Development Potentials and Timing

Buffalo Bayou Corridor

Final Report

Prepared for:
Buffalo Bayou Partnership
Supporting Sponsors:
Greater East End Management District
Houston Downtown Management District
Richard W. Weekley Family Fund

CDS
Market Research
An InterDirect USA, Ltd. Company

EXECUTIVE SUMMARY

Aerial View of Zone 1 in the Buffalo Bayou Study Area

1. Within the Buffalo Bayou Corridor study area (map on p. 5 of report), there are 890.1 total acres with a 2004 tax value of $161.1 million – $111.2 million for land and $49.9 million for improvements.

2. Industrial dominates land use, accounting for 44.5% of total acreage. 33.3% is vacant. Overall, 289.4 acres are available (vacant and not in commercial use) and 285.0 acres are redevelopable (occupied by abandoned or aging improvements). Combined, these 574.4 acres provide excellent opportunities for primarily residential development in or near downtown.

3. Houston area housing demand is expected to be strong. With Harris County population conservatively estimated to grow from 3.7 million currently to 5.7 million in 2034, 756 thousand new housing units will be required to satisfy demand.

4. Primary potential for the Buffalo Bayou Corridor is in medium priced housing – $150,000 – $225,000 for for-sale units and $0.95 – $1.10/SF rents for for-rent units. Estimated 30-year demand for medium priced housing downtown and near-downtown (including the BBC study area) is 20 thousand units.

5. Based on the amount of vacant and redevelopable property available and interviews with property owners, developers, brokers and others, CDS estimates that the study area should capture up to 30% of this demand – 6,000 units. Though significant, this would still be only 0.8% of total 30-year Harris County demand. (Downtown proper, East Downtown and portions of five wards are projected to capture 10,000 units or 51% of total downtown/near downtown demand; and Hardy Place, 3,800 units or 19% of total demand.)

Buffalo Bayou and downtown as viewed from KBR site

January 27, 2005

Ms. Anne Olson
President
Buffalo Bayou Partnership
1113 Vine Street, Suite 200
Houston, TX 77002

Dear Ms. Olson:

Enclosed please find five (5) copies of our final report entitled "Development Potentials and Timing, Buffalo Bayou Corridor". The report incorporates revisions to the earlier final draft dated December 10, based on comments received from you, Bob Litke, Bob Eury and Guy Hagstette.

Thank you for giving CDS Market Research the opportunity to be of service on this very interesting and important assignment. Please let us know if we can be of further assistance. Should you require additional bound copies of the report, we will be happy to furnish them to you at our cost.

Yours sincerely,

Ray C. Lawrence
Principal Associate

Enclosures (5)

cc: R. Kent Dussair
Matt Wilcoxson

6. Success rests on a variety of factors including: the Houston and national economies, the health of the Houston real estate market, perceptions of potential buyers, extent of any land use controls, type(s) and amount(s) of any financial intervention, property owner pricing, developer plans, activity in surrounding areas, and marketing efforts.

7. Over 30 years, substantial development activity (4,200 housing units and 335,000 SF of non-residential space) is projected under Scenario A (no flood control improvements and no intervention). Only a small amount of additional activity is expected with flood control improvements alone (Scenario B: 4,300 housing units and 375,000 SF of nonresidential space). However, activity in the downtown area (Zone 1) will take place sooner than in the case of Scenario A. Under Scenario C, in which flood control improvements and financial intervention are assumed, activity is enhanced (6,000 housing units and 555,000 SF of nonresidential space.) Even at this level of development, however, only 54.9% of the total available and redevelopable land is built out.

8. These alternative levels of activity translate into total improved values of $800 million under Scenario A, $820 million under Scenario B and over $1,200 million under Scenario C over 30 years. Under all three scenarios, activity in Years 1-10 is largely concentrated in Zone 2 of the study area. However, that is premised on KBR/Staubach proceeding with their project (80.8 acres of medium density development) near-term.

9. Due to the low current appraised values of vacant and redevelopable properties, large 30-year City of Houston tax increments of $53.3 million (Scenario A), $65.9 million (Scenario B) or $92.9 million (Scenario C) could be realized. These tax increments would support $333.1, $411.9 and $580.6 million of public infrastructure improvements over 30 years at an 8% capitalization rate and 50% utilization.

Aerial View of Zone 2 in the Buffalo Bayou Study Area

10. The incremental supportable public investment under Scenario C vs. Scenario A ($247.5 million) or Scenario B ($168.7 million) could perhaps be sufficient to finance any portions of the three major relocation projects (UP, METRO and CenterPoint Energy) not financed as parts of the proposed flood control improvements downtown, as well as primary street, utility and other improvements throughout the study area. However, a preliminary analysis of needs and costs is needed to confirm this possibility.

11. If intervention is employed to make Scenario C (and many aspects of the Buffalo Bayou Master Plan) a reality, both general revenue bonds and a petition or direct application TIRZ should be considered. (CIP funds, 70/30 DPC funds and various developer incentives are not likely to be sufficient depending on cost estimates.) One possibility would be to use bonds to finance the major relocation projects and waterview district amenities that benefit the entire city, particularly in attracting tourists, and a TIRZ to finance the primary street, utility and other improvements needed to bring about Scenario C level development.

12. Long-time residents of Zones 2 and 3 of the study area are apprehensive regarding new development in the area. Concerns involve possible dislocation, increased taxes (which translate to higher rents) and instability of neighborhoods. Owners should be able to capitalize on higher property values to finance home improvements. The question is: What assistance, if any, should be extended to renters who constitute 75% of the households in these two zones? Meanwhile, there is a strong need for new affordable housing in or near the study area, as well as throughout Houston, which the Mayor's Deputy for Neighborhoods and Housing is understood to have under study.

Aerial view of Zone 3 in the Buffalo Bayou Study Area

Development Potentials and Timing
Buffalo Bayou Corridor

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BACKGROUND OF STUDY

CDS Market Research was retained by the Buffalo Bayou Partnership (BBP) in June 2004 to project development potentials and the timing of future real estate development in a portion of what is known as the Buffalo Bayou Corridor (BBC) which stretches from Shepherd to the Port of Houston Turning Basin. Three subjects are important as background to the study – the origin and objectives of the BBP, the vision contained in the Buffalo Bayou Master Plan, and the relationship of corridor development to the Downtown Development Framework recently completed by the Houston Downtown Management District.

Origins and Objectives of Buffalo Bayou Partnership

- Founded in 1986 to help facilitate revitalization of Buffalo Bayou and adjacent areas.
- Also in 1986, Buffalo Bayou Task Force developed conceptual recommendations related to bayou preservation and improvements including new public amenities in conjunction with needed flood control and erosion control improvements.
- In 2000, BBP, City of Houston, Harris County and Harris County Flood Control District (HCFCD) sponsored development of a Buffalo Bayou Master Plan.

Vision Contained in Buffalo Bayou Master Plan

- Study area defined as one-mile wide corridor from Shepherd to Port of Houston (POH) Turning Basin.
- Study area subdivided into three sectors: West End, Downtown and East End. Separate objectives drafted for each sector.
- Plan, entitled "Buffalo Bayou and Beyond", completed by Thompson Design Group, Boston, in August 2002. Initial development and tax increment potentials developed by Economics Research Associates, Washington.

- Separate sections of plan devoted to Urban Development and Design, Environmental Quality and the Eco-Region, Flood Management, Landscape, Bayou Access and Transportation, and Water-Based Activities.

- Key to flood management are the two possible Harris County Flood Control District (HCFCD) projects:

  - North Canal Project, a 1,200-foot canal connecting lower White Oak Bayou to Buffalo Bayou west of McKee Street thereby creating an island on the north side of downtown.

  - Bayou Widening Project, which would widen Buffalo Bayou along north side of Commerce Street between San Jacinto and La Branch.

- Feasibility of projects dependent on outcome of $2.5 million HCFCD Buffalo Bayou Flood Damage Reduction Study expected to be completed in 2006.

- Preliminary estimates of total cost of flood control projects: $500 - $750 million.

- Preliminary estimate of time required to complete: 15 years.

- If projects proceed and are approved by federal government, HCFCD will be in charge of construction and be reimbursed for 50-65% of total project cost by U.S. Corps of Engineers.

- Vision: New water view district in downtown Houston featuring a waterfront promenade, distinctive bank treatments and pedestrian friendly street network.

- Substantial public and private expenditures required over and above flood control improvements to make vision a reality.

Relationship of Corridor Development to Downtown Development Framework

- 20-year vision for downtown Houston completed in October, 2004 by Houston Downtown Management District (HDMD). Area covered within the district's current boundaries of I-45, I-10 and U.S. 59 freeways.

- Framework for urban design and development. Separate sections devoted to:

  - Residential neighborhoods. 10.5 thousand housing units and 15.8 thousand people expected to be added by 2025.
  - Active sidewalks and retail. Objective to create a pedestrian oriented environment and re-establish a critical mass of retail space.
  - Attractions and community venues. Included: Expansion of theater district, enhancement and promotion of convention and sports district, relocation/expansion of downtown library, further development of education facilities, further development of religious facilities, creation of smaller scale cultural and historic attractions, and development of additional hotel space once market stabilizes.
  - Dynamic economic center. Focus on proactively protecting and enhancing the downtown office market, and building upon downtown's global economic center.
  - Incorporation of the Buffalo Bayou Master Plan into the overall vision for downtown Houston.
  - Parks and plazas. Compelling focal points.
  - Public services and amenities.
  - Highways and major transit improvements, including a regional intermodal transportation center and possible relocation of part of I-45 overpass.
  - Internal circulation, parking and links to adjacent neighborhoods, including extension of North San Jacinto under Hardy Yard to the future Hardy Place, Fulton Street and the Near Northside.
  - Implementation by public and private entities and special districts.

- CDS conclusion No. 1: All aspects of framework compliment and support residential development in Buffalo Bayou Corridor, particularly the maintenance of a strong office market that expands the nearby job base, the creation of a critical mass of retail space (especially shopping goods stores), an enhanced entertainment district and an urban environment – all of which attract residents to the downtown and near downtown areas of the corridor.

- CDS conclusion No. 2: The expected development of substantial new housing which will be primarily high-rise and mid-rise should not inhibit development of townhouse, low-rise and some mid-rise development in the study area of this report – the North Warehouse District of downtown and the near-downtown area east of U.S. 59.

STUDY OBJECTIVES

The principal objectives of the study were to project over a 30-year period the:

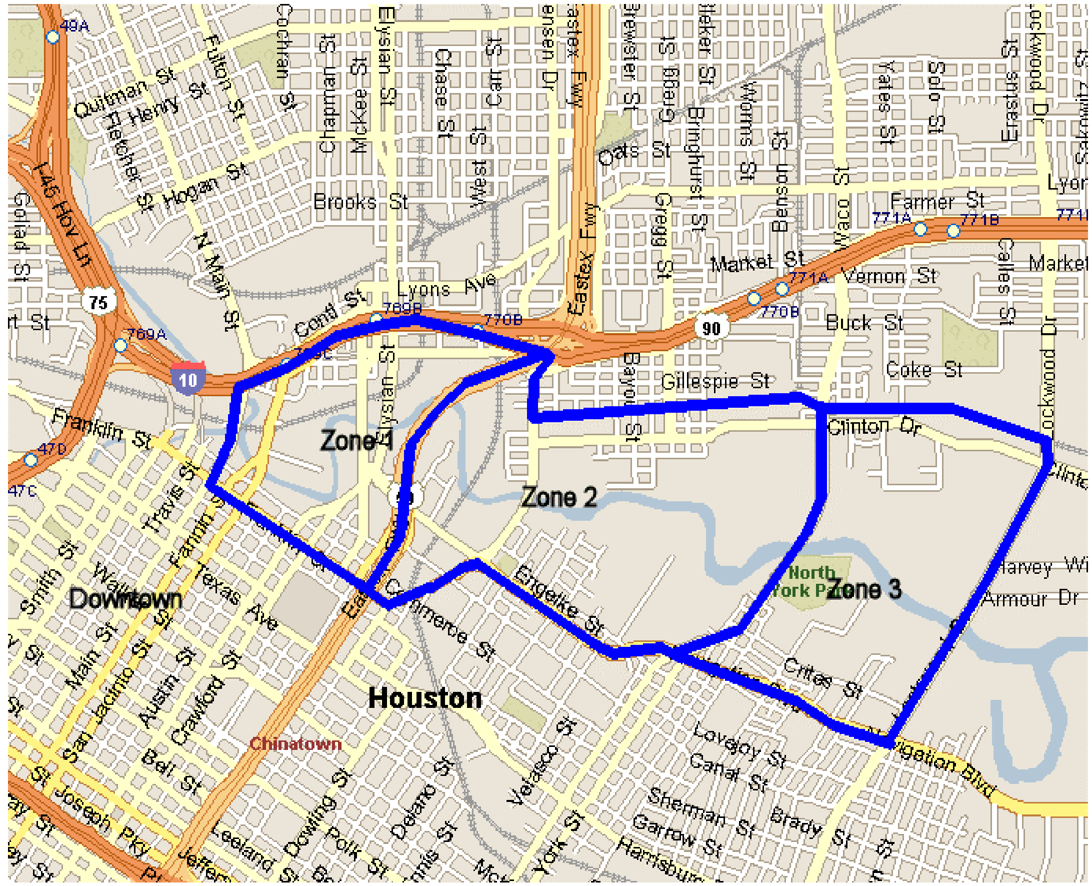
- Amount and likely timing of future residential development,
- Amount and likely timing of any retail, restaurant and club development,
- Amount and likely timing of any office development,
- Amount and timing of any hotel development,
- Shares of total Harris County demand represented by projected development,
- Incremental City, County, HISD and other ad valorem tax revenues generated if the development projections are realized, and
- Type(s) of intervention that should be considered to optimize development within the study area.

DEFINITION OF STUDY AREA

The study area was broadly defined as the area enclosed by Main Street on the west and Lockwood on the east; between I-10, Jensen and Clinton Drive (actually Baron Street) on the north; and Franklin and Navigation Blvd. on the south. For analysis purposes, the study area was divided into three zones (see Exhibit A) as follows:

- Zone 1 is comprised of the north edge of downtown proper and the North Warehouse District across the bayou from the county courts complex. It is the area in which the major flood control projects described above would take place. The boundaries are Main Street on the west, I-10 on the north, U.S. 59 on the east and Franklin Street on the south.
- Zone 2 is the near-downtown area immediately east of Zone 1 encompassed by U.S. 59 on the west, Jensen and Baron on the north, Hirsch and North York on the east, and Navigation Blvd. on the south.
- Zone 3 is a somewhat smaller area lying to the east of Zone 2 with boundaries of Hirsch and North York on the west, the railroad track immediately north of and parallel to Clinton Drive on the north, Lockwood on the east and Navigation Blvd. on the south.

Exhibit A



Source: Microsoft MapPoint 2004

SCENARIOS EXAMINED

Separate sets of development projections were prepared for each of three scenarios described as follows:

- Scenario A: Development that will occur without the benefit of the proposed flood control improvements or any financial intervention.
- Scenario B: Development that will occur if the proposed flood control improvements proceed, but with no financial intervention.
- Scenario C: Development that will occur if the proposed flood control improvements proceed and some type or combination of types of intervention is provided.

METHODOLOGY

In performing the study, CDS employed the following methodologies:

Observation: Extensive driving tours were conducted in each zone and nearby areas to assess the suitability of currently vacant tracts and existing improved industrial properties for development or redevelopment. Included in this step was an evaluation of each property's proximity to downtown and the bayou, the existence and condition of current streets and roadways, and the type, age and condition of any existing improvements.

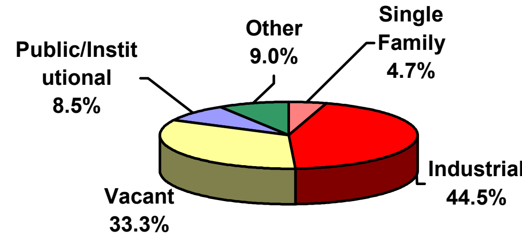
- Secondary data analysis: Analyses of data from a variety of secondary data sources, including Buffalo Bayou Partnership (BBP), City of Houston Planning & Development (COH P&D), Harris County Appraisal District (HCAD), Houston Downtown Management District (HDMD), Woods & Poole, Texas A&M and CDS's own report files were utilized throughout the study. Of primary value were the findings of the Downtown/Midtown Housing Study on behalf of the HDMD completed in October 2003.
- Interviews: To help determine the extent to which the Buffalo Bayou Master Plan was likely to be realized and begin to form rationales for the nature and extent of new real estate development in each zone, interviews were conducted with property owners, developers, brokers, appraisers, on-site managers,

neighborhood organizations, railroad and utility executives and elected officials. (A complete list of persons interviewed is enclosed as Appendix A.)

- Focus Group: To provide insights into the preferences and perceptions of "pioneers", that is buyers of new townhouses on the north side of Clinton Drive in Zone 2, a 90-minute focus group was held on the evening of October 21 at Talento Bilingue de Houston. BBP arranged for the meeting room and underwrote the incentives. CDS drafted the discussion guide, moderated the group and recorded respondent comments. Report emailed to BBP on 10/25/04.

- Analysis and Report: Finally, an analysis of all data collected from the sources identified above was completed and this report prepared describing the findings of the study in accordance with the original objectives.

Figure 1
Current Land Use
Study Area



INVENTORY OF PROPERTIES AND CURRENT TAX VALUES

The study area is comprised of 1,144 properties occupying a total of 890.1 acres with a total 2004 tax value of $161.1 million – $111.2 million for land and $49.9 million for improvements (see Table 1).

- Industrial use dominates land use in the study area, accounting for 44.5% of the total acreage (see Figure 1). But 33.3% of the land area is vacant of which 0.8% is in commercial use, thereby providing excellent opportunities for development.

- From the standpoint of long-term availability, 32.5% of all land is not in current use and is available (see Figure 2 and Table 2). 32.1% of the acreage is currently occupied by old or abandoned structures and is therefore deemed suitable for redevelopment at some future date. However, 34.9% of total acreage – mostly industrial and single-family – is expected to remain in current use. A very small amount of acreage (0.5%) is subject to removal should the Bayou Widening Project proceed.

- Appendix B contains detailed data pertaining to current inventory and availability of land by zone.

- No assessment of the amount of available or redevelopable land likely to be defined as Brownfields properties was included within the scope of this study.

Figure 2
Land Availability
Study Area

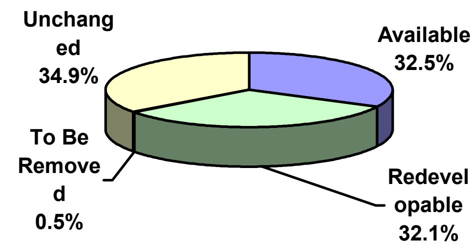


TABLE 1

SUMMARY OF CURRENT LAND USE
STUDY AREA

Use	No. of Parcels	Acreage	2004 Tax Valuation Land ($Mil.)	2004 Tax Valuation Impr. ($Mil.)	2004 Tax Valuation Total ($Mil.)	Memo: Impr. SF (Mil.)
Industrial	150	395.6	$69.1	$22.6	$91.7	8.9
Vacant[a]	473	296.7	6.9	8.5	15.4	--
Public/Institutional	35	79.8	1.3	0.5	1.8	2.0
Single Family	370	42.0	14.3	6.8	21.1	0.4
Commercial	63	24.5	7.1	2.0	9.1	0.2
Parks/Recreation	18	21.3	0.1	nil	0.1	nil
Transportation/Utilities	18	17.6	0.3	5.7	6.0	--
Multi-Family	12	10.5	10.8	3.5	14.3	0.5
Office	5	2.1	1.4	0.2	1.6	nil
Totals	1,144	890.1	$111.2	$49.9	$161.1	12.1

[a] Includes land devoted to surface parking
Source: Harris County Appraisal District

TABLE 2

SUMMARY OF FUTURE LAND AVAILABILITY STUDY AREA

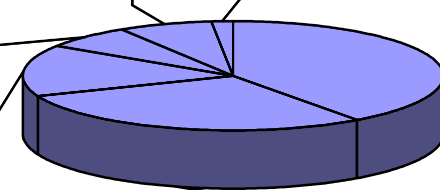
Availability	No. of Parcels	Acreage	2004 Tax Valuation		
			Land ($Mil.)	Impr. ($Mil.)	Total ($Mil.)
Available[a]	459	289.4	$7.3	$8.8	$16.1
Redevelopable	406	285.0	39.0	18.3	57.3
Unchanged	271	311.1	62.1	22.5	84.6
To Be Removed	8	4.6	2.8	0.3	3.1
Totals	1,144	890.1	$111.2	$49.9	$161.1

[a] Vacant and not in commercial use (i.e. parking lot)
Source: CDS Market Research and Harris County Appraisal District

Figure 3
Percent of Total Acres in Each Zone

- Altogether, there are 289.4 acres available for new development. Another 285.0 acres are estimated to be redevelopable, if not during the 30-year planning period then at some point in the future, based on field observations and interviews with owners, developers and brokers.
- Zones 2 and 3 account for the bulk of the acreage in the study area. Zone 2 alone accounts for almost half (Figure 3).
- In the relatively small Zone 1, nearly 40% of the acreage is vacant, 29.1% is in industrial use, and 15.1% is in public/institutional use, mostly County-owned and UH buildings (Figure 4).

Figure 4
Zone 1 Land Use

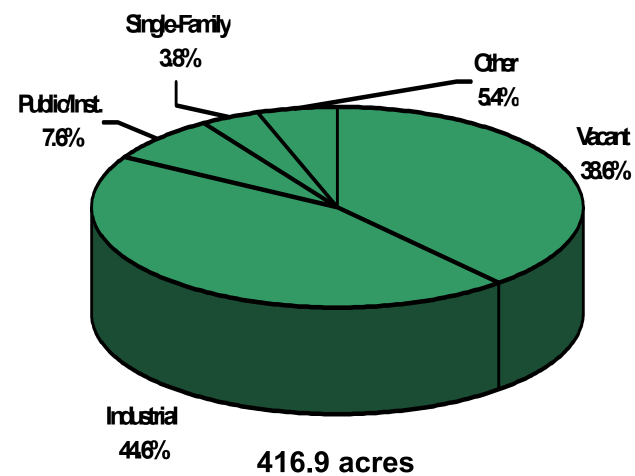


138.1 acres

- In Zone 2, nearly 45% of the acreage is in industrial use. 38.6% is vacant. Single-family, which accounts for over 30% of the parcels, represents only 3.8% of the land area (Figure 5).

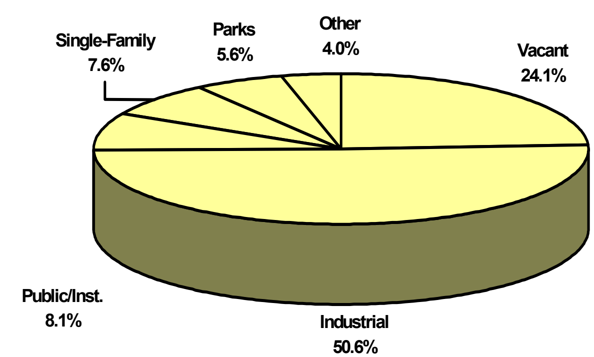
- In Zone 3, industrial use dominates with over 50% of the acreage. 24.1% is vacant. Single-family, with over 50% of the parcels, accounts for only 7.6% of the acreage (Figure 6).

Figure 5
Zone 2 Land Use



416.9 acres

Figure 6
Zone 3 Land Use



335.1 acres

RECENT PROPERTY TRANSACTIONS AND DEVELOPMENTS

As background to the formulation of development projections in the three zones of the study area, CDS obtained a considerable amount of current intelligence from owners and brokers on a variety of properties, many of which are likely to undergo development or rehab/reuse over the 30-year planning period.

Zone 1

In Zone 1, there has been a great deal of activity, particularly during the past two years, most likely due, at least in part, to the completion and distribution of the Buffalo Bayou Master Plan and plans developed by the Houston Downtown Management District. These transactions include the following:

- 1.54 acre (full block) property bounded by La Branch, Commerce, Crawford and Franklin.
  - Formerly owned by Block 9, Ltd. investment group.
  - Sold to Israeli investment group (diamond merchants) headed by Yoram Vulkan in 7/04 for $55/SF.
  - Interest premised on flood control projects providing close access to Commerce Street promenade and nearby waterview district.
  - Plans call for construction of high-rise apartment building to be called Franklin Towers consisting of first floor retail, eight garage floors, one reception/club floor and 22 residence floors (CDS estimates 352 living units).
  - Average rent (in 2004 dollars): $1.88/SF.

- CDS assessment: Unlikely to be built under Scenario A (no flood control improvements) until Years 21-30 period. Under Scenarios B & C, likely to be constructed during Years 11-20 as flood control improvements are completed.

Proposed Franklin Towers

- 1.06 acre (0.65 block) property fronting south side of Commerce between Crawford and Jackson.
  - 88,000 SF (two buildings) of improvements.
  - Property purchased by Azizi Group in 1/04 for $2.8 million ($32/SF of improvements).
  - Azizi restored both buildings for office and apartment (29 units) use.
  - Now selling property to undisclosed buyer for $6 million ($68/SF).
  - First and second floors (approx. 60,000 SF) already preleased for attorney offices following conversion.
  - Third floor (approx. 30,000 SF) to be converted into 10 condominiums.
  - CDS assessment: Included as rehab property in Year 1 of CDS development forecast for Scenarios A, B and C.
- 1.47 acre (full block) property bounded by Commerce, Chenevert, Franklin and Jackson.
  - Small amount (7,750 SF) of improvements classified as industrial on site.
  - Purchased by Spire Realty (Bill Franks) within past five years for $35/SF.
  - Asking $85/SF.
  - CDS assessment: Midrise likely during Years 11-20 under Scenarios B & C concurrent with flood control improvements. Development unlikely to occur until third decade of planning period under Scenario A.

- 1.43 acres (full block) and 0.58 acre (0.4 block) properties bounded by Commerce, Hamilton, Franklin and Chenevert (near U.S. 59 elevated).
  - Vacant land purchased in 2001 by Northeast Holdings for $42/SF.
  - Currently commercial parking lot charging $2/hour which yields attractive return only at land cost of $15/SF or less.
  - Broker believes company paid too much for property and would like to sell.
  - CDS assessment: Property likely to be developed as midrise in Years 21-30 under Scenarios B and C only.

- 0.27 acre property on NE corner of Commerce and Chenevert occupied by 12,500 SF warehouse built in 1935.
  - Income property owned by Irma Galvan.
  - No interest in selling any time soon.
  - CDS assessment: Property likely to be redeveloped in professional office use in Years 21-30 period under Scenarios A, B and C.

- 1.25 acre (0.85 block) property bounded by Ruiz, Chenevert, Commerce and Jackson. Includes 126,000 SF building.
  - Former Purse & Co. (wholesale furniture) building. Small warehouse adjacent.
  - Previously owned by TLC America.
  - Acquired by Silvestri Investments through bankruptcy proceedings.
  - Preliminary plans call for renovating 1925 brick fascia building and converting it into 50-60 loft condominiums.
  - CDS assessment: Inserted into development forecast in Year 2 (2006) under Scenarios A, B and C (55 units).

Silvestri condominium project

- 1.43 acre (full block) property bounded by Ruiz, Crawford, Commerce and Jackson. Included are 117,300 SF of improvements constructed in 1940 and 1950.
    - Previously owned by Block 107, Ltd.
    - Sold to undisclosed consortium in 8/04 for $3.5 million ($56/SF of land).
    - Purchasing group is converting existing buildings to restaurants and clubs.
    - CDS assessment: Restaurant and club space will be substantially remodeled and upgraded when Franklin Towers and other projects are completed during second decade of planning period under Scenarios B & C. Under Scenario A (no flood control improvements), remodeling/upgrade project unlikely until third decade.
- Three parcels totaling 4.22 acres north of Allen Street and Buffalo Bayou currently leased for parking.
    - Purchased by Houston Industrial Properties (Israeli ownership) in 1982 for $10/SF.
    - Possible future North Canal will cut through north portion of property.
    - CDS assessment: Ideal site for mid-rise development, but only under Scenario C with flood control improvements, and removal of UP tracks and construction and extension of Allen Street across bayou to join Runnels at McKee Street near present Gable Street Power Station. Without track removal and construction of city street providing access to site, residential development unlikely (Scenarios A & B).
- 0.47 acre property on west side of North San Jacinto south of Willow Street Pumping Station and proposed North Canal.
    - Owned by John Anderson and Mrs. Reggie Bowman.

- Commercial parking lot with annual revenues of $100,000/year which translates to a current market value of approximately $1 million or $50/SF.
- CDS assessment: Ideal site for parking, but more capacity needed as residential and commercial development proceeds in North Warehouse District. Program mid-rise parking garage on site for second decade under Scenarios B & C, and in third decade under Scenario A.

- 3,000 SF parking lot west of existing office and rental loft units at 1011 Wood Street immediately west of North San Jacinto owned by Zamir Investments (Japhet Realty, Mike Melnick). Just north of proposed North Canal.
  - Site has perfect view across bayou down Main Street to the south.
  - Mr. Melnick strongly considering constructing 60'x100' five-story mid-rise condominium building on site.
  - Could build five 800 SF units/floor, total of 25 units.
  - CDS assessment: Likely to take place in first decade of planning period under all three scenarios. Intermediate sale to developer possible.
  - Note: Mr. Melnick also owns a block immediately north of new METRO headquarters building which he anticipates selling for development into high-rise residential.

- 1.26 acre property (whole block mitered at NW corner by I-10 ROW) on north side of Wood between N. San Jacinto and Vine.
  - Owned by Hydraulic Equipment Services (Sonny Baake), an ongoing business.
  - Has turned down $37.50/SF.
  - CDS assessment: Likely to be developed as medium density residential in the second decade under Scenarios B & C, remain as is under A.

- Five properties totaling 1.24 acres on east side of N. San Jacinto also fronting on Rothwell and Walnut.
  - Owned by W. G. Interests (Billy Marlin).
  - Adjacent to Houston Studios in oversized block.
  - Purchased in 2003. Paid $30/SF for most, $25/SF for rest.
  - Planning to build convenience store with gasoline islands on site.
  - CDS assessment: Include in development forecast in first decade under all three scenarios. Real need for convenience retail in North Warehouse District as residential development proceeds, and for gasoline source particularly after N. San Jacinto is extended north of I-10 to Hardy Place and beyond.

Houston Studios

- Houston Studios on 0.67 acre property fronting both Wood and Walnut.
  - Very old historic 100,000 SF building on site.
  - Location of film studio and several lofts.
  - Property understood to be under contract for $1.9 million ($54.30/SF of land).
  - CDS assessment: Likely to be maintained as historic building but entirely redeveloped into better quality lofts in second decade under Scenarios B & C, third decade under Scenario A.

Sterrett Street Townhomes

- 0.82 acre property in block bordered by Walnut, Sterrett, Richey and Nance.
  - Under current development as Sterrett Street Townhomes by Bill Lipscomb.
  - Total of 18 units planned.
  - Six of contemporary design (3 under construction now) facing Sterrett Street will have ground floor garages with four story residences of 4,000 SF each priced at $600,000 ($150/SF).
  - Twelve will be traditional Brownstone design with ground floor garages and 2,500-3,000 SF priced at $375,000 - $450,000.

- CDS assessment: Units, as planned, well above market for area, so sales likely to be slow. Three units under construction planned to be completed by 12/04. Include 15 units at average price of $375,000 in development forecast in first decade under all three scenarios.

- 25,000 SF property along east side of Richey between Nance and Sterrett with 22,200 SF building.
  - Historic Erie City Iron Works Building built in 1909.
  - Purchased by Fang Living Trust in 2003 for $1.4 million ($56/SF of land).
  - Building currently leased to 13 tenants (including Dharma Café, a magazine publication and several artists) with $150,000/ year net rental income.
  - CDS assessment: Historic building should be protected. Café and artist studies give district character. If site is converted into housing at some point, units could be for student housing in accordance with UHDT needs. No for-sale or market rent housing for site included in development projections under any of the three scenarios as building is in poor condition and any developer would likely want to demolish and rebuild.

Erie City Iron Works building

- Three properties in "L" shape totaling 20,000 SF with 12,000 SF of improvements at 1318 Nance west of William and 8,000 SF parking lot on William.
  - Office of Reggie Bowman, broker.
  - Building constructed in 1940. Poor condition.
  - Under contract to Wayne Waldron for $700,000 ($35/SF of land).
  - Bowman previously sold 8,000 SF corner property (Nance and William) to Waldron for $300,000 ($37.50/SF).
  - CDS assessment: Include redeveloped professional office space on site in third decade under Scenarios B & C, no change under Scenario A.

- 1.99 acre property (oversized block) with poor condition 93,700 SF warehouse building constructed in 1923 bounded by Nance, McKee, Sterrett and William.
  - Owned by NFB Rentals.
  - Warehouse utilized to store used office furniture.
  - Within the past few years, owners have turned down an offer of $10/SF, and later $15/SF.
  - CDS assessment: Property likely to be redeveloped into multi-family residential use as flood control improvements proceed in Years 11-20 decade under Scenarios B & C, and in Years 21-30 decade under Scenario A. Near term redevelopment not considered likely to occur as long as nearby North Canal remains a possibility.

NFB Rentals Warehouse

- Two properties totaling 4.56 acres occupying one normal-sized block and one oversized block bounded by Rothwell, Maffitt, Nance and Elysian. Mainline UP track splits the blocks on Maury. 25,600 SF building on east block leased. Dilapidated 59,500 SF structure on large lot.
  - Properties owned by Linbeck Construction Co.
  - Being marketed by Cushman & Wakefield. Asking price $10/SF.
  - CDS assessment: Site probably suitable for medium density residential, but only after removal of mainline UP track and paving of Maury (or new name) as an extension of street replacing entire line through North Warehouse District. Project development under Scenario C only.
- 1.05 acre property at 2000 Nance on east side of UP track with old 65,700 SF building built in 1907.
  - Property owned by Action Electric Sales. Business operated as Basic Wire & Cable which sells surplus wire and cable.
  - Owner discussing possible listing with McDade Smith for $1,350,000 ($30/SF for land) which broker considers to be excessively high.

   - CDS assessment: Property suitable for medium density residential development, but only under Scenario C in third decade of planning period with completion of new street in former UP ROW.

Basic Wire & Cable building

- 12.9 acre (8.6 acres net) vacant property on north side of Buffalo Bayou between McKee and U.S. 59 overpass. (Elysian Viaduct passes well over center of property.)
   - Owned by Lear-Weekly partnership known as 123 Buffalo Bayou, Ltd.
   - Asking $12/SF for entire property which translates into $18/SF for net acreage.
   - Property has 1,500' frontage on bayou with excellent view of CBD.
   - Hike & bike trail already completed along bayou.
   - Environmental cleanup (cost $300,000) already completed. PCP certificate in hand.
   - Half destroyed dock remains on bayou. Cost to repair: $10,000. Suitable for water taxis once flood control improvements are completed.
   - Utility plans already completed by owners.
   - Estimated costs to bring water and sanitary sewer to site: $290,000.
   - Owners have package for prospective developers that includes site plans for three alternative residential products – townhomes, lofts (low-rise condos) and apartments.
   - CDS assessment: Property ideally suited to medium density residential development. Not dependent on flood control project and construction of boulevard replacing UP track, though latter would be helpful. Development expected during first decade of planning period under all three scenarios. Low-rise lofts assumed (of three possible housing types) in recognition of high loft demand among housing survey respondents.

Zone 2

In Zone 2, several new residential developments and one retail development are already completed or underway. The residential projects represent the first stage of what is expected to be substantial development on the principal vacant properties that exist in this zone.

- Alexan Lofts (rental) was purchased in early 2002 by Trammell Crow Residential from Alan Atkinson who had converted the former city-owned El Mercado del Sol retail center to lofts. Location close to CBD.
  - Project required substantial additional investment by TCR to bring building up to acceptable standards.
  - Project has 244 units averaging 1,004 SF in size, plus health club with pool and security fencing and gate.
  - Property lies along east side of a major N/S UP freight line. Major problem with horns at night. TCR trying to get traffic arms installed on Runnels so area can be designated a "Quiet Zone".
  - Original lease rates of $1.35/SF too high. Poor occupancy for first year (68% in 3/04). Starting in 6/04, TCR dropped rates to average net effective rent of $1.08/SF, reflecting two months free rent. Occupancy picked up sharply.
  - Project fully leased as of 9/04.
  - Tentative CDS conclusion, based on Alexan Lofts example and broker interviews: Average rentals for apartments constructed in study area need to be in $0.95 - $1.10/SF range.
- In-Town Bayou Landing townhomes being developed by Perry Homes. Project located immediately east of Alexan Lofts near Guadalupe Plaza on Jensen Drive.
  - 3.5 acre property acquired from TCR in 2002 for $15/SF with street and utilities already in (est. cost $1/SF).
  - Phase I: 53 two-story 3BR, 2-2½ B, 2 car garage free standing townhomes. Average size: 1,400 SF. Average selling price: $168,000 ($120/SF). As of 7/04, 42 homes sold, 11 available.

- Phase II under construction: 17 three-story 2BR, 2-2½ B, 2 car garage townhomes. Average size: 1,923 SF. Average asking price: $217,900 ($113/SF).
- Perry only breaking even on homes sold to date.
- Tentative CDS conclusion: Developer economics very sensitive to land costs (see section entitled Major Factors Influencing Development later in report).

Ballpark I - Juliet Homes

- Ballpark I, III and IV and Gates at Ballpark Place. Free standing townhomes being developed by Juliet Homes. Project located north of Clinton Drive east of Jensen.
  - Developed land acquired from Tremont Homes in 2002 with streets and utilities in for price understood to have been $12/SF. Active sales started Summer, 2002.
  - Additional 0.26 acre property (raw land) north of Baron Street on edge of low-income section of Fifth Ward acquired in 2/03 for $1.50/SF.
  - Homes completed or under construction as of 8/04:

JULIET HOMES HOUSING PROJECT*

Name	BR/B	Total Units	Sold	Avail. & U.C.
Ballpark I	3/2	49	49	-
Ballpark III	3/2	22	7	15
Ballpark IV	3/2	60	-	60
Gates at Ballpark Place	3/2	12	11	1
Totals		143	67	76

- Size range: 1,500 - 2,000 SF
- Price range: $199,000 - $215,000 ($133 - $108/SF)
- Lot frontage: 27'
- Typical buyer profile: 90% single/10% couples, 20s and 30s, working downtown, medical center, or East End.
- Plans: Acquire additional properties nearby for development. Next project in Fifth Ward near I-10 (outside of BBP study area).
- Biggest concern expressed by residents and shoppers: No retail in area.

• Regent Park being developed by In-Town Homes (affiliated with Lovett Homes, Frank Liu) on north side of Clinton Drive opposite KBR property.

- Project opened in 1/04.
- Units planned: 24 in Phase I, 56 in Phase II and 20 in Phase III for total of 100 homes. *
- Original purchase price of land rumored to be $2.50/SF.
- 0.80 acre of additional land acquired in 5/04 at $2.50/SF.
- Product: 2-3 BR, 2-2½ B, 2 car garage
- Size: 1,442 - 1,936 SF
- Pricing: $174,900 - $219,900 ($121 - $114/SF)
- Buyer profile: 20s and 30s, 75% single/25% couples, ethnically diverse, some empty nesters, some bought by parents for children. Other areas shopped included: Midtown, Medical Center, West U, The Heights, Memorial, 290, Sugar Land and Clear Lake. Buyers wanted to avoid yard maintenance, and traffic typical of other areas.

• 11.5 acre property on Buffalo Bayou west of UP tracks. Property faces west with excellent view of CBD.

- Purchased by McCall Street Partners (Avi Ron) within past 2-3 years for $3.50/SF. Asking $18.50/SF.

Regent Park - In-Town Homes

*Assumed to be completed and all units sold by 12/31/04. No additional units included in 30-year housing projections for study area

- Ron understood to have had contract with Frank Liu earlier this year for $10.50/SF, but deal didn't close.
- Ron building West Street from Nance to property under U.S. 59 overpass to connect property to North Warehouse District for access to CBD via McKee Street.
- 24 hour rail traffic a negative. An effective sound barrier will probably be required to make property really attractive for development.
- CDS assessment: Property suited for medium density residential development. Timing likely to be in second decade of planning period, after KBR project in Zone 2 is launched and essentially built out, under all three Scenarios (little dependence on financial intervention).

- Several properties totaling 12.0 acres between UP track and Jensen Drive on north side of bayou.
  - Acquired by Alan Atkinson during 2002.
  - Paid McCall Street Partners $4.25/SF for primary property (8.63 acres) in 7/02.
  - Property has same problem with rail traffic noise as Ron property to the west.
  - CDS assessment: South part of property near bayou well suited to medium density residential development during second decade under Scenarios A & B, and first decade under Scenario C with needed repaving of Jensen Drive and utility improvements. Portion of north section at intersection of Jensen and Clinton probably suited to commercial.
- Family Dollar Store located at 3411 Navigation just west of North York now being completed.
  - 9,180 SF free standing building on 1.24 acre site (5.88/1 land to building ratio).
  - Developer: Turk Investments, Ltd.

Family Dollar Store

  - For sale. Asking price: $92.05/SF.
  - Cap rate: 8.2%.
  - 10-year base lease with four 5-year options.
  - Base rent: $7.625/SF/year triple net.

Zone 3

CDS is only aware of one significant property in Zone 3 that has recently changed hands.

- Large 46.8 acre industrial property on north side of bayou east of Hirsch.
  - Formerly owned by Mike Melnick and leased to Proler Steel, large scrap metal company based in Chicago with annual revenues of $100 million.
  - Company exercised option to purchase property for $2/SF in 8/04.
  - Very profitable operation at site currently. Company unlikely to want to move until land value reaches attractive level and an alternative site for operation can be found.
  - High level of soil contamination likely.
  - CDS assessment: Site is in profitable industrial use and is likely to remain so for some period of time. With substantial frontage on bayou, site will ultimately be converted to medium density residential use, probably in the third decade of the planning period, well after development of the KBR property across Hirsch to the west, but only in Scenario C due to the likely need for substantial infrastructure improvements offered by some type of intervention.
- In a minor transaction, Mike Garver has acquired a narrow UP ROW property that connects the back of his 13.8 acre tract on the south side of the bayou to Lockwood Drive. Purchase will enable the hike and bike trail to be routed to the rear of the Taub property to his east if an easement cannot be obtained from the Taub family to build the bayou trail along the edge of the bayou.

- Acquisition also facilitates access to property, once it is developed, from Lockwood.
- CDS Assessment: Both Garver and Taub properties likely to be developed in third decade, but only under Scenario C with new street and trunkline utilities.

PROJECTED DOWNTOWN/NEAR-DOWNTOWN HOUSING DEMAND

This report projects substantial new housing development in the study area over the 30-year planning period. The bases for these projections are the interviews with owners, developers and brokers, which are very encouraging; an October 2004 update of development potentials for the KBR property; and the results of the 2003 Downtown/Midtown Housing Study completed by CDS in October, 2003 on behalf of the Houston Downtown Management District (HDMD) and nine other sponsoring organizations. The 2003 study was the third in a series of surveys of Greater Houston households to determine their levels of interest in residing in downtown or midtown. Previous surveys were conducted in 1992 and 1998.

- The primary support for future new housing demand in Harris County is population growth. CDS utilized two sources of household and population projections to develop long-range projections of households and population for Harris County – Woods & Poole and Texas A&M (see Appendix C). Table 3 reports historic census data for 1970, 1980, 1990 and 2000 and the combined projections for 2005 – 2035 in five-year increments. (These projections should not be confused with widely publicized projections for the entire metro area which are substantially greater.)

- Parameters of 2003 Downtown/Midtown Housing Study:

  – Survey of 758 households, randomly selected, with incomes of $30,000 or more living in 103 zip code areas of Harris County (29 zip codes, including 77002, excluded).

  – Universe estimated to grow from 666 thousand households in survey year (2003) to 1,102 thousand by 2034, the last year of the planning period (Table 4).

TABLE 3

HISTORIC AND PROJECTED POPULATION AND HOUSEHOLDS HARRIS COUNTY

Year	Population (000s)	Households (000s)	Persons/ Household
1970	1,753	546	3.19
1980	2,437	879	2.77
1990	2,833	1,031	2.75
2000	3,401	1,206	2.82
2005	3,672	1,322	2.78
2010	3,961	1,432	2.77
2015	4,277	1,548	2.76
2020	4,614	1,671	2.76
2025	4,974	1,792	2.78
2030	5,359	1,949	2.75
2035	5,772	2,106	2.74

Sources: U.S. Census Bureau (1970-2000)
Woods & Poole and Texas A&M (2005-2030)

TABLE 4

PROJECTED GROWTH IN SURVEY UNIVERSE OVER 30-YEAR PLANNING PERIOD DOWNTOWN/MIDTOWN HOUSING SURVEY (HARRIS COUNTY)

Year	Total Harris Co. Households	Est. % in Survey Area	Est. HH in Survey Area	Est. % $30,000+ Income[c]	Est. HH Survey Universe (000s)
2003	1,257	80.0%	1,006	66.3%	666
2005[a]	1,322	80.0%	1,058	66.3%	701
2010	1,432	80.0%	1,146	66.3%	760
2015	1,548	80.0%	1,238	66.3%	821
2020	1,671	80.0%	1,337	66.3%	886
2025	1,792	80.0%	1,434	66.3%	951
2030	1,949	80.0%	1,559	66.3%	1,034
2034[b]	2,078	80.0%	1,682	66.3%	1,102
2035	2,106	80.0%	1,685	66.3%	1,117

[a] Year 1 of study area planning period
[b] Year 30 of study area planning period
[c] In 2003 dollars

Sources: Woods & Poole and Texas A&M
CDS Market Research

- Key survey findings:
  - 12% of respondents “very likely” to move to downtown or midtown in foreseeable future. (“Downtown” defined in survey as within or <u>near</u> the I-10, US 59 and I-45 freeways.) Another 19% “somewhat likely” to move, but not included in forecast of potential.
  - 40% of respondents wanting to move to downtown or midtown prefer the downtown or near-downtown area.
  - 21% of respondents are willing to pay $1,300/month or more in monthly P&I or rent. This market is believed likely to be almost completely absorbed by the primary areas of downtown south of Buffalo Bayou.
  - 41% are unwilling to pay as much as $950/month, and can probably be considered not able to afford downtown or near downtown living other than through affordable housing projects.
  - However, a large segment - 38% - are willing to pay $950 - $1,299/month for medium density product, which roughly translates to the $150,000 - $225,000 price range for new homes or $0.95 - $1.10/SF for rental apartments or mid-rises. (76% of respondents preferred to buy, 24% to rent in 2003 survey.)
- Based on the 2003 survey findings, there is substantial demand available for new housing in downtown and near-downtown in this medium price range. This demand is estimated at 12.7 thousand units in 2005 – the first year of the planning period – growing to 20 thousand units over the entire period through 2034 (Table 5).

TABLE 5

THEORETICAL DEMAND FOR NEW HOUSING IN THE $950 – $1,299/MONTH PAYMENT RANGE DOWNTOWN AND NEAR-DOWNTOWN OVER PLANNING PERIOD

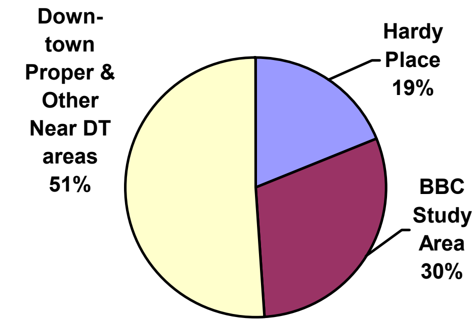
Year	Est. Survey Universe[a] (000s)	x 12% "Very Likely"[b] (000s)	x 40% Preferring DT/Near DT[c] (000s)	x 38% Willing to Pay $950-$1,299/Mo.[d] (000s)
2005	701	84.1	33.5	12.7
2010	760	91.2	36.3	13.8
2015	821	98.5	39.2	14.9
2020	886	106.3	42.3	16.1
2025	951	114.1	45.4	17.3
2030	1,034	124.1	49.4	18.8
2034	1,102	132.2	52.6	20.0

[a] Numbers of households. See Table 4
[b] Percent of total survey respondents stating they were "very likely" to live in downtown or midtown in the future.
[c] Percent of respondents "very likely" to live downtown or midtown preferring downtown or near-downtown.
[d] Estimated P&I based on current interest rates for $150,000 - $225,000 price range for for-sale product. $0.95-$1.10/SF/mo. rent range estimated for leased product.

Source: 2003 Downtown/Midtown Housing Survey
CDS Market Research

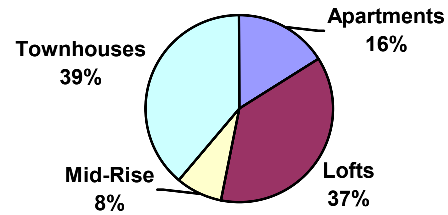
- With the advantage of extensive developable and redevelopable acreage available, the BBP study area is expected to ultimately capture a substantial share – 30% – of this 30-year medium price range potential. (In the 2003 DT/MT Housing Survey, only 2% of all respondents indicated that "near Buffalo Bayou" was their first choice among 11 alternatives. However, there was little development activity or publicity related to the corridor at that time so it is believed that most respondents failed to perceive it as a realistic option. Moreover, affordability was not included in the question, only location.) The remaining 70% will likely be divided as follows:
  - Hardy Place (TIRZ No. 21) is projected to have 3.8 thousand units (19%) developed over the next 30 years, based on the TIRZ financial plan approved by City Council in 2003.
  - The remaining 51% – 10,000 units – are expected to be constructed in downtown proper (west of Main and south of Franklin), East Downtown, and portions of the 1st, 2nd (outside the Buffalo Bayou Corridor), 4th, 5th and 6th wards that could be considered "near-downtown." Using 1.9 persons per household – the average for "very likely" households from the 2003 housing survey – these areas could have medium price range market potential for 19.4 thousand new residents.

Figure 7: Possible Allocation of Medium Price Range Demand



- Regarding type of housing preferred, only 7% of "very likely" respondents willing to buy or rent in the medium price range named "High-Rise" as their No. 1 choice. The large bulk of demand is for housing types that can be economically constructed within the study area. CDS estimates this group (93% of demand) to be split as follows: 16.0% apartments, 37.0% lofts, 8.2% mid-rise and 38.8% townhouses based on respondent first preferences.

Figure 8
Likely Housing Type Preferences of Future Study Area Residents



- When applied to the 30-year estimated potential available to the BBC study area of 6,000 units (30% x 20,000), the allocation of theoretical demand by type is: 960 apartments, 2,220 lofts, 490 mid-rise units and 2,330 townhouses.

- The sizable demand for lofts raises a question of how this demand can be satisfied in view of the fact that most older buildings in downtown Houston that would lend themselves to loft conversion have already been converted. There appear to be only a few buildings in downtown or near-downtown that are yet to be converted. They are:

- Former Tennyson Hotel, 110 Bagby. (Previous developers went bankrupt.) Seven stories with 12' + ceilings. 28,155 SF living area suitable for 22 lofts of 1,250 SF each. Four-story adjoining garage already completed.
- Former Days Inn (previously Holiday Inn), 801 St. Joseph Parkway. 32-story building with garage occupying lower five floors. Possibility of 13 loft floors by eliminating alternate floors of former hotel. Possible yield estimated to be 150,000 SF of living area or 120 living units of 1,250 each.
- Wadell Lofts, Sampson & McKinney, formerly a furniture warehouse, is expected to be developed by Mir Azizi, Caspian Enterprises, into 95 rental lofts. (Another Azizi project, the Herrin Building at McKinney & Hutchins, is expected to be converted to 152 flats.)

• On the other hand, CDS believes that it is likely that the demand for lofts can be satisfactorily met through new construction of low-rise attached residences with high ceilings and open floor plans. (Indeed, one owner partnership with property in Zone 1 has already prepared an optional site plan for its property involving lofts of this type.) This type of product is generally referred to in the body of this report as "low-rise condominium" product.

FACTORS AFFECTING DEVELOPMENT

As noted above, the analysis of long-term housing potential based on the 2003 Downtown/ Midtown Housing Study indicates substantial theoretical demand for new medium priced residential product in the study area. However, the extent to which the theoretical demand is actually realized depends on a number of factors, including the following:

Houston and National Economies

- The 2003 housing study revealed substantial existing demand for housing in or near downtown. However, realization of that demand depends on the health of the Houston economy. Potential buyers must first and foremost be assured that their jobs are secure before they undertake the purchase of a new home.

- Fortunately, the economy appears to be improving. After three years of flat or negative job growth, non-farm payroll jobs in the Houston PMSA grew by 24,600, or 1.2%, during the 12 months ending in September based on Texas Workforce Commission data.

- On the other hand, when one is looking at 30-year housing potentials, a watchful eye must be kept on long-term factors that may impact the housing industry nationally.

    – Of particular concern are the effects that the falling dollar and growing federal deficit may have on future long-term interest rates.

    – The U.S. depends to a great extent on foreign investors to finance the current deficit – estimated to be close to $500 billion in the current fiscal year – as well as refinance our cumulative long-term debt of nearly $6 trillion.

    – Should foreign investors choose to shift funds away from dollar denominated debt instruments to other securities – due to the falling value of the dollar, perceived increased risk, or other reasons – interest rates will climb.

    – This could have a crippling effect on new home purchases and the housing industry.

Houston Real Estate Market

- Low mortgage interest rates are continuing to stimulate home sales.

- The Houston Association of Realtors' Multiple Listing Service reported over 70,000 closings for 12 months (ending in September) for the first time in its history.

- Both closings and listings are 12% ahead of the 2003 pace.

- There is currently only a 6-month supply of single family homes on the market compared to a 2-year supply at the bottom of the mid-80's recession in 1986.

- According to O'Connor & Associates, apartment absorption in Greater Houston is also picking up. For the year ending in September, there were 9,141 Class A units absorbed, compared to only 2,370 units in the previous 12 months.

- However, due to the large numbers of units being constructed, apartment occupancy still fell vs. last year. Class A occupancy for the third Quarter, 2004 averaged only 84.5% vs. 87.7% for the comparable quarter in 2003. Class A rents continue to average $1.05/SF.

- A large apartment developer interviewed by CDS was not optimistic about the outlook for apartments. He described a recent close-in project that his firm had developed that had a pro-forma rent of $1.30/SF yielding 9.4%. But due to the intense competitive situation in the market, actual rents were averaging only $1.12/SF (with free rent incentives) yielding only 7.5% on the project. This is an adequate yield currently, he said, because cap rates are very low. But if cap rates rise, there will be little incentive for developers to pursue new apartment projects.

- The present poor outlook for apartment development is consistent with the current low preference levels for apartments, as expressed in the 2003 housing survey.

Perceptions of Potential Buyers

- The 2003 Downtown/Midtown Housing Study, on which CDS's projections of overall future housing potential were based, defined downtown in the survey as "inside or near the I-10, U.S. 59 and I-45 freeways." The key question is whether potential buyers perceive the BBC study area as being within or near downtown. Most certainly, the small area designated as Zone 1 is so. But are Zones 2 and 3?

- To shed some light on this question, a focus group was held on 10/21/04 with respondents comprised of recent buyers of new homes in Regent Park, the first new subdivision in the study area (Zone 2).

- The No. 1 thing the respondents liked about Regent Park, along with “Access to Freeways”, was “Proximity to Downtown”.

- When asked about their future vision for the Buffalo Bayou Corridor, they believed that the area would grow as a Houston residential area populated largely by “young professionals wanting to live and work in or near downtown”.

- In terms of future housing product, some new residents were opposed to construction of apartments nearby, feeling that apartments would adversely impact their property value. At least one, however, didn’t object to at least some apartments, pointing out that he had friends that could not yet afford to purchase anything but that he would like to see living nearby for social contact and group sports.

- The focus group results are encouraging. Clearly, though, the BBC area, particularly Zones 2 and 3, will have to be promoted to attract large numbers of buyers, as the BBC is no doubt still considered to be a relatively unknown industrial area.

- To optimize its potential, the entire Zone 2 and Zone 3 area should be promoted with a unique identity, such as the “Memorial Area” which every Houstonian recognizes, even though it is comprised of a number of different development projects. One possibility might be “Bayou East”.

Land Use Controls

- Fundamental question of how concepts developed in 2002 master plan, involving improvement and maintenance of the bayou as a beautiful amenity and natural habitat flanked by well planned aesthetic residential areas, can be achieved without some form of land use control.

- Buffalo Bayou Partnership has already purchased four properties which it controls in Zones 2 and 3 for parks, and possibly some affordable housing, and raised $500,000 in funding for the bayou hike and bike trails on both sides of the bayou.

- Ideal solution: Joint venture involving major financial group and master developer that would acquire and master plan all developable and redevelopable acreage, then develop entire area patiently with balanced program of multiple housing types mixed with convenience retail, recreational, educational, worship and transportation facilities to ensure a high quality permanent community. (Alternative of City of Houston exercise of right of eminent domain and sale to master developer probably not feasible politically.)

- One potential problem that single entity development avoids is excessive and too rapid development often done by many individual developers who are anxious to maximize returns short range.

- According to a major Houston developer, though, major groups want to buy property for long term development at $2.75 - $3.00/SF. Absolute maximum is $7-$8/SF. Area property owners are already asking, and finding interest at, $10/SF or more.

- Conclusion: Study area is likely to be developed by individual developers purchasing whole properties or portions of properties from the individual property owners and developing tracts as they wish within whatever constraints can be exercised by the sellers. One major exception: KBR/Staubach who own and are expected to carefully plan and manage development of the largest single property of the study area (80.8 acres adjoining KBR office complex).

- Within context of multi-party development, however, there are several possibilities for achieving BBP objectives, including quality standards, community oriented design, connectivity to the bayou from surrounding neighborhoods, and connectivity between developments:
  - An area plan, which could be developed by property owners and other stake holders, based on the concept originated by the Development Standards & Guidelines Subcommittee chaired by Guy Hagstette in connection with the 2001/2002 ULI Main Street Corridor Initiative and refined by the COH Planning & Development Department. (However, based on the discussions with major BBC property owners at the ULI Technical Advisory Panel meeting at BBP on 9/8/04, there does not appear to be any interest in any type of partnership of owners and developers.)
  - A TIRZ encompassing all three zones and perhaps other properties nearby, i.e. MDI site, former METRO bus barn property on Milby, etc.. This form of financial intervention (see section entitled Intervention Options to follow) requires formation of a Board of Directors which can adopt a variety of powers including substantial control over land use, development standards, signage, etc. (However, there is resistance to formation of a TIRZ on the part of some property owners, on the basis that it creates another bureaucracy and such controls are not needed. In addition, the new city administration appears reluctant to support any new TIRZs except under very special circumstances. A cogent plan and demonstrated need are no doubt necessary.)
  - Some type of public/private partnership, such as what could emerge from another form of financial intervention – city and/or county support for bonds to finance street, utility and other improvements in the BBC study area in return for stakeholder agreement to follow certain development standards and guidelines.

Type and Amount of Financial Intervention

- Possible types of intervention, broadly defined, that could be employed in the study area to fund streets, utilities and other improvements include: City CIP funding, 70/30 Developer Participation Contracts (DPCs), a Tax Increment Reinvestment Zone (TIRZ), city and/or county bonds and special tax districts (see section entitled Intervention Options to follow).

- Types vary in terms of constraints and amount of funding that could be provided over time.

- City of Houston objective: Avoid or minimize intervention to conserve city financing capacity and avoid inequitable allocation of resources among various areas of city.

Property Owner Pricing

- Real estate development is optimized when property owners sell properties at prices that compensate them for their original costs, ownership costs (taxes and maintenance) and investor risks – in short their opportunity costs – and developers are able to purchase land at prices that enable them to cover their cost of land, construction and financing and make a fair profit on the ensuing sale of finished product, or alternatively, a fair return on their lease of assets.

- However, in the free market environment without zoning that characterizes Houston, new development can be adversely affected by property owner pricing decisions if there is excessive greed or unrealistic expectations regarding potential land use.

- Land pricing is critical in the case of the BBC study area, particularly with respect to vacant or redevelopable properties in Zones 2 and 3, if new development is to tap the large medium price range potential available to it.

- Tables 5 and 6 illustrate the amounts that can be paid by developers (based on certain assumptions) for raw land to construct townhomes at the lower and upper ends of the $150,000 - $225,000 price range, the range deemed to offer the major share of for-sale potential for corridor development. Based on the assumptions employed, developers will need to purchase raw land at costs between $11.50 and $15/SF if they are to make even a minimum gross profit of 15%.

- Other assumptions can of course change these affordable land cost numbers. But the point remains that if developers are to be able to supply the primary medium price market for new housing product, there are definite limitations to what they can pay for land.

- Land pricing must afford the property owner a decent return on his investment and provide the developer an opportunity to make a decent profit on his end product. If excessively high land pricing precludes the latter, development can be seriously impeded and any projections of future development rendered instantly unachievable.

TABLE 6
Estimated Cost Breakdown and Amount Available for Land Detached $150,000 Townhome (City Streets and Sidewalks Nearby)*

	Per SF	Total
Construction Cost:		
Base cost	$81.89	
x Geographic multiplier	0.88	
Base cost - Houston	$72.06	$90,075
Two-car garage (400 SF)		5,000
Appliances, good		5,840
Fireplace, steel		2,190
Total for 1,154 SF	$82.48	$103,105
Development Cost for 2,178 SF of land	$1.00	2,178
Total Construction and Development Cost		$105,283
Finance Charges (7%, 6 months)		3,685
Total Constr., Dev. & Fin. Cost		$108,968
Gross Margin ($150,000 - $108,968)		$41,032
Less: Developer Gross Profit (15% x $105,283)		15,792
Amount Available for Land Purchase		$25,240
Per SF of land	$11.59	

*Assume unit priced at $120/SF. 1,250 SF 2BR, 1.5B free standing townhouse on replatted lot. Density: 20 u./a. (2,178 SF/unit).
Assumes no toxic remediation.
Source of Cost Estimate:Marshall & Swift, Class D Masonry Veneer, Good. Package AC System. Hard and soft costs.

TABLE 7
Estimated Cost Breakdown and Amount Available for Land
Detached $225,000 Townhome
(City Streets and Sidewalks Nearby)*

	Per SF	Total
Construction Cost:		
Base cost	$81.89	
X Geographic multiplier	0.88	
Base cost - Houston	$72.06	$147,362
Two-car garage (400 SF)		5,000
Appliances, good		5,840
Fireplace, steel		2,190
Total for 2,045 SF	$78.43	$160,392
Development Cost for 2,178 SF of land	$1.00	2,178
Total Construction and Development Cost		$162,570
Finance Charges (7%, 6 months)		5,690
Total Constr., Dev. & Fin. Cost		$168,260
Gross Margin ($225,000 - $168,260)		$56,740
Less: Developer Gross Profit (15% x $162,570)		24,386
Amount Available for Land Purchase		$32,354
Per SF of land	$14.85	

*Assume unit priced at $110/SF. 2,045 SF 3BR, 2½ B free standing townhouse on replatted lot. Density: 20 u./a. (2,178 SF/unit). Assumes no toxic remediation.
Source of Cost Estimate: Marshall & Swift, Class D Masonry Veneer, Good. Package AC System. Hard and soft costs.

Developer Plans

- In the absence of wide area property controls by a single major investor/developer entity or other means (area plan, TIRZ, public/private partnership), development will proceed at the pace and in the manner (product, price range, for sale vs. for rent) decided upon by each developer. The detailed projections of housing units by type and square footages of non-residential space to be constructed on each property over the 30-year planning period that are contained in this report are, therefore, largely hypothetical, based on the assessment of overall potential and interviews with property owners, developers and brokers.

- The ultimate test, regardless of any forecast of demand of course, is market acceptance. If a particular type, density, size, style, design, floor plan and accessory group sells well, the developer normally builds more of the same. If not, he doesn't. All projections of future housing units by type included in this report are subject to actual acceptance in the market place.

- Potential risks of piecemeal development long term:
  - Over-development as each developer maximizes density to obtain maximum investment yields, thereby eliminating green space, recreation areas and other amenities.
  - Too rapid development, if a number of developers close on properties and start development at the same time, leading to short term oversupply, discounting and ultimately lower quality, leading to declining values and possible creation of a future ghetto.
  - Insufficient attention and care for the core amenity and attraction of the area, Buffalo Bayou.
  - Disconnected developments (similar to many suburban areas of Houston) with their own streets, often including cul de sacs, with little if any connectivity between developments or to surrounding areas.

- The KBR property is a special case, however, in that it is large enough (80.8 acres) to lend itself to master planning and phased development. CDS believes that the KBR/Staubach project is the catalyst for development of Zones 2 and 3 from a timing standpoint. Should development of this property be delayed for any reason, other development in these zones may be delayed as well.

Activity in Surrounding Areas

It is important to be aware of development activity that is taking place in the areas immediately outside the BBC study area that may also be participating in the demand for downtown or near-downtown housing. An extremely large volume of activity could potentially impact the share (30%) projected for the study area (see previous section entitled Projected Housing Demand). However, there is no indication that is case at this time.

- In the CBD, an investment/development group represented by Charles Zeller is in the final planning stage for a high-rise condominium tower to be located in the block bounded by Main, Texas, Fannin and Capitol. It is understood that the tower will have 30 stories and 215 living units. Units are being priced starting at $175,000. As of August, it is understood that 150 had already been sold with deposits in hand. There will be retail space on the first floor. Discussions are underway regarding a possible tunnel connecting the project to the Chase Bank on the west side of Main.

- In the south end of the CBD, a partnership headed by Don Nichols of LandCo Properties has purchased the 30-story Days Inn (formerly Holiday Inn) on St. Joseph Parkway between Milam and Travis. The building is expected to be converted into loft condominiums above the five garage floors by removing every other floor of the former hotel. The project will likely be similar to City Walk Downtown in Colorado Springs where units are being priced from the low $100s to over $300,000.

- In the East Downtown TIRZ, the 100-year-old Herrin Building at Hutchins and McKinney has been purchased by Caspian Enterprises whose principal is Mir Azizi. The building is to be converted to 52 for-sale or for-rent residential units. If the former, Azizi plans to offer them at prices starting at $130,000.

- Further east at Sampson and McKinney, Azizi has purchased a former furniture warehouse which he plans to convert to 95 rental lofts to be called the Wadell Lofts. No information is yet available regarding anticipated rental rates.

- North of I-45 and the Gulfgate area, Perry Homes has opened a new subdivision called Woodridge Square consisting of 70 freestanding 2-story townhomes. The homes range in size from 1,293 to 1,974 SF with two bedrooms and 2½ baths. The price range is $113,900 - $155,900.

- Tremont Homes (Jorge Casimira) is redeveloping the 6.5-acre former Markl Steel site at Ennis and the Gulf Freeway (north side) into freestanding townhomes. A total of 300 homes are to be constructed on 25' lots. Selling prices will be in the $160,000 - $180,000 range. It is understood that Tremont paid $10/SF for the property.

- Immediately north of Zone 2, the 36-acre MDI (formerly TOSCO) Superfund site will possibly be developed into residential housing or mixed use sometime in the next 5-10 years. The property is currently in the hands of a trustee attorney, Bobby Waldron (Randy Ashby assigned), who is obtaining two "stalking horse" bids on 1/24/05 after which he will file a motion for approval of sale with the bankruptcy court. The court is expected to approve the motion by the end of February after which bids will be solicited from interested parties. The successful bidder will need to offer at least $200,000 more than the best "stalking horse" bid and be prepared to submit an earnest money contract and $275,000 deposit upon opening of bids by the trustee. In addition, a $100,000 fee will be payable to the highest "stalking horse" bidder if different from the buyer. The property has extensive toxic contamination which it is estimated will cost over $6.6 million to clean up. In addition, a $1.0 million payment will need to be made to MDI. The total of over $7 million equates to $4.87/SF to which horizontal development costs ($1 - $2/SF minimum) would need to be added prior to construction and sale of vertical improvements.

- Near the Goldberg Senior Citizens Center in the 100 block of Eastwood west of Lockwood, between Canal and Harrisburg, AK Custom Homes is constructing eight townhomes near Garrow between Sidney and Jenkins. Asking prices are understood to be in the $200,000 - $250,000 range.

- Nearby, on the former Stewart & Stevenson property at Harrisburg and Lockwood, Sage Interests (Frank Liu) is planning to build a 200,000 SF retail shopping center on 18 acres. Leasing is being handled by Wulfe & Co., redevelopers of Gulfgate Mall, now Gulfgate Center. Plans call for a grocery store, bank, drug store, gas station and other stores. Liu has another smaller center already under construction at 71st and Harrisburg.

- In the 2800 block of Canal at Paige, New Hope Housing is going to construct 134 single-room occupancy housing units in a 51,500 SF new building on a 1.6-acre property acquired in April, 2001 at $4/SF. Total construction cost is projected at $4.4 million. The developer is NHH-Canal Street Apartments, Inc., a subsidiary of New Hope Housing, which was incorporated in 1993 to develop and manage affordable rental housing for low-income single persons. Rents are around $300/month.

Marketing Strategy and Marketing Plan

The extent to which development potentials are actually realized will also depend on the marketing programs employed by the master developer and/or individual developers involved.

- Most residents in the 103 Zip Code areas surveyed by CDS in 2003 are likely to be totally unaware of any development or contemplated development in the BBC.

- Huge amounts of newspaper, magazine, billboard, television and radio advertising are already being done in the Houston market by developers and builders.

- Challenge: What is the most effective and efficient strategy and plan to reach potential buyers?

- Objective: Establish identity and name recognition of area, i.e., “Bayou East”.

- Themes available:
    - Proximity to downtown

- Proximity to freeways
- Buffalo Bayou as a picturesque amenity
- Newness of area
- Avoidance of Westside traffic congestion
- Unique recreational opportunities – boating, soccer, hike & bike trail
- Unique transportation options – water taxi to UHDT, then light rail to downtown, Museum District, Texas Medical Center and Reliant Center.

- Media selection should probably be geared to appeal to young buyers similar to those that are already buying in Zone 2.

- Big questions related to amount and source of promotion funding.
  - Large investment group/master developer joint venture not likely. Property asking prices too high.
  - Some help possible from HDMD (for Zone 1), BBP (for Zones 2 & 3), GEED and Houston East End Chamber. But participation by these organizations may be limited by existing budget commitments.
  - Primary funding likely to have to come from future developers and builders active in area (primarily Zone 2). Limitation: Effect of marketing costs on new home prices and rental rates.

DEVELOPMENT PROJECTIONS BY SCENARIO

The principal objective of the study was to project long-term development by land use in all three zones in accordance with the three scenarios. Before examining CDS's development projections, it is important to understand the detailed assumptions underlying each scenario as utilized in the analysis. Therefore, this section begins with a summary of those assumptions before proceeding on to the development projections themselves.

Assumptions Underlying Scenarios

- Under Scenario A, projected development is that which would occur if there are no flood control improvements or any kind of financial intervention to stimulate new development in any of the three zones. In short, development that is likely to occur normally as a result of market demand.

- Under Scenario B, projected development is that which will occur if the North Canal and Bayou Widening projects are undertaken and completed within 15 years.

  – The METRO bus and office facilities are relocated to a new site and toxic remediation, as necessary, is completed at the current site.

  – The westbound UP freight traffic and two-way passenger traffic that runs through the North Warehouse District is rerouted through Hardy Yard, the track is removed and replaced with a new city street or boulevard running from Allen and San Jacinto to Rothwell and Maury Streets at I-10, as envisioned in the Master Plan. Under this assumption, it would be necessary for UP to double track its line west of Hardy Yard. (The existing single track handles eastbound freight traffic.) That would involve constructing a second rail bridge over I-10/I-45 and buying up and demolishing existing low-income housing along Winter Street. Total capital cost for UP relocation estimated to be $50 million.

- Under Scenario C, it is assumed that in addition to the flood control improvements, substantial additional infrastructure investments are undertaken as follows:
  - CenterPoint Energy vacates the Gable Street Power Station Building and either relocates all transformer and transmission operations to another location (estimated cost: $76 million + $2,000/ft of transmission lines) or builds a smaller Gas Insulated Substation (GIS) facility elsewhere on the Gable Street site (estimated cost: $20 million) coupled with submerging the transmission lines under Buffalo Bayou north of the facility (estimated cost: $2,000/ft). Asbestos and other toxic contamination at the site is remediated making the historic building suitable for restoration and reuse. Placement of transmission lines underground opens the north end of the property for creation of the Frostown Urban Garden envisioned in the Master Plan. (CDS considers the GIS alternative to be far more practical as there is a substantial network of distribution lines serving downtown from the station.)
  - As also envisioned in the Master Plan, Runnels Street is connected to Allen Street and the new North Warehouse District boulevard with a new city street connecting Navigation Blvd./Runnels Street to Bayou Island by either a new roadway bridge or conversion of the old and still existing rail bridge to street use. This opens up properties on Bayou Island for development and provides better access to the Gable Street building which CDS envisions as an ideal site for redevelopment as an upscale boutique hotel once flood control improvements are completed.
  - Bank improvements along the North Canal and Buffalo Bayou to create the waterview district envisioned in the master plan.
  - Park improvements along Buffalo Bayou in all three zones.
  - Boat landings are constructed along the bayou in all three zones to facilitate carefully regulated recreation and low cost water taxi service.

– Decorative sound barriers are constructed along the heavily used north/south rail line in Zone 2 to aid residential development between Jensen and the bayou. (Train noise was the No. 1 complaint of new Zone 2 residents comprising the October focus group.)

– Additional recreational facilities geared to young buyers are constructed in or near Zones 2 and 3 on COH property (i.e., Northside Waste Treatment Facility) or BBP property. (Tennis courts mentioned in focus group. A health club is understood to be under consideration in connection with the KBR project.)

– City streets (or boulevards) and trunk line utilities are constructed or improved in advance of development to connect the properties to be developed with the primary central city street and utility network. (In contrast to suburban development where developers typically extend existing streets and utilities into new subdivisions, then apply for reimbursement of street construction costs.) Since the objective is to create an urban, pedestrian-oriented environment, sidewalks, street lamps, street signs and crossing lanes and lights are also important.

Buffalo Bayou and Downtown as viewed from the KBR site, with Atkinson owned properties on the opposite side of the bayou.

Timing of Development

In general, the timing of development in the three zones is projected as follows:

- Under Scenario A:

  – In Zone 1, except for several relatively small already announced or known to be planned mid-rise projects, one office refurbishment project and one conversion to convenience store with gas project, no significant development projects are expected to take place, except for that (residential) expected to take place on the 12.9-acre (8.6 usable) Lear-Weekley property, during Years 1-10. Most development, including residential (apartments, low-rise lofts, mid-rise, high-rise and townhomes), some office, restaurant, bar/club and parking garage, does not occur until Years 21-30.

- In Zone 2, fairly substantial residential development takes place in Years 1-10 on the 80.8 acres set aside for residential development by KBR. This project serves as the core project, the catalyst for later development in Zone 2 and Zone 3. (Any delay in the project would likely delay other development in these zones.) This project is followed by residential and some retail development on the Ron and Atkinson owned properties in Years 11-20, and later on the Garver and Smith properties in Years 21-30.
- Residential (only) development in Zone 3 is confined to the Garver and Taub owned properties and does not take place until Years 21-30.

- Under Scenario B:
  - The same scattered projects already planned, along with the development expected on the Lear-Weekly property, take place in Zone 1. But several projects expected to not take place until Years 21-30 under Scenario A occur sooner – in Years 11-20 – as a result of the flood control projects.
  - Although the METRO facilities and UP tracks are removed, development of the properties involved is constrained without the new utilities, streets and streetscape improvements called for under Scenario C.
  - In Zones 2 and 3, no direct development impact is expected as a result of the downtown flood control improvements, so there is no change in the development outlook from Scenario A.
  - As a result, there is only a very nominal amount of additional development overall under Scenario B compared to Scenario A.

- Under Scenario C:
  - Additional residential and some retail, restaurant, bar/club and hotel development takes place in Years 11-30 in Zone 1 as a direct result of the removal of the UP track and the construction of new utilities, streets or boulevards and streetscape improvements

in the UP ROWs, and on the former METRO property, as well as the vacating of the Gable Street Power Station building by CenterPoint Energy.

- In Zone 2, the residential and retail development expected on the Ron and Atkinson properties take place sooner (Years 1-10) as sound barriers are built along the UP freight line and Jensen and Richardson are improved and extended respectively. Development on the Garver and Smith properties also occurs earlier (in Years 11-20) due to the reconstruction and extension of Richardson westward to Jensen and the reconstruction of Kennedy east of Jensen. Additional residential development takes place in Years 21-30 on the Feld Warehouse and other properties to the east with the improvements to Kennedy Street and north/south streets connecting these and the Atkinson properties (south of the Bayou) to Navigation Blvd.
- In Zone 3, development of the Garver and Taub properties on the south side of the bayou advances to Years 11-20 as a result of construction of a new street and trunk line utilities at the back of these two properties. More importantly, the large 43-acre Proler Steel property on the north side of the bayou east of Hirsch, is developed as residential in Years 21-30 as a result of the extension of Richardson east from the KBR property and the construction of new utility trunk lines.

<u>Development Projections</u>

- CDS's development projections are based on:
  - Inventory and assessment of properties suitable for development or redevelopment.
  - Demand, including types and pricing of housing, consistent with 2003 Downtown/Midtown Housing Study.
  - 30% maximum share (Scenario C) of calculated total 30-year downtown/near downtown demand.

- Somewhat conservative pace of development to preclude severe price competition and excessive inventories of unsold homes.
- Assumption that properties will be sold to developers at prices that enable both seller and buyer to make a reasonable profit in accordance with the anticipated demand for medium price housing.

- Average densities of residential housing and land/building area ratios of nonresidential construction used were:
  - Apartments: 40/acre
  - Low-rise Lofts: 30/acre
  - Mid-Rise Apartments or Condos: 60/acre
  - High-Rise Apartments: 230/acre
  - Townhouses: 20/acre
  - New Professional Office (Zone 2): 3/1
  - Retail (Zone 2): 4/1
  - Convenience Store/Gas Station: 12/1
  - Full Service Restaurant (Zone 2): 10/1
  - Bar/Club (Zone 2): 10/1
  - Hotel: 800 SF/room
  - Garage: Varies by project

- Improved values per unit or square foot, including land and developer finance costs and profit, based on Marshall & Swift data, were:
  - Apartments: $70,000/unit
  - Loft Conversions: $100,000/unit
  - Low-Rise Lofts: $150,000/unit

- Mid-Rise Conversions (Zone 1): $150,000/unit
- Mid-Rise Apartments or Condos: $210,000/unit
- High-Rise Apartments: $290,000/unit
- Townhouses: $150,000 - $225,000/unit
- Professional Office: $170/SF
- Retail: $170/SF
- Convenience Store/Gas Station: $380 - $500/SF
- Restaurant, including tenant improvements: $220 - $320/SF
- Bar/Club: $190 - $290/SF
- Hotel: $150/SF
- Garage: $55/SF

- Detailed annual projections by property of numbers of housing units and square footages of non-residential space for Scenarios A, B and C by zone are enclosed in Appendix D. These are followed by Appendix E which reports improved values in the same format.
- Summary projections of housing units by type and non-residential square footages by type are shown for each zone by scenario in Tables 8, 9 and 10 that follow.
- Summary projections of improved values for new housing and non-residential uses are then reported in the same format in Tables 11, 12 and 13.

TABLE 8
SUMMARY OF DEVELOPMENT PROJECTIONS BY SCENARIO
ZONE 1
(Units/Square Feet by Period)

	Scenario A				*Scenario B*				*Scenario C*			
	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals
					Residential (units):							
Apartments	--	--	80	80	--	80	--	80	--	200	--	200
Low-Rise Condos	120	--	50	170	120	50	--	170	120	50	--	170
Mid-Rise Condos	105	--	60	165	105	60	60	225	105	240	60	405
High-Rise Apts.	--	--	352	352	--	352	--	352	--	352	--	352
Townhouses	--	--	35	35	--	50	--	50	--	215	90	305
Single-Family	--	--	--	--	--	--	--	--	--	--	--	--
Totals	225		577	802	225	592	60	877	225	1015	150	1,432
					Non-Residential (000 SF):							
Professional Office	60.0	--	12.5	72.5	60.0	10.0	12.5	82.5	60.0	10.0	12.5	82.5
Retail	--	--	52.9	52.9	--	62.9	--	62.9	--	72.9	--	72.9
Convenience/Gas	4.3	--	--	4.3	4.3	--	--	4.3	4.3	--	--	4.3
Restaurant	--	--	114.8	114.8	--	114.8	--	114.8	--	154.8	--	154.8
Bar/Club	--	8.0	34.0	42.0	--	42.0	--	42.0	--	72.0	--	72.0
Hotel	--	--	--	--	--	--	--	--	--	80.0	--	80.0
Garage	--	--	553.2	553.2	--	553.2	--	553.2	--	553.2	--	553.2
Totals	64.3	8.0	767.4	839.7	64.3	782.9	12.5	859.7	64.3	942.9	12.5	1,019.7

Source: CDS Market Research

TABLE 9

SUMMARY OF DEVELOPMENT PROJECTIONS BY SCENARIO
ZONE 2
(Units/Square Feet by Period)

	Scenario A				Scenario B				Scenario C			
	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals
Residential (units):												
Apartments	390	--	420	810	390	--	420	810	390	390	90	870
Low-Rise Condos	910	215	--	1,125	910	215	--	1,125	1,030	95	300	1,425
Mid-Rise Apts.	175	--	--	175	175	--	--	175	175	--	--	175
High-Rise Apts.	--	--	--	--	--	--	--	--	--	--	--	--
Townhouses	338	560	--	898	338	560	--	898	668	230	240	1,138
Single-Family	--	15	30	45	--	15	30	45	--	15	30	45
Totals	1,813	790	450	3,053	1,813	790	450	3,053	2,263	730	660	3,653
Non-Residential (000 SF):												
Professional Office	--	4.0	8.0	12.0	--	4.0	8.0	12.0	--	4.0	8.0	12.0
Retail	4.0	36.0	--	40.0	4.0	36.0	--	40.0	40.0	--	20.0	60.0
Convenience/Gas	--	4.3	--	4.3	--	4.3	--	4.3	4.3	--	--	4.3
Restaurant	--	--	10.0	10.0	--	--	10.0	10.0	--	10.0	--	10.0
Bar/Club	--	--	3.0	3.0	--	--	3.0	3.0	--	3.0	--	3.0
Hotel	--	--	--	--	--	--	--	--	--	--	--	--
Garage	--	--	--	--	--	--	--	--	--	--	--	--
Totals	4.0	44.3	21.0	69.3	4.0	44.3	21.0	69.3	44.3	17.0	28.0	89.3

Source: CDS Market Research

TABLE 10

SUMMARY OF DEVELOPMENT PROJECTIONS BY SCENARIO
ZONE 3
(Units/Square Feet by Period)

	Scenario A				Scenario B				Scenario C			
	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals
Residential (units):												
Apartments	--	--	--	--	--	--	--	--	--	--	--	--
Low-Rise Condos	--	--	--	--	--	--	--	--	--	--	--	--
Mid-Rise Apts.	--	--	--	--	--	--	--	--	--	--	--	--
High-Rise Apts.	--	--	--	--	--	--	--	--	--	--	--	--
Townhouses	--	--	400	400	--	--	400	400	--	400	580	980
Single-Family	--	--	--	--	--	--	--	--	--	--	--	--
Totals	--	--	400	400	--	--	400	400	--	400	580	980
Non-Residential (000 SF):												
Professional Office	--	--	--	--	--	--	--	--	--	--	--	--
Retail	--	--	--	--	--	--	--	--	--	--	--	--
Convenience/Gas	--	--	--	--	--	--	--	--	--	--	--	--
Restaurant	--	--	--	--	--	--	--	--	--	--	--	--
Bar/Club	--	--	--	--	--	--	--	--	--	--	--	--
Hotel	--	--	--	--	--	--	--	--	--	--	--	--
Garage	--	--	--	--	--	--	--	--	--	--	--	--
Totals	--	--	--	--	--	--	--	--	--	--	--	--

Source: CDS Market Research

TABLE 11
SUMMARY OF DEVELOPMENT PROJECTIONS BY SCENARIO
ZONE 1
(Improved Values in $ Millions*, Including Land, by Period)

	Scenario A				Scenario B				Scenario C			
	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals
Residential ($ Mil.):												
Apartments	--	--	5.6	5.6	--	5.6	--	5.6	--	14.0	--	14.0
Low-Rise Condos	18.0	--	5.0	23.0	18.0	5.0	--	23.0	18.0	5.0	--	23.0
Mid-Rise Condos	20.5	--	12.6	33.1	20.5	12.6	12.6	45.7	20.5	50.4	12.6	83.5
High-Rise Apts.	--	--	102.1	102.1	--	102.1	--	102.1	--	102.1	--	102.1
Townhouses	--	--	7.0	7.0	--	10.0	--	10.0	--	47.0	18.0	65.0
Single-Family	--	--	--	--	--	--	--	--	--	--	--	--
Subtotals	38.5	--	132.3	170.8	38.5	135.3	12.6	186.4	38.5	218.5	30.6	287.6
Non-Residential ($ Mil.):												
Professional Office	6.0	--	2.1	8.1	6.0	1.7	2.1	9.8	6.0	1.7	2.1	9.8
Retail	--	--	5.3	5.3	--	7.0	--	7.0	--	8.7	--	8.7
Convenience/Gas	2.2	--	--	2.2	2.2	--	--	2.2	2.2	--	--	2.2
Restaurant	--	--	27.2	27.2	--	27.2	--	27.2	--	36.9	--	36.9
Bar/Club	--	1.7	7.0	8.7	--	8.7	--	8.7	--	15.3	--	15.3
Hotel	--	--	--	--	--	--	--	--	--	12.0	--	12.0
Garage	--	--	30.4	30.4	--	30.4	--	30.4	--	30.4	--	30.4
Subtotals	8.2	1.7	72.0	81.9	8.2	75.0	2.1	85.3	8.2	105.0	2.1	115.3
Totals	46.7	1.7	204.3	252.7	46.7	210.3	14.7	271.7	46.7	323.5	32.7	402.9

* In 2004 dollars
Source: CDS Market Research

TABLE 12

SUMMARY OF DEVELOPMENT PROJECTIONS BY SCENARIO
ZONE 2
(Improved Values in $ Millions*, Including Land, by Period)

	Scenario A				Scenario B				Scenario C			
	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals
Residential ($ Mil.):												
Apartments	27.3	--	29.4	56.7	27.3	--	29.4	56.7	27.3	27.3	6.3	60.9
Low-Rise Condos	136.5	31.1	--	167.6	136.5	31.1	--	167.6	154.5	13.1	45.0	212.6
Mid-Rise Apts.	36.7	--	--	36.7	36.7	--	--	36.7	36.7	--	--	36.7
High-Rise Apts.	--	--	--	--	--	--	--	--	--	--	--	--
Townhouses	75.4	115.3	--	190.7	75.4	115.3	--	190.7	144.7	46.0	46.0	236.7
Single-Family	--	1.6	3.3	4.9	--	1.6	3.3	4.9	--	1.6	3.3	4.9
Subtotals	275.9	148.0	32.7	456.6	275.9	148.0	32.7	456.6	363.2	88.0	100.6	551.8
Non-Residential ($ Mil.):												
Professional Office	--	0.7	1.4	2.1	--	0.7	1.4	2.1	--	0.7	1.4	2.1
Retail	0.7	6.1	--	6.8	0.7	6.1	--	6.8	6.8	--	3.4	10.2
Convenience/Gas	--	1.6	--	1.6	--	1.6	--	1.6	1.6	--	--	1.6
Restaurant	--	--	1.6	1.6	--	--	1.6	1.6	--	3.2	--	3.2
Bar/Club	--	--	0.9	0.9	--	--	0.9	0.9	--	0.9	--	0.9
Hotel	--	--	--	--	--	--	--	--	--	--	--	--
Garage	--	--	--	--	--	--	--	--	--	--	--	--
Subtotals	0.7	8.7	3.9	13.0	0.7	8.4	3.9	13.0	8.4	4.8	4.8	18.0
Totals	276.6	156.4	36.6	469.6	276.6	156.4	36.6	469.6	371.6	92.8	105.4	569.8

* In 2004 dollars
Source: CDS Market Research

TABLE 13

SUMMARY OF DEVELOPMENT PROJECTIONS BY SCENARIO
ZONE 3
(Improved Values in $ Millions*, Including Land, by Period)

	Scenario A				Scenario B				Scenario C			
	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals	1-10	11-20	21-30	Totals
Residential ($ Mil.):												
Apartments	--	--	--	--	--	--	--	--	--	--	--	--
Low-Rise Condos	--	--	--	--	--	--	--	--	--	--	--	--
Mid-Rise Apts.	--	--	--	--	--	--	--	--	--	--	50.4	50.4
High-Rise Apts.	--	--	--	--	--	--	--	--	--	--	--	--
Townhouses	--	--	80.0	80.0	--	--	80.0	80.0	--	80.0	116.0	196.0
Single-Family	--	--	--	--	--	--	--	--	--	--	--	--
Subtotals	--	--	80.0	80.0	--	--	80.0	80.0	--	80.0	166.4	246.4
Non-Residential ($ Mil.):												
Professional Office	--	--	--	--	--	--	--	--	--	--	--	--
Retail	--	--	--	--	--	--	--	--	--	--	--	--
Convenience/Gas	--	--	--	--	--	--	--	--	--	--	--	--
Restaurant	--	--	--	--	--	--	--	--	--	--	--	--
Bar/Club	--	--	--	--	--	--	--	--	--	--	--	--
Hotel	--	--	--	--	--	--	--	--	--	--	--	--
Garage	--	--	--	--	--	--	--	--	--	--	--	--
Subtotals	--	--	--	--	--	--	--	--	--	--	--	--
Totals	--	--	80.0	80.0	--	--	80.0	80.0	--	80.0	166.4	246.4

* In 2004 dollars
Source: CDS Market Research

- Based on CDS's analysis, major development will take place first in Zone 2 with the start-up and completion of the KBR/Staubach project, with or without intervention in Years 1-10. (Any change in development plans by KBR/Staubach would substantially change the timing of overall development in Zones 2 and 3. However, with an extremely low cost basis and tax value for the 80.8 acres concerned, CDS believes that KBR/Staubach has too much economic incentive not to proceed.) This will be followed by important but declining development in the second (Years 11-20) and third (Years 21-30) planning periods in this zone.

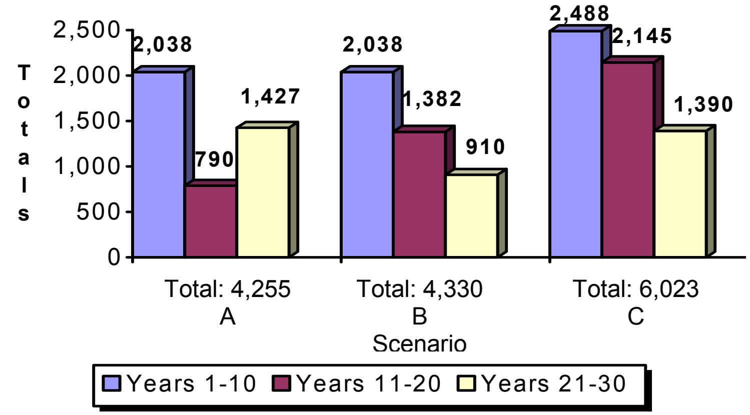
- Substantial added development takes place in Zones 1 and 3 in the second and third periods with intervention (Scenario C).

- In Zone 1, only a modest amount of development takes place under Scenario A, with the exception of a planned high-rise apartment/garage/retail project in the third period. This project is realized sooner (in the second period) if the flood control improvements proceed (Scenario B).

- Significantly more development takes place in the second period in Zone 1 under Scenario C with the relocation of the UP rail line and METRO facilities, and reuse of the Gable Street Power Station.

- Figure 9 depicts the total numbers of housing units projected to be constructed in each of the

Figure 9
Total Numbers of Housing Units Developed



three 10-year planning periods by zone under Scenarios A, B and C.

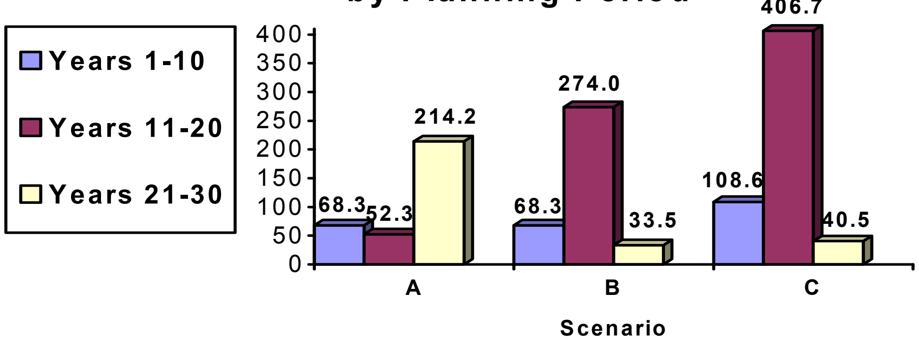
- Projected total numbers of housing units to be developed only approaches the total potential for medium priced housing of 6,000 (see Projected Downtown/Near-Downtown Demand section above) in the case of Scenario C, in which a maximum of 5,611 medium-priced housing units are to be built (6,023 – 412, comprised of 15 high-end Sterrett Street Townhomes, 352 high-end Franklin Towers apartments and 45 affordable single-family homes in Zone 2).

- Figure 10 illustrates the total square footages of non-residential space (excluding commercial garage) projected for the three planning periods under each scenario.

- With respect to acreage absorption, combined residential and non-residential development, even under Scenario C, absorbs only 315.4 acres – 54.9% of the 574.4 total vacant and redevelopable acreage in the study area.

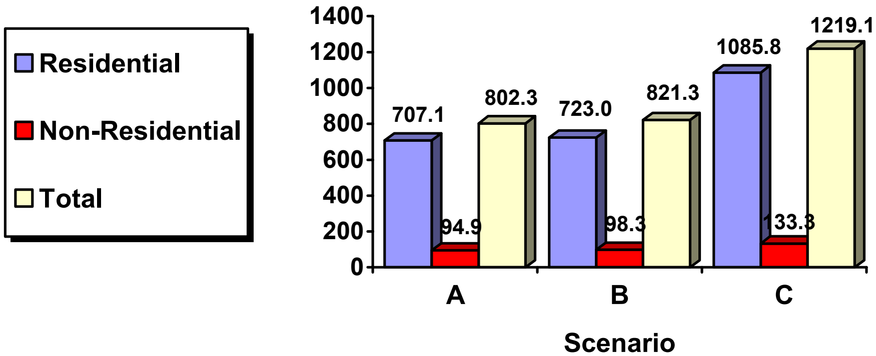
- In dollar terms, the pattern is similar but with residential improvements substantially outweighing non-residential improvements (see Figure 11).

Figure 10
Projected Square Footages (000s) of Non-Residential* Improvements by Scenario by Planning Period



***Excluding Commercial Garage**

Figure 11
Dollar Values of Projected Improvements by Scenario by Planning Period
Residential, Non-Residential and Total**



**** Including Commercial Garage**

RESIDENTIAL MARKET SHARE

Based on the previously discussed analysis of population and household growth in Harris County, CDS estimates that 756 thousand new housing units will be required over the 30-year 2005-2035 planning period to meet the needs of a population that is conservatively projected to grow by over two million (specifically 2,022 thousand) over the period.

- CDS's 30-year projections of new housing units for all three study area zones combined (see Figure 9) are:
  - 4,255 units under Scenario A,
  - 4,330 units under Scenario B, and
  - 6,023 units under Scenario C.
- On this basis, the study area's share of total Harris County 30-year housing demand is:
  - 0.6% under Scenario A and Scenario B, and
  - 0.8% under Scenario C.
- These shares are illustrated by the pie charts to the right.
- Conclusion 1: The projected number of new housing units to be constructed over the 30-year planning period under any scenario is a tiny percentage – less than 1% – of total Harris County demand. The majority of new Harris County housing units will continue to be built in suburban areas.
- Conclusion 2: Any applications for bond funds or tax increment financing should be based on the argument that the BBC study area should be allowed to participate in the overall growth of the Greater Houston market.
- NOTE: Since office, retail, restaurant and club space projected is quite small, 30-year market shares of these types of improvements are considered negligible.

Figure 12
Study Area Share of 30-Yr. Demand
Scenario A

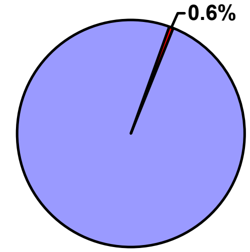


Figure 13
Study Area Share of 30-Yr. Demand
Scenario B

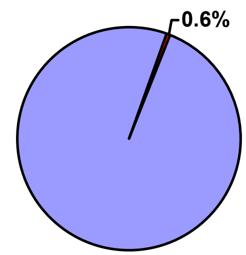
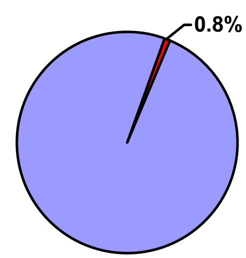


Figure 14
Study Area Share of 30-Yr. Demand
Scenario C



INCREMENTAL TAX REVENUES

Based on the foregoing projections of improved values for Scenarios A, B and C, CDS estimates tax increments as follows:

- Incremental tax values over the 30-year planning period are based on 2004 tax values of $21.8 million for Scenario A, $25.3 million for Scenario B and $31.4 million for Scenario C. (These are the current total tax values for all properties utilized over the 30-year period.)

- Under Scenario A, cumulative incremental tax values – assuming 20% Homeowners Exemptions for all for-sale properties – rise from 12.8 million in 2005 to $613.6 million in 2034; for Scenario B, from $12.8 million to $674.6 million; and for Scenario C, from $13.9 million to $1,069.5 million (see Table 16).

- These incremental values translate into sizeable tax increments for the City of Houston under the three scenarios, assuming a full $0.65 rate on all properties and 97% collection (see Table 17).
  - Under Scenario A, the calculated tax increment for Years 1-10 is $4.1 million, followed by increments of $19.3 million and $29.9 million in the succeeding two 10-year periods. Total increment is $53.3 million.
  - Under Scenario B, tax increments are $4.1, $23.1 and $38.7 million for the three successive 10-year periods, totaling $65.9 million.
  - Under Scenario C, tax increments increase substantially to $4.8, $30.9 and $57.2 million for the succeeding 10-year periods, and to $92.9 million for the entire 30-year planning period.

- At a capitalization rate of 8%, these incremental City of Houston revenues translate to capitalized values for the 30-year period, excluding expenses and debt service, of $666.2 million for Scenario A, $823.8 million for Scenario B and $1,161.2 million for Scenario C.

- At a utilization rate of 50%, supportable public investment over the 30-year planning period would be $333.1 million, $411.9 million and $580.6 million, respectively.

- Thus, incremental supportable public investment under Scenario C is $247.5 million vs. A and $168.7 million vs. B over 30 years. These estimates appear to justify long-term financing of relocation costs and street, utility and other improvements visualized under Scenario C, subject to engineering estimates.

- As Table 15 demonstrates, the other taxing entities will also benefit substantially over the 30-year planning period. For example, over 30 years, Harris County is projected to receive $32.8 - $57.1 million in additional tax revenue, and HISD, $131.1 - $228.5 million, depending on which scenario becomes reality.

TABLE 15

PROJECTED ADDED TAX REVENUES OVER 30-YEAR PLANNING PERIOD OTHER TAX ENTITIES

Tax Entity	*Current Rate*	*30-Year Added Revenues ($ Millions)*		
		A	B	C
HISD	$1.599000	$131.1	$162.1	$228.5
Harris County	0.399860	32.8	40.5	57.1
HCFCD	0.033180	2.7	3.4	4.7
HCDE	0.006290	0.5	0.6	0.9
POH Authority	0.016730	1.4	1.7	2.4
HCHD	0.190210	15.6	19.3	27.2
HCCS	0.095977	4.4	9.7	13.7

TABLE 16
PROJECTED INCREMENTAL TAX VALUES*
($ MILLIONS)

Year		Scenario A		Scenario B		Scenario C	
Proj.	Cal.	Total/Yr.	Cumulative	Total/Yr.	Cumulative	Total/Yr.	Cumulative
1	2005	$12.8	$12.8	$12.8	$12.8	$13.9	$13.9
2	2006	3.6	16.4	3.6	16.4	3.6	17.5
3	2007	18.9	35.3	18.9	35.3	18.7	36.2
4	2008	28.2	63.5	28.2	63.5	29.2	65.4
5	2009	26.0	89.5	26.0	89.5	33.3	98.7
6	2010	26.0	115.5	26.0	115.5	36.7	135.4
7	2011	26.0	141.5	26.0	141.5	36.8	172.2
8	2012	37.5	179.0	37.5	179.0	51.9	224.1
9	2013	39.6	218.6	39.6	218.6	56.4	280.5
10	2014	41.4	260.0	41.4	260.0	55.8	336.3
11	2015	27.6	287.6	30.2	290.2	18.4	354.7
12	2016	4.8	292.4	12.2	302.4	32.1	386.8
13	2017	7.8	300.2	8.8	311.2	31.3	418.2
14	2018	9.8	310.0	15.8	327.0	32.0	450.2
15	2019	14.2	324.2	28.3	355.3	63.7	513.9
16	2020	17.0	341.2	152.0	507.3	148.0	661.9
17	2021	17.0	358.2	27.0	534.3	60.7	722.6
18	2022	17.7	375.9	17.7	552.0	56.4	779.0
19	2023	11.2	387.1	11.2	563.2	19.7	798.7
20	2024	13.6	400.7	13.6	576.8	19.7	818.4
21	2025	4.1	404.8	9.3	586.1	22.1	840.5
22	2026	5.6	410.4	8.9	595.0	27.8	868.3
23	2027	8.5	418.9	10.2	605.2	16.6	884.9
24	2028	12.1	431.0	8.9	614.1	27.8	912.7
25	2029	17.9	448.9	22.1	636.2	29.3	942.0
26	2030	159.4	608.3	9.4	645.6	30.8	972.8
27	2031	4.2	612.5	9.0	654.6	19.9	992.7
28	2032	1.1	613.6	7.4	662.0	42.2	1,034.9
29	2033	--	613.6	6.3	668.3	14.9	1,049.8
30	2034	--	613.6	6.3	674.6	19.7	1,069.5
Memo: 2004 Value			$21.8		$25.3		$32.4

*All residential for-sale values reduced by 20% for Homestead Exemption.
Source: CDS Market Research

TABLE 17
PROJECTED CITY OF HOUSTON TAX INCREMENTS BY SCENARIO
($ MILLIONS @ $0.65/$00)

Year				
Project	**Calendar**	**Scenario A**	**Scenario B**	**Scenario C**
1	2005	--	--	--
2	2006	--	--	--
3	2007	0.1	0.1	0.1
4	2008	0.1	0.1	0.1
5	2009	0.2	0.2	0.2
6	2010	0.4	0.4	0.4
7	2011	0.6	0.6	0.6
8	2012	0.7	0.7	0.9
9	2013	0.9	0.9	1.1
10	2014	1.1	1.1	1.4
Subtotals: Yrs. 1-10		$4.1	$4.1	$4.8
11	2015	1.4	1.4	1.8
12	2016	1.6	1.6	2.1
13	2017	1.8	1.8	2.2
14	2018	1.8	1.9	2.4
15	2019	1.9	2.0	2.6
16	2020	2.0	2.1	2.8
17	2021	2.0	2.2	3.2
18	2022	2.2	3.2	4.2
19	2023	2.3	3.4	4.6
20	2024	2.4	3.5	4.9
Subtotals: Yrs. 11-20		$19.3	$23.1	$30.9
21	2025	2.4	3.6	5.0
22	2026	2.5	3.6	5.2
23	2027	2.6	3.7	5.3
24	2028	2.6	3.8	5.5
25	2029	2.6	3.8	5.6
26	2030	2.7	3.9	5.8
27	2031	2.8	4.0	5.9
28	2032	3.8	4.1	6.1
29	2033	3.9	4.1	6.3
30	2034	3.9	4.2	6.5
Subtotals: Yrs. 21-30		$29.9	$38.7	$57.2
Totals: Yrs. 1-30		$53.3	$65.9	$92.9

* Assuming collection in second year following construction and 97% collection rate.

INTERVENTION OPTIONS

It would appear that the Buffalo Bayou Partnership, the City of Houston, and possibly Harris County must make at least two critical decisions pertaining to study area development. The first relates to whether these entities are truly committed to implementation of the Buffalo Bayou Master Plan. The second to whether some kind of financial intervention will be employed, and if so, which type. Key points relating to these questions are as follows:

- First, the interviews with BBC property owners and Houston area developers are not encouraging with respect to the possibility of a governmental/quasi-governmental entity or major investment/master developer group acquiring vacant and redevelopable properties in Zones 2 and 3 and master planning and developing these zones in a manner consistent with the vision contained in the master plan.
    - Property rights are considered sacred in Houston and the State of Texas. There is little or no chance that the City of Houston would choose to condemn any significant acreage for future development.
    - Similarly, the City is unlikely to seek bond funds to acquire acreage for resale to developers as Philadelphia is doing ($120 million in targeted revenue bonds).
    - Formation of a PID, such as a Buffalo Bayou Redevelopment Authority, is probably not practical, as it would be unlikely to have the support of commercial property owners who are already paying $0.15/$00 assessments to the Greater East End District. There would probably also be resistance on the part of most owners of vacant land (if proposed to be assessed) who envision that they will be able to sell their properties at close to their asking prices without the benefit of a PID. Most certainly, existing lower-income residential owners (if proposed to be assessed) would resist it in the area.
    - Acquisition of significant acreage by a major investment group/master developer joint venture for master planning and development is probably also unlikely. Such combines want to

buy properties at no more than $7 - $8/SF, and preferably at $2.75 - $3.00/SF. But BBC property owners are already asking and getting offers of $10/SF or more and are unlikely to drop their prices short of a real contraction in population growth and the Houston real estate market.

- If these assessments are correct, the BBP, City and possibly County must decide whether to support some kind of financial intervention to facilitate the creation of a permanent, attractive new residential community through the possible financing of relocation of transportation and utility facilities and the construction of streets, utilities and other facilities, as outlined earlier in this report.
  - As noted in the previous sections, substantial development should take place anyway, without intervention (Scenario A).
  - However, the end product without intervention is likely to be suburban type development with no interconnecting street grid, no connections to the bayou from outside areas, no utilization of the bayou as a transportation artery, and minimal attention to the creation of a beautiful, permanent pedestrian-oriented inner-city district that assures long-term appreciation in property values.
- If the BBP, City, and possibly County, decide to pursue financial intervention to make the vision of the Master Plan a reality, there appears to be two primary choices available, each with its own distinct advantages and disadvantages – long-term general revenue bonds and a petition or direct application TIRZ. (CIP, 70/30 funding and normal developer incentives are likely to not be adequate considering the total funding needs.)
- The following positive considerations apply to general revenue bonds:
  - The advantage is that the bonds would carry the City's and/or County's credit rating, ensuring minimal borrowing cost.
  - Another advantage is that the bond funds are administered by the City and/or County. No new office or bureaucracy is created.

- However, the following negative considerations may also apply:
  - Neither the City nor the County may have existing bonding authority to finance relocations and improvements in the BBC.
  - This would mean that new bonding authority would need to be sought from the voters which would call for a strong promotional effort. Passage could be in question.
  - There could be as much as a 1-3 year delay in obtaining passage and marketing the bonds.
- The principal alternative of a petition or direct application TIRZ invokes the following considerations:
  - Zones 2 and 3 of the study area meet the intent of the state enabling legislation as they are to an extent blighted areas and would have to be replatted. On the other hand, a great deal of development is likely to occur anyway, without the benefit of a TIRZ (Scenario A).
  - With respect to a petition TIRZ, the TIRZ board could be empowered to exercise land use controls and design standards that could assure quality development. (On the other hand, some city officials have criticized such efforts by certain TIRZ boards.)
  - Only the City of Houston tax increment would likely be available to finance TIRZ bonds. Harris County has not participated in any in-city TIRZ projects for eight years and HISD has established a firm policy not to participate in future TIRZs.
  - A petition drive would require real effort and might not be successful. Some commercial property owners might not support it because they could see their own property values and taxes going up, necessitating possible relocation in the case of industrial firms that like their central locations with good freeway access.
  - Creation of a TIRZ is strongly favored by some vacant property owners, but strongly opposed by others who object to creation of another bureaucracy in the form of a TIRZ board and any attempt by such a board to control land use.

   - On the other hand, the principal property owner, KBR, strongly supports a TIRZ. In fact, creation of a TIRZ would help guarantee that KBR/Staubach proceed with their project during the first 10-year period.
   - There appears to be some question as to whether the new City administration would support creation of any new TIRZs. The primary objection is the fact that the benefits of tax increment financing accrue exclusively to the zone. However, it is possible that the application could be worded to provide 100% of TIRZ funding from the first 10 years of tax increment to the zone, after which the increment could be shared with other areas of the City. This might improve chances of acceptance by the city administration and council.
   - One major advantage of a petition TIRZ, from the standpoint of community relations and protection of the existing population of mostly lower-income families in or near the study area, is that one-third of the tax increment proceeds are designated for low-income housing in the form of either direct contributions or to leverage bonds, as in the case of the Midtown and Uptown TIRZs.
   - In any case, it is possible that affordable housing in or near a BBC TIRZ could be financed by affordable housing set asides from other TIRZs.
   - The zone, if applied for, should include all three zones of the study area.

- CDS believes that, in the event financial intervention is desired in order to optimize BBC development and make the Master Plan a reality, both bonds and a TIRZ, or a combination of the two, are worthy of consideration.

- The benefits of intervention are many, including:
   - Quality development that could result from master planning, land use controls and design standards associated with a petition TIRZ or some type of public/private partnership associated with bond financing.

   - Enlargement of the permanent tax base of the City of Houston at a faster rate than would occur otherwise.
   - To the extent that renters and home buyers that work inside Loop 610 choose to reside in the study area rather than in suburban areas, a reduction in vehicle miles traveled (VMT).
   - Accordingly, an associated reduction in vehicle emissions within the metro area.
   - More rapid enlargement of the immediate trade area population for existing and future retailers in downtown proper. (See Houston Downtown Development Framework, October, 2004.) This is particularly important with respect to shopping goods retailers.
   - Increased business for downtown restaurants, clubs and bars. (Focus group respondents wanted to be near where the "action" is.)
   - Conversion of a largely vacant and older industrial section of Houston to a vibrant community, thereby enhancing Houston's stature as a cosmopolitan world-class city with a healthy inner core.

- The next step in determining the type of intervention, if any, to be pursued should be at least a preliminary assessment of street, sidewalk, lamp, signage and utility needs and costs in the three zones.

ECONOMIC AND SOCIAL ISSUES

To conclude the report, CDS believes there should be careful attention paid to the economic and social impacts of extensive new development, particularly in Zones 2 and 3, on the long-term resident population of the area.

- The current population and key demographics of Zones 2 and 3 are as follows (see Table 18):
   - Current combined population is estimated at 3,568.
   - 63.1% is Hispanic and 28.9% African-American.

- Median age is 27.4. Only 6.9% are 65 and over.
- There is high unemployment – 11.56%.
- Nearly 75% of the total households are family households.
- Median annual household income is $23,408.
- Only 25% of households are owner occupied, 75% rent.
- The housing is old. The median year in which housing was built is 1953.
- Median value of owner-occupied housing is around $40,000.

TABLE 18
CURRENT POPULATION AND DEMOGRAPHICS
ZONES 2 AND 3
(2004 Estimate)

	Zone 2	Zone 3	Total	%
Population				
Hispanic	1,372	881	2,253	63.1%
African American	1,001	32	1,033	28.9%
White	171	32	203	5.7%
American Indian	4	2	6	.2%
Asian	37	6	43	1.2%
Hawaiian	--	--	--	--
Other Race	2	--	2	.1%
2 or More	25	3	28	.8%
Totals	2,612	956	3,568	100.0%
Median Age	27.2	27.7	27.4	
Percent 65 and Over	6.30%	8.30%	6.90%	
Population 16+ Unemployed	13.90%	5.90%	11.50%	
Households				
Family	469	2[illegible]	670	74.9%
Non-family	157	[illegible]	224	25.1%
Totals	626	268	894	100.0%
Median Household Income	$19,868	$31,667	$23,408	
Average Household Size	3.57	3.56	3.57	
Housing				
Owner Occupied	106	1[illegible]	224	25.1%
Renter Occupied	520	1[illegible]	670	74.9%
Totals	626	268	894	100.0%
Median Value – Owner Occ.	$46,667	$54,565	$40,037	
Median Year – Housing Built	1956	1946	1953	

Source: Claritas, Inc.

- Real concerns of population are potential displacement, rising property taxes and future change in the character of the neighborhoods.
  - Displacement could result if developers start buying up existing homes, tearing them down and building new for-sale structures.
  - Rising property taxes lead to increased rents for majority of residents, eventually forcing them to move away.
  - Neighborhoods are currently family oriented. Long-time residents fear change brought about by apartment and townhome development, with possibly high turnover of new residents who won't have an interest in maintaining the traditional character of the area.

- Nevertheless, Second Ward leaders recognize that area must improve if it is to survive. 1996 Second Ward Action Plan, which calls for wide range of beautification and other improvements, is being implemented with the help of the Greater East End District supplemented by State of Texas grant money.

- Second Ward Resident's Association is urging property owners to fix up or replace their aging houses. Preliminary elevations and floor plans suited to affordable new single-family housing have been drawn.

- As property values increase, owners can finance improvements through second mortgages or home improvement loans. Most owners have inherited their properties from family members, have little or no mortgage debt and have jobs, so many should be able to afford modernization improvements.

- Still, major problems exist for renters. CDC may have to play a major role, buying vacant or tax delinquent properties, building affordable housing or fixing up existing homes, then renting them out at affordable rates. But more funding than is currently available would undoubtedly be required. Real question is whether any steps should be taken to ensure that renters can remain in area.

- BBP could play a major role in the development of new affordable housing by providing acreage at the rear of its bayou properties to approved developers for development of affordable homes. Question: What price range is considered "affordable"? (No estimates of units and values of such housing was included in the CDS BBC development projections. Only 45 affordable single-family houses on vacant lots in Zone 2.)

- BBP is particularly sensitive to the feelings and needs of the current residents.
  - A town meeting on June 26 entitled "Buffalo Bayou East End Greenspace Workshop" focused on future cultural and recreational uses for area parks.
  - On October 30, BBP sponsored another workshop on the subject of housing needs and concerns of East End residents. At this meeting, the majority of attendees indicated that they supported new housing development in the area.
- Interestingly, contrary to the fears of existing residents, the new resident participants in the October 21 focus group appeared anxious to learn more about the historical sites in the corridor. They did not want to live in isolation in their new townhome development, but rather become part of the multi-social, multi-income community. (It is understood that many of the original Second Ward settlers were Germans. Perhaps revitalization of the area could be further stimulated by designating it an historic district and erecting plaques or monuments that describe its history of settlement from the Germans to the Hispanics and so on.)
- CDS understands that the Mayor's Deputy for neighborhoods has this subject under study.