

City of Houston, Texas, Ordinance No. 200 8-1212

AN ORDINANCE APPROVING THE PROJECT PLAN AND REINVESTMENT ZONE FINANCING PLAN FOR REINVESTMENT ZONE NUMBER TWENTY-ONE, CITY OF HOUSTON, TEXAS (HARDY/NEAR NORTHSIDE ZONE); AUTHORIZING THE CITY SECRETARY TO DISTRIBUTE SUCH PLANS; CONTAINING VARIOUS PROVISIONS RELATED TO THE FOREGOING SUBJECT; AND DECLARING AN EMERGENCY.

* * * * *

WHEREAS, by City of Houston Ordinance No. 2003-1258, adopted December 17, 2003, the City created Reinvestment Zone Number Twenty-One, City of Houston, Texas (the "Zone") for the purposes of development or redevelopment of the former Southern Pacific/Union Pacific rail yard site known commonly as "Hardy Yard" and the surrounding general North Main Street area of the City; and

WHEREAS, pursuant to Sec. 311.003 of the Texas Tax Code, as amended, in creating the Zone the City prepared a preliminary reinvestment zone financing plan containing the tentative plans for the development or redevelopment of the Zone (the "Preliminary Plan") and sent copies to the governing body of each taxing unit that levies taxes on real property in the Zone; and

WHEREAS, the Board of Directors of the Zone has now approved the project plan and reinvestment zone financing plan (the "Plans") for the Zone, which are attached hereto, for the development or redevelopment of the Zone;

WHEREAS, the City Council finds that the Plans are consistent with the Preliminary Plan developed for the Zone before the creation of the Board of Directors; and

WHEREAS, the City Council must approve the Plans; **NOW, THEREFORE,**
BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF HOUSTON, TEXAS:

Section 1. That the findings contained in the preamble of this Ordinance are declared to be true and correct and are hereby adopted as part of this Ordinance.

Section 2. That the Plans attached hereto for the Zone are hereby determined to be feasible and are approved.

Section 3. That the City Secretary is directed to provide copies of the Plans to each taxing unit levying ad valorem taxes in the Zone.

Section 4. That City Council officially finds, determines, recites, and declares that a sufficient written notice of the date, hour, place, and subject of this meeting of the City Council was posted at a place convenient to the public at the City Hall of the City for the time required by law preceding this meeting, as required by the Open Meetings Law, Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this ordinance and the subject matter thereof has been discussed, considered, and formally acted upon. That City Council further ratifies, approves, and confirms such written notice and the contents and posting thereof.

Section 5. That there exists a public emergency requiring that this Ordinance be passed finally on the date of its introduction as requested in writing by the Mayor; therefore, this Ordinance shall be passed finally on such date and shall take effect immediately upon its passage and approval by the Mayor; however, in the event that the Mayor fails to sign this Ordinance within five days after its passage and adoption, it shall take effect in accordance with Article VI, Section 6, Houston City Charter.

PASSED AND ADOPTED this 30th day of December, 2008.

APPROVED this _____ day of _____, 200__.

 Mayor of the City of Houston

Pursuant to Article VI, Section 6, Houston City Charter, the effective date of the foregoing Ordinance is JAN 0 5 2008.



 City Secretary

(Prepared by Legal Dept. Donna Capps)
 (DRC:drc 12/15/08) Assistant City Attorney
 (Requested by Michelle Mitchell, Director, Finance)
 (L. D. File No. 0610200177009)

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AYE	NO	
<input checked="" type="checkbox"/>		MAYOR WHITE
••••	••••	COUNCIL MEMBERS
<input checked="" type="checkbox"/>		LAWRENCE
<input checked="" type="checkbox"/>		JOHNSON
<input checked="" type="checkbox"/>		CLUTTERBUCK
<input checked="" type="checkbox"/>		ADAMS
	ABSENT	SULLIVAN
<input checked="" type="checkbox"/>		KHAN
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<input checked="" type="checkbox"/>		GARCIA
<input checked="" type="checkbox"/>		RODRIGUEZ
	ABSENT-OUT OF CITY BUSINESS	BROWN
	ABSENT	LOVELL
<input checked="" type="checkbox"/>		NORIEGA
<input checked="" type="checkbox"/>		GREEN
<input checked="" type="checkbox"/>		JONES
CAPTION	ADOPTED	

CAPTION PUBLISHED IN DAILY COURT
 REVIEW
 DATE: JAN 0 5 2008

CITY OF HOUSTON

**TAX INCREMENT REINVESTMENT
ZONE NUMBER TWENTY-ONE**

**FINAL PROJECT PLAN &
REINVESTMENT ZONE FINANCING PLAN**

December 15, 2008

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CITY OF HOUSTON HARDY PLACE TIRZ

I. EXECUTIVE SUMMARY

City Council created Tax Increment Reinvestment Zone Number Twenty-One (Hardy/Near Northside Zone – the “Zone”) by Ordinance No. 2003-1258 on December 17, 2003 pursuant to a public hearing held on November 19, 2003. The City proposes to modify the preliminary plan by adopting this Final Project Plan & Reinvestment Zone Financing Plan (the “Final Plan”). The Final Plan reflects new project financing priorities that will include the following: 1) affordable housing development; and 2) mobility improvements.

The basis for the creation of the Zone in 2003 was to facilitate the redevelopment of the former 43-acre Union Pacific rail yard site and the general North Main St. area to promote mixed-use and affordable housing development within the overall 242-acre zone. The revitalization of this 242-acre area (gross acres inclusive of ROW and public properties) was initially intended to be led by the transition of the rail yard site into a new inner-city neighborhood (“Hardy Place”) characterized by a dynamic mix of uses, high residential densities, a pleasant and walkable street environment and a transit-friendly design. However, the original developer behind the Hardy Place redevelopment concept subsequently sold the property on which it was centered and subsequent owners have not pursued significant redevelopment activity.

The Houston-Galveston Area Council projects that approximately one million new residents will move to the Houston area in the next 10 years, and that the metropolitan area will continue to grow from its current population of 4.8 to 7.5 million by 2025. CDS Market Research estimates that these new residents will require approximately 589,000 new dwelling units and that 62,000 dwelling units are likely to be purchased or rented downtown, provided housing can be made available to meet their needs (see Appendix A, pg. 12).

The Zone, shown as Exhibit 1, is strategically located within an area generally bounded by the north right-of-way line of Interstate 10 on the South, the far western boundary of White Oak Bayou on the west, the north right-of-way lines of Paschall, Gargan, Henry and Brooks Streets in stair-step fashion on the north, the east right-of-way line of Maffitt Street on the east, including the Main Street corridor and properties fronting both sides of N. Main Street to Henry Street.

Exhibit 1



Boundary map

At the time of the Zone's creation in 2003, the Houston-Galveston Area Council projected that approximately one million new residents would move to the Houston area in the next 10 years, and that the metropolitan area will continue to grow from its current population of 4.8 to 7.5 million by 2025. CDS Market Research estimates that these new residents will require approximately 589,000 new dwelling units and that 62,000 dwelling units are likely to be purchased or rented downtown, provided housing can be made available to meet their needs (see Appendix A, pg. 12).

II. PROJECT PLAN

This document constitutes the Final Plan for the Zone and has been prepared in accordance with the requirements of Chapter 311.011 of the Texas Tax Code. The Final Plan describes the project costs to be funded by the Zone along with the methods of financing and sources of funding available to the Zone.

A. Existing Conditions and Proposed Uses §311.011(b)(1)

Existing Conditions -

The Zone is located immediately north of downtown Houston. It is an industrial area once dominated by a 100-year-old long discontinued Union Pacific (UP) rail yard recently sold for non-rail use. The rail yard area requires significant environmental remediation beyond that done by UP prior to sale, and that cleanup is critical to the revitalization of the 43-acre catalyst project that is the linchpin to the rejuvenation of the entire area. These remediation costs will be borne by the current owners of the former

Union Pacific rail yard site.

With the purchase of the site, the owners of the 43-acre Hardy Yard joined the Voluntary Cleanup Program (VCP) with the Texas Commission on Environmental Quality (TCEQ) in order to ultimately obtain a residential environmental closure for the site. Environmental work at the site has been completed to the point that the owners of the site obtained a Conditional Closure Certificate from the TCEQ on April 14, 2008.

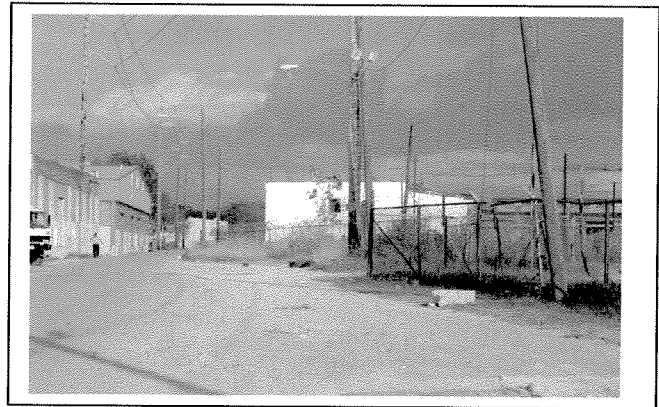
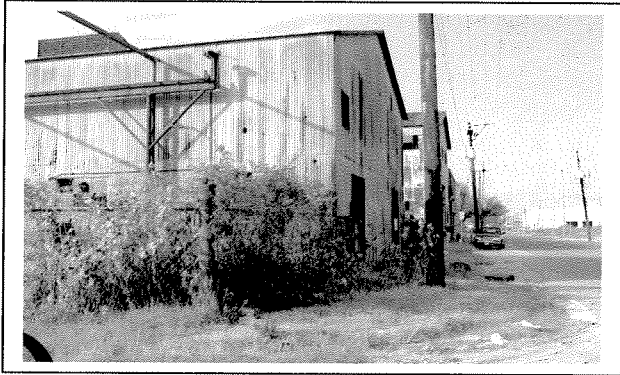
This is a very old area of Houston and suffers from declining and limited infrastructure. Because of the existing land uses, the 43-acre rail site has typical road patterns and water and sewer systems of an aging industrial area and most of the area's infrastructure was installed before storm water systems were constructed. Therefore extensive infrastructure improvements, including roads, are needed. The lack of a roadway network has made it difficult to access Near Northside neighborhoods from Downtown. Improving access and circulation in Hardy Yard will improve access to the Near Northside and help residents and property owners grow their community.

Moreover, the necessity to retain a certain number of railroad tracks will require some of the mobility projects to be grade separated. Creating an access corridor is vital to opening the area and allowing circulatory patterns open to the Central Business District (CBD).

The proposed Hardy Toll Road Connector is to extend into the CBD and will be constructed along the eastern boundary of the Zone. Improving east/west, north/south, and freeway access to the site will provide a means of stimulating redevelopment, improving existing conditions, and addressing the mobility needs of the entire Near Northside community.

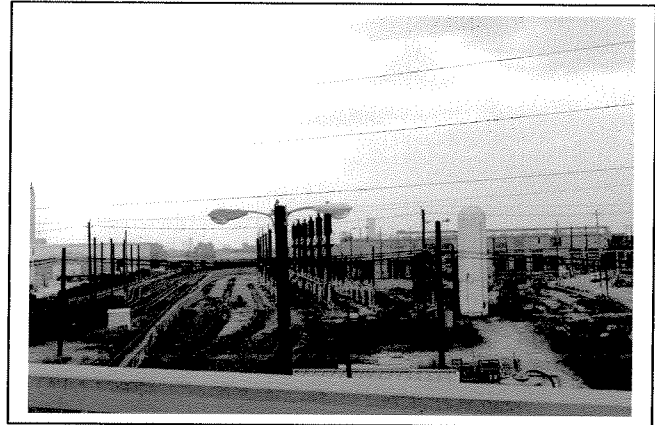
The area between the rail line and I-10 was developed originally as Houston's warehouse district, serving as the link between the original port at Allen's Landing and the railroad network. As Houston grew, the port moved downstream to the Turning Basin on the Ship Channel, and the area lost importance as a warehouse center. However, oilfield service companies and other industrial users remain in the area and constitute a significant percentage of the current land mix. The photos below reflect the current conditions in the area.

- ❖ Areas devoid of infrastructure
- ❖ Lack of drainage
- ❖ Lack of sidewalk



- ❖ Vacant and decaying structures
- ❖ Environmentally impacted properties

- ❖ Obsolete platting
- ❖ Flood Plain Issues
- ❖ Crisscrossed easements and rights-of-way, hindering continuous access and impacting development opportunities
- ❖ Inadequate internal circulation
- ❖ Limited Access
- ❖ Minimal continuous east/west access
- ❖ Crumbling and failing infrastructure



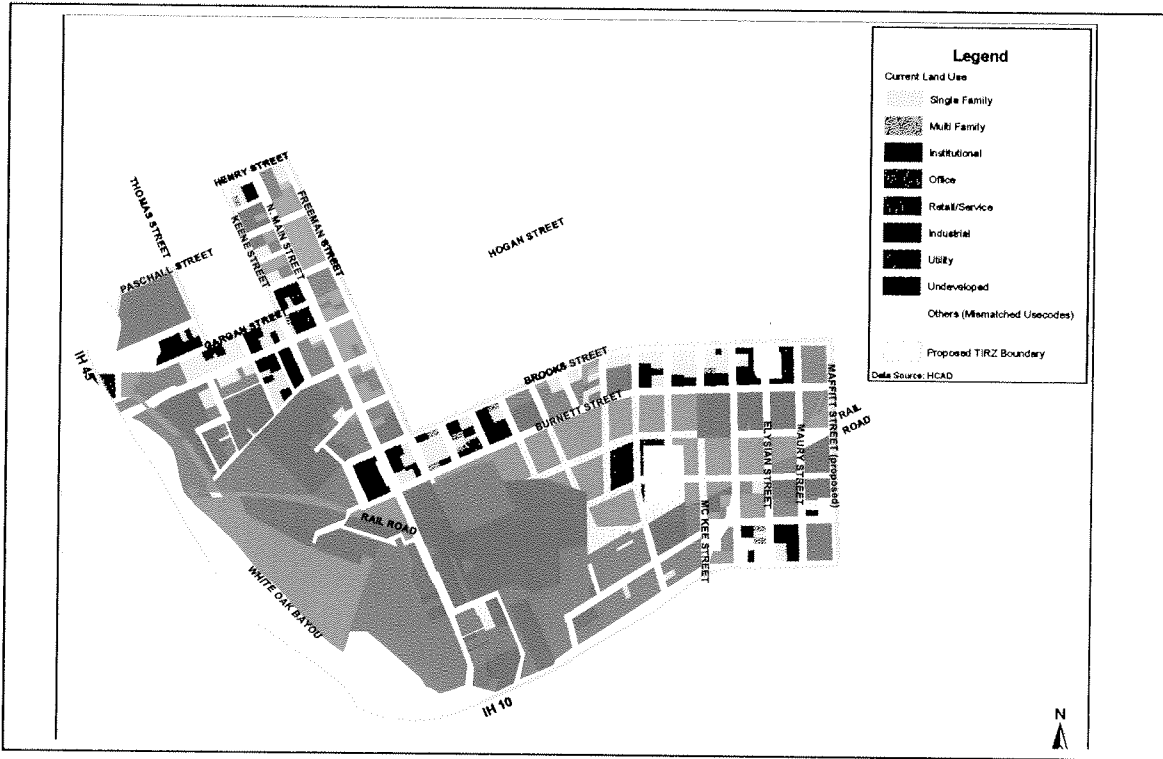
Much of the west and southwest portions of the Zone are located in the floodway and floodplain and are privately owned.

The proximity of incompatible land uses is shown in the land use map identified as Exhibit 3. This map reflects the current land use mix in the Zone boundaries, as contained in Harris County Appraisal District records in 2002.

Proposed Uses - Through creation of the Zone, the City has an opportunity to influence the delivery of affordable housing in the Zone and the Near Northside generally. Additionally, the Zone may capitalize on recent development trends that will promote transit-oriented, mixed-use development. For example, some of the warehouse structures located in the general area have been converted to artists' studios and loft apartments. The presence of the University of Houston's Downtown campus at One Main could serve as a catalyst for turning this area into a busy student district. The resurgence in new housing in the inner city or close to Downtown demonstrates that a significant residential market component is attracted to living closer to the workplace and the social and

entertainment activities offered Downtown.

Exhibit 3



Existing land use in Zone

Further underscoring this point, CDS has estimated that within 20 years the region will grow by 1.5 million. This influx of new residents will generate a need for additional dwelling units. Following a recent survey, CDS estimated that potentially 62,000 households are “very likely” to purchase or rent in the Houston CBD or near downtown if housing stock is available.

The Zone will create a mechanism to implement a redevelopment strategy by encouraging strategic partnerships and providing practical implementation tools. This approach capitalizes on the opportunities afforded by the resurgence of development in Downtown Houston, along with the revitalization of the Near Northside. The Zone can stimulate and manage these opportunities to their full potential to create an economically dynamic area anchored by a revitalized, stable, mixed-use community. Exhibit 4 details a potential build-out scenario for the Zone.

B. Municipal Ordinances §311.011(b)(2)

There are no proposed changes to any building codes or other municipal ordinances of the city as a result of the projects proposed herein.

C. Non-Project Costs §311.011(b)(3)

Non-Project Costs represent costs and expenditures for projected private and public investments that will not be funded by the Zone. Exhibit 5 shows the non-Project Costs contemplated.

Exhibit 5

Project Description	Estimated Non-Project Cost
North Light Rail Line	\$677,000,000
Total Estimated Non Project Costs	\$677,000,000

D. Relocation §311.011(b)(4)

It is not contemplated that either residential or commercial relocation will be required.

III. FINANCING PLAN

In addition to the proposed projects (Non-Project Costs) listed in Exhibit 5, the Zone is intended to provide funding for affordable housing development and municipal services costs associated with increased development projected for the Zone. Successful implementation of the Final Plan should result in an increase in the tax base of the Zone and for the surrounding areas.

A. Estimated Project Costs Description §311.011(c)(1)

It is estimated that the total project costs for the entire 242 acres will be approximately \$24.9 million defined in Exhibit 6.

The Project Costs in Exhibit 6 track the categories of eligible project costs established in Section 311.02 of the Texas Tax Code. The dollar amounts are approximate and may be amended subject to the Zone Board and City Council approval. The financing costs are a function of project financing needs and market conditions and may vary significantly from what is shown. Zone operation costs include both city and Zone administration costs.

Exhibit 6

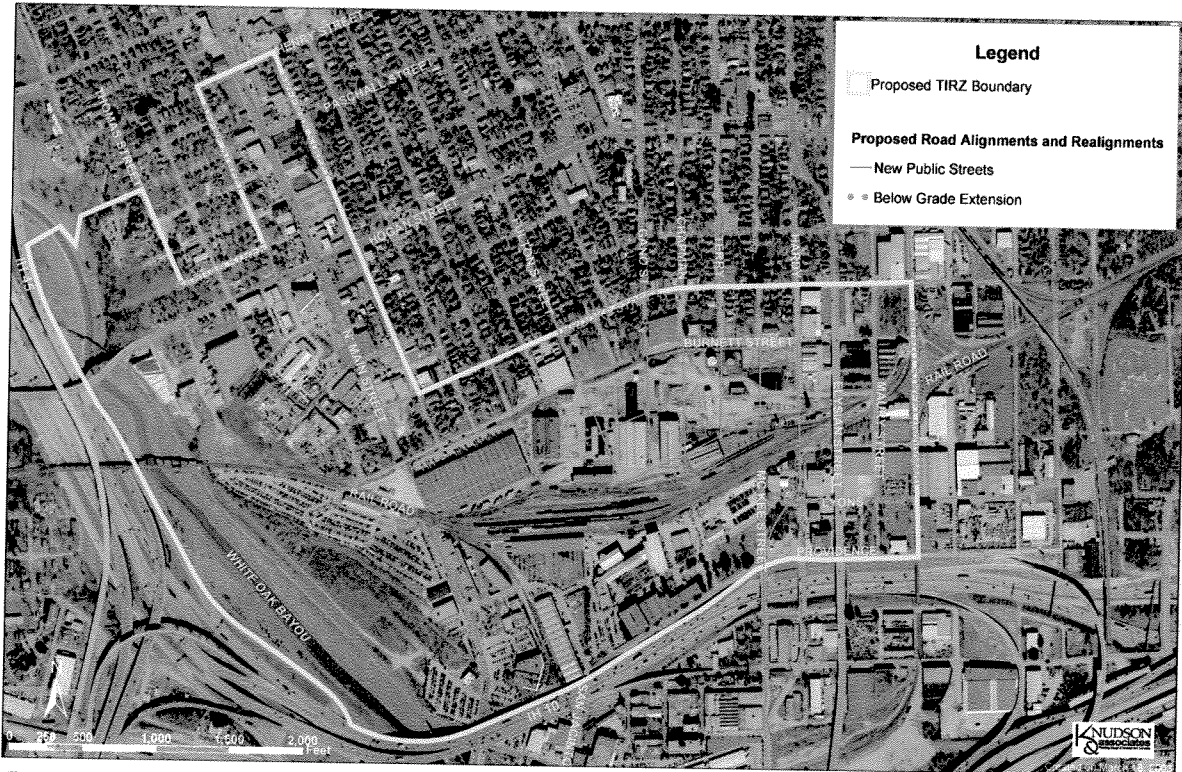
PROJECT DESCRIPTIONS	ESTIMATED COSTS
Estimated Total Capital Costs and Professional Fees	
Affordable Housing Development - Pursuant to Chapter 311, TIRZ increment revenue may finance affordable housing development either inside or outside the TIRZ boundaries.	\$5,000,000
Mobility Improvements - Extension of San Jacinto north to southern terminus of Fulton, potentially grade-separated.	\$16,000,000
Financing Costs	\$1,700,000
Zone Creation and Operations for the 30-Year Duration of the Zone	\$2,200,000
TOTAL ESTIMATE OF PROJECT COSTS	\$24,900,000

B. Kind, Number, and Location of Public Works or Improvements §311.011(c)(2)

Chapter 311 of the Texas Tax Code allows a municipality to expend affordable housing project costs either inside or outside a zone's boundaries. One-third of the revenue net of city and Zone administrative costs will be designated for affordable housing.

The extension of San Jacinto north to the southern terminus of Fulton is depicted in Exhibit 7. This will provide a much needed additional link between Downtown and the Near Northside. This project was identified as a high priority project by the *Northside Village Economic Revitalization Plan* conducted by the city's Planning Department with community input in 2001. Partnerships for the design and construction of this new roadway will be pursued.

Exhibit 7



Proposed Non-Project Cost Road Alignments and

C. Economic Feasibility Study §311.011(c)(3)

In accordance with the provisions of Chapter 311.011(c)(3), the market research firm CDS Market Research was retained to perform an economic feasibility study (the “Study”). The Study suggests that a strong demand for housing in and near Downtown will prevail during the 30-year life of the Zone based on projected population growth for Harris County and the 1999 CDS Survey of Housing Demand. The Study notes the dwindling supply of large acreage sites suitable in location and price range for redevelopment, which should position the Zone to fill a portion of the growing demand for near town housing.

As previously stated, CDS Market Research estimates that these new residents will require approximately 589,000 new dwelling units and that 62,000 are likely to be purchased or rented downtown, provided housing can be made available to meet their needs (see Appendix A, pg. 12). With regard to the commercial and office development plans projected for the Zone, the Study indicates that these uses comprise only a small fraction of the total demand projected for Harris County during the life of the Zone indicating a likely positive absorption rate within the Zone for these uses. The Zone’s projected shares of the total 30-year Harris County demand are 0.7% Residential Housing, 1.2% General Purpose office, 0.6% Multi-Tenant Retail, and 2.6% Office / Service space.

CDS summarizes “that there appears to be sizable market potentials in multiple land uses available to many present and future TIRZs and other real estate developments throughout the Houston area. The Hardy/Near Northside TIRZ offers Houston’s extended downtown area and Near Northside the opportunity to participate along with these projects in the substantial market represented by these potentials.” A copy of the Study is included as Appendix A.

D. Estimated Bonded Indebtedness to be Incurred §311.011(c)(4)

With City Council approval, the Zone may issue bonds, notes, or other obligations secured by tax increment revenues, at the time the Zone generates sufficient tax increment revenues to pay principal and interest on such obligations, the proceeds of which could be used to pay for project costs as defined in Texas Tax Code Sec. 311.002(1) (“project Costs”). However, the Zone may elect to pay for Project Costs directly from tax increment proceeds as they become available, without the sale of bonds or notes.

E. Estimated Date When Monetary Obligations Are to be Incurred §311.011(c)(5)

The Zone will incur monetary obligations as the stream of tax increment revenues allow. Administrative costs and costs related to the creation and organization of the Zone may be paid from the issuance of bonds or notes or directly from tax increment revenue.

F. Methods of Financing and Sources of Revenue §311.011(c)(6)

To ensure timely construction of public improvements, both “pay-as-you-go” and various methods of financing may be utilized. These include:

Tax Increment Bonds or Notes. As allowed by annual incremental increases in Zone assessed value, tax-exempt tax increment bonds or notes may be issued to fund improvements.

Other private financing. Some projects may be financed on a short-term basis through private financial institutions.

The primary source of revenue will be the tax increment, which is ad valorem real property tax revenue generated on the captured appraised value. The City will participate in the Zone at the city’s current tax rate (\$0.63875 per \$100 of assessed value). Should other jurisdictions wish to participate, this Final Plan will allow such participation now or at a later date. In accordance with the provisions of Texas Tax Code Chapter 311, if a jurisdiction chooses to participate in the Zone, its participation will be evidenced by an Interlocal Agreement with the City and the Zone stating the share of property taxes that

will be deposited in the tax increment fund on an annual basis. The current participation levels are shown in Exhibit 8, with tax rates given per \$100 of assessed value:

Exhibit 8

Jurisdiction	2008 Tax Rate	Anticipated Participation
City of Houston	\$0.63875/\$100	100%

G. Current Appraised Value of Taxable Real Property §311.011(c)(7)

The total assessed taxable value of real property within the Zone in 2003 (Base Year Value) is \$40,313,080 based upon the 2003 Harris County Certified Tax Roll. The ad valorem tax revenue generated on the Base Year Value will be paid to the participating jurisdictions over the life of the Zone. The Tax Year 2008 taxable value of real property within the Zone is \$86,190,810.

H. Estimated Captured Appraised Value of the Zone During Each Year of Its Existence §311.011(c)(8)

The Zone Project Costs will be funded through capture of incremental ad valorem tax revenue above the Base Year Value, or the “Captured Appraised Value.” Exhibit 9 reflects the projected annual Captured Appraised Value and the incremental revenue generated by each jurisdiction’s participation.

I. Duration of the Zone §311.011(c)(9)

The Zone has a duration of thirty (30) years and expires of December 31, 2033. However, in the event the Zone improvements are completed and fully repaid, the Zone may be terminated sooner.

Exhibit 9

Exhibit 9: Estimated Revenues Hardy Yard Zone Tax Years 2004 to 2033

Tax Year (1)	Fiscal Year	Base Value	Projected Value (2)	Captured Appraised Value	Collection Rate	Tax Rate	Increment Revenue	City Admin (5%)	Zone Administration	Affordable Housing	Balance
2004	2005	\$ 40,313,080	\$ 43,481,080	\$ 3,168,000	99.01%	0.65000	\$ 20,388	\$ 1,019	\$ -	\$ 6,796	\$ 13,592
2005	2006	\$ 40,313,080	\$ 47,401,073	\$ 7,087,993	95.77%	0.64750	\$ 43,953	\$ 2,198	\$ -	\$ 14,651	\$ 29,302
2006	2007	\$ 40,313,080	\$ 65,138,505	\$ 24,825,425	95.73%	0.64500	\$ 153,287	\$ 7,664	\$ -	\$ 51,096	\$ 102,191
2007	2008	\$ 40,313,080	\$ 82,885,722	\$ 42,572,642	85.47%	0.64375	\$ 234,240	\$ 11,712	\$ -	\$ 78,080	\$ 156,160
2008	2009	\$ 40,313,080	\$ 86,190,810	\$ 45,877,730	95.00%	0.63875	\$ 278,992	\$ 13,920	\$ 25,000	\$ 79,824	\$ 159,648
2009	2010	\$ 40,313,080	\$ 90,069,396	\$ 49,756,316	95.00%	0.63875	\$ 301,928	\$ 15,096	\$ 50,000	\$ 78,944	\$ 157,887
2010	2011	\$ 40,313,080	\$ 94,122,519	\$ 53,809,439	95.00%	0.63875	\$ 326,522	\$ 16,326	\$ 50,000	\$ 86,732	\$ 173,464
2011	2012	\$ 40,313,080	\$ 98,358,033	\$ 58,044,953	95.00%	0.63875	\$ 352,224	\$ 17,611	\$ 50,000	\$ 94,871	\$ 189,742
2012	2013	\$ 40,313,080	\$ 102,784,144	\$ 62,471,064	95.00%	0.63875	\$ 379,082	\$ 18,954	\$ 50,000	\$ 103,376	\$ 206,752
2013	2014	\$ 40,313,080	\$ 107,409,431	\$ 67,096,351	95.00%	0.63875	\$ 407,149	\$ 20,357	\$ 50,000	\$ 112,264	\$ 224,528
2014	2015	\$ 40,313,080	\$ 112,242,855	\$ 71,929,775	95.00%	0.63875	\$ 438,479	\$ 21,824	\$ 50,000	\$ 121,552	\$ 243,103
2015	2016	\$ 40,313,080	\$ 117,293,783	\$ 76,980,703	95.00%	0.63875	\$ 467,129	\$ 23,356	\$ 50,000	\$ 131,257	\$ 262,515
2016	2017	\$ 40,313,080	\$ 122,572,004	\$ 82,258,924	95.00%	0.63875	\$ 499,157	\$ 24,958	\$ 50,000	\$ 141,400	\$ 282,800
2017	2018	\$ 40,313,080	\$ 128,087,744	\$ 87,774,664	95.00%	0.63875	\$ 532,628	\$ 26,631	\$ 50,000	\$ 151,999	\$ 303,998
2018	2019	\$ 40,313,080	\$ 133,851,692	\$ 93,538,612	95.00%	0.63875	\$ 567,604	\$ 28,380	\$ 50,000	\$ 163,075	\$ 326,149
2019	2020	\$ 40,313,080	\$ 139,875,019	\$ 99,561,939	95.00%	0.63875	\$ 604,154	\$ 30,208	\$ 50,000	\$ 174,649	\$ 349,298
2020	2021	\$ 40,313,080	\$ 146,169,394	\$ 105,856,314	95.00%	0.63875	\$ 642,349	\$ 32,117	\$ 50,000	\$ 186,744	\$ 373,488
2021	2022	\$ 40,313,080	\$ 152,747,017	\$ 112,433,937	95.00%	0.63875	\$ 682,263	\$ 34,113	\$ 50,000	\$ 199,383	\$ 398,767
2022	2023	\$ 40,313,080	\$ 159,620,633	\$ 119,307,553	95.00%	0.63875	\$ 723,973	\$ 36,199	\$ 50,000	\$ 212,591	\$ 425,183
2023	2024	\$ 40,313,080	\$ 166,803,561	\$ 126,490,481	95.00%	0.63875	\$ 767,560	\$ 38,378	\$ 50,000	\$ 226,394	\$ 451,781
2024	2025	\$ 40,313,080	\$ 174,309,722	\$ 133,996,642	95.00%	0.63875	\$ 813,108	\$ 40,655	\$ 50,000	\$ 240,818	\$ 481,635
2025	2026	\$ 40,313,080	\$ 182,153,659	\$ 141,840,481	95.00%	0.63875	\$ 860,706	\$ 43,035	\$ 50,000	\$ 256,890	\$ 511,781
2026	2027	\$ 40,313,080	\$ 190,350,574	\$ 150,037,494	95.00%	0.63875	\$ 910,446	\$ 45,622	\$ 50,000	\$ 271,641	\$ 543,283
2027	2028	\$ 40,313,080	\$ 198,916,350	\$ 158,603,270	95.00%	0.63875	\$ 962,424	\$ 48,121	\$ 50,000	\$ 288,101	\$ 576,202
2028	2029	\$ 40,313,080	\$ 207,867,585	\$ 167,554,505	95.00%	0.63875	\$ 1,016,742	\$ 50,837	\$ 50,000	\$ 306,302	\$ 610,603
2029	2030	\$ 40,313,080	\$ 217,221,627	\$ 176,908,547	95.00%	0.63875	\$ 1,073,503	\$ 53,675	\$ 50,000	\$ 324,276	\$ 646,552
2030	2031	\$ 40,313,080	\$ 226,996,600	\$ 186,683,520	95.00%	0.63875	\$ 1,132,819	\$ 56,641	\$ 50,000	\$ 342,058	\$ 684,119
2031	2032	\$ 40,313,080	\$ 237,211,447	\$ 196,898,367	95.00%	0.63875	\$ 1,194,804	\$ 59,740	\$ 50,000	\$ 361,688	\$ 723,376
2032	2033	\$ 40,313,080	\$ 247,865,962	\$ 207,572,882	95.00%	0.63875	\$ 1,259,578	\$ 62,979	\$ 50,000	\$ 382,200	\$ 764,400

Notes:
 (1) Where applicable, values for the column headings are actual for Tax Years 2004 to 2008.
 (2) For Tax Years 2009 to 2033 an annual rate of growth of 4.5% is assumed.

APPENDIX A – CDS MARKET STUDY

**PLANNED DEVELOPMENT
RELATIVE TO TOTAL MARKET DEMAND
PROPOSED HARDY PLACE TIRZ**

Prepared for:

Hardy Street Partners
c/o Doug O. Williams
Doug O. Williams Consulting
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Houston, Texas 77019

Prepared by:

CDS Market Research
9225 Katy Freeway
Suite 322
Houston, Texas 77024

January 2003

EXECUTIVE SUMMARY

1. The 242-acre proposed TIRZ is estimated to have 190 developable acres.
2. The 30-year 2004-2033 development plan includes 4,043 new housing units, 1,124 thousand square feet of office space, 326 thousand square feet of retail space and 200 thousand square feet of office/service space.
3. The three existing TIRZs that are comparable to the proposed TIRZ, in terms of concentrated ownership or assembly of large tracts for development, are successful from the standpoint of actual development to date vs. plan to date through mid-2002 (Tables 2 and 3).
4. The demand for new housing in Harris County over the 30-year life of the TIRZ is estimated to be 589,000 units based on projected population growth of 1.5 million over the period.
5. Based on CDS's 1999 survey of Houston area households, there will be strong demand for Downtown area housing long term. An estimated 62 thousand households inside FM 1960 and SH 6 are "very likely" to purchase or rent Downtown, provided housing can be made available that meets their needs. This demand is already being confirmed to an extent by the growing share of total City housing permits represented by Inner Loop projects. However, there is a growing shortage of older buildings suitable for redevelopment, and at \$40-\$100 cost per square foot, underutilized Downtown properties are not attractive to residential developers.
6. Based on historical absorption data for Harris County, there should be annual demand averaging 3.0 million square feet for general purpose office space, 1.7 million square feet for multi-tenant retail space and 250 thousand square feet of office/service space.
7. The numbers of residential units and square footages of non-residential space expected to be constructed within the proposed TIRZ represent only small fractions of total 30-year demand for Harris County – 0.7% of residential demand, 1.2% of office demand, 0.6% of retail demand and 2.6% of office/service demand
8. Accordingly, the proposed TIRZ should not be viewed as competing with other TIRZs and non-TIRZ related development projects, but simply participating in the sizeable opportunity represented by the growing Houston/Harris County market for residential and non-residential space. In fact, it is urgently needed to help meet the large long-term demand for Downtown housing.

**PLANNED DEVELOPMENT
RELATIVE TO TOTAL MARKET DEMAND
PROPOSED HARDY PLACE TIRZ**

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**PLANNED DEVELOPMENT
RELATIVE TO TOTAL MARKET DEMAND
PROPOSED HARDY PLACE TIRZ**

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PLANNED DEVELOPMENT RELATIVE TO TOTAL MARKET DEMAND PROPOSED HARDY PLACE TIRZ

INTRODUCTION

Application is being made shortly to Houston City Council to create a new Tax Increment Reinvestment Zone – TIRZ #21 – which would be generally referred to as the Hardy Place TIRZ. The TIRZ would lie immediately north of University of Houston Downtown and occupy the southern-most portion of the Near Northside. This report presents CDS Market Research's analysis of planned mixed use development of the developable acreage within the proposed zone relative to total market demand.

As background, the report begins with a general description of the proposed TIRZ, including an estimate of developable acreage, then examines the performances to date of three existing TIRZs that flank Downtown on the west, south and east. The primary section of the report is devoted to future market demand for new housing in Harris County, based on long term forecasts of household growth. This is followed by discussions of CDS Market Research's own 1999 survey of future Downtown and Midtown housing demand on the part of Houston area heads of households and the trend in Inner Loop housing permits vs. totals for the City of Houston. Next, separate analyses are presented of planned office, retail and office/service space demand in Harris County. The report concludes with an examination of the market shares expected to be obtained by planned development within the proposed TIRZ for each of the four land uses being considered.

The report is intended to represent a broad measurement of demand relative to the overall development planned for the proposed TIRZ. Analyses of trade area inventories, absorption rates, price points, competitive products, etc. should be performed relative to individual projects, as proposed by developers for individual tracts within the zone, at the time of their acquisition of such tracts.

DESCRIPTION OF PROPERTY

The area included in the proposed zone is bordered by the I-10 Frontage Road and White Oak Bayou on the south and west; Paschall, Thomas, Keene, Quitman, Freeman and Brooks streets on the north; and Maffit Street (RR tracks) on the east.

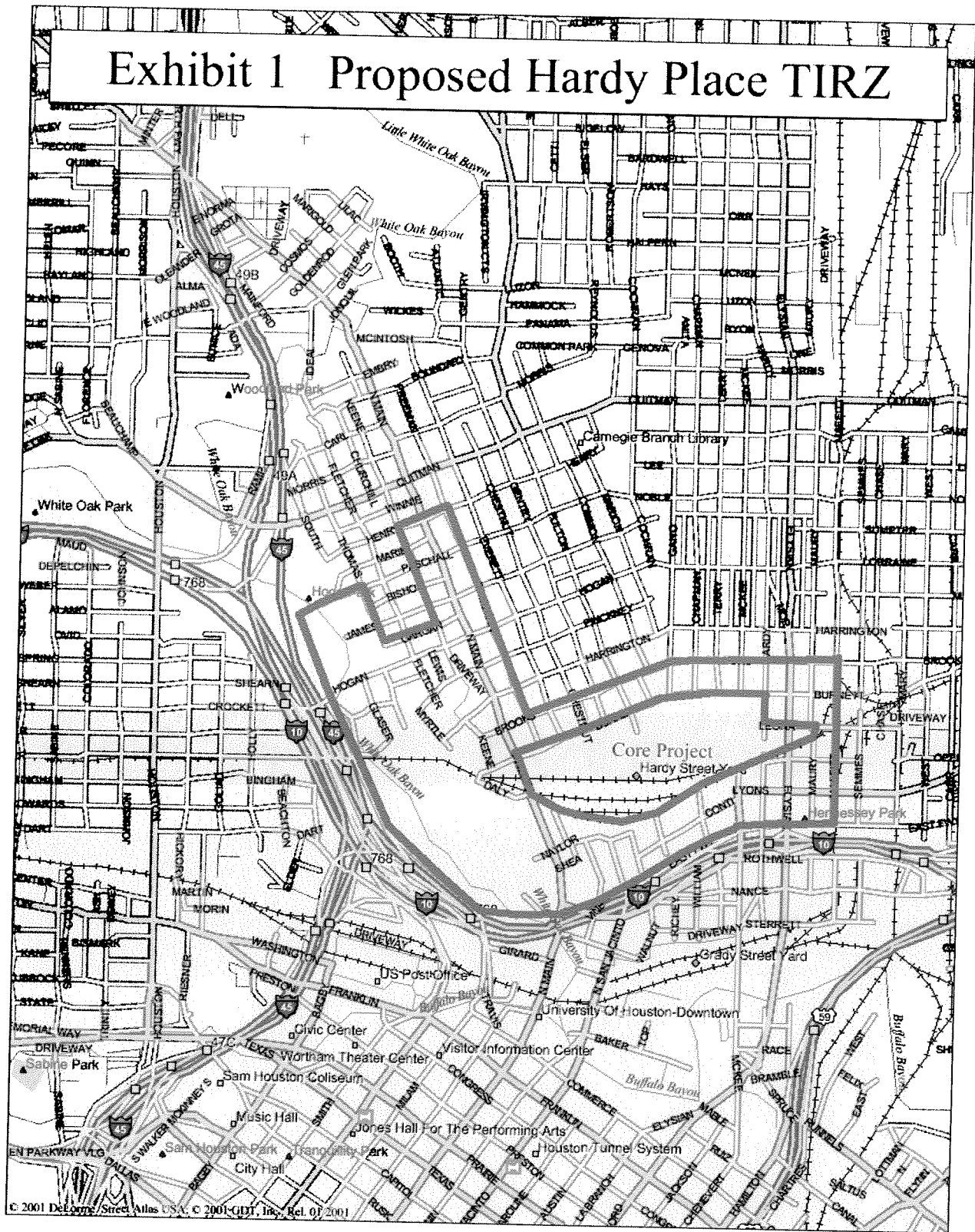
Based on information obtained from Civic Design Associates (CDA), gross, net and developable acreages for the proposed TIRZ are estimated as follows:

	<u>Acres</u>
Gross acres	237
Less: Street and railroad rights of way (ROWs)	<u>(19)</u>
Net acres	218
Less: Existing parks and properties remaining in current use	<u>(28)</u>
Developable acres	190

Occupying much of the eastern half of the proposed zone is the 43 acre core Hardy Yard tract purchased in 2001 by the Hardy Street Partners who will maintain design and land use control over the tract, which will serve as the catalyst project for the TIRZ.

The area encompassed by the proposed TIRZ lies immediately north of the Central Business District. It is actually closer to the Downtown historic, financial and entertainment districts than most areas of Midtown where substantial residential development has already taken place. One key factor aiding master planned development within the proposed TIRZ is the fact that three large tracts within the zone are owned by single owners. Assembling sufficient land parcels to facilitate efficient development has been one of the greatest problems faced by developers of inner-city real estate projects. Moreover, according to consultants, water, waste water and storm sewer service is adequate throughout many parts of the proposed zone, thereby facilitating an early start of new development once the TIRZ is approved by City Council and development permits are obtained.

Exhibit 1 depicts the area enclosed by the proposed TIRZ, with the core project also shown.



PROJECTED DEVELOPMENT

The Project Plan and Financial Plan for the proposed TIRZ, as prepared by consultants, are predicated on 2003 being the base year and active development underway on the core Hardy Yard property no later than 2004. The Hardy Place TIRZ, as proposed, is to have a 30-year project life starting in 2004 and ending in 2033.

The numbers of housing units and square footages of non-residential space expected to be constructed over the 30-year life of the zone, according to the Project Plan and Project Financial Plan, are shown in Table 1.

Table 1

**30-YEAR DEVELOPMENT PROJECTIONS
HARDY PLACE TIRZ**

<u>Land Use</u>	<u>30-Year Planned Improvements</u>
<u>Residential (units)</u>	
Multi-Family – Apartments	2,859
Multi-Family – Lofts	720
Single-Family – All Types	<u>464</u>
Total	4,043
<u>Non-Residential (000SF)</u>	
Office – General Purpose	1,054.0
Office – Live/Work	<u>70.0</u>
Total Office	1,124.0
Retail	326.0
Office/Service Industrial	<u>200.0</u>
Total	1,650.0

Source: Knudson & Associates

PERFORMANCE OF COMPARABLE EXISTING TIRZs NEAR DOWNTOWN

Before examining available future market demand for the proposed TIRZ, it is worthwhile – as background – to review the performance to date of other TIRZs flanking Downtown Houston. For this analysis CDS selected the three TIRZs most similar to the proposed TIRZ from the standpoint of developers’ ability to assemble sufficient acreage or parcels to facilitate efficient development. (Therefore, TIRZs #13, #14 and #18 were excluded.) These zones are the Midtown, Memorial Heights and East downtown TIRZs – TIRZ #2, TIRZ #5, and TIRZ #15. Basic information, including approval date, base year, years active, project life, and gross, net and estimated developable acreage for each zone is reported in Table 2.

Table 3 compares actual residential units and square footages of non-residential space completed or under construction as of mid-2002 with the cumulative estimates over the same number of active years as set forth in the original financial plans for each existing TIRZ. In every case, actual development to date (overall) has exceeded original plan – and in the case of TIRZ #2 substantially so. Based on lists of projects provided by the Midtown Redevelopment Authority, a total of 2,710 housing units have been completed or are under construction – well over four times the 617 units shown for the first seven years of development in the original financial plan adjusted for the applicable calendar years by the separate financial plan for the annexed area. If the totally remodeled Southwestern Bell Building (now Houston Community College Administrative Building) of 450 thousand SF, is included, actual construction of “commercial” space (including office, industrial and wholesale space) has exceeded plan – 506.5 vs. 300.0 thousand SF. Only retail space construction to date (243.8 thousand SF) has fallen short of plan (320.0 thousand SF) at this juncture.

The pace and extent of development within TIRZ #5 has also exceeded plan. With the completion of projects under construction at mid-year, 1,961 housing units will have been completed vs. 1,694 in the original plan. Retail construction to date (30.0 thousand SF) has also exceeded the small amount (8.0 thousand SF) contained in the original financial plan. This TIRZ is for all practical purposes built out after only six years of operation. As a footnote, however, it should be pointed out that 616 apartment units were already completed prior to approval by City Council. On the other hand, subsequent development was delayed for several years following approval for permitting and other reasons, so it is probably reasonable to assume that all development took place over six total years.

In the case of TIRZ #15, the East Downtown TIRZ, development has also exceeded plan. However, some unusual circumstances must be noted. During the short three year

life of this TIRZ to date, Hanover has completed or has under construction 375 loft apartments at its Lofts at the Ballpark project. In addition, 40 condominiums have been completed in the Stanford project further east. The combined total of 415 units compares favorably with no units included in the original financial plan for TIRZ #15. However, an unusual restriction was placed on the financial planners for the first four years of the plan which would in all likelihood not be imposed on any new proposal today. Although there appear to be serious doubts whether future planning numbers for this TIRZ can be met, due to the failure of Enron (for obvious reasons) to follow through on its plans to develop a huge entertainment complex at the site, residential development to date has definitely exceeded plan. On the other hand, no office, institutional, industrial, hotel or retail development has taken place within the East Downtown TIRZ.

Table 2

DESCRIPTIVE INFORMATION
(Three Existing TIRZs)

	Midtown TIRZ #2	Memorial Heights TIRZ #5	East Downtown TIRZ #15
Approval dates:			
Original zone	12/94	12/96	7/99
Annexed area	8/99		
Base Year	1995	1996	1999
First Increment Year	1996	1997	2000
Years Active (Thru 02)	7	6	3
Project Life (Years)	30	20	30
Acreage:			
Gross	770	112	155
Net ^a	443	82	86
Developable ^b	332	82	65

^a Source: City of Houston Planning & Development Department

^b Estimated at 75% of net acreage, except in case of TIRZ #5 where no structures were retained and the entire net acreage was available for development.

Table 3

SUMMARY OF NEW DEVELOPMENT COMPLETED OR UNDER CONSTRUCTION
vs. ESTIMATES IN ORIGINAL FINANCIAL PLANS
(As of Mid-Year 2002 – Three Existing TIRZs)

	Midtown TIRZ #2		Memorial Heights TIRZ #5		East Downtown TIRZ #15	
	<u>Plan*</u>	<u>Actual</u>	<u>Plan B*</u>	<u>Actual</u>	<u>Plan*</u>	<u>Actual</u>
Apartments (units)	n/a	2,007	1,352	1,657 ^e	–	375
Condos (units)	n/a	–	–	–	–	40
Townhomes (units)	n/a	625	200	155	–	–
Single Family (units)	n/a	<u>78^b</u>	<u>142^d</u>	<u>149</u>	–	–
Totals	617	2,710	1,694	1,961	–	415
Office (000 SF)	300.0 ^a	506.5 ^c	–	–	–	–
Institutional (000 SF)	–	1.6	–	–	–	–
Industrial (000 SF)	^a	59.5	–	–	–	–
Hotel (rooms)	–	–	–	–	–	–
Retail/Rest. (000 SF)	320.0	243.8	8.0	30.0	–	–
Garage (000 spaces)	–	1.4	–	–	–	–

* For years zones have been active through 2002.

^a Identified as “Commercial” in original plans. Includes Industrial.

^b Includes 60 affordable housing units

^c Includes 450.0 thousand SF totally remodeled former SW Bell Building, now HCC Headquarters Building

^d Includes 100 senior living units

^e Includes 616 units already complete or under construction on approval date

Sources: Midtown Redevelopment Authority, Knudson & Assoc., Hawes Hill & Assoc. and CDS Market Research

FUTURE GROWTH OF RESIDENTIAL MARKET

The primary objective of the proposed Hardy Place TIRZ, from a development standpoint, is to take advantage of the opportunity to participate in the growing Houston area market for new housing.

In order to gauge the magnitude of future growth in residential demand, CDS utilized two reputable sources of 2000 Census-based long-term forecasts of population and households – the latter being the best indicator of future housing demand. One was Woods & Poole Economics, Washington, a nationally recognized source of long-term projections of population and demographics for all counties in the U.S. through 2025. The second was the Center for Demographic and Socioeconomic Research & Education, Texas A&M University, headed by Dr. Steve Murdock. This Center has developed population, household and demographic projections for all Texas counties through 2040. Dr. Murdock developed separate projections for each of three different scenarios, designated as “0.0”, “0.5” and “1.0”, relating to these different sets of assumptions pertaining to the rate of immigration to Texas in future years relative to historic averages. The middle “0.5” scenario is referred to as the scenario most likely to occur. Both population and household forecasts – by Woods & Poole and Texas A&M – were available on only a county basis. Neither provides forecasts on a city or other smaller geographic basis.

CDS inquired with The Houston Galveston Area Council (HGAC) about the status of its 2000 Census-based long-term employment, population and household forecast which will be available for small geographic areas such as Transportation Analysis Zones (TAZs), Regional Analysis Zones (RAZs), census tracts and entire cities. Unfortunately, although a draft forecast has been prepared, CDS is informed that published data is not expected to be available until April.

The Woods & Poole forecast is somewhat more conservative than that for the “most likely” Texas A&M (TAMU) scenario. For example, Woods & Poole forecasts a 2025 Harris County population of 4.60 million compared to TAMU’s forecast of 4.85 million. To avoid passing judgment on which forecast is likely to be most accurate, CDS chose to average the two to arrive at a useful estimate of new Harris County households to be created over the 30-year project life of the proposed TIRZ. Based on the analysis, 589 thousand new households will be added in Harris County between 2003 and 2033. This translates to 589 thousand new housing units, assuming a 1:1 ratio of new housing units to new households and excluding any units that may replace older units likely to be demolished over the period.

U.S. Census data for 1970, 1980, 1990 and 2000, and future projections in 5-year increments through 2035, as well as for the 2003 base year and 2033 final project year for the proposed TIRZ, are shown in Table 4. Following Table 4 is Exhibit 1 – a graph showing the average combined Woods & Poole/TAMU forecast of population through 2035.

Table 4

**PROJECTIONS OF POPULATION AND HOUSEHOLDS
HARRIS COUNTY**

Calendar Year	TIRZ Year	Woods & Poole		TAMU (0.5)		Average Households (000s)
		Population (000s) ^a	Households (000s) ^a	Population (000s) ^a	Households (000s) ^a	
1970		1,753	546	1,753	546	
1980		2,437	879	2,437	879	
1990		2,833	1,031	2,833	1,031	
2000		3,401	1,206	3,401	1,206	
2003	Base	3,549	1,267	3,618 ^b	1,292 ^b	1,280
2005	Active	3,640	1,305	3,674	1,336	1,320
2010	Active	3,867	1,397	3,952	1,449	1,423
2015	Active	4,104	1,484	4,240	1,553	1,518
2020	Active	4,348	1,561	4,542	1,648	1,610
2025	Active	4,601	1,630	4,854	1,746	1,688
2030	Active	4,766 ^c	1,727 ^c	5,175	1,875	1,801
2033	Final	4,909 ^c	1,785 ^c	5,371 ^b	1,953 ^b	1,869
2035		5,009 ^c	1,828 ^c	5,504	2,009	
Increase in Households During 30-Year Active Life of TIRZ						589
Assumed Number of New Housing Units – Harris County						589

^a U.S. Census data for 1970, 1980, 1990 and 2000

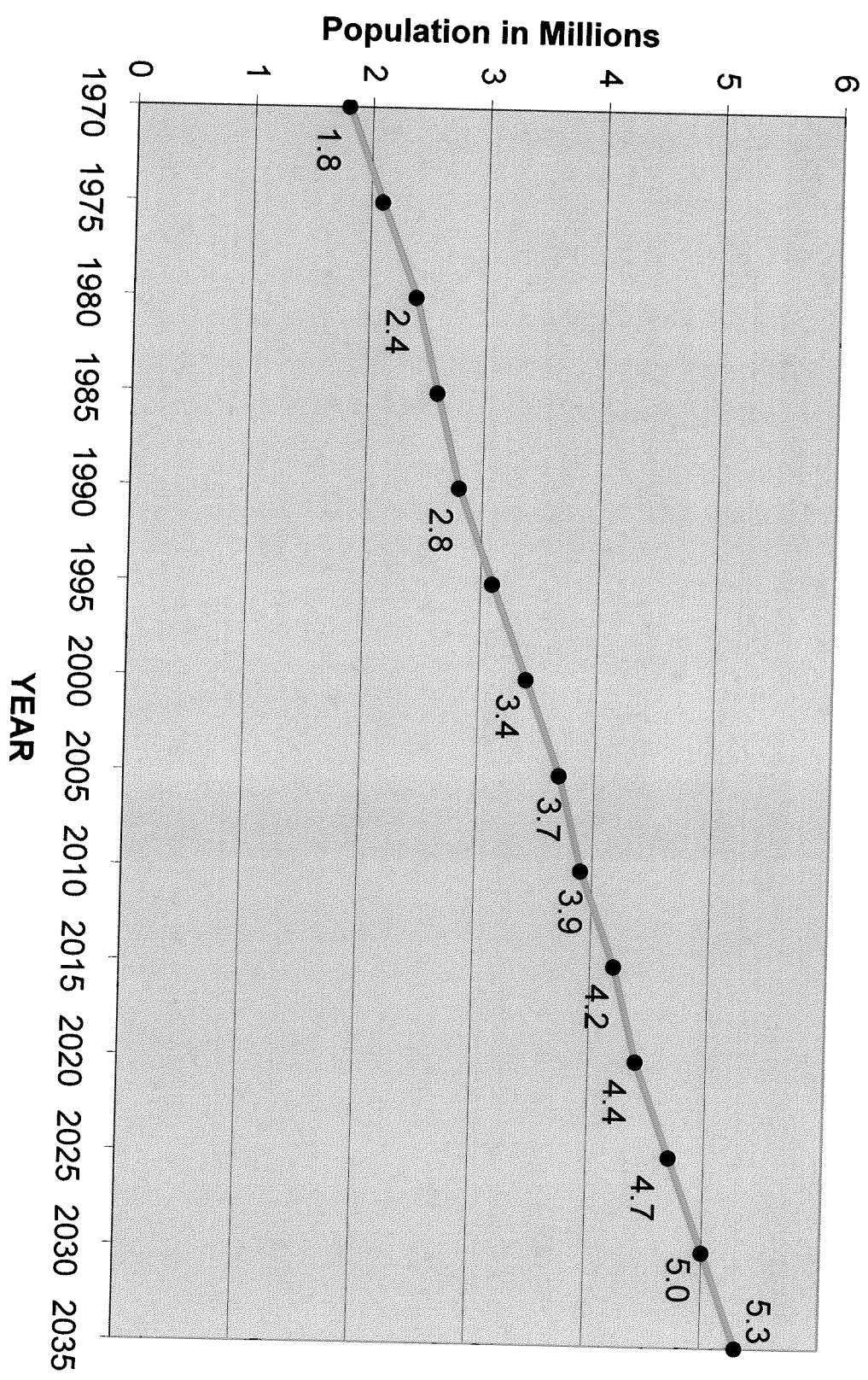
^b Estimated based on applicable 5-year annual growth rates in population and 2.77 persons/household in 2003 and 2.75 persons/household in 2033

^c Estimated based on extrapolated trend line relationship between W&P and TAMU household projections, and persons/household of 2.75, 2.75 and 2.74 for 2030, 2033 and 2035 respectively

Sources: 2002 State Profile, Woods & Poole Economics, Washington, DC and Center for Demographic and Socioeconomic Research & Education, Texas A&M University

Exhibit 2

PROJECTED FUTURE GROWTH IN POPULATION
HARRIS COUNTY



FUTURE DOWNTOWN HOUSING DEMAND

In 1993, and again in 1999 under contract to the Houston Downtown Management District and the Midtown Redevelopment Authority, CDS performed large surveys of Houston area households to determine their level of interest in living Downtown or Midtown at some future date. In the most recent survey, 761 adult heads of households residing in urbanized portions of Harris County inside FM 1960 and SH 6 were interviewed. This sample was comprised of 400 randomly selected households with annual incomes of \$30,000 or more, and 361 “high end” renters, paying \$750 or more in rent, and Downtown, Midtown or Texas Medical Center employees (some of whom were also paying \$750 or more in rent).

The findings of both surveys demonstrated that there is strong long-term demand for housing in Downtown and Midtown Houston. Based on the 1999 survey results, an estimated 137,400 Harris County households have a strong interest in living Downtown or Midtown near to long term – that is, they answered that they were “very likely” to rent or buy if housing was provided that met their needs. Among these respondents, 45% preferred Downtown, 52% preferred Midtown and 3% preferred either Downtown or Midtown (see Table 5).

Table 5

HOUSTON AREA HOUSEHOLDS STONGLY INTERESTED IN LIVING DOWNTOWN OR MIDTOWN BASED ON 1999 SURVEY

<u>Estimated households preferring:</u>	<u>% of Interested Respondents</u>	<u>Projected No. of Households</u>
Downtown location	45%	61,800
Midtown location	52	71,500
Either location	<u>3</u>	<u>4,100</u>
Total	100%	137,400

Source: CDS Market Research based on March, 1999 survey of 761 adult heads of households located inside FM 1960 and SH 6.

The survey also pointed to prime target markets for developers and builders of apartments and townhouses in Downtown and Midtown. Among the households with strong interest in living Downtown or Midtown, 41% with average household incomes of \$72,800 have one or more persons working Downtown, Midtown or at the Texas Medical Center, and 17% with average household incomes of \$86,000 are "high end" renters.

Of primary importance to the detailed product mix being planned for the Halliburton project, however, was the trend in product preferences between the 1993 and 1998 surveys. As the following table demonstrates, the percentage of interested survey respondents preferring lofts as their first choice more than doubled between the two surveys, from 15% to 33%, and those willing to consider lofts also increased.

Table 5

**HOUSTON AREA HOUSEHOLDS STRONGLY INTERESTED IN
LIVING DOWNTOWN OR MIDTOWN
BASED ON 1999 SURVEY**

<u>Housing Type</u>	<u>% Selecting as 1st Choice</u>		<u>% Willing to Consider</u>	
	<u>1993</u>	<u>1998</u>	<u>1993</u>	<u>1998</u>
Townhomes	40%	34%	63%	65%
Lofts	15	33	46	69
High-rise apartments/condos	13	20	31	56
Mid-rise apartments/condos	10	6	35	55
Garden apartments	15	8	42	51

Source: CDS Market Research 1993 and 1998 surveys of households with annual incomes of \$30,000 or more living within FM 1960 and SH 6

The problem faced by developers, however, is fulfilling the huge long-term demand for Downtown housing. There is a growing shortage of older buildings suitable for redevelopment, and underutilized Downtown land parcels are selling for \$40-\$100 per square foot, depending on location, existence of older structures and size of property, based on information supplied by Baranski Valuation. These factors discourage development of affordable and even most urban professional level housing.

INNER LOOP RESIDENTIAL PERMITTING TRENDS

The 1999 survey findings highlighting growing demand for Downtown and Midtown housing were also confirmed, for the most part, by the general trends in building permits issued for single family homes (including townhomes) and multi-family units (including apartments and condominiums) since 1991. Over the period 1992-10 months 2002, 28.7% of single-family, 38.1% of multi-family and 35.4% of total permitted housing units for the City of Houston were constructed inside the 610 Loop, based on City of Houston Planning & Development Department data (see Table 6). When numbers of permits are converted to percentages of total permits, it becomes obvious that Inner Loop single family (mostly townhome) permits are definitely increasing as a percentage of total permits, with Inner Loop multi-family permits growing slightly, and total Inner Loop units growing at a modest rate – with all data varying considerably from year to year (see Table 7 and Exhibits 2,3 and 4).

In summary, the three sections of this report devoted to the residential market demonstrate that there is expected strong future growth in the Houston area (Harris County) market for new housing due to projected increases in population, and there appears to be a long-term trend underway favoring Downtown (and Midtown), if housing product can be developed to meet the large demand. Since the area encompassed by the proposed TIRZ can be considered to be a northward extension of Downtown, the results of the foregoing analyses appear to illustrate that there is a solid opportunity for the Hardy Place TIRZ to successfully participate in an expanding overall housing market and help meet an urgent need for development opportunities Downtown.

Table 6

**CITY OF HOUSTON HOUSING PERMITS
INSIDE 610 LOOP AND CITY TOTALS
(1992-1st 10 months, 2002)**

<u>Year</u>	<u>Inside Loop (units)</u>			<u>City Total (units)</u>		
	<u>SF</u>	<u>MF</u>	<u>Total</u>	<u>SF</u>	<u>MF</u>	<u>Total</u>
1992	321	413	734	1,322	2,559	3,881
1993	421	1,191	1,612	1,496	2,066	3,562
1994	434	1,058	1,492	2,044	3,247	5,291
1995	473	1,069	1,542	2,472	2,614	5,086
1996	599	1,241	1,840	2,789	2,433	5,222
1997	827	3,036	3,863	3,596	7,579	11,175
1998	1,277	4,409	5,686	3,972	11,768	15,740
1999	1,473	1,169	2,642	4,081	4,954	9,035
2000	1,804	2,682	4,486	4,666	4,899	9,565
2001	1,604	2,512	4,116	4,339	5,463	9,802
1 st 10 mos., 02	<u>1,478</u>	<u>1,126</u>	<u>2,604</u>	<u>3,507</u>	<u>4,681</u>	<u>8,188</u>
Totals	10,711	19,906	30,617	37,284	52,263	86,547
% of Total	28.7%	38.1%	35.4%	100.0%	100.0%	100.0%

Source: Growth Indicator Reports, City of Houston Planning & Development
Department

Table 7

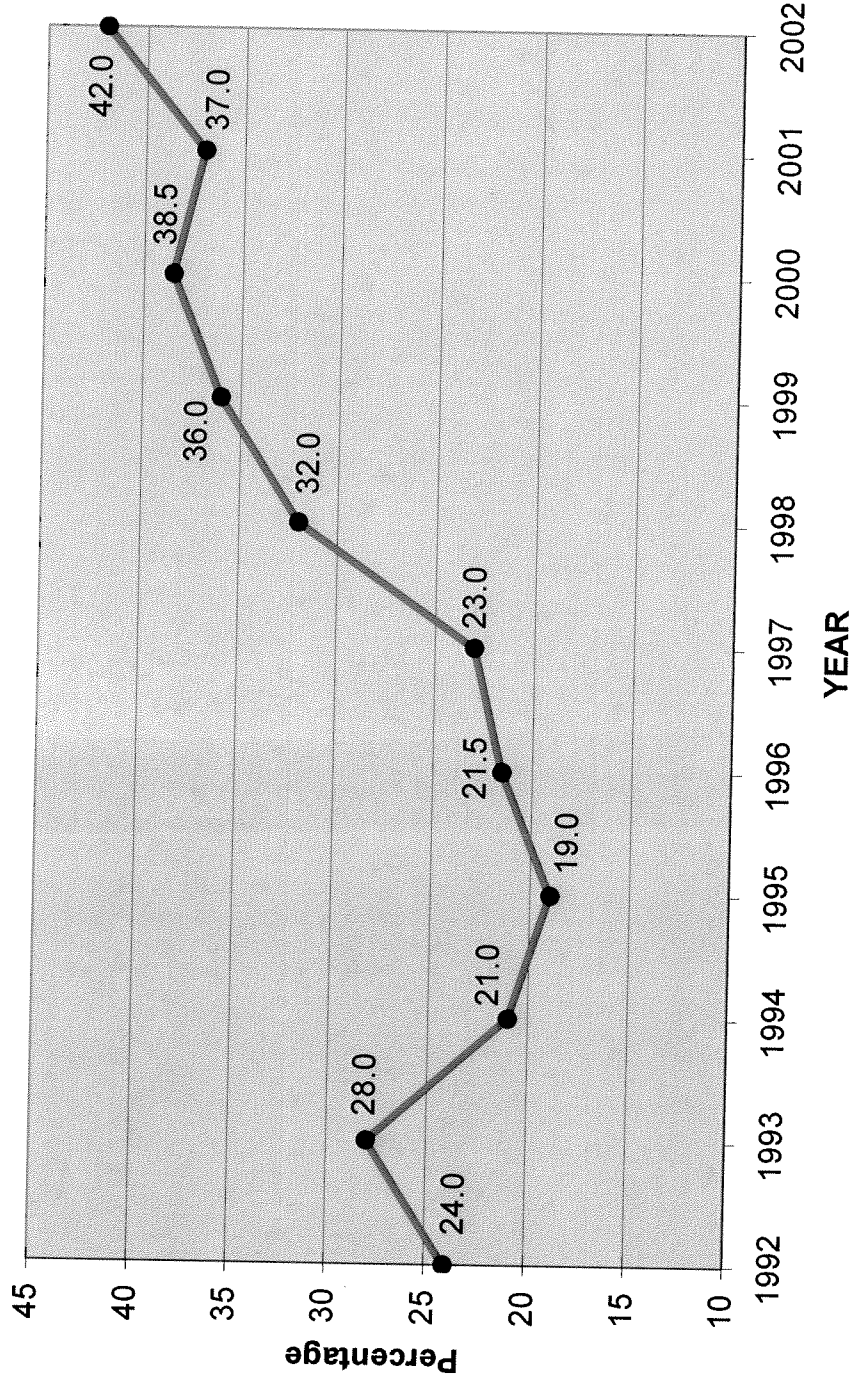
**INNER LOOP PERMITS AS PERCENTAGES OF TOTAL
CITY OF HOUSTON PERMITS**

<u>Year</u>	<u>Single Family</u>	<u>Multi-Family</u>	<u>Total</u>
1992	24.3%	16.1%	18.9%
1993	28.1	57.6	45.2
1994	21.2	32.6	28.2
1995	19.1	40.9	30.3
1996	21.5	51.0	35.2
1997	23.0	40.0	34.6
1998	32.2	37.5	36.1
1999	36.1	23.6	29.2
2000	38.7	54.7	46.9
2001	37.0	46.0	42.0
1 st 10 mos., 2002	42.1	24.1	31.8

Source: CDS Market Research based on Growth Indicators Reports, City of Houston Planning & Development Department

Exhibit 3

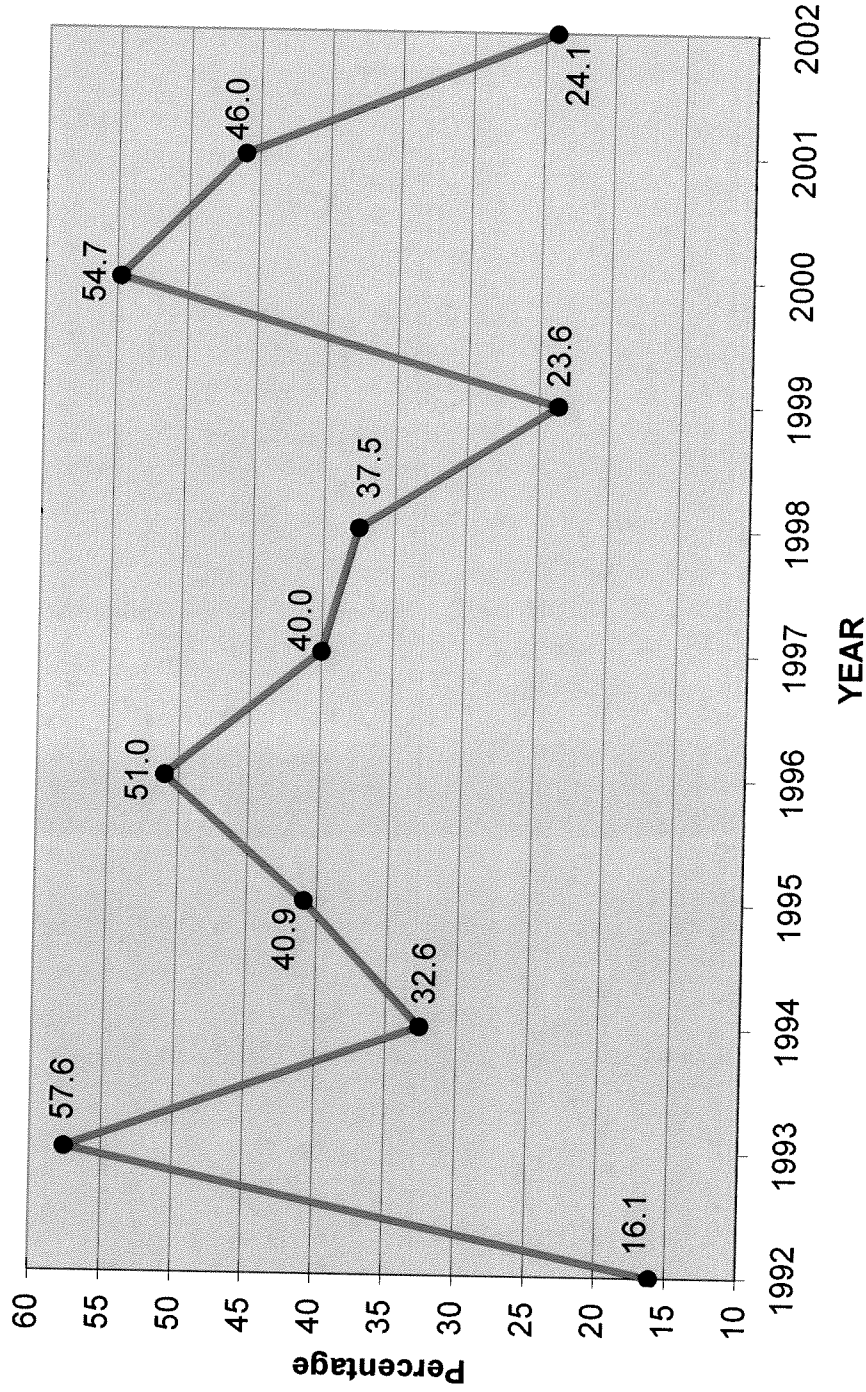
**INNER LOOP PERMITS AS PERCENTAGES OF TOTAL PERMITS
SINGLE-FAMILY (INCLUDING TOWNHOMES)
CITY OF HOUSTON
(1992-1st 10 mos., 2002)**



Data Source: City of Houston Planning & Development Department

Exhibit 4

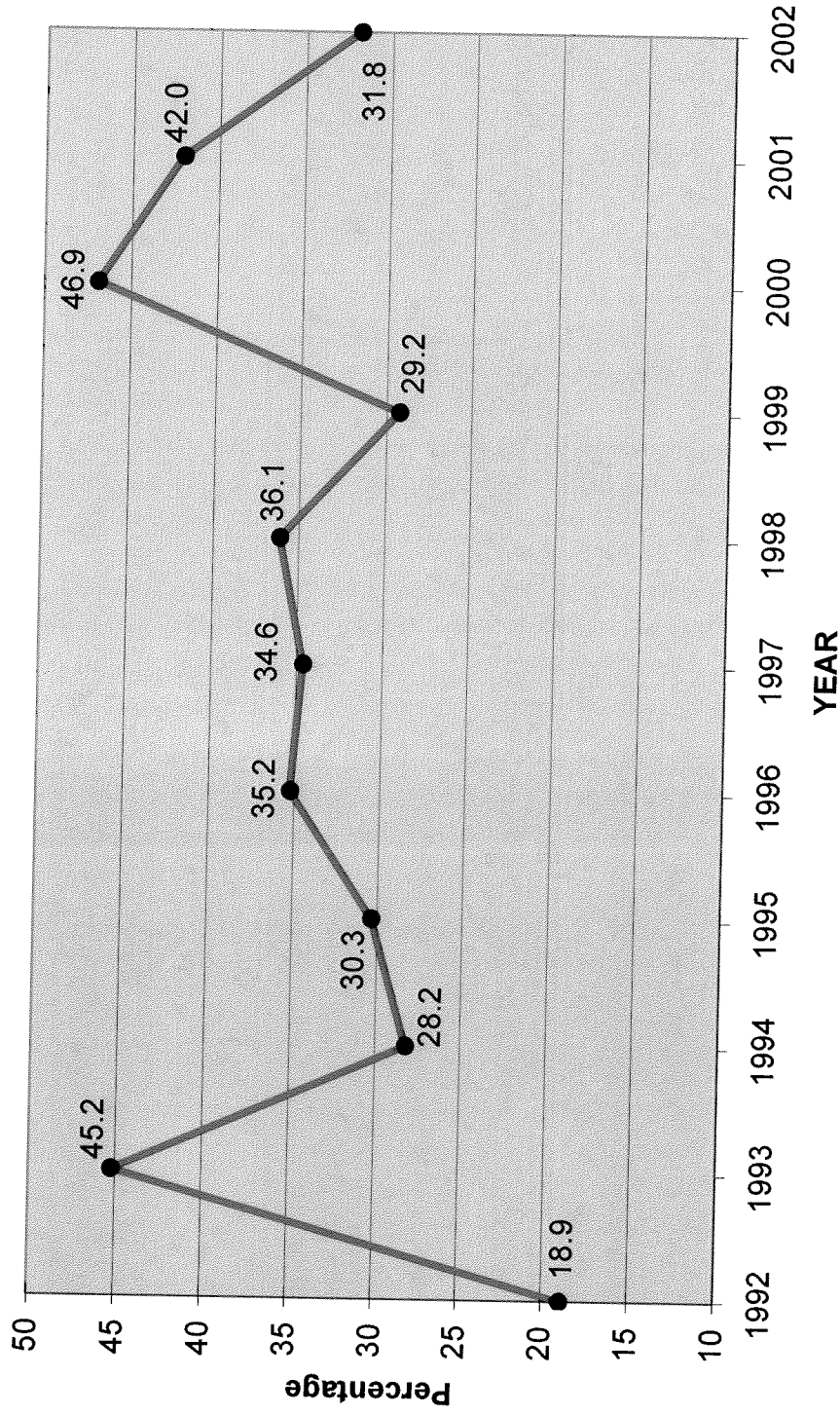
**INNER LOOP PERMITS AS PERCENTAGES OF TOTAL PERMITS
MULTI-FAMILY
CITY OF HOUSTON
(1992-1st 10 mos., 2002)**



Data Source: City of Houston Planning & Development Department

Exhibit 5

**INNER LOOP PERMITS AS PERCENTAGES OF TOTAL PERMITS
TOTAL HOUSING (SF & MF COMBINED)
CITY OF HOUSTON
(1992-1st 10 mos., 2002)**



Data Source: City of Houston Planning & Development Department

OFFICE MARKET DEMAND

Estimated 30-year demand for simple and multi-tenant general purpose office space is 90.1 million square feet. This is based on historical average annual absorption of slightly more than 3.0 million square feet over the 21-year period 1982-2002 (see Table 8). CDS was able to compile this substantial historical data by coupling information from two data sources – Property Research & Investment Consultants for 1982-1991, and Cushman & Wakefield, Commercial Brokers, for 1992-2002.

An examination of this data quickly reveals the wide variations in annual absorption that have characterized the Houston area market for general purpose office space. Demand peaked in the 1982-1984 period prior to the energy/real estate recession in the mid-80s, and again in 1997 when 7.76 million square feet were absorbed. However, there was negative absorption in 1986, 1993 and now in 2002. With such wide variations in demand, CDS has not attempted to project any type of trend line for the active years of the proposed TIRZ. Rather, it appears that the average annual absorption for Harris County of 3.0 million square feet over the lengthy 21-year historic period for which data is fortunately available is probably the most logical basis for calculating possible 30-year demand.

No projections of future Houston or Harris County office demand have been made by any commercial brokerage or other firm familiar with the Houston market. As a check on the estimated annual demand for new general purpose office space of 3.0 million square feet, it would have been desirable to utilize forecast increases in relevant office employment over the 2004-2033 period and multiply by the currently accepted ratio of 225 square feet per employee for general purpose office space to arrive at total estimated demand. Employment estimates by broad industry classification (Mining, Finance/Insurance/Real Estate, Services, etc.) are available, but CDS has been unable to locate any source of forecast office employment by industry. Therefore, such validation does not appear possible at this time.

Table 8

**HISTORICAL ABSORPTION
GENERAL PURPOSE OFFICE SPACE
SINGLE AND MULTI TENANT
HARRIS COUNTY**

<u>Year</u>	<u>Square Feet (000s)</u>
1982	7,837.0
1983	9,700.0
1984	8,107.6
1985	170.5
1986	(2,467.2)
1987	364.3
1988	4,337.8
1989	4,077.9
1990	4,794.7
1991	2,449.5
1992	917.2
1993	(1,067.5)
1994	932.6
1995	(107.9)
1996	2,775.0
1997	7,694.0
1998	3,627.2
1999	1,871.9
2000	4,078.8
2001	3,908.4
2002	(996.4)
21-Year Total	63,005.4
Average/Year	3,002.6

Sources: Property Research & Investment Consultants (1982-1991)
and Cushman & Wakefield (1992-2002)

RETAIL MARKET DEMAND

Based on average annual net absorption over an 11-year historic period of 1.7 million square feet, 30-year demand of 50.6 million square feet of multi-tenant retail space is estimated for Harris County. This would be equivalent to 28.9 square feet per person of new population – within the conventional planning range in the Greater Houston area of 25-30 square feet per person.

As in the case of office demand, CDS considers the most reliable indicator of Houston area demand to be average historical absorption. In the case of retail space, CDS considers the most accurate source of absorption data to be O'Connor & Associates. Table 9 reports annual net absorption for Second Half, 1991 through First Half, 2002 – an 11-year period. Again, there is variation in absorption levels but not nearly as great as in the case of office space. Retail space absorption exceeded 2.0 million square feet in 1994, 1995, 1997, 1999 and 2000, peaking at 2.6 million and 2.9 million square feet in the latter two-years respectively. However, there was a sharp dip in demand in 2001 with negative net absorption of 0.7 million square feet. There has been a mild recovery of 0.5 million square feet of positive absorption during the first half of 2002, the latest period for which data was available at the time this report was written.

There is no known source of long-term retail space projections for the Houston/Harris County market. An October, 2001 study entitled "Downtown Houston Market Analysis", prepared by Urban Marketing Collaborative, Chicago, under contract to the Houston Downtown Management District, projected that Downtown demand for newly constructed retail space would reach 289.5 thousand square feet over the 5-year 2001-2005 period. However, this forecast is now subject to serious question given the recent dip in Downtown office space absorption due to the Enron collapse and other factors.

Table 9

**HISTORICAL ABSORPTION
MULTI-TENANT RETAIL SPACE
HARRIS COUNTY**

<u>Year</u>	<u>Square Feet (000s)</u>
2 nd Half, 1991	1,068.2
1992	1,659.9
1993	1,943.8
1994	2,126.4
1995	2,163.6
1996	1,244.6
1997	2,369.1
1998	657.1
1999	2,570.7
2000	2,883.4
2001	(664.3)
1 st Half, 2002	<u>539.5</u>
11-Year Total	18,562.0
Average/Year	1,687.5

Source: O'Connor & Associates

OFFICE/SERVICE DEMAND

No new manufacturing or warehouse industrial space is planned for the proposed TIRZ. Only office/service space – sometimes referred to as service center space – is considered likely. Accordingly, CDS has only investigated the market for this type of space.

Projected 30-year absorption of office service space is calculated to be 7.7 million square feet for Harris County. As in the case of office and retail demand, there is no available forecast of future office/service industrial space. Therefore, the limited amount of historic net absorption data for the Houston/Harris County market – as made available by Cushman & Wakefield – is probably the best and only indicator of possible future demand. As Table 10 reports, the recent 8-year average level of net absorption is around 250 thousand square feet ranging from a high of over 800 thousand square feet in 1998 to small negative absorption in 2001 (see Table 10).

Table 10

**HISTORICAL ABSORPTION
OFFICE/SERVICE INDUSTRIAL SPACE
HARRIS COUNTY**

<u>Year</u>	<u>Square Feet (000s)</u>
1995	205.3
1996	285.4
1997	173.7
1998	812.7
1999	290.7
2000	146.4
2001	(21.9)
2002	<u>91.8</u>
	8-Year Total 1,985.1
	Average/Year 248.1

Source: Cushman & Wakefield

SUMMARY: PLANNED DEVELOPMENT RELATIVE TO TOTAL MARKET DEMAND

Based on currently projected development within the proposed Hardy Place TIRZ and the analyses of total market demand over its 30-year life, it appears that planned development will account for only tiny fractional shares of total Harris County demand for new housing units, office space, retail space and office/service industrial space. The TIRZ's projected shares of 30-year estimated market potentials for Harris County are 0.7% for residential housing, 1.2% for General Purpose Office, 0.6% for Multi-Tenant Retail and 2.6% for Office/Service space. In terms of long-term demand for Downtown housing, as projected based on CDS's 1999 report of Houston Area households, planned residential development within the TIRZ will account for 6.5% of market potential. And with respect to housing, it appears to be urgently needed to help meet the large demand for Downtown residential space.

It must be emphasized again that there appear to be sizable market potentials in multiple land uses available to many present and future TIRZs and other real estate developments throughout the Houston area. The proposed Hardy Place TIRZ offers Houston's extended Downtown and Near Northside the opportunity to participate along with these projects in the substantial market represented by these potentials.

Following Table 11, Exhibits 6-9 depict the small shares of market represented by planned development within the Hardy Place TIRZ.

Table 11

**SUMMARY OF PROJECTED 30-YEAR MARKET SHARES
BASED ON PLANNED IMPROVEMENTS
HARDY PLACE TIRZ**

<u>Land Use</u>	<u>Planned 30-Year TIRZ Improvements</u>	<u>Estimated 30-Year Potentials^a</u>	<u>30-Year Market Share</u>
Residential (Units)	4,043	589,000 ^b	0.7%
General Purpose Office (000SF)	1,124	90,078 ^c	1.2%
Multi-Tenant Retail (000SF)	326	50,625 ^c	0.6%
Office/Service Industrial (000SF)	200	7,743 ^c	2.6%

^a Harris County.

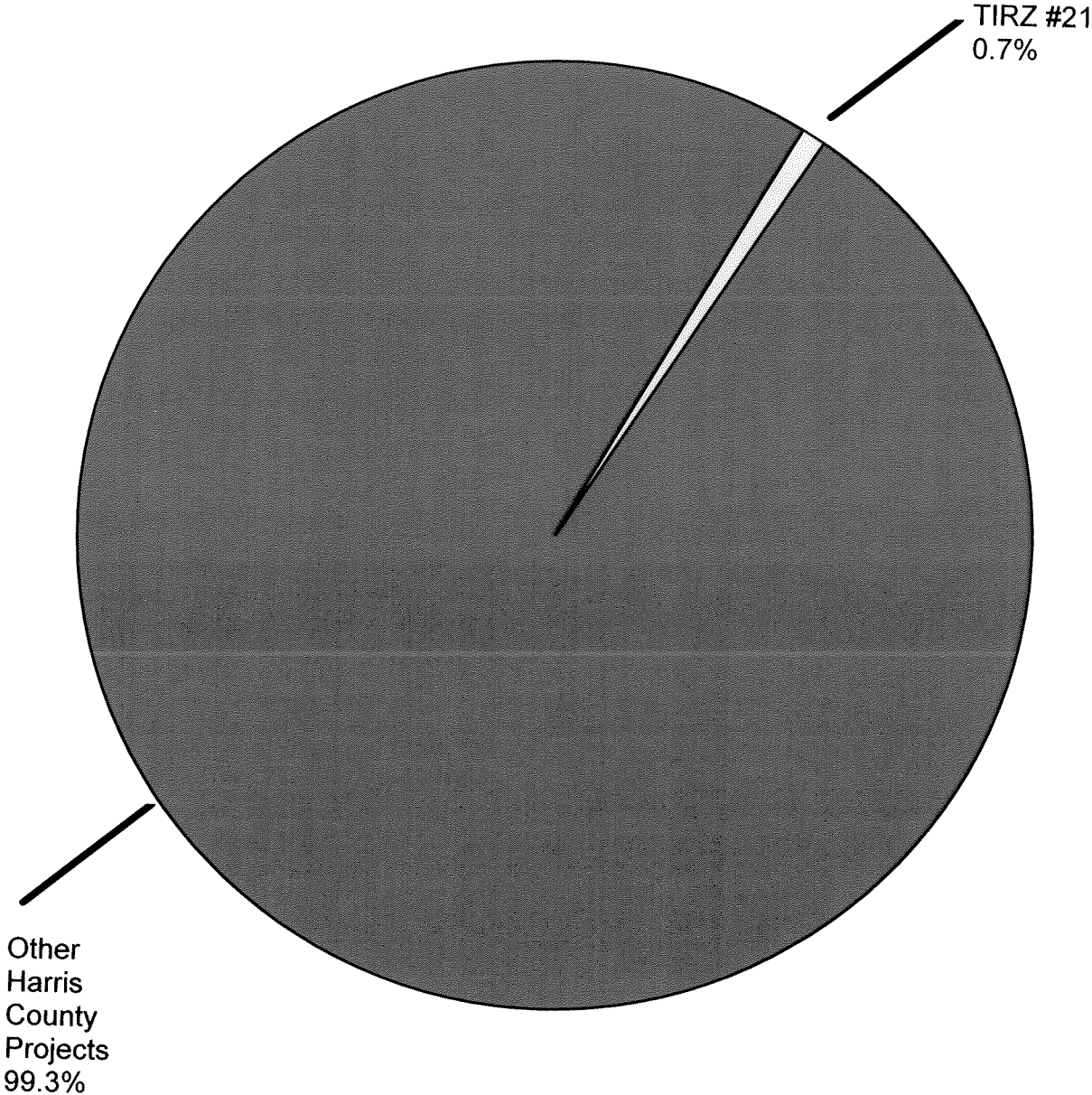
^b Based on projected new households for 2004-2033.

^c Assumes average annual absorption equal to recent historic average.

Source: CDS Market Research

Exhibit 6

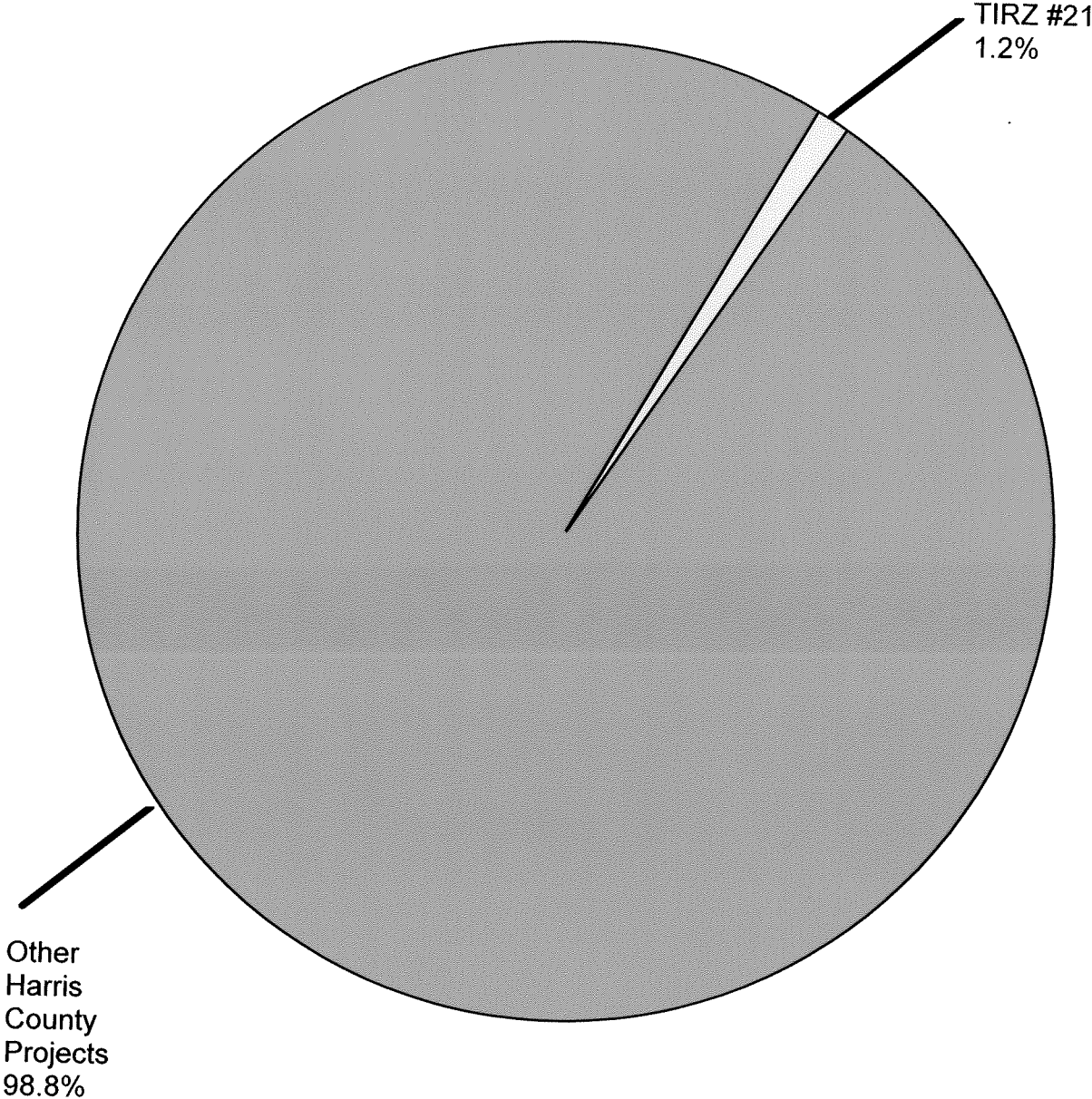
**PROJECTED 30-YEAR MARKET SHARE
HARDY PLACE TIRZ**
Residential Units



Source: CDS Market Research

Exhibit 7

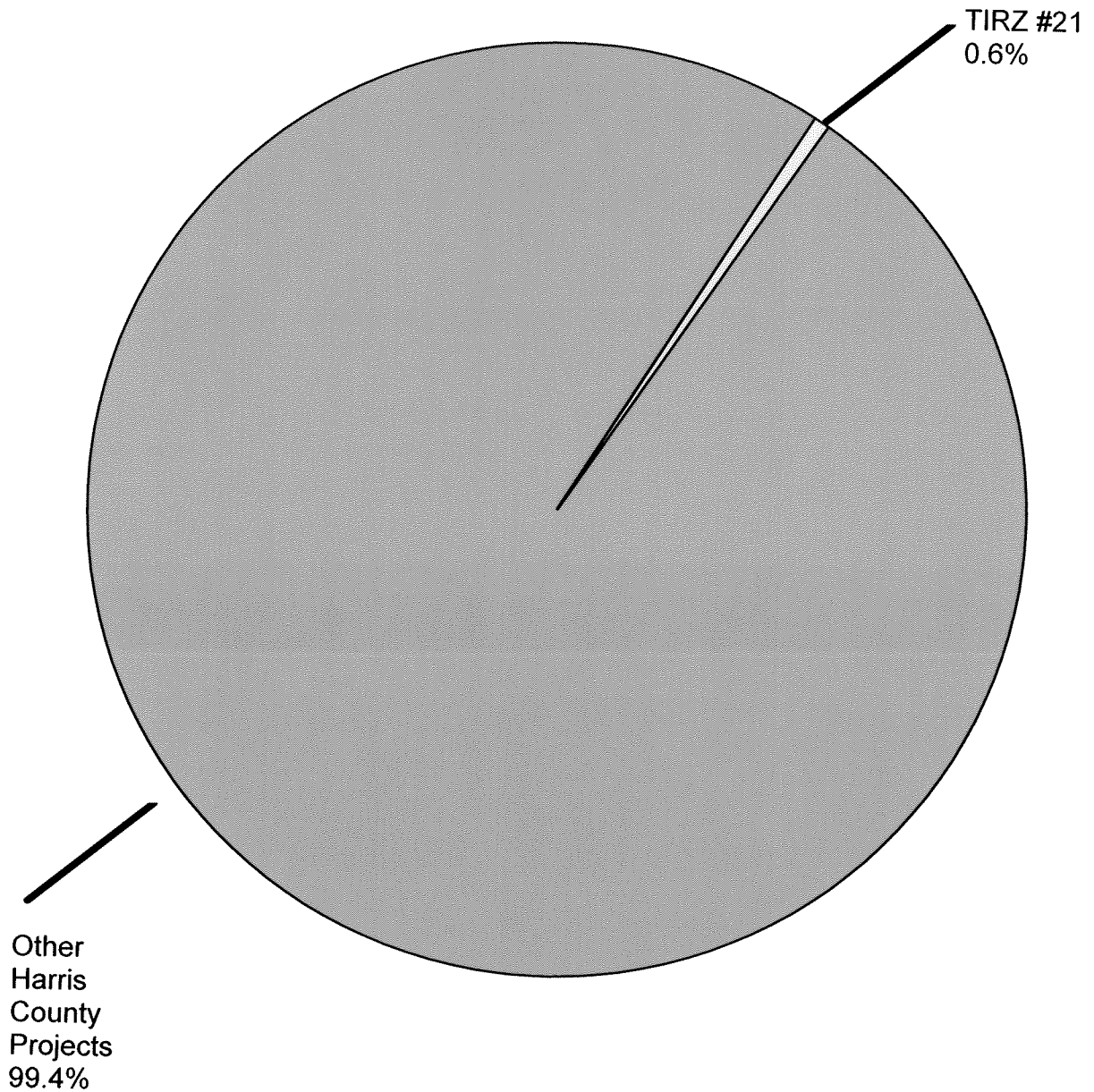
**PROJECTED 30-YEAR MARKET SHARE
HARDY PLACE TIRZ**
General Purpose Office Space



Source: CDS Market Research

Exhibit 8

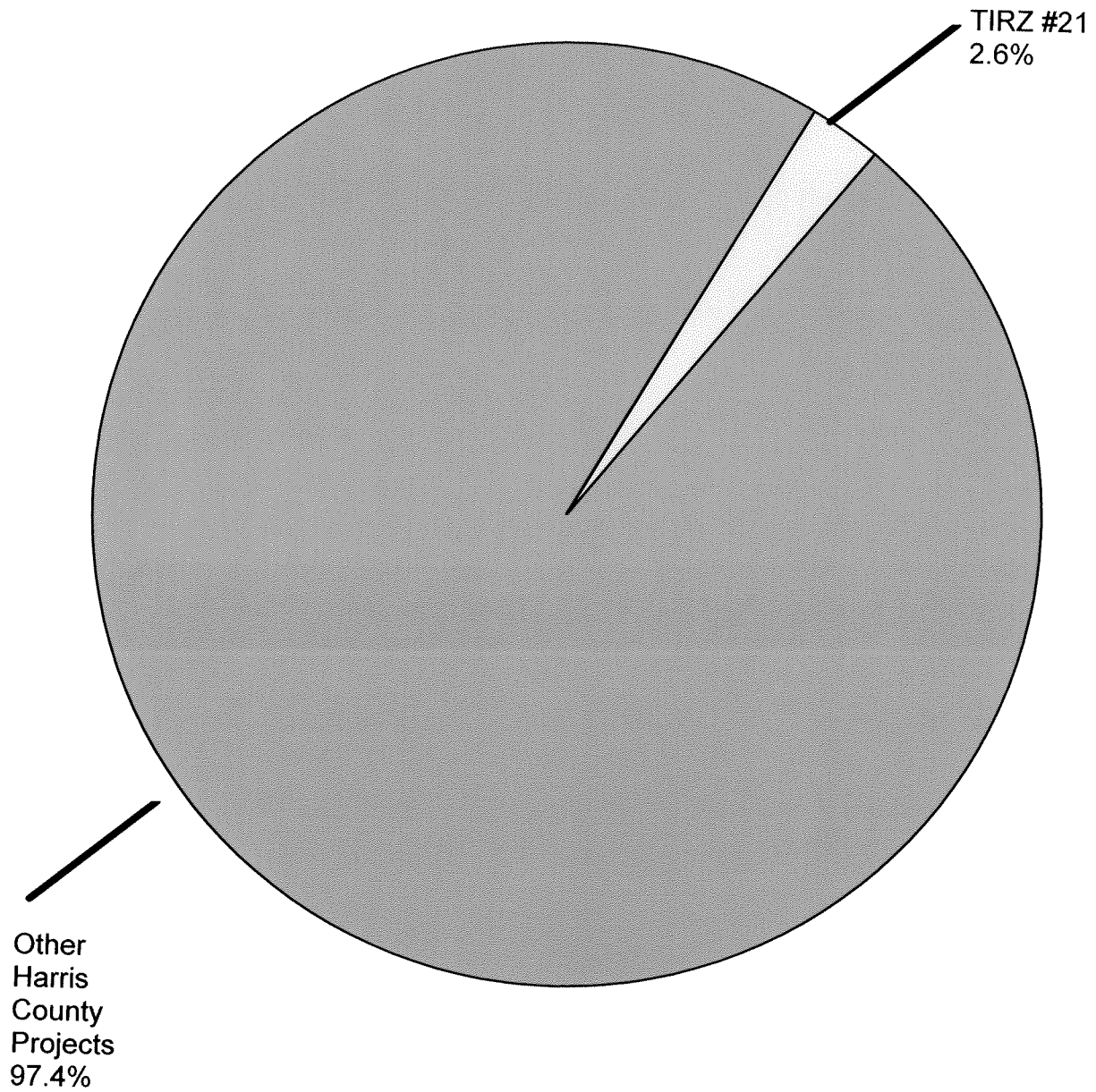
**PROJECTED 30-YEAR MARKET SHARE
HARDY PLACE TIRZ
Multi-Tenant Retail Space**



Source: CDS Market Research

Exhibit 9

**PROJECTED 30-YEAR MARKET SHARE
HARDY PLACE TIRZ
Office/Service Space**



Source: CDS Market Research

APPENDIX B - BOUNDARY DESCRIPTION

**BOUNDARY DESCRIPTION
OF THE ZONE**

County:Harris
Project:Hardy Yard
M.S.G. No.:031055
Job Number:319-MB

BEGINNING at the intersection of the easterly right-of-way line of Maffitt Street and the northerly right-of-way line of Brooks Street for the easterly northeast corner of the herein described boundary;

THENCE, in a southerly direction, along the easterly right-of-way line of said Maffitt Street, and its projection, to its intersection with the southerly right-of-way line of Providence Street for the southeasterly corner of the herein described boundary;

THENCE, in a westerly direction, along the southerly right-of-way line of said Providence Street, to its intersection with the northerly right-of-way line of IH-10 for an angle point of the herein described boundary;

THENCE, generally in a westerly direction, along said northerly right-of-way line of IH-10, to its intersection with the northeasterly right-of-way line of IH-45;

THENCE, in a northwesterly direction, along the northeasterly right-of-way line of said IH-45, to its intersection with the extension of the northwesterly right-of-way line of Paschall Street for the westerly northwest corner of the herein described boundary;

THENCE, in a northeasterly direction, along the extension of the northwesterly right-of-way line of said Paschall Street, crossing White Oak Bayou, to the southwesterly line of the Lee Elementary School tract as recorded in Volume 275, Page 410, Volume 307, Page 52, and Volume 591, Page 208, Harris County Deed Records;

THENCE, in a southeasterly direction, along the southwesterly line of said Lee Elementary School tract, to the south corner of said Lee Elementary School tract;

THENCE, in a northeasterly direction along the southeasterly line of said Lee Elementary School tract, to the northwesterly right-of-way line of said Paschall Street;

THENCE, in a northeasterly direction, along the northwesterly right-of-way line of said Paschall Street, to its intersection with the northeasterly right-of-way line of Thomas Street for the westerly northeast corner of the herein described boundary;

THENCE, in a southeasterly direction, along the northeasterly right-of-way line of said Thomas Street to its intersection with the northwesterly right-of-way line of Gargan Street for an inner corner of the herein described boundary;

THENCE, in a northeasterly direction, along the northwesterly right-of-way line of said Gargan Street to its intersection with the southwesterly right-of-way line of Keene Street for an inner corner of the herein described boundary;

THENCE, in a northwesterly direction, along the southwesterly right-of-way line of said Keene Street to its intersection with the northwesterly right-of-way line of Henry Street for the northerly northwest corner of the herein described boundary;

THENCE, in a northeasterly direction, along the northwesterly right-of-way line of said Henry Street to its intersection with the northeasterly right-of-way line of Freeman Street for the middle northeast corner of the herein described boundary;

THENCE, in a southeasterly direction, along the northeasterly right-of-way line of said Freeman Street to its intersection with the northwesterly right-of-way line of the aforesaid Brooks Street for an inner corner of the herein described boundary;

THENCE, in a northeasterly direction, along the northwesterly right-of-way line of said Brooks Street to an angle point;

THENCE, in an easterly direction, along the northerly right-of-way line of said Brooks Street to the POINT OF BEGINNING and describing a TIRZ BOUNDARY.