

DOWNTOWN MARKET DEMAND ANALYSIS

FOR THE TIRZ FEASIBILITY STUDY

PREPARED FOR:
THE CITY OF LAREDO
LAREDO, TEXAS
NOVEMBER 2016



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Prepared for:

The City of Laredo

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A MESSAGE FROM THE CITY OF LAREDO

The Mayor, City Council, and City staff of Laredo all recognize the need for a vibrant central business district. Many “Great Cities” are known for their active and successful downtowns, and Laredo is making progress towards the creation of a similar downtown environment.

The intent of creating a Tax Increment Reinvestment Zone (TIRZ) downtown is to encourage new development and redevelopment, resulting in a renaissance for businesses, entertainment venues, and other uses. The goal is to encourage more Laredoans and visitors to shop, work, play, and even live downtown.

The creation of a TIRZ is a part of a unified and long term strategic plan for downtown Laredo. It is expected to generate funding for future capital infrastructure, allowing the City to incentivize private development and multiply the impact of public investments. Over the next 30 years, the TIRZ board members will implement its project and finance plan in a way that serves the best interest of the TIRZ area. As a result, the City is hopeful that residents and visitors alike will recognize our downtown as an iconic place of interest for Laredo.

Jesus M. Olivares
City Manager



INTRODUCTION

CDS Company Bio

CDS Community Development Strategies (CDS) is a leading national consulting firm headquartered in Houston, Texas, providing economic analysis, public planning, and market research services to clients in a wide variety of industries. CDS was formed in 1971 and is staffed with seasoned professionals who have training and experience in economic development, demographic research, urban planning, statistical analysis, market evaluation, and all aspects of real estate development.



Since 1971, CDS has remained at the forefront of the industry by doing three things:

1. Staying actively involved in numerous professional and trade associations.
2. Providing clear, unbiased, and up-to-date solutions by employing the most appropriate and cost effective research methods.
3. Utilizing solution-oriented analysis teams to focus on each project assignment adapted to your needs.

The Purpose of this Study

CDS and its sub-consultant team members Marsh Darcy Partners (MDP) and Sherfey Engineering Company (SEC) have contracted with the City of Laredo for the Downtown Tax Increment Reinvestment Zone (TIRZ) Feasibility Study. The team was given the assignment of assessing TIRZ feasibility and planning from a realistic, market and research-based perspective for the Downtown Laredo. The team will follow a logical and methodical process in collaboration with City of Laredo staff and downtown community representatives as appropriate.

The Scope of the project will include:

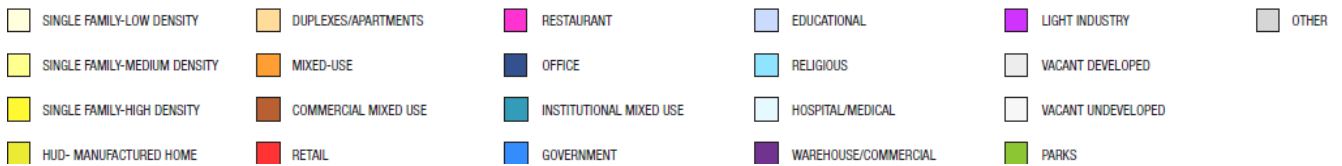
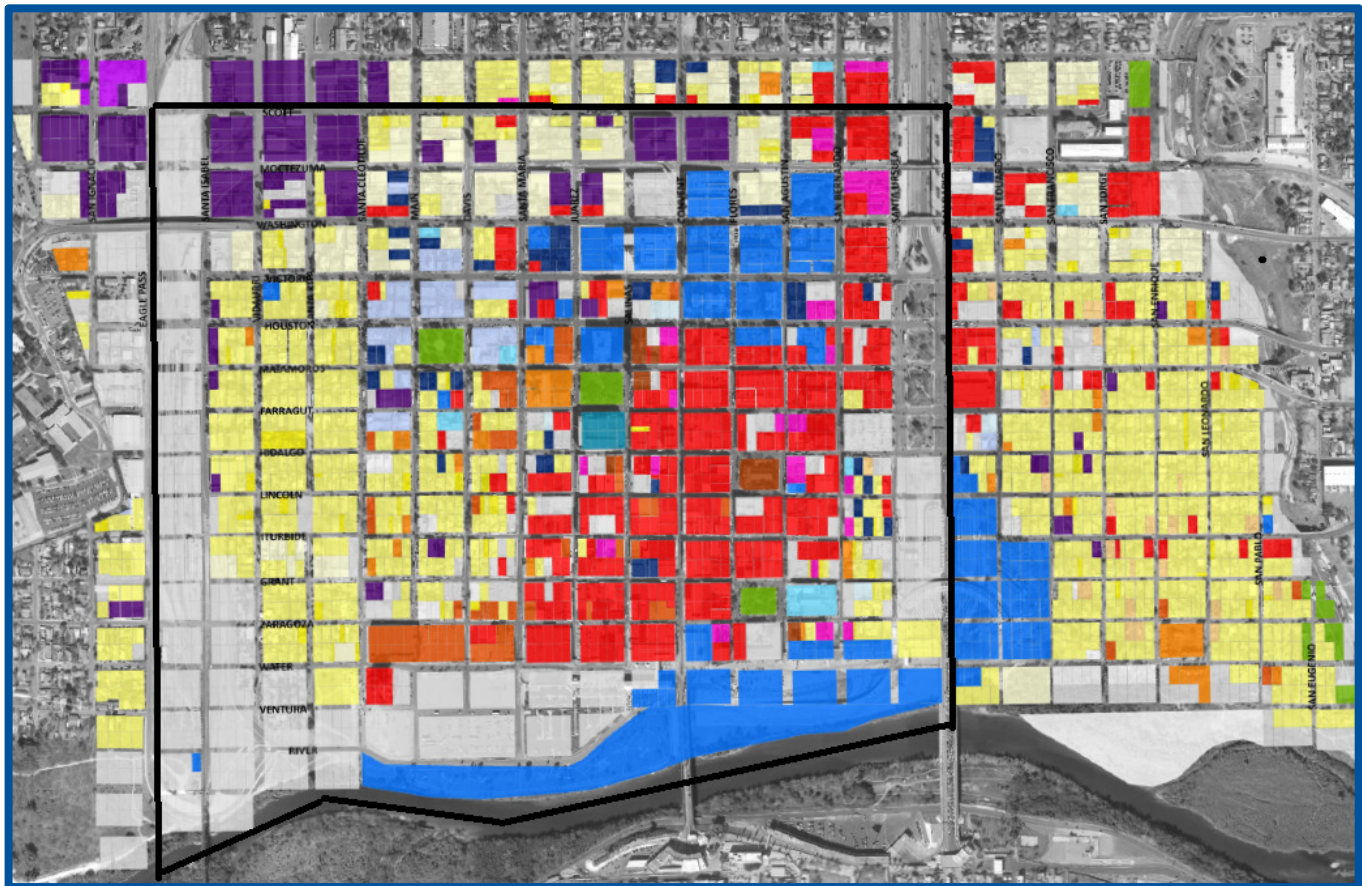
- Market and economic analysis
- Infrastructure, amenity, and building condition assessment
- Identification of TIRZ revenue, TIRZ creation process, financial scenarios
- Project plan and reinvestment zone financing plan
- Meetings and adoption processes.

The findings from the first two tasks are presented in this market and economic analysis report.

Study Area Description

The proposed TIRZ Boundaries are from Scott Street at the north end, down to the shore of the Rio Grande on the south; the freight railroad right of way on the west, and San Dario Avenue on the east. The proposed TIRZ covers Downtown Laredo. A map of the TIRZ boundaries follows.

Figure 2: Proposed TIRZ and Downtown Land Use

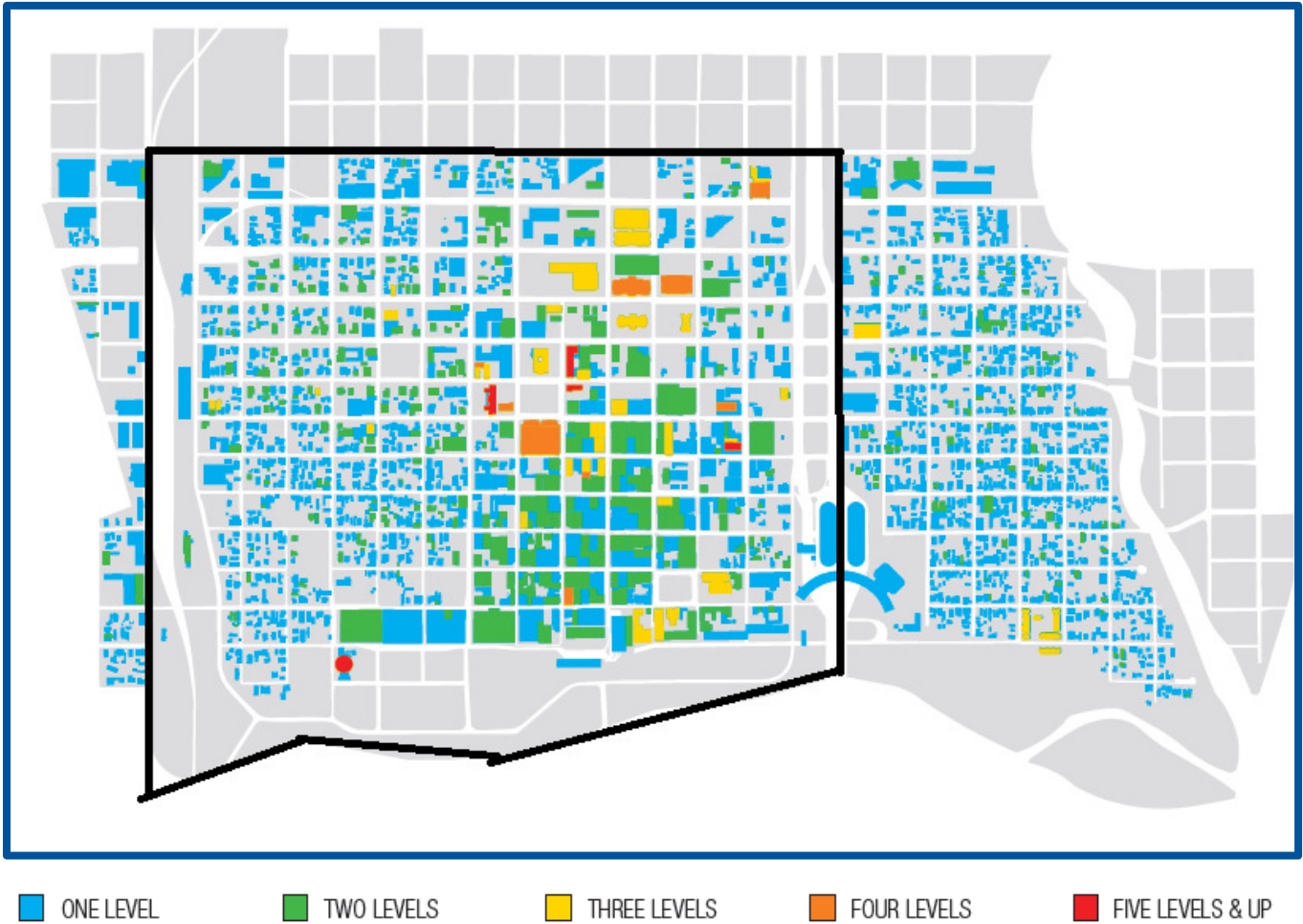


Source: 2011 Master Plan

Density

The majority of the buildings in the TIRZ area are one level. Building density is highest in the merchandise area near Convent Avenue.

Figure 3: Proposed TIRZ and Downtown Building Density



Source: 2011 Master Plan

The City of Laredo

Laredo is the county seat of Webb County, Texas, United States, located on the north bank of the Rio Grande in South Texas, across from Nuevo Laredo, Tamaulipas, Mexico. Laredo's economy is based on international trade with Mexico. Most major transportation companies have a facility in Laredo. The city's location on the southern end of I-35 close to the manufacturers in northern Mexico promotes its vital role in trade between the two nations. Laredo International Airport is within the Laredo city limits, while the Quetzalcoatl International Airport is nearby in Nuevo Laredo on the Mexican side.

Laredo has the distinction of flying seven flags (the Flag of the Republic of the Rio Grande in addition to the Six Flags of Texas). Founded in 1755, Laredo grew from a village to the capital of the brief Republic of the Rio Grande to the largest inland port on the United States-Mexican Border. Today, it has four international bridges and one railway bridge.

Laredo is the largest inland port in the United States, and Nuevo Laredo the largest in Latin America. This is due to their respective locations, served by Interstate Highway 35 / Mexican Federal Highway 85, the effects of the North American Free Trade Agreement (NAFTA), dozens of twin assembly plants on the Mexican side, and dozens of import export agencies to expedite trade. In January 2014, the Laredo customs district processed "\$20 billion in two-way trade with Mexico", about half that for the entire US with Mexico for the month.

Laredo is a shopping destination for Mexican shoppers from Northern Mexico. In the last few years, economic conditions in the northern states of Mexico have deteriorated such that Nuevo Laredo has lost much of its economic and cultural vitality, closed the doors of its downtown businesses and suppressed access. The instability and violence along the Mexican border has forced the U.S. to greatly increase its security.

Laredo is served by two school districts, the Laredo Independent School District and the United Independent School District, as well as eight private schools. The Laredo Independent School District serves the areas in central Laredo. The LISD high schools are Cigarroa High School, Martin High School, J. W. Nixon High School and the Laredo Early College High School. LISD also contains three magnet schools: Dr. Dennis D. Cantu Health Science Magnet School, LISD Magnet for Engineering and Technology Education, and Vidal M. Trevino School of Communications and Fine Arts.

The United Independent School District serves the rest of Laredo and northern Webb County. The UISD high schools are John B. Alexander High School, Lyndon B. Johnson High School, United High School, and United South High School. UISD has three magnet schools: John B. Alexander Health Science Magnet, United Engineering Magnet, and the United South Business Magnet. There are thirty-nine schools within UISD and more are under construction and/or in the development stage. United ISD is one of the fastest growing districts in the state, serving almost forty thousand students and covering an area the physical size of Rhode Island.

Laredo is home to Laredo Community College and Texas A&M International University (TAMIU). The University of Texas Health Science Center at San Antonio has a campus in Laredo. Texas A&M International University is a member of the Texas A&M University system and offers both bachelors and master's degrees focused in arts and sciences, business administration, education, and nursing and health sciences, and one Doctor of Philosophy degree in International Business Administration. The university has approximately 7,400 students and 1,200

faculty and staff. The Laredo Community College has two campuses with the main campus located just west of the downtown area at the former Fort McIntosh site on Washington Street, and the newest campus located in South Laredo on Zapata Highway (US 83) at Don Camilo Boulevard. The two-campus institution offers two-year associates degrees and serves the three-county area of Webb, Jim Hogg, and Zapata counties. The student enrollment for Laredo Community College is currently about 8,700 and total number of faculty and staff is about 1,000.

In addition to the University of Texas Health Science Center branch, there are five other principal medical centers in Laredo: the Laredo Medical Center, Doctor's Hospital, Gateway Community Health Center, Providence Surgical & Medical Center, and the Laredo Specialty Hospital. The Laredo Medical Center, located on Saunders Street (U.S. Business 59) about halfway between IH 35 and Bob Bullock Loop, is the largest regional medical facility in Laredo with 326 licensed beds. Doctors Hospital, located at McPherson Road and Bob Bullock Loop, is the second largest medical facility in Laredo with 183 licensed beds.

Central Business District

The CBD includes the shopping district and government offices. The oldest and most historic portion is centered on the church and plaza of San Agustin. Plaza San Agustin is fronted by LaPosada Hotel, a Laredo landmark. Market Square, two blocks from San Agustin is home to the Laredo Center for the Arts and Convention and Visitors Bureau.

The shopping district gravitates from Convent Avenue from Bridge 1 to City Hall. The government zone includes national, county and municipal offices.

The shopping district flourished in the 1980s and 90s, largely occupied by discount stores and wholesalers. From 2005 the wholesalers have all but diminished in the area. There is a large vacancy in the Downtown in the retail spaces.

The government zone houses the Webb County Courthouse and administrative offices, including the county jail. The U.S. Courthouse and Post Office are also located in the CBD. Collateral uses in the area include offices for attorneys and legal services.

Laredo CBD was home to a large HEB grocery store until very recently (2016). The grocer vacated the space due to lack of traffic since the Mexican shoppers have decreased in Laredo Downtown.

Laredo's Downtown retains much of its historical nature. Downtown has become a remote area from Laredoans who have ventured further north. The prime businesses and entertainment venues moved and much of the life of Downtown has changed. These conditions constitute serious economic and cultural challenges.

Economy

The economy of Laredo reflects its unique position on the international border at the beginning of Interstate 35, which provides direct access to both Texas' largest population and economic corridor (San Antonio to Dallas - Fort Worth) and the core of the U.S. Thus international transport / logistics provides the private sector economic foundation of the region. Laredo offers four international bridges, two Downtown for individuals and buses, and

two upstream on the west side of the city that serve commercial truck traffic. There is also an international bridge for freight rail traffic, located Downtown. Some data on international trade traffic is provided later in this section.

Laredo also benefited peripherally from the oil and gas activity in the Eagle Ford Shale area, which is located not far to the northeast. However, the drop in oil and gas prices has severely curtailed drilling since early 2015, so this aspect of Laredo's economy has shrunk since that time.

The other principal foundation of Laredo's economy is the government sector. Laredo is the county seat of Webb County and is home to the county government's offices. Also, the federal government maintains a notably large presence in the area due to the concentration of the Department of Homeland Security's Customs and Border Protection activities. The presence of this agency has expanded considerably in the last 10-15 years in response to political directives and concern over undocumented immigration, illegal drug trafficking and proximity to criminal violence in Mexico.

Typical of a mid-size stand-alone metropolitan area, Laredo also serves as the regional hub for health care and education. The city contains several large health care complexes, including the Laredo Medical Center located between Downtown and the Laredo International Airport. Two large systems of post-high school education serve the area: Laredo Community College (LCC) and Texas A&M International University (TAMIU). LCC has its main campus on the western edge of Downtown, just west of the freight rail corridor to Mexico. TAMIU has been a four-year institution since 1995 and began a new campus on the city's northeastern outskirts in the 1990s. It now serves nearly 7,000 students.

As is the case with any thriving city, retail stores are a significant component of commerce and the job market. Laredo has a large retail sector that has grown with its population and also benefits from customers from Nuevo Laredo and the Monterey regions of Mexico. This will be discussed further in the Retail section of the report.

Regarding Downtown, a key point regarding the regional economy is that the major forces driving consumer demand and real estate development tend to have modest direct impact there. The only significant sector which naturally tends to locate its personnel and activities in Downtown is government, and even in that sector some offices have relocated to other parts of the city. The international trade and logistics businesses locate mostly to the north and northwest, near the commercial traffic international bridges and Interstate 35. The LCC campus is fairly self-contained and separated from Downtown by the freight rail corridor. The TAMIU campus is too far away for Downtown to feel immediate spinoff impacts.

Historically, Downtown had a unique economic role by serving as the U.S.-side gateway to Nuevo Laredo, which offered a thriving and unique restaurant and entertainment scene. Unfortunately, the perception and reality of drug-related crime and violence since 2000 on the Mexican side of the river virtually extinguished this form of international commerce, with negative consequences for Downtown. This will be further discussed in the Hospitality and Tourism section of the report.

Nuevo Laredo

While the official U.S. Metropolitan Area definition of Laredo includes only Webb County in Texas, in reality Laredo is part of a binational metropolitan area which includes the Nuevo Laredo in the state of Tamaulipas on the Mexican side of the Rio Grande, plus portions of the state of Nuevo León. According to the City of Nuevo Laredo's Secretary of Economic Development, the city's population is 455,000, with a labor force of 145,000 and unemployment rate of 6.2%. The Mexican Social Security Institute estimated Nuevo Laredo employment at nearly 83,000 as of January 2016. Manufacturing (provided by maquiladora facilities) is the major focus of Nuevo Laredo's economy, providing over one third of the city's jobs. Another one quarter of jobs are in the Freight Services and Customs sector.

Mexico's Intercensal Survey from 2015 (a different source from that quoted by the City for population) indicated that Nuevo Laredo's population had increased from 2010 to 2016 by 18,593 residents. According to the Mexican Social Security Institute, Nuevo Laredo added 9,157 jobs from December 2013 to January 2016.

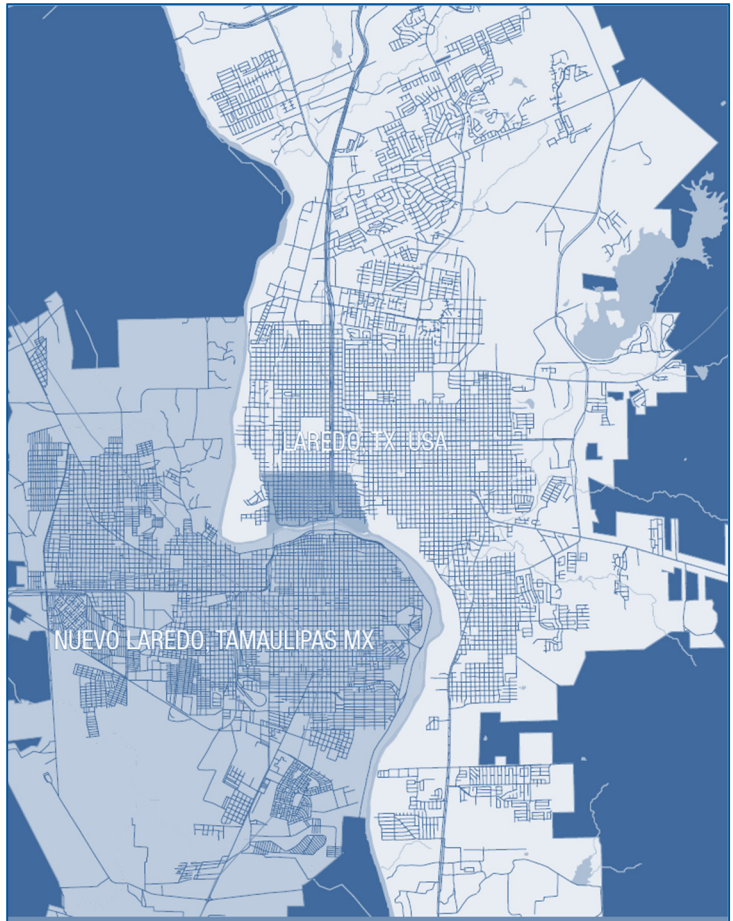
Job opportunities on the U.S. side of the river lead to many Mexican residents making daily journeys to Laredo for work, returning home afterward. Many Nuevo Laredoans also perform a portion of their retail shopping in Laredo. The net effect of these patterns, and the overall dynamics of the manufacturing and logistics industries in the region, is that Nuevo Laredo's economic growth should have a positive impact on Laredo's.

Webb County

Webb County was created on January 28th, 1848 by the Texas legislature and is the 6th largest county in the state of Texas with 3,307 square miles. Its county seat is Laredo.

The cities in Webb County include Laredo, El Cenizo, and Rio Bravo. Census-designated places include:

- Aguilares
- Bonanza Hills
- Botines
- Bruni
- Colorado Acres
- Four Points
- Hillside Acres
- La Presa



- Laredo Ranchettes
- Larga Vista
- Las Haciendas
- Las Pilas
- Los Altos
- Los Arcos
- Los Centenarios
- Los Corralitos
- Los Fresnos
- Los Huisaches
- Los Minerales
- Los Nopalitos
- Los Veteranos I
- Los Veteranos II
- Mirando City
- Oilton
- Pueblo East
- Pueblo Nuevo
- Ranchitos East
- Ranchitos Las Lomas
- Ranchos Penitas West
- San Carlos I
- San Carlos II
- Sunset Acres
- Tanquecitos South Acres
- Tanquecitos South Acres II
- Valle Verde

At 2016, the population of Webb County is an estimated 273,614 persons and 73,939 households.

Prior Plans

CDS will bear these short-term goals in mind as we make recommendations through-out our report.

The 2011 Downtown Laredo Master Plan by Kell Munoz Architects, Inc.

This Master Plan for Downtown Laredo presents a multifaceted vision of increasing its economic vitality, enhancing its historic character, reconstructing a sustainable infrastructure, and repositioning Downtown as the cultural center of the border metropolis and a regional destination for Texas and Mexico.

The goal of this Master Plan is to define the desired character, vision and elements to enhance and sustain a vibrant and attractive Downtown in the context of land use, growth objectives, and development patterns. A planning horizon of thirty years was used as a timescale to factor in future local population growth; identify how Downtown can benefit from capturing the consequential market demands of this growth, and determine what initiatives and improvements will be most beneficial.

The Master Plan understanding of Laredo's Downtown character, issues, and prospects is based on a definitive collection of data of existing conditions that quantifies the extent of Downtown's existing uses, capacity, transportation, infrastructure, and environmental qualities. The planning process utilized a multi-tiered involvement of the Task Force, individual and group Stakeholders, participation of the community in Public Workshops, and input from City staff. This was initiated with presentation of the existing conditions documentation stakeholder interviews, task force meetings and public workshops to identify and articulate problems and opportunities. This was followed with a series of graphic responses to stated values/problems/goals, which visualized different planning and design options and were presented at subsequent meetings and workshops. Citizen and stakeholder reaction and comments provided the planning team with particular and preferred outcomes and shaped the salient direction of the master plan. Interwoven in the process were the impressions and inspirations of the planning team members, each of whom brought their expertise to bear.

SHORT-TERM PROJECTS

Near-term steps are necessarily modest in scope - even if financially challenging, considering current economic conditions and the City's limited resources – for it will be the provision of critical City projects and infrastructure improvements that will initiate activity and private investment. Near-term projects can be organized as a series of phased improvements to achieve incremental results.

Traffic signalization improvements - Near-Term Project Cost: \$2,000,000

ARTS & ENTERTAINMENT Downtown first and foremost needs to be a destination for Laredoans and the border metropolis. The essential place to make this happen is in the A&E District. The City-owned Plaza Theatre needs to be renovated and reactivated to provide entertainment. The historic City Hall & Market building should be more appropriately restored and the Laredo Center for the Arts more fully utilize the interior spaces, ancillary buildings and plaza to generate activity. Other near-term actions that will support activity in the A&E District are:

- New signage for historic site and resource interpretation in Villa Antigua NRHD - Near-Term Project Cost: \$150,000
- Street lighting improvements entire A&E District - Phased Near-Term Project Cost: \$1,900,000 (31% of CBD upgrade)
- San Bernardo Avenue conversion to 2-way traffic between Lincoln and Zaragosa - Near-Term Project Cost: \$50,000
- Sidewalk/streetscape/signage improvements - Phased Near-Term Project Cost: \$1,000,000
- Rehabilitation of San Agustin and Old Mercado Plazas - Phased Near-Term Project Cost: \$500,000
- Overhead utilities conversion to underground (San Bernardo Avenue) - Phased Near-Term Project Cost: \$1,000,000

Total Near-Term Projects Cost - \$4,600,000

These actions are needed to make the A&E District more attractive, safe, and interesting. To attract more interest, people and private investment in the A&E District, energize existing businesses, and encourage the reoccupation of vacant buildings with the types of complimentary uses that build momentum for revitalization.

MERCHANDIZING ZONE Convent Avenue is the main axis of Downtown's merchandizing zone and should reflect its significance. Linkage from El Portal/Bridge 1 and the El Metro Center and parking garage should be clearly identifiable and accommodating. Directional signage for accessing the parking garage needs to be improved and wayfinding signage mark a clear route for drivers from IH35 to the El Metro. Street lighting and traffic signalization improvements in the CBD will have the greatest impact in the merchandising zone. Storefront and canopy rehabilitation and assistance with window dressing, display, signage and graphics, will have an appreciable effect along Convent Avenue.

Street Lighting Improvements

Near-Term Phased Project Cost: \$1,560,000 (26% of CBD upgrade)

Street and Sidewalk Improvements

(7 blocks Convent and 6 blocks Zaragosa)

Near-Term Phased Project Cost: \$1,000,000

Overhead utilities conversion to underground (Zaragosa)

Phased Near-Term Project Cost: \$1,000,000

Signage/Wayfinding Graphics from IH35 to public parking areas

Phased Near-Term Project Cost: \$250,000

Total Near-Term Projects Cost - \$3,810,000

DEMOGRAPHIC ANALYSIS

Understanding the demographic trends for the area is an important element in assessing the market demand for new housing. Past, present and future demographic figures were collected and estimated by utilizing data from the following sources: US Census, American Community Survey, Nielsen/Claritas 2016 Estimates – PCensus for ArcView (hereafter referred to as “PCensus”), Bureau of Labor Statistics, City of Laredo staff, and primary/secondary research completed by CDS Community Development Strategies.

Population and Households

Total Population and Households

In contrast to the City of Laredo, which has grown considerably since 2000, the TIRZ and its Competitive Market Area (CMA) have been stagnant or losing population during this period. The number of households, however, did not decline, indicating a trend toward smaller household size.

Table 1: Population and Households, 2000 to 2021

Population	2000 Census	2010 Census	2016 Estimate	2021 Estimate	AAGR '00-'10	AAGR '10-'16
Proposed TIRZ	3,231	2,906	2,883	2,914	-1.05%	-0.13%
78040 - CMA	43,324	42,256	417,44	42,080	-2.47%	0.80%
Laredo City	172,547	236,091	259,028	277,905	3.19%	1.56%
Webb County	193,120	250,304	273,614	293,143	2.63%	1.50%
Households	2000 Census	2010 Census	2016 Estimate	2021 Estimate	AAGR '00-'10	AAGR '10-'16
Proposed TIRZ	867	1,012	1,062	1,111	1.56%	0.81%
78040 - CMA	11,915	12,000	12,334	12,626	0.71%	2.37%
Laredo City	45,708	63,714	70,502	75,724	3.38%	1.70%
Webb County	50,741	67,106	73,939	79,302	2.83%	1.63%

AAGR = Annual Average Growth Rate $((FV/PV)^{(1/n)} - 1)$

Source: US Census, American Community Survey, Nielsen/Claritas 2016 Estimates – PCensus for ArcView (hereafter referred to as PCensus)

Population by Age

As shown on the following table, the median age in the TIRZ is 38.3 compared to 29.8 in the CMA and 28.8 in the City of Laredo.

The TIRZ has had decreased population in the age groups under age 9; age 18 to 20; and ages 35 to 54. There has been an increase in all age groups over the age of 55.

Table 2: Population by Age, 2010 to 2016

Population By Age	Proposed TIRZ			78040 - CMA			Laredo City		
	2010	2016	% ↑	2010	2016	% ↑	2010	2016	% ↑
Total Population	2,906	2,883	-0.79%	42,256	41,744	-1.21%	236,091	259,028	9.72%
Age 0 to 4	220	219	-0.5%	4,210	4,268	1.38%	22,992	25,117	9.2%
Age 5 to 9	216	200	-7.4%	4,019	3,793	-5.62%	23,757	23,953	0.8%
Age 10 to 14	193	193	0.0%	3,706	3,659	-1.27%	22,649	23,881	5.4%
Age 15 to 17	114	119	4.4%	2,261	2,124	-6.06%	13,533	13,967	3.2%
Age 18 to 20	176	130	-26.1%	2,148	1,926	-10.34%	12,156	12,777	5.1%
Age 21 to 24	143	158	10.5%	2,353	2,505	6.46%	13,470	16,261	20.7%
Age 25 to 34	300	336	12.0%	5,200	5,388	3.62%	33,173	35,125	5.9%
Age 35 to 44	287	258	-10.1%	4,922	4,672	-5.08%	32,528	33,892	4.2%
Age 45 to 54	322	282	-12.4%	4,343	4,112	-5.32%	25,629	29,425	14.8%
Age 55 to 64	270	275	1.9%	3,572	3,615	1.20%	17,540	21,626	23.3%
Age 65 to 74	322	343	6.5%	2,753	2,891	5.01%	10,492	13,587	29.5%
Age 75 to 84	231	249	7.8%	1,919	1,883	-1.88%	5,958	6,764	13.5%
Age 85 and over	112	119	6.3%	850	908	6.82%	2,214	2,653	19.8%
Median Age	38.2	38.32		29.6	29.82		35.89	28.86	

Source: US Census, American Community Survey, Nielsen/Claritas 2016 Estimates – PCensus

Race / Ethnicity

The TIRZ has a 95% Hispanic or Latino population.

Table 3: TIRZ Population by Race and Hispanic / Latino Origin 2016

2016 Est. Population by Single-Classification Race	2,883	
White Alone	2,514	87.18%
Black or African American Alone	24	0.84%
American Indian and Alaska Native Alone	9	0.30%
Asian Alone	7	0.25%
Native Hawaiian and Other Pacific Islander Alone	0	0.00%
Some Other Race Alone	272	9.45%
Two or More Races	57	1.98%
2016 Est. Population Hispanic or Latino by Origin	2,883	
Not Hispanic or Latino	141	4.88%
Hispanic or Latino	2,742	95.12%

Source: US Census, American Community Survey, Nielsen/Claritas 2016 Estimates – PCensus

Educational Attainment

Educational attainment in the proposed TIRZ has a higher portion of lower educated individuals in households as compared to the CMA and the city. Only 6.14% of the population over age 25 has a Bachelor’s degree or higher, compared to more than 11% of the city overall.

Table 4: Educational Attainment of Population 25+ Years Old, 2016

Category	Proposed TIRZ	78040 - CMA	Laredo City
Less than 9th grade	35.75%	30.96%	20.54%
Some High School, no diploma	18.01%	18.66%	14.52%
High School Graduate (or GED)	26.78%	25.59%	24.31%
Some College, no degree	10.70%	13.74%	17.76%
Associate Degree	2.63%	4.41%	6.41%
Bachelor's Degree	3.77%	4.32%	11.34%
Master's Degree	0.98%	1.51%	3.76%
Professional School Degree	0.51%	0.38%	0.88%
Doctorate Degree	0.88%	0.42%	0.46%

Source: US Census, American Community Survey, Nielsen/Claritas 2016 Estimates – PCensus

Income Trends

This section provides information on income growth for households from the year 2016. As can be seen in the table, over 50% of the households in the CMA (53.5%) and TIRZ (70.0%) earn under \$25,000, compared to 33% in the city and county. Approximately 4% earn \$100k or more in the CMA and TIRZ compared to 15% in the city and county. Clearly the income levels are significantly lower in the TIRZ and CMA.

Table 5: Household Income Groups, 2016

Household Income	Proposed TIRZ		78040 - CMA		Laredo City		Webb County	
Households	1,062		12,334		70,502		73,939	
Less than \$15,000	513	48.26%	4,483	36.35%	14,268	20.24%	15,097	20.42%
\$15,000 to \$24,999	231	21.76%	2,118	17.17%	8,781	12.45%	9,398	12.71%
\$25,000 to \$34,999	98	9.26%	1,568	12.71%	7,622	10.81%	7,979	10.79%
\$35,000 to \$49,999	84	7.91%	1,734	14.06%	10,315	14.63%	10,849	14.67%
\$50,000 to \$74,999	57	5.33%	1,363	11.05%	11,762	16.68%	12,260	16.58%
\$75,000 to \$99,999	38	3.58%	567	4.60%	6,894	9.78%	7,144	9.66%
\$100,000 to \$124,999	15	1.46%	235	1.91%	4,266	6.05%	4,403	5.95%
\$125,000 to \$149,999	14	1.28%	119	0.96%	2,869	4.07%	2,966	4.01%
\$150,000 to \$199,999	8	0.78%	96	0.78%	2,152	3.05%	2,230	3.02%
\$200,000 to \$249,999	2	0.17%	26	0.21%	749	1.06%	778	1.05%
\$250,000 to \$499,999	2	0.20%	18	0.15%	668	0.95%	678	0.92%
\$500,000 or more	0	0.01%	7	0.06%	156	0.22%	157	0.21%
Estimated Avg. Income	\$26,281		\$32,678		\$56,578		\$56,077	

Source: US Census, American Community Survey, PCensus, Bureau of Labor Statistics CPI Inflation Calculator

Poverty Status

The poverty status of families is examined in order to ascertain the level of economic challenge. The data presented comes from the Census Bureau, which uses a set of money income thresholds that vary by family size and composition to determine who is in poverty. If a family's total income is less than the family's threshold, then that family and every individual in it is considered in poverty. The official poverty thresholds do not vary geographically, but they are updated for inflation using Consumer Price Index. The official poverty definition uses money income before taxes and does not include capital gains or noncash benefits (such as public housing, Medicaid, and TANF).

Table 6: Poverty Status, 2016

Poverty Status	Proposed TIRZ	78040 - CMA	Laredo City
2016 Families at or Above Poverty	48.73%	54.20%	72.15%
2016 Families at or Above Poverty with Children	15.45%	23.01%	42.49%
2016 Families Below Poverty	51.27%	45.80%	27.85%
2016 Families Below Poverty with Children	35.71%	34.74%	22.70%

Source: US Census, American Community Survey, PCensus

According to 2016 estimates, the TIRZ area has a slightly higher percentage of families in poverty, when compared with the CMA and significantly higher than the City.

Housing Characteristics and Trends

Structure Type

Approximately 45% (547) of the housing units in the TIRZ are single family (detached or attached) with 49.8% multifamily which includes townhomes, duplexes, triplexes, apartments, etc. Comparatively the CMA, City and County have approximately 69% single family units.

Table 7: Housing by Structure Type

2016 Est. Housing Units by Units in Structure	Proposed TIRZ		78040 - CMA		Laredo City		Webb County	
	1,208	Share	13,935	Share	75,844	Share	80,535	Share
1 Unit Attached	34	2.79%	602	4.32%	1,907	2.51%	1,979	2.46%
1 Unit Detached	513	42.46%	9,053	64.97%	50,974	67.21%	54,582	67.77%
2 Units	64	5.30%	651	4.67%	1,929	2.54%	1,979	2.46%
3 or 4 Units	111	9.18%	989	7.10%	4,035	5.32%	4,053	5.03%
5 to 19 Units	137	11.34%	1,198	8.60%	6,821	8.99%	6,888	8.55%
20 to 49 Units	6	0.50%	155	1.11%	1,779	2.35%	1,779	2.21%
50 or More Units	284	23.52%	352	2.53%	1,801	2.37%	1,801	2.24%
Mobile Home or Trailer	59	4.92%	925	6.64%	6,539	8.62%	7,415	9.21%
Boat, RV, Van, etc.	0	0.00%	10	0.07%	59	0.08%	59	0.07%

Source: US Census, American Community Survey, PCensus

Tenure and Length of Residence

Over 74% of the housing units in the TIRZ are renter occupied which is much higher to compared to the CMA, City and County. The length of residence is over 20 years in owner occupied housing in both the CMA and the TIRZ.

Table 8: Housing by Tenure and Length of Residence

Occupied Housing Units by Tenure	Proposed TIRZ		78040 - CMA		Laredo City		Webb County	
	1,062	Share	12,334	Share	70,502	Share	73,939	Share
Owner-Occupied	270	25.43%	5,501	44.60%	45,553	64.61%	48,255	65.26%
Renter-Occupied	792	74.57%	6,833	55.40%	24,949	35.39%	25,684	34.74%
Avg. Length of Residence								
Owner-Occupied	23		25		15		15	
Renter-Occupied	9		9		8		8	

Source: US Census, American Community Survey, PCensus

Housing Value

Approximately 60% of the housing units in the TIRZ are valued under \$80,000. Comparatively 54% in the CMA, 26% in the City and 28% in the County are valued this low. The median values are significantly lower in the CMA and TIRZ compared to the City and County.

Table 9: Housing Value

2016 Est. Owner Occupied Housing Units by Value	Proposed TIRZ		78040 - CMA		Laredo City		Webb County	
	270	Share	5,501	Share	45,553	Share	48,255	Share
Value Less than \$20,000	6	2.14%	162	2.94%	893	1.96%	1,021	2.12%
Value \$20,000 to \$39,999	27	10.00%	415	7.54%	1,819	3.99%	2,249	4.66%
Value \$40,000 to \$59,999	42	15.58%	964	17.52%	3,932	8.63%	4,554	9.44%
Value \$60,000 to \$79,999	85	31.61%	1,467	26.67%	5,570	12.23%	6,058	12.55%
Value \$80,000 to \$99,999	59	21.95%	857	15.58%	5,762	12.65%	6,070	12.58%
Value \$100,000 to \$149,999	44	16.38%	1,084	19.71%	11,946	26.22%	12,277	25.44%
Value \$150,000 to \$199,999	4	1.34%	313	5.69%	7,626	16.74%	7,848	16.26%
Value \$200,000 to \$299,999	1	0.21%	142	2.58%	5,042	11.07%	5,131	10.63%
Value \$300,000 to \$399,999	0	0.02%	44	0.80%	1,625	3.57%	1,654	3.43%
Value \$400,000 to \$499,999	2	0.78%	32	0.58%	511	1.12%	524	1.09%
Value \$500,000 to \$749,999	0	0.00%	3	0.05%	551	1.21%	557	1.15%
Value \$750,000 to \$999,999	0	0.00%	1	0.02%	190	0.42%	201	0.42%
Value \$1,000,000 or more	0	0.00%	17	0.31%	86	0.19%	111	0.23%
2016 Est. Median All Owner-Occupied Housing Unit Value	\$74,100		\$76,489		\$120,092		\$117,005	

Sources: US Census, American Community Survey, PCensus

Age of Housing

The housing units in the TIRZ and CMA are approximately twenty years older than the median year built in the City and County. Over 26% of the structures were built before 1939 in the TIRZ.

Table 10: Age of Housing

Year Housing Built	Proposed TIRZ		78040 - CMA		Laredo City		Webb County	
	1,208	Share	13,935	Share	75,844	Share	80,535	Share
2010 or later	56	4.64%	430	3.09%	7,901	10.42%	8,106	10.07%
2000 to 2009	45	3.74%	831	5.96%	18,946	24.98%	20,156	25.03%
1990 to 1999	181	14.99%	1,767	12.68%	15,793	20.82%	17,356	21.55%
1980 to 1989	184	15.26%	1,575	11.30%	10,494	13.84%	11,532	14.32%
1970 to 1979	131	10.87%	2,380	17.08%	9,079	11.97%	9,298	11.55%
1960 to 1969	109	9.06%	1,939	13.91%	4,692	6.19%	4,850	6.02%
1950 to 1959	56	4.68%	1,830	13.13%	4,079	5.38%	4,196	5.21%
1940 to 1949	119	9.87%	1,395	10.01%	2,399	3.16%	2,493	3.10%
1939 or Earlier	325	26.89%	1,788	12.83%	2,461	3.24%	2,548	3.16%
Median Year Structure Built	1969		1970		1993		1993	

Sources: US Census, American Community Survey, PCensus

The Economy of Laredo and Proposed TIRZ

Employment Trends

The following table provides a summary of employment trends in Laredo from the first quarter of 2010 and the first quarter of 2016, as per the Bureau of Labor Statistics' Quarterly Census of Employment and Wages. Q1 2016 was the most recent quarter available from this dataset. The data for 2014 is also provided, as that represented the peak of Eagle Ford Shale activity.

Table 11: Webb County Employment by Industry

Industry	Jobs Q1 of Year			Change 2010 - 2016	Change 2014 - 2016
	2010	2014	2016		
Agriculture, forestry, fishing and hunting	156	185	195	39	10
Mining, quarrying, and oil and gas extraction	1,253	2,907	1,716	463	(1,191)
Utilities	403	387	474	71	87
Construction	2,707	2,282	2,390	(317)	108
Manufacturing	801	756	700	(101)	(56)
Wholesale trade	2,598	2,765	2,790	192	25
Retail Trade	11,711	12,673	12,630	919	(43)
Transportation and Warehousing	10,657	12,713	14,542	3,885	1,829

DOWNTOWN MARKET DEMAND ANALYSIS

Information	647	699	746	99	47
Finance and insurance	3,045	2,862	2,910	(135)	48
Real estate and rental and leasing	901	951	1,159	258	208
Professional and technical services	2,095	2,290	2,549	454	259
Management of companies and enterprises	31	53	36	5	(17)
Administrative and waste services	4,033	5,233	6,001	1,968	768
Educational services	14,325	13,742	14,096	(229)	354
Health care and social assistance	13,613	14,601	15,425	1,812	824
Arts, entertainment, and recreation	811	968	1,002	191	34
Accommodation and food services	7,084	9,213	9,722	2,638	509
Other services (except public administration)	1,322	1,556	1,674	352	118
Public administration	6,143	6,212	6,221	78	9
Unclassified	26	21	5	(21)	(16)
TOTAL	84,362	93,069	96,983	12,621	3,914

Sources: Bureau of Labor Statistics and Texas Workforce Commission

Laredo has experienced substantial job growth since 2010, gaining over 12,000 during the six-year period. The sector with the most substantial gains has been Transportation and Warehousing, which directly represents the increasing international trade and logistics activity occurring in the region.

However, the proposed TIRZ has a different industry profile than the city overall, with Retail Trade and Educational Services more dominant, and Transportation / Warehousing and Health Care playing a lesser role. It is worth noting that two sectors that Downtown had been traditionally known for, Wholesale Trade and Finance and Insurance, have both declined substantially, the latter likely due to the acquisition of Laredo National Bank by BBVA Compass Bank.

Table 12: Proposed TIRZ Employment by Industry

Industry	Estimated Jobs			Change 2010 - 2014	Change 2014 - 2016
	2010	2014	2016		
Agriculture, forestry, fishing and hunting	14	7	7	(7)	-
Mining, quarrying, and oil and gas extraction	75	128	5	53	(123)
Utilities	103	179	1	76	(178)
Construction	477	490	491	13	1
Manufacturing	13	58	9	45	(49)
Wholesale trade	367	357	203	(10)	(154)
Retail Trade	1,376	1,174	1,029	(202)	(145)
Transportation and Warehousing	530	412	313	(118)	(99)
Information	95	16	9	(79)	(7)
Finance and insurance	2,058	681	624	(1,377)	(57)
Real estate and rental and leasing	35	19	22	(16)	3

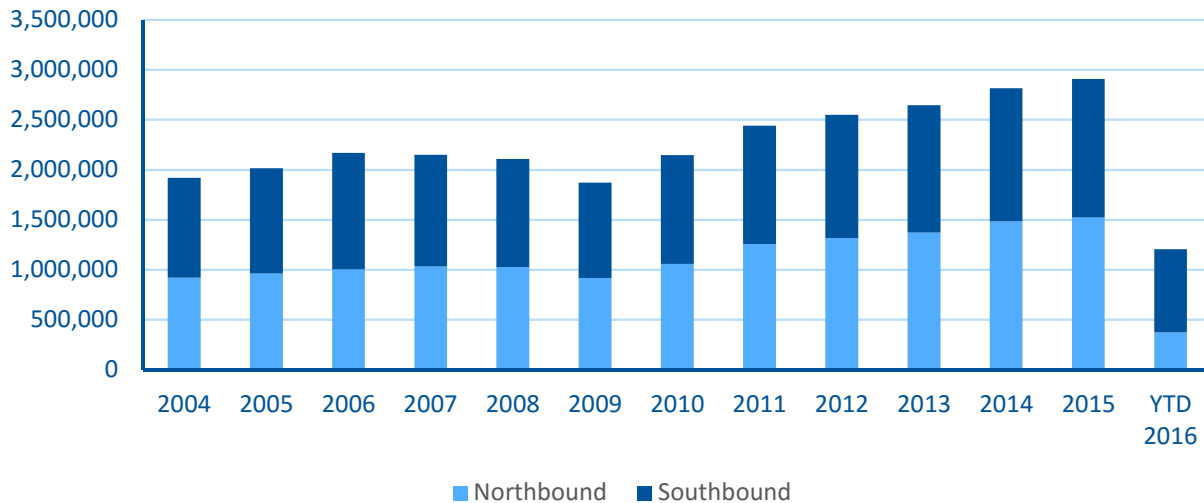
Professional and technical services	297	162	164	(135)	2
Management of companies and enterprises	1	1	4	-	3
Administrative and waste services	165	100	181	(65)	81
Educational services	995	771	5,043	(224)	4,272
Health care and social assistance	409	575	570	166	(5)
Arts, entertainment, and recreation	24	22	6	(2)	(16)
Accommodation and food services	502	401	378	(101)	(23)
Other services (except public administration)	34	24	63	(10)	39
Public administration	471	1,159	623	688	(536)
TOTAL	10,045	8,746	11,759	(1,305)	3,009

Sources: Bureau of the Census, Longitudinal Employer Household Dynamics

International Trade and Logistics

As mentioned earlier, Laredo is a major center of international goods movement. It is considered the busiest inland port along the U.S. – Mexico border. The Laredo Development Foundation reports that over \$183 billion in imports and exports flow through Laredo annually. Its location on the prime transportation corridor from the commercial and industrial hub of Monterrey, Nuevo Leon, in Mexico to the Interstate 35 corridor in Texas is the reason for the success of this sector of the local economy.

Figure 4: Loaded Truck Traffic Through Laredo



Source: Laredo Development Foundation

Trucking is the central component of trade through Laredo, and the chart above shows how trucking volume (both northward and southward) has grown since the financial crisis and recession in 2009 – traffic increased 55% by 2015. Two international bridges, the World Trade Bridge and the Columbia Solidarity Bridge, serve commercial truck traffic. They are situated upstream from Downtown in the northwest portion of the urbanized area of Laredo. The highways which provide access to Interstate 35 connect northeastward from the Rio Grande, allowing

a bypass of the bulk of Laredo’s residential and commercial areas, except for the large warehouse, logistics and manufacturing complexes on the north side of the city.

Wage Trends

Moderate-wage jobs dominate the Laredo economy. The average weekly wage across all industries has remained near \$650 (equivalent to \$33,800 on an annual salaried basis) since 2014. This followed a period of strong wage growth from 2010 to 2014, during recovery from the national recession and the Eagle Ford Shale boom. In several industry sectors after 2014, average wages have dropped.

Table 13: Webb County Average Weekly Wages by Industry

Industry	Avg. Weekly Wages Q1 of Year			Change 2010 - 2016	Change 2014 - 2016
	2010	2014	2016		
Agriculture, forestry, fishing and hunting	\$457	\$557	\$572	\$115	\$15
Mining, quarrying, and oil and gas extraction	\$1,374	\$1,408	\$1,517	\$143	\$109
Utilities	\$895	\$1,231	\$1,196	\$301	(\$35)
Construction	\$505	\$591	\$599	\$94	\$8
Manufacturing	\$501	\$654	\$625	\$124	(\$29)
Wholesale trade	\$810	\$917	\$920	\$110	\$3
Retail Trade	\$404	\$468	\$453	\$49	(\$15)
Transportation and Warehousing	\$577	\$685	\$683	\$106	(\$2)
Information	\$726	\$924	\$853	\$127	(\$71)
Finance and insurance	\$529	\$642	\$664	\$135	\$22
Real estate and rental and leasing	\$510	\$667	\$810	\$300	\$143
Professional and technical services	\$568	\$656	\$703	\$135	\$47
Management of companies and enterprises	\$781	\$1,018	\$861	\$80	(\$157)
Administrative and waste services	\$411	\$480	\$463	\$52	(\$17)
Educational services	\$659	\$693	\$737	\$78	\$44
Health care and social assistance	\$467	\$511	\$502	\$35	(\$9)
Arts, entertainment, and recreation	\$285	\$314	\$314	\$29	\$0
Accommodation and food services	\$257	\$289	\$296	\$39	\$7
Other services (except public administration)	\$416	\$479	\$519	\$103	\$40
Public administration	\$1,120	\$1,429	\$1,489	\$369	\$60
Unclassified	\$394	\$388	\$496	\$102	\$108
ALL INDUSTRIES	\$564	\$650	\$649	\$85	(\$1)

Sources: Bureau of Labor Statistics and Texas Workforce Commission

An important point is that in the industries which are the most prominent and growing in Laredo, wages are on average at very moderate or low levels. The average wages of Transportation and Warehousing workers were under \$700 per week as of Q1 2016. Education services workers, including teachers, earned slightly more on

average at \$737 per week. Other local high-employment industries such as Retail Trade, Health Care, and Accommodation and Food Services had considerably lower wages. The highest wage industry, Mining / Oil and Gas, has been contracting since 2014. Public administration workers earn the second-highest average wages (just under \$1,500 per week, nearly \$80,000 annually on a salaried basis), and this sector has remained relatively stable in terms of employment levels since 2010.

Table 14: Comparison of Average Weekly Wages – All Industries Average

Industry	Avg. Weekly Wages Q1 of Year			Change 2010 - 2016	Change 2014 - 2016
	2010	2014	2016		
Webb County	\$564	\$650	\$649	\$85	(\$1)
San Antonio MSA	\$767	\$893	\$915	\$148	\$22
Texas	\$892	\$1,062	\$1,066	\$174	\$4

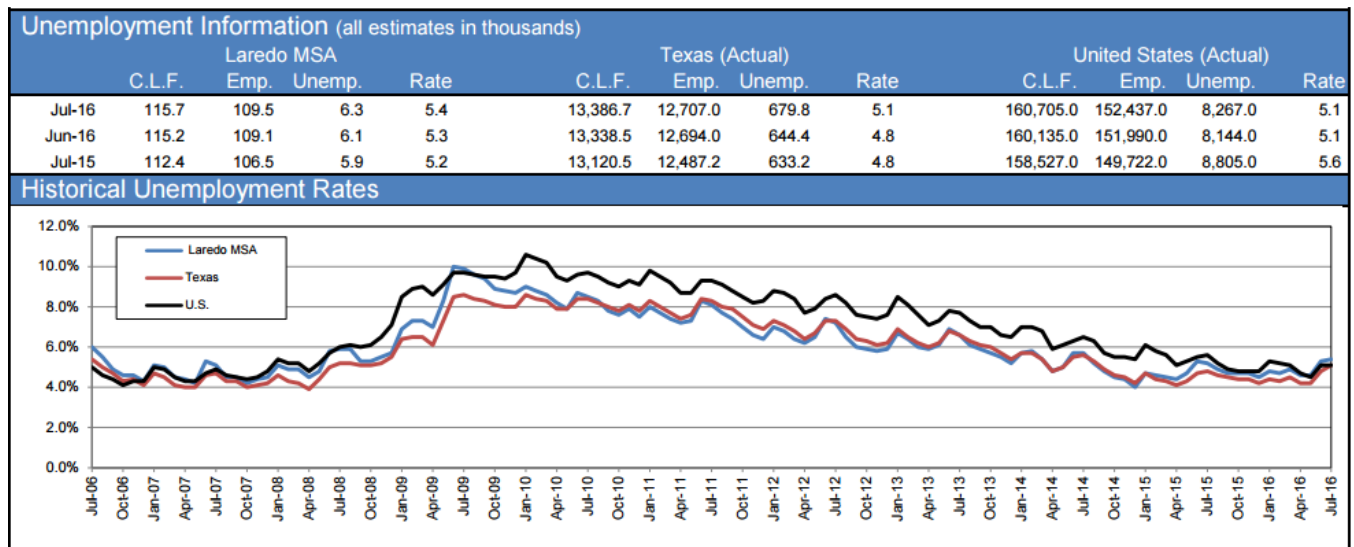
Sources: Bureau of Labor Statistics and Texas Workforce Commission

Laredo has a notably lower wage profile overall than other areas of the state. The San Antonio MSA had an average weekly wage that is \$266 higher than Webb County (Laredo MSA) as of Q1 2016, and the statewide average was \$417 higher.

Unemployment Rates

At July 2016, unemployment was at 6.3% in Laredo according to the TWC. Unemployment is up 0.4% since 2015 at this time.

Figure 5: Unemployment Trends



Source: Texas Workforce Commission

Employment By Occupation and Classification

The CMA has 12,473 employees of which 43% are white collar jobs. The largest percentage of the population are in Office/Admin Support followed by Sales Related. The TIRZ has 17.19% Sales Related jobs and 13.5% Transportation/Moving. The following tables break down this employed population by occupation for all geographies.

Table 15: Employment By Occupation

Occupation	Proposed TIRZ		78040 - CMA		Laredo City		Webb County	
	762		12,473		101,793		106,195	
Architect/Engineer	1	0.15%	32	0.26%	482	0.47%	492	0.46%
Arts/Entertainment/Sports	7	0.86%	179	1.44%	948	0.93%	954	0.90%
Building Grounds Maintenance	75	9.86%	1,134	9.09%	5,102	5.01%	5,399	5.08%
Business/Financial Operations	2	0.29%	140	1.12%	2,997	2.94%	3,057	2.88%
Community/Social Services	14	1.87%	135	1.08%	1,357	1.33%	1,413	1.33%
Computer/Mathematical	1	0.14%	12	0.10%	653	0.64%	668	0.63%
Construction/Extraction	25	3.25%	939	7.53%	6,750	6.63%	7,286	6.86%
Education/Training/Library	36	4.73%	592	4.75%	7,373	7.24%	7,609	7.17%
Farming/Fishing/Forestry	16	2.06%	59	0.47%	431	0.42%	473	0.45%
Food Prep/Serving	46	5.98%	680	5.45%	4,350	4.27%	4,534	4.27%
Healthcare Practitioner/Technician	10	1.36%	249	2.00%	3,096	3.04%	3,163	2.98%
Healthcare Support	54	7.09%	641	5.14%	3,857	3.79%	3,976	3.74%
Maintenance Repair	35	4.53%	740	5.93%	4,314	4.24%	4,608	4.34%
Legal	1	0.09%	84	0.67%	510	0.50%	515	0.48%
Life/Physical/Social Science	0	0.01%	7	0.06%	200	0.20%	202	0.19%
Management	24	3.15%	497	3.98%	7,275	7.15%	7,424	6.99%
Office/Admin. Support	83	10.89%	1,842	14.77%	17,702	17.39%	18,263	17.20%
Production	47	6.19%	474	3.80%	2,820	2.77%	3,055	2.88%
Protective Service	26	3.37%	318	2.55%	5,229	5.14%	5,480	5.16%
Sales/Related	131	17.19%	1,636	13.12%	12,363	12.15%	12,766	12.02%
Personal Care/Service	26	3.39%	699	5.60%	3,894	3.83%	4,217	3.97%
Transportation/Moving	103	13.57%	1,384	11.10%	10,090	9.91%	10,641	10.02%
Occupation Classification								
Blue Collar	210	27.54%	3,537	28.36%	23,974	23.55%	25,590	24.10%
White Collar	310	40.72%	5,405	43.33%	54,956	53.99%	56,526	53.23%
Service & Farm	242	31.75%	3,531	28.31%	22,863	22.46%	24,079	22.67%

Sources: US Census, American Community Survey, PCensus

Top Employers

Though Transportation and Logistics may be Laredo’s most important industrial sector, its largest single employers tend to be public agencies. The federal government is significant in this regard, with Customs and Border Patrol employing over 3,700 Laredoans.

Table 16: Laredo Top Employers

TOP EMPLOYERS	# Employees
PRIVATE SECTOR	
**H-E-B	1,190-4,175
*McDonald’s Restaurant	1540
*Laredo Medical Center	1503
**Wal-Mart (4 Locations)	830-2,551
*Convergys	940
*Doctor’s Hospital	800
*International Bank of Commerce	668
**Stripes Convenience Stores	245-477
*Laredo Energy Arena	193
**Target Greatland (2 Stores)	119-499
*Anderson Columbia	250
Sames Motor Company	223
*BBVA Compass Bank	216
*Falcon International Bank	300
*Union Pacific Railroad	175
**Fedex Freight	100-499
*Family Chevrolet	157
**Sears & Roebuck and Co.	100-499
PUBLIC SECTOR:	
*United Independent School District	7174
*Laredo Independent School District	4346
*City of Laredo	2523
*Laredo Sector Border Patrol	1770
*US CBP—Customs Field Officers	1950
Webb County	1500
*Texas A&M International University	1392
Laredo Community College	929
Border Region Behavioral Health Center	250
Gateway Community Health Clinic	231
U.S. Post Office	164

Source: Laredo Development Foundation

Employment Inflow and Outflow – Proposed TIRZ

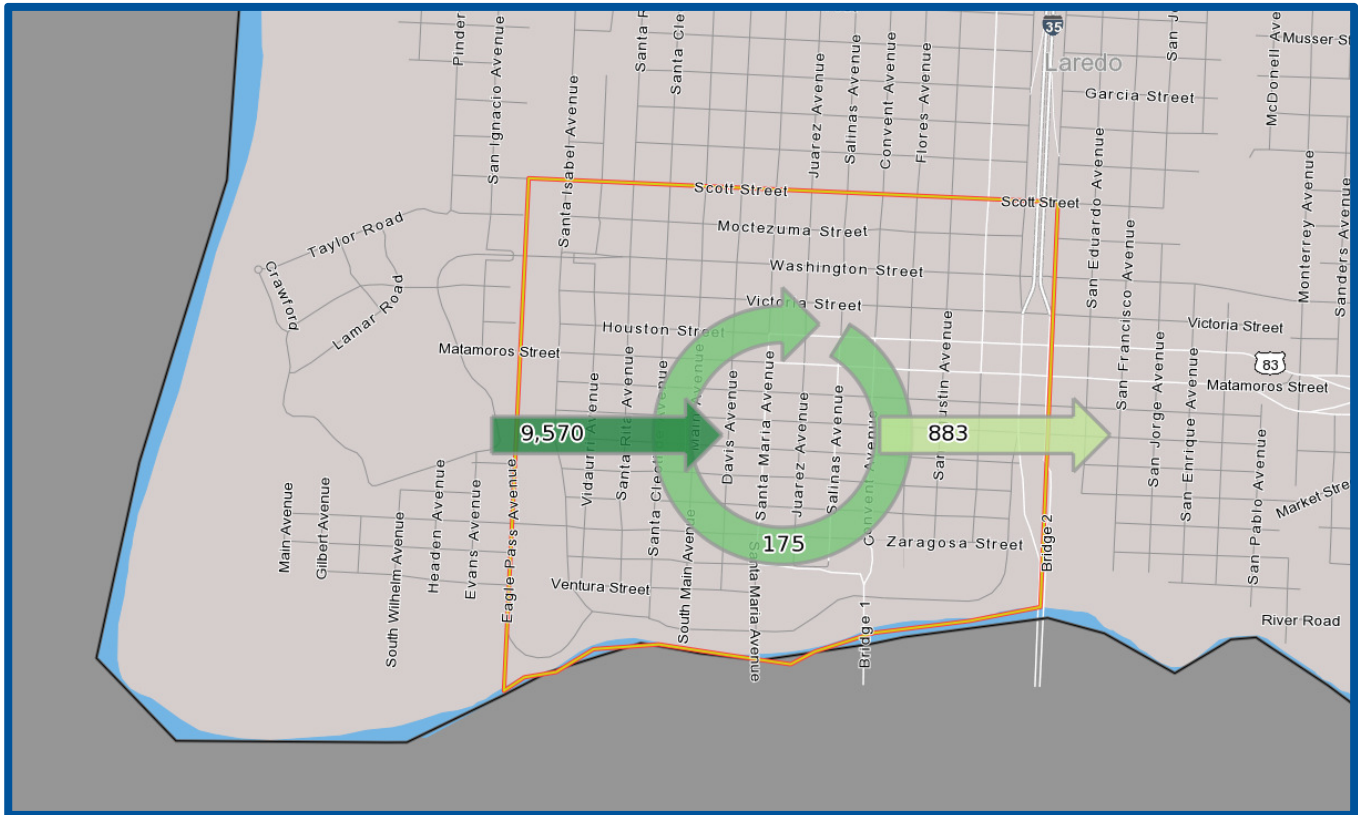
To better understand local demand for various land uses, it is helpful to take a look at the jobs data provided by the Longitudinal Employer-Household Dynamic (LEHD), which is part of the US Census Bureau. While the most recent data available is from 2014 (and differs slightly from the employment estimates provided previously), it is still helpful in understanding present day commuting patterns.

Table 177: TIRZ Employment Inflow and Outflow, 2014

Employment Inflow/Outflow	Proposed TIRZ	
	#	%
Employed in the Area	9,745	100%
Employed in the Area but Living Outside	9,570	98.2%
Employed in the Area and Living Inside	175	1.8%
Living in the Area and Employed	1,058	100%
Living in the Area but Employed Outside	883	83.5%
Living in the Area and Employed Inside	175	16.5%

Source: Bureau of the Census, Longitudinal Employer Household Dynamics

Figure 6: Inflow/Outflow

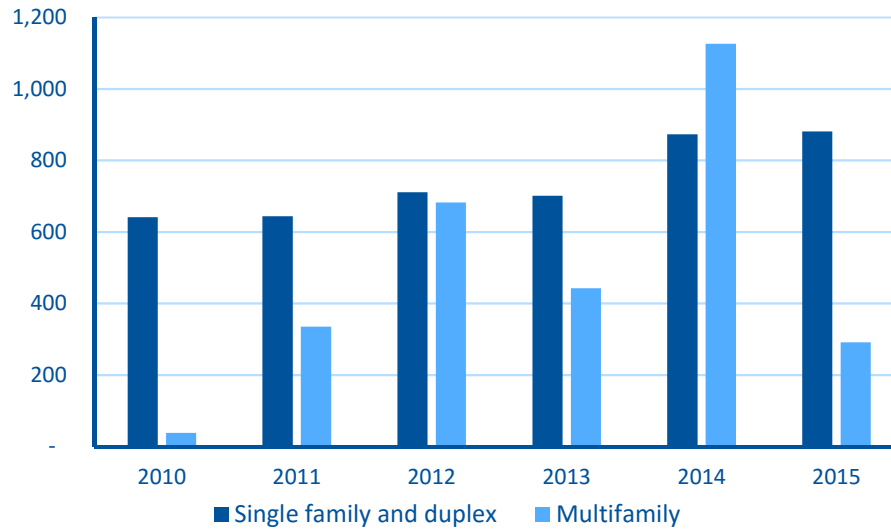


Source: Bureau of the Census, Longitudinal Employer Household Dynamics

Building and Development

As it emerged from the global financial crisis and U.S. recession of 2008-09, Laredo has experienced a significant surge in new development. This is reflected in the volume of residential permits and commercial permit values shown in the following exhibits.

Figure 7: New Residential Units Permitted 2010-2015



Source: City of Laredo

Table 18: New Construction Building Permit Values – Selected Commercial Uses (\$)

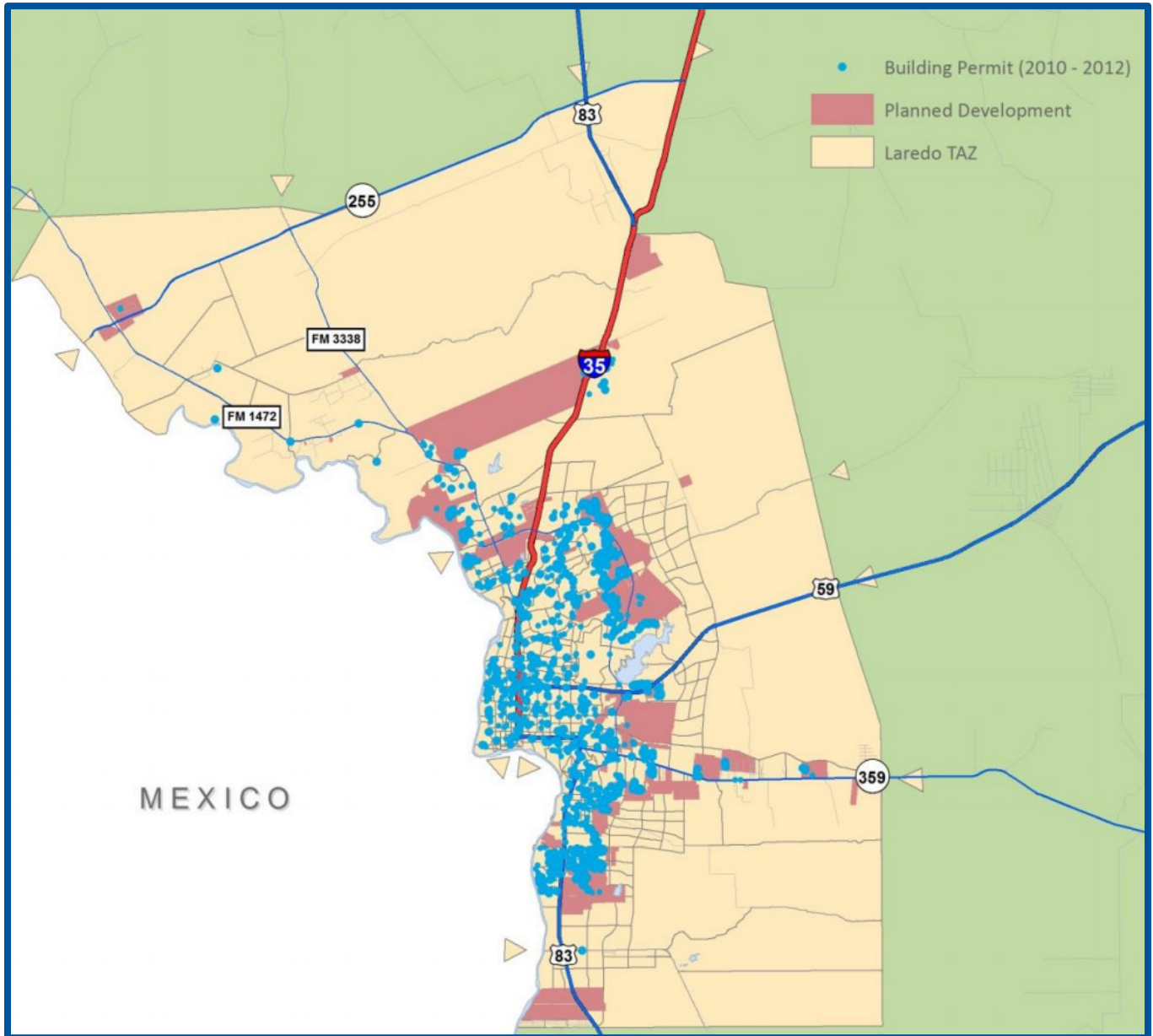
Building Use	2010	2011	2012	2013	2014	2015
Industrial/Warehouse	\$5,961,645	\$29,106,209	\$16,747,789	\$72,491,162	\$28,786,141	\$58,343,490
Service Stations & Repair Garages	\$177,480	\$770,320	\$1,600,000	\$601,000	\$438,042	\$726,748
Office, Banks & Professional	\$11,295,733	\$8,555,278	\$8,987,334	\$13,154,092	\$23,204,692	\$13,619,573
Stores & Customer Services	\$5,726,623	\$13,026,925	\$12,081,920	\$24,937,264	\$36,002,156	\$34,576,923
Commercial-Shell Only	\$-	\$348,534	\$25,000	\$3,615,032	\$2,559,320	\$5,435,172
Restaurant	\$693,692	\$621,000	\$5,527,854	\$8,018,454	\$6,171,395	\$6,920,418
TOTAL	\$23,855,173	\$52,428,266	\$44,969,897	\$122,817,004	\$97,161,746	\$119,622,324

Source: City of Laredo

Since housing demand generally increases as a result of job growth, it is no surprise that the number of residential units permitted increased during the period. The increase in the value of Industrial / Warehouse new construction permits reflects the strong increase in international transport and logistics activity.

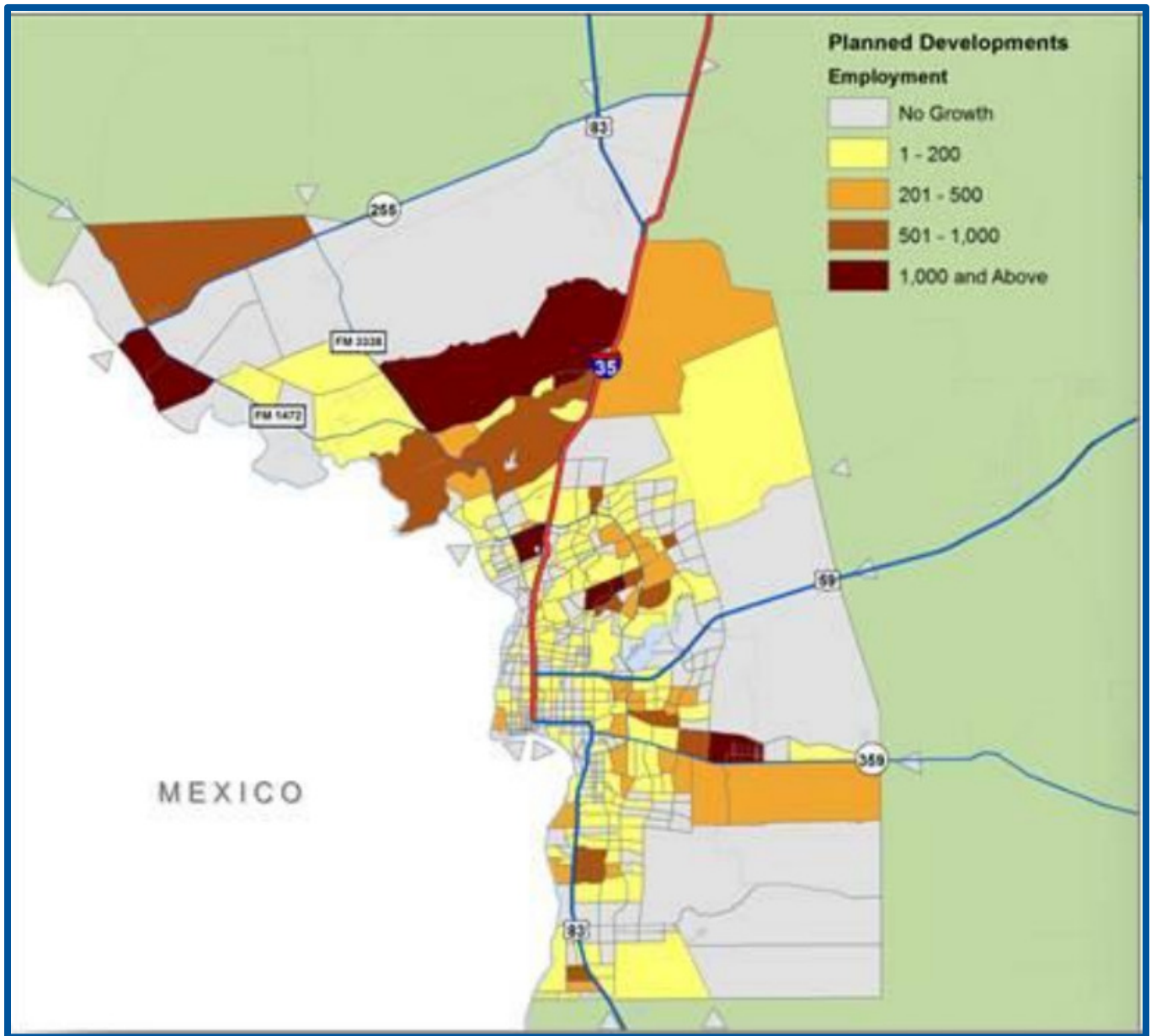
According to the 2015 to 2040 Metropolitan Transportation Plan, the future development/job growth will continue to the north of Laredo. As shown, the TIRZ will have no growth per the building permits by the City of Laredo.

Figure 8: Building Permit Locations and Planned Development



Source: 2015-2040 MPO Plan

Figure 9: Planned Developments/Employment Growth



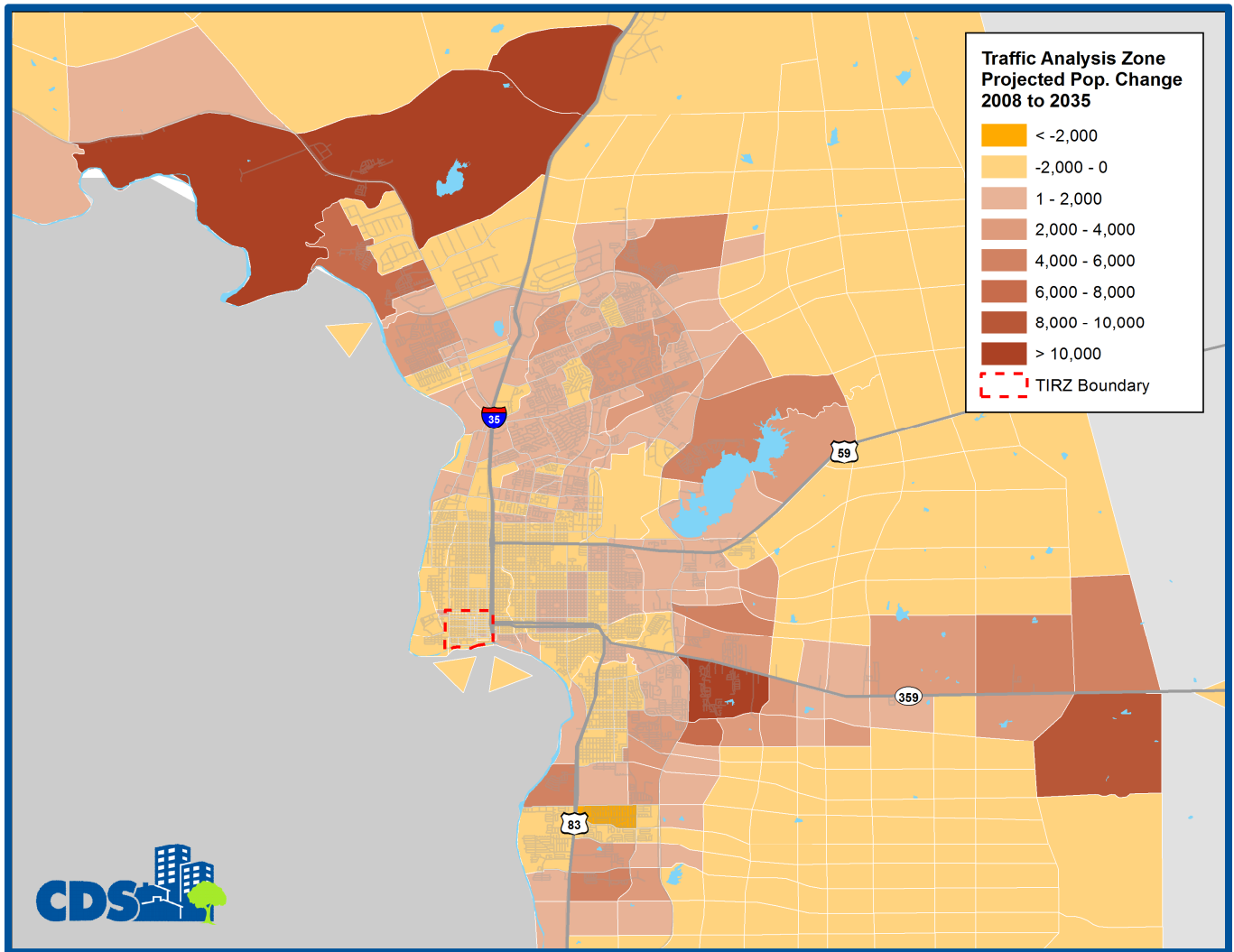
Source: 2015-2040 MPO Plan

Projected Long Term Growth

The most recent (2008) long term growth projections from for the Laredo area’s Metropolitan Planning Organization (MPO), create for the purpose of transportation planning, indicate that little to no growth was expected in the older, more central parts of Laredo, while outlying areas to the north and east would grow strongly. The map below illustrates the projections of population change for the Traffic Analysis Zones (TAZs) used to compile the projections.

In theory this is a sensible projection, as vacant land tends to be easier to develop than built-up areas. However, in other urban areas around Texas, urban cores have been experiencing considerable redevelopment and densification, which can add substantial population to a local neighborhood or district. Such a scenario was apparently not contemplated when these projections were calculated.

Figure 10: Projected Laredo Area Growth

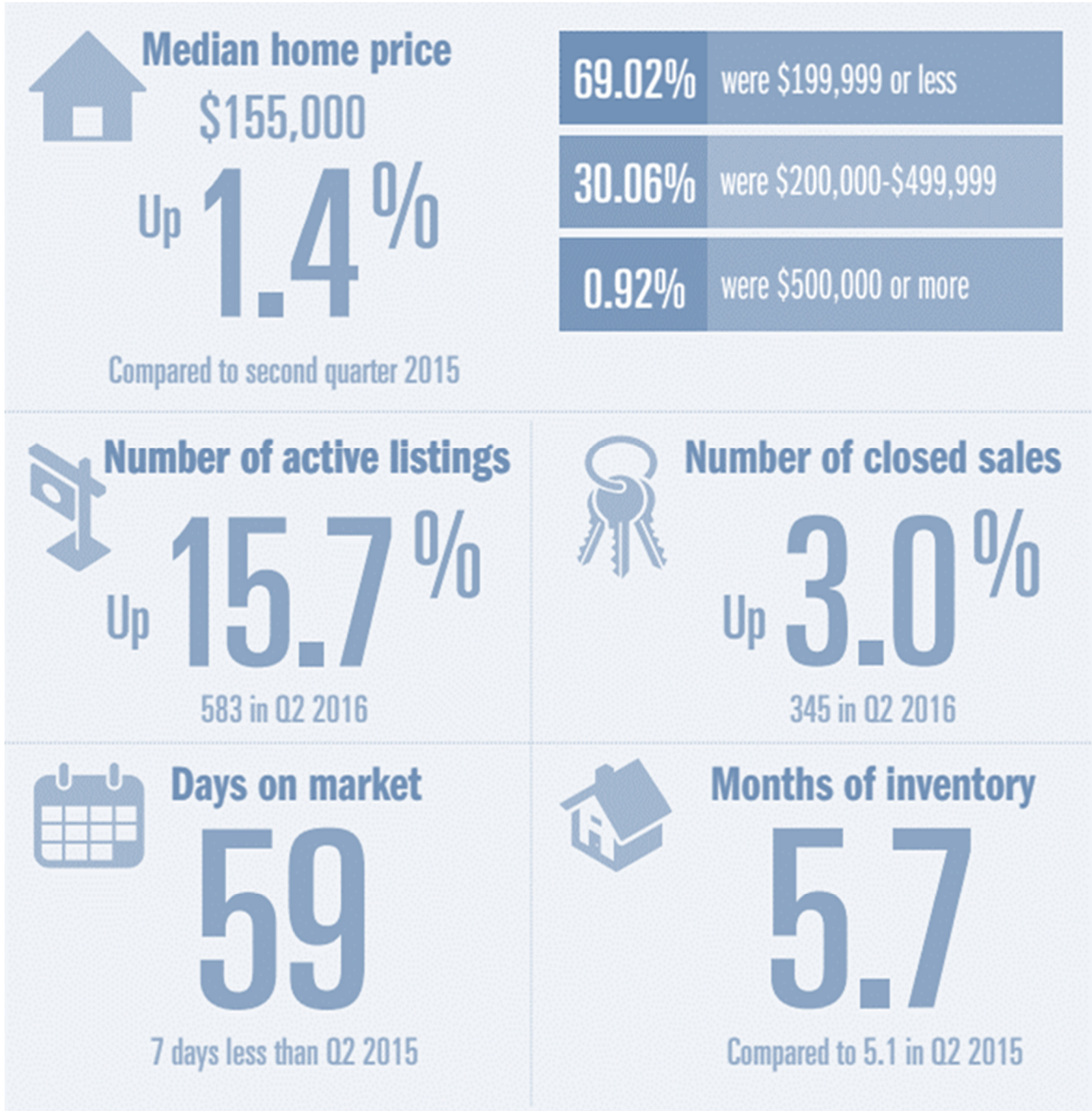


Source: City of Laredo

MARKET TRENDS: HOUSING

Single Family

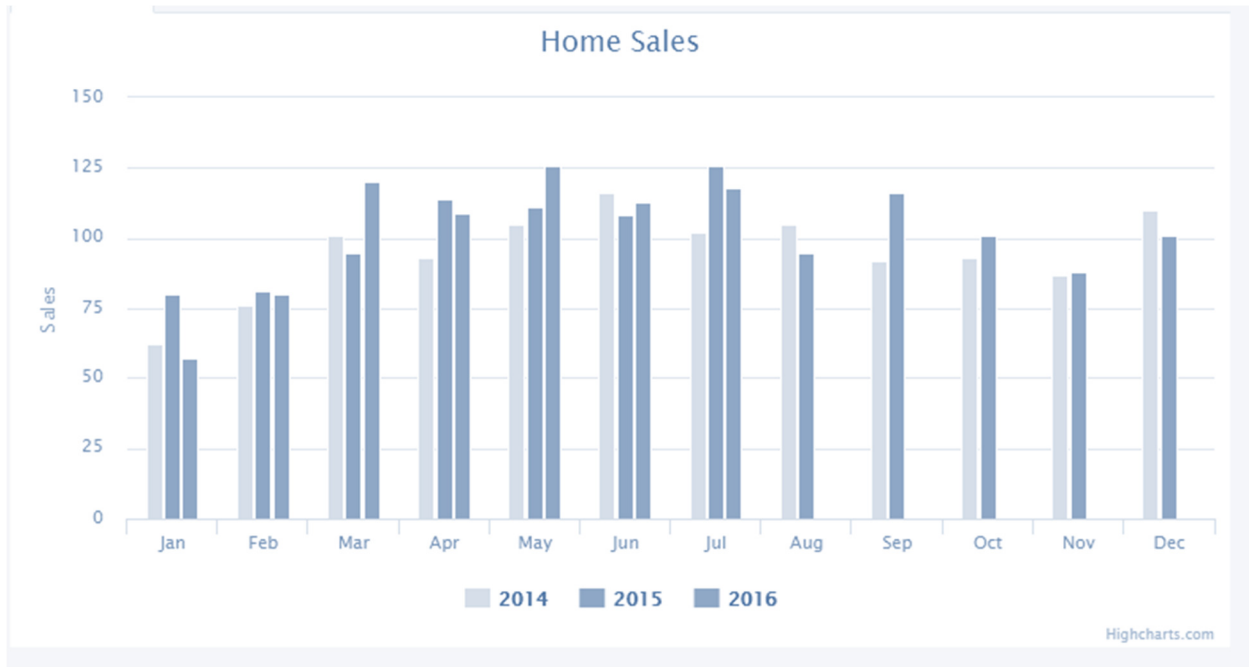
According to the Texas Association of Realtors, at 2Q2016 the median home price in Laredo was \$155,000. Laredo has a 5.7-month inventory of homes on the market.



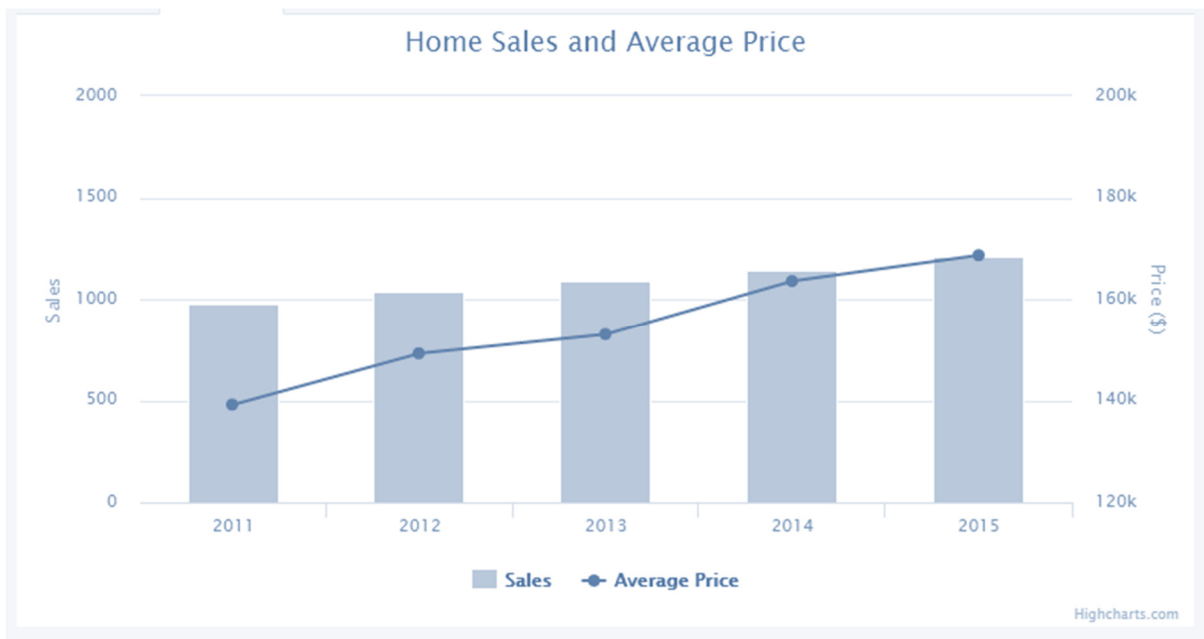
Source: TAR

Home sales in Laredo started out 2016 with volumes lower than 2014. However, by March, sales were above both 2014 and 2015. In June and July volumes went below prior years. Home prices have increased since 2011 with median values going from \$125,000 to \$153,825.

Figure 11: Home Sales and Prices

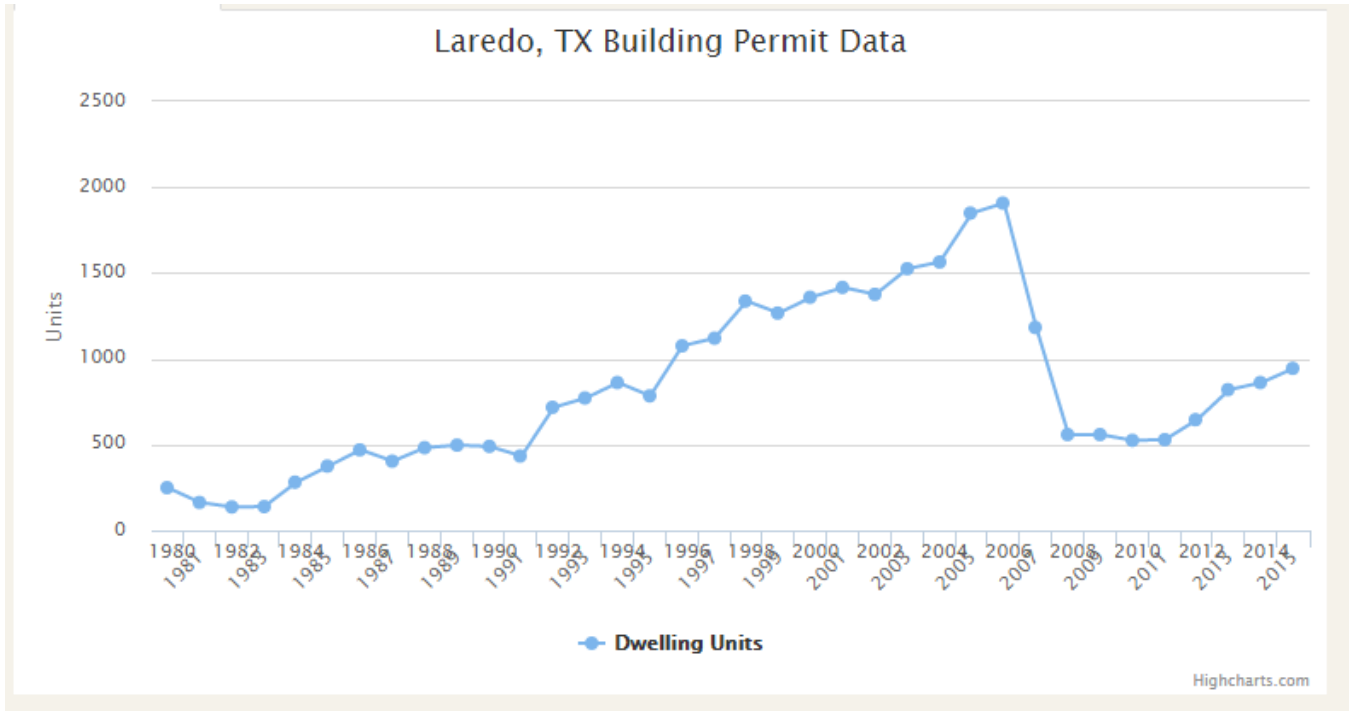


Source: Texas A&M Real Estate Center



Single family building permits increased significantly from 1980(376) to 2006 (1,941). In 2008 permits decreased to 668. Since 2009 permits have increased slowly to 1032 in 2015.

Figure 12: Building Permits



The TIRZ includes 547 single family homes. Approximately 45% (547) of the housing units in the TIRZ are single family with 49.8% multi-family which includes townhomes, duplexes, tri-plexes, apartments, etc. Approximately 75% of the units are renter occupied. The median value is \$74,100 which is considerably lower than Laredo overall. Approximately 74% of the housing units are valued at below \$60,000. Approximately 70% of the TIRZ households earn under \$25,000 annually.

CDS does not anticipate new single family housing in the TIRZ area in the near future due to current values, population, and income levels.

Multi-family

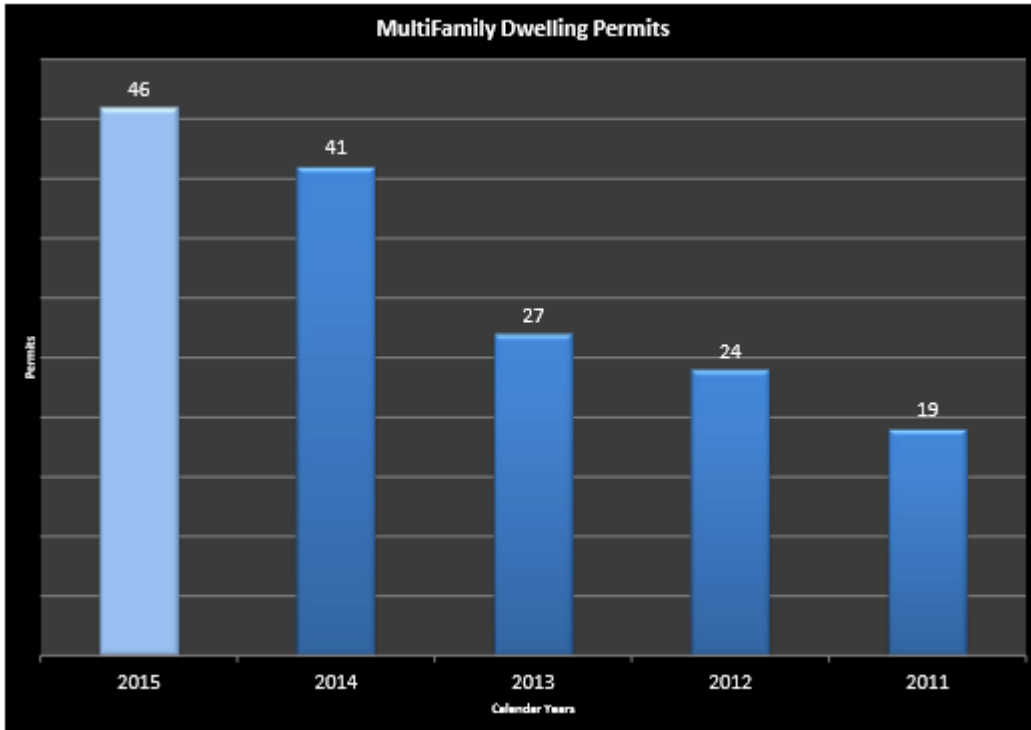
CoStar reports that there are 5,721 apartment units in Laredo currently. Over the past five years vacancy has increased from slightly below 6% to over 10%. At the same time, rents increased from \$0.82psf to \$0.98psf. Absorption has been positive from 2011.

Figure 13: Laredo Multifamily Trends



The City of Laredo has had increased multifamily building permits over the past five years. A total of 46 permits for 299 units were issued in 2015. These units were located in north Laredo.

Figure 14: Multifamily Building Permits



ALN, August 2016 report indicates that occupancy is at 85.2% with asking rents at \$1.04psf on average. The average concession package is 10.6% in this market. The table below shows rental rates by unit type. As seen, one bedrooms are at \$1.09psf; 2-bedrooms \$1.00psf; and 3-bedrooms \$0.87psf.

Table 19: Laredo Rents

FLOOR PLAN BREAKDOWN-LAREDO

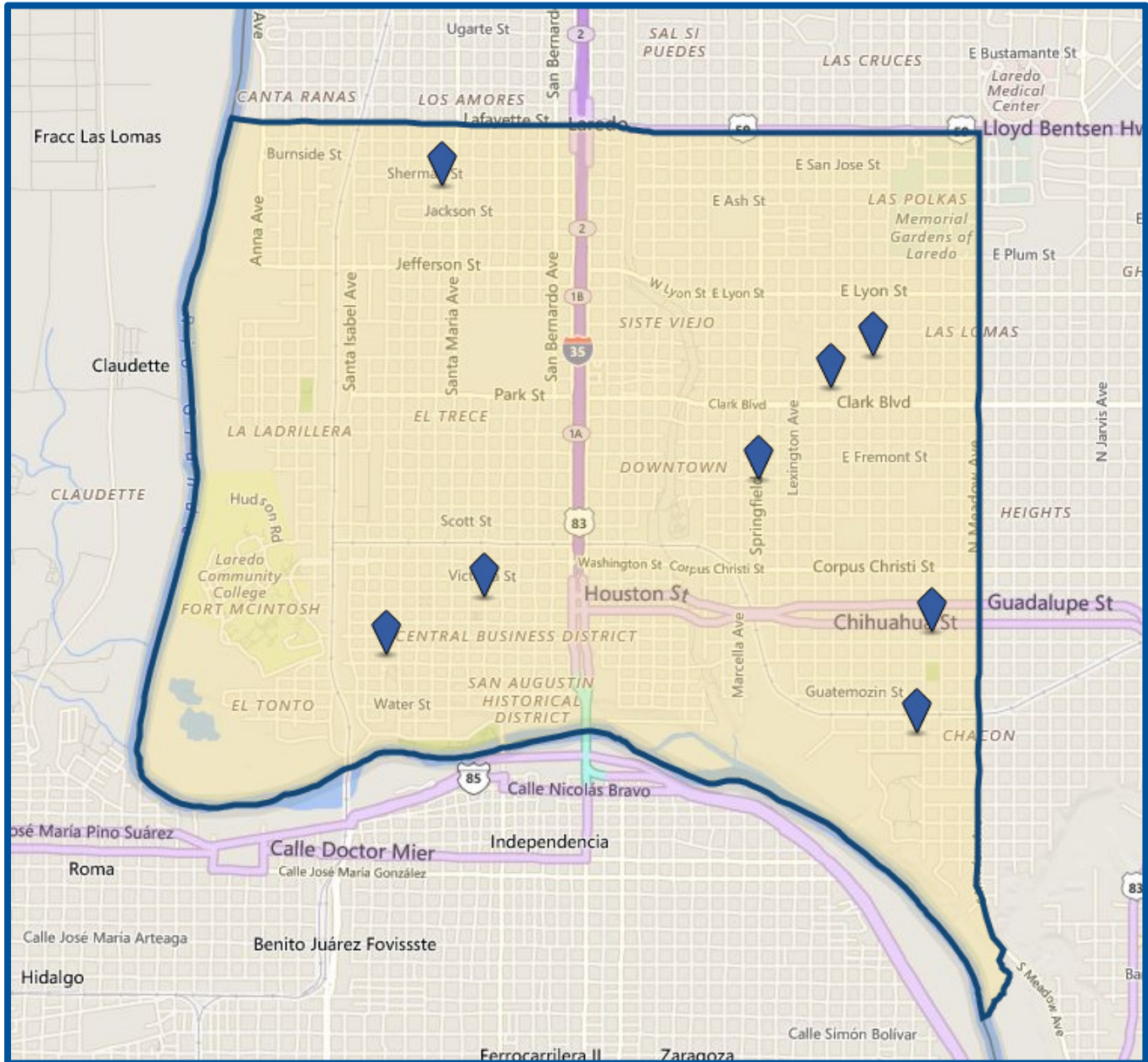
Plan Type	% of Mkt	Ave SqFt	Ave Market Rent/Mo	Ave Eff. Rent/Mo	Ave % Disc
1 BR	32.3%	649	\$713	\$706	1.0%
1 DEN	3.3%	797	\$919	\$893	2.9%
2 BR	49.1%	921	\$930	\$921	1.0%
3 BR	14.2%	1,140	\$1,001	\$987	1.4%
>3 BR	1.2%	1,130	\$1,521	\$1,521	0.0%

Source: ALN

CMA

The zip code, 78040 is the competitive market area (CMA) that defines the TIRZ boundary. There are eight multi-family properties within this zip code.

Figure 15: Map of CMA Multifamily



The CMA includes 215 units with vacancy at 6.1%. On average rents are \$535 for a 1-bedroom unit, and \$669 for a 2-bedroom unit. These rates are considerably lower than the overall Laredo market as a whole.

Performance Trends

Vacancy has increased in the CMA over the past five years from 3% to 6.1% while absorption has been negative.

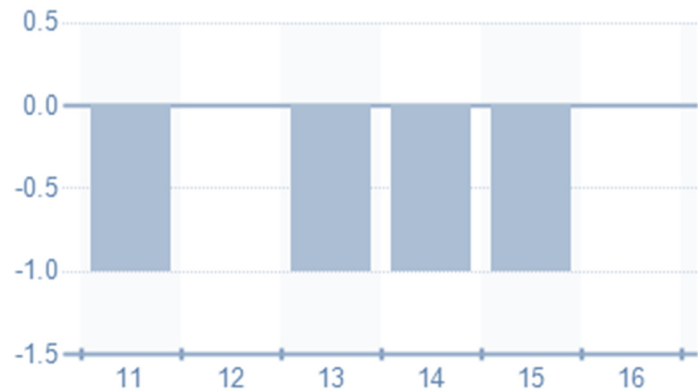
Rents have not been reported in the CMA by CoStar.

Figure 16: CMA Multifamily Rental Trends

Vacancy Rate



Absorption Units



Source: CoStar

CMA Supply

Table 20: CMA Multifamily Supply

Building Address	Building Class	# Of Units	Avg Effective/Unit	\$/SF	# of Eff.	# Of 1 Bed-rooms	# Of 2 Bed-rooms	# Of 3 Bed-rooms	Year Built	Avg Unit SF	Vacancy %	Inc Res/ Sec 8/ bills pd
3101 Davis Ave	B	10	\$669	\$0.96			10		2001	690	0%	
1808 Iturbide St	B	4							2004	759	0%	
401 E Lane St	C	5	\$500				2	3	2008		0%	
801 Okane St	B	5	\$625	\$0.83		1	4		1990	752	0%	

DOWNTOWN MARKET DEMAND ANALYSIS

Building Address	Building Class	# Of Units	Avg Effective/Unit	\$/SF	# of Eff.	# Of 1 Bed-rooms	# Of 2 Bed-rooms	# Of 3 Bed-rooms	Year Built	Avg Unit SF	Vacancy %	Inc Res/ Sec 8/ bills pd
1010 Reynolds St	C	5					5		1993	800		
1320 Rosario	B	16					16		1991	964		
815 Salinas Ave	B	165	\$603	\$1.28	51	91	23		1905 /2002	471	7%	Seniors Yes/ Yes
1219 Willow St	B	5	\$535			5			1993		4%	
5118 Gallagher	B	56	\$554	\$0.66			28	28	1997	846	2%	Yes
TOTALS/Avg		271	\$581	\$0.93	51	97	88	31	1990	648	4.3%	

Source: CDS, ALN, CoStar

TIRZ Multifamily Market

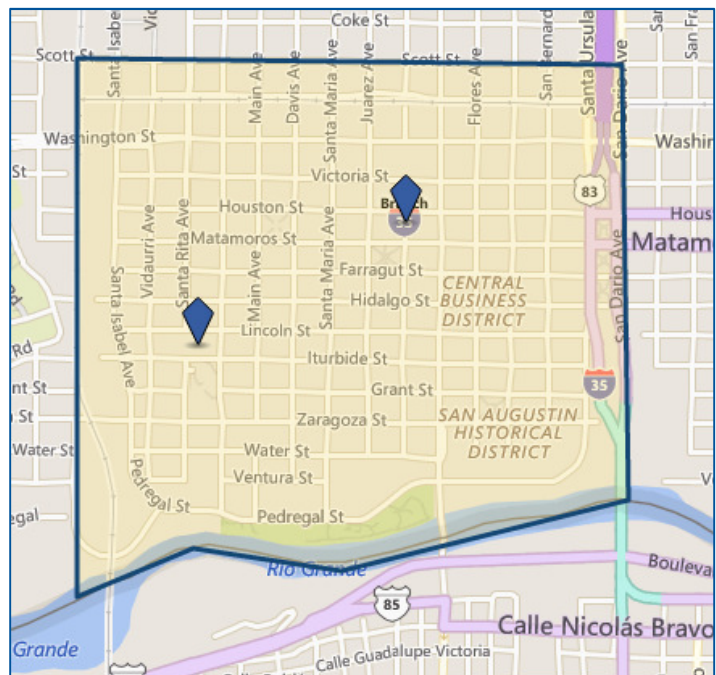
There are two of the above complexes located in the TIRZ. They are 1808 Iturbide St. (4 units) and 815 Salinas (165 units).

815 Salinas is a Senior Section 8 Low Income facility which is 93% occupied. Rents are the highest in the market at \$1.28 on average. This appears to be a thriving market for the TIRZ.

Given the low rents, low income, and population in the TIRZ it does not appear that a developer will probably find this rental rate feasible for new construction.

Affordable units are achieving higher rents on a per sf basis in this market, with Seniors being an attractive market in the TIRZ. Therefore, we will examine the Senior Multi-family Market.

Figure 17: Map of TIRZ Multifamily



Senior Housing

CMA Senior Demographics

The CMA includes 5,761 persons are age of 55 and over which is 13.8% of the total population. By 2021 that group will increase by 292 households.

Table 21: CMA Senior Population and Households by Age, 2016 – 2021

	2016 Estimate		2021 Projection	
Total CMA Population	41,744		42,080	
Age 55 to 64	3,615	8.66%	3,594	8.54%
Age 65 to 74	2,891	6.93%	3,005	7.14%
Age 75 to 84	1,883	4.51%	1,939	4.61%
Age 85 and over	908	2.18%	902	2.14%
Total CMA Households	12,334		12,626	
Age 55 to 64	1,937	15.70%	1,933	15.31%
Age 65 to 74	1,849	14.99%	1,934	15.32%
Age 75 to 84	1,332	10.80%	1,381	10.94%
Age 85 and over	643	5.21%	649	5.14%

As seen in the following table, 35.0% of the Seniors in the CMA have incomes below \$15,000 while 5.3% have incomes above \$100,000.

Table 22: Senior HH Income By Age

Category	55-64	65-74	75-84	85+
Household Totals By Age	1,937	1,849	1,332	643
% Of Total CMA HH	15.70%	14.99%	10.80%	5.21%
Income Less than \$15,000	27.36%	32.61%	42.19%	49.92%
Income \$15,000 to \$24,999	17.60%	15.95%	23.95%	23.64%
Income \$25,000 to \$34,999	12.75%	7.84%	8.93%	9.02%
Income \$35,000 to \$49,999	17.97%	12.76%	10.14%	7.93%
Income \$50,000 to \$74,999	14.56%	16.17%	8.18%	5.75%
Income \$75,000 to \$99,999	5.16%	6.17%	3.15%	1.40%
Income \$100,000 to \$124,999	2.53%	3.14%	1.43%	1.09%
Income \$125,000 to \$149,999	1.03%	2.54%	0.75%	0.62%
Income \$150,000 to \$199,999	0.77%	2.00%	0.83%	0.31%
Income \$200,000 or more	0.26%	0.81%	0.45%	0.31%
Median HH Income	\$28,947	\$26,828	\$18,260	\$15,033

Approximately, 61.8% of the total 2016 CMA owner occupied housing units are by persons age 55 and over while 34.5% are renter occupied.

Table 23: Senior Population by Tenure

Total Occupied Housing Units by Tenure*	2016 Estimate		2021 Projection	
	12,334		12,626	
Owner-Occupied	5,501		5,617	
Householder 55 to 64 years	1071	19.47%	1070	19.05%
Householder 65 to 74 years	1103	20.05%	1153	20.53%
Householder 75 to 84 years	838	15.23%	857	15.26%
Householder 85 years and over	391	7.11%	389	6.93%
Renter Occupied	6,833		7,009	
Householder 55 to 64 years	866	12.67%	863	12.31%
Householder 65 to 74 years	746	10.92%	781	11.14%
Householder 75 to 84 years	494	7.23%	524	7.48%
Householder 75 to 84 years	252	3.69%	260	3.71%

Potential Demand – Senior Housing

The total population aged 55 and older represents the primary pool of prospects that would be expected to populate a senior housing project over the near-term forecast window.

CDS has derived the demand for basic Age Restricted Apartment units (no medical services) based on household growth in the CMA over the next five years. By 2021, there will be an additional 292 households with persons age 55 and over. Currently there are 165 Seniors rental units 93% occupied in the CMA (old Hamilton Hotel) with no additional units planned or proposed.

Although the exact percentage of the population who would live in senior designated apartments versus single family rentals is unknown, currently 34.5% of the overall housing units in the CMA are senior occupied. By 2021 the number will increase to 34.6%. Based on this number, 101 additional Senior renter households will be in the CMA by 2021 or 20 annually.

CDS estimates that the CMA could capture 50% of the estimated market growth based on the percentage of households age 55+ currently renting, projected increase in renter population over age 55, and the current supply. The total future CMA household growth results in 50 additional units in the next five years (by 2021) age 55+ for the CMA.

Based on existing conditions in the CMA with a lack of age 55+ senior housing options that are age restricted, with no meals and no medical facilities, it is not unreasonable to assume that the subject site could capture 100% of the growth. However, CDS recommends two phases of 50 units each.

CDS also concludes that based on income levels and current rental rates in the CMA, any new development will probably have to be Income Restricted/Section 8.

Table 24: Senior Rental Housing Demand

Category	2016	2021
CMA Senior HH Growth	12,334	12,626
Incremental HH Growth		292
34.5% CMA Senior Households - Renters		101
50% Renter HH Subject Site		50

MARKET TRENDS: RETAIL

Texas' flourishing economy, along with Mexican-American trade, has been encouraging development in Laredo for some time now. With past years seeing an influx of retail stores opening along the I-35 corridor, Bob Bullock Loop (Loop 20) is beginning to rise as a hot spot for retail development. Recent Laredo development:

- The former River Drive Mall is being developed into The Outlet Shoppes at Laredo, with 358,000 square feet of retail space (phase 1). This is predicted to add 1,200 permanent jobs, as well as 1,600 seasonal jobs. Among the 44 tenants are Abercrombie, Banana Republic, Michael Kors, Tommy Hilfiger and several food locales including Johnny Rockets.
- The first 70,000 square feet of a projected 350,000 square feet shopping center has been completed for the Paseo Casa Blanca Shopping Center. Conns Home Plus will serve as the anchor store with 50,000 square feet.
- The Shoppes at Winfield will feature 38,000 square feet of boutique shops, dining, and service oriented businesses and an expansive patio for all units with spacious seating
- James Avery just opened up a new location in Laredo.
- The Armani Exchange also just opened up a new location in Laredo. It is the largest Armani Exchange in Texas, and it is comparable in size to their stores located in Miami and New York.
- Recently, Best Buy, Academy, and Walgreens have opened up either their 2nd or 3rd locations in Laredo.
- HEB Plus, Hobby Lobby, and TJ Maxx have also recently opened up new locations

The Laredo market includes 8,997,821 SF in 505 buildings of retail space according to CoStar. The vacancy rate is 2.9% with NNN rents at \$17.58psf. The 12-month absorption in this market was 158,719 at September, 2016.

Over the past five years vacancy has risen in this market from below 1% to almost 3%.

Figure 18: Laredo Retail Vacancy Rate

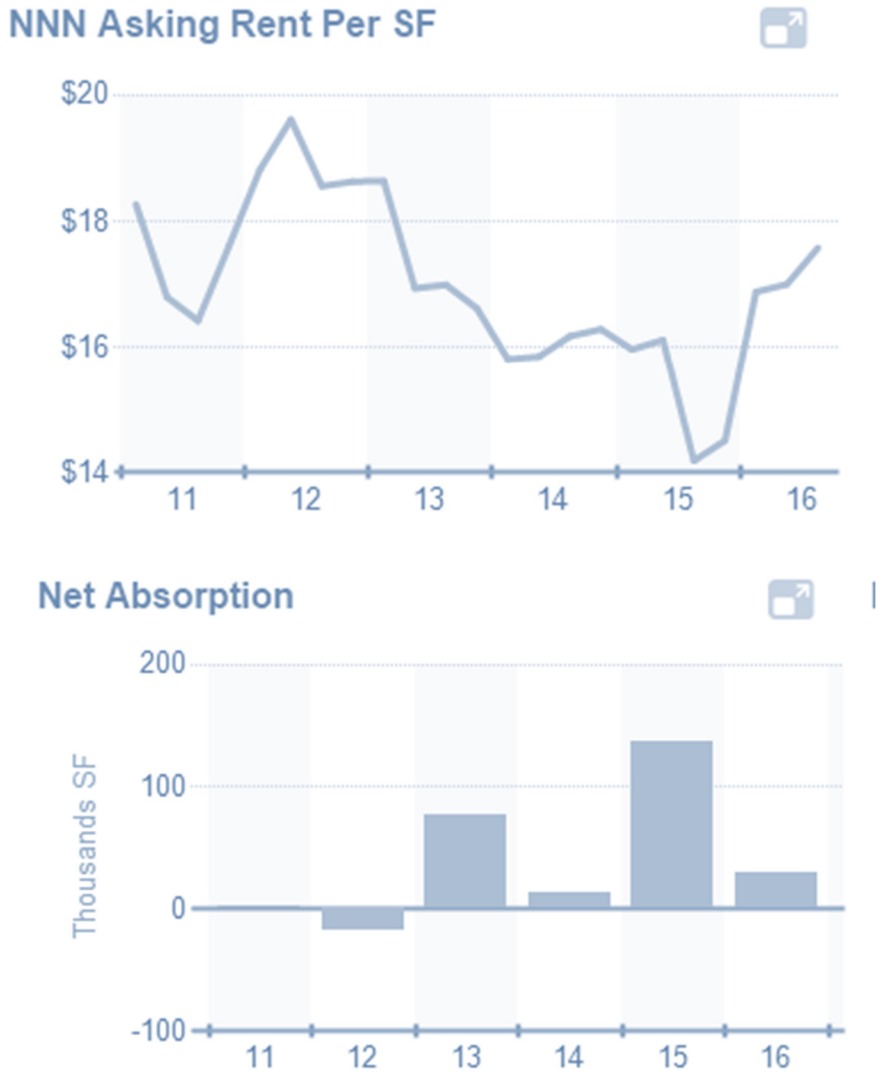


Source: CoStar

Asking rents in Laredo have been volatile over the past five years. Rising from 2011 to 2012 then falling to an all-time low of \$14 in 2015. The 2016 rates have increased significantly to the current \$17.58 psf.

Absorption in the market has been positive since 2013.

Figure 19: Laredo Retail Asking Rents and Absorption



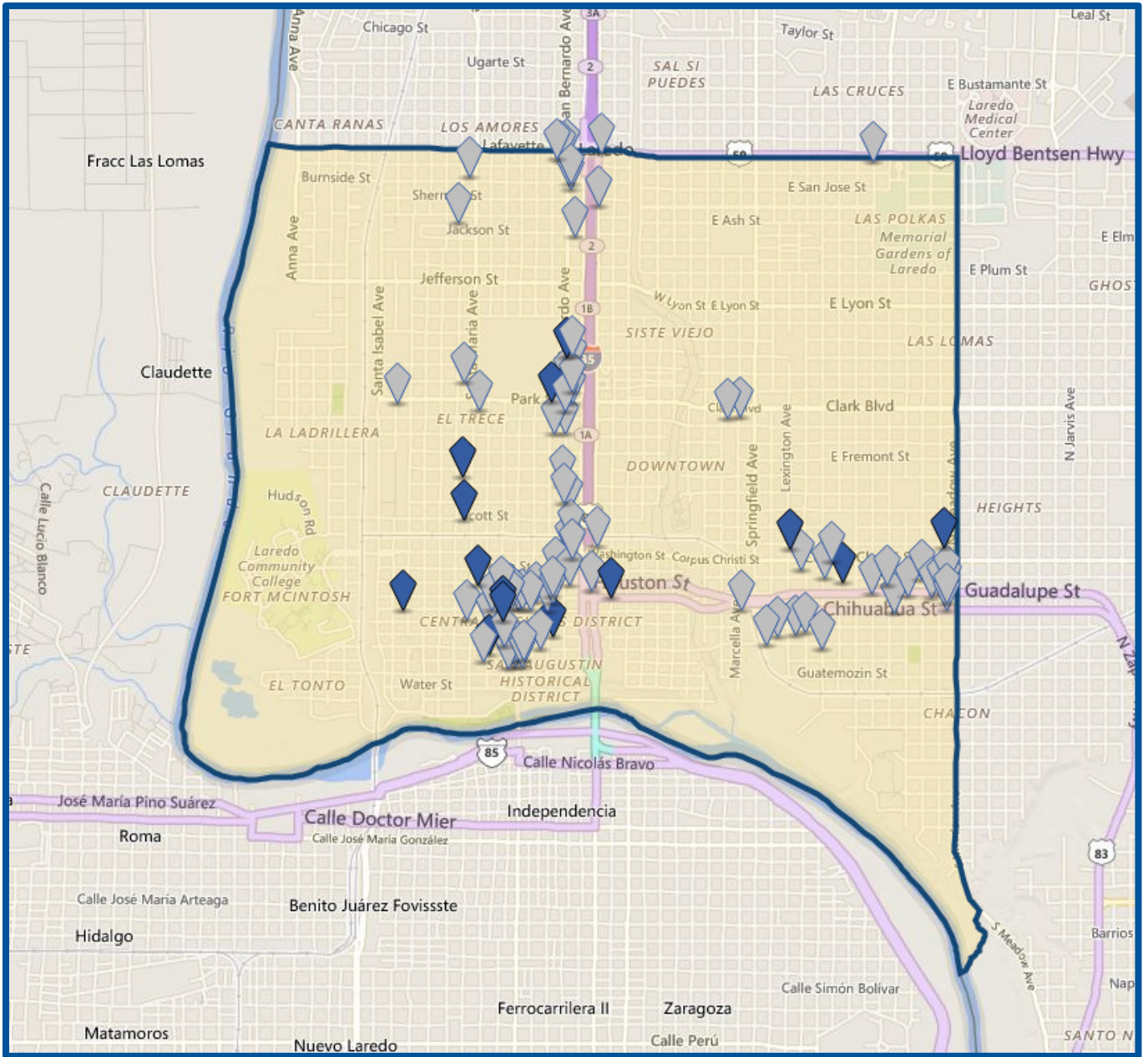
Source: CoStar

CMA Retail

The CMA includes 748,266 SF of retail space in 89 buildings. The vacancy rate is 5.0%, almost double of the overall Laredo market. NNN rental rates are at \$14.23psf. The 12-month absorption in September was 1,495 SF. Over the past five years 11,353 SF has been added to the market.

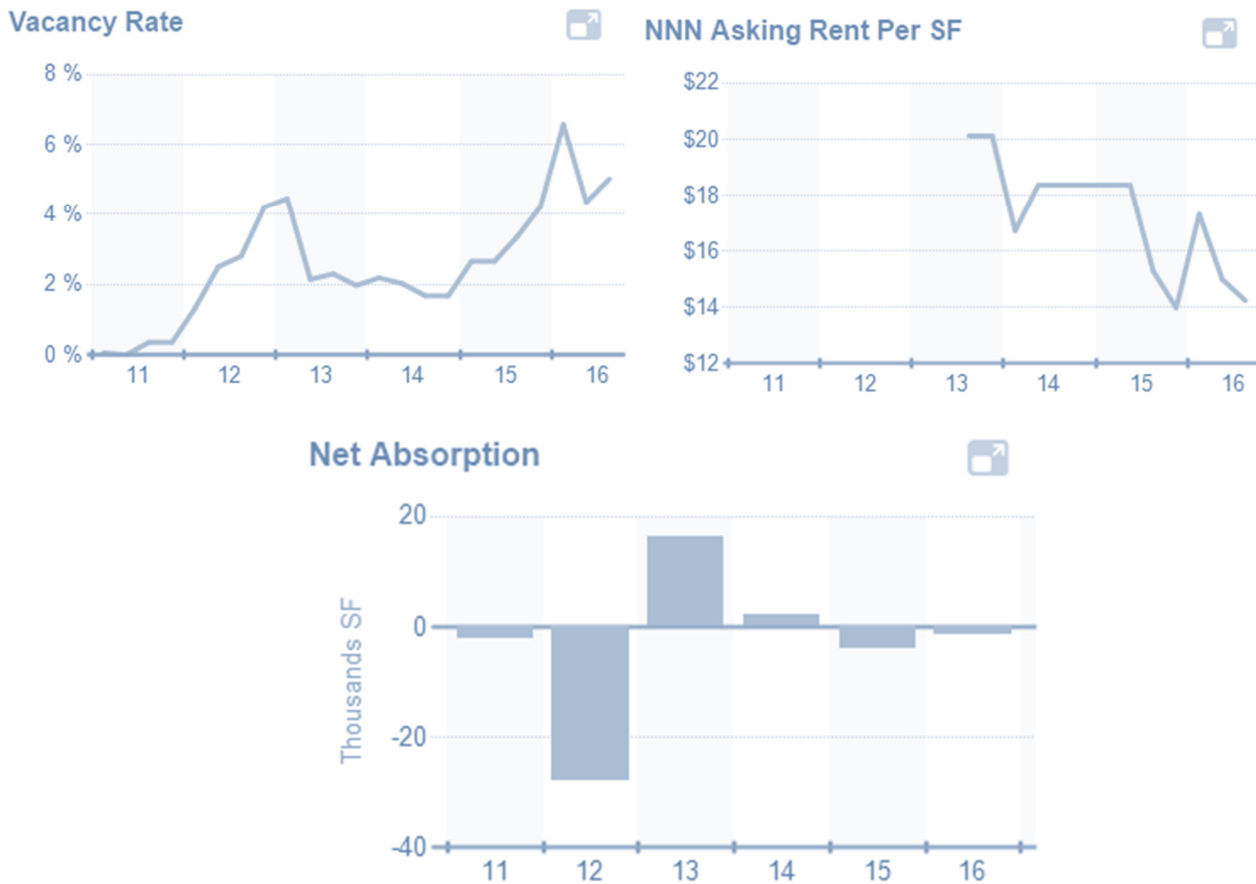
The following is a map of the retail properties in the CMA. The retail is located on major arteries throughout the CMA.

Figure 20: Map of CMA Retail



CMA Retail Performance Trends

Figure 21: CMA Retail Performance Trends



Source: CoStar

The vacancy rate in the CMA increased from 2011 to 2013 from 0% to 4%. Since 2013 the rate has been increasing to over 6% in 2015. The September rate of 5% show signs of improving slowly.

The rental rates have been volatile falling from \$20psf to the current \$14psf.

Absorption has been negative since 2014. The five year average is a negative 2,515 SF in the CMA.

CMA Consumer Buying Power

A critical factor in consideration for commercial retail development is the buying power of the market area that a potential development site is located in. Buying income can be measured by the level of disposable or expendable income from consumers in a market area. The CMA has an effective buying income of \$29,016 on average per household while the TIRZ is at \$23,207.

Table 25: Household Effective Buying Income for the CMA and TIRZ

Category	CMA		TIRZ	
	Number	% of Total	Number	% of Total
Total Households	12,334		1,062	
EBI Less than \$15,000	4,595	37.25%	525	49.43%
EBI \$15,000 to \$24,999	2,280	18.49%	238	22.43%
EBI \$25,000 to \$34,999	1,701	13.79%	98	9.19%
EBI \$35,000 to \$49,999	1,887	15.30%	87	8.18%
EBI \$50,000 to \$74,999	1,152	9.34%	60	5.69%
EBI \$75,000 to \$99,999	443	3.59%	29	2.73%
EBI \$100,000 to \$124,999	139	1.13%	15	1.45%
EBI \$125,000 to \$149,999	67	0.54%	6	0.53%
EBI \$150,000 to \$199,999	42	0.34%	3	0.28%
EBI \$200,000 to \$249,999	8	0.06%	0	0.00%
EBI \$250,000 to \$499,999	16	0.13%	1	0.10%
EBI \$500,000 or more	4	0.03%	0	0.00%
2016 Average Effective Buying Income	\$29,016		\$23,207	

Source: US Census, American Community Survey, PCensus

CMA Retail Sales Trends

As seen in the table below, Food & Beverage Stores has shown the only increase in sales \$194,694 (0.2%) from 2011 to 2015. All other sales are down with Health & Personal Care down the greatest (-\$59 million) followed by Motor Vehicles at -\$40 million.

Table 26: Actual Retail Sales in the CMA, 2011 to 2015 (\$)

NAICS Code	NAICS Category	2011	2012	2013	2014	2015
441	Motor Vehicle & Parts Dealers	56,482,792	46,804,514	44,115,189	46,070,204	16,364,335
442	Furniture & Home Furnishings	14,979,708	15,224,867	13,471,548	12,073,630	10,935,974
443	Electronics and Appliance Stores	49,933,414	49,724,586	56,631,758	56,627,611	45,282,746
444	Building Material & Garden Equipment	18,668,348	18,961,878	19,828,980	19,358,865	17,235,838
445	Food & Beverage Stores	104,109,457	105,482,186	105,188,842	106,149,711	104,304,151
446	Health & Personal Care Stores	99,662,333	68,456,737	65,975,012	64,906,854	40,225,893
447	Gasoline Stations	36,814,244	37,052,175	35,437,582	34,803,795	30,096,955
448	Clothing & Clothing Accessories	61,077,035	59,437,232	62,343,157	65,517,683	51,951,822
451	Sporting Goods, Hobby, Book, & Music	29,545,475	32,476,049	28,909,631	30,446,480	23,261,796
452	General Merchandise	67,141,960	56,077,610	56,285,038	53,585,720	47,956,179
453	Miscellaneous Store Retailers	45,060,927	51,537,045	51,191,636	50,773,739	42,814,991
454	Non-store Retailers	702,049	1,165,638	1,239,154	169,937	105,623
722	Food Services & Drinking Places	36,119,874	37,157,107	36,487,507	37,572,414	38,348,460
812	Barber/Nail/Drycleaning/Photofinishing	1,375,380	1,131,527	1,046,272	1,058,748	981,464

Source: Texas Comptroller of Public Accounts

Retail Surplus/Leakage

The comparison of some categories presents a very superficial look at the potential retail leakages or surpluses. The aggregate expenditure estimates for the CMA are higher in General Merchandise Stores. This indicates that residents are shopping outside the CMA, thus there is leakage in the market. The mall is located outside the CMA which would explain this.

Table 27: Comparison of Actual Sales with Expected Household Expenditures for the CMA, 2016

BUSINESS CATEGORY DESCRIPTION	Actual Sales -2015	Total Expenditures – 2016 Est.	Surplus or (Leakage)
Furniture and Home Furnishings Stores	16,364,335	10,935,974	5,428,361
Electronics and Appliance Stores	45,282,746	9,612,009	35,670,737
Building Material & Garden Equipment	17,235,838	11,995,086	5,240,752
Food and Beverage Stores	104,304,151	49,887,647	54,416,504
Health and Personal Care Stores	40,225,893	21,763,437	18,462,456
Clothing and Clothing Accessories Stores	51,951,822	12,095,125	39,856,697
Sporting Goods, Hobby, Book, and Music Stores	23,261,796	5,356,527	17,905,269
General Merchandise Stores	47,956,179	72,255,778	-24,299,599
Food Services and Drinking Places	38,348,460	29,820,824	8,527,636

Source: Texas Comptroller of Public Accounts, PCensus

TIRZ Retail

There is 313,380 SF of retail space in the TIRZ boundaries. The vacancy rate is at 6.2% with rental rates at \$11.38psf NNN on average. The absorption in the TIRZ is negative.

Figure 22: TIRZ Retail Vacancy and Asking Rent Trends

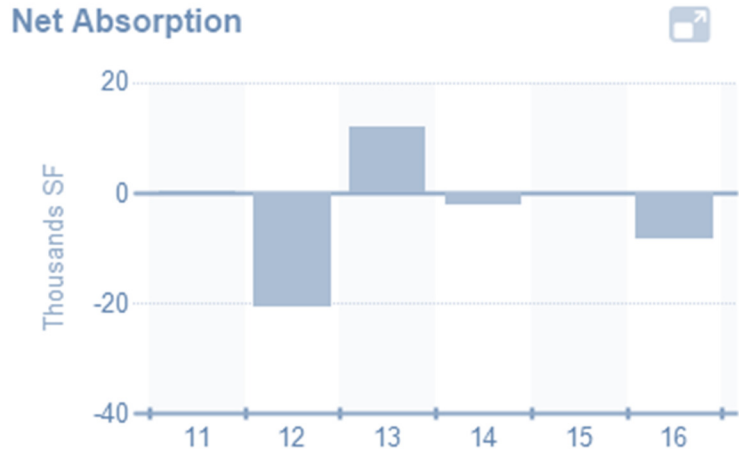


Source: CoStar

The vacancy rate in the TIRZ has been between 3% and 6.5% over the past five years while rental rates have severely decreased from \$20psf to just above \$11psf.

Absorption has been negative overall for the past five years at -2,915 total.

Figure 23: TIRZ Retail Absorption Trends



The following is a list of the retail supply in the TIRZ as reported by CoStar.

Table 28: TIRZ Retail Supply

Building Address	Building Name	Year Built	# Of Stories	Year Renovated	Parking Ratio	RBA	Total Available Space (SF)	Avg Weighted Rent	% Leased	Lease Type
201 Convent Ave	Payless ShoeSource		1			5,320		-	100	
1002 Farragut	Laredo	1992	1			51,168		-	100	
917 Farragut St		1999	1		3	6,500		-	100	
1019 Farragut St	EZPAWN		1			5,194		-	100	
1105 Farragut St	Dollar Tree		1			9,680		-	100	
1119 Farragut St	Payless ShoeSource	1942	1			3,200		-	100	
1200 Farragut St	Popeyes	1975	1			4,410		-	100	
1201 Farragut St	factory 2-U		3			15,804		-	100	
1301 Farragut St	Burger King	1993	1			2,860		-	100	
1103 Grant St						5,000		-	100	
1310 Grant St	Mini-Mall of Laredo	1970				5,200	2,000	12	61.54	NNN
1315 Grant St		1960				12,000		-	100	
1217 Hidalgo St		1955				1,878	1,878	7.03	0	NNN
1419 Hidalgo St			1			1,851		-	100	
916 Houston St		1975	1	2014		6,500		-	100	
920 Iturbide		1964		1992		6,000	6,000	12	0	NNN
1003 Iturbide St		1993	2			11,630		-	100	
1209 Iturbide St		1983	2			3,464		-	100	

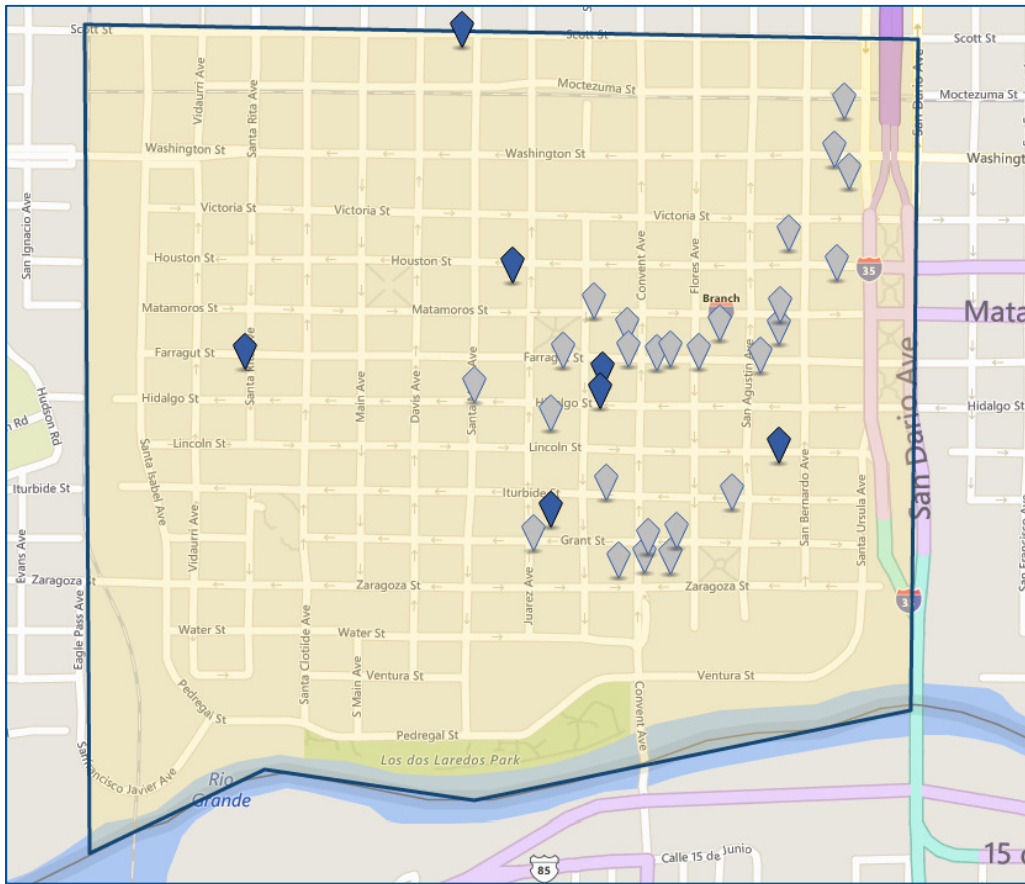
DOWNTOWN MARKET DEMAND ANALYSIS

Building Address	Building Name	Year Built	# Of Stories	Year Renovated	Parking Ratio	RBA	Total Available Space (SF)	Avg Weighed Rent	% Leased	Lease Type
800 Juarez Ave		1973	1			18,040	15,000	12	100	NNN
1310 Lincoln St		1991	2			10,752		-	100	
901 Matamoros St	Shell	1963	1			1,308		-	100	
1219 Matamoros St	Health Mart Pharmacies	1925	1			5,930		-	100	
700 San Bernardo Ave	BBVA Compass	1958	2			46,328		-	100	
1216 Santa Maria Ave		1928	1		1.42	5,617	3,250	18	42.14	Modified Gross
666 Santa Rita Dr		1994	1			20,448	2,538	8.99	87.59	NNN
820 Santa Ursula Ave	Chevron	2000	1			3,552		-	100	
1012 Santa Ursula Ave	EZPAWN		1			1,892		-	100	
1020 Santa Ursula Ave		2005	1			3,784		-	100	
1120 Santa Ursula Ave	McDonald's	1975	1			3,123		-	100	
1118 Zaragoza St		1967	2			25,000		-	100	
1108 Zaragoza St	Church's Chicken	1965	1			4,511		-	100	
1214 Zaragoza St		1978	2			4,400		-	100	
1214 Hidalgo St			2			4,036	4,036		0	
TOTALS/AVERAGES		1973	1.3	2003	2.21	316,380	34,702	11.67	87.61	

Source: CoStar

Following is a locational map of the retail properties in the TIRZ boundaries.

Figure 24: Map of TIRZ Retail



Lease rates in the proposed TIRZ area are considerably lower than both the CMA and overall Laredo. The table below illustrates some advertised rates and rates provided by owners/managers:

Table 29: TIRZ Retail Lease Rates

Address	SF	\$/Month	\$/SF	Yr Rate	Yr Built	Type
1020 Santa Ursula	1,250	\$1,500	\$1.20	\$14.40	2005	NNN
1420 Zaragoza	735	\$700	\$0.95	\$11.43	1986	Gross
1920 San Bernardo	1,580	\$3,000	\$1.90	\$22.78	2016/17	NNN
4316 San Bernardo	3,396	\$4,500	\$1.33	\$15.90	2009	NNN
1310 Grant	2,000	\$1,460	\$0.73	\$8.76		Gross
312 Salinas	1,000	\$2,000	\$2.00	\$24.00	1800	Gross
318 Salinas	1,000	\$2,500	\$2.50	\$30.00	1800	Gross
1213 Lincoln	5,000	\$3,000	\$0.60	\$7.20	1963	Gross
1215 Lincoln	5,000	\$3,400	\$0.70	\$8.20	1963	Gross
1205 Iturbide	4,000	\$3,160	\$0.80	\$9.50	1963	Gross
1207 Iturbide	1,500	\$1,500	\$1.00	\$12.00	1963	Gross

Potential Demand – Retail Space

Using a rough “rule of thumb” from the Dollars & Cents of Retail Shopping Centers, published by the Urban Land Institute, it is possible to estimate the net annual increase of retail space. According to that source, the average retail sales per square foot in the CMA is approximately \$300. Therefore a sales growth in retail of \$17.2 million would equate to a demand, in the CMA, for 57,333 square feet of new retail space of all types over the next 5 years. As seen, there is an under-supply of 2 additional General Merchandise stores in the CMA. Additional under supply is also found in Radio/TV other Electronics. The following table represents the number of supportable new establishments that could likely succeed if there were no leakage of future expenditures from the CMA.

Table 30: Supportable New Retail Space in the CMA

Retail Store Type	CMA						
	2016 Aggregate Expenditures	2021 Aggregate Expenditures	Total Expected Sales Growth	Sales/SF	Additional SF of Demand	Sf/Store	Total # of New Stores
TOTAL SPECIFIED CONSUMER EXPENDITURES (AREA)	\$353,687,141	\$383,088,612	\$29,401,471				
All Retail Stores*	\$230,008,948	\$247,208,980	\$17,200,032	\$300.00	57333		
Grocery Stores	\$48,196,949	\$50,135,807	\$1,938,858	\$472.63	4102	44,094	0.1
Health & Personal Care Stores	\$21,763,437	\$22,331,912	\$568,475	\$429.47	1324	13,078	0.1
Hardware Stores	\$1,102,121	\$1,215,201	\$113,080	\$144.44	783	6,561	0.1
Home Centers	\$2,924,766	\$3,268,728	\$343,962	\$388.65	885	3,700	0.2
General Merchandise Stores	\$35,733,612	\$38,449,701	\$2,716,089	\$169.10	16062	8,000	2.0
Department Stores (exc. anchors)	\$16,990,841	\$18,481,968	\$1,491,127	\$243.25	6130	20,000	0.3
Full-Service Restaurants	\$4,786,694	\$5,029,307	\$242,613	\$308.18	787	4,416	0.2
Fast Food Restaurants	\$5,721,584	\$5,934,145	\$212,561	\$246.32	863	1,710	0.5
Eating Places	\$18,842,550	\$19,651,389	\$808,839	\$289.57	2793	4,416	0.6
Drinking Places	\$469,996	\$493,362	\$23,366	\$396.27	59	3,196	0.0
Furniture Stores	\$2,972,195	\$3,290,321	\$318,126	\$263.98	1205	7,360	0.2
Other Home Furnishing Stores	\$1,489,236	\$1,678,361	\$189,125	\$216.13	875	4,854	0.2
Household Appliance Stores	\$1,278,808	\$1,509,801	\$230,993	\$302.00	765	1,800	0.4
Radio/TV/Other Electronics Stores	\$8,333,201	\$9,716,424	\$1,383,223	\$302.20	4577	3,655	1.3
Computer & Software Stores	\$953,159	\$1,181,381	\$228,222	\$335.14	681	2,277	0.3
Camera/Photographic Supply Stores	\$84,730	\$111,353	\$26,623	\$629.81	42	3,052	0.0
Clothing & Clothing Accessory Store	\$9,477,263	\$10,250,263	\$773,000	\$268.71	2877	6,500	0.4
Clothing Accessory Stores	\$143,002	\$154,439	\$11,437	\$155.59	74	2,948	0.0
Shoe Stores	\$2,184,498	\$2,350,187	\$165,689	\$141.51	1171	2,950	0.4
Jewelry Stores	\$228,160	\$298,845	\$70,685	\$317.37	223	1,494	0.1
Office Supplies & Stationery Stores	\$385,600	\$445,226	\$59,626	\$219.40	272	1,779	0.2
Gift, Novelty, & Souvenir Shops	\$441,875	\$488,940	\$47,065	\$145.43	324	4,000	0.1
Hobby, Toy, & Game Shops	\$741,700	\$845,606	\$103,906	\$194.92	533	1,700	0.3
Sew/Needlework/Piece Goods Stores	\$193,578	\$201,659	\$8,081	\$139.42	58	2,262	0.0
Florists	\$1,009,638	\$1,114,267	\$104,629	\$264.55	395	1,445	0.3
Book Stores	\$596,968	\$667,761	\$70,793	\$246.02	288	4,120	0.1
Sporting Goods, Hobby, Book & Music Stores	\$2,600,209	\$3,002,843	\$402,634	\$220.60	1825	4,000	0.5
Sporting Goods Stores	\$1,224,072	\$1,341,548	\$117,476	\$220.87	532	3,850	0.1
Luggage & Leather Goods Stores	\$62,202	\$72,220	\$10,018	\$245.69	41	1,485	0.0
Automotive Part, Accessories, & Tire	\$5,222,835	\$5,512,713	\$289,878	\$172.90	1677	5,600	0.3

Source: PCensus, Urban Land Institutes Dollars & Cents of Shopping Centers, CDS Community Development Strategies

* All Retail Stores Total is NOT the sum of the other line items. Some line items are sub-categories of multiple line items and could appear in more than one line item.

DOWNTOWN MARKET DEMAND ANALYSIS

For the study area, a sales growth in retail of \$1.5 million would equate to a demand in the study area for 5,041 square feet of new retail space of all types over the next 5 years, or 1,008 sf annually. The following table represents the number of supportable new establishments that could likely succeed if there were no leakage of future expenditures from the study area.

Table 31: Supportable New Retail Space in the TIRZ Study Area

Retail Store Type	Study Area						
	2016 Aggregate Expenditures	2021 Aggregate Expenditures	Total Expected Sales Growth	Sales/SF	Additional SF of Demand	Sf/Store	Total # of New Stores
TOTAL SPECIFIED CONSUMER EXPENDITURES (AREA)	\$26,973,387	\$29,591,615	\$2,618,228				
All Retail Stores*	\$16,809,356	\$18,321,765	\$1,512,409	\$300.00	5041		
Grocery Stores	\$3,643,219	\$3,826,832	\$183,613	\$472.63	388	44094	0.01
Health & Personal Care Stores	\$1,899,823	\$1,987,012	\$87,189	\$429.47	203	13078	0.02
Hardware Stores	\$71,146	\$80,300	\$9,154	\$144.44	63	6561	0.01
Home Centers	\$186,653	\$214,026	\$27,373	\$388.65	70	3700	0.02
General Merchandise Stores	\$2,672,342	\$2,912,032	\$239,690	\$169.10	1417	8000	0.18
Department Stores (exc. anchors)	\$1,259,662	\$1,389,573	\$129,911	\$243.25	534	20000	0.03
Full-Service Restaurants	\$417,185	\$444,026	\$26,841	\$308.18	87	4416	0.02
Fast Food Restaurants	\$424,663	\$443,678	\$19,015	\$246.32	77	1710	0.05
Eating Places	\$1,516,740	\$1,599,939	\$83,199	\$289.57	287	4416	0.07
Drinking Places	\$42,028	\$44,417	\$2,389	\$396.27	6	3196	0.00
Furniture Stores	\$225,323	\$254,769	\$29,446	\$263.98	112	7360	0.02
Other Home Furnishing Stores	\$105,910	\$123,752	\$17,842	\$216.13	83	4854	0.02
Household Appliance Stores	\$96,946	\$116,530	\$19,584	\$302.00	65	1800	0.04
Radio/TV/Other Electronics Stores	\$697,136	\$826,651	\$129,515	\$302.20	429	3655	0.12
Computer & Software Stores	\$78,516	\$98,870	\$20,354	\$335.14	61	2277	0.03
Camera/Photographic Supply Stores	\$6,944	\$9,252	\$2,308	\$629.81	4	3052	0.00
Clothing & Clothing Accessory Store	\$603,232	\$658,244	\$55,012	\$268.71	205	6500	0.03
Clothing Accessory Stores	\$10,029	\$10,923	\$894	\$155.59	6	2948	0.00
Shoe Stores	\$133,282	\$143,892	\$10,610	\$141.51	75	2950	0.03
Jewelry Stores	\$20,744	\$27,251	\$6,507	\$317.37	21	1494	0.01
Office Supplies & Stationery Stores	\$32,102	\$37,687	\$5,585	\$219.40	25	1779	0.01
Gift, Novelty, & Souvenir Shops	\$33,844	\$38,067	\$4,223	\$145.43	29	4000	0.01
Hobby, Toy, & Game Shops	\$49,624	\$58,665	\$9,041	\$194.92	46	1700	0.03
Sew/Needlework/Piece Goods	\$13,599	\$14,734	\$1,135	\$139.42	8	2262	0.00
Florists	\$63,065	\$70,586	\$7,521	\$264.55	28	1445	0.02
Book Stores	\$56,853	\$63,820	\$6,967	\$246.02	28	4120	0.01
Sporting Goods, Hobby, Book & Music Stores	\$197,035	\$230,789	\$33,754	\$220.60	153	4000	0.04
Sporting Goods Stores	\$75,513	\$85,011	\$9,498	\$220.87	43	3850	0.01
Luggage & Leather Goods Stores	\$4,939	\$5,820	\$881	\$245.69	4	1485	0.00
Automotive Part, Accessories & Tire	\$370,708	\$395,751	\$25,043	\$172.90	145	5600	0.03

Source: PCensus, Urban Land Institutes Dollars & Cents of Shopping Centers, CDS Community Development Strategies

* All Retail Stores Total is NOT the sum of the other line items. Some line items are sub-categories of multiple line items and could appear in more than one line item.

As seen, there is no under-supply of any type of retail store in the study area. The demographics of the market area with effective buying power of \$23,207 will not change the area's retail profile in the immediate future. However, if income levels rise due to residential development in the future, retail demand will follow.

Findings and Conclusions:

- Independent local businesses serving the area’s moderate income population generally prefer the older, lower rent retail space in the area over more expensive newer space. However regional and national chains with recognizable brands are less likely to be interested in class B and particularly class C retail space. Population growth will help mitigate this situation over time by attracting retail developers who will respond to this demand by proving class A space, through redevelopment of older spaces or adding new development.
- River Drive Mall is being developed into The Outlet Shoppes at Laredo, with 358,000 square feet of retail space (phase 1). This is predicted to add 1,200 permanent jobs, as well as 1,600 seasonal jobs. Among the 44 tenants are Abercrombie, Banana Republic, Michael Kors, Tommy Hilfiger and several food locales including Johnny Rockets.
 - This new development in the TIRZ should be a catalyst to spur development along the streets facing the mall. The retail space should be marketed to restaurants, bars, and entertainment venues which would be expected to do well in this location. In this case, aesthetics will play a key role.
 - The key to such a catalyst project would be to provide retail space that is unique and attractive, prioritizing independent retailers (over chains) and providing a neighborhood experience with patio seating. Experience has shown that this type of retail has a greater chance of attracting those who are visiting the area and looking for a unique dining/entertainment experience.
 - The overall aesthetics of an area are very important to retailers. Making public investments in an area can encourage more retail interest, which can spur retail property owners to renovate properties in order to compete for new tenants. Improvements that could be made include landscaping, median improvements, additional sidewalks, and increasing lighting along commercial corridors.

Figure 25: Outlet Shoppes at Laredo Ingress / Egress

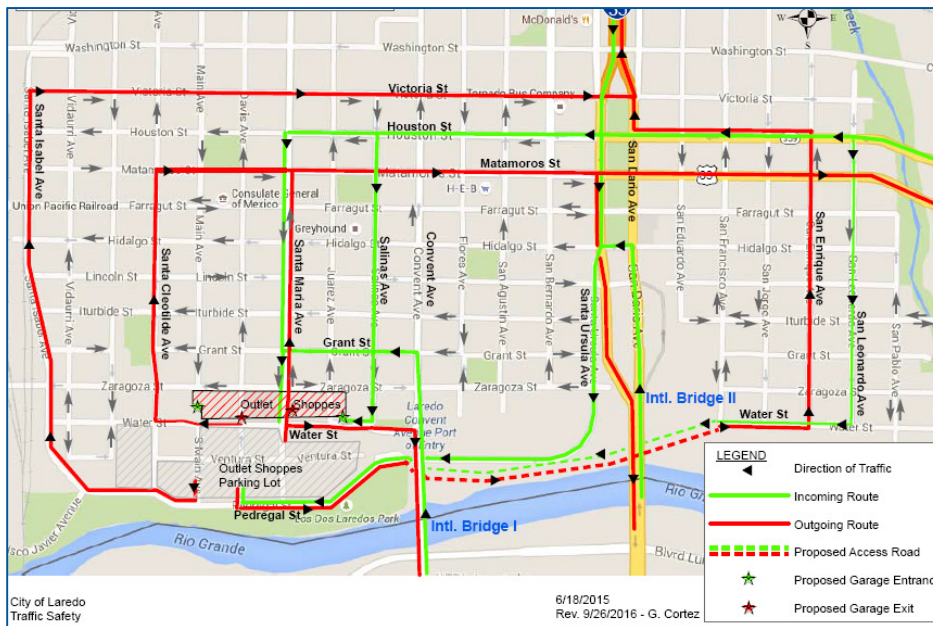


Figure 26: Images of Retail Locations in the CMA and TIRZ

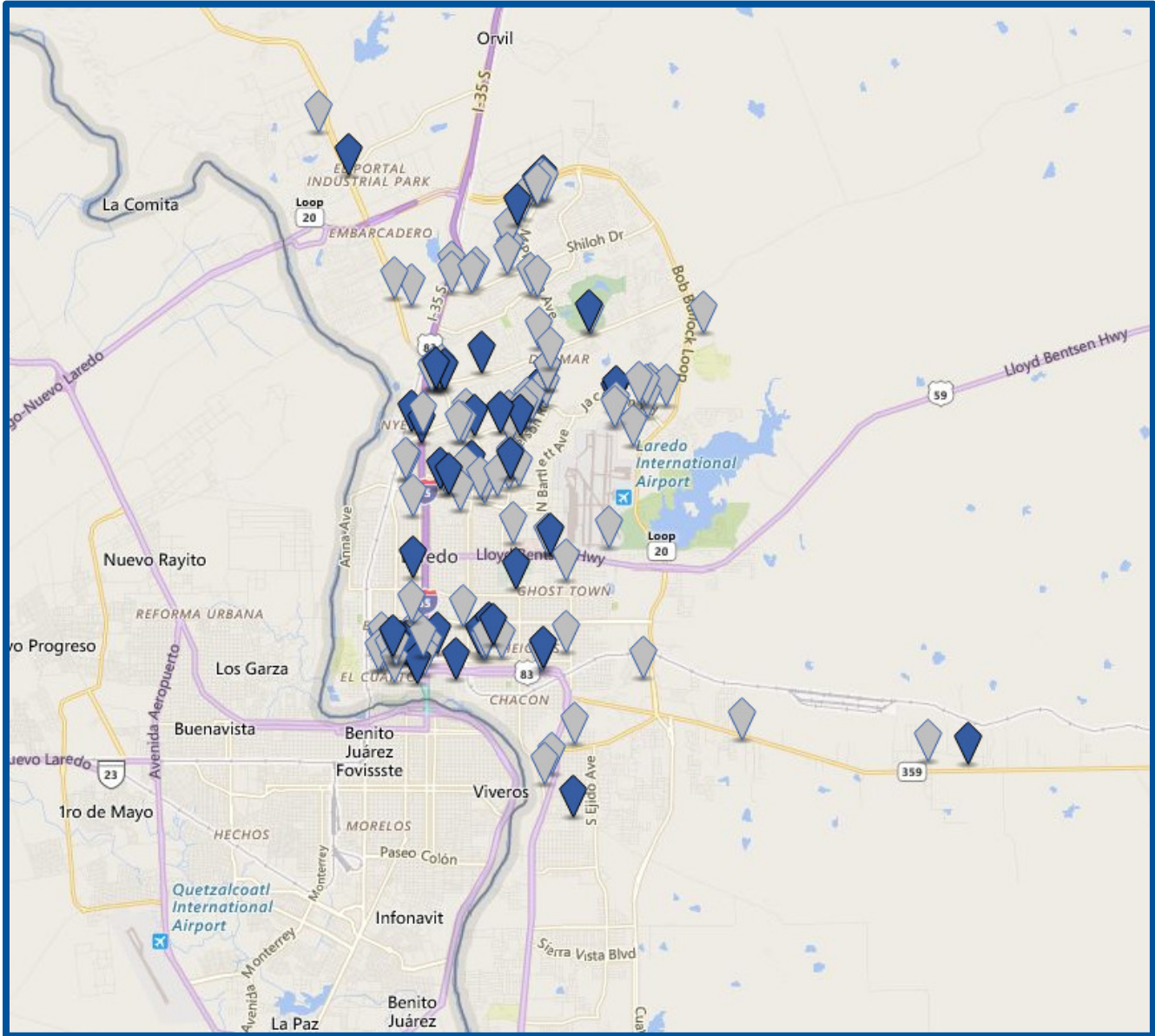


Source: CDS Community Development Strategies

MARKET TRENDS: OFFICE

The Laredo Office Market includes 2,427,235 square feet of office space. As shown in the map below, the offices are located along major corridors with the majority being north of downtown Laredo.

Figure 27: Map of Laredo Office



The vacancy rate in the office market is 7.0% with rental rates at \$18.56 gross psf. As seen in the following graphs, vacancy increased from 2011 to 2015. Since 2015 it has shown some signs of decreasing. Rental rates have been up and down for the past five years. The lowest point was just above \$12psf (2013) while the highest was over \$19psf (2015).

Figure 28: Office Market Performance Trends

Vacancy Rate



Gross Asking Rent Per SF



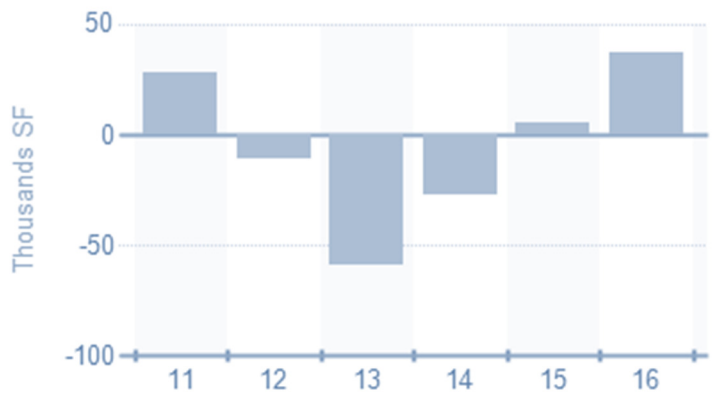
Source: CoStar

Absorption has been positive over the past 12 months at 65,357. However, the 5-year average has been negative (-9,114).

Currently there is 13,132sf under construction at 2441 Monarch. The Class B medical office building has 50% vacancy with rents quoted at \$27psf NNN. The property is located in northern Laredo at Loop 20 and McPherson Rd.

Recently built was 14,809 sf at 5400 McPherson with only 8.8% leased. Asking rents are \$24psf NNN.

Net Absorption



TIRZ Office Market

The TIRZ office market consists of 425,222sf which includes 84.9% of the overall CMA supply.

The current asking rents are \$18.76psf with vacancy at 8.3%.

Vacancy has performed just as the overall CMA however rental rates did not dip in 2014 like the CMA.

Absorption was also positive over the past twelve months at 30,492sf. However, the past 5-year average was a negative at -6,322sf.

Figure 31: Map of TIRZ Office Supply

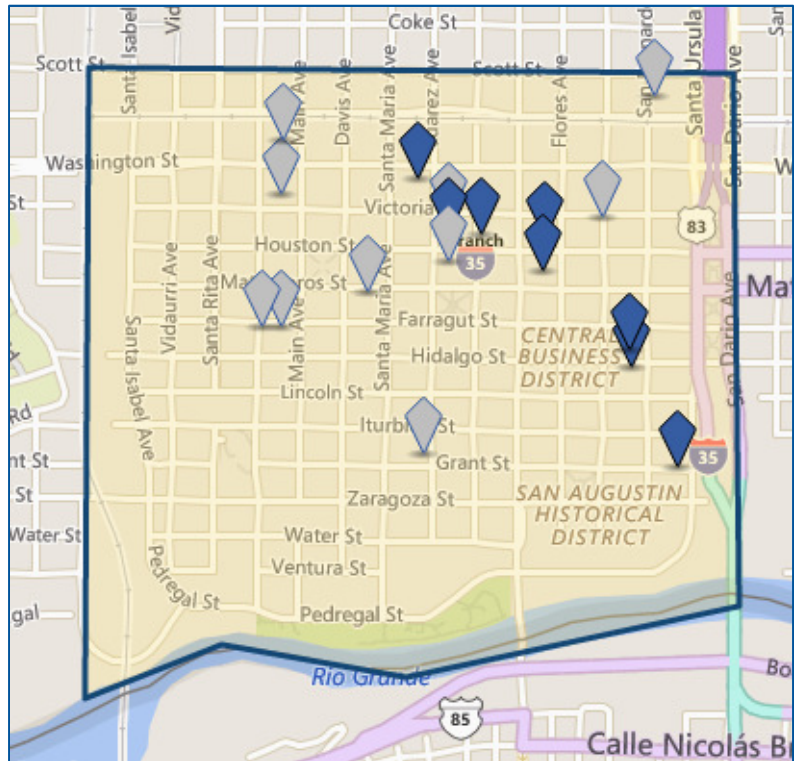


Figure 32: Proposed TIRZ Office Trends



Source: CoStar

Table 32: Proposed TIRZ Office Supply

Building Address	Building Name	Building Class	Year Built	# Of Stories	Year Renovated	RBA	Percent Leased	Average Weighted Rent	Direct Services
1701-1719 Farragut St		C	1897	1		22,576	100	-	
1719 Farragut St		C				5,808	100	-	
815 Grant St		C				25,872	100	-	
901 Hidalgo St	Martin Building	B	2002	1		8,147	0	22.00	Gross
1312 Houston St		B		1		6,000	0	15.60	NNN
302 Juarez Ave		B		2		1,178	100	-	
1016 Juarez Ave		C	1974	1		2,000	100	15.60	NNN
1108 Main Ave		C		1		1,467	100	-	
1300 Matamoros St		C		3		50,787	100	-	
1501 Matamoros St		C	1905	1		9,405	100	-	
916 Salinas Ave		C		2		8,400	100	15.60	NNN
600 San Bernardo Ave	Compass Tower	B	1926	10		72,684	74.58	24.00	Gross
1200 San Bernardo Ave		C	1965	2		147,000	100	-	
919 Victoria St		C	1917	1		2,089	100	-	
1219 Victoria St		B	1933	2		4,830	46.17	14.26	Gross
1309 Victoria St		C	1971	2		12,100	100	-	NNN
1708 Victoria St		C		2		6,230	100	-	
1100 Matamoros St		B	1961	2	2000	38,649	100		
TOTALS/AVERAGES			1945	2.1	2000	425,222	84.5%	\$17.84	

Findings and Recommendations

Less than 20% of the overall Laredo office supply is located in the TIRZ/CMA. The new development is located north of downtown Laredo.

Since 2002 there has been no new office development in the TIRZ. The TIRZ is a Class B/C market. Given the current vacancy of 15% and rents at \$17.84psf it is suggested that office development in the TIRZ be concentrated on single-tenants leasing the vacant square footage in the market. Single-tenant office demand will be comprised primarily of tenants that are businesses/suppliers in the area. General multi-tenant office demand will be comprised primarily of smaller tenants that are local businesses. These tenants are likely underserved by the existing supply of quality office space, but many will have limited capacity to increase leasing costs.

MARKET TRENDS: HOTELS AND TOURISM

With nearly 4,000 hotel rooms and a history of international tourism (in both directions), Laredo has a significant lodging and hospitality economy. Some of its lodging demand is distinctive to the City's position as a border city, while other elements are similar to those seen in mid- and small-sized metropolitan areas across Texas.

Laredo's Tourism and Visitor Economy

Laredo receives both domestic and international (primarily Mexico) visitors. Total visitor volume to Laredo has fluctuated since 2013, per estimates from the State of Texas Office of the Governor. In the following table, *person-stays* are a measurement of travel volume defined as one person accounting for one trip regardless of trip length; they include day trips of at least 50 miles in distance and all overnight stays. *Person-days* go beyond measuring single visits to also measure trip duration. From 2013 to 2015, the total estimated visits to Laredo (person-stays) increased consistently, but the number of person-days fell from 2013 to 2014 before rising significantly in 2015.

Table 33: Laredo Visitor Volume Trends, 2013-2015

Visitation Metric	2013	2014	2015
Person-Stays	1,210,000	1,290,000	1,640,000
Person-Days	2,680,000	2,550,000	3,090,000

Source: State of Texas Office of the Governor

The Governor's Office estimates that 90% of domestic travel to Laredo comes from within Texas. Approximately 95% of domestic travel is for non-business-transaction purposes, and about two-thirds of that travel was to visit family and friends. Trips averaged approximately one and a half days (including day-only trips); trips which included an overnight stay averaged about 2.0 days. Approximately 87% of person-days were generated by visits via personal automobile. Approximately 43% of person-days involved in overnight visits stayed in paid accommodations such as hotels.

Mexican Travel to Laredo

A 2015 report from the State of Texas Office of the Governor and the Laredo Convention and Visitors Bureau provided a profile of Mexican visitors to Laredo:

- In a year period from 2014 to 2015, Laredo received 1.2 million Mexican leisure visitors and 439,000 business visitors.
- For both types of visitors, Laredo is typically not the only Texas city visited on their trips: leisure visitors average 1.9 cities and business visitors 1.6.
- Visitation is spread throughout the year, though summer (38%) and winter (25%) are the most popular times.
- Travel parties are larger in Laredo, at 3.9 visitors per party, than for Texas overall (3.5), and half of Laredo visitors from Mexico bring children.
- Approximately one half of visits are day trips (16%) or one night (35%). The overall average number of nights stayed is 2.0.

- Shopping is the top reason visitors come to Laredo, as per the following Purpose of Visit data from the report:

Table 34: Mexican Visitor Purpose of Visit

Purpose for Visiting Texas	% of Visitors
Shopping	74%
Visiting friends or relatives	43%
Getaway weekend	35%
Combining business with leisure	15%
Festival / fair	11%
Special occasion (wedding, reunion etc.)	11%
Concert	10%
Professional sporting event	6%
Medical / health care	5%
Amateur sporting event	2%

Sources: State of Texas Office of the Governor and Laredo Convention and Visitors Bureau

- Given the Purpose of Visit data, it is not surprising then that shopping garners the largest level of spending by visitors of all activities:

Table 35: Mexican Visitor Spending per Trip

Spending Category	Spending / Trip
Shopping	\$553
Dining / meals / food	\$254
Lodging	\$218
Attractions / entertainment / recreation	\$105
Novelties / souvenirs	\$83
Other	\$69
TOTAL	\$1,281

Sources: State of Texas Office of the Governor and Laredo Convention and Visitors Bureau

The report also compiled a demographic profile of Mexican visitors.

Table 36: Mexican Visitor Demographic Profile

Demographic Characteristic	Share
AGE	
18 - 24	13%
25 - 34	26%
35 - 44	26%
45 -54	21%
55 – 64	10%
65+	3%
INCOME (pesos)	
Up to \$3,799	1%
\$3,800 to \$9,799	7%
\$9,800 to \$16,699	20%
\$16,700 to \$50,399	44%
\$50,400 to \$121,999	24%
\$122,000 and up	4%
EDUCATION	
Primaria	0%
Secundaria	1%
Media superior or preparatoria	13%
Superior (licenciatura)	61%
Posgrado	24%
Doctorado	1%
CHILDREN	
Children in household	59%

Sources: State of Texas Office of the Governor and Laredo Convention and Visitors Bureau

The Laredo Convention and Visitors Bureau also performed a number of separate surveys of Mexican visitors at various times and places in the Laredo area from 2014 to 2016. Although the location of the intercept surveys might bias the results (one location was a kiosk in Mall del Norte), it is notable that the top reason for visiting Laredo was shopping (472 of 733 respondents, or 64%). Places visited during their stay included restaurants (84%) and bars / pubs (25%).

Groups and Meetings

Laredo, which currently lacks a dedicated convention or conference center, receives a limited amount of group and meeting business. SMERF groups (social / military / religious / educational / fraternal) focused on South Texas will consider Laredo for meetings. The Laredo Energy Arena and TAMIU are among the top locations to host meetings, though nearby hotel stock is limited. It should be noted that amateur / youth athletic organizations are also a significant source of group business in Laredo, and do not require traditional conference or meeting facilities.

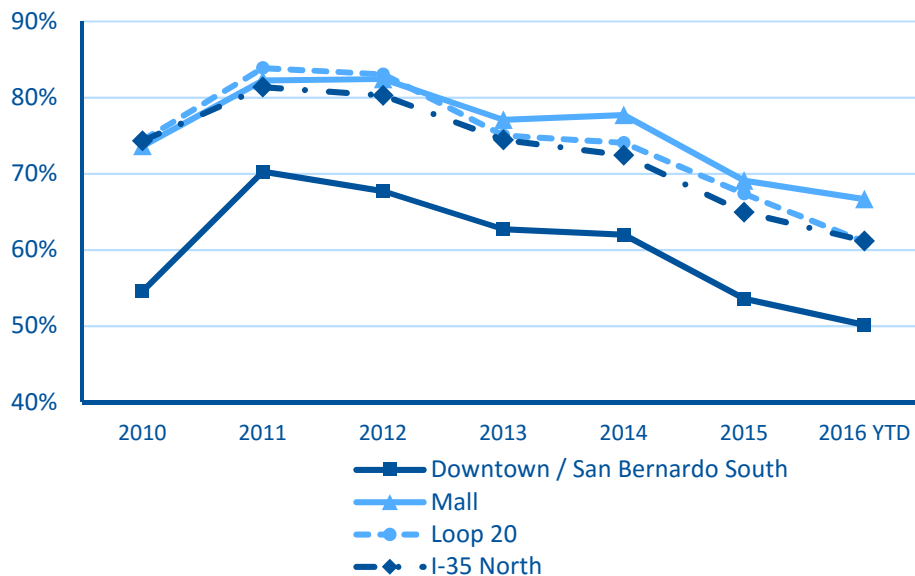
Laredo Hotel Performance Trends

Laredo’s hotel room stock is dominated by limited-service, economy / budget, and extended stay properties. Only four properties truly include a full set of services including on-site all day dining: La Posada, the Embassy Suites, the Ramada Plaza, and the Courtyard.

The following charts describe the market performance of hotels in the various Laredo submarkets, based on data from STR (Smith Travel Research).

Occupancy Trends

Figure 33: Occupancy Trends at Laredo Hotels



Source: STR

Occupancies generally peaked in Laredo during 2011-12. They have fallen since then. This is likely due to a combination of factors:

- The drilling activity in the Eagle Ford Shale to the north and northeast of Laredo resulted in increased lodging demand in Laredo during 2011-2012, representing spillover demand from areas in the core of the drilling areas where lodging capacity was limited.

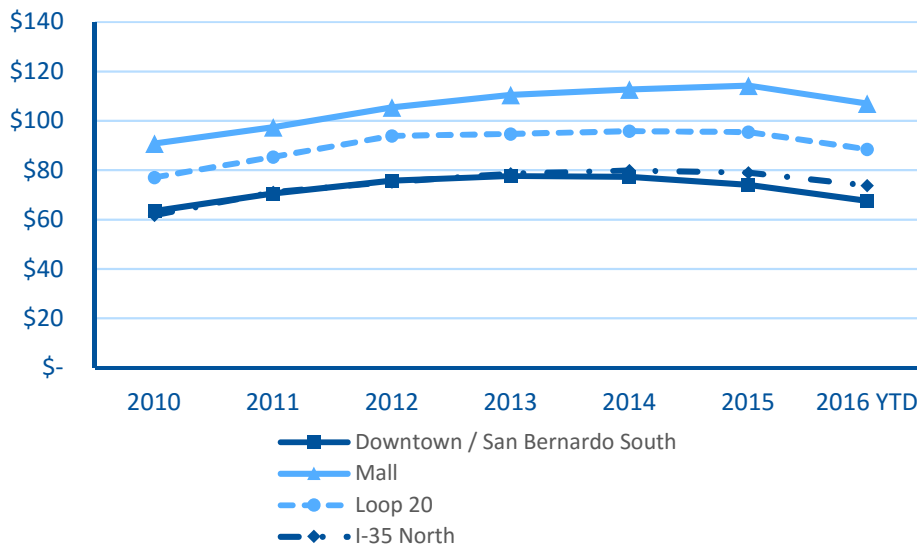
- New lodging facilities began opening in the core Eagle Ford Shale markets after this time, lessening overflow to Laredo hotels. After 2014, drilling activity decreased dramatically due to the fall in oil prices.
- Demand from U.S. citizens to stay in Laredo while traveling to Nuevo Laredo for entertainment and shopping evaporated after drug-related violence exploded in frequency after 2010.

The STR data indicates that the Downtown / San Bernardo South submarket has followed the overall occupancy trends, but have underperformed compared to areas to the north and northeast.

Average Daily Rate and RevPAR Trends

Laredo has a very affordable pricing structure at its hotels and has not experienced the magnitude of the room rate increases that larger Texas cities have had in recent years.

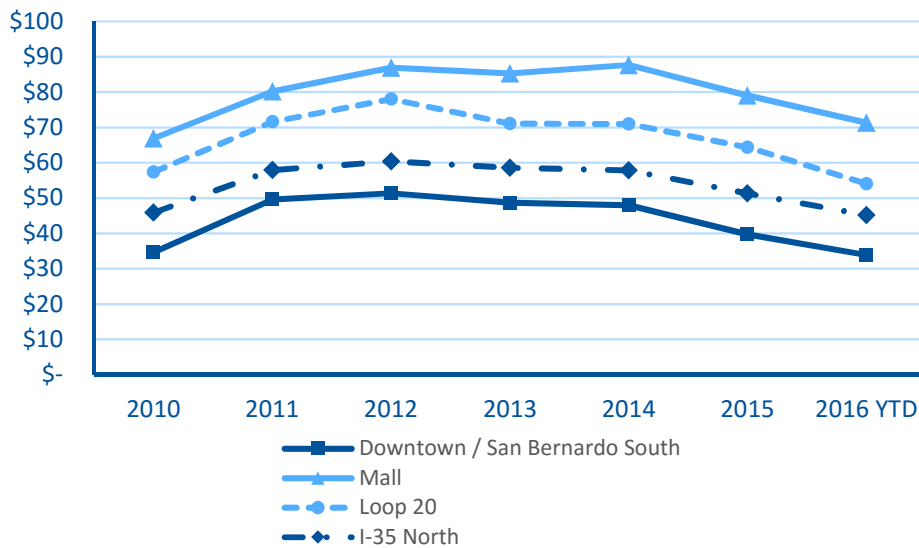
Figure 34: Average Daily Rate Trends at Laredo Hotels



Source: STR

Interestingly, while occupancies fell after 2012, average daily rate (ADR) did not reflect this condition at least until 2015-2016, though growth did level off after 2012. Again, the Downtown / San Bernardo South submarket relatively underperformed, along with the I-35 North submarket. Overall, ADRs in Laredo are moderate compared to the larger metropolitan areas in Texas.

Figure 35: RevPAR Trends at Laredo Hotels



Source: STR

RevPAR is the measurement of the revenue productivity of a hotel property (basically occupancy multiplied by ADR). The RevPAR data show how large the discrepancy is between the performance of hotels near Mall del Norte and the Downtown / San Bernardo submarket, which performs poorly. The year to date 2016 data indicates performance in this submarket similar to 2010, back when the economy was just starting to emerge from the recession.

CMA Hotels

The CMA contains a relatively small portion of the room inventory in Laredo, approximately 800 rooms out of nearly 4,000 citywide. The newest hotel is the Best Western Plus, which opened in 2015.

Market Performance Data

The following table summarizes 2015 market performance for CMA hotels using data from Source Strategies, a hotel performance data compiler. The Best Western Plus did not yet have a complete 12 month performance data set available as of December of that year. Because most occupied rooms at the Rio Grande Plaza are occupied by long term guests using the property as their housing as opposed to transient visitors, 2015 data was not available for the property either.

Table 37: Hotels in the CMA (78040)

Hotel Name	# Rooms	2015 Performance		
		Occupancy	Avg. Daily Rate	RevPAR
La Posada Hotel*	206	57.6%	\$75.75	\$43.65
Courtyard by Marriott	110	65.3%	\$85.33	\$55.76
Best Western Plus Laredo Inn & Suites	95	NA	NA	NA

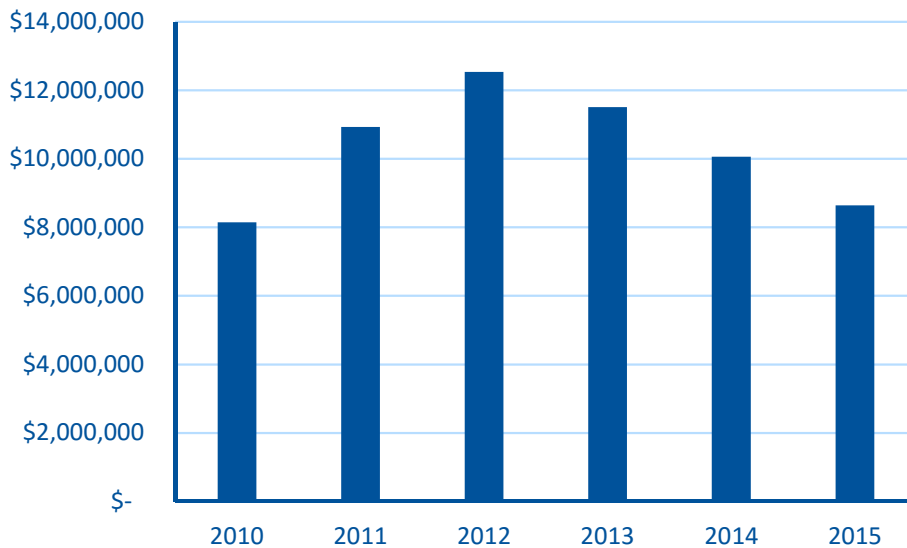
Hotel Name	# Rooms	2015 Performance		
		Occupancy	Avg. Daily Rate	RevPAR
Ramada Plaza	203	56.1%	\$50.53	\$28.34
Rialto Hotel*	47	62.3%	\$27.81	\$17.33
Super 8	71	61.8%	\$44.72	\$27.65
Rio Grande Plaza*	70	NA	NA	NA
CMA Total	802	60.5%	\$53.79	\$32.54
Laredo Total	3,974	64.8%	\$68.73	\$44.51

* Within proposed TIRZ.

Source: Source Strategies 4Q 2015 - Annual

All of these hotels are located on the west side of Interstate 35. They can be grouped into Downtown hotels (La Posada, Rialto, and Rio Grande Plaza), and San Bernardo properties (Courtyard, Ramada Plaza, Best Western, and Super 8). The latter group of properties, except for the new Best Western, were originally located for proximity to what was known as the municipal Civic Center, a significant group meeting facility. However, the City has vacated that facility and passed it to the local school district, and it no longer provides the same volume of meeting group business. In fact, the Ramada Plaza was formerly a Holiday Inn until after the Civic Center closure; the change in market demand may have been a reason for the switch in brand flag.

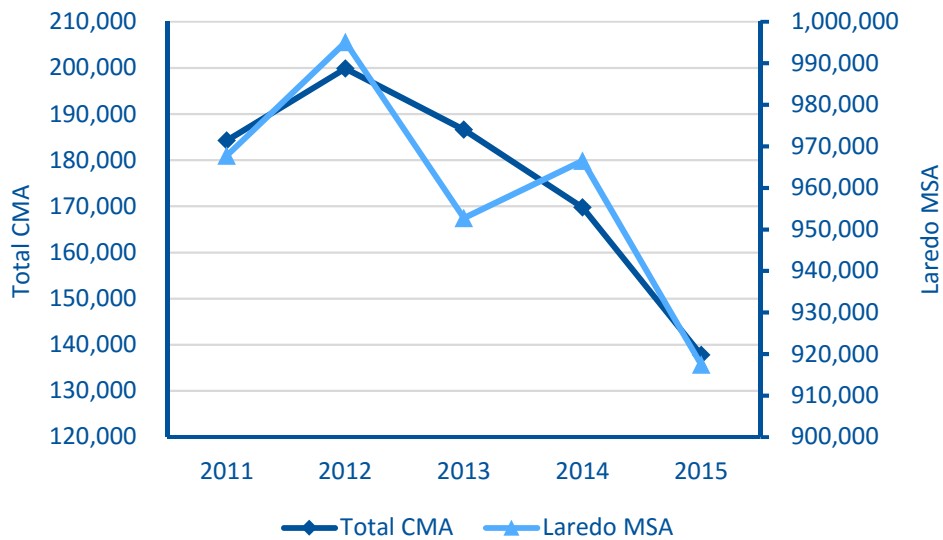
Figure 36: CMA Total Annual Hotel Revenues



Sources: Source Strategies; State of Texas Comptroller

Total room revenues (not including extended stays over 30 days or separate food and beverage revenue) at CMA hotels have fallen steeply from 2012 through 2015. This mirrors the general citywide pattern but with a more exaggerated impact.

Figure 37: Estimated Annual Roomnight Demand



The basic unit of demand for transient lodging is the *roomnight*, meaning one room rented for one night. Roomnights can be estimated from occupancy rates and room inventory. The above chart shows what has happened to roomnight demand in the CMA and Laredo since 2011. Corresponding with the other performance indicators, roomnight demand peaked in 2012 and has declined sharply since. This applies to both demand in the CMA and in Laredo overall, though the total share of decrease in the CMA has been larger at approximately 31% (based on available data*) in the CMA versus 8% for the MSA.

*It should be noted that the limited number of transient roomnights recorded for the CMA and the MSA for 2015 do not include those recorded by the Rio Grande Plaza or the Best Western Plus, for data availability reasons stated earlier.

TIRZ Hotel Facilities and Renovations

Some additional relevant features of the hotels within the proposed TIRZ include:

- La Posada offers two restaurants, both serving alcoholic beverages. It also offers the most on-site meeting space of all full-service hotels in Laredo and five rooms that can accommodate weddings or similar events. It also has two pools and a fitness center.
- La Posada underwent \$17 million in renovations in 2007-08.
- The Rio Grande Plaza does not have dedicated parking. This was not an issue until work on the adjacent new outlet mall began, which has resulted in a lack of access to the City-owned surface lots that the hotel used to utilize.
- The owner of the Rio Grande Plaza is planning renovations to that property, which dates to the 1970s and was built as a Hilton. The extent of renovations will depend upon the prospects for a new Convention Center and a new agreement for parking with the City.
- The Rio Grande Plaza also has an all-day restaurant, a pool, and a bar / nightclub.
- The Rialto is an adaptive reuse of a historic medical office building. A pharmacy still exists on the ground floor, as well as a restaurant which is connected to the hotel lobby.

Perspectives from Hotel Owners / Operators

CDS interviewed owners and management of hotels within the proposed TIRZ (La Posada, Rio Grande Plaza, Rialto). Some major points which emerged regarding the condition and outlook for the market include:

- Downtown used to have an advantage for capturing a specific market segment of hotel demand – U.S. visitors going to Nuevo Laredo for entertainment. These guests could stay on the Laredo side of the river but be within walking distance of the entertainment district in Nuevo Laredo via Bridge No. 1. La Posada had annual occupancy exceeding 75% when this pattern was occurring. The Rio Grande Plaza also reported “doing well” during this period. Since drug-related violence in Nuevo Laredo increased, this demand has mostly vanished, which significantly damaged occupancy.
- Actual occupancy levels may be much lower than were reported in the external data sources cited above. Interviewees stated that occupancies ranged from 40% to 50% during the last year.
- The market demand mix now varies depending upon the property. La Posada competes with the other full-service and better-quality limited service hotels in Laredo for business travelers. Because it is the closest such hotel to the banking offices in Downtown, it has an advantage for attracting related travelers. Its onsite meeting facilities also allow it to accommodate some group business. Both the Rialto and La Posada also attract demand from Mexican travelers in Laredo on shopping or business trips. They also accommodate overflow from events and groups who are otherwise headquartered in hotels further north in the City. The Rio Grande Plaza is currently primarily occupied by long term guests, including disadvantaged veterans, rather than nightly transient visitors.
- Interviewees believe that the new outlet mall will have major impact on demand. La Posada and the Rio Grande Plaza are best positioned to take advantage of this due to their close proximity to the project. The reason for the optimism is that the primary mall customer base is anticipated to come from the Monterrey area, which is over two hours away. Thus, many mall patrons will likely choose to stay in Laredo than return to Monterrey the same day. This demand segment will be middle class or affluent and thus have sufficient disposable income to spend at typical hotel properties.

Potential Downtown Convention Center and Hotel

The City of Laredo is examining the potential for a new convention center and associated 225-room hotel either between the new outlet mall and the river or on sites close to La Posada. At the present time, most larger group meetings are held at TAMIU or the arena in northeast Laredo, so this kind of facility would help to draw this traffic back to Downtown.

At this time, no commitment to fund such a project has been made by the City of Laredo or other government agencies. For the purpose of the TIRZ, feasibility study, CDS will not include the project in its assumptions and projections for development and value creation. However, it is likely that if such a project was to be implemented, both occupancies at existing hotels and support for retail, dining and entertainment uses would grow.

Potential Demand – Lodging and Tourism

Lodging Demand

Market performance data, including occupancy, rates, RevPAR, and roomnights, strongly indicate that new hotel development is not needed in the CMA or even Laredo overall in the near term. Eventually, the Laredo area’s economic growth will reverse the declines that have occurred as domestic tourism to Mexico and Eagle Ford Shale

traffic both dramatically decreased in volume. Existing room inventory in the CMA, Loop 20, and I-35 North will be available to soak up this increased demand.

However, the new Outlet Shoppes at Laredo creates a significant new factor for hotel demand. The available tourism data indicates that shopping is the top Purpose of Visit for Mexican travelers to Laredo. Interestingly, 31% of the Mexican visitors surveyed by the Laredo CVB indicated that they were also traveling to San Marcos on their trips. The major attraction in San Marcos is a pair of outlet malls, so it is reasonable to assume that these travelers are targeting those shopping centers. This indicates the potential for significant Mexican traveler visitation to the Outlet Shoppes at Laredo. The majority of Mexican travelers stay at least one night in Laredo, so the potential exists for a large increase in Laredo-bound shopping-oriented travel from Mexico that will generate significant demand for hotel roomnights.

As noted earlier in this section, CMA hotels currently have the weakest performance of all Laredo submarkets. Thus, they have vacancy to satisfy the Mexican outlet mall shoppers as mall visitation initially ramps up. However, much as the Mall del Norte area is the city's most successful hotel submarket as shoppers seek accommodations near where they are spending their time, demand should eventually rise sufficiently to provide CMA hotels with reasonably healthy occupancy, especially properties such as La Posada, located within walking distance of the Outlet Shoppes. At that point, a new hotel in the CMA may become feasible. Downtown would be well positioned to capture that new development.

To reflect this potential, CDS is projecting a new hotel property, located in Downtown within the proposed TIRZ, in 2025. The hotel will likely be positioned as a quality limited service property, or perhaps enhanced limited service, such as the Courtyard. CDS projects the hotel to have 120 rooms.

Visitor-Supported Retail / Entertainment

Tourism studies and surveys of Mexican visitors indicate that, apart from basic shopping, these visitors are also spending for dining, entertainment, and souvenirs. CDS is postulating that Mexican visitors to the Outlet Shoppes at Laredo will show a similar pattern of spending.

Total anticipated visitation to the Outlet Shoppes was not available to CDS, but some potential visitor volumes can be inferred by examining the outlet malls in San Marcos. A September 25, 2014 article in the *University Star*, the newspaper of Texas State University in San Marcos ("Outlets draw more than 6 million visitors per year"), indicated that 30% of outlet mall visitors there were from Mexico, equating to roughly 1.8 million Mexican visitors. Most of those visitors likely drove through Laredo on I-35 to get to San Marcos. CDS is projecting that the Outlet Shoppes at Laredo could capture 1.2 million visitors, many of whom were formerly driving on to San Marcos (and still may) and some who did not previously come to Texas outlet malls.

The following analysis uses data from surveys of Mexican visitors regarding spending on various activities and a typical required sales productivity average of \$350 per square foot of space to estimate the amount of space for dining, entertainment (bars and nightclubs), and souvenir shops that Mexican visitors to the Outlet Shoppes could support within the TIRZ, outside the mall itself, which will have limited dining and entertainment offerings. The analysis conservatively assumes a modest capture rate for this spending within the TIRZ, with the remainder occurring elsewhere in the city.

Table 38: Visitor-Generated Supportable Space Analysis

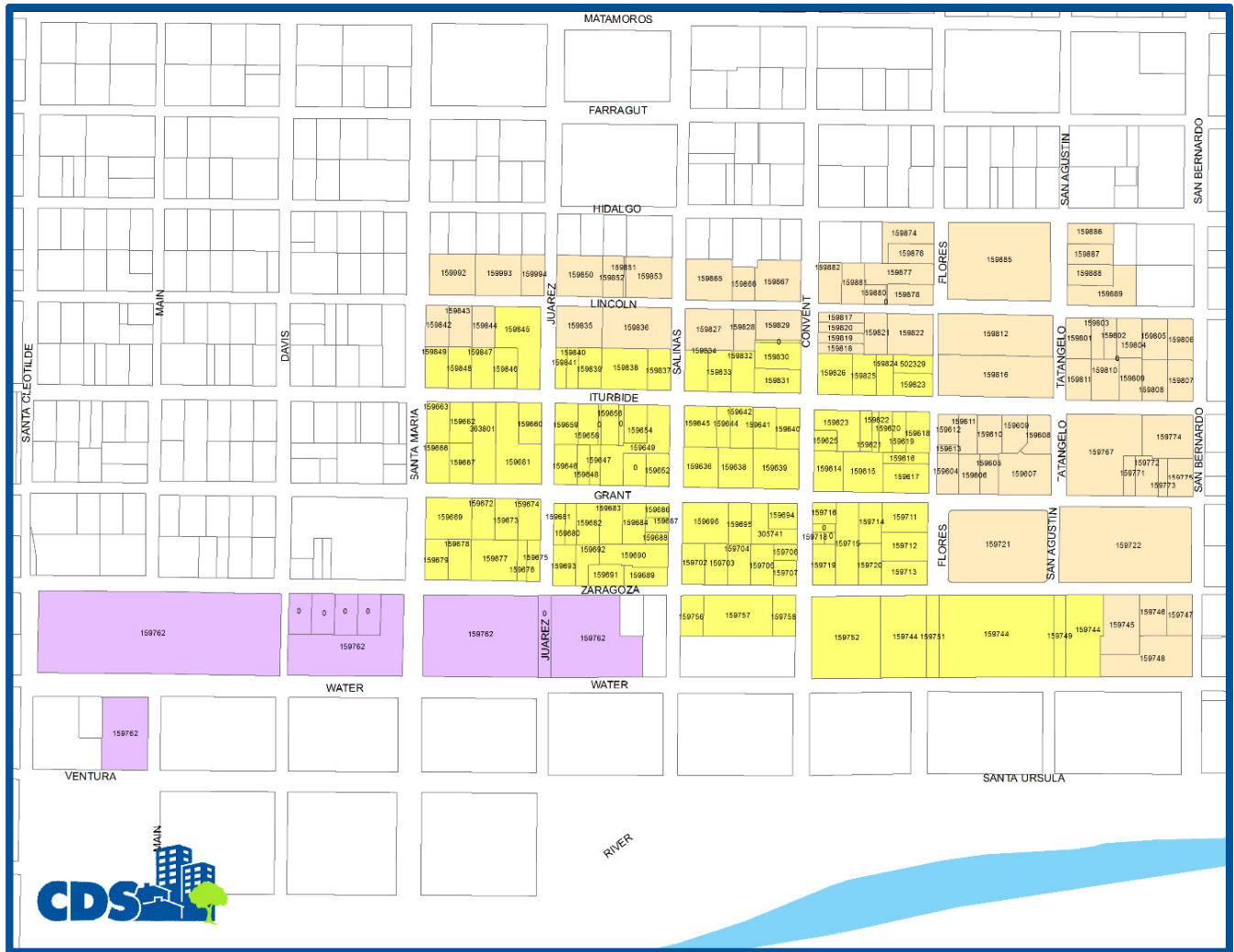
Analysis Inputs / Assumptions	
Mall visitors	1,200,000
Persons / party	3.9
Avg. dining expenditure	\$254
Avg. entertainment expenditure	\$105
Avg. souvenirs expenditure	\$83
Projected Expenditures	
Total dining expenditure	\$78,153,846
Total entertainment expenditure	\$32,307,692
Total souvenirs expenditure	\$25,538,462
TIRZ % Capture Rate (non-mall)	
Dining	10%
Entertainment	10%
Souvenirs	5%
TIRZ spending	
Dining	\$7,815,385
Entertainment	\$3,230,769
Souvenirs	\$1,276,923
Supportable Space	
Required \$sales/sq.ft.	\$350
Total space (sq.ft.)	35,209

Sources: State of Texas Office of the Governor; Laredo Convention and Visitors Bureau; CDS Community Development Strategies

The analysis shows that visitors to the Outlet Shoppes at Laredo could support approximately 35,000 square feet of space for dining, entertainment, and souvenir store uses outside the mall property but within the TIRZ. This will likely come not from the construction of new space, but improved sales productivity at existing establishments and new occupancy of existing ground floor commercial space, which, as noted earlier in this report, is increasingly underutilized.

CDS has identified a bifurcated Mall Impact Area in the proposed TIRZ where this visitor spending is most likely to occur. The Impact Area comprises two parts: a Primary Impact Area, which will be the first to receive new occupancy, and a Secondary Impact Area, which will have improved occupancy once the Primary Impact Area establishes itself as a destination for mall visitors.

Figure 38: Outlet Mall Visitor Spending Impact Area



Legend:
 Lavender – Outlet Shoppes at Laredo
 Yellow – Primary Impact Area
 Sand – Secondary Impact Area

CDS determined these Impact Areas by noting: (1) where the Outlet Shoppes at Laredo will have pedestrian portals from the common areas northward into Downtown and (2) where existing commercial development with ground-floor retail-appropriate space already exists.

An **additional critical assumption** of this analysis, however, is that public streets and public spaces, such as Zaragoza, Juarez and Santa Maria streets, are improved to create an inviting walkable destination. *In their current state, with unattractive streetscape and poor sidewalk conditions, the ability to capture this offsite mall visitor spending will be doubtful.*

INTERVIEWS

Property Owner Interviews

CDS conducted interviews by phone and in person with several Downtown commercial property and business owners who related their recent experience with the area's economy.

- The commercial businesses occupying street-level space Downtown in general are suffering. A number of them have closed. Landlords have kept remaining occupancy primarily by lowering rents over the last two to three years, sometimes to extremely low levels. There are multiple reasons for the decline:
 - The wholesalers who transacted with Mexican buyers who brought back retail goods for resale across the river are declining because changing international trade policies have resulted in Asian-made goods being directly imported into Mexico rather than via the United States.
 - The recent strength of the U.S. dollar and related decline in the Mexican peso have hurt the purchasing power of Mexican consumers, who are the main customer base for retail businesses in Downtown.
 - Construction for upgrades to the international bridges into Downtown have created a perception among Mexicans that Downtown Laredo is inaccessible for them.
 - Construction for utility upgrades over the last couple of years, especially the current construction associated with the new outlet mall, have discouraged pedestrian and vehicle traffic on some streets, especially Zaragoza.
- The few residential units on the upper floors of otherwise commercial buildings are not achieving rent premiums. They typically do not have dedicated parking and may have building condition problems. Attempts have been made to raise rents but without success.
- One Downtown property owner has invested in capital improvements in their properties, including several hundreds of thousands of dollars in one multi-story building, but have failed to improve leasing or rent levels.

New Outlet Mall

Horizon Group Properties is currently building the Outlet Shoppes of Laredo on the site of the previous River Drive Mall, on the blocks between Zaragoza Street, Santa Clotilde Avenue, Water Street, and the middle of the block on the east side of Juarez Street. Horizon is an experienced national outlet mall developer and operator. They are partnered on the project with CBL & Associates, a major mall developer and owner that is the also the owner of the Mall del Norte. The new outlet mall is currently projected to open in March 2017.

Phil Waters of Horizon Group Properties provided CDS with some information about the project:

- The construction cost will be in excess of \$100 million.
- The project has two phases. The Gross Leasable Area (GLA) of the first phase, comprising the eastern two blocks that open in 2017, will be 357,866 sq.ft. The second phase, for which development will depend upon the success of phase one and general economic conditions, will have approximately 100,000 additional GLA.
- The project is generating an estimated 1,000 construction jobs. Once opened, it is projected to generate approximately 1,200 full-time and part-time jobs, plus another 1,500 seasonal jobs.
- The mall will be an outdoor mall, without climate control, like Horizon's other properties. However, because the project straddles the slope of the bluff above the Rio Grande, it will be Horizon's first multi-

level outlet center. There will be two levels of retail shops above structured parking with 425 to 450 spaces, which will be paid parking with discounts or validations for shoppers. Additional parking will be available in City-owned surface lots on the south side of Water Street. It has not yet been determined if all parking will be restricted to Outlet Shoppes patrons only.

- The stores will be generally arranged to face inward toward a central common area stretching east-west, with sky bridges over Santa Maria Avenue. The upper level of retail shops will be open in the center, with walkways to either side along storefronts, but allowing views to the first level below.
- Stores will not have public entrances to Zaragoza Street. The principal connection to Downtown for pedestrians will be from walkway portals to Zaragoza at Santa Maria, and between Juarez and Salinas streets from the first level common area.
- The tenant profile will be similar to other horizon outlet malls in the U.S., which feature major name-brand retail goods manufacturers. Brands featured at other properties include Nike, Michael Kors, Under Armour, Tommy Hilfiger, Polo by Ralph Lauren, American Eagle, Coach, Fossil, and Gucci.
- There will be a limited set of snack shops and cafes; Mr. Waters reported that there will be two sit-down casual restaurants. It is possible that there will not be any establishments serving alcohol, but this is not yet settled.
- The primary customer base for Outlet Shoppes at Laredo is expected to be residents of interior Mexico, specifically the Monterrey metropolitan area. Monterrey is Mexico's third-largest metropolitan area and one of its wealthiest cities, with a large middle class employed in its industrial economy. Many retail customers from the Monterrey area already come to and through Laredo to shop at Mall del Norte and visit the outlet malls three hours north on Interstate 35 in San Marcos. The Outlet Shoppes in Laredo will capitalize on the opportunity to intercept this traffic at a point much closer to Monterrey.

CONCLUSIONS AND ASSESSED VALUE PROJECTIONS

“Base Case” Findings

Downtown Laredo is facing somewhat of a “perfect storm” of economic challenges at the present time. Traditional generators of economic activity for the area within the proposed TIRZ have substantially faded or are in the process of doing so. The current growth of the Laredo economy and its associated development patterns are not structured in a way that naturally supports new investment in Downtown. While the region’s overall economic “pie” may continue growing (barring national economic crisis or substantial change in international trade policies that create new headwinds), Downtown’s ability to capture a larger share of investment in the near term is seriously hampered by its location relatively distant from areas of growth and middle class residential areas, poor condition of some infrastructure, reliance on spending by lower-income Nuevo Laredoans, aging and deteriorating buildings, lack of an office market driver, and the overall lower wage structure of the regional economy, especially for younger workers. CDS found that the only significant demand for new development in the near future to be for additional seniors housing, and that is likely to be a subsidized / affordable project (most likely tax credit).

However, there is one major generator of economic activity that will soon come to Downtown that is almost completely unrelated to the district’s current economic activity: the Outlet Shoppes at Laredo. Based on conversations with City staff and the mall developer, CDS is projecting the following impact on assessed value:

- The Outlet Shoppes at Laredo Phase 1 adding \$80 million of assessed value for 2018, reflecting the construction value attached to the building permit. While a portion of this value is likely to be added for 2017 since construction is underway, CDS has conservatively chosen to allocate the project’s value only after completion.
- Assuming the success of Phase 1, the Outlet Shoppes completing Phase 2 in 2022, adding \$25 million in today’s dollars to assessed value for 2023.

This major project should be able to draw large numbers of middle class and affluent Mexican shoppers, primarily from the Monterrey region. It thus represents the only reliable significant source of economic growth in the near term. However, the risk for Downtown is that the mall will function as somewhat of an island, unable to draw visitors and their spending on dining, entertainment, and non-mall shopping into the nearby areas. In the existing state of streetscapes and buildings in Downtown, there will be little incentive for mall visitors to do so. The environmental and infrastructure conditions of the streets in the traditional shopping and historic areas just to the northeast of the mall, and closest to its pedestrian portals from the lower shopping level, must be improved if the desired consequence of ancillary spending and business investment is to happen. Otherwise, it is likely that property values will continue to stagnate or decline and little to no new investment will occur.

CDS finds that the exceptions to the lack of new investment in this “Base Case” scenario would be, as earlier described in this report:

- A new limited-service hotel proximate to the new mall, which could be warranted once existing hotel properties rebuild their occupancy and rates. The hotel would have 120 rooms, valued at \$120,000 per

room in today's dollars, completed during 2025, to take advantage of mall visitor traffic after occupancies and rates have improved at existing Downtown-area hotel properties.

- Senior housing – 50 units completed during 2020, valued at \$50,000 per unit in today's dollars, with another 50 units completed during 2025.

Property values in the proposed TIRZ reflect economic challenges facing the area. From 2006 to 2016, the average annual appreciation rate of assessed value was just 1.6%. From 2010 to 2016, the total value actually declined at an average of -1.2% annually. Some of this decline was due to the acquisition of private property by the public sector, but Webb County Appraisal District records show that all classes of property (commercial, industrial, residential etc.) per 2016 classification showed declines during this period. In fact, WCAD indicated that even greater declines are possible for the 2017 values because of the strongly negative economic conditions now facing the area. In the "Base Case", without public environment improvements, CDS does not see any reason for a change in the stagnant or declining trajectory of values of most existing properties in the future.

"With TIRZ" Projections

The proposed TIRZ could be a vehicle to fund the needed improvements, given that tax increment revenue will be generated by the new mall. If the TIRZ or similar vehicle is in place and able to fund streetscape and infrastructure improvements CDS recommends (street and sidewalk rehabilitation, utility upgrades as needed, enhancements such as improved lighting), then new investment in commercial occupancy is possible and even probable. The market support for this was outlined previously in the Hotels and Tourism section, and has graduated impacts in Downtown based upon proximity to the Outlet Shoppes' pedestrian portals and ingress/egress routes, plus the availability of existing built commercial space.

Therefore, CDS projects in a "With TIRZ" scenario the following (new development is in addition to that describe in the Base Case):

- A lowering of assessed values across the TIRZ (except the outlet mall) of -2.5% for 2017, followed by two years of no change.
- An increase in assessed value of existing properties of 2.0% per year in the *Primary Impact Area* of the outlet mall, reflecting investment to cater to ancillary spending by mall visitors, starting in 2020, two years after the mall would be fully opened, through 2022; rising to 2.5% annually from 2023 onward. This increase will be due to increased occupancy and lease rates in existing properties, with associated capital improvements in those properties.
- An increase in assessed value of existing properties of 2.0% per year in the *Secondary Impact Area* of the outlet mall starting in 2023 and continuing thereafter.
- In the remainder of the proposed TIRZ, assessed value increases of 2.0% per year starting in 2029 and continuing thereafter.
- Multifamily apartments – 120 units, valued at \$80,000 per unit in today's dollars, added during 2027; this reflects the fact that improvements in the mall Impact Areas will make residential living in Downtown more attractive to childless households by that point, allowing Downtown to capture a portion of the rental market.

All assessed value projections other than the outlet mall were based on 2016 values of relatively comparable properties for each type elsewhere in Laredo (as there are generally few or no comparables in Downtown itself).

TIRZ Value Projection

The “With TIRZ” development and assessed value scenario above allowed the generation of annual projected assessed value for the proposed zone. The projection includes the following assumptions:

- Per-unit values for each new development property type, initially provided in 2016 dollars, increase by 2.0% annually to reflect inflation of construction costs over time.
- Increases in assessed value of the full value of each new development is attributed to January 1 of the tax year following completion of the project. No partial values are provided for January 1 of the previous year, though WCAD may choose to do so if construction is advanced enough at that time.
- All new development occurs outside the mall’s Primary and Secondary Impact Areas, mainly because there are more vacant developable sites.
- No additional acquisition of private sector land by the public sector.
- Existing Neighborhood Empowerment Zone agreements for TIRZ properties (four total) are not accounted for in assessed value in terms of the agreed tax abatements, but will be included in projections of TIRZ revenue in the *Project Plan and Reinvestment Zone Financing Plan*. The promised additional investment value, however, is included in the assessed value projection.
- The TIRZ is assumed to have a 30-year life with 2016 as the base year.
- No additional assessed value exemptions beyond those currently in place (for owner-occupied residential).

Table 39: Projected TIRZ Assessed Values

Year	Assessed Value (\$)	Value Increment (\$)
2016 Base Year	299,722,449	-
2017	292,229,388	-
2018	371,554,458	68,832,009
2019	368,554,458	66,832,009
2020	367,359,030	67,636,581
2021	370,939,896	71,217,447
2022	371,776,973	72,054,524
2023	401,011,312	101,288,863
2024	402,681,613	102,959,164
2025	404,390,790	104,668,341
2026	426,740,763	127,018,314
2027	428,530,456	128,808,007
2028	442,536,954	142,814,505
2029	451,391,733	151,669,284
2030	460,673,298	160,950,849
2031	470,146,838	170,424,389
2032	479,816,350	180,093,901
2033	489,685,917	189,963,468
2034	499,759,707	200,037,258

DOWNTOWN MARKET DEMAND ANALYSIS

Year	Assessed Value (\$)	Value Increment (\$)
2035	510,041,974	210,319,525
2036	520,537,063	220,814,614
2037	531,249,410	231,526,961
2038	542,183,544	242,461,095
2039	553,344,090	253,621,641
2040	564,735,768	265,013,319
2041	576,363,400	276,640,951
2042	588,231,907	288,509,458
2043	600,346,316	300,623,867
2044	612,711,757	312,989,308
2045	625,333,469	325,611,020
2046	638,216,803	338,494,354

Sources: Webb County Appraisal District; CDS Community Development Strategies

CDS Community Development Strategies

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