
MARKET DEMAND ANALYSIS

Harris and Waller Counties Municipal Utility District No. 2



Prepared For:

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October 2014



October 9, 2014

Brian K. Gibson
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Friendswood Development Company
50 Greens Parkway
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Houston, Texas 77067



Dear Mr. Gibson:

The attached report presents the findings and conclusions of our market demand analysis written in support of Harris and Waller Counties Municipal Utility District No. 2 (the "District") located in Harris County and Waller County, Texas. This market study was written in compliance with the guidelines set forth by the Texas Commission on Environmental Quality (TCEQ). The report was prepared in its entirety by CDS Market Research.

The information compiled in the attached report indicates that the Falls at Green Meadows subdivision will continue to be a viable competitor within its Market Area. It is the opinion of CDS Market Research that supply and demand factors influencing the absorption of developed uses planned and already under construction are adequate for the success of the District as outlined herein.

Every effort has been made to assure that the requirements set forth by the TCEQ for an independent analysis of market support have been met. If you have any questions, or if additional assistance is needed, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink that reads 'Brenda G. Persons'.

Brenda G. Persons
Vice President

William McWhorter
Analyst

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Section 1. Introduction

The purpose of this report is to present market data and other background information relevant to the First Bond Application for the Harris and Waller Counties Municipal Utility District No. 2, herein referred to as the “HWCMUD No. 2” or the “District.”

The District

The District contains approximately 241.667 acres of land within its boundaries. The District is located approximately 28 miles west of Houston’s central business district in a suburban area of the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA). Approximately two miles north of Interstate Highway 10 (the “Katy Freeway”) and three miles west of State Highway 99 (the “Grand Parkway”), the District is situated along west side of Avenue D and the north side Franz Road. The District is wholly within the city limits of the City of Katy, Texas.

The land plan for the Falls at Green Meadows subdivision anticipates a total of 465 single-family lots. Community amenities will include a recreation center with a pool and playground, walking trails, and numerous lakes. In addition, Katy City Park is located directly across Avenue D from the District.

To facilitate the development of the community as it is planned, the District is authorized to utilize funds raised from bond issuance to reimburse the developer for water, sanitary sewer, drainage, and detention facilities constructed for the District, for the District’s share of clearing and grubbing projects, for storm water pollution plan expenses, for detention land acquisition costs, for engineering fees, and for operational advances made to the District.

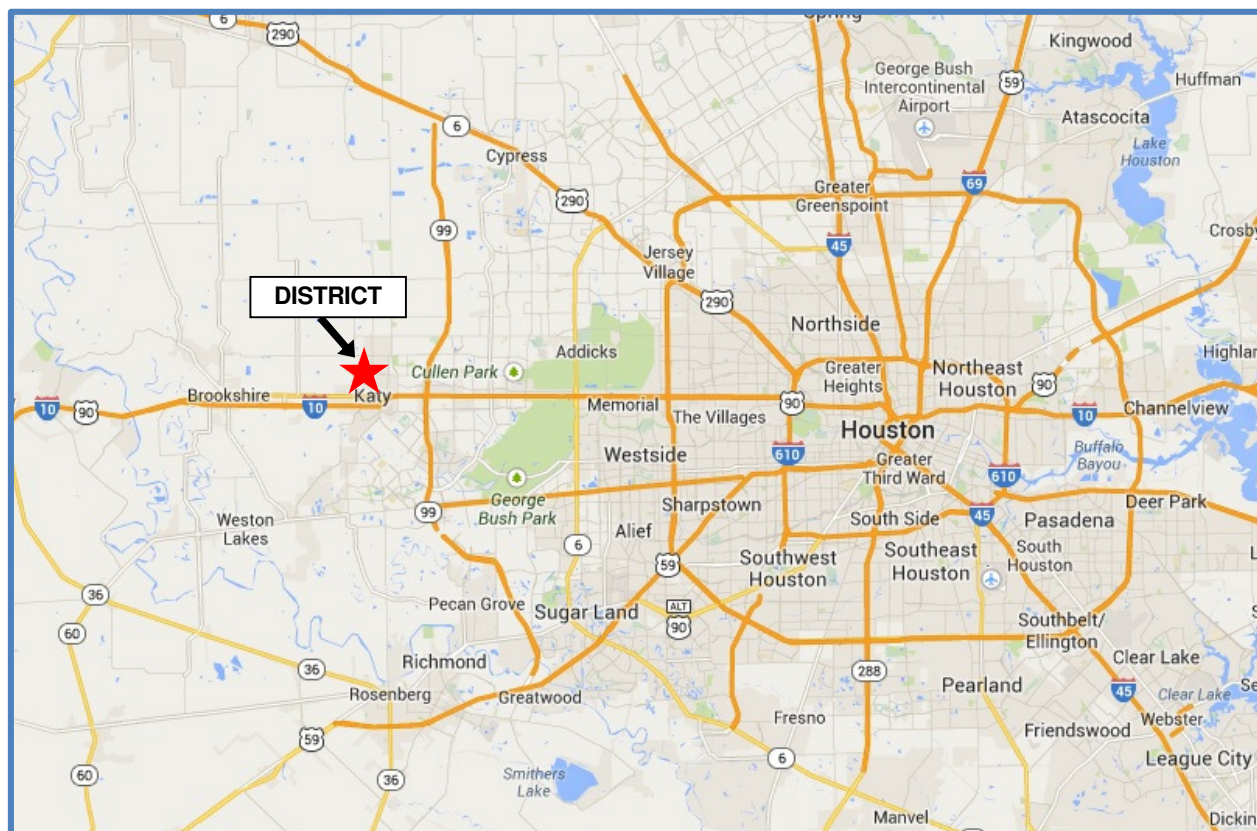
HWCMUD No. 2 Land Use Plan

Land Use	Acreage
Developable Acreage (Single Family Homes)	207.29
Parks and Recreational Facilities	1.34
Easements, Streets, Drainage and Open Spaces	33.04
Total Land Area	241.67

HWCMUD No. 2 Single-Family Home Development Plan

Section	Builders	No. of Lots	Lot Size (Typical)	Avg. Home Price
Section 1	Lennar / Meritage / TBD	66	70' x 125'	\$360,000
Section 2	Lennar / Meritage / TBD	40	70' x 125'	\$360,000
Section 3	Lennar / Meritage / TBD	51	70' x 125'	\$360,000
Section 4	Lennar / Meritage / TBD	64	70' x 125'	\$360,000
Section 5	Lennar / Meritage / TBD	44	70' x 125'	\$360,000
Section 6	Lennar / Meritage / TBD	36	70' x 125'	\$360,000
SF-5	Lennar / Meritage / TBD	112	70' x 125'	\$360,000
SF-6	Lennar / Meritage / TBD	52	70' x 125'	\$360,000
		465		\$360,000

HWCMUD No. 2 Location Map



HWCMUD No. 2 Boundary Map



HWCMUD No. 2 Land Use Plan Map



Section 2 – General Area Analysis

The District is located in both Harris County and Waller County, two of nine counties that comprise the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA) (see exhibit). The MSA is centered around the city of Houston which was founded in 1836 following the Battle of San Jacinto where Texas won its independence from Mexico, ultimately joining the United States in 1845.

Following the Civil War, Houston became the commercial center for the export of cotton. In 1901, oil was discovered at Spindletop near Beaumont launching the Texas petroleum industry.

In 1910, the city built the Houston Ship Channel which was opened in 1914 enabling the Port of Houston to become a leading Gulf Coast port.

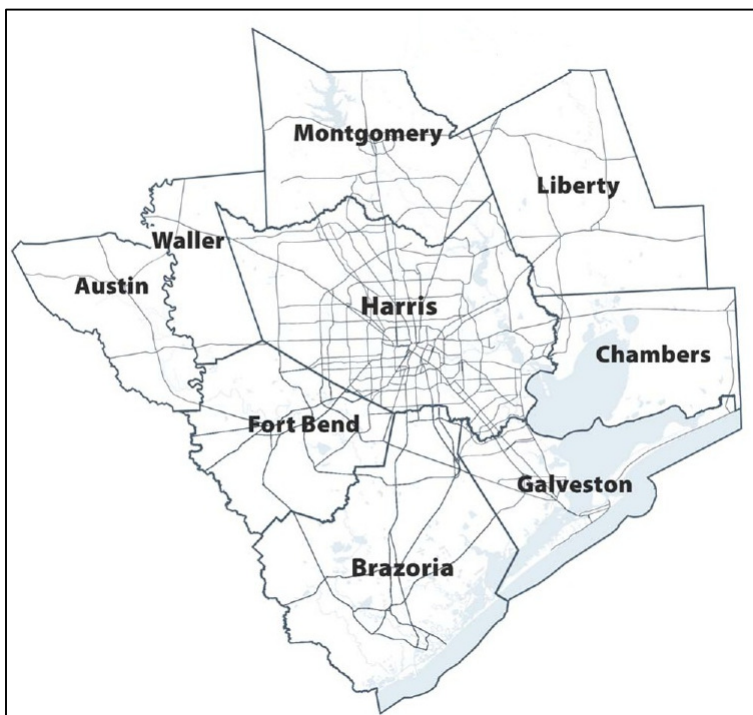
The Second World War brought heavy demand for petroleum and synthetic rubber products leading to the construction of petrochemical and manufacturing plants along the Ship Channel.

In 1945, the M.D. Anderson Foundation established the Texas Medical Center which created what would ultimately become the largest medical complex in the world.

In the early 50s, the development of modern air conditioning led to the location of many corporate headquarters, particularly in the energy sector, in Houston. Concurrently, Houston was annexing surrounding areas at a rapid rate which provided the means for continued growth in population and tax base thereby avoiding the constrictions of some other American cities that had become surrounded by other incorporated communities.

Houston's growth was further spurred by the establishment of the NASA Manned Spacecraft Center (now the Johnson Space Center) in 1961.

Houston - The Woodlands - Sugar Land Metropolitan Statistical Area (MSA)



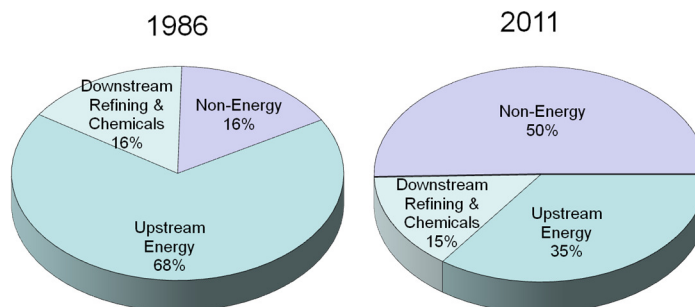
The Houston Area Economy

Houston's preeminence in the energy industry led to a boom during the energy shortages of the 1970s. But after a period of rapid growth during the 1974-1981 period as crude oil prices climbed, a plunge in the world oil market had a devastating effect on the Houston economy. From 1982 to 1987 Houston lost 221,900 jobs, one out of seven. Of this number, 184,200 jobs were related to oil and gas exploration and production, oil field equipment manufacturing and sales, and pipeline transportation. But with the return to more normal supply/demand conditions in the industry, Houston was able to regain its lost jobs by 1990.

Since 1986, Houston's economy has become diversified thereby lessening dependence on the energy industry as the economic engine. Today, upstream energy sectors account for roughly a third of Houston's economic base jobs. Since 1986, the energy-insensitive sectors of Houston's economic base have grown at an annual rate of 6.1%. As a result, Houston MSA employment in these sectors grew from less than 2.3% in 1986 to over 50% in 2011.

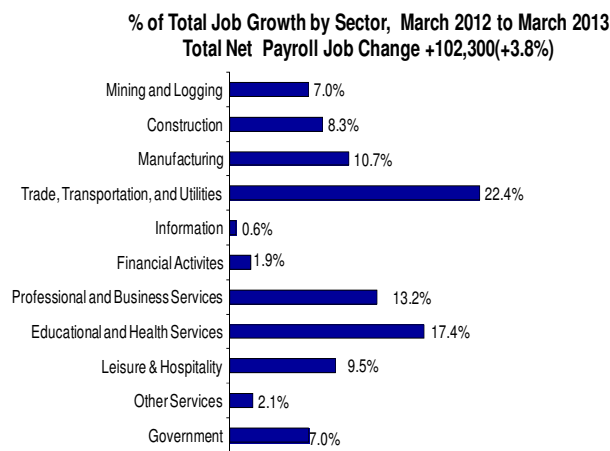
Over the years, Houston's economy has evolved from a manufacturing economy to a services based economy. Service-providing organizations including Government now account for 80% of Houston MSA jobs and represented 82% of net job growth over the 13 years leading up to 2012. More and more, Houston is evolving to an economy based on engineering, computer, legal, accounting and administrative services.

Houston MSA Economic Base Employment



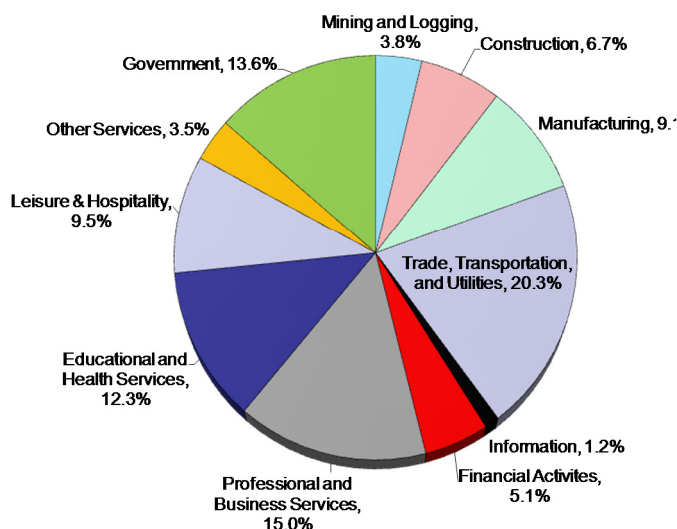
Source: Institute for Regional Forecasting, University of Houston, May 2011.

Industry Shares of Job Change



Employment by Industry

Percentage of Total Jobs by Sector March 2013



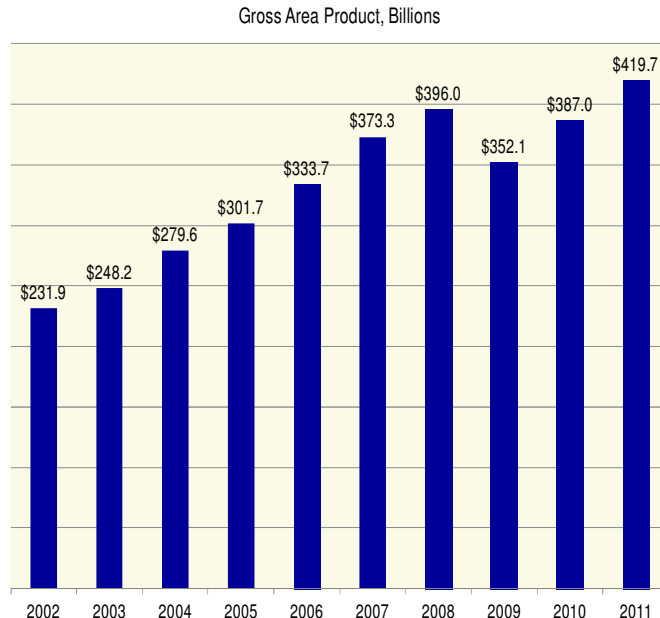
Houston's diversification and growth in the services sector is reflected in the following charts depicting industry shares of new jobs and employment by industry.

Houston's economic breadth is further substantiated by the number of large employers in the Houston area. According to the Greater Houston Partnership, as of 2012, there are 116 companies in Houston with 1,000 employees or more. In order to grow, Houston's employers rely on a substantial local college and university system. There are 17 community college campuses and 16 university campuses within the Houston MSA. Rice University has gained significant national attention with its recent discoveries in the field of nanotechnology.

According to the Bureau of Economic Analysis (BEA), the Houston MSA's Gross Area Product (GAP) reached \$396.0 billion in 2008 and in 2009, declined to \$352.1 billion. As of 2011, the GAP had rebounded to \$419.7 billion.

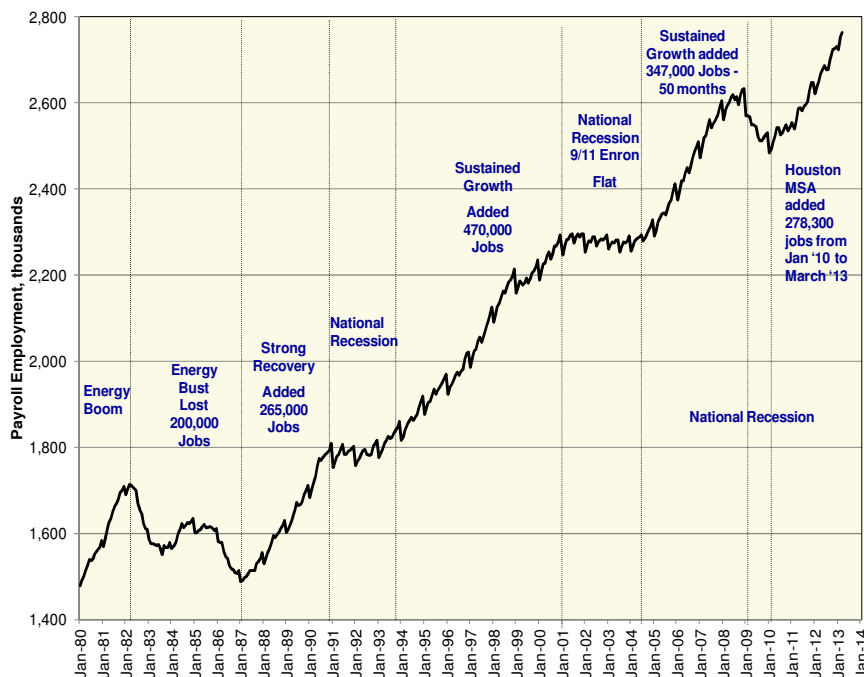
The chart to the right depicts Houston MSA job growth, demonstrates that the Houston economy was flat during national recessions in the early 90s and early 00s (following the 9/11 attacks) but very robust during the intervening and subsequent years up to 2008. Houston participated in the recent national recession with job losses beginning in January 2009. Recent data show Houston's recovery began in early 2010 and the region has added 278,300 jobs from Jan 2010 to March 2013. In the most recent 12 months from March 2012 to March 2013, the Houston region added 113,000 jobs – the fastest growing urban region in the U.S.

Houston MSA Economic Growth



Source Bureau of Labor Analysis, from Greater Houston Partnership,

Houston MSA Long-Term Employment Growth Trends



Source: Texas Workforce Commission, April 2013

Factors Affecting Future Regional Economic Growth

According to the Federal Reserve Bank and the Greater Houston Partnership, three factors have governed the state of Houston's economy for the past 10 years:

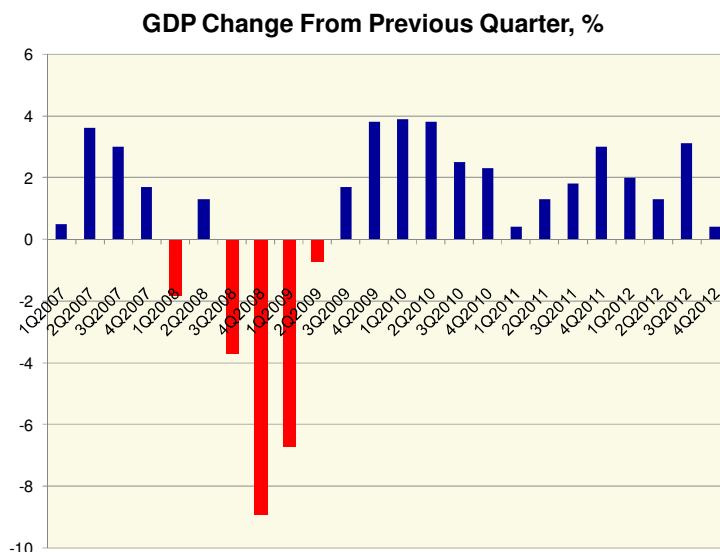
- The health of the national economy;
- The value of the U.S. dollar against foreign currencies; and
- Energy prices.

All of the drivers of the economy entered a period of decline starting in mid-2008, real GDP began to drop, the value of the dollar began to rise and in oil prices began a sharp decline. These factors began to have an effect on the Houston economy.

The National Economy—According to the Bureau of Economic Analysis, U.S. real gross domestic product (GDP) peaked at \$13.36 trillion in the fourth quarter of 2007. Over the course of the current recession, real GDP fell by \$555.0 billion by mid-2009. GDP has increased for the past eleven quarters with an estimate of \$15.476 trillion in the first quarter of 2012. GDP growth dropped to 0.4% in the 4th Quarter of 2012 due to weak consumer spending, weakness in construction, government budget cuts, and lack of business confidence.

The U.S. Dollar – The U.S. Dollar is at a relatively high level today as compared to the long-term historical trend of the dollar Index of the Federal Reserve Bank. It is, however, substantially lower than the peak level of 129 set in late 2001. As of March of 2013 the index was 100 (29 points below the 2001 peak.) A low dollar stimulates trade which benefits Houston's manufacturing/export sectors.

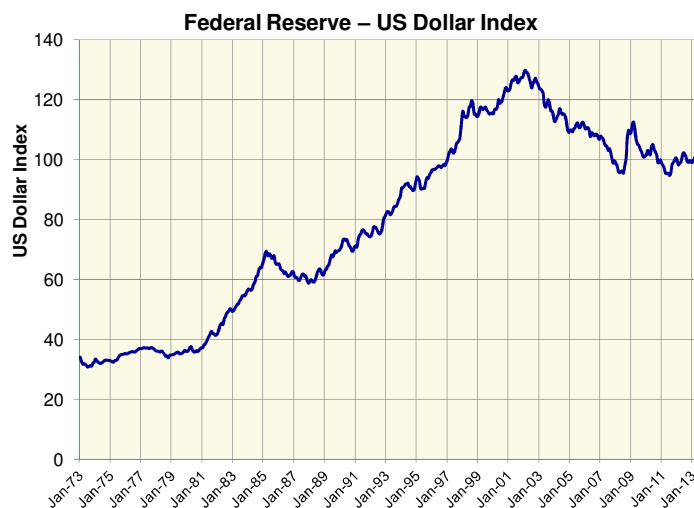
U.S GDP Trends



Source: Bureau of Economic Analysis, April 2013.

Major Foreign Currencies vs. the Dollar

Dollar Index U.S. Federal Reserve Bank



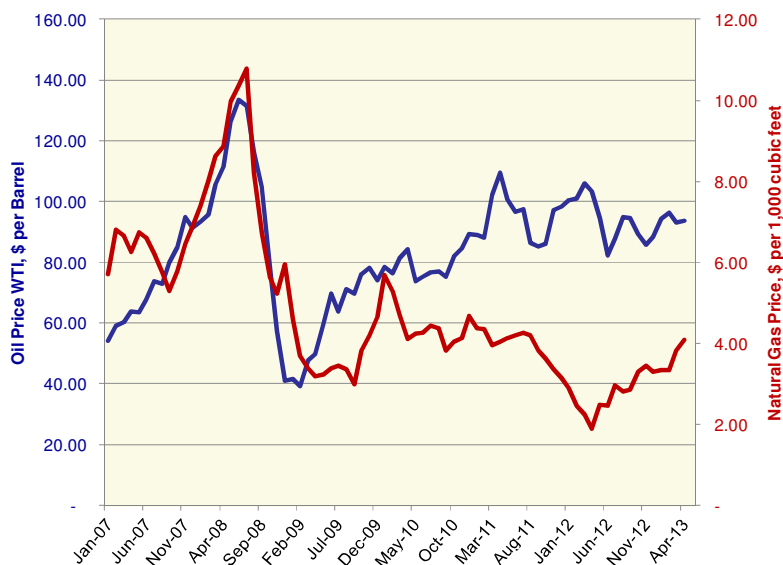
Source: U.S. Federal Reserve Bank, April 2013

Energy Prices – Higher oil and gas prices stimulate demand for oil field equipment and services which is a strong sector within the Houston economy. Prices for West Texas Intermediate (WTI) crude began the decade in the \$20-\$30/Bbl range and remained there until 2004 when they began a steady climb to a peak of nearly \$140/Bbl. during the first half of 2008. The worldwide recession, accompanied by a fall-off in demand, resulted in a decrease in WTI oil prices (blue line in the graph to the right) to less than \$40/Bbl. WTI price rebounded in the vicinity of \$100/Bbl and was in the \$90 range in the summer of 2012 dropping slightly into the high \$80s in the fall. In

the winter and spring of 2013, prices increased into the mid \$90s. Concurrently, Henry Hub spot natural gas (red line in the graph) remained under \$10/mm Btu before falling to a low of \$2/mm BTU and then rebounding to \$6 in late 2009. Spot natural gas prices again fell to \$2 in the spring of 2012 but by the end of March 2013, had rebounded to \$4.00.

At the current time, only one of the three factors that affect the Houston economy, **Energy Prices**, presents positive signs for the Houston economy but that seems to be enough to create the strong rebound that has replaced all of the jobs lost in this recession plus many more. The Value of the U.S. Dollar and the U.S. economic malaise are negative drivers of the Houston economy.

Recent Energy Prices



Source: U.S. Energy Information Administration, April 2012.

Historic Growth and Projections

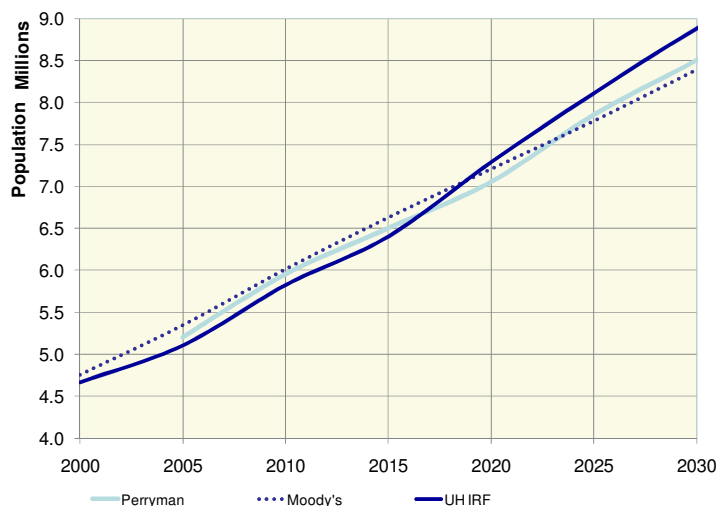
Even in light of the current recession and tough economic times for all Americans, Houstonians can take some comfort in the fact that economic growth will likely continue. Houston has a long history as a growth oriented community with conditions that are generally supportive of business expansion – low cost of living, low real estate prices, low unionization rates, and pro-business regulations.

The charts on the right illustrate three projections of Houston regional growth. The first is from the Perryman Group, a respected Texas economic research organization, the second is from Moody's Analytics, a national economic research company and the third is from the University of Houston – Institute for Regional Forecasting.

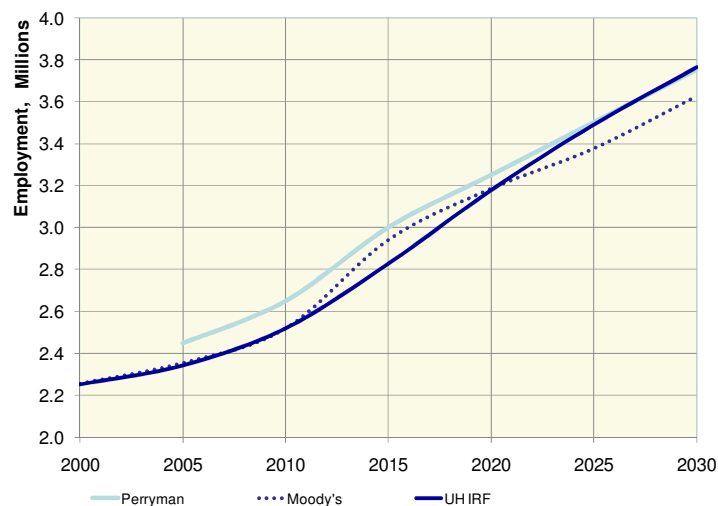
The projections are similar. By the year 2030, Perryman is projecting almost 3.8 million jobs and 8.5 million population. Moody's is slightly less optimistic, projecting 3.6 million jobs and 8.4 million population by 2030. The UH – IRF forecasts predicts 3.8 million jobs and 8.9 million population by 2030. Based on these forecasts, the region will add about between 2.4 and 3.0 million new residents from 2010 to 2030.

Economic Projections from Three Sources

Population



Employment



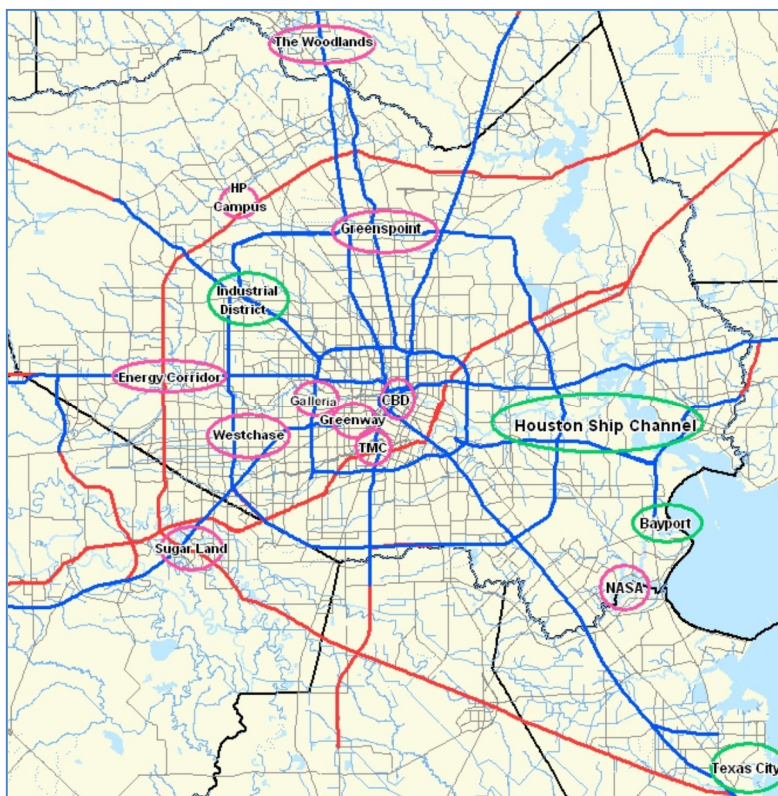
Sources: Moody's: *Economy.com Projections* from Moody's Analytics
 UH-IRF: University of Houston, Institute for Regional Forecasting, *2010 Economic Forecast*
 Perryman: The Perryman Group, *The Perryman Long Term Economic Forecast*, 2010

Economic Geography

The Houston MSA has developed in a low-density suburban form, uninhibited by natural geographic boundaries or excessive political regulation. The region's central business district presently accounts for only about 6% of regional employment. Other loosely-defined 'edge cities' comprise a large portion of the region's employment base. These typically are made up of a loose cluster of office, medical office, hotel, and supportive retail land uses. Examples within the Houston area include the Uptown/Post Oak area, the Texas Medical Center, Greenway Plaza, Sugar Land, Westchase, and Greenspoint. The region's heavy industries are clustered around the Houston Ship Channel. Additionally, a significant number of jobs are spread among Houston's suburbs in office parks, retail centers and light industrial facilities.

The accompanying map illustrates the locations of the principal activity centers (in red) and industrial districts (in green) in the Houston MSA.

Major Regional Employment & Activity Centers



Population

Historic Growth and Projections

Population growth is one of the principal measures of the economic vitality of any Market Area because increasing population is generally the result of more jobs, a high level of immigration and a stable or expanding economy. The United States Office of Management and Budget recently redefined the geographical units used by the Bureau of the Census. The Houston area, defined as the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA) includes nine counties. The table below uses the original 8 county CMSA (excludes Austin County) and summarizes historic Census population counts for 1980, 1990, 2000, and 2010, and population projections for five year increments to 2040 for the Houston-CMSA and the eight counties.

The 8-County Houston CMSA has undergone tremendous growth in recent decades – from 3.12 million in 1980 to 4.669 million in 2000. In 2010, total population is reached 5.89 million.

As the table below demonstrates, population growth in the Houston MSA and the counties that comprise the area is projected to continue. From the 2010 estimate of 5.9 million, population in the MSA is projected to reach 6.4 million in 2015, equivalent to an annual compound growth rate of 1.9%. Population projections for the 8-county region were prepared by the University of Houston, Institute for Regional Forecasting in 2011 and modified slightly by CDS Market Research as a result of the 2010 Census release.

County Level and Region Population Growth History and Projections

	Yr.	8*County CMSA	Brazoria	Chambers	Ft. Bend	Galveston	Harris	Liberty	Montgomery	Waller
Population by Year	1970	2,181,316	108,312	12,187	52,314	169,812	1,741,913	33,014	49,479	14,285
	1980	3,118,480	169,587	18,538	130,962	195,738	2,409,547	47,088	127,222	19,798
	1990	3,731,131	191,707	20,088	225,421	217,399	2,818,199	52,726	182,201	23,390
	1995	4,021,841	206,421	21,416	264,235	224,620	3,002,304	57,713	219,190	25,941
	2000	4,669,589	241,767	26,031	354,452	250,158	3,400,578	70,154	293,786	32,663
	2005	5,109,124	273,338	29,122	451,391	272,316	3,604,232	75,104	367,857	35,764
	2010	5,891,999	313,166	35,096	585,375	291,309	4,092,459	75,643	455,746	43,205
	2015	6,408,117	352,076	40,316	678,295	317,407	4,356,592	80,863	534,040	48,529
	2020	7,294,045	432,345	49,194	846,708	370,590	4,757,939	98,591	671,784	66,895
	2025	8,118,189	526,974	58,403	1,011,921	428,414	5,049,667	123,373	809,505	109,933
	2030	8,888,991	623,618	67,885	1,172,062	481,794	5,283,362	153,876	949,722	156,672
	2035	9,567,234	719,714	78,790	1,325,213	530,524	5,436,464	188,683	1,084,922	202,925
	2040	10,145,645	803,767	90,384	1,455,351	567,560	5,547,285	225,719	1,212,168	243,412
Change	Period									
Annual Average Pop. Growth by Period	'00-'10	122,241	7,140	907	23,092	4,115	69,188	549	16,196	1,054
	'10-'20	140,205	11,918	1,410	26,133	7,928	66,548	2,295	21,604	2,369
	'20-'30	159,495	19,127	1,869	32,535	11,120	52,542	5,529	27,794	8,978
	'30-'40	125,665	18,015	2,250	28,329	8,577	26,392	7,184	26,245	8,674
	'10-40	141,788	16,353	1,843	28,999	9,208	48,494	5,003	25,214	6,674

Source: U.S. Bureau of the Census for historical to 2010, University of Houston, Institute for Regional Forecasting for projections to 2040.

Basis for Projections

The foregoing population projections are based upon general economic health in the Houston Metropolitan Area and a moderate sustained rate of growth for the foreseeable future. The projections are based upon a review of long-range population growth rates forecast by Claritas, Inc., a nationally recognized population and demographics service.

The caveat in using population projections occurs in times of a rapid change in the population of the area being studied. Some methods of population projection presume a stable rate of change. If an area is in the midst of rapid change, such forecasts may overstate or understate the magnitude of the change. Often, it takes time for the impact of such change to show up in economic and demographic estimates and forecasts. CDS Market Research uses the estimates and projections of respected authorities in order to present a reasonable, conservative picture within its analyses but there are places in which the primary population data may be understated or overstated. In such instances, derivative forecast calculations would then be similarly affected.

Housing Trends

Household Size Trends

The trends in average household size for the Houston MSA and the four primary counties are shown in the table on the right. In spite of the increasing numbers of one and two-person households due to longer life spans for empty nesters, later marriages among young professionals and a high divorce rate, average household size is actually increasing in the MSA, Harris County, and Montgomery County. This is due to the high birth rates and immigration rates on the part of the Hispanic component of the population. Household size

Household Size Trends

1990 – 2010 and Projected 2015

Year	Household Size, persons/HH				
	Houston MSA	Harris County	Montgomery County	Ft. Bend County	Brazoria County
1990	2.75	2.72	2.84	3.14	2.86
2000	2.80	2.79	2.83	3.14	2.82
2010	2.85	2.85	2.87	3.13	2.82
2015	2.87	2.87	2.89	3.12	2.82

Source: PCensus for Map Info (Claritas, Inc.),

Housing Type Trends, 1970 – 2010

Houston MSA

	Single-Family *	Multi-Family	Total
1970 Housing Units	591,854	155,954	747,808
% of Total Units	79.1%	20.9%	100.0%
1980 Housing Units	849,330	395,535	1,244,865
% of Total Units	68.2%	31.8%	100.0%
Unit Change, 1970-1980	257,476	239,581	497,057
% of Total Change	51.8%	48.2%	100.0%
1990 Housing Units	1,003,085	509,863	1,512,948
% of Total Units	66.3%	33.7%	100.0%
Unit Change, 1980-1990	153,755	114,328	268,083
% of Total Change	57.4%	42.6%	100.0%
2000 Housing Units	1,215,015	575,983	1,790,998
% of Total Units	67.8%	32.2%	100.0%
Unit Change, 1990-2000	211,930	66,120	278,050
% of Total Change	76.2%	23.8%	100.0%
2010 Estimated Housing	1,606,225	654,152	2,260,377
% of Total Units	71.1%	28.9%	100.0%
Unit Change, 2000-2010	391,210	78,169	469,379
% of Total Change	83.35%	16.65%	100.0%

*Includes mobile homes. Source: U.S. Census of Population, 1970-2000; PCensus; and CDS Market Research

in Ft. Bend County is forecast to decline slightly due in part to the large number of singles and couples without

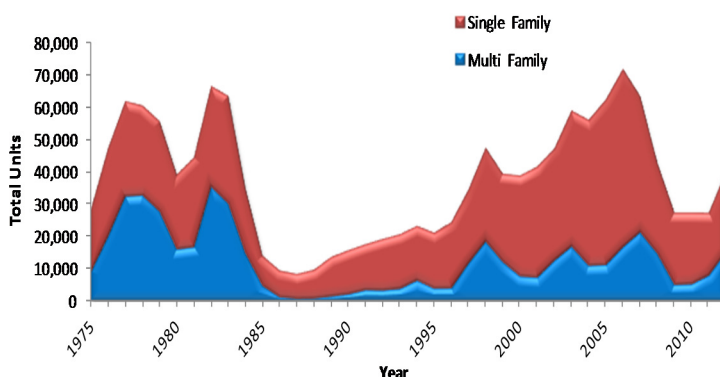
children that work in the Texas Medical Center. Meanwhile, Brazoria County persons per household remains constant.

Housing Type Trends

The following table presents trends in housing types for the Houston MSA between 1970 and 2010. As shown, in 1970, single-family homes, including mobile homes, accounted for 79.1% of the housing stock in the MSA, while 20.9% of the inventory was comprised of multi-family units.

Between 1970 and 1980, 51.8% of the housing stock added in the MSA was single family, including mobile homes, and 48.2% was multi-family, decreasing single-family housing's share of the total inventory to 68.2% by 1980. Between 1980 and 1990, more than one-half of new housing construction added or 57.4% was single-family. By 1990, the single-family share of the total housing inventory had declined to 66.3% of the total housing inventory. Between 1990 and 2000, 76.2% of all new housing constructed was single-family. Single-family share of new housing units rose further through 2010 to 83.3%.

Historic Houston MSA Housing Starts*



Historic Houston MSA Housing Starts*

2000 – 2012

Year	Multi Family	Single Family	SF Share	Total Permits	Annual % Change
2000	7,590	31,120	80%	38,710	-1%
2001	7,183	34,311	83%	41,494	7%
2002	12,401	34,640	74%	47,041	13%
2003	16,761	41,995	71%	58,756	25%
2004	10,858	45,039	81%	55,897	-5%
2005	11,080	51,085	82%	62,165	11%
2006	16,570	55,080	77%	71,650	15%
2007	21,158	42,089	67%	63,247	-12%
2008	14,553	28,155	66%	42,708	-32%
2009	4,953	22,324	82%	27,277	-36%
2010	5,166	22,113	81%	27,279	0%
2011	7,815	19,395	71%	27,210	-36%
2012	15,001	24,991	62%	39,992	47%

Housing Permit Trends

The chart on the right provides a 12-year history of Houston MSA housing permits. From 2001 to 2005, single-family permits averaged 41,414 annually. In 2006, single-family permits peaked at 55,080 then declined to 42,089 in 2007. When the global recession took hold in Houston in 2008, single-family home permits declined dramatically to 28,155 and in the next two years permits hovered around 22,000 – a 60% decline from the peak in 2006. In 2011, single-family permits declined to 19,395. By 2012, the market was improving and permits increased to nearly 25,000.

Multi-family unit permits averaged 10,660 units annually in 1996-2000, 11,657 in 2001-2005 and 11,232 in 2006-2010. Due to changes in the condition of the housing market a larger share of multifamily units were permitted during the period from 2006-

CMMSA includes eight counties: Harris, Fort Bend, Galveston, Liberty, Brazoria, Chambers, Montgomery and Waller.. *Starts necessarily based on building permit activity Source: Real Estate Center at Texas A&M University and CDS Market Research

2008 with an average of 17,427 multi-family units permitted in that 3-yr period. In 2009, 2010, and 2011, the recession hit the multi-family market with permits totaling only 4,953, 5,166 and 7,815 units, respectively. By 2012, the multi-family permits increased to 15,000. The increase in 2012 is likely due primarily to the lack of mortgage loans in the capital markets.

Housing Permit Projections

The table on page 13 presents annual single-family and multi-family new housing permit projections for the Houston MSA for the 2011-2015 and 2016-2020 periods.

Single-family housing construction has accounted for 76% of new permits in the region over the past 10 years, but the single-family share is expected to decline somewhat in the future as the area matures and urbanizes. The table on the right presents CDS Market Research's projection for new housing construction in the MSA for the next 3 and 5-year periods.

Average Annual New Housing Starts Projections

Houston MSA, 2013 – 2020

Projection Period	Average Annual		
	Single-Family	Multi-Family	Total
Range 2013-2015	28,000-32,000	12,000-16,000	40,000-48,000
% of Total	68%	32%	100%
Range 2016-2020	30,000-34,000	15,000-18,000	45,000-52,000
% of Total	67%	33%	100%

2013-2015. CDS projects total annual average housing permits for the 2013-2015 period to be in the 40,000-48,000 range. Single-family unit permits are expected to increase from the 23,400 annual average during the 5-year period ending in 2012 to a range of 28,000 to 32,000 over the next 3-year projection period. Single-family housing is expected to continue to account for the majority of housing permits, but due to tightened mortgage loan restrictions, its share is expected to decline to 65%.

2016-2020. Over the 2016-2020 period, CDS expects a return to a higher level of annual permits in the 45,000-52,000 range. When combined with the higher forecast share, annual average single-family permits will likely climb to 30,000-34,000 annually while multi-family permits increase somewhat to 15,000-18,000.

Growth Patterns

Three residential growth patterns, which had their inception in the 1980s, have been identified as trends, which seem certain to continue. First is the expansion of single-family development into counties surrounding Houston, especially Montgomery to the north, Fort Bend to the southwest and Brazoria County to the south. Second is the strong demand for housing located within and near master-planned communities. Third is the trend toward infill development of new housing, including high-rise projects, inside or located close to the urbanized core of the Houston Metro Area.

(B) Market Area Land Use

The Market Area ranges from suburban in proximity to Highway 6 to exurban and rural in the towns and prairies further west from Houston. According to the land use data supplied by the Houston-Galveston Area Council, the Market Area is approximately 40% developed. The following presents an estimate of the total acreage allocation by property type. Residential includes single-family and multi-family acreage. The land use estimate excludes streams or open water.

Estimated Composition of Market Area by Land Use

Land Use	% of Total
Residential	25%
Mixed-Use	3%
Commercial	8%
Industrial/Utility/ROW	4%
Undevelopable/Parks	5%
Open/Agricultural	55%
Total	100%

Immediate neighbors to the District include Fawnlake, a deed-restricted subdivision developed in the early 2000's that is similar to the District, agricultural land to the west, Katy City Park to the east, and older subdivisions and town lots nearby that comprise Katy. The character of the immediate area is decidedly suburban but is also in a transition zone where new development meshes with older development near this historic town site of Katy. These surrounds are considered appropriate and desirable for single-family homebuyers.

The density of commercial development increases nearer to Interstate 10 and especially to the east, reflecting the historical pattern of suburban sprawl along freeway spokes.

(C) Employment

The availability of employment is profoundly influenced by the existence and growth of the Energy Corridor, which has grown to become a thriving office submarket with numerous upstream and downstream energy headquarters facilities sited there. In addition, there exist large concentrations of employment related to healthcare and education which reflects that the Market Area has historically served as a bedroom community to employment centers nearer to Houston's urban core.

Fifty-nine of the Houston-Galveston Area Council's Transportation Analysis Zones (TAZs) are situated either mostly or wholly within the Market Area. The 2010-2040 forecasts updates as of the second quarter of 2014 indicate that employment within these zones is expected to increase from 77,785 to 132,090 between 2010 and 2040, a 1.8% average annual growth rate. These projections are on par with a forecasted rate of regional growth rate of 1.7%.

Top Katy-Area Employers, 2013

Name	Employment	Industry	Location
BP North America	9,537	HQ, Oil & Gas Extraction	Houston
Katy ISD	8,000	Education / Public Schools	Katy/Houston
Mustang Engineering / Wood Group	3,500	HQ, Engineering, Oil & Gas	Houston
Shell E&P – Woodcreek	3,000	HQ, Oil & Gas Extraction	Houston
ConocoPhillips	2,600	HQ, Oil & Gas Extraction	Houston
Katy Mills Mall	2,500	Retail Stores	Katy
Academy Sports & Outdoors	2,500	HQ, Distribution Center	Katy
Phillips 66	2,000	HQ, Oil & Gas Extraction	Houston
Worley Parsons	2,000	Engineering, Oil & Gas	Houston
Wal Mart / Sam's Club	1,300	Retail Stores (4)	Katy/Houston
Foster Wheeler	1,200	HQ, Engineering, Oil & Gas	Houston
Igloo	1,200	HQ, Plastics Mfg. & Distribution	Katy
LaCenterra	900	Retail Stores & Offices	Katy
Memorial Hermann Katy	850	Hospital	Katy
Citgo Petroleum Corp.	845	Oil & Gas Refining & Marketing	Houston
Exxon Mobil Chemical	750	HQ, Chemicals Mfg.	Houston
Sercel	700	Electrical Instrumentation Mfg.	Houston
Schlumberger / Pathfinder Energy Svcs. / Dyna-Drill	600	HQ, Oil & Gas Equip. Mfg.	Katy
HEB Foods	550	Grocery Stores (3)	Katy/Houston
Alliance Engineering	500	HQ, Chemicals Mfg.	Houston
Christus St. Catherine	500	Hospital	Katy
Expro Americas	500	Oil & Gas Field Svcs., NEC	Houston
Northern Offshore Ltd	450	Drilling of Oil & Gas Wells	Houston
Methodist West Houston	450	Hospital	Houston

Sources: Katy Economic Development Council, Energy Corridor Management District

(D) Available Community Services and Recreation

(i) Medical Facilities

The Texas Medical Center is the largest Houston area medical center and is nationally recognized as a leader among the nation’s medical research and teaching facilities. It is located approximately 35 miles east of the District and is accessible via Interstate 10. At 106,000 employees in 54 member institutions, 7.2 million patient visits per year, 49,000 life sciences students, 5,700 researchers, and an annual operating budget of \$15 billion, the Texas Medical Center is important within the region both as a provider of health and education services, but also as an economic engine unto itself.

The health services environment is changing, however. Major health care organizations have recognized that with the strong growth of population in the suburbs of Houston weighed against the extraordinarily high cost of constructing and maintaining urban facilities, there is a need for hospital and medical facilities that are more accessible to the Market Area. Home-health services are also a burgeoning subsector of healthcare.

Within the Market Area, healthcare options include the Memorial Hermann Katy Hospital, MD Anderson Katy Regional Care Center, the Texas Children’s Hospital West Campus, the Houston Methodist West Hospital, and the CHRISTUS St. Catherine Hospital (which has been purchased by Houston Methodist and is being transitioned into a long-term rehabilitative care facility).

Of these, the closest full-service hospital serving the District is the Memorial Hermann Katy Hospital, located along the north side of the Katy Freeway and west of the Grand Parkway. It is a 146-bed facility, capable of performing healthcare services within 38 different specialties. Emergency services include a 24-hour emergency room, an accredited chest pain center, the only Level IV trauma center in Katy, and access to the Memorial Hermann Life Flight service.

(ii) Schools, Colleges and Universities

The proposed District is located within the Katy Independent School District (KISD), which is rated “Recognized District” by the Texas Education Agency. KISD exceeds statewide average student performance consistently and in nearly every category by statistically significant margins. Currently, students living in the District will attend Katy Elementary (Grades: PK-5), Katy Middle School (Grades: 6-8), and Katy High School (Grades: 9-12). KISD is a rapidly growing school district, adding approximately 2,000 new students each year. It should be expected that school zoning will change as the population within the immediate vicinity of the District increases and as new schools are built.

In addition to public schools, there are five charter and public schools serving the Katy area, including the Harmony Science Academy – West Houston, the West Houston Charter School, the Faith West Academy, and the Pope John XXIII High School.

More than 30 colleges, universities and institutions of higher education are located within the Greater Houston area. The table on page 19 lists selected higher education facilities and recent enrollment figures.

The University of Houston System’s Cinco Ranch satellite teaching campus provides residents of the district easy access to 30 bachelor’s and master’s degree programs and the Houston Community College System (with its Katy-area campus having a student population of 4,500) afford residents within the District access to high-quality workforce education. These institutions are reputed for the quality and affordability of instruction.

Selected Institutions of Higher Education

Houston MSA, Fall 2012 Enrollment

School	Total Fall 2012 Enrollment
Baylor College of Medicine	1,486
Houston Baptist University	2,432
Houston Community College System	49,122
Prairie View A&M University	8,336
Rice University	6,224
South Texas College of Law	1,267
Texas A&M University at Galveston	2,014
Texas A&M University Health Science Center	2,286
Texas Southern University	9,646
University of Houston System University of Houston – Main Campus (40,747) University of Houston – Clear Lake (8,153) University of Houston – Cinco Ranch (incl. in Main Campus) University of Houston - Downtown (13,915) University of Houston – Sugar Land (incl. in Main Campus)	62,815
University of St. Thomas	3,673
University of Texas Health Science Center at Houston	4,489
University of Texas Medical Branch at Galveston	3,012
Other Institutions	135,716
Total University & Community College Enrollment	292,518

Source: Greater Houston Partnership, 2013

(iii) Churches

The greater Katy area has in excess of 60 formal places of worship reflecting numerous faiths and denominations, and so the Market Area is considered well-served.

(iv) Shopping Facilities

A rural aesthetic character is considered an amenity to a development featuring a minimum lot size of one acre, however this does entail some remoteness from existing shopping facilities. The nearest retail providing

neighborhood-level services is located in the City of Katy, about four miles to the south of the District. Also within the City of Katy is the ‘Old Town’ shopping district, which is centered on the town hall and is known for specialty shops, hardware, antiques, and arts and crafts.

There are numerous shopping centers that serve communities in the District’s Market Area. The largest cluster of shopping centers is situated approximately five miles south of the District along the south side of Interstate 10 between Pin Oak Rd. and Katy-Fort Bend Rd., and this cluster is anchored by the Katy Mills Mall. Katy Mills is a 1.3-million-square-foot enclosed and air-conditioned shopping mall with approximately 175 stores. Its largest anchors are Bass Pro Shops, Burlington Coat Factory, and AMC Theatres; however there are also thirteen mid-tier anchors, mostly outlet stores. The outlet stores at Katy Mills have made it a popular destination for shoppers from throughout the Houston MSA. Bookending Katy Mills to the east and west, respectively, are two new retail/entertainment centers: 1) Katy Ranch Crossing, a 129-acre multi-use development anchored by The Main Event, and; 2) Katy Main Street, an 85-acre mixed-use center anchored by an HEB Grocery store. In between these are numerous parcels of land that are steadily being utilized for shopping centers, freestanding big box stores and restaurants, hotels, and office buildings mostly for professional service providers.

The Grand Parkway is a long-anticipated road project that has only recently been completed. It bisects Interstate 10 approximately one mile east of Katy Mills and has become the impetus for new retail development nearby, including an Academy Sports & Outdoors, a Costco, a JCPenney store, and a Cinemark 19. A 124-acre site at the northeast corner has been purchased recently by Parkside Capital, which is marketing the site as Verde Parc, and will likely develop as a large mixed-use project.

Further east along Interstate 10 and within Houston’s urban core is located a full array of world-class shopping and entertainment venues.

(v) Police and Fire Protection

Police, fire fighting, and EMS services are provided by the City of Katy.

(vi) Municipal and Recreational Amenities

The Houston MSA comprises one of the nation’s largest cities and offers recreational amenities that are commensurate with its size. Internationally-acclaimed performing arts organizations such as the Houston Ballet, Houston Symphony Orchestra, and Houston Grand Opera call downtown Houston their home. The Houston Livestock Show & Rodeo is the world’s largest and lengthiest event of its kind and is immensely popular. Sports teams include the NFL’s Houston Texans, the MLB’s Houston Astros, the NBA’s Houston Rockets, and the MLS Houston Dynamo. Beaches, bays, and marshlands along the Gulf Coast, as well as inland rivers and lakes, are near enough to be accessed in a day trip and offer numerous opportunities for boating, sport fishing, and family activities.

Numerous public and private recreational amenities are accessible to the market area, including:

- The Katy City Park, directly across Avenue D from the primary entrance to Falls at Green Meadows, is a municipal park that offers two tournament-sized baseball fields, two tournament-sized softball fields, state

of the art sports lighting systems, a soccer field that can also be used for flag football, a covered tri-court basketball pavilion, and European-style handball courts. Also a feature is the “Katy Play Station”, the largest playground catering to multiply-impaired and profoundly deaf children in the State of Texas.

- The 32-acre Mary Jo Peckham Park adjoins the Katy City Park and a City of Katy Dog Park, is operated by Harris County, and features a large lake and fishing pier, miniature golf and disc golf, picnic and barbeque areas, jogging trails, and an indoor pool and exercise facility.
- The 100-acre Katy Park, at Katy – Fort Bend Road and Morton Road, also operated by Harris County, features 16 baseball diamonds and 14 soccer fields of every size and configuration.
- The 232-acre Paul D. Rushing Park, at Katy Hockley Road and Katy Hockley Cut Off Road, operated by Harris County, features numerous lakes connected by prairie marsh. Trails have been developed through the marsh as birding observation trails. The park also features six baseball diamonds of various size, a cricket field, a dog park, playgrounds, and picnic facilities.
- The George Bush Park features an equestrian area, biking trails, shooting ranges, model airplane parks, dog parks, trails, and soccer and baseball fields on 21,000 acres of land.
- The Great Southwest Equestrian Center is home to local and regional competitive equestrian events, has five covered arenas, four outdoor arenas, stalls for up to 1,000 horses, seating for up to 4,000 people in the main show complex, and a 5,000-square-foot arena club in addition to concession stands, office space, and vendor areas.
- The Alkek Velodrome is one of only about 20 velodromes in the United States, is the site of Olympic biking events and Texas State championships. Katy is also the starting place of the BPMS 150, a Houston-to-Austin charity ride participated in by 12,000 riders each year.
- Katy ISD itself provides for the possibility of community-based recreational diversions. The Katy Tigers have won five state 5A football championships and are perennial top contenders. The school districts’ facilities are similarly prolific. The Leonard E. Merrell Center is a 7,200-seat multi-purpose arena built in 2005. It hosts the Southland Conference Men’s and Women’s Basketball Tournaments, concerts, shows, banquets, high school basketball events, and graduation ceremonies. Nearby is the L.D. Robinson Pavilion & Rodeo Arena, which hosts the annual KISD FFA Livestock Show and Open Pro-Rodeo.

(E) Population Growth Trends

(i) Historic Growth

Small communities within the Market Area including Katy, Brookshire, Simonton, Fulshear, and Addicks grew up along the railroads that fed into Houston, and became hubs for agriculture, occasionally benefiting from a nearby oil find.

The Market Area overlays an ecological zone widely referred to as the “Katy Prairie”. This region is comprised of generally flat and flood-prone land that saw little development aside from small-scale farming and ranching operations beginning around 1870 until improvements in agricultural technology in the 1950s and 1960s enabled the region to transition toward large-scale rice cultivation. As Houston exploded outward in the oil boom years of 1978 to 1983, approximately 100,000 acres of the Katy Prairie were developed in a commuter-driven model of development; and then as a legacy of the oil bust that followed, many of these developments have only recently been completely built out.

The commuter demand model has again strengthened in recent years; however it now also reflects that a growing proportion of regional employment is located in the suburbs, where commuting patterns are increasingly suburb-to-suburb and exurb-to-suburb. This, coupled with recent freeway construction and expansion and excellent perceptions regarding the quality of public schools in Katy ISD, has allowed new housing to successfully be marketed in exurban and rural locations far from the region’s urban core. Consequently, population growth has accelerated rapidly in the vicinity of the District.

Population within the Market Area grew from 137,751 to 260,714 between the 2000 Census and the 2010 Census, a breathtaking increase of 182.0%. This rate of growth compares very favorably with the rate of growth over the same period of time for the Houston MSA as a whole (26.2%).

Comprehensive residential construction and sales/absorption data are available between the full years 2002 through 2013. In this span of time, 382,573 single-family homes and 137,654 multifamily apartments were constructed throughout the Houston MSA according to MetroStudy and O’Connor & Associates respectively, totaling 520,227 housing units. Construction in the Market Area accounted for 38,610 single-family homes and 10,457 multifamily apartments, for a total of 49,067 housing units. ***The share of all new housing construction in the Market Area was 9.4% during the 2002 through 2013 period*** and had improved to 11.0% of the regional total as of 2013. Although vacancy has varied over this span of time, the market is presently stable and it is reasonable to assume that a long-term economic vacancy rate is being reflected by this data set.

(ii) Population and Housing Projections

Projections of population growth and household creation for the region and the Market Area (as delineated on page 11) are illustrated in the table on the following page. The table is based primarily on the second quarter 2014 revision of the Houston-Galveston Area Council’s 2010-2040 regional eight-county forecast. This forecast is deemed excellent at the regional scale, as it is recently updated, provides a long-term time horizon, and has historically been found to have better predictive ability than the next best forecast, issued by PCensus.

PCensus is a reseller of Claritas, Inc. demographic estimates and forecasts. The PCensus software incorporates and extrapolates from the most recent Census estimates and enables the analyst to perform a demographic analysis of the precise boundaries of the Market Area. It is considered more practical for accurately estimating the number and composition of households in the Market Area in 2000 and 2014; however its predictive capabilities are limited in scope and methodology and are not suitable for use.

CDS has used H-GAC figures for the regional forecast and has used PCensus to establish the base years of 2010 and 2014 within the Market Area, then utilized the Market Area's 2002-to-2013 share of new construction (discussed on page 22) in order to allocate the Market Area's share of forecasted regional growth. Population is projected forward at 3.07 persons per household based on the 2014 PCensus estimate. The key finding of this forecast is the prediction of a significant net gain in households in the remainder of the current five-year period (2014 to 2019) and in the following five-year period (2019 to 2024).

H-GAC Demographic History and Forecast

	2010 Census	2014 Estimate	2019 Projection	Growth	2024 Projection	Growth
HOUSTON MSA						
Population ¹	5,809,900	6,326,131	6,959,301	+ 633,170	7,585,811	+ 626,510
Households ¹	2,049,678	2,270,403	2,514,615	+ 244,212	2,763,293	+ 248,678
Employment ¹	2,742,878	3,018,072	3,262,629	+ 244,557	3,490,534	+ 227,905
MARKET AREA (9.4% share, household creation) ³						
Population	260,714 ²	297,591 ²	368,007	+ 70,416	439,770	+ 71,763
Households	85,601 ²	96,916 ²	119,872	+ 22,956	143,248	+ 23,376

Sources: Houston-Galveston Area Council (1), PCensus for ArcView 2014 (2), and CDS Market Research

The following table illustrates the mix of housing in the Market Area and the Houston MSA as a whole. The table illustrates that the vast majority of housing units (78.3%) in the Market Area are comprised of detached single-family housing. These figures are considered to be preferable to the construction data cited on page 22, as they include small apartment projects, mobile homes, trailers, and other types of housing that are not included in the construction counts.

2014 Estimated Housing Units by Units in Structure

Housing Unit Type	Market Area		Houston MSA	
Total Units	102,021		2,445,527	
1 Unit Attached	1,801	1.8%	78,480	3.2%
1 Unit Detached	79,878	78.3%	1,533,527	62.7%
2 to 4 Units	1,540	1.5%	91,449	3.7%
5 to 19 units	9,203	9.0%	356,817	14.6%
20 to 49 Units	4,205	4.1%	104,617	4.3%
50 or More Units	3,698	3.6%	155,480	6.4%
Mobile Home or Trailer	1,696	1.7%	122,255	5.0%
Boat, RV, Van, etc.	0	0.0%	2,902	0.1%

Source: PCensus for ArcView 2014

(F) Housing Demand Projections

The following presents the calculated demand for single-family housing units in the Market Area based on the forecast illustrated on page 23.

New Dwelling Unit Demand Derived from H-GAC Forecast

Market Area 2000 – 2024

	2000	2010	2014	2019	2024
Households	45,299	85,601	96,916	119,872	143,248
Net Gain, Households		40,302	11,315	22,956	23,376
Percentage Single-Family		78.30%	78.30%	78.30%	78.30%
Single-Family Demand		31,556	8,860	17,974	18,303
Average Annual Single-Family Demand		3,156	2,215	3,595	3,661

Source: Houston-Galveston Area Council, PCensus for ArcView 2014 & CDS Market Research

(G) Annual Housing Absorption

The current land use plan for the District is indicated on page 2. The price of homes sold within the District is estimated to average \$360,000. This price point for product subject to the First Bond Application is competitive and in line with those established for similar product within the Market Area.

The table on the following page presents a five-year history of new single-family home absorption (closings) in the Market Area by subdivisions currently and previously active. The data is current through the first quarter of 2014. Closings within subdivisions were allocated to the various price segments based on documented minimum and maximum home prices documented for each subdivision.

Single-Family Home Sales by Price Segments in the Market Area

	YE 1Q 2010	YE 1Q 2011	YE 1Q 2012	YE 1Q 2013	YE 1Q 2014	2.5-year 3Q12- 1Q14	5-year 2Q09- 1Q14
SUBTOTAL Up to \$180,000	868	613	476	519	533	1,256	3,009
MARKET SHARE	30.2%	22.9%	18.2%	15.7%	14.2%	15.3%	19.8%
SUBTOTAL \$180,001-\$280,000	1,017	865	776	988	1,139	2,470	4,785
MARKET SHARE	35.4%	32.3%	29.7%	29.8%	30.3%	30.0%	31.4%
SUBTOTAL \$280,001-\$425,000	456	511	879	1,171	1,307	2,911	4,323
MARKET SHARE	15.9%	19.1%	33.6%	35.3%	34.8%	35.4%	28.4%
SUBTOTAL \$425,001 and Above	532	685	484	636	774	1,596	3,110
MARKET SHARE	18.5%	25.6%	18.5%	19.2%	20.6%	19.4%	20.4%
GRAND TOTAL	2,872	2,674	2,615	3,313	3,753	8,232	15,227
ANNUAL SHARE OF 5-YEAR SALES	18.9%	17.6%	17.2%	21.8%	24.6%	54.1%	100.0%

For the five years ending in the first quarter of 2014, 104 subdivisions were identified as having been actively selling homes within the Market Area. These subdivisions span all phases of the development life cycle; some have been built out or are have completed their marketing cycle and are winding down; others are starting or are in the midst of the cycle. Given the diversity of housing price ranges in the Market Area and the developer's intention to offer housing at particular price points, four price segments were defined for this analysis. The segments are "Up to \$180,000", "\$180,001 to \$280,000", "\$280,001 to \$425,000", and "\$425,001 and Above." The "280,001 to \$425,000" and "\$425,001 and Above" segments are those in which planned housing within the District shall compete.

The data indicates buyers have a reasonably diverse set of choices for their housing, and that subdivisions offer housing product over a wide price range. The acceptance of the Market Area to new housing is readily apparent when looking at the overall number of home closings. A total of 15,227 units were absorbed in the Market Area over the past five years. The annual average number of home closings in the CMA over the past five years is 3,045. This figure was very closely in line with the annual rate of single-family household creation that is derived from the H-GAC forecast for the period from 2010 to 2014.

The 3,753 single-family closings over the past four quarters have exceeded those of all prior year-long periods; and in the most recent quarter for which data is available, the annualized rate of closings was 3,508. The average annual rate of single-family household creation derived from the forecast for the 2014 to 2019 period is 2,082 households. Barring the possibility of a significant economic disruption, it would seem that the Market Area is poised to significantly outperform the forecast in the near future. However, that there have been several good years that have outperformed the forecast *should not* be construed to imply that a correction is necessarily on the horizon.

Throughout the market area, the supply of vacant developed lots is significantly reduced from pre-recession levels, is subject to healthy levels of takedown by builders, an increase in the inventory of new homes is in line with an increase in consumer demand, and those persons that have been able to purchase a home since that time are far more creditworthy than those homeowners that had preceded them and that had caused a glut of foreclosures to compete for new home sales. Moreover, the regional economy has proven resilient and – although it may slow down – it is unlikely to go bust in the near future.

Within the price segments for the development covered within the District by the First Bond Application (“\$280,001 to \$425,000” and “\$425,001 and Above”) there were 7,433 homes closed within the last five year period, accounting for 48.8% of home sales for the entire Market Area. These segments have been able to capture an increasing share of the market over that time, shifting from 34.4% of all closings five years ago to 55.4% of all closings over the prior year. In absolute terms, the number of homes sold in these price segments each year over the prior five years has more than doubled.

It is important to note some caveats in using the source material for the table on page 25. One, the single-family closings data is collected and published quarterly with analysis being performed according to only most recent reported price ranges for each subdivision. Two, housing price ranges used within this report are deemed reliable but may vary due to publication time lag or variances among a builder’s marketing materials on-site versus on-line publications. These variances should be considered a normal occurrence due to gaps in time between when one set of data is collected and another set is collected and different methods of obtaining information. Three, the single-family home closings data is collected and published generally by subdivision and sometimes by lot width within a subdivision; it does not publish data on a section by section basis within a subdivision, a procedure that would offer greater detail going forward from one quarter to the next.

(H) Platting Activity

Single-family housing development has strongly rebounded in the Market Area since the trough of the recession, in the first quarter of 2009; comparing then to the present, the number of quarterly construction starts has tripled and inventories of vacant developed lots have been reduced by approximately one third. Inventories of unsold homes have risen, however at a rate that is commensurate with the increase in demand. That there is activity throughout the single-family housing supply chain signals a largely stabilized housing market.

The following table presents data about future platting and development activity in select subdivisions. The 20 subdivisions indicated herein have a sum total of more than 5,654 vacant developed lots or planned future lots. These subdivisions (and the District itself) account for 79% of all vacant developed lots and planned future lots known to CDS.

Single-Family Lot Platting Activity and Inventories

Market Area, Excluding Built-Out Subdivisions

Subdivision Name	Subd. Status	Small Lot Size	Large Lot Size	Homes Sold or U/C	VDL	Future Lots	Total
Cross Creek Ranch	MPC	50	90	1,349	351	247	1,947
Cane Island	Future	0	0	0	0	535	535
Firethorne	MPC	50	110	2,108	377	63	2,548
Cinco Ranch NW	MPC	55	90	434	180	219	833
Raintree Village	Act 3Q81	45	55	1,357	26	369	1,752
Katy Oaks	Act 3Q13	50	50	50	40	321	411
Trails of Katy	Future	60	60	0	0	330	330
Waterstone	Act 1Q08	45	60	483	72	215	770
Reserve at Katy	Act 2Q13	75	85	26	58	221	305
Morton Creek Ranch	Act 1Q08	45	60	441	74	172	687
Barkers Trail	Act 3Q13	45	45	15	74	154	243
Churchill Farms	Act 1Q12	50	70	361	178	29	568
Pine Mill Ranch	MPC	45	80	1,576	145	57	1,778
Green Meadows/Falls	Act 1Q13	70	70	26	94	102	222
Cinco Ranch SW	MPC	45	100	1,185	148	34	1,367
Westlake	Act 2Q13	70	80	59	77	96	232
Marshall Oaks	Act 4Q13	65	65	12	80	84	176
Lakes at Mason Park	Act 2Q06	45	50	328	40	108	476
Silver Ranch	Act 2Q07	50	65	726	143	0	869
Katy Trails	Future	50	50	0	0	141	141
All Others (30 Subdivisions)	--	--	--	5,734	887	648	7,269
Single-Family Totals	--	--	--	14,495	3,044	4,145	23,459

* Only currently-active and future sections of the subdivision are included for Master Planned Communities (MPCs).

(I) Active Housing Projects

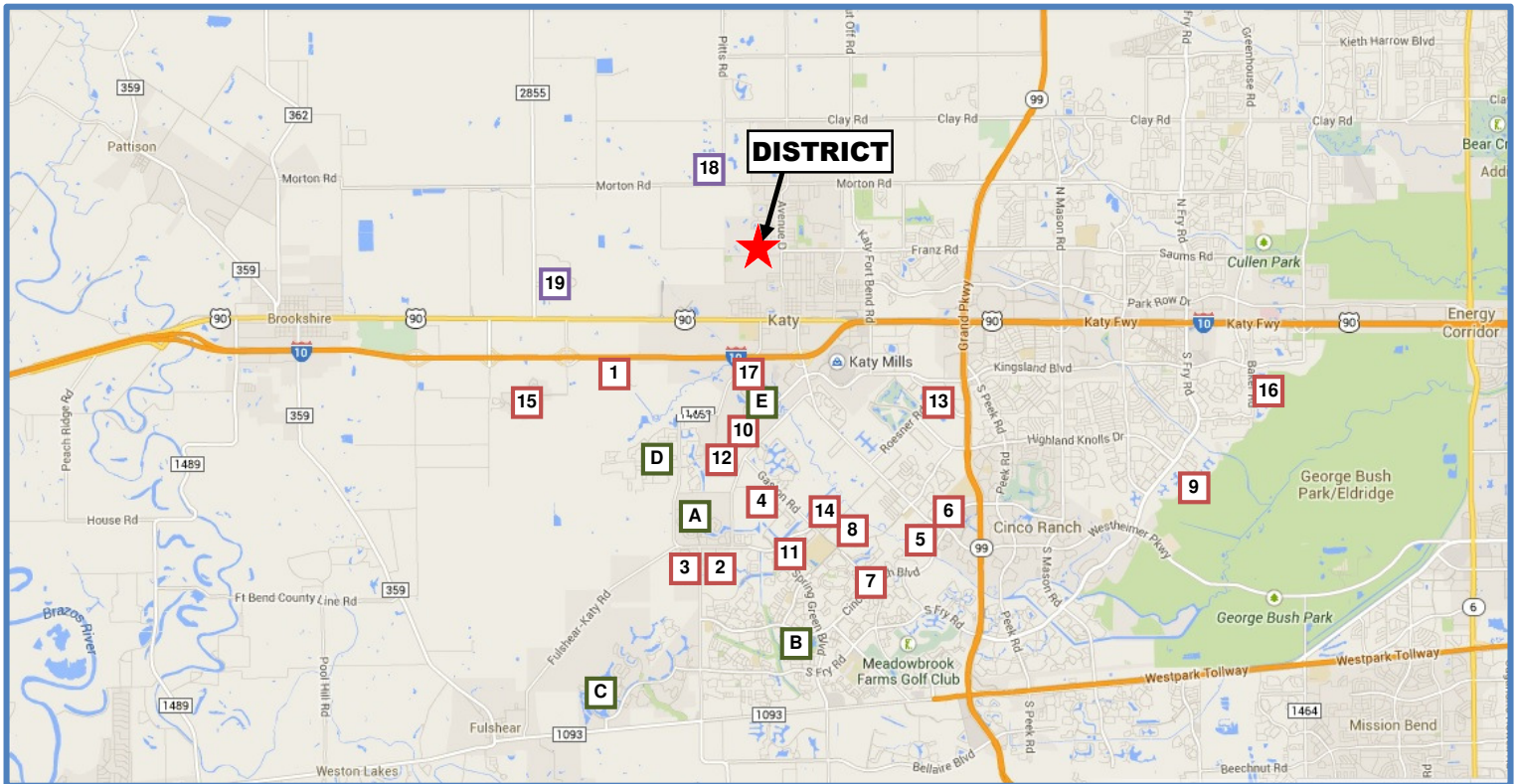
Detailed information on selected active competitive single-family housing projects located in the defined Market Area is presented in the following table. The subdivisions represent each of the master-planned communities (but only the active sections) and the top stand-alone subdivisions competing within the relevant price segments (“280,001 to \$425,000” and “\$425,001 and Above”). The two acreage subdivisions that offer lots for sale to consumers in the Market Area are indicated on the map however are intentionally excluded from market data.

Although some of these subdivisions are far along in their development cycle, others are expected to offer the primary competition for the housing product within the proposed District. The table also highlights the inventory of homes under construction and vacant developed lots as of the first quarter of 2014. It is important to note that all of the active master-planned communities have a very limited inventory of homes, vacant lots, and land for future lot development available to them. At current rates of market demand, each master-planned community will be completely built out within three years. The map on page 29 displays locations of these projects.

Selected Active Subdivisions

Subdivision	Lot Width (feet)	Lowest Price (\$1,000)	Highest Price (\$1,000)	Builders	Single-Family Inventory	Vacant Developed Lots	YE 1Q 2014 Closings
Cinco Ranch NW (MPC)	55 - 90	\$277	\$911	Highland/Village/Weekley/Perry/Trendmaker, et al.	149	180	214
Cinco Ranch SW (MPC)	45 - 100	\$0	\$1,179	Village/Weekley/TaylorMorrison/Chesmar, et al.	152	148	514
Cross Creek Ranch (MPC)	50 - 90	\$179	\$1,200	Highland/Lennar/Newmark/Trendmaker, et al.	200	351	471
Firethorne (MPC)	50 - 110	\$146	\$700	Coventry/Ashton Woods/Highland/Custom, et al.	136	377	364
Pine Mill Ranch (MPC)	45 - 80	\$163	\$608	Newmark Homes/TaylorMorrison/Perry, et al.	154	145	369
Anserra	47 - 60	\$215	\$338	KB Home	4	110	0
Cardiff Ranch/Cnyn. Lakes	60 - 75	\$257	\$492	Beazer/Meritage/Westin Homes	47	65	68
Churchill Farms	50 - 70	\$200	\$436	Beazer/Taylor Morrison	142	178	158
Green Meadows/Falls	70 - 70	\$313	\$380	Lennar/Meritage	26	94	0
Hawks Landing	50 - 65	\$194	\$360	CastleRock Builders/Gehan Homes	68	104	109
Katy Creek Ranch	45 - 83	\$182	\$280	Legend/Princeton Classic/CastleRock Bldrs	14	4	75
Katy Creek Ranch/Estates	83	\$520	\$628	Princeton Classic Homes	7	6	3
King Lakes	50 - 70	\$180	\$356	Pulte/Centex	27	24	115
Marshall Oaks	65	\$460	\$545	DR Horton	12	80	0
Parklake Village	90	\$500	\$1,500	Custom	4	4	4
Reserve at Katy	75 - 85	\$439	\$521	Toll Brothers	22	58	4
Silver Ranch	50 - 65	\$160	\$360	Brighton Homes/Meritage/Weekley/J Patrick	106	143	114
Spring Green/Avalon	70 - 80	\$413	\$593	Coventry/Taylor Morrison	15	51	0
Towns at Seville	35	\$246	\$289	DR Horton	32	72	3
Westlake	70 - 80	\$353	\$642	Meritage	57	77	2
Willow Creek Farms I & II	45 - 60	\$142	\$316	Ashton Woods/Ryland/Meritage/Westin	86	86	173
Windsor Park Lakes	55 - 85	\$461	\$1,200	Princeton Classic/Bill Clayton/Campise/Melrose	4	1	3
Woodcreek Reserve	75 - 90	\$257	\$800	Ashton Woods/David Powers/Lennar, et al.	20	40	49
All Others (17 subdivisions)					291	646	743
Totals					1,775	3,044	3,555

Selected Active Subdivisions Map



Master Planned Communities

- | | |
|----------------------|--------------------|
| A. CINCO RANCH NW | D. FIRETHORNE |
| B. CINCO RANCH SW | E. PINE MILL RANCH |
| C. CROSS CREEK RANCH | |

Standalone Subdivisions

- | | |
|------------------------------|-------------------------------|
| 1. Anserra | 10. Reserve at Katy |
| 2. Cardiff Ranch/Cnyn. Lakes | 11. Silver Ranch |
| 3. Churchill Farms | 12. Spring Green/Avalon |
| 4. Hawks Landing | 13. Towns at Seville |
| 5. Katy Creek Ranch | 14. Westlake |
| 6. Katy Creek Ranch/Estates | 15. Willow Creek Farms I & II |
| 7. King Lakes | 16. Windsor Park Lakes |
| 8. Marshall Oaks | 17. Woodcreek Reserve |
| 9. Parklake Village | |

Acreage Subdivisions*

- | | |
|-------------------|----------------------|
| 18. Lakes of Katy | 19. Remington Trails |
|-------------------|----------------------|

Section 4. Project Analysis

The land plan for the District anticipates an eventual total of 465 single-family lots.

(A) Location Factors

The District's land area is located wholly within the City of Katy, but is split between Harris County and Waller County; all of Section One, the area subject to this First Bond Application, is in Harris County. The District is situated along the west side of Avenue D and the north side of Franz Road, and is bounded on the west by Pitts Road and on the north by agricultural land and the Fawnlake subdivision. The District is located approximately 28 miles west of Houston's Central Business District.

The District is in the historical path of residential development in a Market Area that has strong commuter-driven ties to Houston. The completion of the Katy Freeway expansion and of Segment E of the Grand Parkway has significantly reduced commute times; and in addition, numerous new employment opportunities are now available within west Houston and Katy itself, having the effect of increasing the desirability of exurban and even rural locations west of Houston.

(B) Serviceability Evaluation

(i) Transportation Access to the Project

As discussed above, businesses and residents of the District will have excellent access to all of Houston's employment centers by means of Interstate 10, State Highway 99, Beltway 8, and Interstate Loop 610. These freeways connect the District and neighboring commercial and residential areas to the vast highway and street network of the Houston MSA and all of the communities therein.

Future segments of State Highway 99 (the "Grand Parkway") are under construction that will provide improved suburb-to-suburb connectivity between the District and employment centers in northwest Harris County, Spring, The Woodlands, and Kingwood; other segments are planned but not yet funded that would extend the road from Sugar Land to Alvin and League City.

(ii) Utility Access

Electricity and natural gas are provided to residents of the District by Centerpoint Energy. Water service and wastewater treatment plant capacity is provided by the City of Katy. Stormwater drainage is provided on-site by way of curb-and-gutter systems to detention basins owned by the District, with feed into natural streams and waterways.

(C) Proposed Lot and Housing Sales

All residential lots will be sold to homebuilders for the construction of single-family residential housing. Builders will build houses speculatively and then sell to the general public as is typical of most subdivisions.

(D) Subject Property Amenities

Community amenities will include a recreation center with a pool and playground on 1.34 acres, walking trails, and numerous lakes. In addition, Katy City Park is located directly across Avenue D from the District.

(E) Project Construction Schedule

(i) Utility and Street Construction

Site preparation, drainage excavation, utility construction and infrastructure, street construction, and paving are complete in Sections 1 and 3, are under construction in Sections 2 and 5, and will continue at a pace commensurate with market demand for single-family lots.

(ii) Commercial Facility Construction

No land shall be allocated for commercial development or use within the District.

(iii) Construction of Housing Units

There are 66 lots included within this First Bond Application. As of August 31, 2014, 117 lots had been developed within the District of which houses have been built or are under construction on 58 of these lots; an additional 348 lots will be developed in future sections.

(F) Projected Absorption Rate

From the table on page 24 we see that the housing demand forecast derived from H-GAC data indicates new annualized single-family demand should total approximately 3,595 for the five year period from 2014 to 2019 and 3,661 from 2019 to 2024. Actual home sales in the Market Area have averaged 3,045 annually over the past five years and closed 3,753 homes over the prior year with a still-accelerating rate of closings. Given the severe economic headwinds of the first part of the five-year period and the recent trajectory of sales, the projected future demand for the Market Area appears to be reasonable and achievable. However, it remains plausible that new home sales should decline if large master-planned communities are built out and are not replaced. In that instance, smaller subdivisions should be expected to capture a larger share of a slightly – and perhaps only temporarily – diminished market.

Projected Single-Family Demand in Market Area

Period	Average Annual Sales	5-year Expected Demand
2014-2019	3,595	17,974
2019-2024	3,661	18,303

Site share analysis for potential single-family closings at in the District is presented in the table below. Note that the absorption levels projected for the subject property represent homes sold and closed, not just homes constructed.

In the opinion of CDS Market Research, the planned lots within the District have the potential to capture a reasonable share of single-family home closings in the Market Area. The following table quantifies the share of market that the District is projected to capture over the period for the remainder of 2014 to 2024 period for the housing product being offered in the “\$280,001 to \$425,000”, and “\$425,001 and Above” price segments.

Using this analysis, home closings are expected to occur at a pace averaging 93 per year, with build-out of the 465 lots and houses occurring in approximately five years at or around the cusp of the second five-year period.

Illustrative Single-Family Site Share Analysis, 2014 - 2024

	2014-2019	2019-2024	All 10 Years
Total Forecast Single-Family Demand Market Area	17,974	18,303	36,278
Demand – \$280,001 to \$425,000 Price Segment @ 35.4%	6,363	6,479	12,842
Potential District Absorption (70%)	325	0	325
Expected Site Share <i>Competitive Price Range</i>	5.11%	0.00%	5.24%
Site Share of <i>Total</i> Single-Family Demand	1.81%	0.00%	1.85%
Demand - \$425,000 and Above Price Segment @19.4%	3,487	3,551	7,038
Potential District Absorption (30%)	140	0	140
Expected Site Share <i>Competitive Price Range</i>	4.01%	0.00%	4.07%
Site Share of <i>Total</i> Single-Family Demand	0.78%	0.00%	0.79%
Total Potential District Absorption	465	0	465
Indicated Site Share <i>Overall in Competitive price segments</i>	4.72%	0.00%	2.34%
Total Site Share of <i>Total</i> Single-Family Demand	2.59%	0.00%	1.28%

(G) Tax Rates

The 2013 tax rate for the District is \$0.95 per \$100.00 of assessed valuation. Other taxing entities in that portion of the District that is within Harris County will include Katy Independent School District (\$1.53), Harris County (\$0.41), Harris County Flood Control District (\$0.03), Port of Houston Authority (\$0.02), Harris County Hospital District (\$0.18), Harris County Education Department (\$0.01), and the City of Katy (\$0.57) so that the total tax levied annually is \$3.68 per \$100 of assessed valuation. In the portion of the District that is within Waller County, the taxing entities are the Katy Independent School District (\$1.53), Waller County (\$0.66), and the City of Katy (\$0.57) so that the total tax levied annually is \$3.70 per \$100 of assessed valuation.

The following table presents a list of the 2013 total tax rates for selected active subdivisions within the market area. The data indicates that the projected tax rate for the District falls within the range of what is considered reasonable for new development within the market area.

Selected 2013 Property Tax Rates

Subdivision	Total Tax Rate/\$100 Value
Morton Creek Ranch	\$3.75
Morton Creek Trails	\$3.75
Morton Ranch	\$3.60
Stone Crest	\$3.45
Waterstone	\$3.60
Willow Creek Farms	\$3.65

Sources: Harris County Appraisal District, Fort Bend Central Appraisal District, and Waller County Appraisal District

Section 5. Assumptions and Conclusions

(A) Assumptions

In order to draw meaningful conclusions, it was necessary to make certain assumptions. The following contingencies and limiting conditions are noted as fundamental, in the way they might affect the validity of the analysis and, thus, the conclusions reached in this report:

1. All information contained in the report, while based upon information obtained from the client and other sources deemed to be reliable, is in no way warranted by CDS Market Research;
2. The Metropolitan Area, the State, and the Nation as a whole will not suffer any major economic disruption during the time period under consideration;
3. Population will continue to increase at or above the rate forecast;
4. The basic sources of statistical data and estimates used in this analysis are sufficiently accurate to be useful for planning purposes;
5. The development will continue to be promoted and managed in a manner that will have adequate impact on the regional and local markets;
6. Lots will be developed within the District in a timely manner and home builders will continue to actively market and build home in the development; and,
7. All references to dollar amounts are stated in terms of the 2014 value of the U.S. dollar unless otherwise stated. Projections are not adjusted for possible changes in these values due to inflation or deflation.

Radical changes in factors affecting the major assumptions noted above could alter the conclusions reached in this analysis or necessitate the re-evaluation of portions of this report.

(B) Observations and Conclusions

As discussed in the text of this report, historic and projected population growth, single-family development and absorption activity, area employment trends and competitive projects were analyzed in our investigation of the market potential for single-family housing within the HWCMUD No. 2. With respect to this analysis, the following conclusions are significant:

1. The District is located along the county lines of Harris County and Waller County, in the far western sector of the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA). The City of Houston is the hub and the main economic force for the region. The District is accessible from Avenue D or Franz Road and is bounded by single-family development and agricultural land.

2. Robust economic and residential growth within the Houston MSA and the accessibility of the Market Area to employment and activity centers within and beyond it will encourage residential, commercial, and industrial development. The desirability of the Market Area in terms of the availability of adequate public services and infrastructure, and of the District in terms of its amenities, will ensure that the District remains desirable to prospective homeowners.
3. Subdivisions covered by the First Bond Application will offer housing for sale in the “\$280,001 to \$425,000”, and “\$425,001 and Above” price segments. Our analysis indicates that housing products in the First Bond Application are in-line with demonstrated demand in the competitive Market Area. Subdivisions similar to the District in terms of character and price have experienced market success offering housing within these price segments and will continue to offer similar housing products.
4. Evaluation of the “Single-Family Home Sales by Price Segment in the Market Area” on page 25 indicates that the price segments for housing in this First Bond Application accounted for 48.8% of total closings in the Market Area during the prior five-year period.
5. Single-family absorption projections for the District call for average absorption of 93 homes per year over the first five years, reflecting a market share of 4.72% within the targeted price segments, or a share of all closings in the Market Area of 2.59%. These projections appear reasonable and achievable given the size of the community, the price points of housing products being offered, projected housing demand within the Market Area, and that all of the currently-active master-planned communities will be built out within the next several years.
6. The single-family absorption analysis, presented in the table on page 32, was independently calculated by CDS Market Research for this First Bond Application based upon examination of the District’s market potential as outlined within market study.
7. Our independent analysis of market demand suggests that there is sufficient market support for the development and sale of the proposed residential products to support a First Bond Application.

Section 6. Data Sources

Texas Department of Health, Bureau of Vital Statistics, Austin

Texas State Data Center, University of Texas – San Antonio

Houston-Galveston Area Council

U.S. Censuses of Population and Housing (1990, 2000 and 2010)

National Association of Homebuilders, Washington D.C.

The 2012 Book of Lists, Houston Business Journal

Lot Price Survey, Greater Houston Area, CDS Market Research, Houston

Greater Houston Hospital Council Directory, Greater Houston

Harris County Atlas, Key Maps, Inc.

Business Park Survey, Greater Houston Area, CDS Market Research, Houston

Institute for Regional Forecasting, University of Houston Center for Public Policy

Greater Houston Partnership

Katy Economic Development Council

Energy Corridor Management District

Harris County Appraisal District

Fort Bend Central Appraisal District

Waller County Appraisal District

PCensus for ArcView 2014

MetroStudy

O'Connor & Associates

Personal discussions with builders and developers

Qualifications of the Analyst



BRENDA G. PERSONS

Vice President



Years of Experience: 25

Education:

Bachelor of Business
Administration
University of Texas, 1985

Professional Licenses:

Licensed Real Estate Agent
Licensed Real Estate Appraiser

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Brenda joined CDS in 2008 bringing a diversity of experience to the team including Commercial Appraiser, Site Location Analyst, Portfolio Analyst, and CFO. As Vice President of CDS she is responsible for managing a wide variety of market feasibility and economic studies. Her work entails commercial retail/restaurants, business parks, general and medical office and various types of multifamily and single family housing demand studies. Brenda performs market planning and feasibility studies for private developers, investors, municipalities and local economic development entities.

She began her career at Weingarten Realty in 1985 as a Site Location Analyst. She assessed land acquisitions for market feasibility, financial feasibility, and business plan fit of new commercial developments. In 1988 at Bank One Corporation, she was a Portfolio Analyst of approximately 80 commercial properties held for disposition by the FDIC.

Her experience includes performance of over 400 appraisal assignments including multifamily housing, hotels and motels, urban/CBD office buildings, retail centers, industrial properties throughout Texas.

At CDS, Brenda has completed student housing planning and feasibility studies for privately developed and institutionally owned facilities.

Brenda is a member of the Houston Association of Realtors and Commercial Real Estate Women. She is also active in NAIOP, ULI and the International Council of Shopping Centers.

Examples of projects completed with CDS include:

LaCenterra Mixed Use Development – Assessment of market demand and support for Phase II. Research included consumer resident surveys, interviews with brokers/leasing agents/tenants, competitive supply analysis and comprehensive demographic buying power analyses.

Student Housing - Portland State University - - evaluated market potential and feasibility for proposed privately owned and operated off campus apartment style student housing facility in urban Portland. CDS provided recommendations for pricing, unit mix and amenities.

City of Tomball Business/Industrial Park – Conducted study of market opportunities to assist the City in planning and marketing a new park.

Livable Centers Studies – Provided wide-ranging market and economic research to planning teams working together to design Livable Centers.

Mid and High-rise Residential – Conducted market feasibility analyses determining demand, timing, mix and lease rates for proposed projects.

Mixed-use Development - Performed studies for planners, developers and land owners to determine the best market supported mix of uses.

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