

Market Analysis & Feasibility Study

Hotel & Multi-family Housing Development Potential

City of Palacios, Texas

February 5, 2014



Prepared for:

Palacios Economic Development Corporation

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Acknowledgements



This study was funded by:
Palacios Economic Development Corporation
(PEDC)

ABOUT PEDC

The Palacios Economic Development Corporation is a public funding entity and a member of the Matagorda County Economic Development Corporation. It utilizes local assets to promote economic development in the City of Palacios.



This study was prepared by:
Pegasus Planning and Development

ABOUT Pegasus

Pegasus is a planning and development firm providing expertise in market analysis, economic development, and revitalization to public and private sector clients.

We offer a range of services including strategic planning, feasibility study, downtown planning, site selection and economic development marketing.

Assistance in the form of information, advice, and direction was provided by:

HR Manager, STP Nuclear

Celanese

Superintendent, Van Vleck ISD

Superintendent, Palacios ISD

Director of Tourism, Matagorda County

Property Manager, Palacios Housing Authority

And to many area property managers, employers, and residents...

**THIS REPORT IS NOT FOR PUBLIC RELEASE; CONTAINS SOME IDENTIFYING INFORMATION IN
RELATION TO INTERVIEWEES**

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Executive Summary

The City of Palacios, Texas is a quiet coastal community on the Texas Gulf Coast with a population of 4,680 (2013). It is equidistant from major port cities of Houston (107 mi) and Corpus Christi (109 mi). Palacios has two signature economic drivers: a unique tourism market and large regional employers in the energy sector. These drivers are tightly linked to the development types addressed in this study, and future growth in these areas will precipitate future demand should the right investments be made.

The area is known nationally and internationally for its exceptional volume and diversity of fish and seasonal bird populations that peak in winter months. The tourism market is strong in the Central Texas coast, but Palacios has struggled to capture much of this growth due to the small amount and quality of lodging facilities. This study found that expanding hotel and lodging amenities will induce demand for lodgings on the coast in Palacios and will yield high returns on investment, with spillover effects extending across the community and region.

There is also pent-up demand for additional apartments that are affordable to low- and moderate-income individuals and families (See Appendix), and future demand is only expected to increase in the coming decades as employment rises. In particular, the area will benefit from employment growth in the oil and gas industry. Tenaris' new plant in Bay City and the expansion of STP Nuclear will bring many new manufacturing, technical, and construction jobs. STP will also see 40% of its engineers and technicians retire in the next decade. . By 2020, 128 additional rental units will be needed to satisfy demand.

To meet the future demand for units to house talent and lodging spaces for tourists, the need for improvement to downtown and amenities is urgent. Creative strategies will be needed to reverse current negative trends and revitalize the area as a prime site for development. This report summarizes our market analysis on the hotel and multifamily stock in Palacios and makes recommendations on how to stimulate investment.

Market Report

Market Report

Introduction

Palacios has recently adopted a Waterfront Master Plan that has identified the potential for a hotel as a key element of the development of the waterfront. Palacios and Matagorda County also have a lack of quality rental housing. This study will provide the PEDC and its partners with evidence to support a demand for rental housing and hotels, and with preliminary recommendations to guide the PEDC and its partners in addressing this potential demand and opportunity.

Overall, while the City of Palacios has some challenges ahead, our data and interviews offer many reasons for optimism. Palacios is at a critical moment in its development history. A large portion of area employees at the city's largest employer, STP Nuclear, are reaching retirement age, and a major energy-sector supplier Tenaris is adding 600 manufacturing jobs in the Bay City area. It is imperative that new investments be made to make the area more attractive to visitors and a younger, more talented workforce. The city's strategic location near major employers and the county's recreational amenities offer great opportunities. While existing conditions increase the risk to developers looking to revitalize the area, the EDC could initiate an influx of development with some strategic investments.

Our Approach

Our analytical process incorporates and integrates both quantitative and qualitative methodologies to extrapolate future demand in the hotel and multi-family market. Our investigative tools included:

- *Quantitative Analysis:* using sources like the Bureau of Labor Statistics, US Census, American Community Survey, County Business Patterns, and Texas State Data Centers we gather demographic, employment, and industry-wide data to project future demand for housing and hotel accommodation based on employment and population increases.
- *Qualitative Analysis:* involving surveys, interviews, and site visits. We have conducted an online survey of over 30 businesses throughout Matagorda County and conducted interviews with major employers, superintendents, and member of the public sector. This information was vital for analyzing the validity and strength of our quantitative methods. We also conducted three site visits to the Palacios and Bay City area to analyze supply, quality, and location of Hotel/MF units.

Existing Conditions

The City of Palacios is a small, charming town centrally located between the major ports of Houston and Corpus Christi. The Port of Palacios is an active port for commercial shrimping and fishing, as well as recreational sail boats. The southern coastline has a well-groomed boardwalk, public beaches, and 24-hour public piers. Many historic homes, and the famous Luther Hotel provide a stately backdrop to contrast with the open seas. Main Street, while quiet, is lined with small storefronts, and is within a brief walk to both the eastern and southern beachfront. The housing stock is older, and some homes and commercial structures are in need of repair, but the architectural "bones" of the city give the city character and a sense of place.

The City is struggling to compete with localities with better retail, job growth, and quality of place. Palacios is not only losing population in recent years, but a large portion of its existing workforce is expected to retire in the next decade. Continued focus on design and beautification-focused improvements are less an option than an imperative because Palacios needs to focus on keeping and attracting more talent. The Matagorda Bay region is on the verge of a significant transition due to its strategic location and the changes taking place in tourism and the energy industry across the nation and state. Opportunities exist, but civic leaders must begin making greater investments in the long-term health of the city.

Market Report

Demographics & Economic Trends

Based on projections using Census data and State sources, the population in Palacios is projected to grow at an annual rate of .03% through 2020. However, the consultant believes the City will actually exceed these rates as population growth in Palacios is affected by national, state, and local trends. For example, there will be exceptional growth in demand for workers in utilities and ancillary jobs linked to the growth in oil and gas production in the Eagle Ford Shale region. The decision of Argentine pipeline manufacturer, Tenaris, to locate in the region is an indicator of potential gains in employment for the County. As the economy continues to recover, growth in tourism and related industries will also positively impact Palacios, particularly if investments are made to improve and link the city's signature amenities.

Economic Drivers

- **Tourism:** Known as “The City by the Sea,” Palacios is a coastal town amid a vibrant ecoregion known for birding and recreational fishing. The City has invested in its walkable seawall, free public docks and 24-hour lit piers. It is also home to a wealth of historically significant properties concentrated in the Downtown area and coastline. It also lies along the LaSalle Odyssey Trail, which highlights historic shipwrecks along the coast. All of these assets are placed in discrete areas of the city and are not yet well-connected and presented in a cohesive marketing strategy, and with certain design, façade and infrastructure improvements, these tourism assets could make the ultimate impact.
- **Commercial Fishing:** Palacios is the “Shrimp Capital of Texas” which is easily seen at the Port of Palacios, with active shrimping boats and onsite commercial shrimp suppliers. It is a major industry for local fishermen and the area is a key supplier of shrimp for the entire Gulf Coast. While the industry has faced many challenges in recent years, with the Gulf oil spill and severe hurricanes, it is a secure natural resource and will continue to be an economic driver in Palacios for decades to come. The City could in fact be more creative in how the local economy is linked to this industry, and we will explore these methods in the Recommendations section of this report.
- **Nuclear Energy:** For decades, Palacios’ largest major employer, STP Nuclear, has been a stable supplier of primary jobs for the City of Palacios and surrounding communities from Blessing to Van Vleck. In fact, in recent years they sought to expand their capacity through constructing two additional generators. Despite public skepticism of nuclear power after the Fukushima disaster, investments in nuclear are rebounding and prospects for future demand are very strong. The primary challenge for STP is related to human resources: not only do they hope to expand in the future, but within the next 5-10 years, nearly 40% of their workforce will be retiring. Palacios must collaborate with STP to improve educational opportunities and create an environment where talented workers will want to live.
- **Shale Oil & Natural Gas:** While Palacios and Matagorda cannot benefit directly from the Oil & Gas boom taking place in the Eagle Ford Shale impact area, it is already seeing growing opportunities in support activities. Tenaris is investing \$1.5 billion on the first US seamless pipe manufacturing facility in Bay City specifically for its strategic location in relation to Houston, the energy capital of Texas, and both the Barnett and Eagle Ford shale plays. This will generate 600 new manufacturing jobs in the county, and additional construction jobs.

These trends could generate much higher growth rates in population and economic indicators than past data or state data sources indicate. The City will only be able to leverage these trends with targeted investments and partnerships with the private sector.

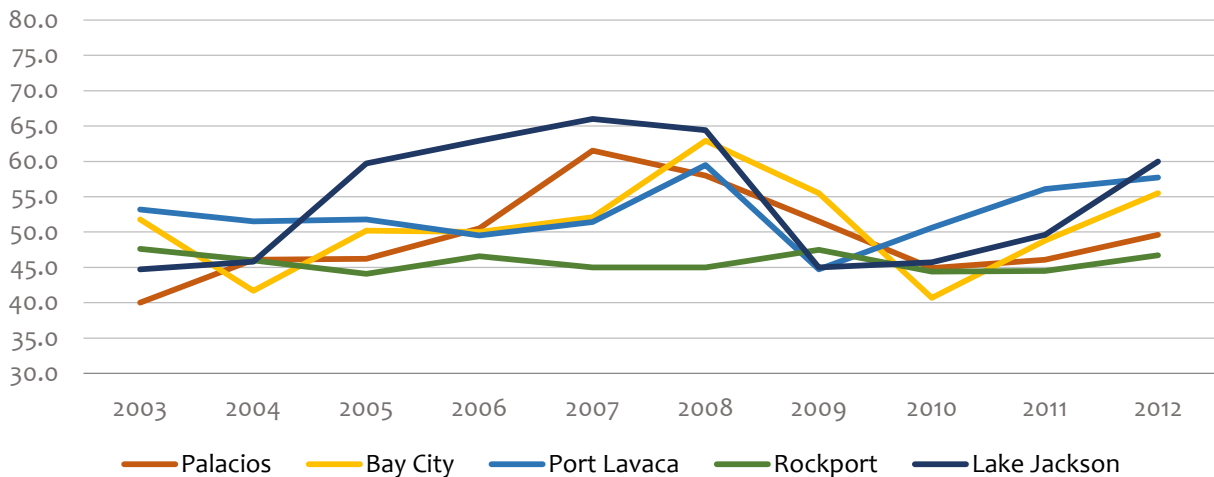
Market Report

Current Supply of Hotel/Motel and Multifamily

HOTELS and LODGING

Currently, Palacios has a small supply of hotels with more than 20 rooms (The Luther & Deluxe Inn). The majority of temporary and extended stay lodging facilities are comprised of smaller, albeit charming bed & breakfasts, RV Parks, and rental vacation homes. Occupancies have remained at a healthy rate of between 50-60% annually for the last decade, though the supply of hotels has gone down slightly. We believe there is sufficient demand for an additional hotel, with industry meeting facilities, given the strong occupancy levels of Rockport and Bay City, and the interest in such a development from large area employers. Of particular interest is the need for extended stay lodgings for the large and predictable influx of seasonal employees brought to the city on a biannual basis by multiple large energy related firms like STP Nuclear, OXEA, LyondellBasell, and Celanese for the purposes of cleaning and updating facilities. Additional hotel/motel options, or at a minimum a program to update the existing older stock, will be necessary should Palacios hope to capitalize on increasing rates of ecotourism and other forms of experiential tourism.

Hotel Occupancy Rates 2003-2013



Source: Office of the Governor, Economic Development and Tourism, 2013- Hotel Occupancy 2003-2012, Source Strategies, Inc

MULTIFAMILY – the missing middle

The bulk of Palacios' rental housing stock are in two main categories: (1) older, affordable multifamily housing, for "low" and "very-low income" households (based on HUD definitions, see Appendix A), and (2) rental housing within smaller single units or townhomes that are often unlisted and managed by local agents. The first category of rental properties are all currently on a waitlist exceeding six months. The second category of homes are often rented at rates that are well-above market rate rents. There is a great need for more affordable housing options or rental units that accept Section 8 vouchers, and a dearth of new market rate, multifamily complexes.

Market Report

Projected Future Demand

The following highlights the quantitative and qualitative factors impacting the growth opportunities in Palacios for hotels and apartment complexes:

Hotel and Lodging

- Quantitative Analysis:
 - Current trends in occupancy rates, room rates and supply of rooms for Palacios and surrounding communities indicate there is sufficient demand to support a beachfront, mixed-use hotel.
 - We support the addition of a mixed-use hotel, with moderately priced rooms (approx. \$75/day) with extended stay options, a conference space for up to 40 people, and potentially a sport-fishing amenity. Sample projects are found in Chapter 4 of Addendum.
- Qualitative Analysis:
 - Employment growth in major energy-related and industrial sites will increase the need for more seasonal labor in late summer months (May through October) for cleaning area facilities.
 - Expanding tourism assets and tourism marketing, along with overall citywide cleanup and improvements will have a dramatic impact on the hotel demand.
 - National and state-wide economic recovery and growth in Baby Boomer retirees will mean increased demand for ecotourism and recreation.




Multifamily Rental

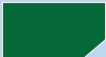


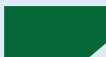












- Quantitative Analysis:
 - By synthesizing a series of growth rates in population, housing units, and occupied rental property at the City, County, and State level, we found that demand for additional rental units will grow at an annual rate of .63%. This means that Palacios will need 128 additional rental units by 2020.
- Qualitative Analysis:
 - Statistical sources likely underestimated the future demand for rental housing because they do not include the approximately 150 applicants already on a wait for existing affordable units.
 - Tenaris Bay City will add 600 manufacturing jobs and 100 construction jobs, of which Palacios could stand to capture approximately 20% for housing.
 - STP Nuclear will be opening 2 new reactors in the coming years, and this will increase local employment by approximately 1,000 employees.

Market Report

Trend Highlights Scorecard

Pegasus has identified a number of trends and facts within the Addendum that will influence the trajectory and success of the City of Palacios in its pursuit of capitalizing on market demand for hotels/motels and multi-family developments. Below we created this list of highlights comprised of:

-  Positive trends that the City should naturally benefit from given its existing assets and resources, though marketing those resources will also play a role;
-  Opportunities that the city might be able to access with the right investments and strategies listed in our recommendations;
-  And challenges or threats to the city success, particularly in attracting developers and new employers.

| | | |
|------------------------------|---|---|
| Macro-Economic Trends | ❖ State growth in shale oil & energy industry |  |
| | ❖ Nation, State Increasing expenditures on eco- tourism |  |
| | ❖ Retiring Baby Boomers and young & talented increasingly seeking recreational and quality of place amenities |  |
| Micro-Economic Trends | ❖ STP Nuclear to add 2 new reactors |  |
| | ❖ STP Nuclear, 40% of technicians to be retiring in coming years |  |
| | ❖ Tenaris Bay City to add 2,000 direct and indirect jobs during construction |  |
| | ❖ Area employers optimistic about economic future |  |
| | ❖ More than half of area businesses plan to increase investment in the coming years |  |
| Demographic Trends | ❖ Low educational attainment |  |
| | ❖ Low wages & income |  |
| | ❖ Young, diverse population |  |
| | ❖ Palacios ISD, best district in the area |  |
| Hotel/Multi-family Prospects | ❖ Hotel Occupancy has remained at between 50-60% for the last decade |  |
| | ❖ Lodging facilities are older and do not currently meet industry needs |  |
| | ❖ Multi-family/rental units clumped at high and lower ends of the market |  |
| | ❖ Development is expensive and currently risky for private developers |  |

Market Report

Recommendations

Hotels & Lodging

- I. Work with a developer to co-develop the waterfront area.
 - I. A Market site and opportunity to local and regional developers.
 - I. B Obtain additional site control or create development agreement with adjacent property owners. This could be done with a development agreement.
- II. Utilize the Pavilion redevelopment space to add a mixed-use hotel
 - II. A Including a seaside restaurant, short and long-term stay options, business facilities, small conference space, and ensuring it is well-connected to Boardwalk.
 - II. B Include tourism personnel who connect and direct visitors to local amenities.

Multifamily

- III. Increase mixed-use, mixed-income rental housing supply
- IV. Focus on increasing supply with strong design, not amenities
- V. Create housing for artists as a way to foster more of an artist community in Palacios
- VI. Create a dilapidated housing program to eliminate blight and improve housing stock

Downtown Improvements

- VII. Develop an arts and culture district within Downtown Palacios
 - III. A Host artist retreats by reaching out to Fine Arts and Creative Writing programs at post-secondary institutions.
 - III. B Host festivals and events focusing on artists in Palacios and nearby towns like Rockport
 - III. C Create an Animal Art Icon (Ex: Palacios Shrimp or Fish)

Belzoni, Mississippi
The Catfish Capital
Catfish sculptures

Various sources



"Have Bags, Will Travel"



"The Chef"



"Aunt Gertie"

Market Report

Recommendations

Downtown Improvements cont'd

VIII. Targeted streetscape improvements along Main Street

IV. A Improve connections from Downtown to the Eastern and Southern coastlines

IV. B Target east-west corridors of Main Street and Commerce Streets as well as north-south corridors of 1st, 6th, and 8th Streets as key pedestrian corridors.

IV. B.1 Create clear lines-of-sight and wayfinding signs running from to the coastline.

IV. B.2 Add pedestrian amenities, bike lanes, and additional commerce or retail where appropriate

Community Development & Entrepreneurship

IX. Convert local small business grant system to a loan system (low rates, longer terms).

IX. A Create an interest rate buy-down program for façade improvements or working-capital loans.

X. Work with a local credit union, chamber, and local business students at Wharton JC to provide support and financial packages to entrepreneurs.

XI. County is considered by HUD to be a Difficult Development Area (DDA) meaning that development and construction costs are high given the area's low incomes and wages. Make the area more attractive to developers through improvements to downtown and tourism amenities.

XI. A Create a "Speedy Permitting Packet" for area developers or tenants in downtown.

XI. B Market publicly funded improvements to developers.



*Left: Commerce Street Strip,
Potential site for artist housing
redevelopment*

Source: Pegasus

*Right: Palacios' Southern
Coastline and Boardwalk*

Source: Pegasus



ADDENDUM

ADDENDUM: Chapter 1

Demographic & Economic Data Analysis

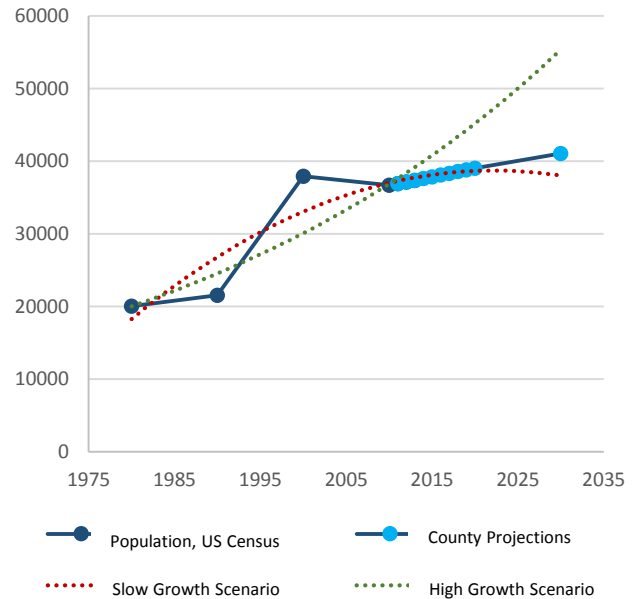
Population

According to census.gov, since 1990 Palacios has grown at an annual rate of .3%. In most recent years, estimates indicate the population has dropped slightly from 4,718 in 2010 to 4,680 as of 2012 (US Census, 2010; ACS Annual Population estimates, 2012). However, past data and recent happenings in key economic drivers in Palacios indicate that this recent drop is not an indication of long term decline. Palacios will continue to grow at a rate more proportional to the growth of the County, growing at a rate of .51% annually through 2030.

Population trends:

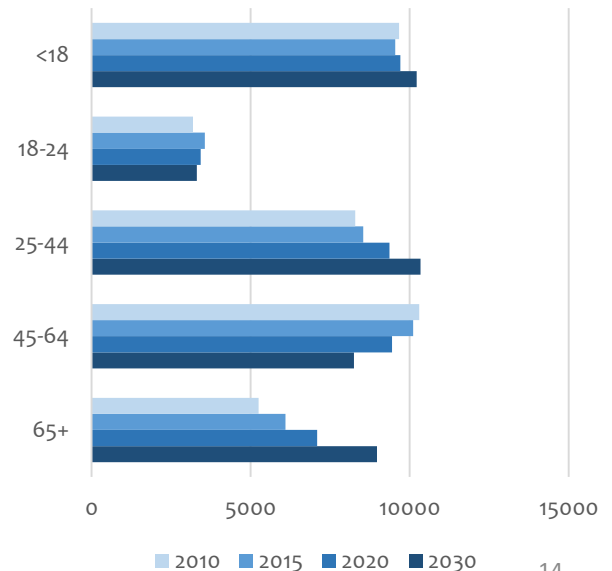
- Matagorda County and the City of Palacios are aging, that is to say that younger age groups are declining in the coming decade while there will be a dramatic increase in the retired population
- Depending on retirement income and the amenities of the city, some who retire may stay in Palacios, some may move to nearby areas, like Rockport which houses a large retirement community.
- As the City ages, and a large number of employees retire, talent attraction will become increasingly more important, increasing the urgency of the need for investments in local amenities such as quality hotels/multifamily and a more attractive downtown that is connected to the beach.

Matagorda County Population Change & Projections



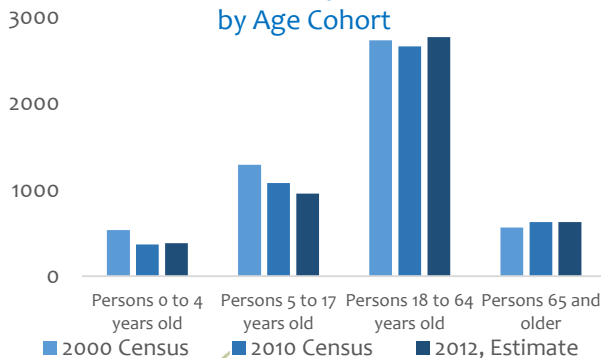
Sources: Texas State Data Center; US Census; American Community Survey

Matagorda County, Population Change by Age 2010-2030



Source: US Census 2000 & 2010; Texas State Data Center

Palacios, Population by Age Cohort



Source: US Census 2000 & 2010; American Community Survey

ADDENDUM: Chapter 1

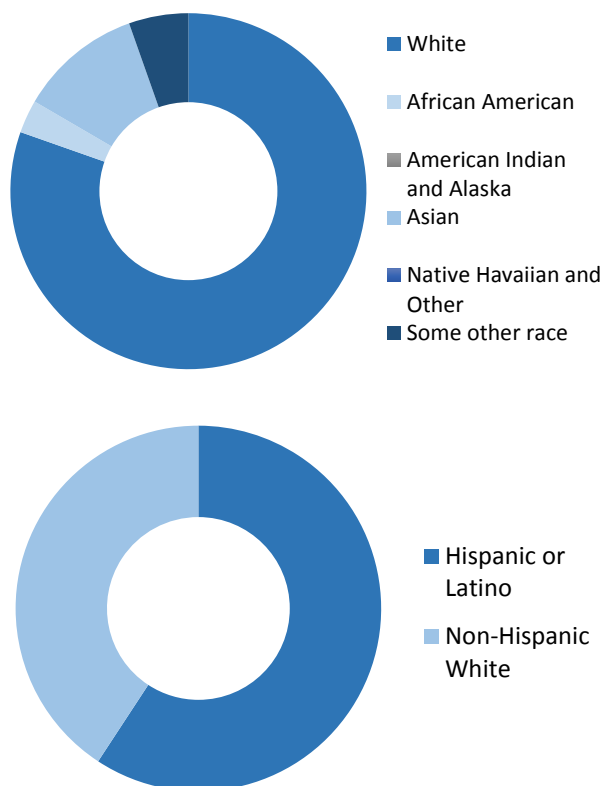
Demographic & Economic Data Analysis

Population

The city is home to a diverse population comprised of whites, Hispanics of Mexican origin, and a notably large Vietnamese population. It is also a multi-lingual community, with 53% of the population able to speak a language other than English. This diversity is reflected in community's array of local food options, from fresh Gulf Seafood to South Mexican cuisine. It is also evident in the range of the city's architecture and design, with a range of gulf coast cottages and City Park's centrally located, Spanish style square plazita equipped with a gazebo, groomed paths and live oaks. This diversity is a combination that is unique to Gulf Coast cities and could be communicated to business owners who can embrace this diversity as a signature brand to be emphasized more to tourists and visitors.

Palacios is also slightly younger in median age to comparable communities, except for Rockport, a known retirement community. While the population is likely to age in coming years, a younger workforce is more attractive to employers and developers. Palacios has little time to capitalize on this indicator, but with the strong initiative, new infusions of talent will be attracted to the City.

Race & Ethnicity



MEDIAN AGE

| Palacios | Bay City | Matagorda County | Texas | Port Lavaca | Rockport | Sweeny | Lake Jackson |
|----------|----------|------------------|-------|-------------|----------|--------|--------------|
| 33.6 | 35.3 | 38.1 | 33.6 | 33.8 | 48.0 | 32.1 | 36.2 |

Data Sources: American Community Survey, 2008-2012 5 Year Estimates, DP02, DP05

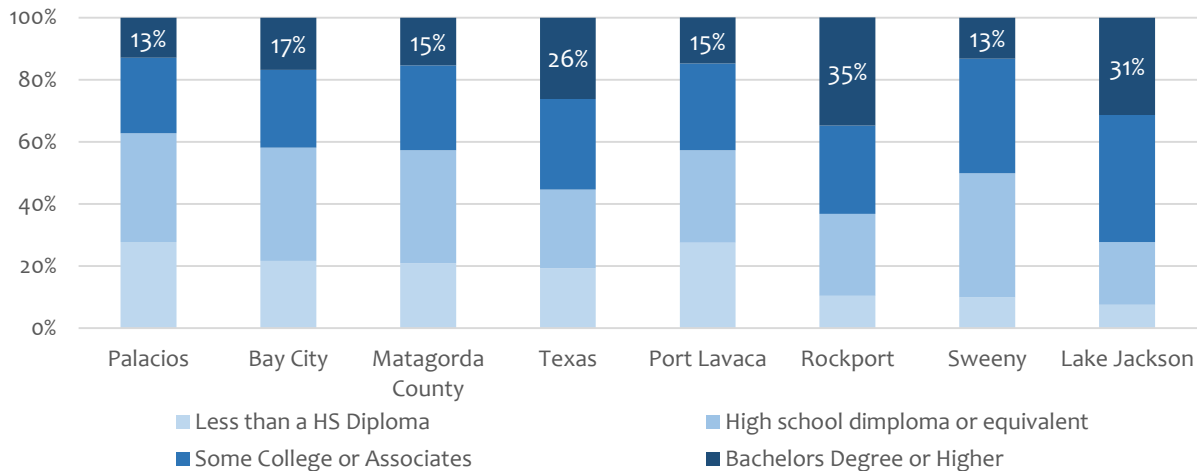
ADDENDUM: Chapter 1

Demographic & Economic Data Analysis

Population

From the perspective of a developer and a potential employer, one of the key indicators of economic opportunity in a community is educational attainment, particularly the population with a Bachelor's degree or higher. Educational attainment is not only an indicator of productivity but is also a determinant of wages and income. Communities with low levels of post-secondary education are often correlated with high rates of poverty, as is the case for the communities we analyzed for this report. Income and poverty are similarly related to quality of housing. In the case of Palacios, raising educational attainment levels will be of major importance to the community's ability to attract employers and developers for more quality housing.

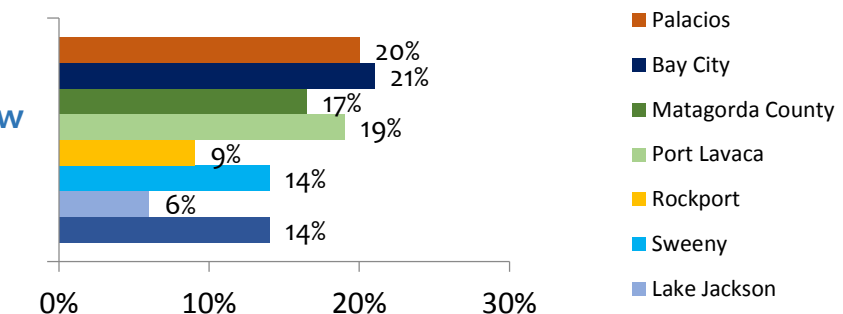
Educational Attainment



Source: US Census, ACS2008-2012, Selected Social Characteristics

Palacios has a relatively high poverty rate compared to surrounding communities and competing coastal communities. This will present a challenge to developing additional multi-family units as developers look to a strong balance between area wages and development costs.

Percent Living Below Poverty Level



Source: US Census, ACS2008-2012, Selected Economic Characteristics

ADDENDUM: Chapter 1

Demographic & Economic Data Analysis

Educational Opportunities

Palacios ISD

Palacios is blessed with good schools and dedicated students. Since the mid 1990s, schools in the district have received a “Met Standard” rating from the Texas Education Agency—the only alternative rating being “Needs Improvement.” Despite more than half of its students living in economically disadvantaged homes, participation rates are between 95-100% and testing at all grade levels are above the statewide average.

Schools in Palacios ISD include:

- Palacios High School
 - *Has been awarded the bronze medal by US News's America's Best High Schools*
 - *Outranks local high schools in students testing above state standards*
- Palacios Junior High
- East Side Intermediate
 - *2008-2010 Exemplary Campus*
- Central Elementary



East Side Intermediate School
Source: Palacios ISD



Wharton County Junior College

Wharton College is the nearest post-secondary school to Palacios. It offers dual-credit, continuing education, adult basic education, distance learning, and two-year and associate's degree programs across a number of academic and vocational skill sets. One signature program of importance to Palacios is the two year Associate's in Nuclear Power Technology program, out of which STP has sourced some of its employees. Median earnings for these graduates is \$52,530. STP has acknowledged that they do their best to source graduates from this program, but it is increasingly difficult to keep home-grown talent with growing competition from other communities. Palacios must make itself more attractive to these higher income earners, again relating to improving access to cultural, recreational, and housing options.



Students in the Nuclear Power Technology
Associate's Program
Source: WCJC.edu

ADDENDUM: Chapter 1

Demographic & Economic Data Analysis

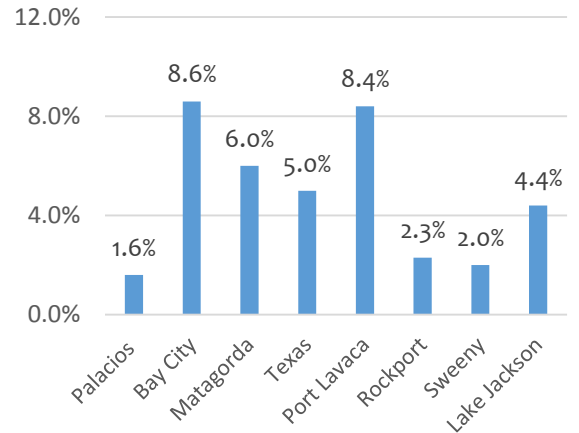
Workforce

Palacios has very low unemployment, and 58% of its population is currently in the workforce. This could indicate that the retired population is growing, as in Rockport. The city also has relatively low incomes compared to competitive communities.

Median income rates have risen but they have not kept pace with the cumulative rate of inflation: in 2000, median wages were \$35,518. To keep up with inflation, current median income should be \$47,356. While relative wage declines like this are taking place nationally, it does raise concerns for low-wage earners and their ability to pay for goods and housing. Bringing in higher paying jobs is important for the sustainable growth of Palacios.

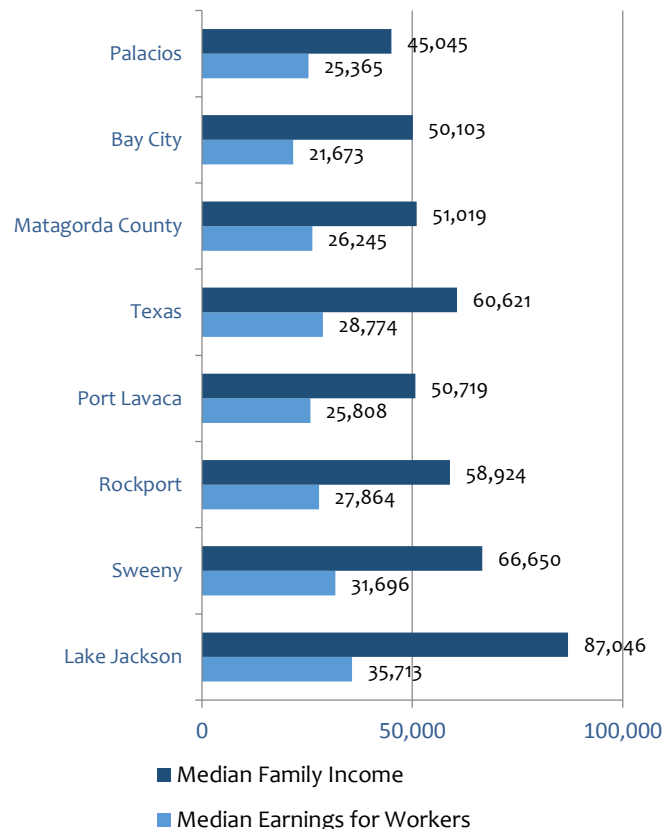
| | Size of Labor Force | % of Total Population |
|--------------|---------------------|-----------------------|
| Palacios | 2,065 | 58.4% |
| Bay City | 8,253 | 62.3% |
| Port Lavaca | 5,843 | 65.5% |
| Rockport | 3,365 | 47.1% |
| Sweeny | 1,453 | 55.1% |
| Lake Jackson | 13,772 | 66.1% |

Unemployment



Data Source: US Census, ACS2008-2012, Selected Economic Characteristics

Income



ADDENDUM: Chapter 1

Demographic & Economic Data Analysis

Industry Analysis

A **Location Quotient (LQ)** is an economic tool used to calculate local competitive advantage by comparing the ratio of local employment in an industry sector to national employment levels in the same sector. An LQ greater than 1 indicates that the local economy has a higher than average level of employment. We determine each industry's **Growth Prospects** by analyzing employment growth over time—in this case, we analyzed employment change in the last 10 years—to calculate which industries will see the largest amount of growth in the future.

Palacios' industry activity comprise a large portion of the economic advantages for the entire Matagorda County. Industries like construction and educational services indicate general population growth is sufficient to drive housing or facilities construction, and educational services rise as the school age population grows, either driven by fertility rates or immigration. Because of Palacios' growing employment in Trade and Fisheries and tourism related growth, construction and educational services likewise will continue to grow. The Port and large employers like STP Nuclear also provide stable employment opportunities so long as there is sufficient workforce and talent to meet their needs.

Palacios

2007-2011 LQ Greater than 1.25

Forestry, Fishing, Hunting, and Agriculture Support
Manufacturing
Wholesale Trade
Educational Services

2007-2011 LQ Between 1.0 and 1.25

Construction

Strong Growth Prospects

Construction
Educational Services
Arts, Entertainment, and Recreation

Local Competitive Advantage

Manufacturing
Wholesale Trade
Information

Source: US Census Bureau, County Business Patterns

*Industry defined by NAICS Code

Matagorda County

2010 LQ Greater than 1.25

Forestry, fishing, hunting, and agriculture support
Mining
Utilities
Retail trade
Real estate & rental & leasing
Other services (except public administration)

2010 LQ Between 1.0 and 1.25

Construction
Health care and social assistance
Accommodation & food services

Strong Growth Prospects

Mining
Transportation & warehousing
Finance & insurance
Real estate & rental & leasing
Professional, scientific & technical services
Management of companies & enterprises

Local Competitive Advantage

Forestry, fishing, hunting, and agriculture support
Utilities
Construction
Manufacturing

ADDENDUM: Chapter 1

Demographic & Economic Data Analysis

Key Takeaways

- Young and diverse population
- Population will be aging considerably in coming years
- Low educational attainment, but strong K-12 schools
- Incomes low, poverty rates high
- Very low unemployment, but only 58% of population is in the workforce
- Strong employment drivers all related to national and statewide growth trends



City Park, Palacios

Source: Pegasus

ADDENDUM: Chapter 2

Economic Drivers

Tourism

Trend: Growth in ecotourism

At the global, national, and state level, the largest and fastest growing tourism sectors are within a division known as ***experiential tourism***, whereby travelers learn of a place by experiencing unique local assets. This branch includes ***ecotourism, agritourism, cultural and heritage tourism***.

One of Matagorda County's main economic drivers is its thriving ***ecotourism*** market. Ecotourism involves travel to outdoor, natural areas in like parks. It is one of the most sustainable forms of tourism because it is intrinsically linked to healthy natural resources and the microeconomy that supports it. Globally, ecotourism is the fastest growing sector within the tourism and related services sectors. Within the state of Texas, the #1 ecotourism market is ***Birding***. *Last year in Texas, outdoor recreation activities generated \$29 billion in consumer spending and \$1.9 billion in tax revenues.*

Matagorda County's is located in the Gulf Coast Prairies and Marsh Ecoregion, home to one third of the populations of Texas and Louisiana. The Ecoregion is known for its large number of bird species, with Matagorda County's assets topping the list of highest performing parks and wildlife centers. For example, the Mad Island Marsh Preserve and Wildlife Management Area, located between Bay City and Palacios, is home to over 250 species of birds—the highest number of bird species of any location in the United States, according to the Audubon Christmas Bird Count. This is because the park lies along the Central Flyway, one of four principal North American migratory routes. The coastal regions are also home to some of the finest saltwater fishing sites along the Gulf Coast. Palacios itself is home to a cluster of piers and active fisheries. The Matagorda Bay Nature Park is a 1600 acre park and preserve dedicated to recreational and educational activities for on or off-land tourism activities. And all of the above sites are less than 40 minutes from downtown Palacios. Inland parks and coastal fishing amenities are Palacios' signature assets within the Tourism and related services industries.

Main tourism activities available in Palacios:

Ecotourism
History

Birding
Enviro-Education

Fishing
Golf

Cultural
Recreation

Source: Matagorda County



ADDENDUM: Chapter 2

Economic Drivers

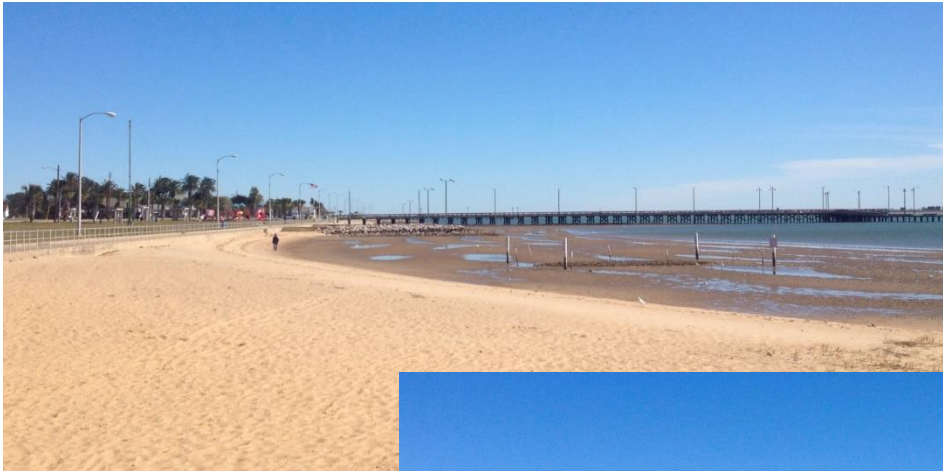
Tourism, cont'd

Trend: Changing demographics and impacts on tourism infrastructure

The 78 million Baby Boomers in the US today, known as the “forever teenagers” comprise for the largest travel volume population. They are a more active and affluent retirement population than any in US history. They value active, healthy, although not high-intensity, recreation. They also prefer finer lodgings—preferring a nice bed in a room with a view than a cheaper, convenient campground. They are particularly interested in experiential tourism, such as visits to wineries, distilleries, active agricultural lands, and fisheries. What’s more important: Boomer travel activity has remained relatively stable among travel populations through the recession and other economic slumps.

Moreover, Generation Y, or those born in the 1980s-90s who also comprise the most attractive and mobile workforce today, also greatly value spending time outdoors and look to it as reason for travel and reason for relocation. This generation is generally more environmentally conscious and value sustainability to a greater extent than their parents and grandparents’. They will appreciate the city’s location in relation to natural amenities. They will value added connections between commerce and the environment that the city would do well to highlight through downtown improvements.

Remember: improvements to downtown and streetscapes will build tourism and support workforce attraction.



Left: Palacios' public beach
Source: Pegasus



Right: Main Street,
Downtown Palacios
Source: Pegasus

ADDENDUM: Chapter 2

Economic Drivers

Energy

Local Energy and Petrochemical Production

Recent interviews with major employers in the energy sector shed light on a number of opportunities for Palacios. Local nuclear power company, STP, will see 40% of its workforce retire in the coming decade. This is not unlike national trends within this field: workers with strong skills in the Baby Boom generation are retiring earlier than previous populations in this age group, and new workers are not getting the training they need to replace the experience level of engineers and technicians. While Wharton County Community College does turn out dozens of graduates from its nuclear tech programs, many are choosing to take their skills elsewhere. Palacios could capture more local talent or attract talent from elsewhere if they choose focus their energies on new investments.

Another interesting dynamic revealed from interviews but a challenge to capture within existing data sources is the phenomenon of industry “turnarounds,” or the hiring of workers for six-week stints on an annual basis for the purposes of cleaning and updating major facilities. The influx of such workers is quite large and sustained over a period between April to October, as employers coordinate amongst each other so as to avoid running into a lack of temporary housing or workers.

Shale Oil & Natural Gas

While the geological conditions that have precipitated the Eagle Ford Shale plays in South Texas do not extend into Matagorda County, the indirect and induced activity from the increased production across the region are reaching the County. As per the establishment of Tenaris’ first seamless pipe mill in the US located in Palacios’ backdoor, Bay City, local employment in construction has already taken off. In the future, approximately 600 jobs will be created, and Palacios has every reason to believe they can capture a substantial portion of that growth. It will be important for Palacios to differentiate itself as the community with the best quality of life in the surrounding areas, and with more improvements to the city, a better quality of place.



Tenaris Offices, Bay City
Source: Pegasus

ADDENDUM: Chapter 2

Economic Drivers

Key Takeaways

- Strong tourism markets: fishing, birding, passive recreation are well-aligned with global & national growth trends in tourism demand.
- Palacios will have expanding employment opportunities that will generate population growth exceeding rates of past decades.
- New workforce skills will be in demand, to meet industry needs placing pressure to improve access to educational opportunities for the City/County.
- Capturing a portion of local employment growth will depend on the city's ability to attract local talent with existing amenities and future improvements.
- Focusing resources on downtown improvements will pay dividends for tourism and talent attraction.



ADDENDUM: Chapter 3

State of the Market

Hotels & Lodging Supply

Below is a list of the hotels surveyed for this study, including hotel/motel/B&B lodging facilities in Palacios and surrounding cities.

| | Name | Year Built | Rate | Rooms | Meeting Room Facilities | Living Area Sq Ft | Improvement Value | Notes |
|----------|--------------------------|------------|-------|-------|--|-------------------|-------------------|---|
| Palacios | Deluxe Inn | 1962 | \$65 | 41 | None | 14,662 | \$552,830 | Pool, breakfast, wifi, |
| | The Peaceful Pelican | 1910 | \$135 | 5 | None | 3,274 | \$168,420 | B&B, garden, wifi, highly reviewed online |
| | The Luther Hotel | 1903 | \$75 | 27 | Meeting area for approx 20, though most often for wedding receptions | N/A | \$856,680 | In need of interior improvements; mixed reviews; one block from Beachfront |
| | Main Inn B&B | 2002 | \$80 | 7 | None | 4,676 | \$204,880 | Weddings, Registered Historic Landmark, wifi |
| Bay City | Bay City Inn | 1962 | \$40 | N/A | None | 48,015 | \$870,020 | |
| | Comfort Suites | 2009 | \$89 | 68 | 476 sq ft Room | 42,803 | \$3,064,970 | Pool, spa, wifi, business center, laundry, business center, continental breakfast |
| | Executive Suites | 2006 | \$49 | N/A | None | 20,412 | \$764,010 | |
| | La Quinta Inn & Suites | 2008 | \$89 | 57 | 312 sq ft – Meeting room comfortably fits 15 around a conference table | 35,592 | \$3,309,930 | Pool, grills, business center, wifi |
| | South Texas Inn | 1979 | \$40 | 31 | None | 11,487 | \$189,190 | |
| | Days Inn | 1981 | \$57 | 125 | Small meeting room for 1-4 people; Conference room for up to 40 | 69,522 | \$1,598,570 | Billiards, wifi, business center, breakfast |
| | Hampton Inn & Suites | 2009 | \$93 | 86 | 912 sf – Conference room for 60; small meeting room for 10 around conf table | 64,749 | \$6,102,760 | Pool, spa, safe deposit box, bar, business center, wifi |
| | Knights Inn | 1978 | \$64 | 81 | Conference room for up to 50 | 44,834 | \$1,212,430 | Pool, restaurant, safe deposit |
| | America's Best Value Inn | 1999 | \$55 | 58 | None | 35,014 | \$1,187,460 | Pool |
| | Studio 6 | 2006 | \$79 | 64 | None | 27,280 | \$1,483,720 | Pool, restaurant |
| | Townhouse Motel | 1983 | \$45 | 35 | None | XX | \$562,570 | Grills |

ADDENDUM: Chapter 3

State of the Market

Hotels & Lodging Supply

| | Name | Year Built | Rate | Rooms | Meeting Room Facilities | Living Area Sq Ft | Improvement Value | Notes |
|-------------|------------------------------|------------|-------------|-------|--|-------------------|-------------------|---|
| Port Lavaca | Holiday Inn Express | 2010 | \$110 | 79 | Conference room for up to 60; \$100 for half-day rental, \$175 full day | 45,060 | \$4,713,950 | Poo, spa, breakfast, business center, wifi |
| | Best Western | 2001 | \$99 | 51 | Conference Room for up to 50 people; Rentable for \$100/half day, \$175/full day | 45,060 | \$4,713,950 | Pool, business center |
| Rockport | America's Best Value Inn | 1997 | \$99 | 48 | None | 20,559 | \$96,250 | Taxable Receipts: \$27,798 Waterfront - high speed internet access · high speed wireless internet · continental breakfast · complimentary breakfast · computer station |
| | Lighthouse Inn @ Aransas Bay | 2002 | \$119-\$169 | 78 | 2 conference rooms for up to 40 people | 49,084 | \$3,612,504 | See next page |
| | Redfish Lodge | 1993 | \$310 | 10 | None | 1,902 | \$135,110 | See page 28 |

We did not analyze price and industry amenities for RV parks, resort homes, or rental vacation homes, as they were not of relevance to this report. However, the RV storage facilities along the Eastern coastline and the Serendipity Bay RV Resort was at approximately 65% occupancy. The RVs are primarily luxury models, many with additional cars and bikes. Winter Texans are a great market particularly given the swell of diverse bird species entering the area on migratory routes southward.

Overall, the existing stock of lodging facilities is older and of poor quality, with the exception being the Peaceful Pelican. None of the hotels or motels in Palacios had a conference room or private meeting room for use by businesses. Given the demand for hotels in the area by industry, adding a business center and meeting spaces will be important to include in any new hotel development.



ADDENDUM: Chapter 3

State of the Market

Mixed-Use, beachfront examples

Lighthouse Inn at Aransas Bay

- 78 rooms
- Positioned at the entrance of Fulton Harbor
- Bay-front location of Palm Room Bar & Grill
- Fishing pier, near local attractions
- Modern amenities (internet, fitness center, lounge)
- Targets a luxury, high-end market
- 1 large special events space for up to 40 (817 sf)
- 1 medium, balconied meeting room for up to 30 (752 sf)
- Rooms with fax, data hookups, high speed internet



Mixed-use beachfront hotel with bar and grill and amenities for public events, weddings, and industry-related events and retreats

Source: Lighthouse Inn



ADDENDUM: Chapter 3

State of the Market

Mixed-Use, beachfront examples

Redfish Lodge – Rockport

- Fishing lodge on Rattlesnake Point
- 2 guest houses, sleeps 18 people total
 - Ruddy hotel can sleep up to 26 more
- Swimming pool, hot tub, deck
- Commercial fishing, private beach, lit pier for night fishing
- Onsite restaurant serving local seafood fair in a variety of southern and Cajun cuisine styles
- Feature birding sites and information



Mixed-use beachfront hotel featuring
fishing tours, restaurant
Source: Redfish Lodge

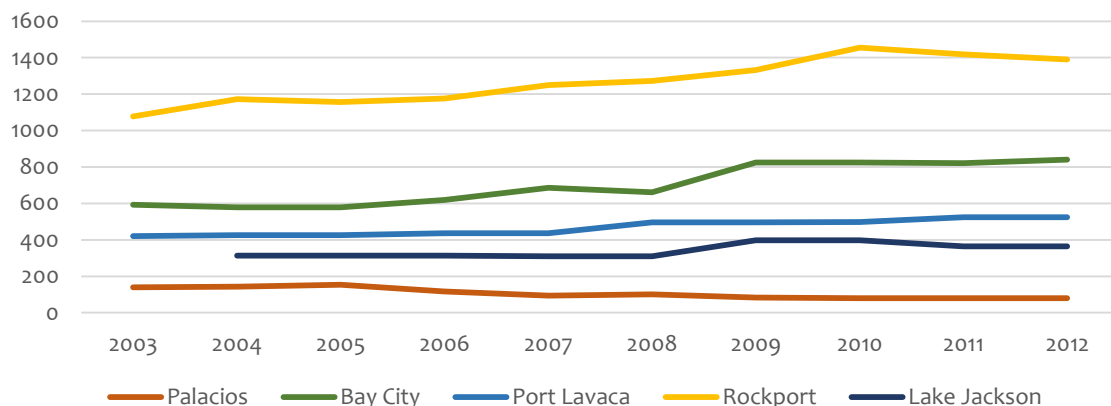


ADDENDUM: Chapter 3

State of the Market

Hotels & Lodging Supply

Hotel Capacity



Hotel Capacity in Palacios and Comparison Cities, 2003-2013

| Year | Palacios | Bay City | Port Lavaca | Rockport | Lake Jackson |
|------|----------|----------|-------------|----------|--------------|
| 2003 | 140 | 593 | 420 | 1,077 | |
| 2004 | 143 | 578 | 426 | 1,173 | 313 |
| 2005 | 153 | 578 | 426 | 1,157 | 313 |
| 2006 | 117 | 619 | 436 | 1,176 | 314 |
| 2007 | 94 | 685 | 436 | 1,249 | 310 |
| 2008 | 101 | 661 | 496 | 1,273 | 310 |
| 2009 | 84 | 824 | 496 | 1,332 | 397 |
| 2010 | 79 | 824 | 497 | 1,455 | 397 |
| 2011 | 80 | 821 | 525 | 1,419 | 365 |
| 2012 | 80 | 840 | 525 | 1,390 | 365 |

Source: Texas Comptroller of Public Accounts, Hotel Occupancy Receipts by City

Palacios' capacity (or number of total lodging units) has declined over recent years, while every other surrounding and competitive community has added hotel rooms. The only exception is the town of Sweeny, that does not yet have any hotels. What this data does not tell is the capacity of lodging facilities for RVs, campers, or vacation homes rented out privately, through informal methods like Airbnb.com or Craigslist, which is important to consider for a market of Palacios' size. While non-traditional lodgings will continue to play an important role in lodging tourists, the low number of hotel rooms for Palacios is a concern considering the uniqueness and relatively large amount of recreational tourism amenities the city has to offer.

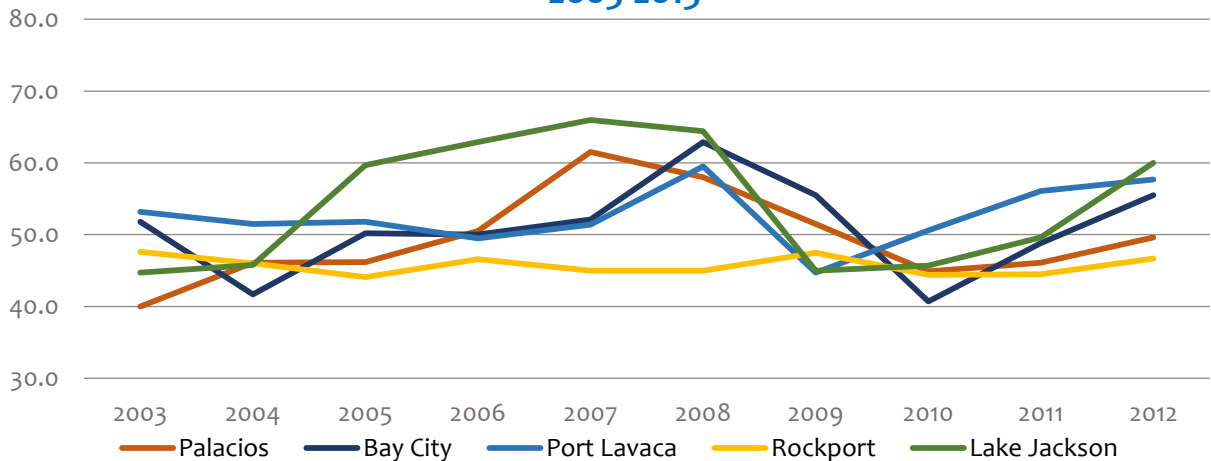
ADDENDUM: Chapter 3

State of the Market

Hotels & Lodging Supply

Palacios' occupancy rates have hovered between 40 and 61.5% for the last decade, even during peak recessionary times. While a slump did occur across all geographies from 2008 to 2010, Palacios and several others are once again witnessing rising occupancy rates. What is important to note is that other communities have been adding hotel rooms **and** maintaining similar occupancy rates and witnessing increasing sales receipts.

**Hotel Occupancy Rates
2003-2013**



Hotel Occupancy Rates in Palacios and Comparison Cities, 2003-2013

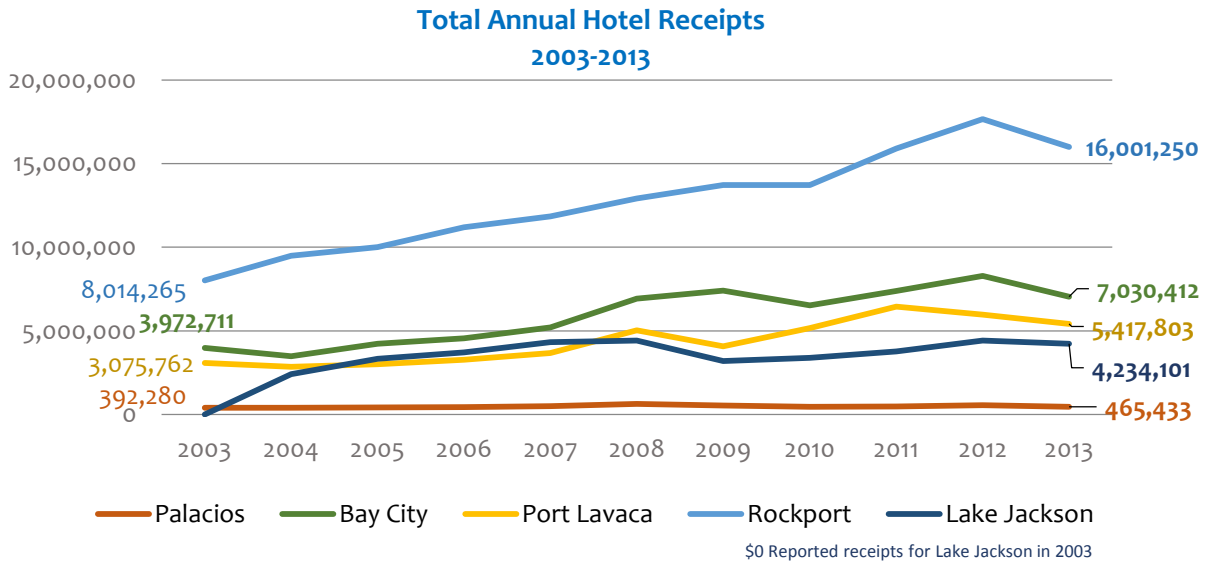
| Year | Palacios | Bay City | Port Lavaca | Rockport | Lake Jackson |
|------|----------|----------|-------------|----------|--------------|
| 2003 | 40.0 | 51.8 | 53.2 | 47.6 | 44.7 |
| 2004 | 46.1 | 41.7 | 51.5 | 46.0 | 45.8 |
| 2005 | 46.2 | 50.2 | 51.8 | 44.1 | 59.7 |
| 2006 | 50.5 | 50.0 | 49.5 | 46.6 | 62.9 |
| 2007 | 61.5 | 52.1 | 51.4 | 45.0 | 66.0 |
| 2008 | 58.0 | 62.9 | 59.5 | 45.0 | 64.4 |
| 2009 | 51.5 | 55.5 | 44.7 | 47.5 | 45.0 |
| 2010 | 44.9 | 40.7 | 50.6 | 44.4 | 45.7 |
| 2011 | 46.1 | 48.8 | 56.1 | 44.5 | 49.6 |
| 2012 | 49.6 | 55.5 | 57.7 | 46.7 | 60.0 |

Source: Office of the Governor, Economic Development and Tourism, 2013- Hotel Occupancy 2003-2012, Source Strategies, Inc.

ADDENDUM: Chapter 3

State of the Market

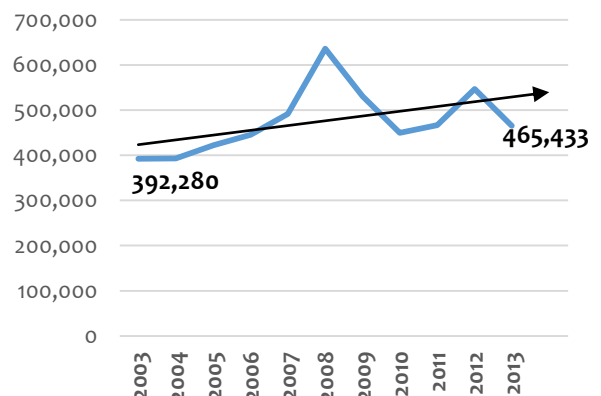
Hotels & Lodging Supply



While the number of hotel rooms has declined in Palacios, Hotel Receipts are generally on an upward trend. Hotels are able to charge more either as a response to taxes, inflation, or the improvements and attractiveness of the community.

For other cities, receipts have increased with the addition of more rooms. Interestingly Rockport has added relatively few rooms in proportion to existing units than did Bay City, but their receipts far surpass that of Bay City. Similarly, Port Lavaca has far fewer rooms, but comparable receipts. This is likely related to tourism, and in the case of Rockport, better quality hotels and quality of place improvements. Linking better hotels to tourism amenities and to downtown is a winning combination that Palacios can easily leverage.

Hotel Receipts for Palacios, Annual Total, 2003-2013



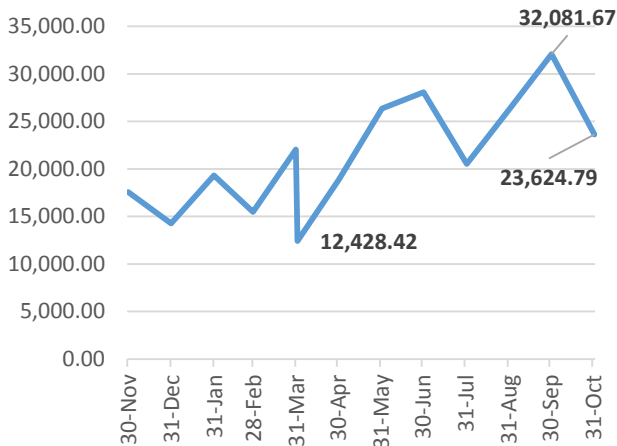
Source: Texas Comptroller of Public Accounts, Hotel Occupancy Receipts by City ; Pegasus

ADDENDUM: Chapter 3

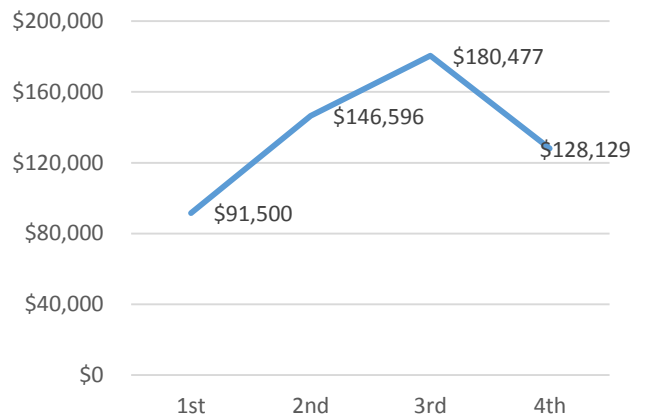
State of the Market

Hotels & Lodging Supply

Palacios' Monthly Hotel Receipts
2012-2013

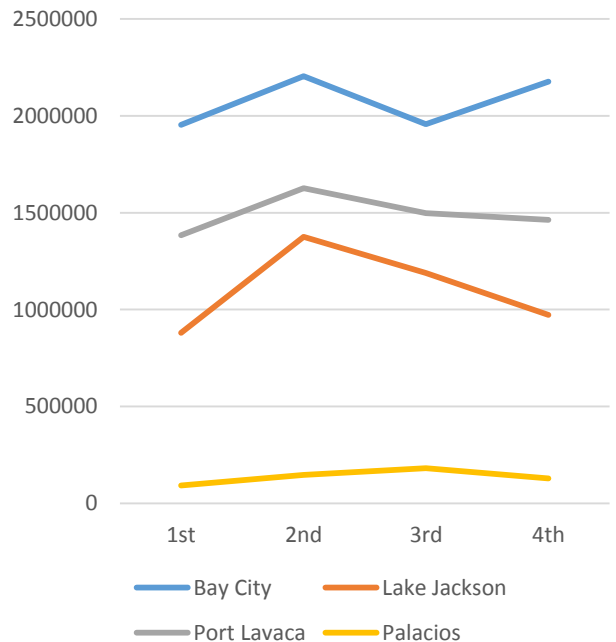


Palacios' Quarterly Hotel Receipts,
2012-2013



- **Peak receipts: Sept 2013** **\$32,082**
- **Trough receipts: March 2013** **\$12,428**
- **Most recent receipts: October** **\$23,625**

Quarterly Receipts Comparison



Palacios has a later peak receipts season than comparable markets, and it is likely explained by the “turnarounds” phenomenon spoken of in the Economic Trends Section of Chapter 2.

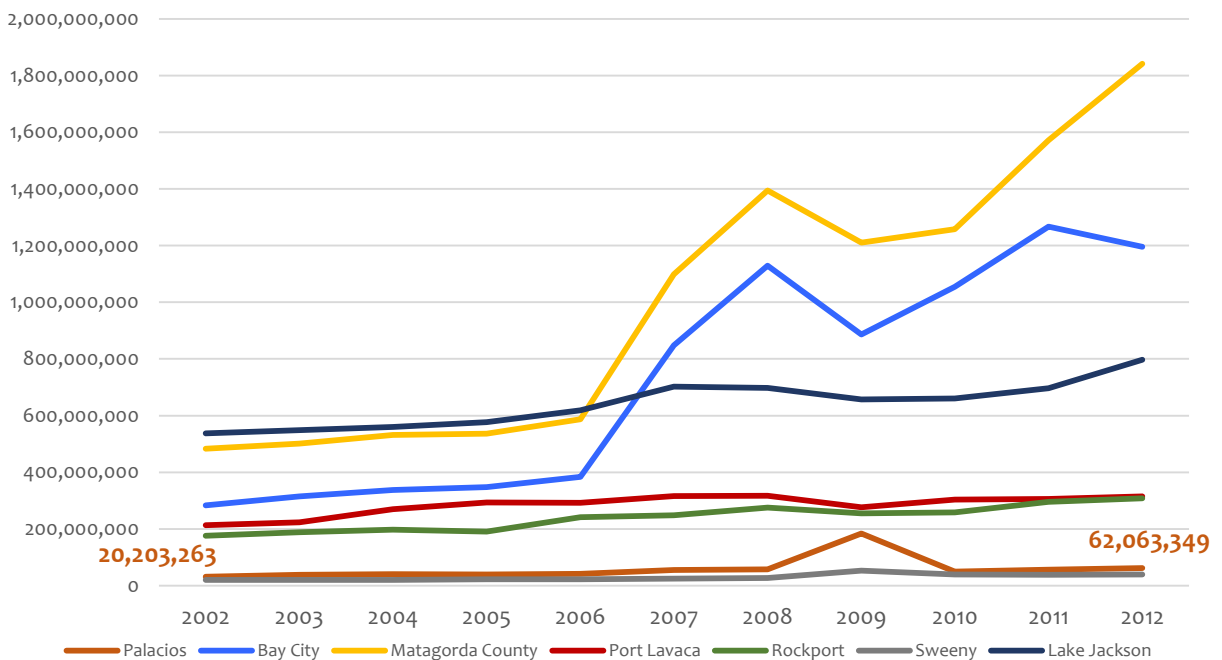
Peak receipts arrive from July 31-Oct 31, and this in fact helps to lengthen the peak receipts season for the Palacios market. While most cities see peaks only in summer months from late April to July, Palacios’ sees increases lasting from April through October.

ADDENDUM: Chapter 3

State of the Market

Hotels & Lodging Supply

Gross Sales for Palacios and Comparison Geographies,
2002-2012



Annual Gross Sales in Matagorda County have skyrocketed from \$500,000 in 2002 to over \$1.8 million in 2012. New retail, housing, and increasing employment in the county have been concentrated in Bay City, which is primarily responsible for this boost in Matagorda's overall Sales. Again, talent attraction and increasing economic development indicators in education, incomes, and poverty will be important for attracting new retailers. Starting with Downtown retail and small business development and the Pavilion redevelopment could all coalesce to draw retailers and restaurants to the area.

ADDENDUM: Chapter 3

State of the Market

Hotel Developments – Qualitative Inquiry

Pegasus spoke with hotel owners, managers, employers, and conducted a survey of businesses in the County to gauge future demand for hotels. The need for updating and expanding lodging options is clear. Here is what some of our sources told us:

- Area employers are witnessing strong growth and are planning to increase their investment in the Matagorda County area in the coming years.
- 68% of area employers polled in our survey of over 30 area businesses stated they are optimistic or very optimistic about future economic prospects in the County.
- 54% of employers plan to increase capital investment in the area; 25% of which plan to increase investment by 21% or more.
- Expanded facilities will increase demand for cleaning crews for “turnarounds”
- Expansions at STP and the new Tenaris plant will increase private sector needs for lodging, including extended stay options for cleaning crews who conduct annual cleanings of large facilities across the region.
- Tourism is strong, but surrounding communities are receiving the most benefits from the recovery of the tourism market.
- Area residents recommended other communities when asked where to spend recreational time in the Matagorda area
- A majority of residents and hotel managers describe Palacios as a “quiet town” with “not much going on” and recommended “Bay City or somewhere else if you’re a young person”

ADDENDUM: Chapter 3

State of the Market

Hotels & Lodging Supply

KEY TAKEAWAYS – LODGING

- A new, mixed-use hotel development on the waterfront would do well in Palacios.
- The majority of Hotel/Motel/Lodging facilities in Palacios and County are older and in need of repair.
- Small number and low quality of lodging facilities with more than 10 rooms
- There is a severe lack of industry-related amenities: business centers, meeting rooms, conference rooms in Palacios.
- The majority of establishments are small bed & breakfasts, vacation homes, or RV parks.
 - Clear signs of Winter Texans coming to Palacios
- Lodging stock is located along the waterfront, well linked to major local amenities (beach, boardwalk, fishing, port)
- Training is needed for hotel owners and managers to spread the message that Palacios is a great place to visit or conduct business.

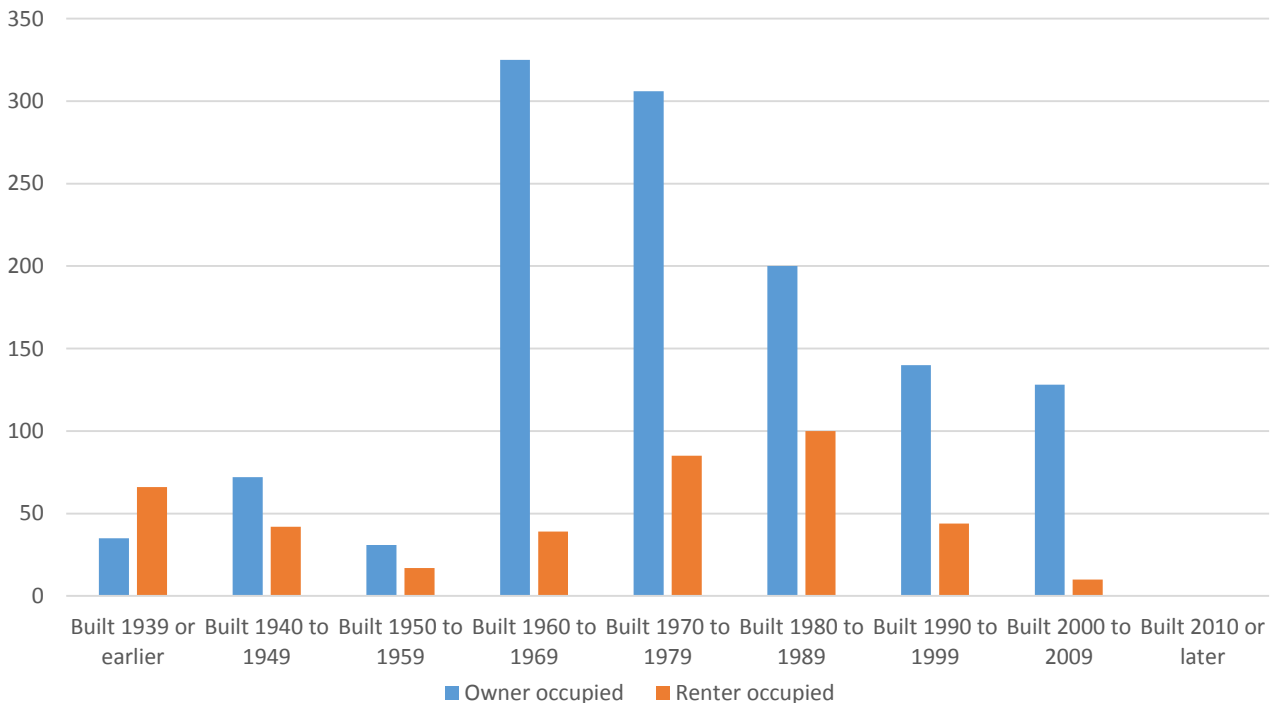
ADDENDUM: Chapter 3

State of the Market

Multi-Family Supply

Palacios witness peak housing construction from 1960s to the 1980s. Owner-occupied housing witnessed its strongest growth in the 1960s-1970s, while rental units peaked in the 1980s. Owner-occupied units have far exceeded rental housing in terms of the number of units built. As witnessed in site visits, the vast majority of owner-occupied units are single-family, detached homes and mobile homes; rental units are more varied. There are many rental units that are single-family vacation homes, townhomes, and several affordable housing complexes.

Housing Units by Tenure and Year Built



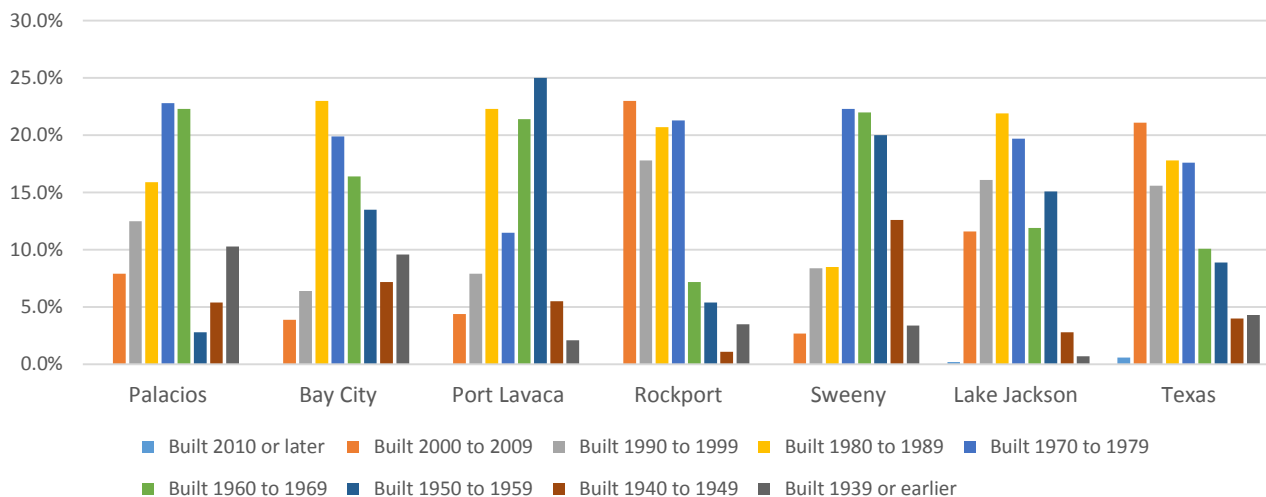
Source: 2008-2012 American Community Survey 5-Year Estimates

ADDENDUM: Chapter 3

State of the Market

Multi-Family Supply

Housing Units by Year Built



| | Palacios | Bay City | Port Lavaca | Rockport | Sweeny | Lake Jackson | Texas |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|
| Built 2010 or later | 0.0% | 0.00% | 0.00% | 0.00% | 0.00% | 0.20% | 0.60% |
| Built 2000 to 2009 | 7.9% | 3.90% | 4.40% | 23.00% | 2.70% | 11.60% | 21.10% |
| Built 1990 to 1999 | 12.5% | 6.40% | 7.90% | 17.80% | 8.40% | 16.10% | 15.60% |
| Built 1980 to 1989 | 15.9% | 23.00% | 22.30% | 20.70% | 8.50% | 21.90% | 17.80% |
| Built 1970 to 1979 | 22.8% | 19.90% | 11.50% | 21.30% | 22.30% | 19.70% | 17.60% |
| Built 1960 to 1969 | 22.3% | 16.40% | 21.40% | 7.20% | 22.00% | 11.90% | 10.10% |
| Built 1950 to 1959 | 2.8% | 13.50% | 25.00% | 5.40% | 20.00% | 15.10% | 8.90% |
| Built 1940 to 1949 | 5.4% | 7.20% | 5.50% | 1.10% | 12.60% | 2.80% | 4.00% |
| Built 1939 or earlier | 10.3% | 9.60% | 2.10% | 3.50% | 3.40% | 0.70% | 4.30% |
| Total Occupied Housing Units | 1,640 | 6,476 | 4,165 | 3,633 | 1,303 | 9,780 | 8,782,598 |

Data Source: US Census, ACS2008-2012, Selected Housing Characteristics

Palacios has an older housing stock, with the bulk of housing (61%) built between 1960 to 1989. Localities with the most new housing stock are Rockport and Lake Jackson. Lake Jackson benefits from its proximity to Houston, the coast's largest metropolitan area. Palacios has prospered due to increases in the retirement age population.

ADDENDUM: Chapter 3

State of the Market

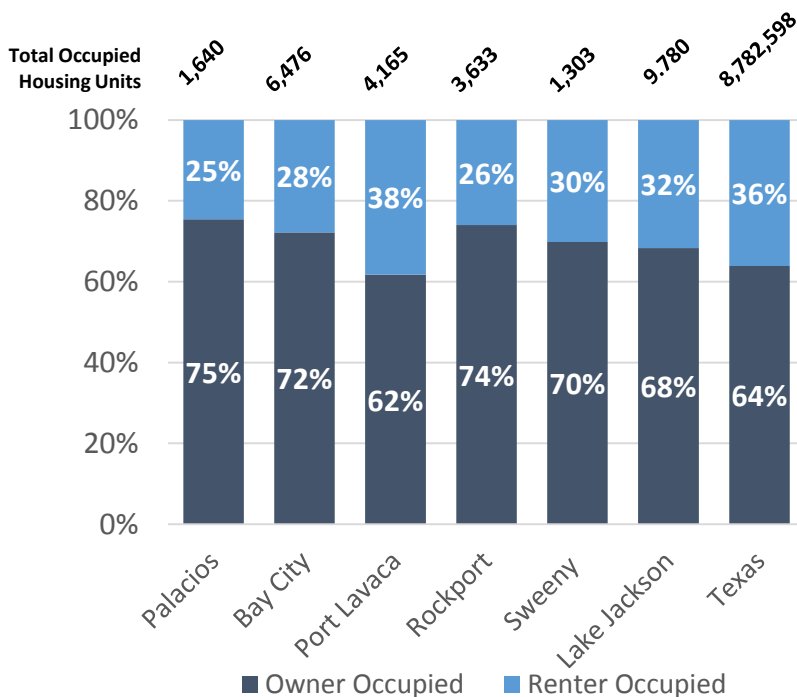
Multi-Family Supply

Palacios has a low proportion of rental units, 25%, compared to the state and other competitive communities in the Matagorda Bay area.

Housing values in Palacios are low compared to other communities, even coastal communities like Rockport and Port Lavaca, indicating that it is not simply hurricane activity that is depressing home values. This is likely more explained by the age of housing stock in Palacios.

Rents are comparable to surrounding areas, which is interesting given that incomes are lower in Palacios than in surrounding areas. It is an indication that those who rent are paying a higher proportion of their income on rental housing than they might in other areas.

Occupancy by Tenure



Housing Values & Rents

| | Median Housing Value of Owner-Occupied Units | Median Gross Rent |
|---------------------|--|-------------------|
| Palacios | \$66,100 | \$642 |
| Bay City | \$87,600 | \$647 |
| Port Lavaca | \$76,500 | \$722 |
| Rockport | \$193,800 | \$631 |
| Sweeny | \$86,900 | \$679 |
| Lake Jackson | \$144,200 | \$843 |

Data Source: US Census, ACS2008-2012, Selected Social Characteristics, Selected Housing Characteristics

ADDENDUM: Chapter 3

State of the Market

Multi-Family Developments – Qualitative Inquiry

Pegasus interviewed real estate brokers, complex managers, and real estate professionals in the area on the current stock of multi-family housing in Palacios and the surrounding area. Interviewees indicated that Palacios does not have enough new apartments that are affordable to residents of Palacios. The newest units are typically located in existing homes, as garage apartments or vacation homes that are rented for many months out of the year. Some of the responses were as follows:

- The city does need more affordable housing and market-rate units
 - Ceiling Rents are very low, always on a waiting list
 - Some property owners hesitant to rent to Section-8 voucher holders; more large affordable properties would help solve this
- Demand is already high and will continue to increase because STP plans to build 2 more reactors and those workers will want to live in Palacios
- Your two options for renting are: (1) you can apply for an income-based unit and wait 6 months or more, or (2) rent units through brokers or agents who manage homes or small rental properties like townhomes, which are much more expensive
 - “Rental homes and rental properties are becoming more expensive because of rising property taxes”
 - Improvements along the coastline “have raised property taxes and prevent people from wanting to buy a home,” many would rather rent
- A lot of “young people” looking to rent might prefer Bay City because it has better retail and grocery stores at a much closer distance
- There is more for young people to do in Bay City, Palacios doesn’t have many bars or restaurants, “we just have the beach”
- Rental homes or non-multifamily rentals are better quality and have had more recent renovations
- Bay City has so much multi-family stock and they are building even more because of Tenaris, it would be hard to convince people to live in Palacios
- Market-rate units at Henderson Place have recently gone up and will likely increase further
- Perceptions of those living in apartments is negative; some discriminate against those with vouchers and those seeking subsidies
- Each affordable housing complex is on a wait of over 6 months, with between 40-50 persons on the waiting list
- Most Section 8 voucher holders are working adults with no criminal record, but there is a perception of laziness and high crime rates within apartments that cater to low-income workers and Section 8 holders.

ADDENDUM: Chapter 3

State of the Market

Multi-Family Developments

Currently, there are 6 multi-family complexes in Palacios, with only two offering any market-rate units. All other complexes are considered affordable, or “income-based” and only supply units to those earning 80% or below AMI. Most of the complexes, and several local rental home property agents accept Section 8 vouchers. Two of the complexes are currently undergoing renovations in some units, Henderson Place and Windy Point.

Palacios Market

| Complex | City | Year Built | Occupancy | Unit Types | Rents | Units | Affordable Housing? (Y/N) | Notes |
|----------------------------|----------|------------|-----------------------|---|---|-------|---|---|
| Henderson Place Apartments | Palacios | 1977 | 100%, Waiting List | 1 Br (sm), 1 Br (lg). 2 Br | \$327-\$398 \$397-\$498 \$465-\$575 | 38 | Some Income-based options; Section 8 | The only complex with market rent units; always full. Some recently renovated Units |
| Bayshore Manor Apartments | Palacios | 1985 | 100% | 1 Br 2 Br | \$520 \$720 | 58 | Yes, Income-based rents; Section 8 | Currently on a waitlist, no earlier than 6 months for an opening |
| Palacios Housing Authority | Palacios | N/A | 100%, On waiting list | 1 Br 1 Ba 2 Br 2 Ba 3 Br 1/1.5 Ba | \$311 \$364 \$460 | 44 | Yes, All-income based | Waiting list is 40-50 persons per unit type |
| Bay View Apartments | Palacios | 2000 | N/A | Would not reveal without application | \$520 \$720 | 58 | Yes, Housing for Persons living with disabilities and older | Assisted care options raise rents; federal application required |
| Bay View Townhomes | Palacios | 2000 | 60% | 2 Br, 1.5 Ba Townhomes | Starting at \$625 | 5 | None | Neighboring park; close to beach |
| Windy Point Apartments | Palacios | N/A | 98% | NA | N/A | 30 | Yes, Income-based rents; Section 8 | Currently on a waitlist, no earlier than 6 months for an opening |

FY 2013 Fair Market Rents by Unit, Matagorda County

| Efficiency | 1 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom |
|------------|-----------|-----------|-----------|-----------|
| \$415 | \$515 | \$697 | \$944 | \$1,234 |

Henderson Place Apartments



Source: Pegasus

Bayshore Manor Apartments



Source: Pegasus

Bay View Townhomes



Source: Palacios Housing Source

ADDENDUM: Chapter 3

State of the Market

Multi-Family Developments

Pegasus sampled rents in competitive cities of Bay City and Sweeny, though as with Palacios, in keeping with the highest demand for housing a majority of complexes in these communities also featured many affordable, “income-based” units or accepted Section 8 vouchers as well. Bay City’s Mayfair and Riverway Apartments offered market-rates units that would be an option to higher income earners like future nuclear technicians. Amenities like pools and playgrounds are more common in these markets, but real estate professionals in Palacios intimated that they rely on Palacios’ signature amenities are its natural assets like the beach and fishing piers.

Palacios Market

| Complex | City | Year Built | Occupancy | Unit Types | Rents | Units | Affordable Housing? (Y/N) | Notes |
|---------------------|----------|------------|--------------------|--|-----------------------------------|-------|-------------------------------------|---|
| Mayfair Apartments | Bay City | 1965 | 100%, Waiting List | 1 Br 2 Br | \$725 \$850 *All bills paid | 41 | N | Rarely have vacancies; very “choosy” when picking tenants; “we like a nice, quiet family community” |
| Hunter’s Cove | Bay City | 1978 | N/A | 2 Br 1 Ba 2 Br, 2 Ba | \$430-\$570 \$695 | 58 | No but do accept Section 8 Vouchers | Renovations currently ongoing in some units |
| Hamman Oaks | Bay City | 1974 | 98% | 1 Br 1 Ba (730 sf) 2 Br 1 Ba (937 sf) 2 Br 2 Ba (1132 sf) | \$405 \$460 \$500 | 41 | N | Playground |
| Nichols Square | Bay City | 1984 | N/A | 1 – 3 Br | \$465 - \$775 | 58 | Some units | Renovations currently ongoing in some units |
| Riverway Apartments | Bay City | 1985 | 98% | 1 Br 1 Ba (700 sf) 1 Br 1.5 Ba 2 Br 1 Ba (820 sf) 2 Br 2 Ba (937) | \$495 \$560 \$615 \$660 | 152 | N | Quiet & peaceful; pool, Volleyball court, Washer/dryer, Playground |
| Oak Bend Estates | Sweeny | | 91% | 1 Br TH (644 sf) 1 Br Flat (501 sf) 2 Br 1 Ba (795 sf) 2 Br 2 Ba (907 sf) | \$475 \$425 \$575 \$650 | 58 | N – Accept Section 8 | Only market rate complex in Sweeny; Pool; Playground |

Riverway Apartments



Source: Pegasus

Hamman Oaks Apartments



Source: Pegasus

Oak Bend Estates



Source: Oak Bend Estates

FY 2013 Fair Market Rents by Unit, Brazoria County

| Efficiency | 1 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom |
|------------|-----------|-----------|-----------|-----------|
| \$652 | \$656 | \$843 | \$1,162 | \$1,434 |

ADDENDUM: Chapter 3

State of the Market

Multi-family

KEY TAKEAWAYS

- Palacios is in need of newer and updated apartments.
- There is high demand for workforce housing, particularly units that are affordable to mid- to low-income workers who are able to pay at or slightly below Fair Market Rents for Matagorda County.
- The supply of single-family and townhome rental properties rent at much higher rates than multi-family complexes.
- Additional housing units are required not only to satisfy current demand but also the future demand driven by employment growth.

ADDENDUM: Chapter 4

Projected Demand

Projected Hotel Receipts

While existing Palacios hotel products have fairly low occupancy rates, the area average occupancy rate has been increasing over the past decade. This implies that a well-designed beachfront hotel could induce a higher level of demand than is currently seen in Palacios alone. To analyze the feasibility of new hotel development, Pegasus developed two mixed-use development types modeled on successful area beachfront hotels:

1. An 80 Room Hotel with a ground-level restaurant costing \$125/night
2. A 40 Room Hotel with a ground-level restaurant and sport-fishing accommodations costing \$75/night

Models were assumed to open at current area average occupancy rates, and compared to the occupancy rate of a successful hotel/restaurant in the region. These models were then "aged" by area occupancy growth rates.

With a well-designed and effectively marketed product, a new mixed-use hotel in Palacios should be able to capture an equivalent share of demand as the regional cohort average. In the case of Development Type 2, this would yield \$561K in gross sales in the first year and a RevPAR of \$38, increasing to \$614K and a RevPAR of \$42 by year ten. With more intentional development of tourism amenities in Palacios, including our recommended downtown improvement strategies, a more competitive occupancy rate of 60% could be obtained in the first year. This would yield sales of \$657k and a RevPAR of \$45 in the first year, and \$719K and a RevPAR of \$49 by year ten.

Hotel Revenue Forecast, Development Type 1

80 Room Hotel with Restaurant, \$125 ADR

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Rooms | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| Area Cohort Occupancy | 51.3% | 51.8% | 52.3% | 52.9% | 53.4% | 53.9% | 54.5% | 55.0% | 55.6% | 56.1% |
| Room Nights Sold | 14,980 | 15,129 | 15,281 | 15,434 | 15,588 | 15,744 | 15,902 | 16,061 | 16,222 | 16,384 |
| Total Sales | \$1,872,450 | \$1,891,187 | \$1,910,111 | \$1,929,225 | \$1,948,530 | \$1,968,028 | \$1,987,722 | \$2,007,612 | \$2,027,702 | \$2,047,992 |
| *RevPAR | \$64.13 | \$64.77 | \$65.41 | \$66.07 | \$66.73 | \$67.40 | \$68.07 | \$68.75 | \$69.44 | \$70.14 |
| Comparison Occupancy | 60.0% | 60.6% | 61.2% | 61.8% | 62.4% | 63.1% | 63.7% | 64.3% | 65.0% | 65.6% |
| Room Nights Sold | 17,520 | 17,695 | 17,872 | 18,051 | 18,232 | 18,414 | 18,599 | 18,785 | 18,973 | 19,163 |
| Total Sales | \$2,190,000 | \$2,211,915 | \$2,234,048 | \$2,256,404 | \$2,278,983 | \$2,301,788 | \$2,324,821 | \$2,348,085 | \$2,371,581 | \$2,395,313 |
| RevPAR | \$75.00 | \$75.75 | \$76.51 | \$77.27 | \$78.05 | \$78.83 | \$79.62 | \$80.41 | \$81.22 | \$82.03 |

Source: Pegasus Planning and Development

Hotel Revenue Forecast, Development Type 2

40 Room Hotel with Diner and Sport Fishing Accommodation, \$75 ADR

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Rooms | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Area Cohort Occupancy | 51.3% | 51.8% | 52.3% | 52.9% | 53.4% | 53.9% | 54.5% | 55.0% | 55.6% | 56.1% |
| Room Nights Sold | 7,490 | 7,565 | 7,640 | 7,717 | 7,794 | 7,872 | 7,951 | 8,030 | 8,111 | 8,192 |
| Total Sales | \$561,735 | \$567,356 | \$573,033 | \$578,768 | \$584,559 | \$590,409 | \$596,317 | \$602,284 | \$608,311 | \$614,398 |
| RevPAR | \$38.48 | \$38.86 | \$39.25 | \$39.64 | \$40.04 | \$40.44 | \$40.84 | \$41.25 | \$41.67 | \$42.08 |
| Comparison Occupancy | 60.0% | 60.6% | 61.2% | 61.8% | 62.4% | 63.1% | 63.7% | 64.3% | 65.0% | 65.6% |
| Room Nights Sold | 8,760 | 8,848 | 8,936 | 9,026 | 9,116 | 9,207 | 9,299 | 9,392 | 9,486 | 9,581 |
| Total Sales | \$657,000 | \$663,574 | \$670,215 | \$676,921 | \$683,695 | \$690,536 | \$697,446 | \$704,425 | \$711,474 | \$718,594 |
| RevPAR | \$45.00 | \$45.45 | \$45.91 | \$46.36 | \$46.83 | \$47.30 | \$47.77 | \$48.25 | \$48.73 | \$49.22 |

Source: Pegasus Planning and Development

Forecast 1 →
Should the Hotel maintain area average occupancy growth rate

Forecast 2 →
Should the Hotel occupancy rates rise to level of successful comparison product

*RevPAR =
Revenue per
available
room

ADDENDUM: Chapter 4

Projected Demand

For multi-family projected demand we analyzed growth rates that could be linked to general population growth, employment growth and the growth in occupied rental housing units across comparison geographies. Data-driven projections such as these are developed using past data points to extrapolate future trends.

Despite the fact that in recent years Palacios' overall population has declined in very recent history, an overwhelming amount of qualitative information indicates that utilizing past data alone would severely undercut future growth. Furthermore, expansions have been seen in housing data across the City, County and State; in fact, Palacios has witnessed annual growth rates in occupied rental housing that exceed local population rates and growth in housing units. We also know that employment demand will surely surpass population growth trends of the past. Therefore Pegasus approached this projection with a measured but optimistic methodology that integrates these growth rates. We believe Palacios' growth will likely continue and be bolstered by trends throughout the County and State.

Area Growth Rates (Population and Housing)

| Relevant Growth Rates for Projected Demand | | | |
|---|-----------|-----------|--------------------|
| Geography | 2000 | 2010 | Annual Growth Rate |
| Palacios (Population) | 5,153 | 4,718 | -0.88% |
| Palacios (Housing units) | 1,976 | 1,987 | 0.06% |
| Palacios (Occupied Rental Housing units) | 512 | 545 | 0.63% |
| Matagorda County (Population) | 37,957 | 36,702 | -0.33% |
| Matagorda County (Housing Units) | 18,611 | 18,801 | 0.10% |
| Matagorda County (Occupied Rental) | 4,619 | 4,646 | 0.06% |
| Texas (Housing Units) | 8,157,575 | 9,977,436 | 2.03% |
| Pegasus' blended annual growth rate: | | | 0.63% |
| Sources: US Census SF1, SF3, 2000, 2010 | | | |

Methodology Note: Census Data used in place of 2008-2012 ACS data to increase data reliability.

ADDENDUM: Chapter 4

Projected Demand

Projected Multifamily Demand Scenarios

We believe the City will continue to expand as a portion of the Matagorda County population and that its growth in rental units will continue at an even higher rate given current trends and future employment indicates. Meeting this demand will require additional rental housing. The chart below indicates the projected unitary demand for rental housing in Palacios based on various rates, higher rates indicating a very optimistic, high-demand scenario, and lower to negative rates indicating demand under more depressed conditions.

While the rate of growth for rental housing will likely not match that of the state, we feel the growth rate of .63% is a realistic assumption grounded in market realities within the City and County. Should Palacios' growth in occupied rental units continue at this rate, by 2020 there will be a need for 128 additional Units and 264 units will be needed by 2030. This number could be exceeded depending on the level of investment taken by the City and EDC to improve quality of place amenities that would result in increased workforce attraction.

Projected number of occupied rental units by 2020

| | | | Units Needed | |
|---|--------------|--------------|--------------|-------------|
| | | | 2020 | 2030 |
| Depending on Growth Rates... | 2020 | 2030 | 2020 | 2030 |
| Palacios (Current Population Growth) -0.88% | 1,819 | 1,666 | -168 | -321 |
| Matagorda County (Current Growth) 0.06% | 1,999 | 2,010 | 12 | 23 |
| Palacios (Rate of Palacios' growth as a proportion of Matagorda County) 0.51% | 2,114 | 2,200 | 127 | 213 |
| Palacios (Blended Growth Rate) 0.63% | 2,115 | 2,251 | 128 | 264 |
| Texas (Population Growth) 1.92% | 2,404 | 2,908 | 417 | 921 |

Sources: Pegasus

How will this demand be satisfied?

Because we know that no new multifamily units have been constructed in the last decade or more, it is clear that the expansion in occupied rental housing in Palacios has been satisfied through an increase in single-family rental properties. This phenomenon was confirmed by our interviews with area realtors and property managers. However, current demand, as seen from extensive waitlists for complexes in Palacios, has not been satisfied by converting single-family units from owner to rental property. Nor will future demand likely be satisfied in this manner especially given the dramatic difference in rents between a two-bedroom, single family rental (the lowest quoted at \$1,100 by Pegasus Sources) and a two-bedroom multi-family rental (ranging between \$465-\$720). It is likely that the public sector will have to play a role in this effort, given the challenges to development already mention in this report.

Appendix A

HUD Income Limits

Matagorda County Income limits

Median Income: \$52,800

INCOME LIMIT (IL): Determines the eligibility of applicants for HUD's assisted housing programs. The major active assisted housing programs are the Public Housing program, the [Section 8](#) Housing Assistance Payments program, [Section 202](#) housing for the elderly, and Section 811 housing for persons with disabilities.

FAIR MARKET RENT (FMR): Primarily used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment contracts in the Moderate Rehabilitation Single Room Occupancy program, and to serve as a rent ceiling in the [HOME](#) rental assistance program.

| FY 2014 Income Limit Category | 1 Person Household | 2 Person Household | 3 Person Household | 4 Person Household |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| Low (80%) Income Limit | \$29,600 | \$33,800 | \$38,050 | \$42,250 |
| Very Low (50%) Income Limit | \$18,500 | \$21,150 | \$23,800 | \$26,400 |
| Extremely low (30%) | \$11,100 | \$12,700 | \$14,300 | \$15,850 |

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