

DEMOGRAPHIC/ECONOMIC SUMMARY OF THE CITY

Houston, Texas is a diverse, dynamic and growing metropolitan area with notable aspirations, unlimited potential and a commitment to achieving a better quality of life for all its citizens. The Primary Metropolitan Statistical Area (PMSA) composed of Chambers, Ft. Bend, Harris, Liberty, Montgomery, and Waller counties, ranks fourth largest in the United States. With 6,304 square miles and an estimated population of 4.3 million, this metropolitan area offers a combination of multicultural urban, rural, and suburban communities.

Though it has long been recognized as a world energy capital, Houston continues to modify and expand in the areas of international business, information system technology, and service related industries to broaden previous diversification efforts brought about by the oil recession of the late 1980's. The subsequent consolidation of the energy industry has concentrated headquarter activities and energy technology in Houston. This activity in conjunction with over 3,500 businesses located downtown and the expansion of other business districts including the Ship Channel, the Uptown/Galleria area, Greenway Plaza, and the Interstate 10's Energy Corridor create a thriving business community. In addition, the Johnson Space Center, providing astronaut training and Space Shuttle and Station development, and the Texas Medical Center (TMC), recognized as one of the preeminent medical facilities in the country, continue to be cornerstones of the Houston area.

To accommodate continued growth, the City and other local agencies are focused on infrastructure development to address capacity as well as general mobility issues. Currently, the Houston Airport System (HAS), serving over 42 million passengers and processing over 364.5 thousand tons of cargo in 2002, forms one of North America's largest public airport systems. Similarly, the Port of Houston maintains its position as a world-class port, ranking first in the United States in foreign waterborne commerce, second in total tonnage, and sixth in the world. Since 1997 annual tonnage figures have increased 29 million and this increase in trade signifies that Houston maintains its position as a world-class port and a leader in the United States maritime industry. The continued development of both strategic gateways enhances the City's international competitive edge as a world trade center.

The Houston area region has 41 colleges and universities. The Houston Independent School District is the seventh largest in the U. S., with an enrollment of over 210 thousand in 286 schools of which 110 are "magnet" schools offering specialized programs. There are a total of 23 school districts partly or entirely in Harris County. Approximately 51,000 students are in 195 accredited private or parochial schools.

With over one million daily commuters, mobility is of equal concern for the Houston area. Efforts are underway to encourage development and the use of alternative modes of transportation to ease congestion and positively affect air quality of the area. In the same way, METRO's development of the Downtown-to-Reliant Stadium complex corridor, a 7.4 mile light rail system running between Downtown, the TMC, entertainment and sports facilities, parks and museums, educational institutions, and various residential areas, ties with the ongoing revitalization efforts and will eliminate many diesel-powered buses as well as reduce the number of automobiles in the area. Other infrastructure projects underway for downtown include a new 1200 room Convention Center Hotel, featuring 70,000 square feet of meeting space and two ballrooms, the George R. Brown Convention Center (GRBCC) expansion and a new downtown sports arena that will be the home for professional basketball and hockey. The GRBCC, which already provides close to 500,000 square feet of space, will be adding an additional 45,000 square feet of registration space, 420,000 square feet of exhibit hall space, and 78,000 square feet of meeting rooms in an effort to attract larger, more lucrative conventions to the Houston area. Upon completion, the larger GRBCC will enable Houston to more aggressively compete for America's biggest and best conventions.

In all, there are many new projects, innovations, and renovations taking place in downtown Houston. According to the Metropolitan Transit Authority, none are more exciting than the state-of-the art Light Rail System electrically powered from overhead wire with an initial fleet of fifteen cars. Due to board its first passengers in 2004, METRO's Downtown-to-Reliant Stadium light rail line will follow the Main Street Corridor, linking Downtown, Midtown, the Museum District, Hermann Park, the Texas Medical Center and the Reliant Stadium complex. This corridor will serve as the foundation for future light rail or corridor extensions, when voters approve them.

The train will stop at 16 stations, including Downtown, and the Texas Medical Center Transit Centers. Passengers may transfer to and from METRO buses and make connections to the University of Houston Downtown, two Houston College Campuses (Central and Southeast Galen), Rice University, the Houston Zoo, Market Square, Minute Maid Park, Reliant Stadium and the Exposition Center, and many other popular destinations.

Throughout this continued expansion, Houston has made considerable efforts to revitalize its inner city. With a resurgence of residential projects including urban housing such as the San Jacinto and Hermann Lofts and The Rice, to surrounding area efforts to enhance affordable housing opportunities, as well as restaurant, entertainment and sport venue development, Houston remains committed to promoting growth while enhancing quality of life. With the unprecedented growth and renewal underway, there remains the need for city services such as fire protection, etc. Currently, there are 88 fire stations in the City of Houston. Also, recent development incorporates a community atmosphere in an effort to foster a neighborhood way of life in the inner city. Projects such as Cotswold 2000, the Hobby Center for Performing Arts and Bayou Place provide entertainment and retail opportunities with a comfortable ambiance for city dwellers and downtown visitors alike. Similarly, Minute Maid Park, the Houston Astros' home, further promotes the downtown appeal. Other Houston sports include the two-time National Basketball Association (NBA) world-champion Houston Rockets, four-time Women National Basketball Association (WNBA) world-champion Houston Comets, and the Houston Aeros. The National Football League's (NFL) 32nd franchise, the Houston Texans, played its first season in 2002, in the new 69,500-seat Reliant Stadium. The NFL announced in November 2000 that Houston and Reliant Stadium would host America's biggest sporting event, Super Bowl XXXVIII in 2004. The table provides a list of the major Houston area sports teams.

Despite all the initiatives currently underway, Houston has not forgotten its civic and cultural arts. With the nation's fifth largest ballet and opera companies, world-traveling symphony orchestra and multiple theater companies, Houston is one of the few U.S. cities performing year-round. In addition, the theater district offers Houstonians the Houston Broadway Series performing shows direct from Broadway and London and is the largest non-profit producer of musical theater in America. Likewise, the museum district includes the Museum of Fine Arts, the sixth largest museum in the country with the opening of the Beck Building; the Contemporary Arts Museum; the C.G. Jung Education Center; the Children's Arts Museum; the Museum of Health and Medical Science; the Houston Zoo and the Museum of Natural Science, one of the most respected museums in the country. As a result, Houston is not only developing its economic base and revitalizing its inner city but does its utmost for the promotion and betterment of intellectual and cultural opportunities afforded to its citizens.

Houston Area Sports	
Professional Houston Sports Teams	Collegiate – competing in most major sports
TEXANS - National Football League – American Conference ASTROS - Major League Baseball – National League ROCKETS - National Basketball Association COMETS - Women's National Basketball Association AEROS - International Hockey League	Houston Baptist University Rice University Texas Southern University University of Houston
Houston Area Major Colleges and Universities	
Alvin Community College Baylor College of Medicine Blinn College Brazosport College College of the Mainland Galveston College Houston Community College System Lee College North Harris Montgomery Community College System San Jacinto College South Montgomery Community College System Wharton County Junior College	Houston Baptist University Prairie View A&M University Rice University Sam Houston State University South Texas College of Law Texas A&M University Texas Southern University Texas Women's University University of Houston University of Houston – Clear Lake University of Houston – Downtown University of Houston – Victoria University of Phoenix University of St. Thomas University of Texas – Health Science Center University of Texas – M.D. Anderson Cancer Center

**EXHIBIT 1
HOUSTON PMSA AT A GLANCE**

<u>POPULATION</u>		<u>NEW REAL ESTATE SUPPLY - RESIDENTIAL</u> (Units)	
1993	3,421,900	1993	22,871
1994	3,473,300	1994	30,257
1995	3,540,800	1995	28,115
1996	3,622,900	1996	30,431
1997	3,727,300	1997	41,546
1998	3,844,900	1998	56,307
1999	3,931,814	1999	42,582
2000	4,030,500	2000	37,655
2001	4,279,068	2001	39,222
2002	4,357,955	2002	43,014

<u>NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT *</u>		<u>RESIDENTIAL VACANCY RATE</u>	
1993	1,664,700	1993	10.5 %
1994	1,710,200	1994	10.5
1995	1,765,800	1995	10.5
1996	1,813,500	1996	9.9
1997	1,894,200	1997	8.9
1998	1,991,500	1998	7.9
1999	2,029,100	1999	8.0
2000	2,080,400	2000	8.1
2001	2,118,200	2001	7.5
2002	2,110,000	2002	6.9

<u>PERSONAL INCOME (Per Capita)</u>		<u>UNEMPLOYMENT RATE (*)</u>	
1993	23,499	1993	7.3 %
1994	24,221	1994	6.5
1995	25,687	1995	5.7
1996	27,161	1996	5.2
1997	29,393	1997	5.0
1998	31,470	1998	4.1
1999	32,386	1999	4.5
2000	34,477	2000	4.1
2001	33,919	2001	4.3
2002	35,123	2002	5.6

HOUSTON CONSUMER PRICE INDEX
ALL URBAN (1982-84 = 100)

	Average Index	% Change
1993	133.8	3.5 %
1994	137.9	3.1
1995	140.0	1.5
1996	142.8	2.0
1997	145.5	1.8
1998	146.8	0.9
1999	148.9	1.5
2000	154.5	3.7
2001	158.8	2.8
2002	159.4	0.4 **

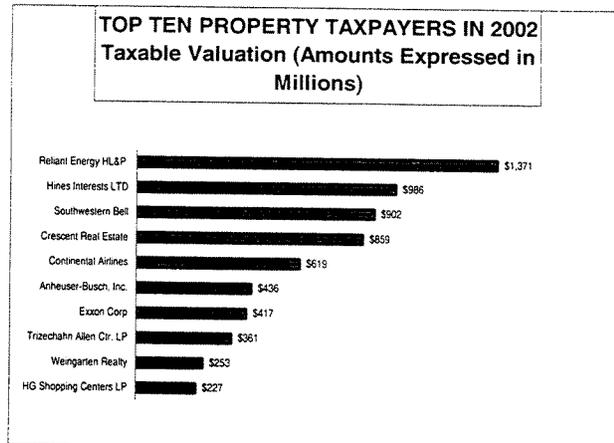
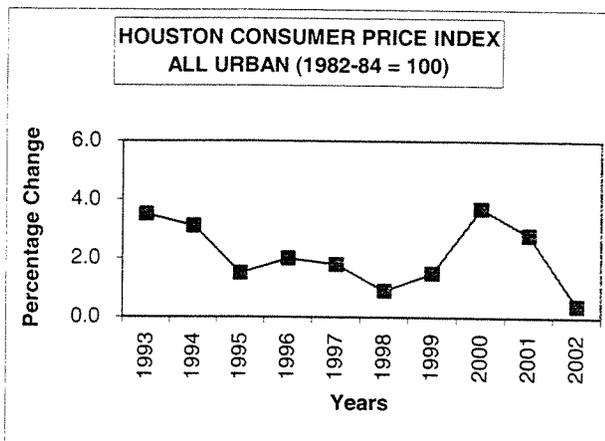
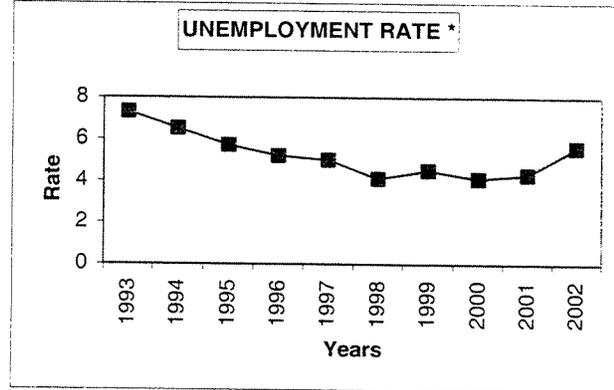
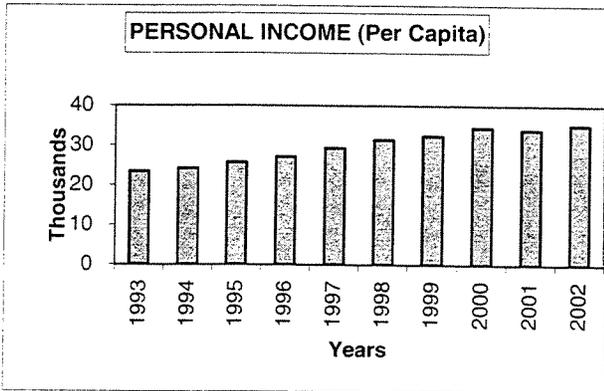
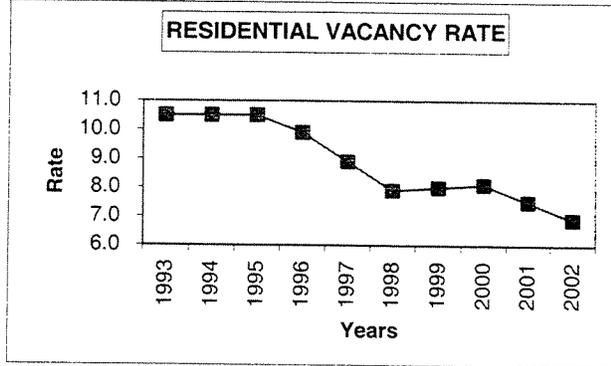
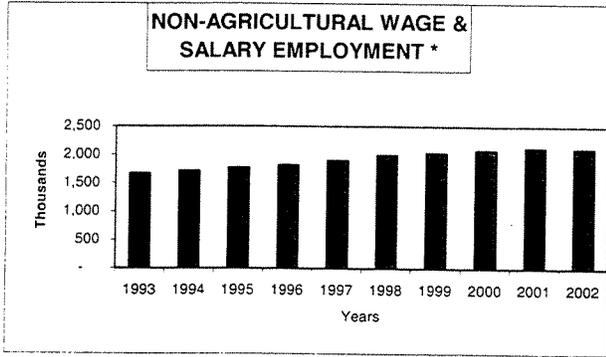
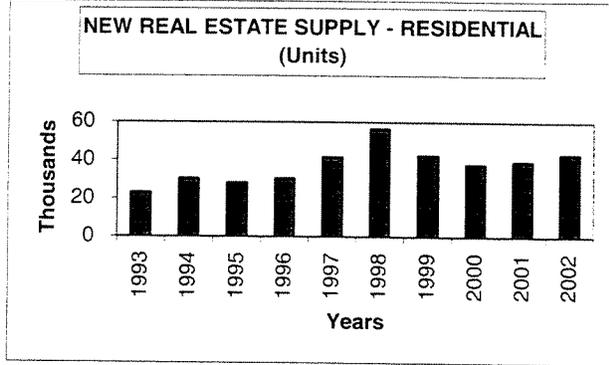
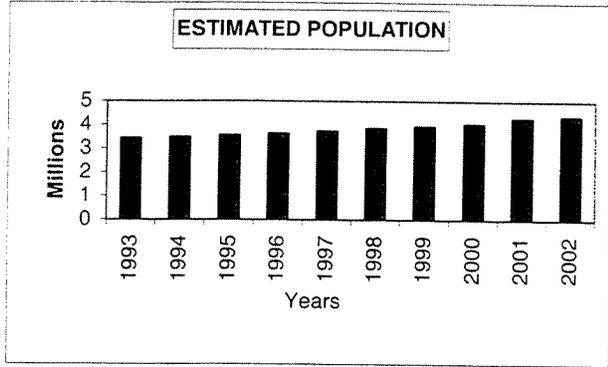
TOP TEN PROPERTY TAXPAYERS IN 2002
(Amounts Expressed in Millions)

	Taxable Value
Reliant Energy HL&P	\$1,371
Hines Interests LTD	986
Southwestern Bell	902
Crescent Real Estate Equ.	859
Continental Airlines	619
Anheuser Busch, Inc.	436
Exxon Corporation	417
Trizechahn Allen Ctr. LP	361
Weingarten Realty	253
HG Shopping Centers LP	227

PMSA: Primary Metropolitan Statistical Area
* Seasonally Adjusted

Source: University of Houston, Center for Public Policy (as of April, 2003 except as otherwise noted).

EXHIBIT 2
HOUSTON PMSA AT A GLANCE



* Seasonally Adjusted

ECONOMIC OUTLOOK

ECONOMIC INDICATORS

According to the Greater Houston Partnership's analysis of major trends, the primary external factors impacting the Houston economy for 2004 are the national domestic economy, the health of major foreign economies, energy prices and the strength of the dollar. According to the Greater Houston Partnership, the economic forecast for the future is a return to modest job growth and 2004 gains are expected to be stronger. Additionally, all sectors of Houston's economy show moderate gains in jobs over the next five years except construction.

The following table shows actual and projected economic indicators for the Houston PMSA (Primary Metropolitan Statistical Area).

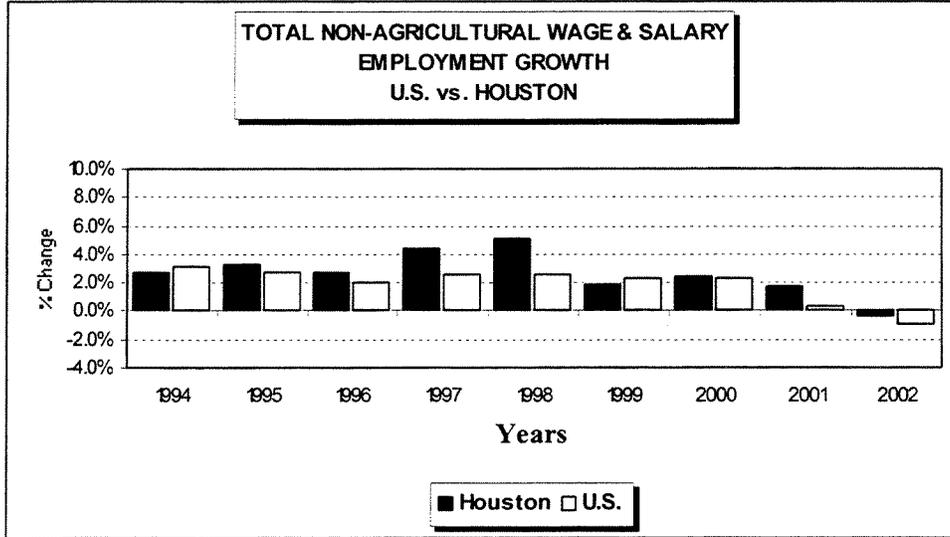
ECONOMIC INDICATORS SIX YEAR FORECAST (Revised October 2002) HOUSTON PMSA							
	2002	2003	2004	2005	2006	2007	2008
Population	4,296,296	4,332,270	4,410,689	4,495,954	4,563,355	4,638,631	4,742,115
	0.93%	0.84%	1.81%	1.93%	1.50%	1.65%	2.23%
Per Capita Income	\$ 33,785	\$ 35,147	\$ 36,913	\$ 38,895	\$ 40,102	\$ 41,779	\$ 43,944
	0.78%	4.03%	5.02%	5.37%	3.10%	4.18%	5.18%
Retail Sales (Millions)	\$ 59,452	\$ 62,349	\$ 66,049	\$ 70,034	\$ 73,315	\$ 77,253	\$ 82,173
	2.72%	4.87%	5.93%	6.03%	4.68%	5.37%	6.37%
Total Employment	2,119,425	2,149,241	2,203,193	2,256,295	2,297,774	2,352,154	2,415,326
	0.06%	1.41%	2.51%	2.41%	1.84%	2.37%	2.69%
Construction	161,147	155,302	149,558	145,843	144,299	143,294	144,353
	1.35%	-3.63%	-3.70%	-2.48%	-1.06%	-0.70%	0.74%
Trade	480,442	486,875	498,049	510,841	520,928	531,081	541,528
	0.62%	1.34%	2.30%	2.57%	1.97%	1.95%	1.97%
Services	667,154	686,178	715,911	744,764	769,110	801,321	836,230
	1.19%	2.85%	4.33%	4.03%	3.27%	4.19%	4.36%
Other Sectors	810,682	820,886	839,675	854,847	863,437	876,458	893,215
		1.26%	2.29%	1.81%	1.00%	1.51%	1.91%

Sources: University of Houston, Center for Public Policy, March 2003

EMPLOYMENT AND POPULATION

According to the University of Houston Center for Public Policy, in 2002, Houston's population grew at 0.93 percent, and will continue to grow at an estimated annual average of 1.66 percent during the next 6 years. Employment figures declined slightly, with total non-agricultural employment growth of -0.4 percent, but will grow at an average of 2.2 percent over the next six years.

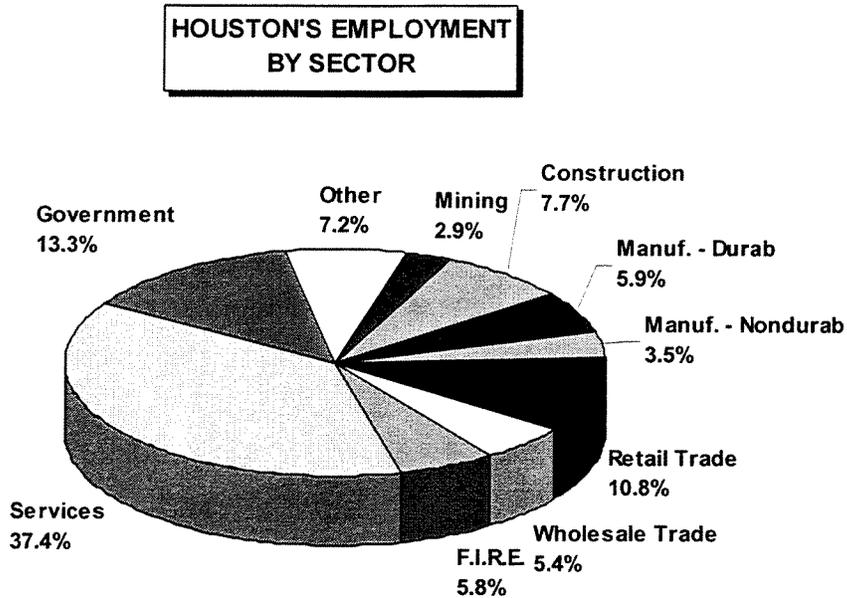
FIGURE 1



From January 1988 to January 2002, the historically dominant sectors of Houston's economy, mining, manufacturing, and construction, showed growth but were largely outpaced by the services sector which grew by more than 30 percent. According to the Greater Houston Partnership, in the services sector, educational and social services should experience the acceleration normal in periods of economic weakness, and engineering, accounting, research and management services can expect a slight downturn tied to energy and construction. It is estimated that the Services Producing sectors now make up over 79% of the total jobs in Houston.

(See Figures 1 and 2)

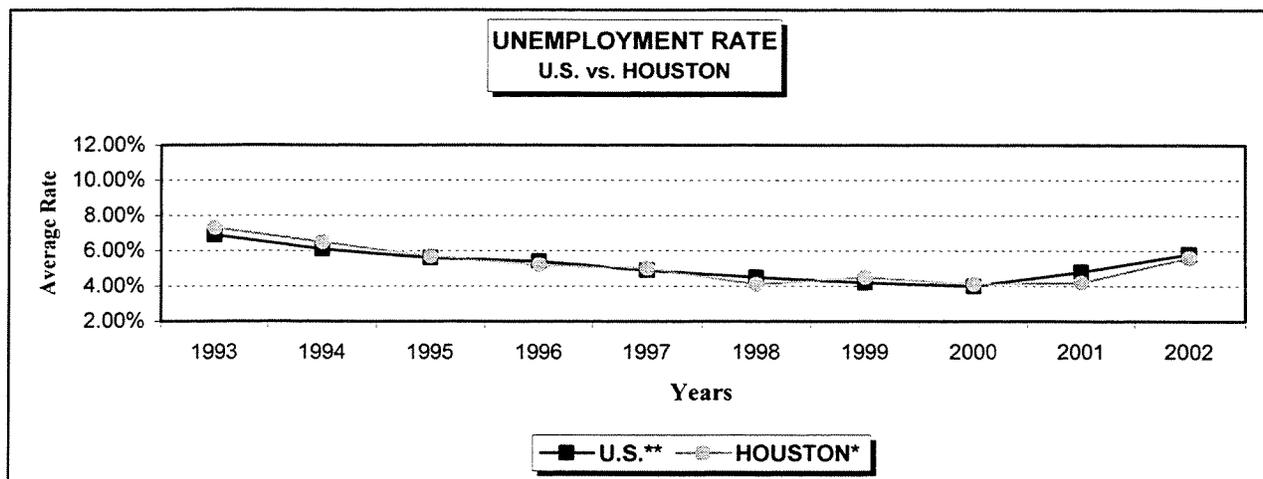
FIGURE 2



According to the University of Houston Institute for Regional Forecasting, employment growth is expected to remain fairly flat for the next six years. Jobs in the energy field continue to decline, and the non-energy base has become essentially flat. The Unemployment rates for both Houston and the U.S. were higher than the previous year; however, the Houston job market seems to have fared only slightly better than the nation, as Houston's unemployment rate for 2002 was 5.6 percent as compared to the national figure of 5.8 percent. Perhaps a contributory factor is that many businesses choose to locate in Houston because of its large workforce and low labor costs. Total employment is projected to increase by an annual average of 2.2 percent through 2008.

(See Figure 3)

FIGURE 3



ENERGY

The long years of worldwide historically low oil prices led Houston to improve efficiencies and diversify its economy tremendously. After 1982, the oil exploration and production industry made the necessary changes to profit in a newly efficient environment. As such, there have been many important technological advances, which have increased exploration efficiency more than threefold over the last 10 years and decreased finding costs by 40 percent in the past five years, according to the Greater Houston Partnership. Additionally, changes in the structure of the energy industry have resulted in oil and gas firms developing new ways to capitalize on skills, international contracts, and expertise.

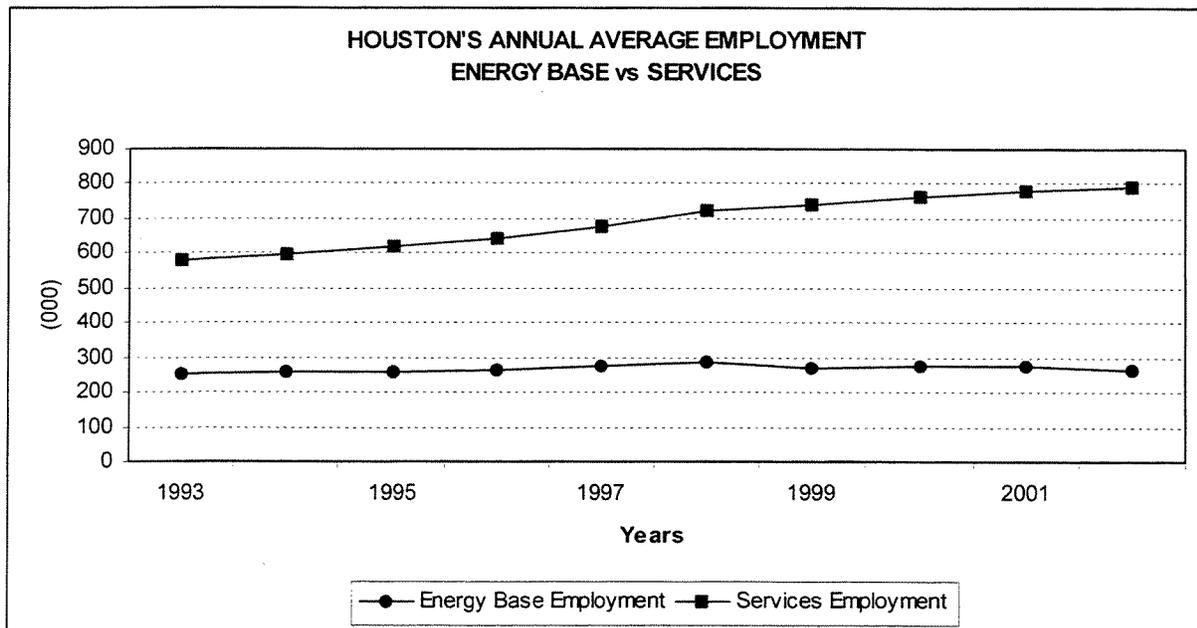
The recession that occurred after the eighties oil price decline, in fact, forced the local economy to move away from the heavy dependence on upstream energy (the exploration and production of oil and gas), oilfield equipment manufacturing, and pipeline transportation to shape its growth. This area, which once made up two thirds of the local economy, decreased to 35 percent in 1999. Energy dependent base employment for 2002 is 262,000 or just 12% of the Total Nonagricultural employment for the Houston PMSA.

According to the Greater Houston Partnership, Houston is the leading domestic and international center for virtually every segment of the oil and gas industry; exploration, production, transmission, marketing, service, supply, offshore drilling, and technology. Houston is home to 47 of the nation's 200 largest publicly traded oil and gas exploration and production firms. Further, many major oil and gas companies have operations in Houston.

SERVICES

In December 1981, Houston's base economy depended heavily (84 percent) on energy-related jobs. In 2001, only 49 percent of all jobs were energy related. Since the recession of the early eighties, there has been astounding growth in services employment (See Figure 4). According to Dr. M. Ray Perryman, of The Perryman Texas Newsletter, "the outlook is a positive one. The Houston area will see moderate growth over the next 25 years as the area continues to diversify away from its dependence on the oil and gas sector." He further adds, "the region has developed key strengths in significant areas, most notably in export-related fields, medical and medical research facilities, and business services."

FIGURE 4



Job growth in the services sector is expected to continue through the next five years averaging 3.1 percent growth, according to the University of Houston Center for Public Policy's Institute for Regional Forecasting. Some of the largest employers in this sector are recognized worldwide. The Texas Medical Center is the largest in the nation, with 13 hospitals, two medical schools and four nursing schools, and employs 61,041 persons. The Johnson Space Center, another entity in the service sector, employs approximately 3,300 civil service personnel, 64 percent of who hold science or engineering positions, and about 11,000 contractor personnel. The Johnson Space Center is the world leader in manned space flight operations and is home to the infamous "Mission Control" that oversaw and managed history making manned space flight operations from Mercury to the Apollo Moon landings, the Space Shuttle program and now the International Space Station. With the advent of the Space Launch Initiative, the planned development of the next generation Space Plane to replace the current Space Shuttle fleet and completion of the International Space Station over the next few years, the Johnson Space Center is positioned to remain a vibrant and active part of Houston's economy for the foreseeable future.

TRADE

Houston's trade is primarily a function of the Port of Houston and the Houston Airport System (HAS). During 2000, 191.4 million tons of cargo was moved through the Port of Houston with an estimated 194 million tons during 2001. The port's strategic location in the Gulf of Mexico and proximity to Latin American markets facilitates trade with European, Middle Eastern and Latin American countries. Houston's top trading partners (combined imports and exports by tonnage) are Mexico, Venezuela, Saudi Arabia, Algeria and Iraq. The Port of Houston is ranked first in the United States in foreign waterborne tonnage, second in total tonnage, and sixth in the world. The top five trading partners accounted for 34 percent of total foreign shipments. The top five commodities traded – petroleum and petroleum products; machinery, organic chemicals, iron and steel, and electric machinery – were 68 percent (by dollar value) of the total.

Air cargo through the Houston Airport System totaled 638.8 million pounds in 2001. According to the Greater Houston Partnership, IAH is ranked as the 12th largest international air cargo gateway in the United States and remains in the top 25 nationally for total air cargo volume.

According to the University of Houston Institute for Regional forecasting, retail trade employment will decrease 2.3 percent, while wholesale trade employment declines by 1.8 percent in 2003.

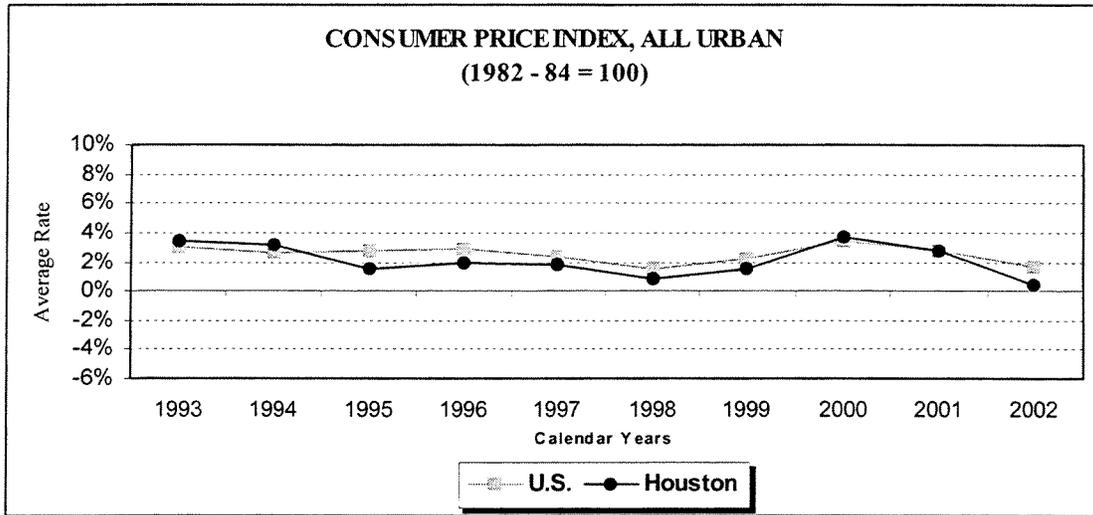
PER CAPITA INCOME

Per capita income is an average calculated by the sum of all sources of income (wages, salaries, profits, interest, rents and transfer payments) divided by the population of a specific area. Per capita income is widely used to compare the standards of living in different regions. In Houston, personal income rose from \$33,785 in 2002 to \$35,147 in 2003; a 4.0 percent increase and is projected to increase an average of 3.7 percent annually for the six years from 2003 through 2008.

PRICES

Inflation is measured by the Consumer Price Index (CPI). The CPI is the nation's best-known inflation indicator. It is a measure of the average change over time in the prices paid by urban consumers for a fixed market basket of consumer goods and services from A to Z. The CPI provides a way for consumers to compare what the market basket of goods and services costs this month with what the same market basket cost a month or a year ago. Compared to the nation's rate, Houstonians enjoyed extremely low inflation during the period from 1995 to 1999. In 2000, however, Houston's CPI for all urban consumers stood at 3.7 percent, increasing from 1.5 percent in 1999. In 2001, Houston's CPI was slightly down, at 2.8 percent, which was identical to that of the nation. IN 2002, the CPI for Houston dropped to its lowest level in the past decade to 0.4 percent, well below the national CPI of 1.6 percent. (See Figure 5)

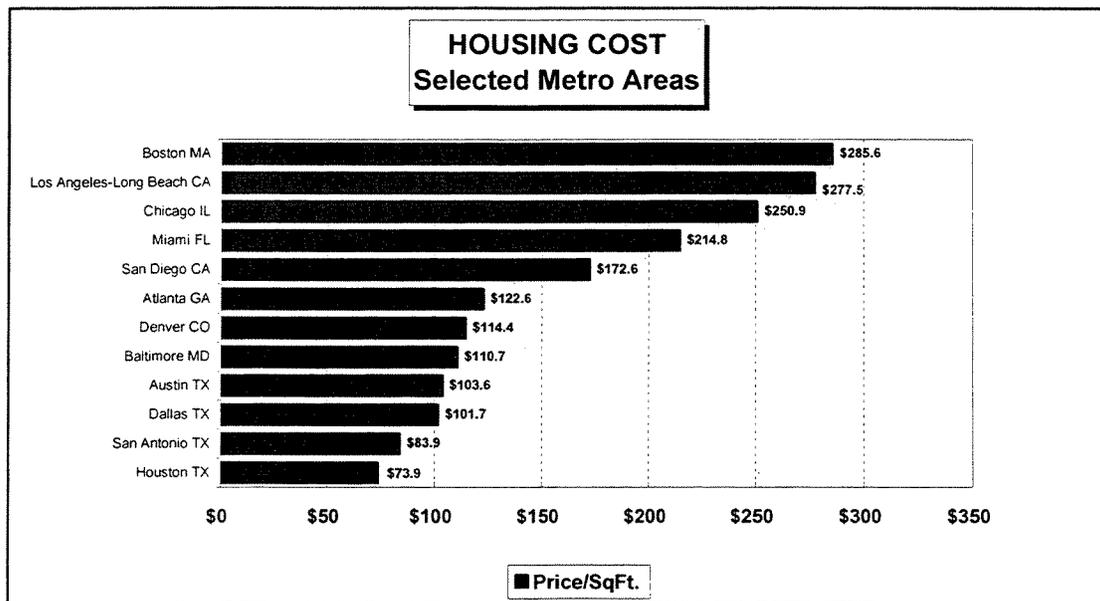
FIGURE 5



HOUSING COSTS

Houston's low inflation rate is the result of strong petrochemical and energy industries, an abundance of available land, and low labor costs. Consequently, commodity prices are low and housing costs continue to be among the lowest for major U.S. metropolitan areas. According to the Annual Coldwell Banker Home Price Comparison Index, in the fourth quarter of 2002, cost of new housing in Houston rose to \$73.85 per square foot from \$67.59 reported last year. This is less than other major metropolitan areas in Texas and significantly less than other major metropolitan areas across the nation. (See Figure 6)

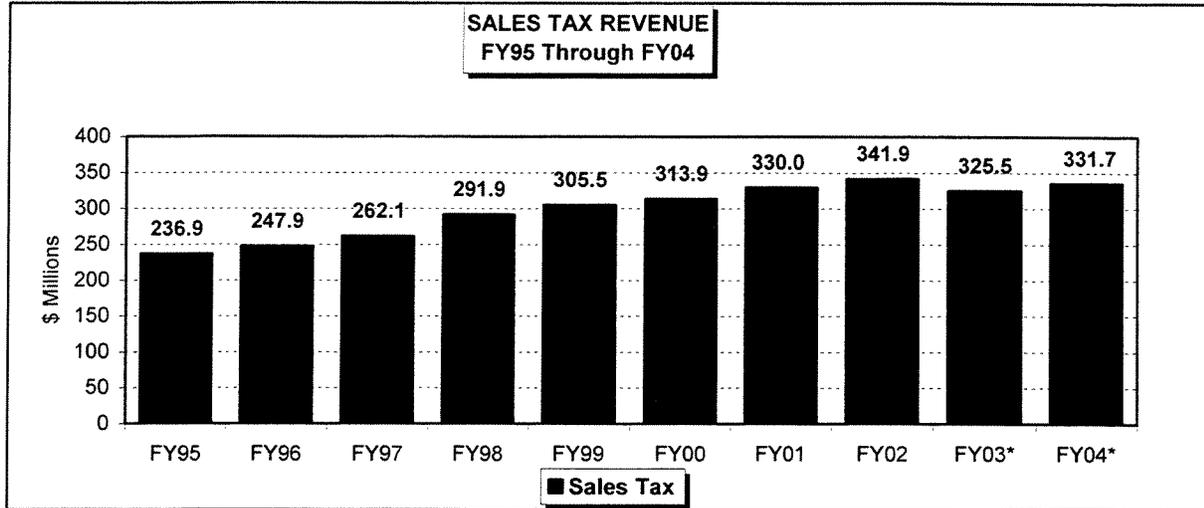
FIGURE 6



SALES TAX REVENUE

Sales tax revenue is generated from a one-cent sales tax on certain goods and services sold within the City limits and is extremely susceptible to local economy changes. Sales tax revenue declined to a projected \$325 million in FY2003 compared to \$342 million the prior year, but is expected to recover to \$331.7 million in FY2004 as the economy begins to improve.

FIGURE 8

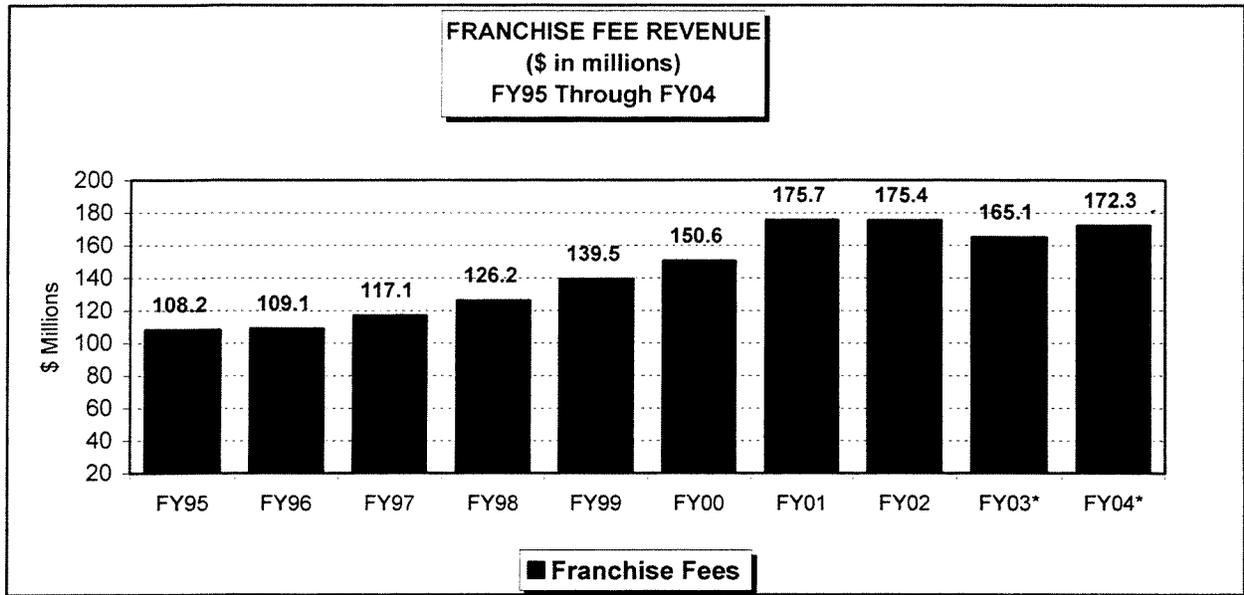


FRANCHISE FEES

For FY2003, Franchise fees account for approximately 12.1 percent of total General Fund revenues. The City has contractual agreements with different utility companies such as electric, telephone, gas, etc. where the City charges the companies for the use of city streets and other public rights-of-way. In FY2002 franchise fees received accounted for 13 percent of the total General Fund revenues. It is estimated that franchise fees will be \$165.1 million in FY2003 and increase to \$172.3 million in FY2004.

Although franchise fees from Cable TV and Fiber Optics have steadily increased from FY1996 to FY2001, they declined slightly in FY2002 and are expected to further decline in FY2003 due to factors such as increased competition from digital satellite service and other media. The graph in Figure 9 shows franchise fees revenues since FY1995.

Figure 9



Sources:

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