



Published by:
O'Connor & Associates
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HOUSTON REAL ESTATE TRENDS

EDITED BY PATRICK O'CONNOR, MAI \$199 PER YEAR VOLUME 15 NUMBER 6 AUGUST 2001

APARTMENTS

Overall occupancy fell 0.13 points this quarter to 92.95% after reaching the highest occupancy level in Houston in over a decade last quarter. Over the past year, occupancy is up 1.35 points overall, with Class A occupancy recording a 6.29 point jump since 2Q 2000. The highest occupancy levels were recorded in Galena Park-East, Far East, and the Central Business District at 98.80%, 98.17%, and 97.64%, respectively. This is the sixth straight quarter that Class A occupancy has increased, reaching its highest point in three years. Likewise, despite this quarter's 0.12-point drop in occupancy, the Class B market appears to be in good health. The current Class B occupancy level of 93.11% is 0.42 points higher than at this time last year. As the Class A market has stabilized, the Class B market has recovered, as well.

Class C and Class D rents have remained unchanged since 3Q 2000. The \$0.01 increase in Class B rent ended three straight quarters of inactivity, while Class A rents have remained unchanged for the past 2 quarters.

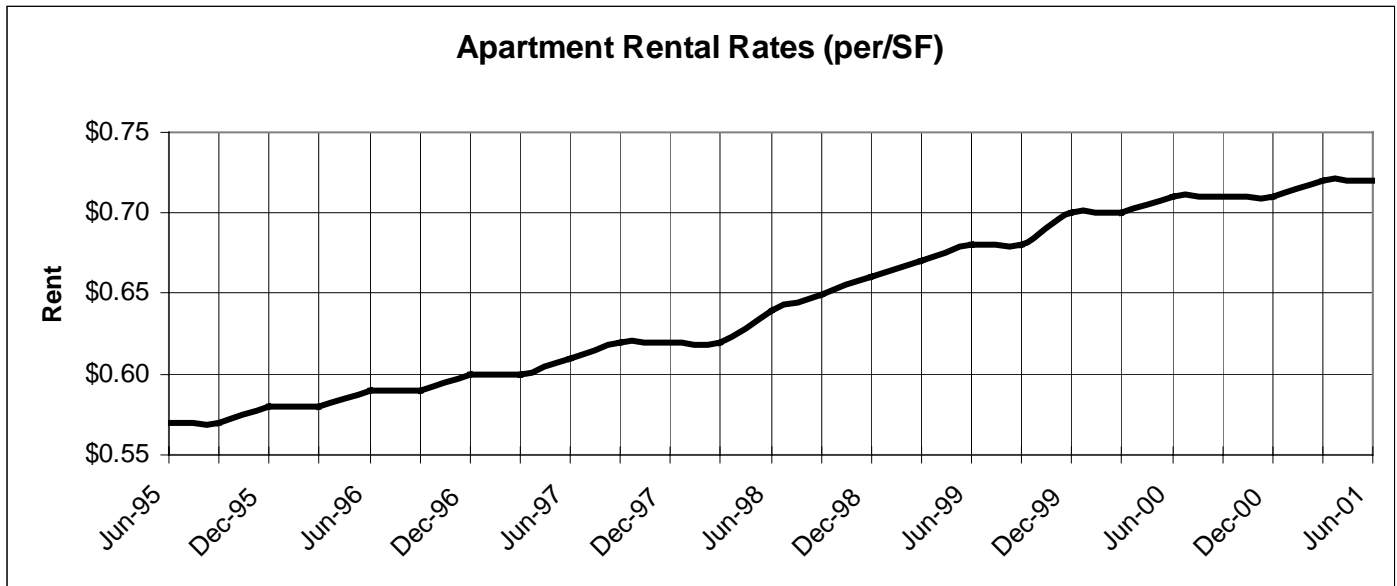
Class C absorption fell most dramatically this quarter, as it is the only class to post negative absorption this quarter, with a total of -818 units absorbed. Of the 41 apartment sectors, 18 of them reported negative totals in Class C absorption this quarter, while another 11 sectors reported zero net absorption for the quarter. The IH-45 North sector led the decline with a total of -251 units absorbed this quarter, while three other sectors registered (negative) totals of over -130 units. The highest positive absorption total this quarter in Class C is a mere 60 units in the Far West sector.

According to the **O'Connor & Associates June 2001 Greater Houston Apartment Data Program**, average overall **occupancy** for Houston area multi-family projects is **92.95%** (**Class A = 93.87%**; **Class B = 93.11%**; **Class C = 93.05%**; **Class D = 87.78%**). The **overall multi-family rental rate** is **\$0.72 per square-foot per month**.

- **Trammell Crow Residential** is acquiring the former **El Mercado del Sol Building** in the Second Ward from **The TransAmerica Group** in hopes of spurring economic development in the under-served area; Trammell Crow's equity partner in the deal is **Lend Lease Real Estate** on behalf of their **Community Development Fund**. TransAmerica purchased the building, located between Navigation Blvd. and Jensen Dr. (494J), from the city of Houston back in 1997 for about \$610,000. The group had already completed 26 units at the site, ranging in size from 750 to 2,000 square-feet; rents are at about \$1.00 to \$1.20 per square-foot. Initial plans include development of 100 units in heavy timber buildings and about 140 units in concrete structures; the buildings date back to the late 1800s to 1920s. The heavy timber buildings contain pine columns, pine plank floors, and wood beam ceilings at 12 to 16 feet high. The concrete structures will contain drop head column capitals, panoramic windows, and 11-to-15-foot ceiling heights. Rental rates will range from about \$975 for a one-bedroom loft to about \$2,200 for a two-bedroom loft with a study. In addition, **Perry Homes** plans to buy the adjacent parking lot on the site with the intent to develop townhomes on it, which would be the first new housing construction in the area in the past 70 years.
- In an attempt to increase its portfolio of graduate student housing, **Rice University** is under contract to purchase the **Morningside Square Apartments (2169, 2170, and 2171)**, located near the corner of Morningside and Shakespeare (532C), from **Geoprime Properties**. The private university built the **Rice Graduate Apartments**, a student-housing complex located at 1515 Bissonnet (492Z), just over two years ago. Apparently 220-beds was not enough, though, leaving the university in search of land for similar projects. It is anticipated that the five-building complex will be demolished, and tenants of the 54-unit complex have been given notice to vacate the property. Rice is reportedly looking to acquire additional land in the area, creating speculation that they are considering project similar to the one on Bissonnet.
- Austin-based **American Campus Communities** is building the **University of Houston's** newest on-campus student-living community. **Cullen Oaks** will comprise a trio of a trio of three-story residential buildings, and will have a 231 fully-furnished one-, two-, and four-bedroom units for a total of 525 beds. The community will include a clubhouse, basketball courts, and several courtyards. **Davis Brothers Construction** is building the \$17.7 million project, located on the university's campus at 4600 Cullen Blvd (533D).
- **L.J. Melody & Company** has secured \$10 million in financing for **The Retreat at Westchase Apts. (0968A)**, located at 2921 Briarpark Drive in west Houston (490S). **TIAA** provided the funding on behalf of **Allied Realty Services, Ltd.**, a full service real estate company devoted exclusively to multi-family rental housing. **Holly Minter** and **Tom Fish** of L.J. Melody's Houston office secured the financing. The 162-unit Class A property was built in 2000. The complex is separately metered for electricity and features pitched roofs.
- A four-alarm fire burned 24 to 26 units at the 338-unit **Woodland Forest Apts. (2135A)**, located at 5920 Bissonnet in southwest Houston (531J). According to its owner, **Bissonnet Investment Corp.**, the Class D apartment complex was mostly unoccupied at the time of the blaze. The 38-year old complex is currently undergoing renovations, after previously receiving an update in 1993.
- An August fire gutted a 12-unit apartment building at the Class B **Gables Rivercrest Apartments (5081)**. The 15-building, 280-unit complex is located at 1700 Rivercrest in Sugar Land (568Y). All those in the building when the fire began got out safely, although one firefighter suffered minor injuries when he fell through a floor while fighting the blaze.

Tired of wasting time fruitlessly searching for the results you want? O'Connor & Associates Data Programs contain the information you need, including owner, management, & leasing contacts; listings of available space; and market statistics. Hundreds of Brokers, Lenders, Property Owners, & Management Companies have benefited from the O'Connor advantage. Can you afford not to?

The following chart illustrates historical apartment rental rates.



Note: The multi-family projects listed below are followed by the O'Connor & Associates' database identification number and are included for subscriber cross-referencing. The property information contained within the **Houston Area Apartment Data Program** is published on a quarterly basis.

AMLI Residential, of Chicago, IL, purchased the 334-unit **Augusta Apartment Homes (2370M)** from **Embrey Partners**, of San Antonio. The Class A apartment community is located at 7009 Almeda Road in the Medical Center area (533J). The year-old complex is 98% occupied, with an average rental rate of \$1.07 per square-foot. **Matthew Rotan** and **David Oelfke** of **Southwest Residential Partners** represented the buyer in the negotiations. AMLI plans to change the name of the apartments to **AMLI at Medical Center**.

SINGLE-FAMILY HOUSING

Used home sales decreased slightly in July, as 5,543 homes were sold, down from the 5,727 homes sold in June, according to the **Houston Association of Realtors**. Sales for July 2001 were up 6.95% from the 5,183 homes sold in July 2000. The median price of a used single-family home sold in July was \$131,000, up 7.5% from \$121,900 a year ago.

New home sales decreased in July, as 1,404 new homes were sold, down 10.6% from the 1,570 homes sold in June, according to **CDS Market Research**. The sales were an increase of 13.0% over the 1,242 homes sold at this time one year ago. The CDS survey showed starts were up 5.9% in July, while closings were down 15.3%. *Note: Figures on new home sales are reported as an indication of recent market conditions and are thought to be representative of overall market trends. Data represents approximately 60% of the total market.*

In a joint venture with **Hines, Randall Davis** announced plans to develop a loft residential project near the Galleria; this is his first project outside of Loop 610. Dubbed the **Manhattan**, the 63-unit project will be two blocks south of the **Galleria** at the corner of Post Oak Boulevard and Hidalgo Street (491U), across the street from the **Water Wall**. The nine-story project will have typical loft units with high ceilings and wide-open floor plans. It will also include prominent archways, white columns, and a red brick exterior, which have become staples of Davis' Inner Loop development. Architects at **Kaufmann Meeks & Partners** based the design on French Beaux-Arts style reminiscent of historic buildings in New York from the late 1800s to early 1900s. Early prices for homes in the Manhattan are expected to range from \$295,000 to \$1,000,000. Davis will also develop six upscale Brownstone-style townhomes, in addition to the main Manhattan tower. Facing the lake on the project, the three-story units will have steps leading up to the second-floor entry and iron fencing typical of older residences in the Northeast.

Custom Living plans a townhome development on two acres that they have acquired in the Clear Lake area. The **Oaks at Egret Bay** will consist of 23 townhomes priced from the mid \$200,000s and up. The project site is located on Egret Bay Boulevard (618Z) in Webster. **CL-Egret Bay Ltd.** purchased the land from **The Point at Egret Bay Condominium Council of Co-owners**. **Kelly Carmody** of **Coldwell Banker Commercial** represented the buyer, while **Chen & Associates** represented the seller. Designed to project a Caribbean feel, the gated community will have a private marina and stucco exteriors painted with pastel colors.

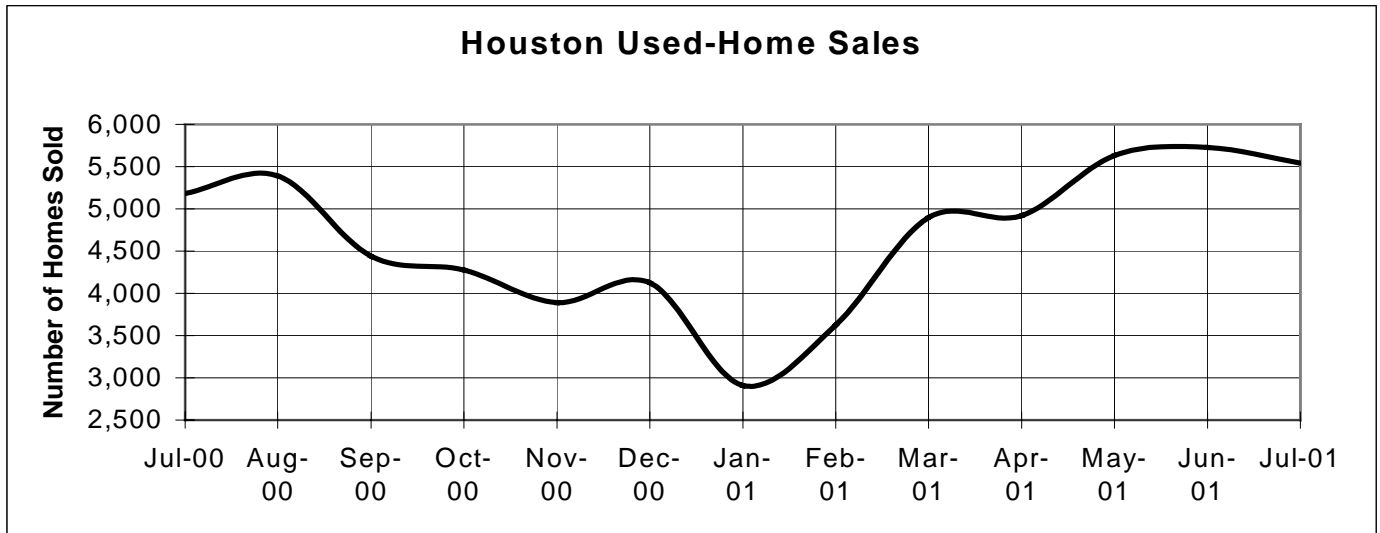
Fox & Jacobs, part of Dallas-based homebuilder **Centex Homes**, is reentering the Houston housing market after more than a decade on the shelf. Centex purchased 204 acres in northwest Houston to develop the new **Yaupon Ranch** community. Plans for the community, located on FM 529, just west of Barker-Cypress (407P), call for approximately 1,000 single-family home sites. Fox & Jacobs homes will be priced from the \$90,000s to \$120,000s on 50-foot lots, while Centex Homes will also build there, with houses priced from the \$120,000s to \$150,000s.

Gehan Homes, of Dallas, is expanding its local presence with the recent acquisition of 92 acres in the north Houston subdivision of **Memorial Springs**. Memorial Springs is located north of Spring Cypress Road and east of Highway 249 near **Compaq Computer Corp.**'s headquarters (329J); it comprises roughly 150 acres. Upon completion, the single-family home development will include more than 500 new homes ranging from the \$130,000s to the \$180,000s. Land development firm **Sam Yager Inc.** has joined Gehan to manage the project's infrastructure.

Perry Homes announced that it will begin moving dirt on its first homes in **Shadow Creek Ranch** at the end of the year. Perry will be one of a group of firms constructing the first 300 homes in the new 3,300-acre master planned community being developed along Highway 288 just south of Beltway 8 (613A). Upon completion, the community will feature 12,000 single-family residences priced from \$100,000 to more than \$1 million. Grading and excavation of 600 acres of land began in June, in addition to creating the community's four planned lakes, which will total 300 acres when completed.

Farb Homes recently announced plans for their third inner city development, with groundbreaking set to take place within the next 60 days. The 12 townhome project, dubbed **Jackson Square**, is located at the intersection of Jackson Hill and Feagan Street (492M), just west of the Finger Co.'s proposed apartment complex at Jackson Hill and Memorial Drive. The townhome construction company is currently finishing the **Montrose Terrace**, a gated community of seven loft-style, stucco townhomes located near the southwest corner of Montrose Boulevard and West Dallas (493N). These three-story units range in size from 2,180 square-feet to 2,350 square-feet with prices starting at \$250,000.

The following chart illustrates historical used-home sale activity.

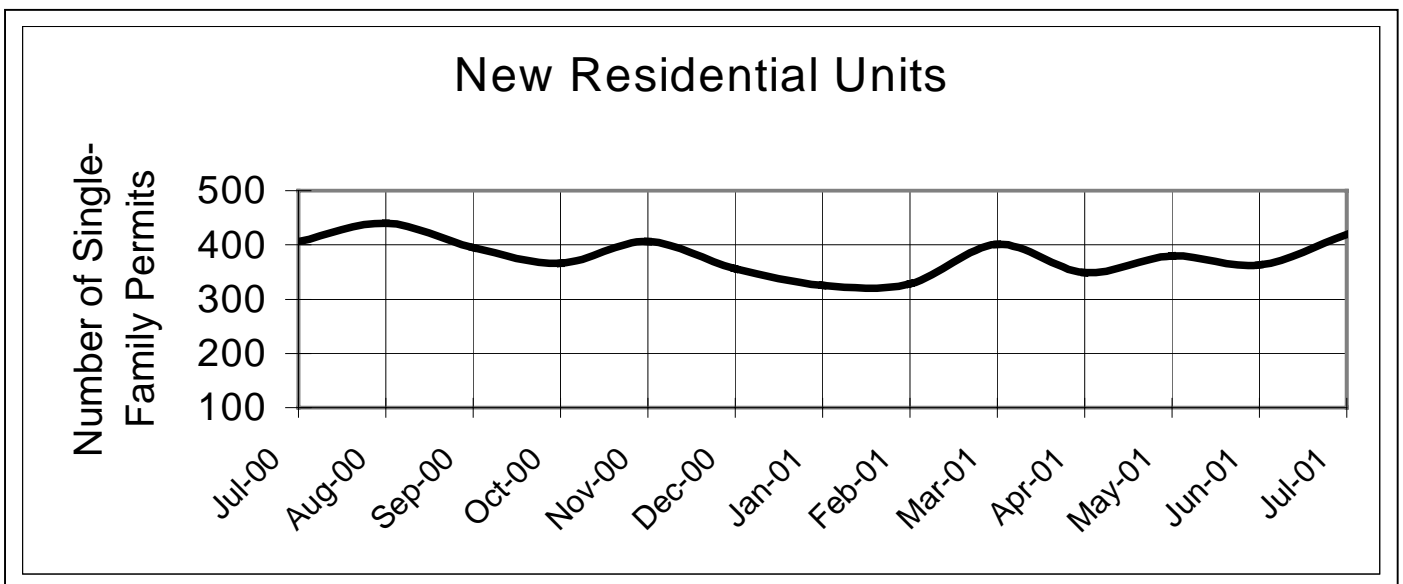


PERMIT ISSUANCE

The City of Houston issued permits to build 419 houses and to demolish 131 houses (117 units) in July 2001. Permits were issued to build 10 multi-family buildings (572 units) and to demolish 2 multi-family buildings (3 units). Permits for privately owned new non-residential construction totaled \$113,269,580. Public sector permits for new non-residential construction totaled \$21,234,300. Additions, alterations and conversions totaled \$218,353,751 for the private sector and \$41,683,960 for the public sector.

Total Building Permits, City of Houston			
	1999	2000	2001
July	\$ 303,672,133	\$ 254,470,400	\$ 494,345,174
Year-to-Date	\$ 1,792,272,690	\$ 2,486,608,368	\$ 2,567,050,644

The following chart illustrates historical permit issuance.



OFFICE BUILDINGS

Each class posted occupancy gains this quarter, driving overall occupancy up 1.18 points for Houston's multi-tenant office buildings. Classes C and D recorded the greatest gains, as each increased by over 2 points this quarter. This quarter's performance continues a trend of declining vacancy, as each class now has occupancy levels over 2 points greater than one year ago, with Class D improving by over 3 points. **Downtown** office occupancy is at its highest level in over eight years, and continues to be the prime office location for Class A and Class B space.

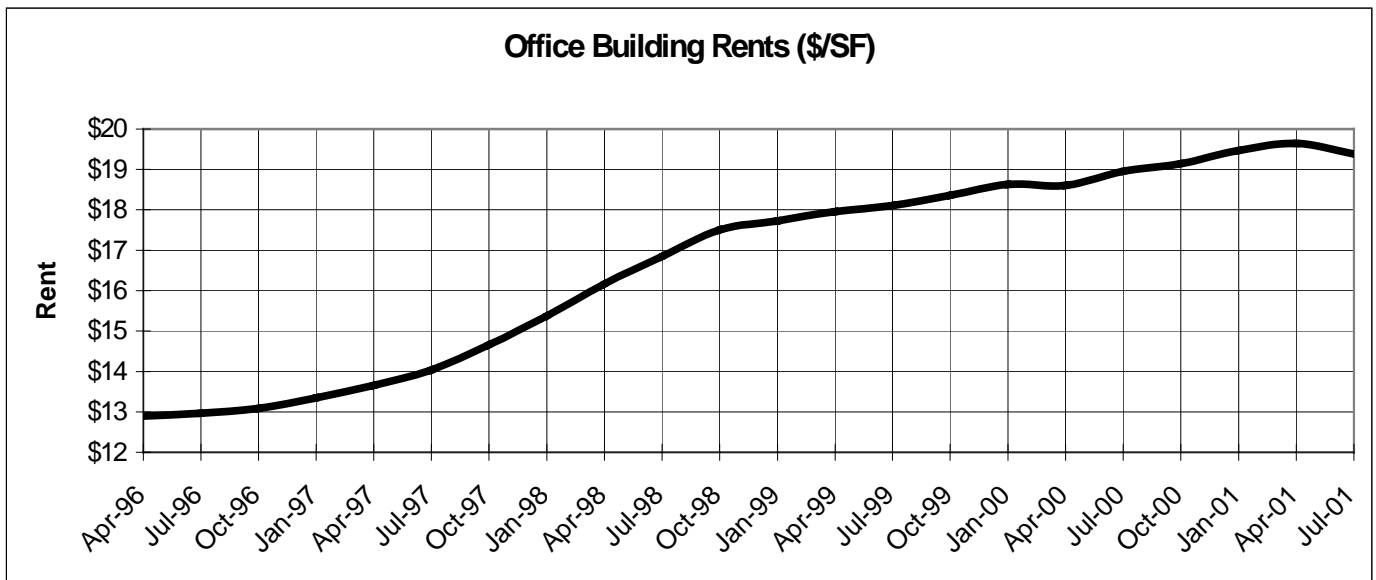
For the first time in over a year, overall multi-tenant rental rates fell. Fueled by a \$0.38 drop in Class A rates, the citywide \$0.13 per square foot decline is the greatest decline recorded since the early 1990's. However, the current average rental rate of \$19.38 psf remains 4.3% above the level of one year ago.

According to the **O'Connor & Associates July 2001 Houston Area Office Data Program**, overall **occupancy** for Houston area multi-tenant office buildings is **89.09% (Class A = 92.61%; Class B = 87.97%; Class C = 83.82%; and Class D = 83.48%)**. Overall occupancy is up 1.42 points over the previous quarter, including jumps of over 2.21 points in both Class C and Class D. Meanwhile, the **overall multi-tenant office building rental rate is \$19.38 per square-foot per year**, a drop of \$0.26 psf from last quarter.

- The city of Houston is considering leasing the **Federal Reserve Building** for offices, while also building a new fire station on the adjacent parking lot. **Macfarlan Real Estate Services**, of Dallas, is under contract to purchase the site 43-year old building at 1701 San Jacinto (493Q) and its neighboring lot from **Hakeem Olajuwon**. Olajuwon purchased the property in 2000 for roughly \$4.35 million, while Macfarlan would pay about \$10 million for the site. The city would sign a 30-year lease on the property with an option to buy when the lease expires. Preliminary plans for the fire station call for a 35,000 square-foot facility with a wellness center and a special events headquarters. The station would be built on a parking lot bounded by Pease, Caroline, Jefferson, and Austin, one block east of the Federal Building. The city would use the building for the consolidation of administrative operations, and the new station would replace the soon to be defunct fire stations No. 1 and No. 8.
- After recently entering a joint venture with **JP Morgan Fleming Asset Management** for the development of **Five Houston Center (DTN 132)**, Fort Worth-based **Crescent Real Estate Equities Co.** has struck another deal. Crescent has entered into a joint venture with an affiliate of **General Electric Pension Trust**, of Fairfield, CT. General Electric will have an 80% stake in the **Four Westlake Park (FAW 235)**, while Crescent will maintain a 20% interest and will manage and lease the property on a fee basis. The 560,000 square-foot Class A property is located at 501 Westlake Blvd. (488B) in west Houston. Crescent will gain about \$120 million in the pact, which also includes an Austin office property.
- The 1.3-million square-foot **First City Tower (DTN 020)** is undergoing a three-part renovation by **Morris Architects**, the same firm that designed it 20 years ago. Plans will focus on making the building more pedestrian friendly, including updating the building's lobby, the surrounding plaza, and the lower-level retail space, which connects the tower to the tunnel system. Located downtown at 1001 Fannin (493Q), the building is 99% leased with law firm **Vinson & Elkins** occupying many of the 49-floors.
- **Exxon Mobil** has announced plans to occupy the **Anadarko Tower (NOE 134)** in the Greenspoint area after **Anadarko** moves out of the building next summer; Anadarko is relocating to a 30-story, 800,000 square-foot building (**NOW 361**) under construction in the Woodlands. Exxon Mobil will occupy more than 400,000 square-feet in the 19-story tower located at 17001 Northchase (372R). Owned by a partnership of the **Hines** real estate company and the **General Motors Pension Fund**, the tower has been Anadarko's headquarters since the early 1990s. The new lease will push Exxon Mobil's presence in the area well over 1 million square-feet occupied across several buildings.

- After a deal to purchase the **Pavilion on Post Oak (NRW 067)** fell through last spring, **Lend Lease Real Estate Investments Inc.** is in negotiations to purchase another Houston building. Lend Lease is in talks with **McCord Development** to purchase **One City Centre (DTN 052)** for roughly \$85 million, or \$140 per square-foot. Located at 1021 Main St. (493Q), the 608,629 square-foot building is 98% leased; it was built in 1960 and renovated in 1999. Lend Lease owns two other office buildings in Houston: **363 North Belt (NOE 034)** and **777 Post Oak Blvd. (GAL 044)**.
- Dallas-based **Halliburton Co.** announced plans to build a new office complex in the Westchase District on 67 acres in the **Oak Park** business complex near the intersection of Bellaire and Beltway 8 (529M); Halliburton currently occupies a 580,000 square-foot building in the Oak Park campus. The complex (**SOW 245**) will consist of three new high-rise buildings totaling 2 million square-feet that will centralize Halliburton's energy services, engineering, and construction services. With the consolidation of 8,000 employees at the new complex, Halliburton will need to sell or sublease 1.8 million square-feet of company-owned office space throughout Houston. The largest of these company-owned facilities is a five-building, 130-acre office and industrial complex at **4100 Clinton (3110H)**, which should be completely vacant by 2005. Halliburton will also clear out about 650,000 square-feet of Class B space downtown at the **Kellog Tower (DTN 026)** located at 601 Jefferson (493Q); Halliburton owns this building in a joint venture with TrizecHahn. The firm also owns the 150,000 square-foot **Landmark Graphics** building (**FAW 358**) at 15150 Memorial (488C), in addition to a 95,000 square-foot building at **9900 Westpark (SOW 234)**. In terms of lease space, Halliburton will need to decide what to do with roughly 100,000 square-feet of space scattered throughout Houston. Scheduled for completion in 2004, the new campus will contain three towers, parking garages, and sky-bridges. The **Gensler** architectural firm is designing the new campus, while **The Staubach Co.** will advise Halliburton on the disposal of its existing properties.

The following chart illustrates historical office building rental rates.



*Note: The buildings listed below are followed by the O'Connor & Associates' database identification number and are included for subscriber cross-referencing. The property information contained within the **Houston Area Office Data Program** is published on a quarterly basis.*

CNC Investments purchased **Falling Creek One (NOW 035)**, located at 14614 Falling Creek (331X), from **Stream Realty Partners**, of Dallas. The 58,630 square-foot Class B building was built in 1980 and commands an average rental rate of \$14.50 per square-foot. It is currently 98% leased, but their lead tenant—**Royce Homes**—recently announced (as reported in May 2001 **HRET**) plans to build an owner occupied building (**FAW 257**) near Beltway 8 and Sam Houston Race Park (370T); Royce currently occupies about 40% of Falling Creek One. **Martin O'Malley** and **Henry Santamaria** of **Grubb & Ellis** represented the seller in the transaction.

Litton Loan Servicing LP leased 112,900 square-feet at **Loop Central III (SOW 078)** from **W9/LWS II Real Estate Limited Partnership**. Located at 4828 Loop Central (491Z), the 193,242 square-foot Class A building is 98% occupied with an average rental rate of \$18.00 per square-foot. It was built in 1982 and renovated in 2001. **Marshall Clinkscales** of **MSC Properties, Inc.** represented the tenant in the negotiations, while **Rosemary Kogler** and **Yvonne Conklin** of **Kennedy Wilson, Inc.** represented the landlord.

Accenture, formerly **Andersen Consulting**, has signed a seven-year lease for 106,856 square-feet at **Granite Park 10 (FAW 401)** from **Houston G.P.I.**, an entity of **Granite Properties**. Accenture now occupies two floors of the three-story building; the firm had occupied the 53,642 square-foot second floor for just one year before deciding on expanding to the 53,214 square-foot third floor. Located at 15115 Park Row (447Z), the year-old building measures 155,789 square-feet, and is currently 72% leased with an average rental rate of \$22.50 per square-foot. **W. Derrell Curry** and **Mark O'Donnell** of **CB Richard Ellis** represented the tenant in the lease expansion, while **Sandy Benak** of **Granite Properties** represented the landlord.

Newfield Exploration Co. has renewed their 81,307 square-foot lease and added an additional 12,100 square-feet at **363 North Belt (NOE 034)** from **Lend Lease**. The 386,277 square-foot, 20-story building is 97% occupied with an average rental rate of \$21.00 per square-foot. Built in 1982, the recently renovated Class A property is located near the junction of Beltway 8 and Interstate 45 (373S). **Jerald King** of **Insignia/ESG** represented the landlord in the negotiations, while **George Carpenter** of **Carpenter Realty Corp.** represented the tenant.

Lloyd's Register America leased 24,255 square-feet at **1401 Enclave Parkway (FAW 417)** from **Core Real Estate**. The 207,435 square-foot Class A building (448L) was built in 1999 and is 97% leased with an average rental rate of \$18.75 per square-foot. **John B. Richardson** of **Office Space Advisors LLC** represented the tenant in the negotiations, while **Vic Baltov** of **Cushman & Wakefield** represented the landlord.

Hewlett Packard leased 19,288 square-feet of office space in the **Westchase Corporate Center (FAW 403)** from **Means Knaus, LLC**. Built in 1999, the 184,079 square-foot Class A building is located at 10111 Richmond (487Z); it is currently 76% leased with an average rental rate of \$23.50 per square-foot. **Steve West** of **Insignia/ESG** represented the landlord in the negotiations, while **Keith Zimmerman** of **Equis** represented the tenant.

Geokinetics Inc. leased 18,992 square-feet at **One Riverway (GAL 064)** from **GLIC/SAR**. The 481,222 square-foot Class A building (491L) is 99% leased with an average rental rate of \$19.50 per square-foot; it was built in 1977 and renovated 1988. **Jon Silberman** and **Cathleen Morgan** of **NAI Partners Commercial** represented the tenant in the negotiations, while **Eric Johnson** of **Transwestern Commercial Services** represented the landlord.

American Tower Corp. has leased an additional 17,035 square-feet of office space in the **Richmond Tower (NEW 102)** from **Richmond Towers Associates**. Built in 1967, the 86,990 square-foot Class B building is located at 3411 Richmond (492X); it is now fully leased with an average rental rate of \$20.00 per square-foot. **Scott Ison** of **Axon Property Advisors** represented the landlord in the negotiations, while **James Arket** of **Grubb & Ellis** represented the tenant.

RETAIL CENTERS

Scott MacDonald of **CenterAmerica Property Trust** recently spoke at an **O'Connor & Associates Retail Forecast Luncheon** concerning the current state of the Houston retail market. The luncheon was well attended, not only because people were interested in how the national slowdown has affected the local retail market, but also because many are curious to what effect, if any, the tragic events of September 11 will have locally.

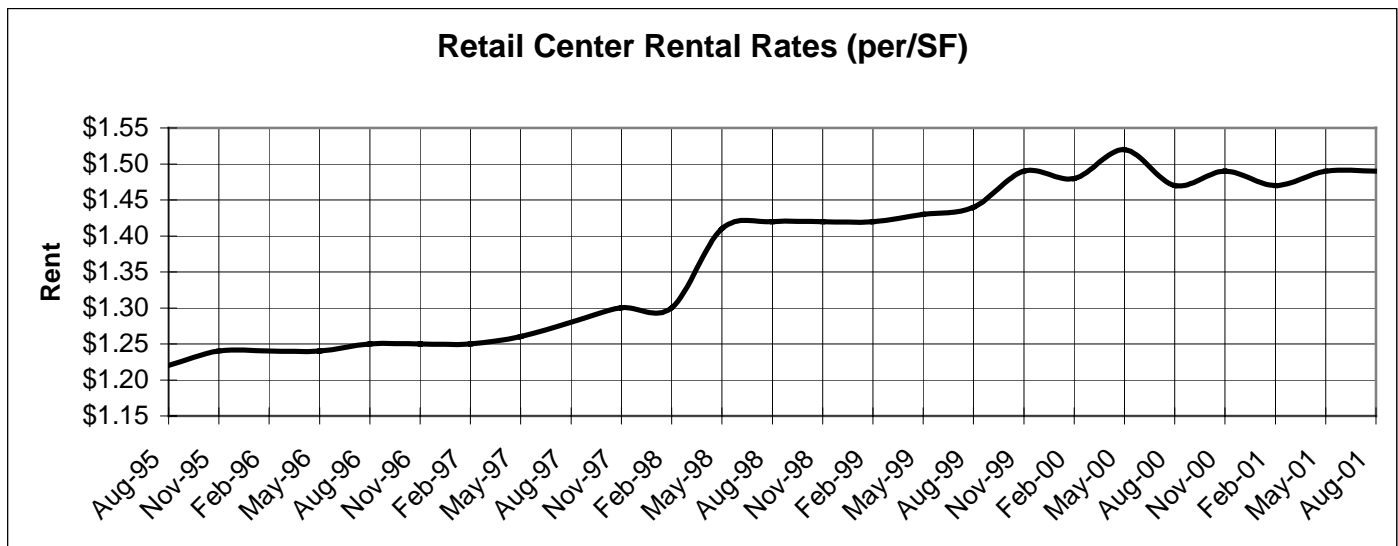
The gist of what Mr. MacDonald conveyed was that Houston should expect 'stormy clouds' in the near future, but the retail market will be fine in the long run. Houston should expect less development, less expansion by national companies, fewer tenants entering the market, and a slip in mall occupancy. Regional Mall expansion should slow down due to the costs of running such large properties, and power center development should slow down, as well. Neighborhood centers will not be affected as greatly, as people still need groceries, pharmaceuticals, etc., but profit margins and expansion will likely decrease. However, long-term growth is expected to be strong, and Houston's economy should recover better than other cities.

According to the **O'Connor & Associates August 2001 Houston Area Retail Data Program**, overall **occupancy** for Houston area multi-tenant retail centers is **86.02%**, a drop of 1.16 points from last quarter. Meanwhile, the **overall multi-tenant retail rental rate** remained stable this quarter at **\$1.49 per square-foot per month**, but it is an increase of \$0.02 over this time last year.

- **Randalls Food Markets** has finally broken ground on their Midtown project a year after the store was first announced. Located two blocks south of the Pierce Elevated at 2200 Louisiana (493P), the 38,000 square-foot store (**INL 208**) is expected to be completed in the summer of 2002. The store will be distinguished by its lack of size compared to new grocery stores in the suburbs, while it will also have an urban character that separates it from other supermarkets in Houston. One of the most recognizable characteristics of the new store will be a mezzanine level, which will have a **Starbuck's** coffee bar. The mezzanine will have a seating area for shoppers to eat or take coffee breaks, as well as an outdoor portion of the balcony that faces the trees and apartments on Hadley Street. The store will feature an underground parking garage large enough for 130 cars, as well as a surface lot with 40 spaces. Two elevators, large enough to accommodate grocery carts, will be able to transport customers from the basement to the ground floor and mezzanine level. Although smaller than most Randalls supermarkets, the store will offer the typical array of products, such as a florist, pharmacy, and photo-processing shop. Yet, due to its size, it will have to save space by catering to the single professionals and couples without children who populate the Midtown area.
- The proposed **West Houston Mall (FWE 257)** has secured major retailers for two of its four anchor department store pads. **Simon Property Group, Inc.** has come to agreements with **Foley's** and **Dillard's** for the two spots at their 900,000 square-foot 'super regional' mall to be built at the northeast corner of Interstate 10 and Grand Parkway (485B). No groundbreaking date has been set, but the mall could be open as early as 2004.
- **Kimco Developers, Inc.**, of Chicago, IL, has announced plans to build a 250,000 square-foot shopping center (**FNW 269**) with four anchor tenants and some adjacent pad sites. Kimco recently purchased 23.8 acres of land at the southwest corner of Highway 249 and Spring Cypress Road (329N), near **Compaq Computer Corp.**'s headquarters. **Culver Stedman** and **Edward Boyd of Boyd Page & Associates** will lease the new project; Boyd Page also leased Kimco's recently completed **Price Plaza (FWE 238)**, which is located at the northwest corner of Interstate 10 and Fry Road (446Y).
- **The Woodlands Operating Co., LP** has announced plans to build **The Shops at Six Pines (FNO 197)**, a 225,000 square-foot shopping center situated on 13.4 acres at Six Pines Drive (251M) in The Woodlands. The center will feature upscale retailers including home and gift shops, specialty stores, and high-end restaurants. Construction on the center is set to begin by year's end.
- **CenterAmerica Property Trust** also plans a shopping center in The Woodlands. CenterAmerica recently purchased 14 acres at the southeast corner of FM 1488 and State Highway 242 (216H) for the construction of a 125,000 square-foot grocery-anchored center (**FNO 198**). Construction on the project will begin later this year. The center will be managed and leased by **The Woodlands Operating Co.** **Morgan Stanley** owns both CenterAmerica and The Woodlands Operating Co., although they own The Woodlands in a joint venture with **Crescent Real Estate**.
- After filing for Chapter 11 bankruptcy in July, **Krause's Furniture, Inc.** recently announced the closing of 32 of its 89 showrooms. Krause's will be closing all six of its local high-end furniture stores, in addition to three stores in Dallas. The stores closing in the Houston area are located at **3020 Fondren Rd.**, **17355 Tomball Parkway**, **10201 Katy Freeway** in the Memorial area, **2504 Amherst St.** in Rice Village, **16552 Southwest Freeway** in Sugarland, and **18980 Gulf Freeway** in Friendswood.

- Houston-based **SuperStand Magazines** is undergoing some restructuring of its own. The company recently announced the closing of three of its five Houston stores, in addition to closing all of its locations in the Dallas/Fort Worth and Chicago areas; the company has now closed 14 of its 16 stores. The three area stores closed were at **14629 Memorial Drive** in the Dairy Ashford area, **8094 Westheimer**, and **553 S. Mason Road** in Katy. The two remaining Houston stores are located at **2027 S. Shepherd** and in the **Uptown Park** retail center at Loop 610 and Post Oak.
- **J & M Sales Inc.** and **National Stores Inc.** have acquired the leases of 31 of the 97 **Weiner's** facilities for \$1.6 million. The Gardena, CA-based retail company operate **Fallas Paredes**—a value-oriented family clothing store with a similar concept to Weiner's—throughout the southwest, including stores in Fresno, Santa Ana, and Los Angeles, CA, as well as in El Paso. Founded in Houston in 1926, Weiner's employed about 2,700 employees in Texas, Louisiana, Mississippi, and Alabama. Weiner's announced on June 26 that it would cease business operations and proceed with an orderly wind-down of its business and a sale of its assets; the family retailer had filed for Chapter 11 bankruptcy last October. The lease acquisition by Fallas Paredes includes 10 Houston-area stores, including locations at **1411 W. 11th Street**, **7840 Long Point**, and **7417 Southwest Freeway**. The remaining 15 stores in Houston are still available for auction. The other Weiner's locations that Fallas Paredes will occupy are primarily located throughout south Texas.
- The 500,000 square-foot **Silverlake Village (SOU 027)** broke ground last month, and it is scheduled to open in 2002. The community center is located on 54 acres at the southeast corner of US Highway 288 and FM 518 in Pearland (613N); it is the first large commercial center in the Houston suburb. **Home Depot, Inc.** recently announced that it is closing soon on its 125,000 square-foot retail spot at the center. Other stores lined-up for space in the center include an 86,000 square-foot **Kohl's**; a 35,000 square-foot **Linens n Things**; a 30,000 square-foot **Ross Dress for Less**; a 34,000 square-foot **Circuit City**; and a 5,600 square-foot **Chili's** restaurant.

The following chart illustrates historical retail center rental rates.



Note: The retail centers listed below are followed by the O'Connor & Associates' database identification number and are included for subscriber cross-referencing. The property information contained within the Houston Area Retail Data Program is published on a quarterly basis.

Catherine's Plus Sizes leased 4,000 square-feet of space—it's 11th Houston location—at the **Westgate Marketplace (FWE 248)** from **Barshop & Oles**. Located on Fry Road at Interstate 10 in Katy (486C), the 103,000 square-foot center is fully leased; it was completed earlier this year. **Lilly Golden** of **Moody Rambin Interests** represented the tenant in the negotiations, while **Dan Wheat** of **Barshop & Oles** represented the owner.

VACANT LAND

Sandy Aron of **Hunington Properties** purchased 2.27 acres located at the corner of 5500 Memorial Drive and Asbury (492L) from **Memorial Terrace Ltd.** Aron will use the land to develop a high-end retail shopping center (**INL 220**); a 24-hour restaurant previously occupied the site. The center is 100% pre-leased without even breaking ground yet; tenants lined up so far are: **Starbucks, The Kolache Factory, Smoothie King, Cingular Wireless, Marble Slab Creamery, Subway, River Oaks Cleaners, and Jack's on Memorial** (steakhouse). **John Haas** of **NAI Partners Commercial** represented the buyer in the negotiations, while **Ken Kates** represented the seller; **Doug Dabbs** of **Texas American Title Company** and **Gary Carr** of **Chicago Title Company** closed the transaction. **Southwest Bank of Houston** will provide construction financing.

Galveston Bay Pipe Line Co. purchased 99 acres located on FM 3436 in Dickinson from **Bertram C. Schroeder** and **Mina F. Schroeder, Trustees.** **Pete O. Zamora** of **Alliance Commercial Investments** represented the seller in the negotiations.

Brock's Car Care purchased 1.5 acres of land located on FM 528 in Friendswood from **Randall's Properties.** **Tracy F. Goza** of **Alliance Commercial Investments** represented the seller in the negotiations, while **Perry Zieban Realty** represented the buyer.

Bridge Development, L.P. purchased 1.875 acres at the northeast corner of State Highway 6 and West Airport Boulevard from **Woodbridge Commercial Partners, Ltd.** **Marshall Clinkscales** of **MSC Properties, Inc.** represented the buyer in the negotiations, while **Fletcher W. Gibson** of **Fletcher W. Gibson Interests, Inc.** represented the seller; closing was by **Annette Casley** at **Charter Title Company.**

The **Archer** family of car dealers purchased 7.5 acres of land at the Katy Mills Mall site from **Katy Mills Residual Limited Partnership.** The land, located at the corner of Interstate 10 and Pin Oak Road, will be used for development of another car dealership along the Katy Freeway. **John Young** of **Mills Service Corp.** represented the seller in the negotiations, while **Marc Drumwright** of **Southwest Realty Advisors** represented the buyer.

CDI Development Services purchased 2.4 acres of land located at Highway 6 and Huffmeister from **F.M. Joint Venture.** **Bill Smith** and **Steve Darnall** of **Fuller Realty Partners** represented the seller in the negotiations, while **Scott Shillings** of **Boyd Page** represented the buyer.

Global Millennium, a Houston-based developer of service stations and fast-food restaurants, purchased 2 acres of land at the site of the proposed **West Houston Mall** from **Simon Development Co.** The proposed site is located at the intersection of Interstate 10 and Grand Parkway in the Cinco Ranch area. **Steve Mahood** of **Moody Rambin Interests** represented the buyer in the negotiations, while **Sassy Stanton** of **Insignia/ESG** represented the seller.

Metro has a half-acre site, located at the intersection of Main Street and Ruth, under contract from **MidTowne Properties Inc.,** a subsidiary of Kemah-based **American International Industries, Inc.** The **Metro Light Rail System,** scheduled to open in 2004, will build one of its rail stations on the site. Metro will purchase the site for \$450,000 (\$18 per square-foot), which is a bargain compared to other land deals in the area.

INDUSTRIAL FACILITIES

For the fifth straight quarter, overall industrial occupancy fell slightly in the third quarter, although it is the smallest decline during this time period. The overall occupancy slipped 0.04 points in the third quarter from 89.81% to 89.77%, much smaller than the 1.02 point drop in the fourth quarter of last year. A 1.94 point drop in bulk industrial space (distribution and warehouse) was strong enough to negate gains of 0.25 and 2.37 points in manufacturing and flex space (office/warehouse and service center), respectively. It is hardly a surprise that such a drop in bulk space occupancy can have a large effect on the overall occupancy in the Greater Houston area. The total amount of bulk space (134.1 million square-feet) in the Greater Houston area nearly surpasses the total square footage of manufacturing and flex space combined (135.1 million square-feet). The drop in bulk space occupancy can primarily be attributed to drops of 9.91 points in the Mid South sector and 9.65 points in the Central Business District. One possible reason for this drop in bulk space is less need for distribution space due to the struggling dot-coms. An incredible 31.60 point gain in occupancy in the Mid South sector is the prime reason for the strong gains in flex space occupancy.

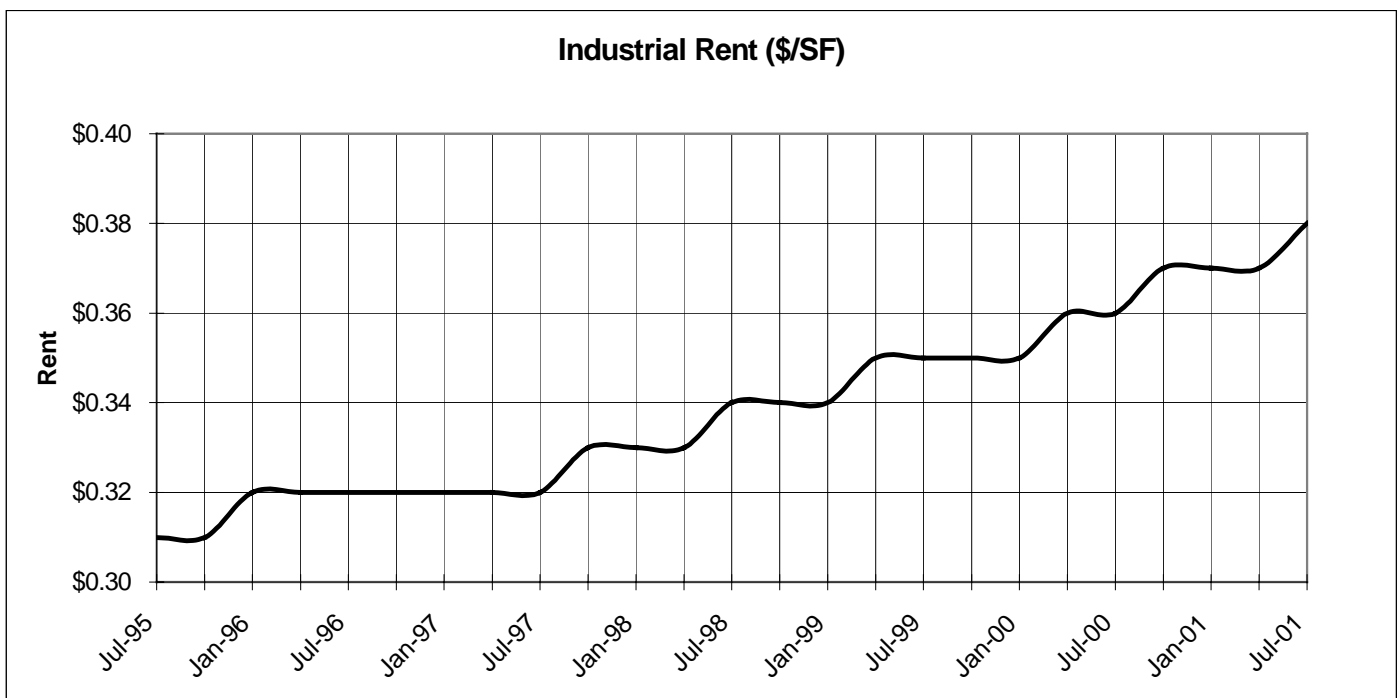
Overall industrial rental rates fell \$0.01 this quarter from \$0.38 to \$0.37 per square-foot (psf). Both manufacturing facility and bulk space rental rates experienced \$0.01 drops from \$0.29 to \$0.28 psf and from \$0.34 to \$0.33 psf, respectively, while flex space rents remained stable at \$0.43 psf. A \$0.22 drop in bulk space rents in the Near West sector, which features 12,545,011 square-feet of bulk space, is the primary reason for the drop in overall bulk space rents. The Central Business District continues to boast the highest sector rental rate at \$0.66 psf, an increase of \$0.12 from last quarter due to an incredible \$0.25 increase in bulk space rents. The Far West and Far Southwest sectors are tied for a distant second with overall rental rates of \$0.52 psf.

According to the **O'Connor & Associates July 2001 Houston Area Industrial Data Program**, overall **occupancy** for Houston area operating industrial facilities is **89.13%**. Occupancy in the Houston industrial market remained stable this quarter. Meanwhile, **the overall multi-tenant industrial rental rate is \$0.37 per square foot per month**, down \$0.01 from last quarter.

- **Transwestern Commercial Services** has two industrial projects underway in Houston. Upon completion, the three-building **Sam Houston Center** will be a 105-acre master-planned, deed-restricted business park with more than 2,500 feet of tollway frontage; the center will be located on the Sam Houston Tollway between West Road and Fallbrook Drive. The first building will be a 153,000 square-foot build-to-suit facility for **Apollo Paper Co.** Transwestern has started a two-building speculative development adjacent to Apollo's facility. The first building will be a 60,000 square-foot, rear load, dock-high facility designed to accommodate tenants with high-finish requirements, while the second building will be a 160,000 square-foot, cross-dock distribution center. Both buildings will feature 24-foot clearance heights, high parking ratios, abundant glass, and sprinkler systems; all three buildings should be completed by year's end. Transwestern's second project is the two-phase **Clay Distribution Center** located on Clay Road at Hempstead Highway (450H), about halfway between Loop 610 and the Beltway. The first phase will consist of a 62,000 square-foot, front-load, dock-high facility (**1334O**) and a 146,000 square-foot, cross-dock building (**1334P**). Both multi-tenant facilities will be designed for smaller users of about 15,000 square-feet and will be ready this fall.
- **Frito-Lay Inc.** announced plans for a \$16 million expansion at its 400,000 square-foot manufacturing facility in Rosenberg. The expansion will support the production of **Cheetos Cheese Flavored Snacks**, including the installation of a new production line and packaging equipment. It will also create approximately 35 new jobs to go with the 460 people currently employed at the plant. Equipment installation of the new project will begin immediately with a target completion date set for February 2002. Production should start soon after; the plant will then have the capabilities to produce more than 10 million pounds of the snack annually.

- Wetheimer Transfer & Storage Co. Inc.** announced plans for a new 88,000 square-foot storage facility (**4190M**) that should be ready for occupancy during the first quarter of next year. The facility will be built on 7.4 acres of land located at 9960 Buffalo Speedway (532T), just outside of Loop 610 South. **The Simkins Group** will develop the facility on land they purchased from a California investment group, while **Verret Architects** is designing the new facility. Westheimer will either lease the land from Simkins or purchase the site once the building is completed. The new facility will include 32-foot clearance heights, security systems, and climate controlled capabilities; it will also allow Westheimer to double their current storage capacity. The 118-year-old Houston-based moving and storage company will be moving out of their current headquarters (**2746**) located at Highway 59 and Kirby Drive (492Y) after almost 50 years of doing business there. Due to its prime location, Westheimer's current 4.8-acre site should command a hefty price. **Charles Herder** and **Gary Mabray** of **Colliers International** will handle the sale of the property, which they compare in value to land Downtown and in the Galleria area. Due to the size, location, and flexibility of the tract, there are many redevelopment options for the site, including commercial, retail, residential or a combination thereof.
- Liebherr-America Inc.** is seeking a tax-abatement from the **City of Houston** to build a 53,440 square-foot light manufacturing facility (**2175M**) adjacent to Houston's historic Fifth Ward in northeast Houston. The proposed abatement spans 10 years beginning January 1, 2002. If granted the Switzerland-based company would be 100 percent abated for the first three years, 80 percent for the fourth year, 60 percent for the fifth, 40 percent for the sixth, and 20 percent for the remaining four years. The total abatable investment costs are estimated to be \$6.2 million according to city documents. The company is currently negotiating to purchase 13 acres of a 39-acre tract from **Cypress Industrial Co-Investments LP** in the **Northport Industrial Park**. Liebherr-America will refurbish cranes in the new facility, located on Homestead Road off Loop 610 in northeast Houston (454V). The facility will include a two-story office building, a workshop, and a storage facility; it would serve as Liebherr-America's consolidated sales office for Houston.

The following chart illustrates historical industrial facility rental rates.



*Note: The facilities listed below are followed by the O'Connor & Associates' database identification number and are included for subscriber cross-referencing. The property information contained within the **Houston Area Industrial Data Program** is published on a quarterly basis.*

Miresco Investment Services leased 72,240 square-feet of office/warehouse space at **Glenmont 1 (4043R)** from **Eastgroup Properties**. Consisting of 108,631 square-feet, the two-year-old facility is located at 8648 Glenmont in near southwest Houston (530C); it is 67% leased with an average rental rate of \$0.40 per square-foot. **John Ferruzzo** of **NAI Partners Commercial** represented the tenant in the negotiations, while **Mike Annino** of **InSite Realty** represented the landlord.

Priority Cable & Wire leased 45,705 square-feet at **Eastport Industrial Park 1 (3551)** from **Crow Family Holdings Texas, L.P.** The office/warehouse is located between 8979 and 8999 Market St. in near southeast Houston (495L). Built in 1980, the 144,695 square-foot facility is 84% leased with an average rental rate of \$0.32 per square-foot. **Joe MacDougall** of **Brown Butera & MacDougall Inc.** represented the tenant in the negotiations, while **David Hudson** of **Trammell Crow Co.** represented the landlord.

Building Plastics, Inc. leased 47,335 square-feet in the **North by Northwest Industrial Center No. 15 (0638A)** from **ProLogis Trust**. Built in 1996, the warehouse is located at 15080 Sommermeyer in the Near Northwest sector (409Z). The 101,735 square-foot facility is fully leased, and features tiltwall construction, dock-level loading, and a 24-foot clearance height. **Art Barkley** of **ProLogis Trust** represented the landlord in the negotiations, while **Jim Nelms** and **Lispah Hogan** of **Julien J. Studley, Inc.** represented the tenant.

Transport Management Consultants leased 147,354 square-feet of office/warehouse space in the **Market/McCarty Distribution Center (3502A)** from **AMB Property Corp.** Consisting of 355,404 square-feet, the 24-year-old facility is located at 8000 Market St. in near southeast Houston (495E); it is fully leased with an average rental rate of \$0.27 per square-foot. **Bob Berry** of **The Staubach Co.** represented the tenant in the negotiations, while **Kirk Guilanshah** of **Dienna Nelson Augustine Co.** represented the landlord.

Pathfinder Energy Services leased 16,914 square-feet in the **West by Northwest Industrial Park (0638B)** from **AMB Property Corp.** Built in 1983, the warehouse is located at 15102 Sommermeyer in the Near Northwest sector (409Z). The 66,000 square-foot facility is fully leased with an average rental rate of \$0.35 per square-foot; it features tiltwall construction, dock-level loading, and a 22-foot clearance height. **Mark Nicholas** of **The Staubach Co.** represented the tenant in the negotiations, while **Kirk Guilanshah** of **Dienna Nelson Augustine Co.** represented the landlord.

Houston Wheels and Accessories leased 10,125 square-feet in the **Pinemont Center (3551)** from **Vantage Development No. 22, Inc.** The office/warehouse is located at 4727 and 4747 South Pinemont in the Near Northwest sector (1320D). Built in 2000, the 69,750 square-foot facility is 47% leased with an average rental rate of \$1.66 per square-foot. **Brad Berry** of **Vantage Houston, Inc.** represented the landlord in the negotiations.

Texas International Gymnastics, Acrobatics, and Recreation leased 10,000 square-feet of office/warehouse space in the **Bay Area Business Park II (5295)** from **Fondren Green II**. Consisting of 51,578 square-feet, the 20-year-old facility is located at 16920 Ave. in Webster (618W); it is fully leased with an average rental rate of \$0.60 per square-foot. **Bill Hansen** of **Zann Commercial Brokerage** represented the tenant in the negotiations, while **Cindy Burns** of **Fondren Green II** represented the landlord.

ECONOMIC & FINANCIAL NEWS

The number of wage and salary jobs in the 6-county Houston area increased by 7,400 jobs to 2,138,900 in August 2001 from 2,131,500 jobs in July 2001, according to the **Texas Workforce Commission**. The jump was primarily attributed to a seasonal increase in teaching jobs due to the beginning of the school year. The local government and trade industries experienced the biggest increases, posting gains of 3,900 and 3,000 jobs, respectively. This month's total is 57,000 jobs higher than the 2,081,900 jobs at this time last year. **Houston's unemployment rate** fell 0.1 points to 4.6% in August, while the statewide unemployment rate also dropped by 0.1 points to 5.1% which is 0.2 points higher than the national rate of 4.9%.

Stewart Title Guaranty Co. has acquired the assets of **Closing Corp. of America**, a 12-year-old relocation and closing services company. Stewart plans to retain the entire Closing Corp. team, but it also plans to fold Closing Corp.'s offerings in their **National Title Services** division, which handles global title and closing service needs of third-party relocation companies. Both companies are based in Houston, which should make the transition easier on both parties.

Time Warner and **Belo Corp.** have teamed up to develop a 24-hour broadcast news station covering Houston. The **Houston News Channel** will be broadcast live from a 30,000 square-foot single story office building scheduled for delivery in the summer of 2002. The planned Westway Park location for the building, which will house offices and an all-digital broadcast facility, is at Beltway 8 and Equity Drive (449H).

The Houston-based law firm of **Andrews & Kurth** has acquired **Cavazos, Morin, Langenkamp, & Ferraro**, an Austin boutique law firm with a national practice focused on the high-tech industry. The firm advises clients on structuring and financing start-up ventures and helps entrepreneurs structure complex transactions after their companies are off the ground. The merger will bring Andrews & Kurth's total number of lawyers in Austin to 16. This is Andrews & Kurth's second recent acquisition after announcing plans to merge with Houston law firm **Mayor, Day, Caldwell & Keeton** back in June.

The Spring Branch Medical Center, located at 8850 Long Point, just north of Interstate 10 (450V), is undergoing a \$6.5 million renovation of its emergency unit. The expansion has become necessary due to the tremendous amount of growth and redevelopment in the area. The project will add 8,000 square feet to the center, and it will double the number of beds in the department from 10 to 20 beds. The expansion is scheduled to begin in January, and it should take a little over a year to complete.

Construction is underway on **The Woodlands Community Medical Center**, a 263,000 square-foot, 82-bed medical facility located at the corner of Interstate 45 and Highway 242 (217R). **St. Luke's Episcopal System** is heading up the project on 24 acres of land that it owns in the suburb north of Houston; the project is being developed in association with local physicians and **Texas Children's Hospital**. The center will include pediatric services, as well as services from the **Texas Heart Institute, TIRR Rehabilitation Centers**, and the **Hospice at the Texas Medical Center**. St. Luke's recently purchased an additional 16 acres adjacent to the initial site, which could be used for future growth, if necessary, as the population in The Woodlands continues to increase.

Two major downtown projects made major strides recently, as the new sports arena broke ground, while the **George R. Brown Convention Center** expansion project named its general contractor. **Houston City Council** named **Swinerton Builders Inc.** as the general contractor for the expansion project, which will add 600,000 square-feet to the convention center, including three exhibit halls and 60 meeting rooms. Construction is expected to begin soon, with completion scheduled for mid-2003. Swinerton has also worked on projects at **Bush Intercontinental Airport** and is the general contractor for the \$7 million parking garage at the **Hobby Center for the Performing Arts**. The \$175 million arena, which will be funded through hotel and rental car taxes, in addition to personal funding from **Rockets** and **Comets** owner **Leslie Alexander**, is scheduled for completion in 2003.

The following chart illustrates total nonagricultural employment.



THIRD-PARTY LENDERS

National Ranking by CMBS Servicing Volume

Company	03/31/01 (\$ in millions)	06/30/01 (\$ in millions)
Midland Loan Services	44,983	45,090
First Union Securities	35,684	38,600
ORIX Real Estate Capital Markets	30,078	29,595
CapMark Services	27,480	26,578
Wells Fargo Bank	15,793	18,505
GE Capital Loan Services	11,823	12,593
Chase Manhattan Bank	10,742	10,742
Pacific Life	7,732	7,725
Key Commercial	6,291	7,352

National Ranking by Total Master & Primary Servicing Volume

Company	03/31/01 (\$ in millions)	06/30/01 (\$ in millions)
Midland Loan Services	57,797	62,271
CapMark Services	46,768	46,135
First Union Securities	41,112	42,018
ORIX Real Estate Capital Markets	39,525	38,910
GE Capital Loan Services	31,716	34,940
Wells Fargo Bank	17,132	21,513
Chase Manhattan Bank	10,798	10,797
Key Commercial	8,747	10,082
Pacific Life	9,255	9,137

The Washington D.C.-based Mortgage Bankers Association of America (MBA), the national association representing the real estate finance industry, has started collecting data on special servicing for the first time. MBA conducted a national survey on the leading commercial mortgage-backed securities (CMBS) firms, nine of which participated. GMAC Commercial Mortgage elected not to participate in the quarterly survey but has publicly reported a total servicing portfolio of \$107.7 billion.

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