

.....**EL PASO OVERVIEW**

The El Paso Area

The City of El Paso is located in the high desert of far west Texas on the north banks of the Rio Grande, the international boundary between Mexico and the United States. The city is strategically positioned on the common border of Texas and New Mexico as well, geographically centered on the southernmost spine of the Rocky Mountains which trace northwards through the State of New Mexico to Colorado. Christened “*El Paso del Rio del Norte*” (*The Pass of the River of the North*) by the Conquistador Don Juan de Onate in 1598, this historic crossroads of the New World has served travelers and merchants moving North-South and East-West along trade routes which have crossed North America for 400 years.



Accessibility to the city is considered excellent. The region is served by scores of regular route motor freight common carriers making efficient use of the intersecting Interstate 10 and Interstate 25 routes as well as two major highways: US 54 and US 62/180. Seventeen commercial and air-freight airlines operate at the El Paso International

Airport. Three railroads (*Burlington Northern-Santa Fe* and *Union Pacific* on the U.S. side, and *Ferromex* on the Mexican side) form an international rail system that reaches three Coasts (Gulf of Mexico, Atlantic and Pacific) and Southwards into Central America - even offering transcontinental Amtrak passenger service from the historic *Union Depot* in Downtown El Paso. Due to its strategic location, El Paso is a regional hub for a vast trade area sometimes referred to as the *Paso Del Norte Trade Area*.



Union Depot, El Paso - Architect Daniel Burnham. Built 1906 and Restored in 1982.

HEADLINE:

EL PASO: SAFEST LARGE CITY FOR SECOND YEAR RUNNING

&

2 BEST PERFORMING ECONOMY IN THE U.S.- EL PASO

El Paso was ranked in the top spots of two annual national rankings in 2011: the CQ Press' *Safest Large Cities* list (El Paso ranked #1 in the United States) and the Milken Institute's *Best- Performing Cities* index (El Paso ranked #2 in the country). Both rankings are based upon reports released in December 2011, which compare large metropolitan areas across the United States on a multitude of criteria.

Each year, *CQ Press* releases its ranking of U.S. cities with the highest and lowest crime rates, and for the second year in a row, El

Paso has been ranked the *safest city in the United States* with a population of more than 500,000. Since 1997, El Paso has never ranked outside of the nation's top three safest large cities.

The *Milken Institute's 2011 Best-Performing Cities* index ranks cities across the nation based on their ability to create and sustain jobs as well as on overall economic performance. Nine factors are considered in compiling the index including growth in jobs, wages, and technology-based performance over one-year and five-year periods. El Paso was ranked #9 in FY2010 - but moved up seven spots in the FY2011 report. The leading cities in this particular 2011 index are metropolitan areas which have succeeded amidst one of the worst world-wide economic declines in history.



The El Paso region is home to more than 2.6 million residents and comprises one of the largest bi-national metro areas in the world. Major engines driving the region's economy include military/defense, international trade and advanced manufacturing—with significant clusters in automotive, high tech consumer electronics, and medical devices. Expansion has continued at Fort Bliss since it nearly quadrupled in troop count as a result of the 2005 BRAC decisions, marking the largest net gains of any military installation in the country. El Paso is a major hub for trade and commerce, with more than \$71 billion (about 18%) of the total trade between the United States and Mexico passing through El Paso's international Ports of Entry in FY2010.

El Paso International Airport

The El Paso International Airport is one of the fastest growing and economically viable air transportation centers in the country. In 2004, it was ranked as the **6th Best North American Airport** by J.D. Power and Associates in their annual *Global Airport Satisfaction Index Study*. Due to El Paso's mild climate in the high deserts of the Southwest, the airport is virtually open year round. Its most advantageous feature is its accessibility, due to the convenient location very near the city's geographic and population center. Located one-half mile from both Interstate 10 and US 54 the airport properties are served by rail spurs and intermodal facilities. With a major remodeling and redecorating project of the terminal facilities just completed, it is the largest airport within a three hundred mile radius, containing 15 passenger gates in two concourses. It is served by eleven passenger airlines, including major carriers **Southwest, American, America West, United, Delta** and **US Airways**. In 2010, the airport handled slightly more than 1.5 million enplanements, up 0.9% from 2009, the 71st busiest airport in North America.

El Paso's air-freight services combined in 2011 to carry over 91,427 tons of freight through the airport's new state-of-the-art dedicated cargo facilities, a fully integrated transportation center second to none on the U.S.-Mexico border. This \$60,000,000 investment has resulted in the largest and most modern air cargo complex on the U.S. Mexico border. The new development includes two 144,000 square foot air cargo buildings, over 34 acres of aircraft parking and 6.4 miles of roadways, creating an economic magnet that attracts businesses interested in the region and establishing El Paso as the premiere Southern Border location for emerging U.S. - Mexico commerce. These new facilities are located on Global Reach Boulevard, within a hub of future industrial and commercial park development on the east side of the present El Paso airport complex, tailored to the "just in time" nature of US/Mexico trade.

Business travelers using the airport facilities are well served by the proximity of numerous top-quality hotels located in the immediate area: **Marriott, Hilton, Hawthorne Inn, Radisson Suites, Holiday Inn, Hampton Inn, Chase Suites, Homewood Suites** and **Embassy Suites**, to name a few. The new Tom Fazio-designed, award-winning

golf course will be joined by an adjacent destination resort hotel in the coming years. This *Butterfield Trail Golf Club* opened in 2007 and is located within the airport complex just north and east of the El Paso International Airport - adjacent to and preserving portions of the original historic Butterfield Trail route through El Paso to San Francisco. This City-owned Golf Club was rated one of the *Top 10 New US Golf Courses* in 2008 and chosen as one of Golf Week's *Top Municipal Courses* in 2010.

The El Paso International Airport is also one of the nation's leading airports in pioneering ancillary non-aeronautical land development. The Airport Lands support over 200 commercial businesses and industrial operations within the *Butterfield Trail Industrial Park and Foreign Trade Zone*, the *Butterfield Trail Air Cargo Center* and other projects abutting the airport. The Butterfield Trail Golf Club and the Lone Star Golf Club on Hawkins Boulevard are key entertainment and destination components of these 900 acres of fully developed, City-owned industrial and retail property. Users of these long-term ground-leased airport sites range from light manufacturing, warehouse-distribution and transportation operations to uses such as call centers, hotels, retail centers, offices and restaurants. The sites are leased from the City by end users as well as investor/developers. The ground leases contribute annual ground rental fees to the direct benefit and use of the El Paso International Airport, making this one of the best-financed and funded airports in the world. Operations are not dependent upon City of El Paso general operational budget constraints. The dynamics of this unique airport real estate sub-market are discussed later in the section on Real Estate Markets.

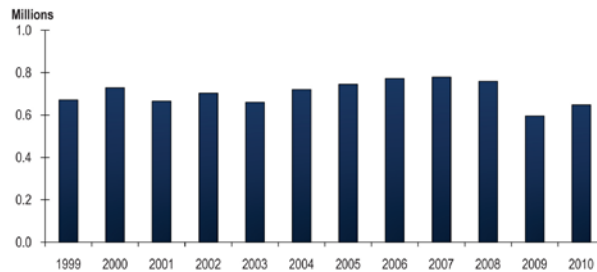
Regional Economy

The economic engine of the Paso Del Norte *metroplex* is driven first by the international synergy between the neighboring cities of El Paso, Texas and Juarez, Mexico and the manufacturing and consumption of goods and services by their respective national economies. It is a place where the "First World" and the "Third World" literally come together, sometimes with a grinding friction. International trade has been the forte of this region for most of its 400-year history. Enhancing and expanding on this base, in 1965 a group of Juarez business and civic leaders achieved a fundamental change in

Mexican law which allowed for the creation of the so-called “*maquiladora business*”, an in-bond manufacturing process that allows foreign ownership of the plants and equipment in a designated area along the Mexican border. This unique process has since been the model for similar off-shore manufacturing operations around the world. The significance of that local economic and political achievement cannot be understated. This one intellectual resource, refined by practice over the past 45 years, has broadened the influence of this region beyond the confines of the *Camino Real Corridor*, such that today many of the largest multi-national corporations have operations either in Juarez or El Paso (or both), training their personnel in international production sharing and benefitting from the economies of scale, strategic geographic location, lower overhead costs and wage rate differential found here at the Pass of the North.

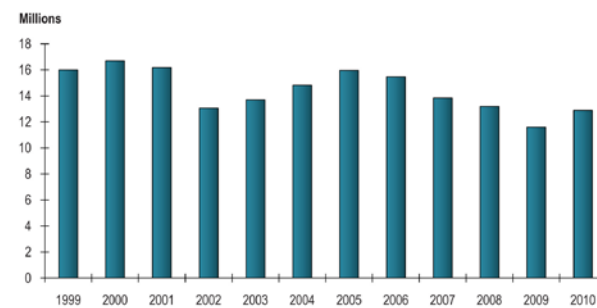
Indicators of the significance of this production sharing process on the US-Mexican border can be found in the UTEP and USDoT statistical charts below:

Northbound Commercial Vehicle Border Crossings
1999 to 2010, in Millions



Source: UTEP Border Region Modeling Project.

Northbound Passenger Vehicle Border Crossings
1999 to 2010, in Millions



Source: UTEP Border Region Modeling Project.

Top Five Ports by Percent Share of U.S.-Mexico Trade by Value (*Millions of U.S. Dollars*)

Port	2001	2002	2003	2004	2005	2006	2007	2008
Laredo, Texas	41.2%	41.1%	40.5%	41.0%	40.2%	39.4%	39.7%	40.8%
El Paso, Texas	18.8%	19.3%	19.8%	19.5%	18.5%	17.7%	17.6%	16.9%
Otay Mesa, California	10.0%	10.6%	10.1%	10.2%	10.5%	10.8%	11.0%	11.2%
Hidalgo, Texas	6.4%	6.6%	7.4%	7.3%	7.8%	7.6%	7.9%	7.8%
Nogales, Arizona	6.5%	5.6%	5.3%	5.5%	6.0%	7.2%	6.5%	6.7%

Source: U.S. Department of Transportation TransBorder Freight Data.

From 2009 to 2010, data from US Customs and Border Protection shows there was a 14.2 percent increase of northbound commercial truck traffic at El Paso’s Port of Entry, coming from the maquilas in Juárez to El Paso. In a May 2011 interview with DigitalJournal.com, Bob Cook, President of the El Paso Regional Economic Development Corporation said that the most significant regional economic indicator of all is the *import-export trade volume* in the El Paso district, which includes the Santa Teresa port just west of El Paso. In 2010, \$71.1 billion in trade went back and forth across the border in the El Paso district alone. Those 2010 figures are the largest since 2004, and represent a 46.7 percent increase over 2009 numbers. “As you look at other border locations, Juárez and El Paso’s *trade volumes* led the rest of the locations along the US-Mexico border”, said Cook.

Consumer consumption in El Paso has been studied carefully for many years by the *Institute for Policy and Economic Development* at The University of Texas at El Paso. Data released in 2004 by Denis Soden, the executive director of the Institute, indicates that consumer consumption accounts for approximately 58% of El Paso’s \$18.8 billion annual gross product, compared to the national average of 70% of gross U.S. domestic economic output. The regional manufacturing sector and the influence of a large government segment in the local economy both contributed to this lower consumption share for the private sector.

Consumer consumption generated 42% of El Paso’s private non-farm employment. Two regional malls, owned by Simon Property Group, anchor the Northwest and East Central regions of the community. The largest of these, Cielo Vista Mall in East Central El Paso, contains over 145 stores and 12 restaurants and is approximately 1.3

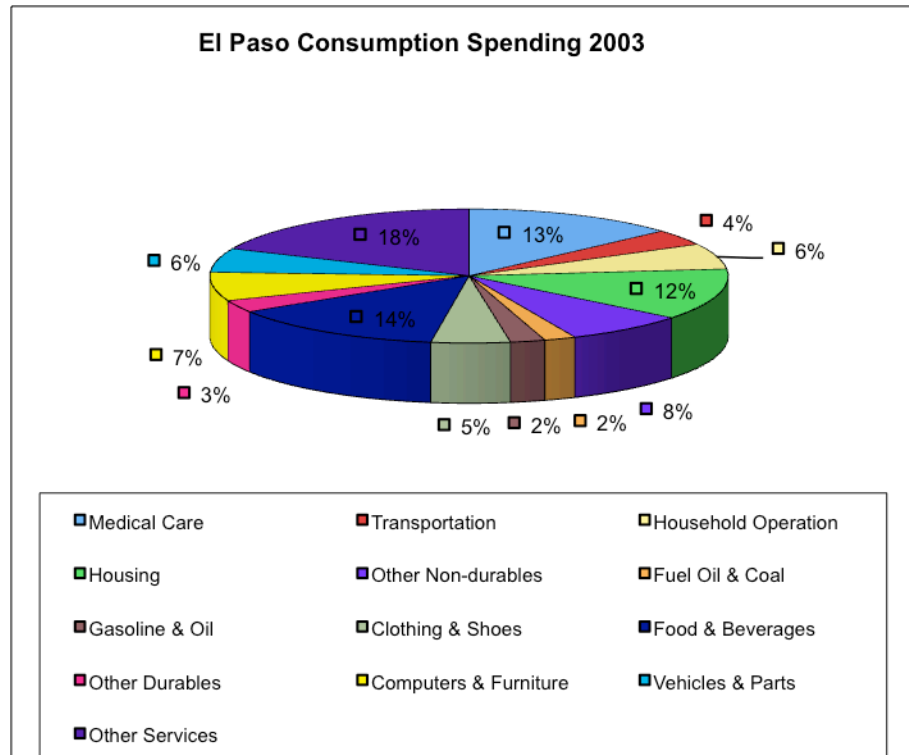
million square feet in size - accommodating more than 10 million shoppers from both sides of our border each year. Cielo Vista Mall went through a \$20 million renovation in 2005 and now features the region's first *Apple Store* and a *Macy's* department store. It and the city's first "mall", *Bassett Place*, are located in the single strongest retail sales area in the region, the 79925 zip code.

The 2012 income study by the El Paso Branch of the Federal Reserve Bank of Dallas, co-authored by Robert "Bill" Gilmer, noted that per capita disposable income was estimated at \$18,812 in 2000 and by 2010 increased to \$28,698 (per *U.S. Bureau of Economic Analysis*). This represents a strong regional income growth rate averaging 4% per year from 2001 to 2010, compared to the national per-capita income growth during that same period of only 2.8%. Attributing this positive trend to the region's role in international trade and commerce, Tom Fullerton a professor of economics at the University of Texas at El Paso recently was quoted saying, "*The interesting result that is highlighted by the Dallas Fed study is the role played by international commerce in income growth. To the extent that international trade continues to expand, there will be additional opportunities for more income improvement in future years.*"

Echoing this positive attitude, Bob Nachtmann, dean of the UTEP College of Business Administration said in an El Paso Times September 5th, 2012 article, "*The growing income trend is the brightest economic news for El Paso in years.*" That article also quoted Gilmer from the Federal Reserve as saying that the Fort Bliss expansion and the addition to the Texas Tech University Medical School played an important role in El Paso's income growth during the decade. Additional growth came from well-paid jobs created in finance, real estate and management tied to cross-border trade and manufacturing growth in Mexico.

El Paso income growth compares well with growth in personal income in other United States cities analyzed in a study of 2009 data published on the news website *Portfolio.com* by G. Scott Thomas, projects editor. In fact, that study found that El Paso:

- Saw its per capita income rise 212 percent from 1984 to 2009,
- Placed first in 13 of 25 key time frames studied for the report,
- Though *first in growth* of per capita income, the region had one of the historically *lowest levels of personal income*, giving confidence to the strong likelihood of continued steady per capita income growth.



Labor Force

The total El Paso civilian work force in March 2003 was estimated at about 330,900 with an unemployment rate of about 8.5%. By December 2011 that labor force was estimated at 325,200 with an unemployment rate of 9.3%. However, the El Paso *Labor Force Participation Rate* was lower, at 59%, than the averages for Texas (65%), New Mexico (60%) or the nation (64%). This could indicate a potential hidden labor supply related to our younger population relative to Texas, New Mexico or the United States. (See data and discussion on *Population* age ranges in that section below).

Major El Paso employers include banking, healthcare, retail trade, business services, electronics manufacturers, petro-chemical industries, school systems and government/military. Thousands of military and civilian personnel are employed by the combined defense and research facilities at Fort Bliss Army Center, William Beaumont Army Medical Center, White Sands Missile Range and the NASA White Sands Facility. As a result of the Base Realignment and Closure Act (BRAC) of 2005, Ft Bliss has experienced over a 300 percent increase in population and is undergoing over \$5 billion of facilities and infrastructure improvement. When expansion began in 2005 there were 9,300 soldiers permanently based at Fort Bliss, along with 15,300 family members. Officials estimate that by the end of 2012 there will be a total of 33,400 soldiers in five combat brigades and 58,000 family members either resident on post or in the surrounding El Paso neighborhoods. This growth is the equivalent of adding the population of a new, medium-sized city to the region.

The percentage of the total labor force employed in manufacturing peaked in 1981 with 42,900 jobs and has been declining since then to a current level below 18,000 jobs. This is a clear indication of the trend throughout the United States to move manufacturing jobs offshore - either across the border to Mexico, or even to Asia. Offsetting this decline, the service and trade industries have gained significantly. Total employment had shown a steady but slow increase since 1998, when the labor force was estimated at 296,389. The current labor pool of approximately 325,000 is dynamic, though having a higher unemployment rate as a result of the recent recession than in many previous years. Some sectors see the higher unemployment rate as a positive factor, though, indicating an available regional labor pool.

This positive take on the El Paso labor supply/market is reflected in the new February 2012 **Bureau of Labor Statistics** employment projections through 2020. That federal report listed El Paso as the **fifth best** metropolitan area (out of the 100 largest metro areas) for job growth. When combining employment projections with impact factors such as climate, education and density, the result is that the El Paso region is predicted to be the **third best** job creation market in the United States during the coming decade.

Higher Education

The *University of Texas at El Paso* has an enrollment of some 22,600 students, up 25% since early 2003. UTEP's six academic colleges (business administration, education, engineering, health sciences, liberal arts and science) offer 76 baccalaureate, 83 master degrees, and 16 doctoral programs in a broad range of academic fields.

New Mexico State University, just 40 miles north of El Paso in Las Cruces, serves approximately 18,500 students with 81 baccalaureate, 56 master and 24 doctoral degree programs.

The new *Texas Tech University Health Sciences Center at El Paso* (TTUHSC) opened the Paul Foster School of Medicine in 2009, a four-year research-focused institute which is the only medical school to be accredited in the United States in the last 25 years. It is also the only medical school located on the U.S.- Mexican Border. Focus will be on research in areas of regional interest including cancer, neurodegenerative diseases, infectious diseases, diabetes and obesity.

The *El Paso Community College* has five area campuses and an enrollment of over 30,000 each semester. The college offers 130 associate-degree and certificate-of-completion programs and more than 350 personal enrichment and continuing education courses to the Paso Del Norte community.

Both the University of Texas at El Paso and the El Paso Community College provide a large pool of managerial and technical specialists to local industry. These institutions, together with over twenty private trade schools and training institutions, have created programs in business, engineering and advanced technologies to complement the needs of the industries within the Paso Del Norte Trade Area. UTEP has established the *Institute for Manufacturing and Materials Management*, while the El Paso Community College boasts an *Advanced Technology Center*.

Finance

The El Paso metropolitan area has 14 banks with 71 branches and several credit unions serving the financial needs of the market, with \$4.269 Trillion in available Assets and \$2.86 Trillion in Deposits as of the end of 2011. Of particular interest has been the recent number of new, home-owned banks being chartered in the market. Most local financial institutions have had substantial gains in deposits in the last few years, some of that attributed to flight capital from Mexico. Represented in this market are: ***Wells Fargo Bank, Bank of America, JP Morgan Chase Bank, BBVA Compass Bank, Inter National Bank, Bank of the West (WestStar Bank) and First National Bank.***

Population and Housing

The 2000 Census estimated the City of El Paso as having a population of 563,662 and by the 2010 Census that had grown to 649,121 making it the 19th Largest City in the United States and the 6th largest in the State of Texas. The rate of population growth between 1980 and 1990 was approximately 25 percent, slowing to 15.2% growth between 2000 and 2010. Of the estimated county population of some 780,000 more than 19% of the population (or some 150,000 people) reside outside of the City limits. El Paso's population is historically very young, with 42% being under 24 years old. An interesting socio-economic statistic is that El Paso has a high population density per housing unit - at 3.1 persons per household, up from 2000 when it was 2.9/unit, and significantly higher than the United States average of 2.34 persons per housing unit. Pressure is building on the housing supply as a result of the supply growing slower (up 22%) than population (up 26.4%) during the period from 2000 to 2007.

EL PASO COUNTY, TEXAS POPULATION TRENDS

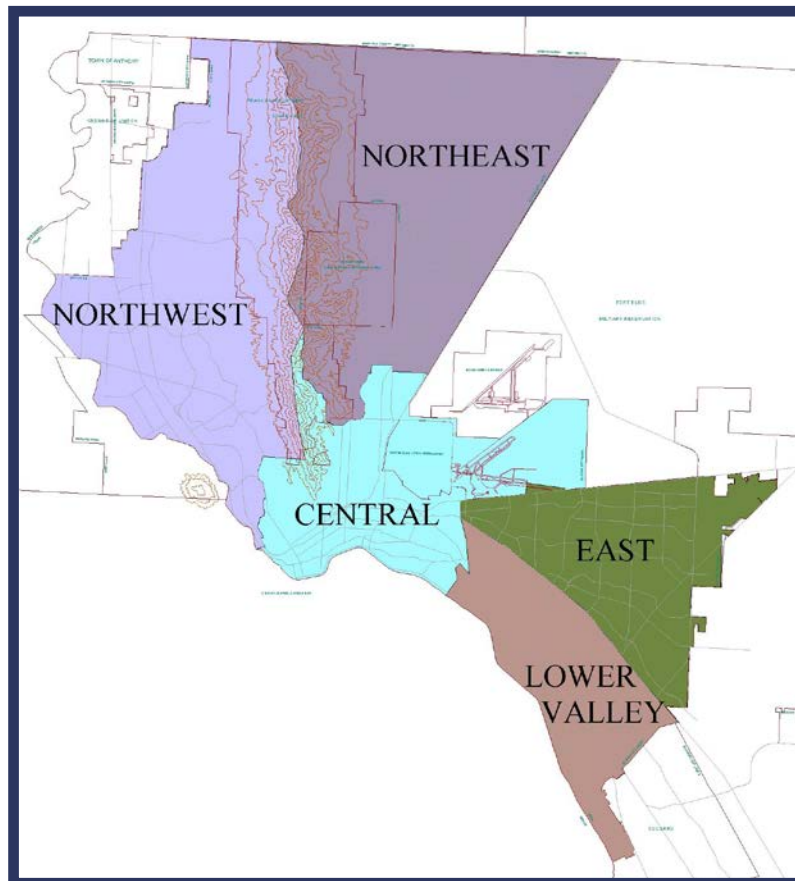
AREA	1990	2000	% CHANGE	2010	% CHANGE
El Paso City- Non-County	515,342	563,662	9%	649,121	15.2%
Total County- Outside City	76,268	115,961	52%	151,526	31%

Source: U.S. Census Bureau/El Paso Times

Geographic Constraints

Due to several natural and man-made barriers, the physical layout and growth of El Paso has developed like the spokes of a wheel, each spoke separated from the others by a physical barrier. In the early 1950's the city was divided into five distinct geographic planning areas: Northwest, Northeast, Central, East and Lower Valley.

Planning Areas of El Paso Map



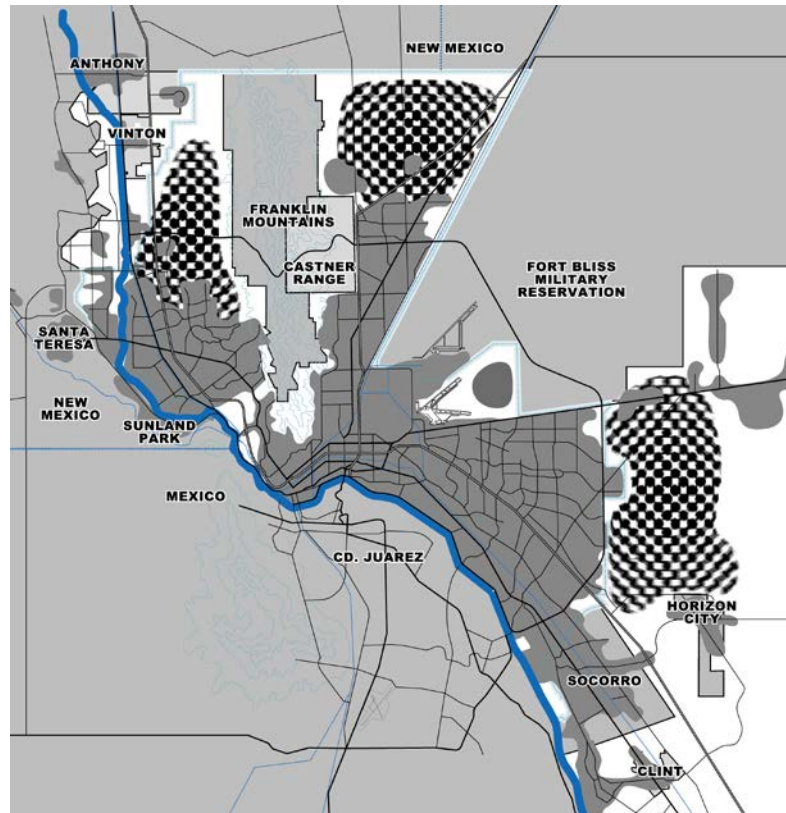
The Northwest and Northeast Planning Areas are separated by the most southerly range of the Rocky Mountains, known as the Franklin Mountains (after the original name of the City before becoming El Paso in 1855). This mountain range thrusts down from the north to only about one mile from the southerly border of the city (and the southerly border of the United States) at the banks of the Rio Grande south of downtown El Paso.

Likewise, the Northeast and East Planning Areas are separated from each other by a land wedge created by the El Paso International Airport and the Ft. Bliss Army Base and Maneuver Ranges.

The East and Lower Valley Areas are separated by the barrier formed by the right of way for Interstate 10. To the south of the Lower Valley Planning Area is the Rio Grande and the International Border with Mexico.

The United States/Mexico border, located just a few blocks south of downtown El Paso in the Central Business District within the Central Planning Area, has made southerly expansion impossible for this planning area. In a similar manner, the Texas/New Mexico boundary has been a barrier to growth to the west and the north for the abutting Northwest and Northeast Planning Areas.

Physical Growth Constraints Map



Because of these physical *growth constraints*, the city has expanded into three major corridors out from the central core: to the **Northwest** between the boundary of Texas/New Mexico and the Franklin

Mountains; to the **Northeast** between the Franklin Mountains and the Military Reservations of Fort Bliss; and to the **East and Southeast** between the Fort Bliss Military Reservation and the U.S./Mexico border and Rio Grande on the south. The city now occupies an area of 160,000 acres or 248 square miles. Growth into undeveloped areas of the city is easily predictable as a result of these *geographic constraint corridors*. One can see future areas of growth clearly illustrated in a checkered pattern on the above map.

Future arterial and thoroughfares serving the growth corridors of the regional community are planned and coordinated by the Metropolitan Planning Organization /Transportation Policy Board. The El Paso MPO is the regional planning and programming agency responsible for working with residents, neighborhood groups, local, state and federal agencies, along with transportation providers in El Paso County, Texas, southern Dona Ana and Otero Counties in New Mexico. The goal is to accomplish regional planning and programming under one voice and with a unified plan.

Annexations: On average, between 1977 and 1995, the City of El Paso annexed 4,502 acres (7.03 square miles) of adjacent County and State land every year. That trend has significantly diminished. Of late, the City Administration has openly discussed a slow-down in annexations and the idea of pursuing a “managed growth” policy for future land development along the lines of new “*Smart Code*” concepts. A major recent annexation of over 700 acres in East El Paso (a triangle of land between Loop 375, Montana Avenue and Zaragoza Road) was the single largest annexation accomplished since managed growth has been openly discussed. It is likely there will be very few significant annexations such as this in years to come as the outlying communities in El Paso County (Horizon City, Socorro, Vinton, Canutillo, Anthony, etc.) which abut the City of El Paso’s *Extraterritorial Jurisdiction (ETJ)* achieve enough critical mass to support their own services and infrastructure demands and those presently not incorporated move to become stand-alone chartered municipal entities.

El Paso Real Estate Markets and Quality of Life

El Paso has a healthy market balance between its major real estate markets. It has a history of not being overbuilt in any product category, probably the result of our not being one of the top eschelon markets in the State of Texas. The positive effect on our real estate market from the *maquiladora industry* in the Paso Del Norte region cannot be stressed enough.

Industrial - The overall market of 54 million square feet of owner-occupied and leased industrial/warehouse/manufacturing space in the city has a vacancy rate that has ranged between thirteen and fifteen percent during the last ten years . Annual net absorption averages some 200,000 to 500,000 square feet with a preference for Class A space. This is much lower annual absorption than was realized in the 1980's and 1990's, when vacancy rates were historically in the low single digit range and annual absorption nearly twice to three times the rate we see today. Some attribute this drop in demand to the local impact of the adoption and implementation of the North American Free Trade Agreement (NAFTA), signed by Canada, the United States and Mexico on December 17, 1992. Recent leasing activity has picked up, and indications are that 2012 will be a year for industrial market resurgence both in El Paso and in Juarez. Reports of a City-wide vacancy rate near **12%** for the first quarter of 2012 are circulating in the market.

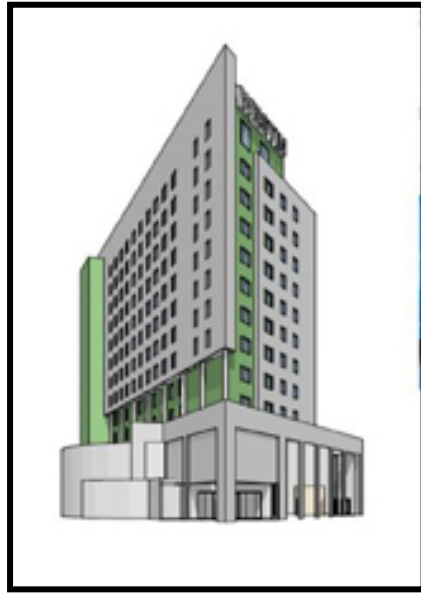
Market	Rentable Area SF	Vacancy Rate %	Availability Rate %	Net Absorption SF	Under Construction SF	NNN Average Asking Lease Rate \$/PSF/YR
West	7,340,168	6.1%	8.0%	0	0	\$3.60
Northeast	9,014,209	21.9%	24.7%	82,842	12,000	\$3.20
Central	13,875,560	5.9%	7.7%	0	0	\$3.00
East	18,175,738	15.0%	19.1%	295,277	0	\$3.65
Lower Valley	6,252,169	26.5%	26.0%	(90,800)	0	\$3.65
Totals	54,657,844	14.0%	16.4%	287,319	12,000	\$3.40

The completion of the upgrade to the Fabens Port of Entry facility and approaches, the completion of construction of Loop 375, the new dedicated airfreight terminal facilities at the El Paso International Airport, the extremely viable commercial Port of Entry, industrial park and intermodal facility at Santa Teresa, New Mexico to our west (now connected by the “*Pete W. Domenici Highway*” to Interstate 10 at Aircraft Road) all enhance the appeal of this region to U.S. and worldwide manufacturers, suppliers, transportation and distribution oriented service companies. A strong petrochemicals industry, and a significant quarrying, copper smelting-refining base have also served to support the regional manufacturing sector. El Paso has recently lost its monumental ASARCO Smelter in the West Central area, near the Rio Grande and UTEP. Plans are to topple the two remaining smokestacks in 2012 and seek long-term community based support for a broad range of Smart Growth-type institutional and commercial uses for the old 450-acre site between Interstate 10 and the Rio Grande.

Hotel - El Paso has excellent hotel market conditions and the potential for increased market development. Occupancy was **67.2%** for the period from January to May 2011 for the 97 hotel properties representing 9,755 rooms in the State Comptroller’s Quarterly Reports, a very healthy market condition. Selected hotels in the area of the El Paso International Airport (79925 zip code) report mid-week occupancies above 95 percent. Eight new hotels have been built in the last few years, and a new four-star 220-room hotel project was announced in May 2013 for the airport area, echoing these very strong market conditions. There are no destination-resort or golf-oriented business conference center hotels serving this market area, as yet, though a location adjacent to the Butterfield Trail Golf Club is presently under study by a major national developer.

The new airport hotel was approved by City Council on 28 May 2013 for a ground-leased site near the entrance to the International Airport terminal. Council approved leasing airport-owned property to EP Vida LLC for the 140,000-square-foot, 220-room hotel (most likely a Westin property) on the southwest corner of Airway Boulevard and Boeing Drive. The \$42.5-million hotel will feature full-service amenities in every room, a full-service restaurant and bar, a fitness room and pool and up to 18,000 square feet of meeting space.

The city would also lease 80,000 square feet of land for retail space, which developers said would primarily be restaurants, bars and open space for festivals and other events. The \$22 million retail center would include specialty retail shops and national restaurant chains not already in El Paso. Construction at the site could begin in the coming months and be completed in two to three years, officials said.



Rendering of the proposed new Westin hotel to be developed at the El Paso International Airport.

For a perspective on the strength of the El Paso hotel market, research has shown that in 2001 there were 2,786,000 room nights available, with end of year revenues of \$91,989,000. By 2011, we saw the hotel market strengthen significantly, despite the national economic downturn over the previous few years. The State Comptroller's Report for FY2010 indicates that the El Paso hotel market had 3,560,000 room-nights available and produced \$144,625,000 in receipts that year. This data indicates a **57% increase in hotel revenues** over the last ten years, while adding 2,700+ rooms to the market (a 43% increase) and holding a strong occupancy rate.

El Paso is, therefore, an excellent location for hotels marketed to the Interstate traveler or tourist, to government employees connected with regional military bases and Homeland Security operations, to Mexican tourists and to the businessmen associated with the maquiladora or offshore manufacturing trade. Business travelers have pushed demand for downtown and airport-vicinity hotel rooms to record revenue levels:

Top Revenue Producing Hotels 2004 – 2010

		2004	2010
Marriott	1600 Airway Boulevard	\$8.7 million	\$9.3 million
Hilton Airport	2027 Airway Boulevard	\$6.8 million	\$5.6 million
Camino Real	101 South El Paso	\$5.7 million	\$4.5 million
Radisson Suites	1770 Airway Boulevard	\$5.5 million	\$6 million
Embassy Suites	6100 Gateway East	\$5.3 million	\$6.4 million
Chase Suites	6791 Montana Avenue	\$5 million	\$4.1 million
Holiday Inn Airport	6655 Gateway West	\$4.9 million	\$4.8 million
Double Tree	600 North El Paso	(new 2009)	\$5.3 million

Retail - El Paso has excellent retail market conditions. The vacancy rate is below 10% with annual absorption of about 500,000 square feet. Vacancy rates for well-located attractive centers are less than 5%. Of late, this segment has noticed an influx of Juarez businesses fleeing the “troubles” in Mexico and establishing business locations on the north side of the Rio Grande. During our recent recessionary cycle this seemed to be strongly counter-cyclical and a very welcome impact from what could be seen as a negative confluence of events in our sister city to the south.

El Paso’s Gross Retail Sales, as reported by the Texas Comptroller’s Office, have grown steadily being approximately \$15.85 billion at the end of 2002 and increasing to \$21.1 billion at the end of 2010. This represents a 33% increase in gross sales over nine years, an average increase of almost 4% per year during an admittedly devastating national economic recession period. This 4% annual sales volume growth exceeds the region’s population growth during the same period. Indications are that this trend will continue in the coming years as the U.S. economy improves and Mexican citizens continue to see El Paso as a shopping and tourist destination. From a development perspective, the City of El Paso’s Long Range Comprehensive Plan encourages the creation of “*activity centers*” using Smart Growth principles at the intersections of major arterials, as opposed to historical “*strip commercial*” running parallel and along the major arterials. Mixed use sites and creative site and arterial cross section designs are also a feature of this “*New Urbanist*” approach to real estate development that the City is encouraging..

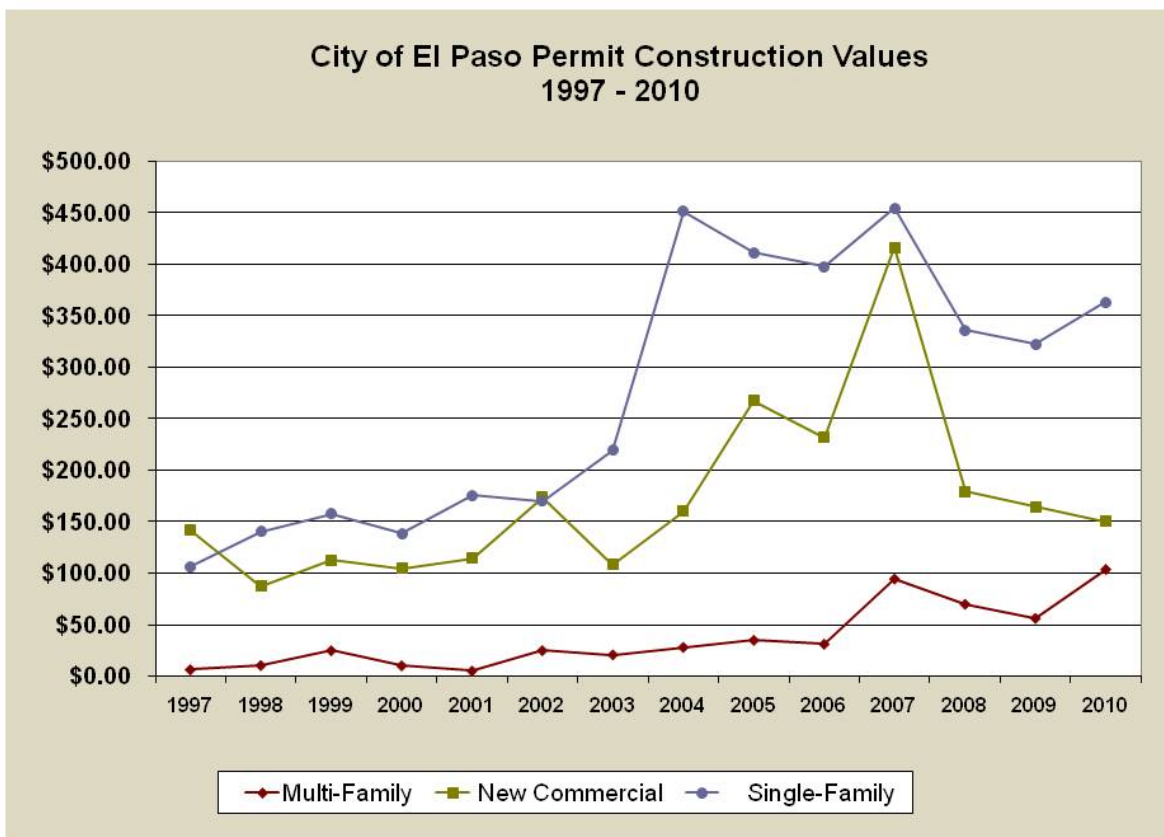
Office - El Paso has average office market conditions. There has been almost no construction of pure speculative office product for five or six years, other than a few niche suburban projects. As a result of no

significant new product in the market, the vacancy rate has dropped to 15% or lower in the suburbs, and to approximately 20% in the few major office properties in the Central Business District. Other than governmental uses, most major office-type users in the market are related to the twin plant or maquiladora business. It is very typical to find well-appointed executive or divisional offices as an integral part of the chief warehouse or manufacturing plant location on the El Paso side of the twin-plant operation. Therefore, an “invisible” market of quality, affordable office space is present, though undefined, within the region’s industrial product inventory. Some estimates are that this component could represent as much as 5 million square feet of office area. Lastly, there are virtually no high-quality, multi-tenant buildings, particularly in a campus business park settings, available or even being planned at this writing. Large office tenant leasing opportunities of 20,000sf or more are nearly unheard of in the El Paso region.

Apartments - El Paso has an excellent apartment market. There has been significant market-rate construction over the last several years to try to address the shortfall in available product. In FY 2011 approximately 1,600 new units were added, and it is expected that over 1,900 new units will be added by the end of 2012. In addition to market rate multi-family, LIHTC (*Low Income Housing Tax Credit*) projects built by one or two knowledgeable local developers have broken ground successfully. The vacancy rate city-wide has held to a very healthy 3 to 4 percent. Since 1960, when multi-family represented **27%** (or 20,739 units) of the 78,058 total housing stock, that segment has **grown to 34%** (or 80,211 units) out of the 235,917 city-wide housing unit market. Market rents increased nearly 8% from 3rd Quarter 2009 to 3rd Quarter 2010 according to Apartment Realty Advisors. City officials have determined that the community needs to add 8,000 units to meet Ft. Bliss and area demand. To encourage new construction, the City of El Paso has implemented a property tax rebate program scheduled to end either on December 31, 2013 or when 4,000 units have received the rebate benefits under the Department of Economic Development program.

Single Family - El Paso has good market conditions for single family residential, particularly in the East and Northwest Planning Areas. The East Planning Area exceeds all others in total number of units sold, but the Northwest Planning Area exceeds the other areas in the

city in rate of growth. These two planning areas are the preferred location for most of the higher end housing purchased by managers of the local twin plants. Low interest rates and a demand from Mexican citizens for El Paso homes has contributed to steady growth in all segments of the single-family construction market. In 2010, there were 2,450 single-family building permits issued, beginning an upward trend again in this category. The region's median cost home is lower priced than those in Texas or the nation: El Paso in 2010 being at \$133,000 versus the national median price of \$221,800.



Cost of Living - The ACCRA Cost of Living Index provides a useful and reasonably accurate measure of living-cost differences among urban areas. According to the ACCRA, El Paso's cost of living was 89.6% of the national average for the 2nd Quarter 2011. Texas residents **do not** pay a personal income tax.

Cost of Living in Various Metro Areas, 2nd Quarter 2011

Urban Area	All Items (%)	Food (%)	Housing (%)	Utilities (%)	Transportation (%)	Health (%)	Misc. Goods & Services (%)
U.S. Average	100	13.31	29.27	10.22	9.86	4.23	33.11
Albuquerque	93.0	92.4	85.9	97.6	94.5	103.4	96.3
Austin, TX	91.2	83.0	81.6	98.2	100.3	103.8	96.5
Chicago, IL	114.4	114.4	133.0	96.7	112.5	106.8	104.9
Colorado Springs	91.8	93.2	87.3	89.6	97.0	102.2	93.1
Dallas, TX	95.8	102.5	73.9	107.4	106.5	104.0	104.7
Denver, CO	103.9	101.3	112.3	89.5	94.7	106.8	104.5
Detroit, MI	94.9	98.4	87.7	104.9	101.0	95.1	95.0
El Paso, TX	89.6	102.5	91.1	78.7	92.2	90.1	85.7
Houston, TX	88.2	79.0	79.5	89.4	96.4	96.8	95.7
Huntsville, AL	93.0	94.8	75.8	94.6	105.7	95.0	103.0
Las Cruces, NM	97.4	102.6	99.1	97.3	96.1	92.9	94.9
Los Angeles, CA	135.3	108.8	199.0	113.2	111.3	109.1	106.8
Minneapolis, MN	108.1	104.5	113.8	101.9	98.9	101.1	110.1
New York, NY	220.7	143.2	416.0	141.2	122.1	124.6	145.5
Phoenix, AZ	98.3	103.1	91.4	99.6	100.0	100.0	101.4
San Antonio, TX	93.8	87.3	87.3	86.9	104.8	98.5	100.4
San Diego, CA	131.6	109.6	186.3	113.6	113.6	111.9	105.5
Tucson, AZ	94.7	95.9	85.5	88.1	101.6	96.9	102.2

Source: ACCRA Cost of Living Index: 2Qtr 2011. C2ER.org.
Updated: September 2011.

Healthcare – El Paso offers a choice of 16 hospital and health care providers with a total of 2,619 licensed beds. In Las Cruces, just 40 miles north on Interstate 10, there are 6 healthcare facilities offering an additional 675 beds. The major hospitals (and their licensed beds) in the region are: Providence Memorial Hospital (508), Sierra Medical Center (351) Del Sol Medical Center (336), University Medical Center (327), Las Palmas Medical Center (317), William Beaumont Army Medical Center (209) and Memorial Medical Center in Las Cruces (286).

The only **Level I Trauma Center** within 280 miles is located on the **University Medical Center (UMC)** campus in Central El Paso, near Interstate 10, featuring a helipad and dedicated ambulance service entrances. The UMC is now home to a separately licensed *Children’s Hospital*. This new hospital includes a 20-bed *Pediatric Intensive Care Unit* and a 42-bed *Neonatal Intensive Care Unit*, which consists

of a Special Care Nursery and a Grower's Nursery. The Children's Hospital at UMC is also the premiere hospital in the region providing an ECMO unit for babies and children with acute lung and heart disorders.

The UMC, Children's Hospital and the Texas Tech Medical School are part of a larger vision for the surrounding area, one that brings in a public-private aspect to medical research as well as enhancing the existing services and facilities: The *Medical Center of the Americas* (MCA). Recent announcement of the plans for a new 80,000 square foot Biomedical Research and Technology Commercialization Building on a four-acre site adjacent to Interstate 10 and within the larger 13-acre *MCA Tech Park Campus*, begins the next major phase of this significant healthcare complex for the community and region.



Rendering of the 80,000sf Biomedical Research and Technology Commercialization Building in the Medical Center for the Americas Central El Paso Campus

Low Crime Rate – As mentioned earlier, El Paso once again has the lowest crime rate ranking among U.S. cities with populations over 500,000. Since 1997, our city has ranked among the nation's top three safest cities. The crime rate rankings of the cities and metropolitan areas are calculated using six crime categories: murder, rape, robbery, aggravated assault, burglary, and motor vehicle theft. The rankings include all cities of at least 75,000 residents that reported crime data to the FBI in the categories noted for calendar year 2010. Also, El Paso was ranked as the eighth-safest metropolitan area in the U.S.,

according to Farmers Insurance Group's fifth annual *Most Secure U.S. Places to Live*, a 2009 publication.

The City of El Paso Police Department is a dynamic, innovative city department currently composed of more than 1,100 officers and nearly 300 civilian employees. The department's efforts are supported by a large contingent of community volunteers who donate their time to perform a variety of essential duties.

Outdoor Adventure – Within short drives of El Paso are world-class destinations for the adventurous in spirit: **Lincoln National Forest** with Ski Apache and the 13,000-foot Sierra Blanca peak; **Elephant Butte Lake Reservoir** on the Rio Grande, offering water sports; the **Gila Wilderness**, the world's first designated wilderness area (1924) containing over 558,000 acres; **Carlsbad Caverns National Park** with one of the world's largest cave systems; **White Sands National Monument**, a 275 square mile white gypsum sand dune field; and **Hueco Tanks State Park**, an 860-acre Texas Parks and Wildlife facility on the outskirts of East El Paso. The syenite rock formation is culturally and spiritually significant to many Native American tribes such as the Mescalero Apache, the Kiowa, the Hopi, and the Pueblo people. This significance is due in part to the hundreds of pictographs (rock paintings) that can be found throughout the park, some of which are thousands of years old. Hueco Tanks is widely regarded as one of the finest sites in the world for "bouldering", attracting free-climbers from all over the world.



Living History – From before the time of the first contact with European explorers in the late 1500's when nomadic and Pueblo Indians lived in the region, through the Spanish Conquest of the New

World, to the establishment of the Roman Catholic Missions in Juarez, Socorro and Ysleta and a Presidio at San Elizario, through the Mexican-American War, to the Civil War Era-which touched this region with a key battle north of El Paso, through the California Gold Rush...then, the coming of the trans-continental railroad, the Salt Wars, the gunfighters like Billy the Kid and John Wesley Hardin and Sheriff Dallas Stoudenmier, to the advent of the atomic bomb-first tested north of El Paso at Trinity Site, to the Space Age and White Sands Missile Range: a real tapestry of history woven through time, is easily discoverable everywhere you travel in our fascinating El Paso Del Norte region.



ABOUT THE AUTHOR:

David F Etzold is a native, second-generation El Pasoan; a Graduate of the University of the South in Sewanee, Tennessee (BA 1976); Owner and Principal Broker of ETZOLD & CO, LLC, a full-service commercial real estate brokerage and consulting company; licensed Texas Real Estate Broker since 1981; former four-term Chairman of the El Paso City Plan Commission; past Chairman of the Board of the Greater El Paso Housing Development Corporation; past Senior Warden and Search Committee Chairman of the Church of St. Clement; recipient of the 1992 "**Lone Star Trophy Award**" from the Texas Association of Realtors for the Top Commercial Transaction in the State of Texas (the first El Pasoan to receive this honor).

Visit the website at: www.EtzoldCo.com