commercial uses but is ideal for the expansion of exhibition and meeting space. The proposed Phase III will be physically connected to the existing Convention Center at both the concourse and upper floor levels with no impact to east-west traffic on Polk.

The map at right shows tracts/blocks for sale in the southern downtown area. The Orange area indicates the GRBCC Expansion III. The pink tract, Block 327 is not currently being marketed, however it is the closest block in proximity to the expansion which is currently being used for surface parking and would be a prime location for a new hotel if purchased at a feasible price. The yellow tracts/blocks are currently for sale in the southern downtown area. There are a few within 2 blocks of the expansion and several within a 10 minute walk.

Southern Downtown Blocks Near GRBCC Expansion III

Conclusions

1. With the George R. Brown Convention Center in the center of the market area, the meetings market will exert an outsized influence on future hotel demand. The George R. Brown 2025 Master Plan specifies the need for an additional 2,000 rooms with current capacity and more with an expansion to the south. Based on interviews, hotel development is definitely needed in downtown; the construction of one or more of the proposed convention hotels in walking proximity to the Convention Center, would have a significant impact on the total level of demand because it would greatly expand the number and size of conventions coming to Houston. Even with the addition of a bookend for the Hilton Americas hotel, Houston remain behind the hotel supply for conventions.

2. A sustained recovery of increased occupancies at downtown hotels, especially full service properties, will prompt new full service or boutique hotel development catering to business travelers. The new high end, full service hotel at 806 Main will take up part of this demand in the short term.
3. The market area Limited Service and Full Service / Boutique / Luxury properties appear to be recovering in advance of the region's overall hotel market. The 2011/12 levels are comparable to those shown in the 2006 period, as the market was approaching a crest after a long and dramatic improvement period since the early 2000s.
4. Southern downtown appears to have several blocks available which would be prime locations for another new hotel that would facilitate the expansion of the Convention Center in the future as well as non-convention hotels.
5. Downtown development will eventually be forced to the south due to lack of well-located land available elsewhere. However, the area needs to have a destination (some combination of large office / retail / entertainment development) for the study area to gain inherent desirability as a lodging location (apart from locations adjacent to the Toyota Center and Convention Center). A mixed use development in the southern downtown study area could create a destination with office, residential, commercial and a hotel use (i.e. Sorella type hotel and development such as City Centre).
6. The old YMCA site is a potential location for a boutique-type hotel to serve the corporate community at the south end of the Skyline District, although CDS notes that the site is likely to be reserved as private green space under Chevron's ownership, and perhaps developed as a future office tower.
7. City incentives such as hotel tax rebates would certainly be an encouragement to hotel development in the southern downtown study area, though only limited-service hotels are likely to be viable in the eastern two-thirds of the area even with such incentives until more office, residential and mixed-use development occurs.

List of Interviewees

CDS Market Research interviewed a variety of key individuals who are either CBD Vision Board Members, local property owners, local business people, or involved with real estate development and brokerage in the downtown Houston area. The opinions set forth in this Southern Downtown/ CBD Market Assessment are those of the Downtown District's consultant, CDS Market Research, and may or may not reflect the opinions of the interviewees. The Downtown District extends its appreciation to those individuals who were interviewed for this report, including those herein listed:

John Avlon and Bill Lindner, Main Bell Realty

Steve Biegel, Studley

David Cook, Cushman & Wakefield

Sanford Criner, CBRE

Marty Fein, Martin Fein Interests

Fred Griffin, Griffin Partners

Fritz Guthrie, St. Joseph Medical Center

Larry Hill, Sumar Realty (owner Houston House Apartments)

Gary Hornberger, Hornberger Interests

Herman Kluge, Amegy Bank

Mike Mair, Skanska

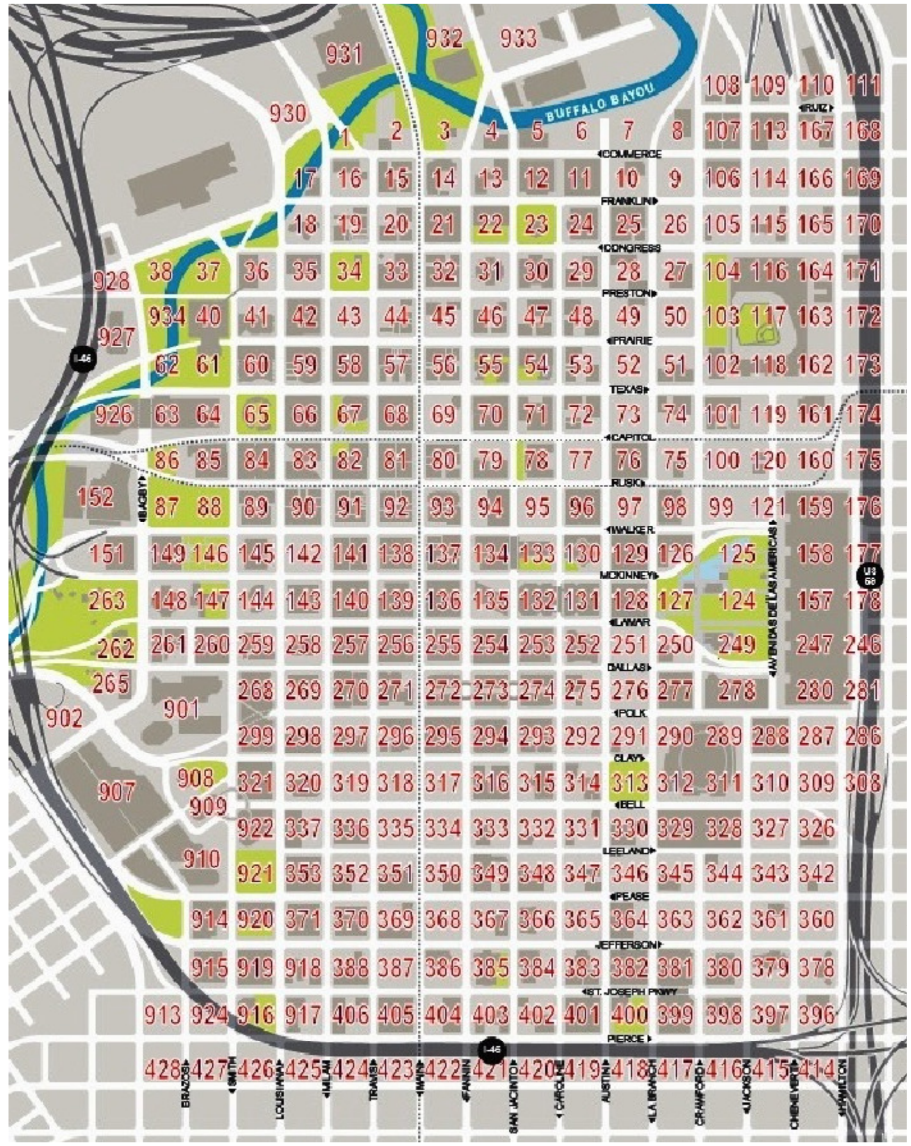
Randy McCaslin, PKF Consulting

Walker Ryan, Colliers

Todd Triggs, Camden Properties

Tricia Wright, Houston House

Appendix A – Block Map



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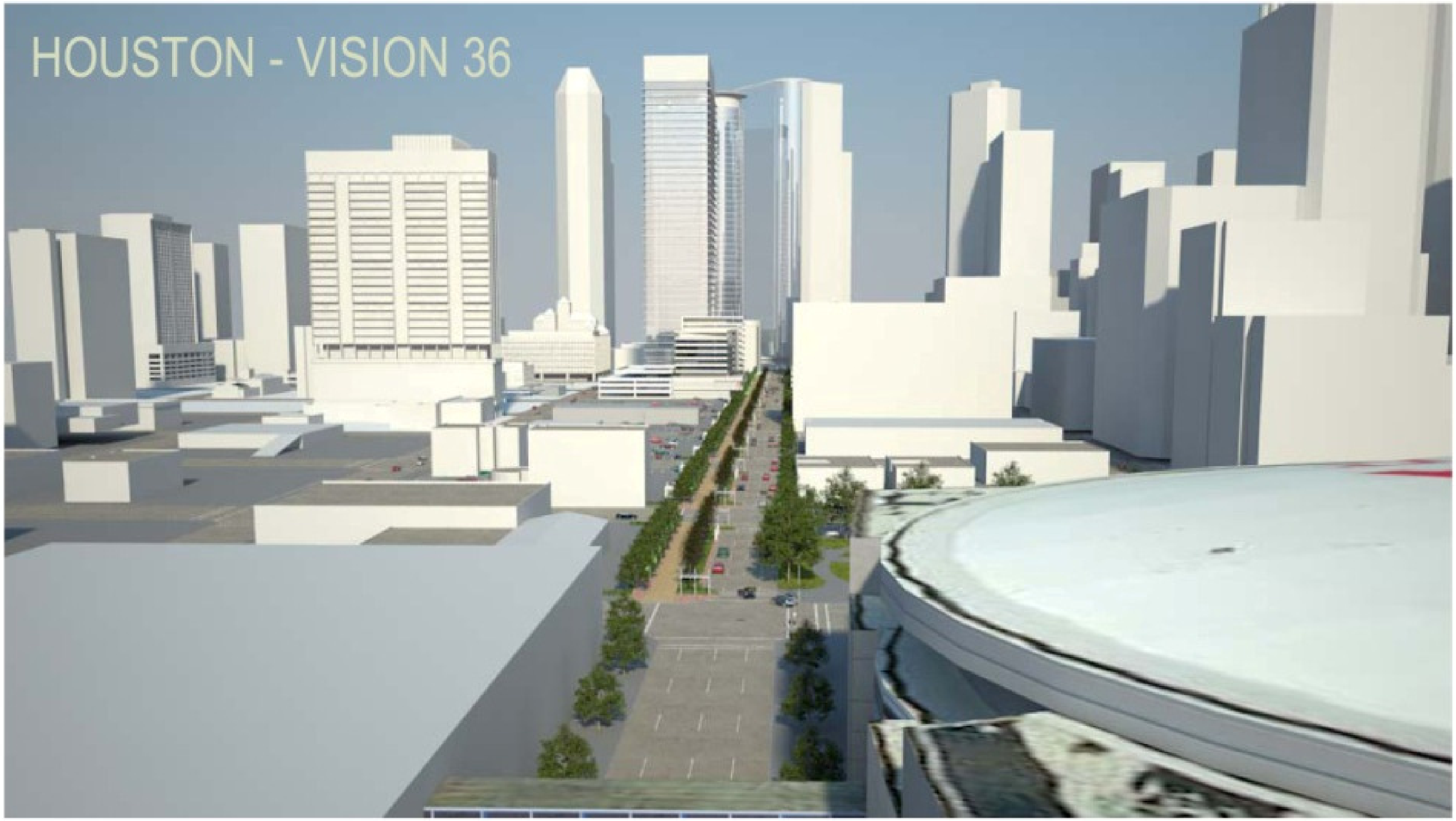
Appendix B – Houston Vision 36

CBD Vision is an independent group of property owners in the southwest sector of downtown Houston who meet periodically to share information and discuss mutual interests with the objective of encouraging further development in the area. During 2011-2012, CBD Vision engaged Kirksey Architecture of Houston to prepare an urban design proposal for a 36-block area bordered by Clay Street to the north, Caroline Street to the east, St. Joseph Parkway to the south and Louisiana Street to the west. In particular, the Kirksey design concept addresses the potential for east-west streetscape improvements as public space to catalyze private development.

Recognizing the number of undeveloped or underdeveloped blocks throughout southern downtown including the CBD Vision 36-block area, opportunities for public realm improvements relative to transit-oriented development are advanced by Kirksey's "Houston Vision 36" planning concepts. With convenient access to METRO's Transit Center at 1900 Main Street and two light rail transit stations – the Bell Station and the Downtown Transit Center Station – plus immediate adjacency to corporate employment, convention and entertainment centers throughout the downtown core, southern downtown presents opportunities for mixed-use, high-density development that are without parallel in Houston or, for that matter, in other major US metropolitan centers.

The current iteration of the Kirksey plan, partially presented in this appendix, proposes a voluntary 5' setback on both the north and south sides of undeveloped blocks within the CBD Vision area. Based on the tenets of "complete streets," the plan proposes removing one lane of traffic and reconfiguring the east-west streets to include wider pedestrian sidewalks, or linear parks, and bike lanes. Corner bulb-outs reduce cross-walk dimensions and define on-street parallel parking areas. Based on the initial research of Kirksey Architecture, the current traffic volumes on east-west streets within the 36-block area are such that the proposed right-of-way improvements do not adversely impact vehicular traffic or transit volumes. While initially focused on the CBD Vision 36-block area, Kirksey contends that it may be possible and desirable to extend the "Houston Vision 36" conceptual plan further east- and westward or to focus the improvements on priority pedestrian corridors.

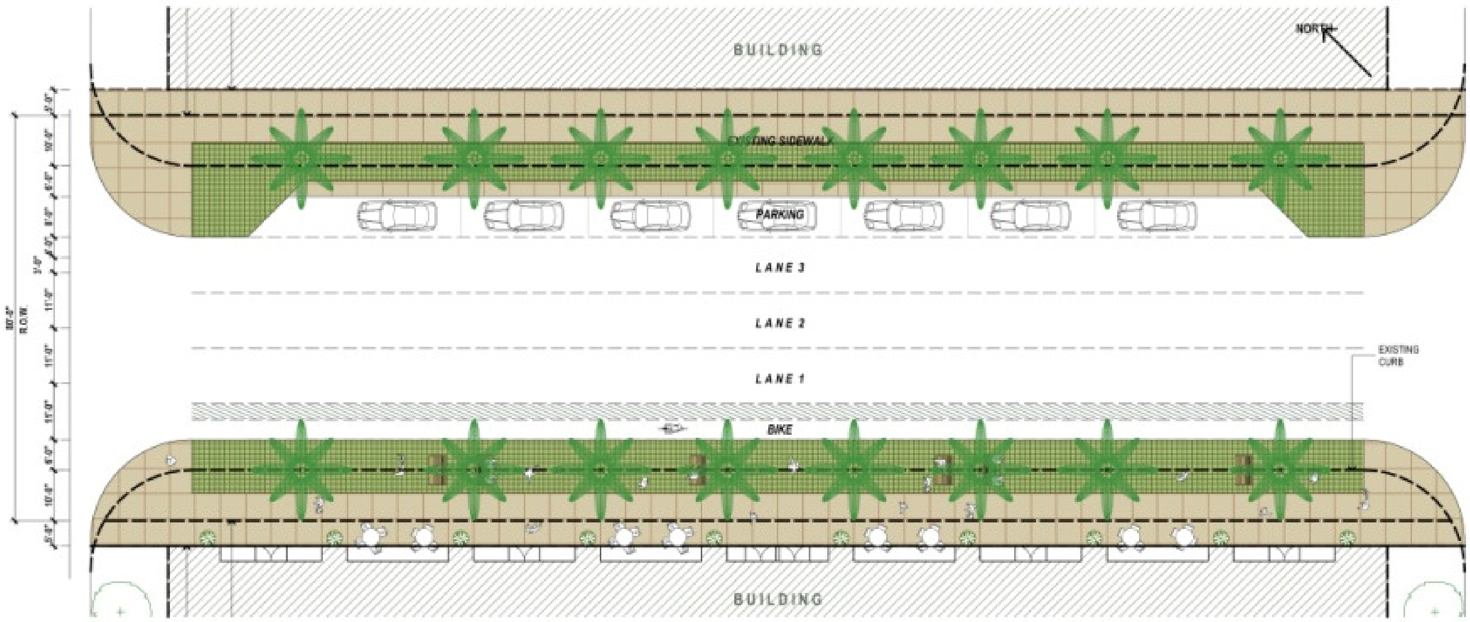
Note: While included as an appendix to this report, the Downtown District and the consultant, CDS Market Research, do not necessarily endorse the "Houston Vision 36" plan as the only or the preferred public space design alternative for the southern downtown study area. Furthermore, it should be noted that a 2012 capital improvement project administered by the Downtown Redevelopment Authority / TIRZ #3 addresses the east-west streets between Travis and Fannin from Clay Street to St. Joseph Parkway. The completed improvements include new curb and gutter, repaved roadway, new concrete sidewalks, new trees with irrigation, and parking lot edge treatments with landscaped fences. The TIRZ #3 "East-West Streetscape" project does not extend beyond the standard 80' downtown right-of-way, nor were traffic lanes reduced based on lane continuity both east- and westward beyond the zone's limits for reinvestment and improvements.



HOUSTON VISION 36

Kirksey
ARCHITECTURE

ENTRANCE FRONT
AUGUST 2012
2011708



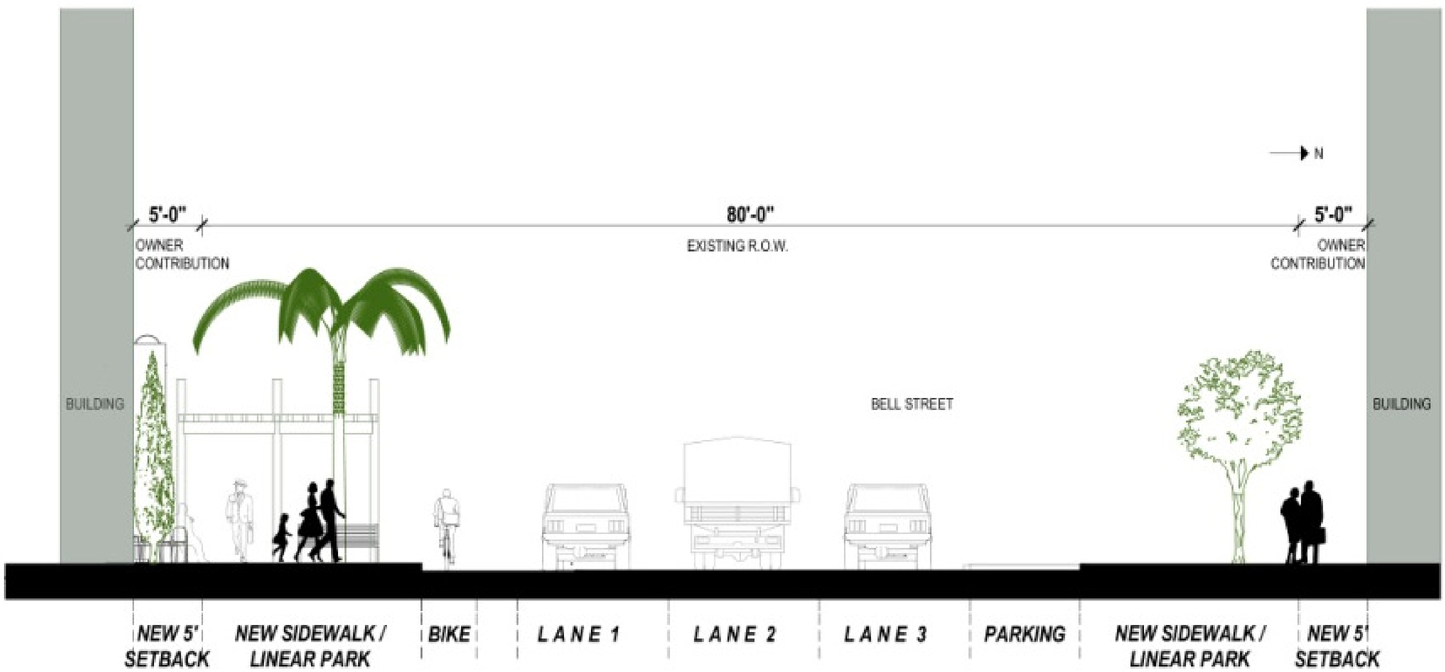
SITE PLAN & DESCRIPTION

1. 5' OPTIONAL OWNER CONTRIBUTION ON BOTH NORTH AND SOUTH SIDE OF EACH BLOCK
2. ONE LANE 12' WIDE CONTRIBUTED FROM THE CITY OF HOUSTON
3. NEW BIKE LANE
4. PARKING ON ONE SIDE OF THE STREET
5. DRIVE LANES REDUCED TO 11' WIDE

HOUSTON VISION 36

Kirksey ARCHITECTURE

SITE PLAN
AUGUST 2012
2011708



HOUSTON VISION 36

Kirksey ARCHITECTURE

SITE SECTION
AUGUST 2012
2011708
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HOUSTON VISION 36

Kirksey ARCHITECTURE

BELL & SAN JACINTO - EXISTING CONDITIONS
AUGUST 2012
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Kirksey ARCHITECTURE

BELL & SAN JACINTO - PROPOSED CONDITIONS
AUGUST 2012
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