

## **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 4.4 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 recently completed 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 the Toyota Center, a new downtown sports arena that is the home for professional basketball and hockey. The GRBCC, has added 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 to its previous 500,000 square feet of space, in an effort to attract larger, more lucrative conventions to the Houston area. 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. Boarding its first passengers in January 2004, METRO's Downtown-to-Reliant Stadium light rail line follows the Main Street Corridor, linking Downtown, Midtown, the Museum District, Hermann Park, the Texas Medical Center and the Reliant Stadium complex. This corridor serves as the foundation for future light rail or corridor extensions, as voters approve them.

The train stops 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. Houston and Reliant Stadium hosted America's biggest sporting event, Super Bowl XXXVIII in January 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.

<b>Houston Area Sports</b>	
<b>Professional Houston Sports Teams</b>	<b>Collegiate – competing in most major sports</b>
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
<b>Houston Area Major Colleges and Universities</b>	
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)	
1994	3,513,300	1994	30,257
1995	3,590,800	1995	28,115
1996	3,692,900	1996	30,431
1997	3,829,300	1997	40,282
1998	3,964,900	1998	55,053
1999	4,057,800	1999	40,951
2000	4,177,600	2000	36,009
2001	4,268,100	2001	37,300
2002	4,340,289	2002	46,636
2003	4,381,975	2003	55,664

<u>NON-AGRICULTURAL WAGE &amp; SALARY EMPLOYMENT *</u>		<u>RESIDENTIAL VACANCY RATE</u>	
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	7.9
2000	2,080,400	2000	7.2
2001	2,118,700	2001	6.8
2002	2,112,000	2002	6.9
2003	2,095,800	2003	7.7

<u>PERSONAL INCOME (Per Capita)</u>		<u>UNEMPLOYMENT RATE (*)</u>	
1994	23,933	1994	6.5 %
1995	25,318	1995	5.7
1996	26,702	1996	5.2
1997	28,831	1997	5.0
1998	31,136	1998	4.1
1999	31,995	1999	4.5
2000	33,487	2000	4.1
2001	35,872	2001	4.3
2002	33,739	2002	5.9
2003	34,379	2003	6.7

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

	<u>Average Index</u>	<u>% Change</u>
1994	137.9	3.1 %
1995	139.8	1.4
1996	142.7	2.1
1997	145.4	1.9
1998	146.8	1.0
1999	148.7	1.3
2000	154.2	3.7
2001	158.8	3.0
2002	159.2	0.4
2003	163.7	2.8 **

**TOP TEN PROPERTY TAXPAYERS IN 2003**  
**(Amounts Expressed in Millions)**

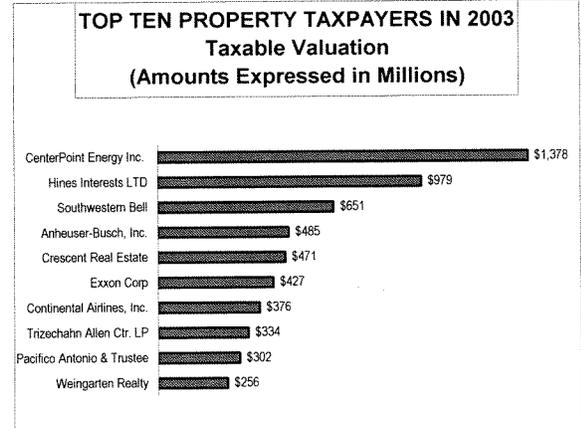
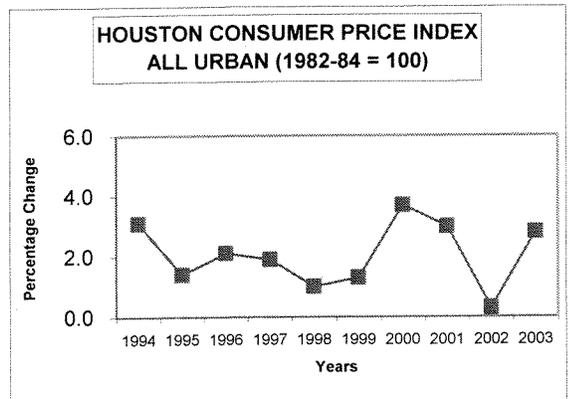
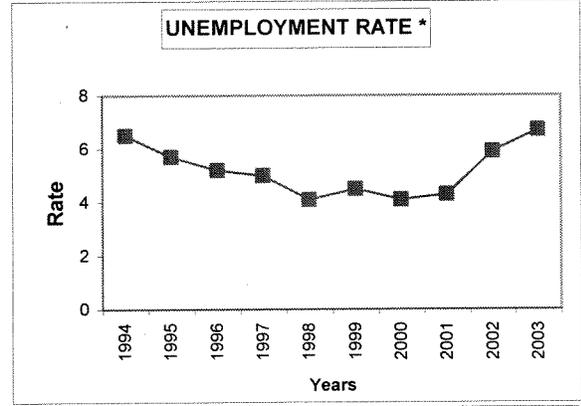
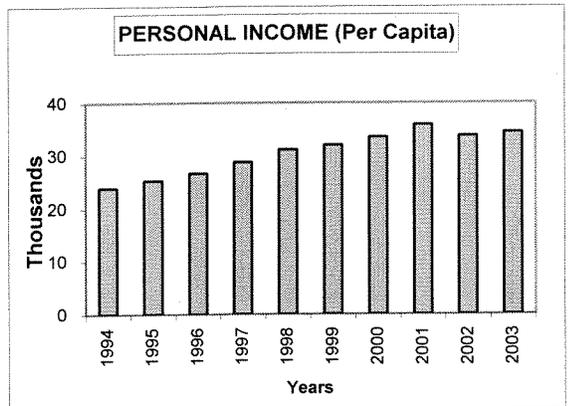
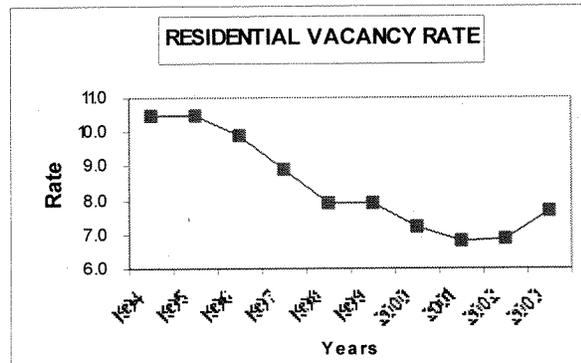
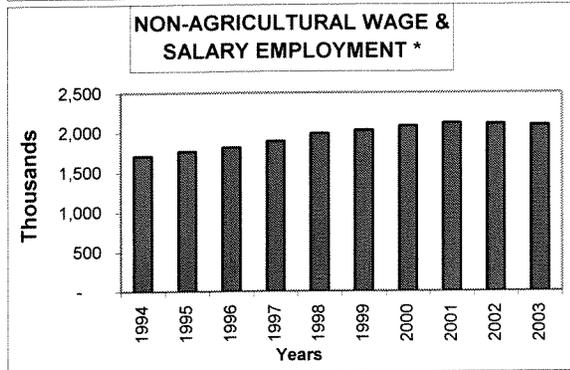
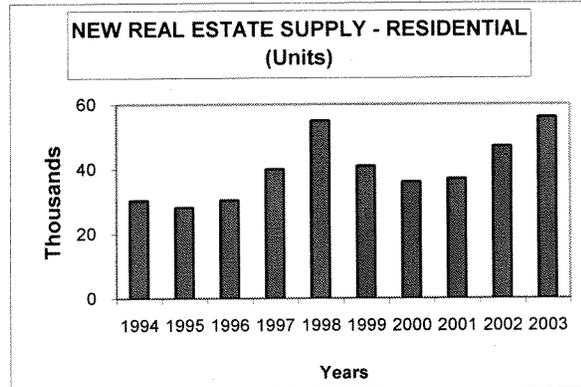
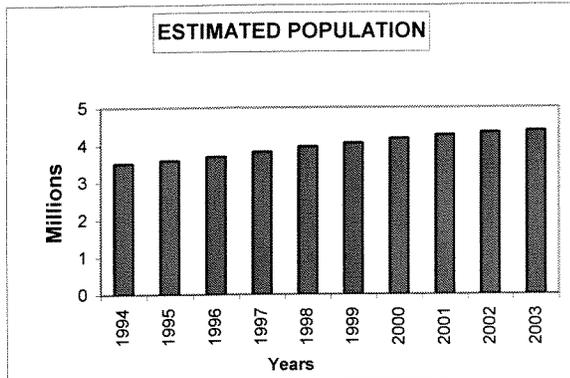
	<u>Taxable Value</u>
CenterPoint Energy Inc.	\$1,378
Hines Interests LTD	979
Southwestern Bell	651
Anheuser Busch, Inc.	485
Crescent Real Estate	471
Exxon Corporation	427
Continental Airlines	376
Trizechahn Allen Ctr. LP	334
Pacifico Antonio & Trustee	302
Weingarten Realty	256

PMSA: Primary Metropolitan Statistical Area

\* Not Seasonally Adjusted

Source: University of Houston, Center for Public Policy (as of March, 2004 except as otherwise noted).

## EXHIBIT 2 HOUSTON PMSA AT A GLANCE



\* Not 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 2005 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 2005 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).

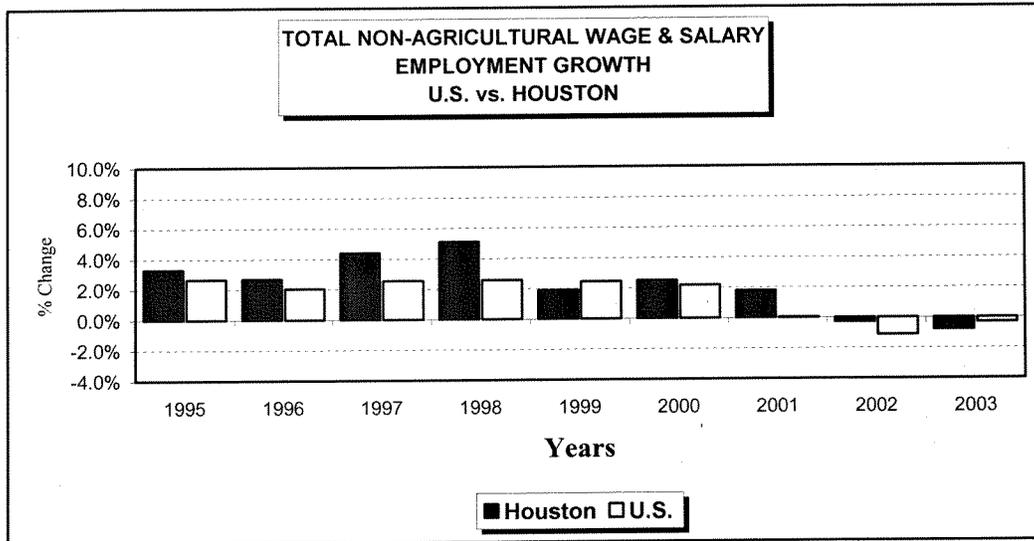
ECONOMIC INDICATORS SIX YEAR FORECAST (Revised November 2003) HOUSTON PMSA							
	2002	2003	2004	2005	2006	2007	2008
Population	4,340,289 1.69%	4,381,975 0.96%	4,430,278 1.10%	4,508,817 1.77%	4,602,767 2.08%	4,485,458 1.80%	4,781,104 2.04%
Per Capita Income	\$ 33,739 0.65%	\$ 34,379 1.90%	\$ 35,648 3.69%	\$ 37,525 5.27%	\$ 39,176 4.40%	\$ 40,506 3.39%	\$ 42,283 4.39%
Retail Sales (Millions)	\$ 59,916 3.23%	\$ 61,738 3.04%	\$ 64,521 4.51%	\$ 68,809 6.65%	\$ 73,193 6.37%	\$ 76,620 4.68%	\$ 80,974 5.68%
Total Employment	2,110,000 -0.41%	2,103,107 -0.33%	2,133,855 1.46%	2,186,987 2.50%	2,240,588 2.45%	2,279,848 1.75%	2,333,402 2.35%
Construction	161,133 0.49%	161,484 0.23%	161,778 0.18%	162,202 0.26%	163,895 1.04%	163,243 -0.40%	166,022 1.70%
Trade	473,000 -0.73%	461,962 -2.33%	465,058 0.67%	473,588 1.83%	482,103 1.80%	490,186 1.68%	498,762 1.75%
Services	668,061 1.09%	677,845 1.46%	695,313 2.58%	724,901 4.26%	755,754 4.26%	778,336 2.99%	804,994 3.42%
Other Sectors	807,826	801,817 -0.74%	811,595 1.22%	826,295 1.81%	838,835 1.52%	848,082 1.10%	863,624 1.83%

Sources: University of Houston, Center for Public Policy, February 2004

**EMPLOYMENT AND POPULATION**

According to the University of Houston Center for Public Policy, in 2003, Houston's population grew at 0.96 percent, and will continue to grow at an estimated annual average of 1.76 percent during the next 5 years. Employment figures declined slightly, with total non-agricultural employment growth of -0.8 percent, but will grow at an average of 2.1 percent over the next five years.

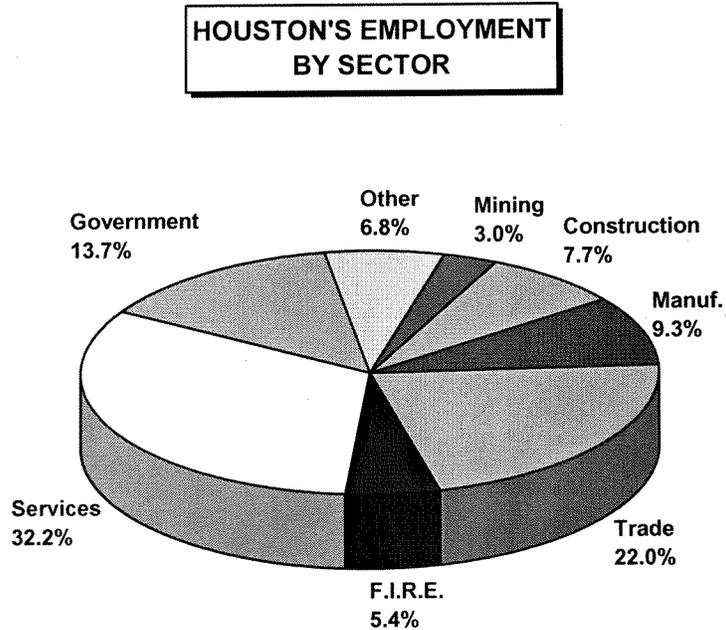
FIGURE 1



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.

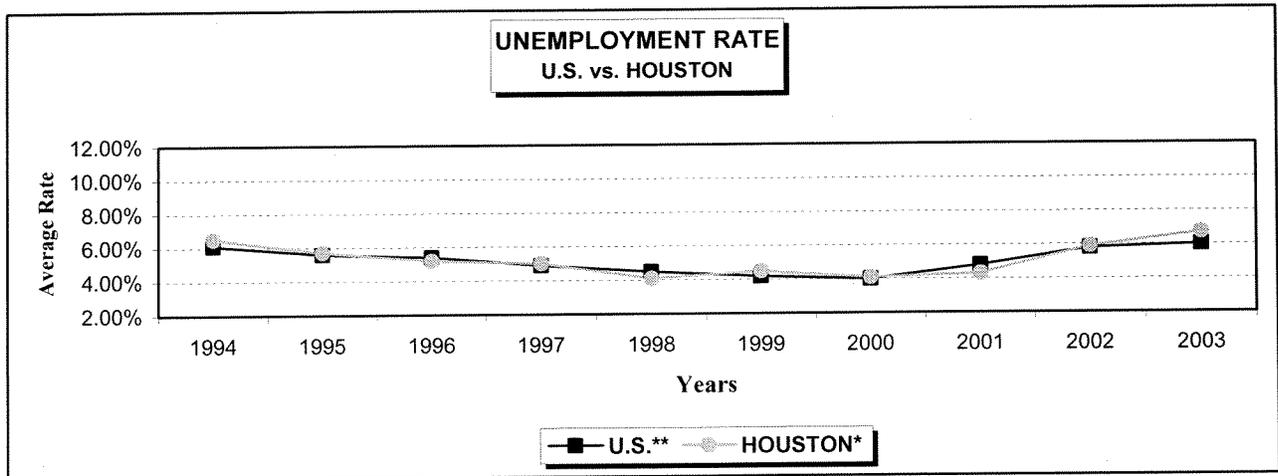
(See Figures 1 and 2)

FIGURE 2



According to the University of Houston Institute for Regional Forecasting, employment growth is expected to remain fairly flat for the next five 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 slightly worse than the nation, as Houston's unemployment rate for 2003 was 6.7 percent as compared to the national figure of 6.0 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.

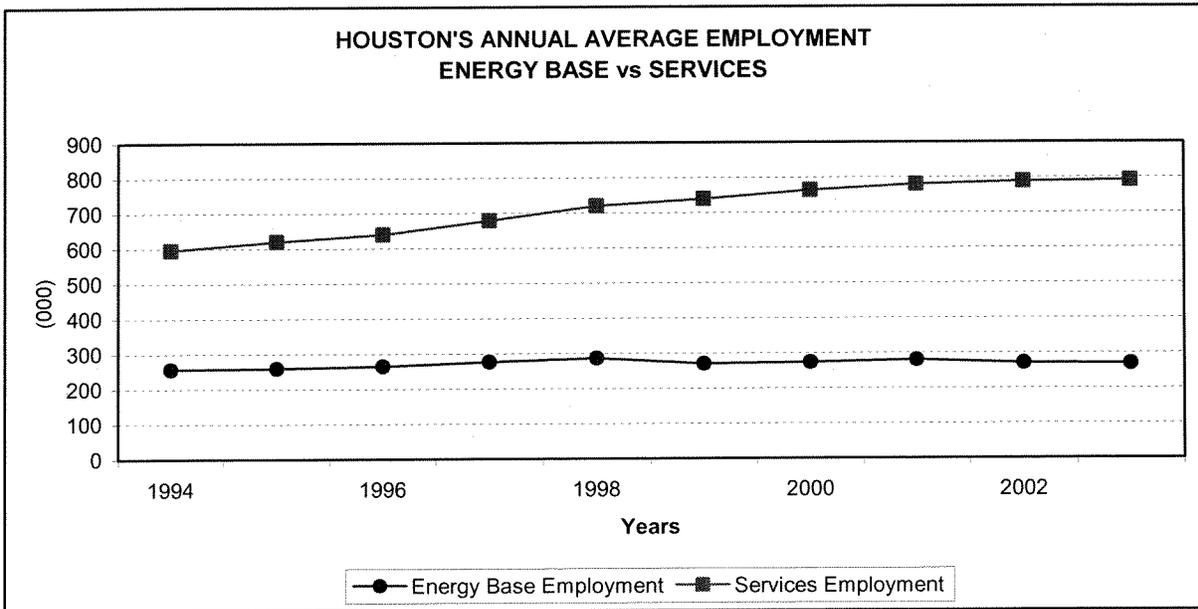
The recession that occurred after the eighties oil price decline, in fact, forced the local economy to move away from the heavy dependence on upstream energy (the exploration and production of oil and gas), oilfield equipment manufacturing, and pipeline transportation to shape its growth. This area, which once made up two thirds of the local economy, decreased to 35 percent in 1999. Energy dependent base employment for 2003 is 291,200 or just 14% 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 four years averaging 3.7 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 12<sup>th</sup> 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, trade employment will increase 0.7 percent in 2004.

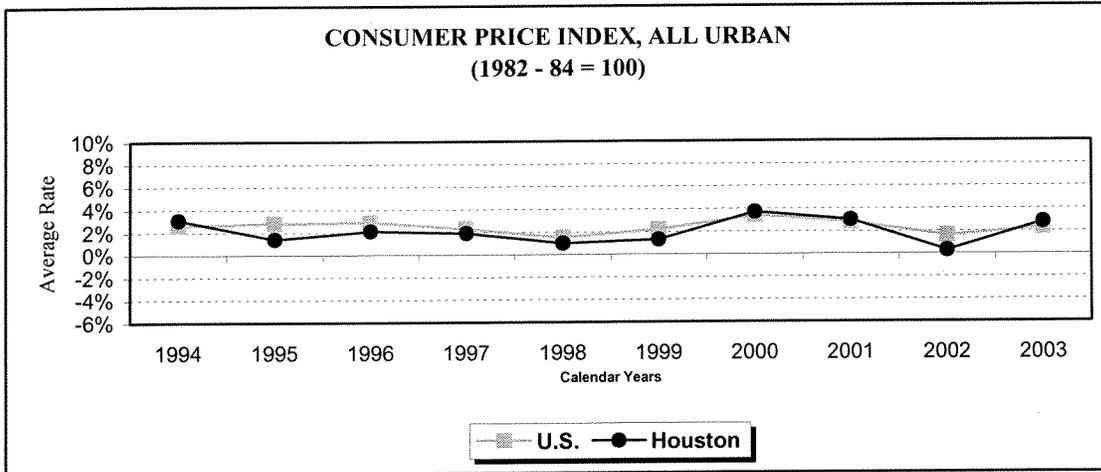
### **PER CAPITA INCOME**

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 \$34,379 in 2003 to \$35,648 in 2004; a 3.7 percent increase and is projected to increase an average of 4.4 percent annually for the four years from 2005 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 (184.0), Houstonians enjoy lower inflation (163.7), approximately 11 percent lower than the nation for 2003, even though the rate of change for 2003 was slightly higher in Houston. (See Figure 5)

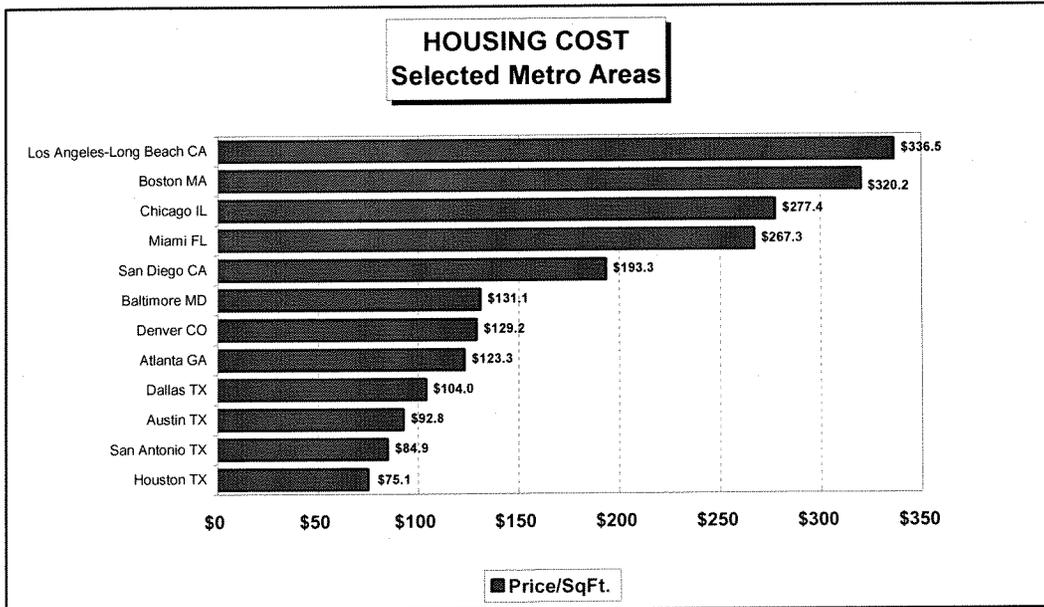
FIGURE 5



**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 2003, cost of new housing in Houston rose to \$75.11 per square foot from \$73.85 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



**Sources:**

- DataBook, Houston. - University of Houston, Center for Public Policy.
- Houston Facts. - The Greater Houston Partnership Research Department.
- City of Houston, Aviation Department.
- City of Houston, Convention and Entertainment Facilities Department.
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- Downtown Houston Association.
- Harris County – Houston Sports Authority.
- Houston Downtown Management District.
- Coldwell Banker 2003 Home Price Comparison Index