

DEMOGRAPHIC & ECONOMIC SUMMARY OF THE CITY



The City of Houston was founded on August 30, 1836, by brothers Augustus Chapman Allen and John Kirby Allen, and named after General Sam Houston. The City of Houston's simple 19th century city seal – the noble locomotive (heralding Houston's spirit of progress) and the humble plow (symbol of the agricultural empire of Texas from which Houston would draw her wealth) – clearly speaks to the roots of Houston's economy and to the visionary leadership of its citizens.

According to the United States Census Bureau, Houston has a total area over 600 square miles comprising of 579.4 square miles of land and 22.3 square miles of water. Houston is the fourth most populous city in the nation with an estimated 2014 population of 2,239,558 (3,502 people per square mile), just behind New York, Los Angeles and Chicago; and is the largest city in the southern U.S. and Texas.

With 6,656,947 inhabitants in 2015, the nine-county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA) is the nation's fifth most populous metro area. The entire MSA covers more than 10,000 square miles and includes all or part of the Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller counties. Houston is the center city of one of the most dynamic urban centers in the United States.

2014 City Population				
New York	Los Angeles	Chicago	Houston	Philadelphia
8,491,079	3,928,864	2,722,389	2,239,558	1,560,297
2015 Metro Area Population				
New York, Newark, Jersey City, NY-NJ-PA				20,182,305
Los Angeles, Long Beach, Anaheim, CA				13,340,068
Chicago, Naperville, Elgin, IL-IN-WI				9,551,031
Dallas, Fort Worth, Arlington, TX				7,102,796
Houston, The Woodlands, Sugar Land, TX				6,656,947
Washington D.C., Arlington, Alexandria, VA-MD-WV				6,097,684
Philadelphia, Camden, Wilmington, PA-NJ-DE-MD				6,069,875

Population growth continues in the city and the metropolitan area: the Houston metro area added 159,083 residents from July 2014 to July 2015, according to U.S. Census data that show the area gaining more population than any other metro area in the nation. Every Houston-area county experienced population growth in 2015, and Harris County led the nation's counties in population growth, adding 90,451 residents (among counties with 250,000 people or more, Fort Bend showed the fastest percentage growth with a 4.3% population increase in one year). Houston also stands among the nation's most diverse cities, drawing newcomers from around the U.S. and across the world – foreign-born residents accounted for two of every five newcomers to the region in the past five years.

According to the U.S. Census Bureau, as of 2010, Houston's population breakdown by race and ethnicity was as follows: Hispanic or Latino origin 43.8%; White (not Hispanic) 25.6%; African-American 23.7%; Asian 6.0%; American Indian and Alaska Native 0.7%; Native Hawaiian and Pacific Islander 0.1%; and persons of two or more races 3.3%. Additionally, 49.8% of Houston's population is female; 25.9% of all persons are under 18 years of age and 9.0% are over 65 years; 28.3% of all persons are foreign born; and 46.3% of all households speak a language other than English.

While the economy has started to slow, population growth is still likely to continue, albeit at a reduced pace. The region records an annual "natural increase" in population of about 60,000, as births outpace deaths, and this means that even a 50% drop in the number of residents moving to Houston would yield annual population

growth of nearly 90,000. The Greater Houston Partnership notes that population growth has been steady over the past 15 years, with the region's population increasing from 3.7 million to 6.6 million and showing few effects from upswings and downturns in oil prices.

MAJOR TRANSPORTATION FACILITIES

Houston is an international city with the third largest consular corps in the nation as well as trade and business connections across the U.S. and around the world. Two in five Houstonians are foreign born, and there are seventeen sister-cities to Houston on five continents. Two major transportation facilities provide the backbone for Houston in these regards: the Port of Houston and the Houston Airport System.

The **Port of Houston** is a 25-mile long complex of diversified public and private facilities located just a few hours by ship from the Gulf of Mexico. A study in 2015 by Martin Associates says Ship Channel related businesses contribute more than \$264.9 billion in statewide economic impact. At the close of 2015, the Port surpassed 2 million twenty-foot-equivalent units (TEUs) handled, setting a new record and solidifying its position as the leading container port on the U.S. Gulf Coast.

The **Houston Airport System (HAS)** ranks as one of the largest multi-airport systems in the world. The system includes George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU) and Ellington Airport (EFD). Ranked as the 11th busiest airport in the U.S. for total passenger traffic, IAH is Houston's largest airport and the largest hub for United Airlines. HOU, Houston's original municipal airport, handles domestic & international passengers for five airlines and one charter service, and, is a key hub for Southwest Airlines. EFD is a joint military and civilian airport and serves as a base of operations for the National Aeronautics and Space Administration (NASA) and corporate charters.

Known worldwide as the place for NASA mission control, **Johnson Space Center (JSC)** is a \$1.5-billion complex, which was established as the Manned Spacecraft Center in 1961 and renamed in 1973 to honor the late President and Texas native Lyndon B. Johnson. NASA JSC occupies 1,620 acres 24 miles southeast of downtown Houston. While the NASA workforce continues a global reputation for achievement in space exploration, JSC is an economic powerhouse paying for salaries, contracts and grants that create jobs and strengthen business in the Clear Lake and Houston regions and across Texas. JSC is one of NASA's largest Research & Development facilities and a source of the nation's best high-tech professionals in science and engineering.

HEALTH AND EDUCATION

The Houston region's health care system provides quality care from specialized to routine care for patients that come from around the world. Houston is home to the Texas Medical Center (TMC), the largest medical center in the world. TMC is comprised of 21 renowned hospitals, 14 support organizations, 10 academic institutions, 8 academic and research institutions, 7 nursing programs, 3 public health organizations, 3 medical schools, 2 pharmacy schools and 1 dental school. Eight million patients per year visit the TMC. Houston proudly supports the TMC and their dedication to provide employment for over 106,000 employees.

The **Houston Independent School District (HISD)** is the largest school district in the Houston area. Ranked as the nation's seventh largest district, HISD serves 301 square miles with 283 schools, 11,645 teachers and more than 215,000 students. HISD serves a dynamic, highly diversified community and is one of Houston's largest business enterprises.

Additionally, Houston boasts more than 100 colleges, universities, technical and trade schools – offering higher education options in more than 500 degrees and certification programs.

ARTS AND ENTERTAINMENT

Houston provides a wide variety of arts and entertainment including theater arts, museums and sports. The City is home to the Houston Livestock Show and Rodeo, which is the largest rodeo in the world. With the nation's fifth largest ballet and opera companies, Houston is also one of only five cities in the United States with permanent professional resident companies in all of the major performing arts disciplines of opera, ballet, music, and theater. Home to nine world-class performing arts organizations, Houston Theater District is second only to New York in the number of theater seats in a concentrated area. The Houston Grand Opera is the only opera company in the U.S. to win a Grammy, a Tony and an Emmy while the Alley Theatre is the only regional theatre in Texas to win a Tony award. Other performing arts companies such as Broadway in Houston, Da Camera of Houston, Houston Symphony, Society for the Performing Arts, Theatre Under the Stars (TUTS), Ensemble Theater and Uniquely Houston also serve to enrich the lives of Houston area residents.

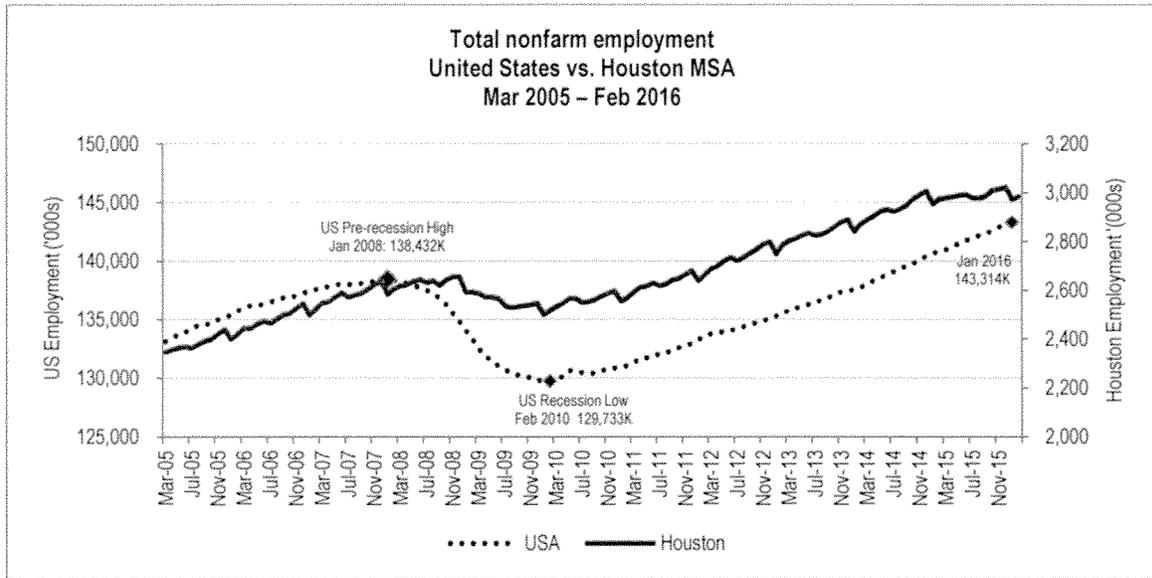
The distinctive Houston Museum district is one of the best in the country. It offers a range of museums, galleries, art and cultural institutions. With its nineteen members within a 1.5 miles radius, the district offers a wide array of exhibits featuring themes of art, history, culture, nature, and science. Among the country's best are The Children's Museum of Houston, the Health Museum and the Museum of Fine Arts. Houston has more than 500 cultural, visual and performing arts organizations, 90 of which are devoted to multicultural and minority arts.

Houston has professional sports teams representing football, baseball, basketball and soccer. The City boasts an array of teams such as the Houston Texans, Houston Dynamo, Houston Rockets, and Houston Astros. Houston has established itself as a destination for hosting major sporting events such as 2004 Super Bowl XXXVIII, 2005 World Series, USA Gymnastics 2008 Men's Visa Championship, 2010 Major League Soccer All Star Game, 2011 NCAA Men's Final Four, 2012 Amateur Athletic Union Junior Olympic Games, 2013 NBA All Star Game, and 2015 Major League Lacrosse All Star Game. The City had recently hosted the 2016 NCAA Men's Final Four Champion and is looking forward to host the upcoming 2017 Super Bowl LI.

ECONOMIC OUTLOOK

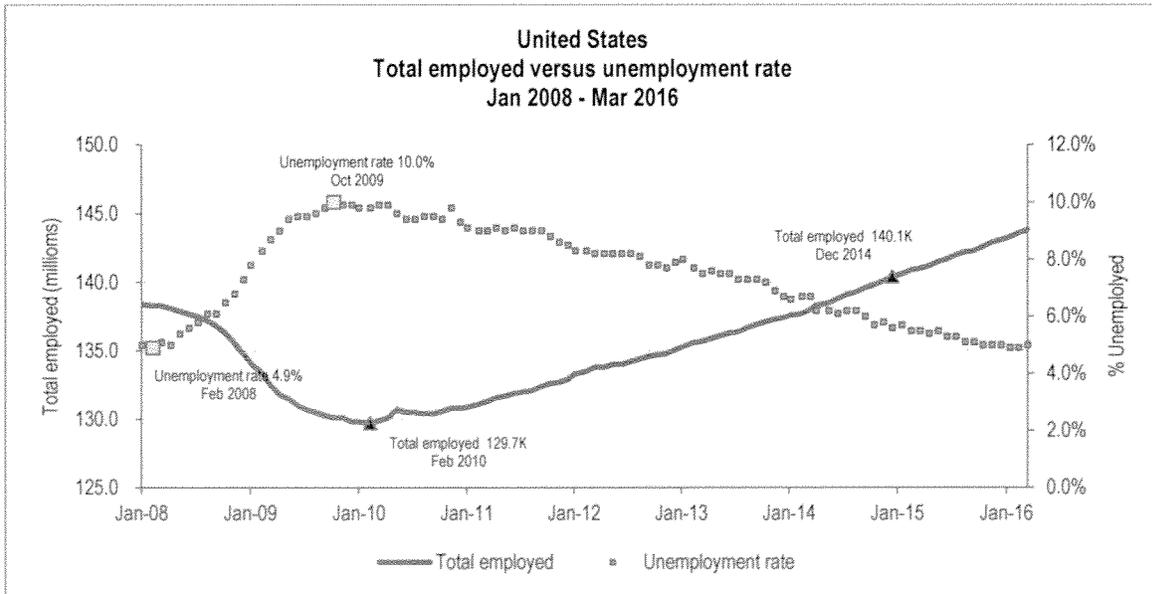
For the fifth time in 35 years, Houston faces economic uncertainty brought on by falling oil prices. Rigs are idled and the City's sales tax revenue has fallen. The Houston Purchasing Managers Index for March 2016 registered 45.9, up from February's 44.5 mark but below the 50-point level required to indicate economic expansion (the index has now signaled economic contraction in Houston for 15 straight months). Also, construction has slowed as new capacity generates office and multi-family supply that could outstrip demand.

The region's economy remained relatively strong through and following the Great Recession; as indicated in the chart below, Houston never saw the dramatic employment dropoff experienced by much of the U.S. from late 2008 into early 2010. Since that time, the Houston MSA has seen job growth sufficient to keep local employment growth at a pace near that of the nation's employment expansion. However, with the impact of lower oil and gas prices on the upstream energy sector, Houston's employment growth has slowed and is being outpaced by increases in U.S. employment.



Source: US Census Bureau

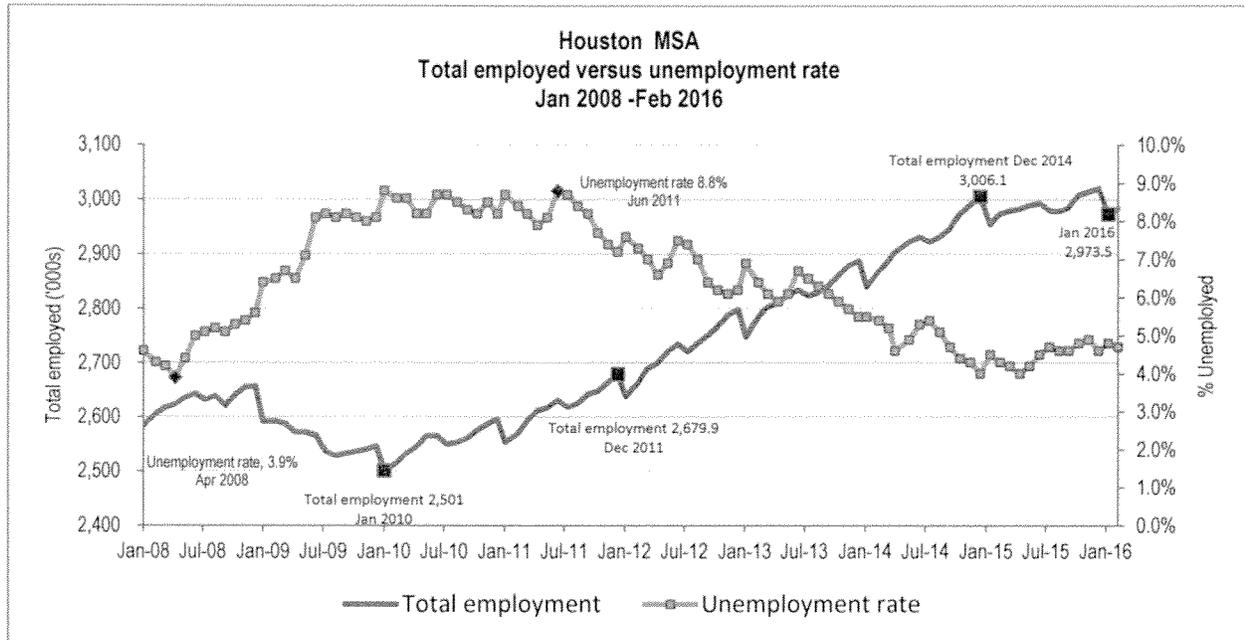
Nationally, the slow but steady job growth has moved the nation beyond its pre-recession high of 138.4 million jobs in January 2008. As of March 2016, some six years after the recession low of 129.7 million jobs in February 2010, the U.S. has recovered 14 million jobs with an estimated 143.8 million jobs, easily surpassing the pre-recession highs.



Source: US Census Bureau

Houston's story is quite different: Houston lost only 156,400 jobs from December 2008 to January 2011. The area's recovery was also much more rapid than at the national level, as Houston regained its pre-recession jobs level by December 2011, only 23 months after the low point of the recession. As of December 2014, Houston had gained 326,200 jobs since December 2011. While Houston recovered at a faster pace than the country as a whole, much of that growth was attributable to expansion in energy exploration due to higher oil prices. The lingering downturn in prices has dramatically slowed employment growth in Houston, although the

impact is being slightly offset by active construction projects started during the recent building boom and new projects in downstream energy refining that are now more economical with lower energy prices.



Source: US Census Bureau

While initial Texas Workforce Commission data indicated the area created 23,200 jobs in 2015, revisions released in March 2016 reduced the 2015 job-creation total to 15,200, a dramatic drop-off from the 117,800 jobs created in 2014 (the region's third-best year on record for job growth). Job losses tended to occur in sectors more closely tied to the upstream energy industry; the overall gain was driven by an increase of 65,000 jobs in sectors including accommodations and food services; arts and entertainment; construction; finance and insurance; government and health care.

As job growth slows (weighed down by a market in which the nation is showing its lowest count of working oil rigs in more than half a century), there are still reasons for optimism. Looking ahead, area economists cite several reasons to believe that Houston will successfully weather this newest storm. For one, oil downturns are typically linked to a national recession; this is not the case at present, and continued strength in the U.S. and global economies helps Houston (demand for consumer goods drives demand for plastics and chemicals, and many Houston companies are impacted by business trends occurring far from this metro area).

Additionally, Houston's well-documented economic diversification of the past few decades means that as people are laid off from jobs at struggling upstream energy firms, many are able to transfer their skills in areas like finance, human resources, or the law to other employers in sectors like downstream energy, health care or education. Meanwhile, some \$50 billion in construction and expansion at refineries and chemical plants to the east of Houston represents one of the largest investments ever in manufacturing capacity along the Gulf Coast. Furthermore, the planned expansion of the Panama Canal will open new doors for area manufacturers wishing to ship to, or bring components in from, Asia.

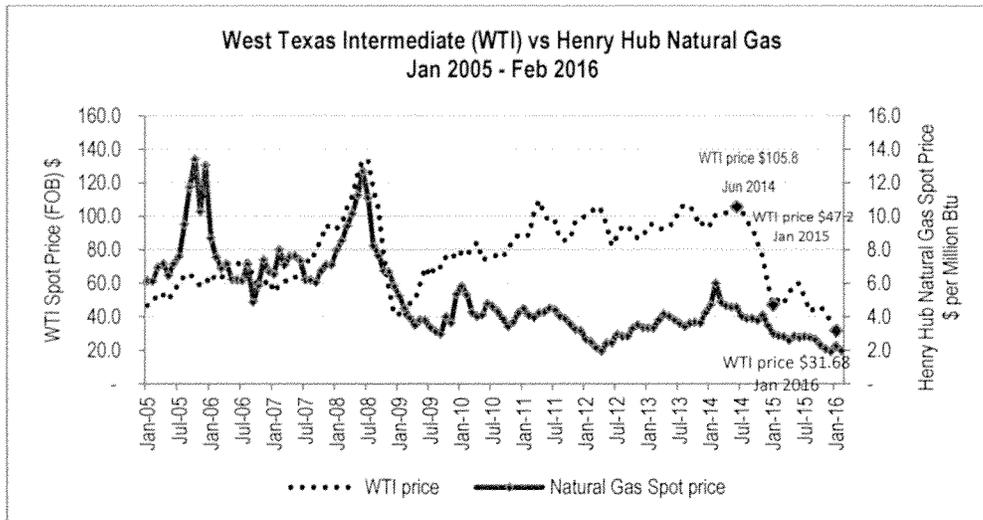
ENERGY

Houston remains the internationally recognized global energy capital, and as such can suffer material economic impacts when oil prices slump. After achieving a high of nearly \$106 in June of 2014, oil tumbled to \$31.68/barrel in January 2016, a price point not seen since March 2009. This is having an impact on job growth in Houston, as Houston holds a substantial portion of the nation's jobs in oil and gas extraction. Partially offsetting this impact are the nine refineries in Houston that process more than 2.3 million barrels of crude oil

per day (approximately half of the state's total production). Lower oil and gas prices translate to lower costs for the inputs that refiners and many other manufacturers in the Houston area use, which can translate into higher profits and more employment related to refining and manufacturing.

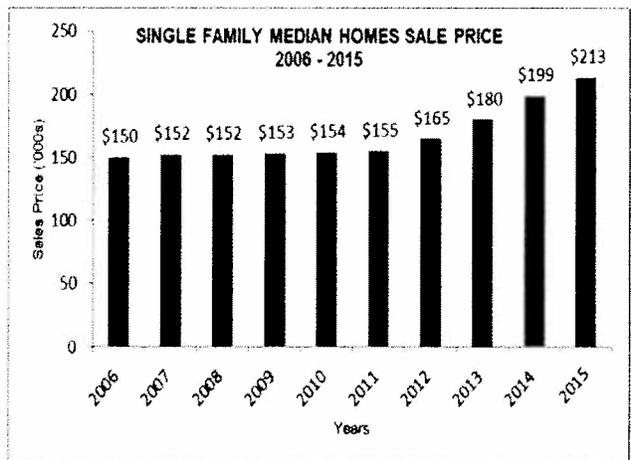
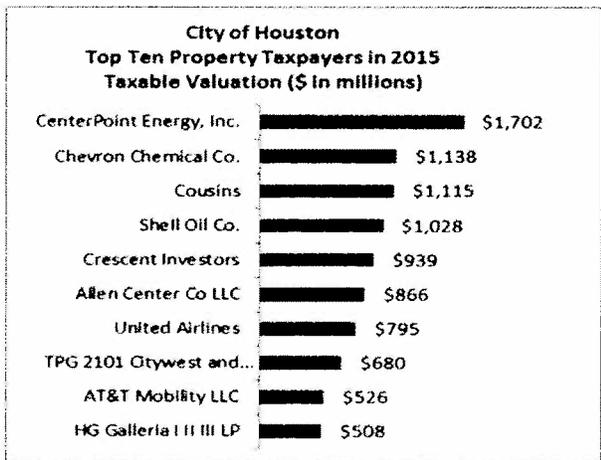
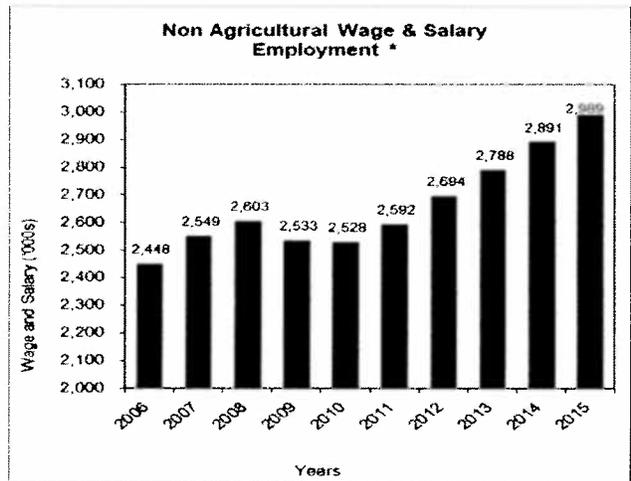
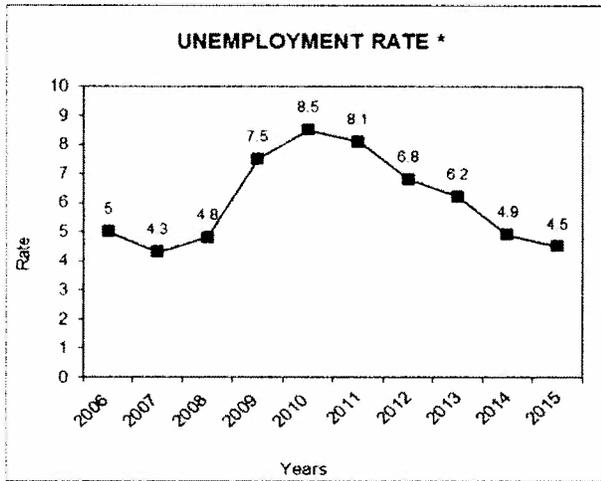
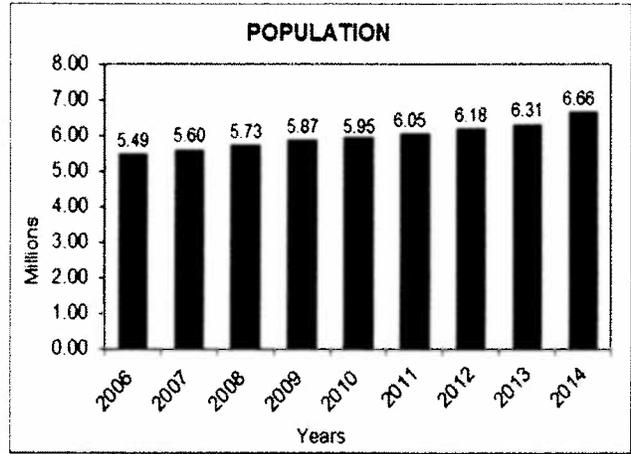
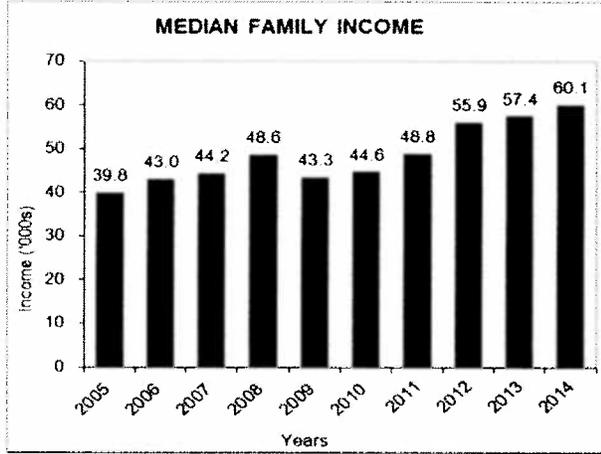
As of April, the Energy Information Administration (EIA) is forecasting West Texas Intermediate (WTI) will approach an average of \$35/barrel in 2016 and a further appreciation in 2017 prices to more than \$40/barrel. Based on this forecast, local economists say Houston should remain relatively strong in the near term, although a price rebound will be needed at some point to compensate for lost jobs and related economic activity as construction at refineries and chemical plants along the Texas Gulf Coast slows in the next year or two.

Should oil prices hold to current projections and remain around \$40/barrel, or even increase slightly through the remainder of 2016, Houston is likely to navigate this most recent economic challenge in relative health. Given the volatility of oil prices and projections though, the City would do well to prepare for prices below these levels.



Source: US Energy Information Administration

HOUSTON MSA AT A GLANCE

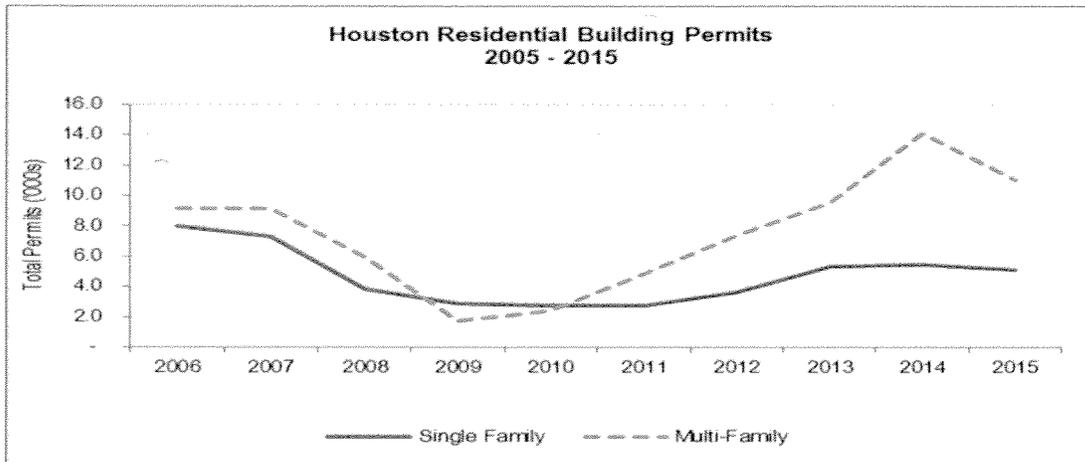


* Not Seasonally Adjusted

Sources: Greater Houston Partnership, US Bureau of Economic Analysis, US Bureau of Labor Statistics, Harris County Appraisal District

CONSTRUCTION AND REAL ESTATE

The City of Houston issued approximately 16,000 single and multi-family residential permits in 2015, 17% less than in the previous year. The slowdown continues: total building permits in January and February 2016 were down approximately 30% from prior-year totals. The \$7.8 billion 12-month total value for Houston building permits as of February 2016 was down from the \$8.9 billion in the 12-months ending in February 2015, which the Greater Houston Partnership cites as Houston’s historic peak for permit activity. With expansion and construction in various industries, the 2015 non-residential construction permits dropped by nearly 22% compared to prior year. Projections are for a surplus of multi-family and office space capacity after initiation of numerous projects in 2014 and 2015.



Source: City of Houston

Single Family Housing

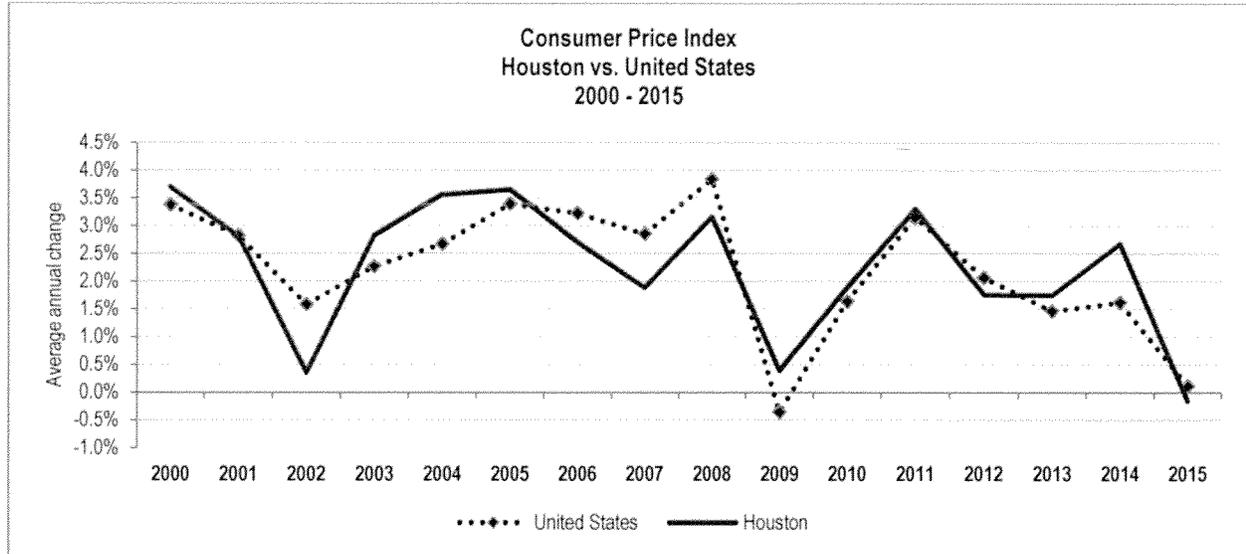
The five-year trend represented in the chart below illustrates the vitality of the Houston housing market during the recent employment boom. Sales in 2015 dropped slightly from 2014’s record performance, but total dollar volume held virtually constant as the average sales price increased from \$270,182 to \$280,290. The report from the Houston Association of Realtors (covering March 2016) highlights positive sales in mid-range homes and increasing inventory as evidence that the Houston real estate market “demonstrated more sustainable conditions.” The report shows 2016 home sales running 1% ahead of the 2015 year-to-date pace, with single-family inventory levels climbing from a 2.8-month supply to 3.6 months. It also notes that Houston’s inventory remains less than the national supply of 4.4 months’ inventory, and points to continued population growth as a mitigating factor against the potential negative effects of energy industry layoffs.

SUMMARY OF HOUSTON RESIDENTIAL SALES ACTIVITY					
	2015	2014	2013	2012	2011
Total Sales	88,764	91,439	88,069	74,116	63,606
Total dollar volume	\$23,559,111,514	\$23,553,542,859	\$20,891,392,084	\$16,040,186,637	\$13,012,903,352
Single-family sales	73,724	75,535	73,232	62,374	53,592
Average sales price	\$280,290	\$270,182	\$248,591	\$225,330	\$213,723
Median sales price	\$212,000	\$199,000	\$180,000	\$164,500	\$155,000

Source: Har.com

COST OF LIVING AND INFLATION

A significant reason for Houston's sustained growth is its lower cost of living. Houston prices, as measured by the Consumer Price Index (CPI), dropped by 0.2% in 2015 compared to the national increase of 0.1%. Houston's overall average CPI for 2015 was 213.1 versus 237.0 nationally, the result of which, is that Houston residents have a cost of living that is approximately 10% less than the national average.



Source: US Bureau of Labor and Statistics

The cost of consumer goods and services, as measured by the Consumer Price Index for All Urban Consumers (CPI-U) for Houston, trended higher than the national average for 2013 and 2014 as evidenced in the chart above, before turning downward in 2015. With oil and gas prices on the decline through the latter half of 2014 and much of 2015, Houston's Consumer Price Index responded with a slight decrease. However, indications through early 2016 are that inflation is returning to the area, as increasing housing costs and a slight rise in food prices offset cheaper motor fuel and household energy. U.S. Bureau of Labor Statistics data show consumer prices in the metro area rising 2% from February 2015 to February 2016, which the Greater Houston Partnership notes is the largest annual increase since late 2014.

Sources:

- Harris County Appraisal District
- The Greater Houston Partnership (Special Thanks to Patrick Jankowski)
- Houston Association of Realtors
- University of Houston Center for Public Policy
- National Association of Realtors Quarterly Report
- City of Houston
- US Bureau of Labor Statistics
- US Census Bureau
- US Bureau of Economic Analysis
- Federal Reserve Bank of Dallas – Houston Branch
- US Government Energy Information Administration
- University of Houston Institute for Regional Forecasting, C.T. Bauer College of Business (Special Thanks to Dr. Bill Gilmer)
- The Port of Houston Authority
- Houston Independent School District
- Facts and Figures about the Texas Medical Center – Texas Medical Center