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HOUSTON REAL ESTATE TRENDS

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APARTMENTS

Overall rents increased slightly this quarter, as each class posted small gains. Rents have grown 3.9% over this same period one year ago and are up 6.6% over the past two years.

Class A rents are up 3.9% over the last year following a \$0.01 psf increase to \$1.03 psf. The **Central Business District** continues to post the highest **Class A** rents at \$1.40 psf despite a \$0.01 psf drop since last quarter. Other high spots include **Greenway/Montrose** where rents rose \$0.03 psf to \$1.16 psf this quarter, and have increased 6.0% over the past year, and **Bellaire-Southwest**, which posted rents at \$1.13 psf.

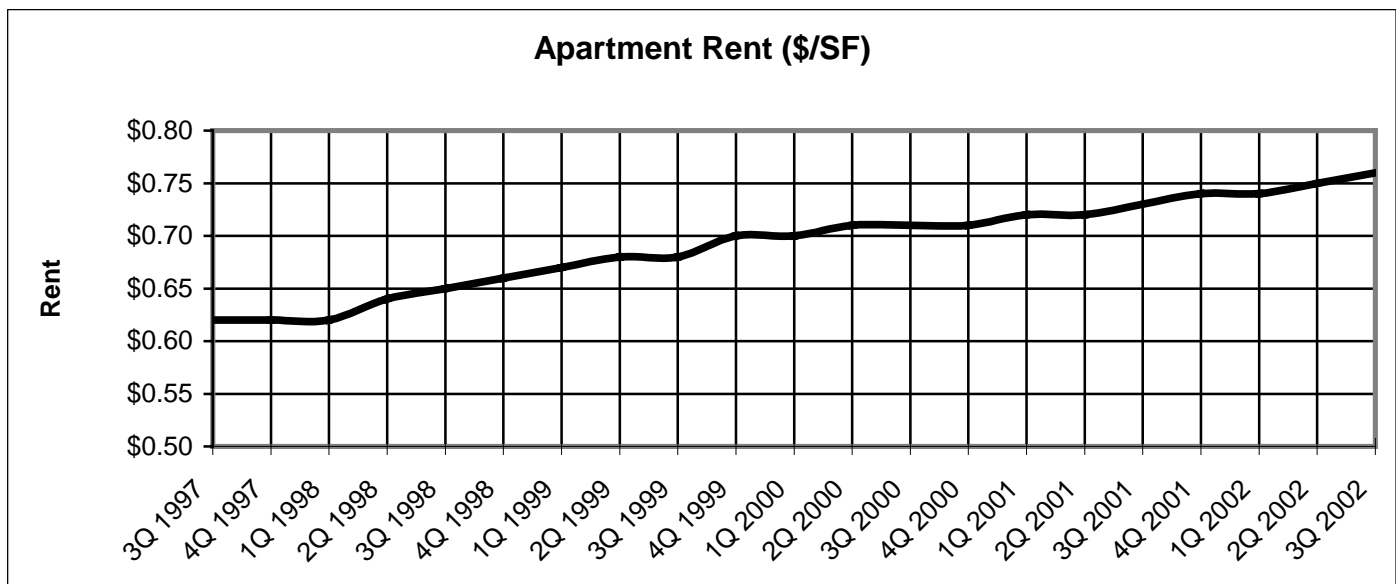
Class B rents remained flat at \$0.76 psf this quarter, and are up only 3.3% over the past year. The highest Class B rents were recorded in **Greenway/Montrose** at \$0.89 psf, an increase of 3.4% over the past year. The **Central Business District** registered rents at \$0.88 psf, while **Bellaire-Southwest** posted rents at \$0.85 psf, which are up 2.4% from 3Q 2001 to 3Q 2002.

According to the **O'Connor & Associates 3rd Quarter 2002 Greater Houston Apartment Data Program**, average overall **occupancy** for Houston area multifamily projects is **93.18%** (**Class A = 92.20%**; **Class B = 94.16%**; **Class C = 93.37%**; **Class D = 87.90%**). The **overall multi-family rental rate is \$0.757 per square-foot per month**.

- According to **David Mintz, Director of Government Affairs**, for the **Texas Apartment Association**, misleading information has been circulating through the apartment industry about **HB 2004**. HB 2004 requires property owners who implement a water-billing program after January 1, 2003 to have aerators on all faucets, have low-flow shower heads, perform a leak audit, and have toilets that use no more than 3.5 gallons per flush. Properties that began a water-billing program prior to January 1, 2003 do not have to meet the above requirements. HB 2004 does not require all properties to begin a water billing program before January 1, 2003 or require all toilets to be replaced. The law requires toilets to be modified only if they use more than 3.5 gallons per flush.

- **NorthMarq Capital, Inc.** (713-622-6300) arranged \$5,365,000 in financing for **Alexan Cinco Ranch (0852F)**, a 318-unit complex in Katy (527C), developed by **Trammell Crow Residential**. **Kerry French** arranged this portion of the financing for the complex through **Mass Mutual Life**. Trammell Crow Residential purchased 12.7 acres of land at 2501 S. Mason in Katy from **O'Connor Ventures** to build the complex. **Randy Hancock** of **Hancock Realty Corp.** represented the buyer.
- **Gables Residential Trust** is constructing **Gables Augusta (1087M)**, a 312-unit complex located at 2600 Augusta. The property formerly housed the **Spectrum 9 Augusta** movie theater and a night club. Gables Augusta will contain one and two bedroom units in a four-story complex surrounding a parking structure. Apartment features include "soft loft" style, characterized by open floor plans, island kitchens, exposed ductwork, and 10-foot ceilings. Units will average 915 square-feet with average rents at \$1.35 per square foot. Community amenities will include a 5,000-square-foot clubhouse, a fitness center, swimming pool, and two courtyards with artistic water features.
- Houston-based **Southwest Residential Partners** has announced the formation of a national partnership comprised of seven of the top independent multifamily brokerage firms in the nation. The partnership, known as **Apartment Realty Advisors (ARA)** (713-599-1800), specializes exclusively in the sale of apartment properties. Southwest Residential Partners is now known as **Apartment Realty Advisors Southwest/Southwest Residential Partners**. In Houston, the three principals of Southwest Residential Partners since 1997 have facilitated over \$2.1 billion in multifamily transactions, which equates to over 56,000 units.

The following chart illustrates historical apartment rental rates.



Note: The multifamily 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.

NBC Management (713-572-0177) purchased **Fairways @ South Shore (6097M)**, a 432-unit complex located at 3045 Marina Bay Dr. in League City (619Z), from **Spanos Corporation**. The 2-year-old Class A complex is 94% occupied with average rents at \$0.98 per square-foot. The complex features pitched roofs and is separately metered for electricity. **Joe Calderoni** of **J. Calderoni & Assoc.** represented both parties in the transaction. **Praedium Group, LLC** provided \$7 million in financing for the \$31.5 million deal (\$72,917 per unit).

Alliance Residential (713-977-1120) purchased **Wallingford Apts. (0937)** and **Chasewood Phase I & II (0945 and 0946)** from **Camden Property Trust**. Wallingford Apts. (0937) is a 462-unit complex located at 2750 Wallingford. The 21-year-old Class B complex is 98% occupied with average rents at \$0.83 per square-foot. The complex features pitched roofs and is separately metered for electricity. Chasewood Phase I is located at 10751 Meadowglen. The 22-year-old Class B complex is 97% occupied with average rents at \$0.83 per square-foot. Phase II is located at 10755 Meadowglen. The 22-year-old Class B complex 97% occupied with average rents at \$0.81 per square-foot. The west Houston (489Y) complexes feature pitched roofs and are separately metered for electricity.

The Tipton Group (214-250-4646) purchased **Milano Apts. (0924)**, a 330-unit complex located at 2500 Woodland Park Dr., from **Crescent Park, Ltd.** The 3-year-old Class A project is 92% occupied with average rents at \$0.98 per square-foot. The west Houston complex (489T) features pitched roofs and is separately metered for electricity. **Jim Hearn** and **Greg Austin** of **Hendricks & Partners** represented both parties in the transaction.

Water Song, Ltd. purchased **Water Song Apts. (0935)**, a 272-unit complex located at 11770 Westheimer, from **Tree House Equities**. The 25-year-old Class B complex is 95% occupied with average rents at \$0.79 per square-foot. The west Houston (489T) complex features pitched roofs and is separately metered for electricity. The new owner plans to upgrade the interior with new paint and flooring. **Todd Marix, G. Craig LaFollette**, and **Todd Stewart** of **CB Richard Ellis** represented the seller in the transaction.

SINGLE-FAMILY HOUSING

MLS home sales decreased in December, as 4,967 homes were sold, up from the 4,009 homes sold in November, according to the **Houston Association of Realtors**. Sales for December 2002 were up 13% from the 4,396 homes sold in December 2001. The median price of a used single-family home sold in December was \$131,638, up 5.7% from \$124,356 a year ago. *Note: MLS sales include primarily used home sales throughout the Houston region. Historical comparisons are offered solely for informational purposes and may not truly reflect growth in sales.*

New home sales increased in November, as 1,079 new homes were sold, up 15.3% from the 936 homes sold in October, according to **CDS Market Research**. The sales were a decrease of 11.9% over the 1,225 homes sold at this time one year ago. The CDS survey showed starts were down 4.4% in November, while closings were up 4.8%. *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.*

Resource Development Group (713-934-3800) and **Arete Real Estate & Development** (281-272-6134) are developing **Grand Cay Harbour** a 587-lot subdivision in Texas City. The homes will be constructed on slabs and built behind a guillotine-type flood gate that shuts down when there is a threat of flood. Most of the single-family homes will be built on 60-foot lots. The neighborhood will also have an estate area, with lots that are at least 75-feet wide, a garden patio home area with 40-foot lots, and an area for townhomes. Some of the homes in the 250-acre community will have a water view, but most will have their own waterfronts. Boat owners in the community will be able to dock their boats at home, but a 250-slip marina will house the largest of the boats. About 160 homes in the first phase of development will span between 1,700 square-feet and 3,000 square-feet and will be priced from \$160,000 to \$190,000.

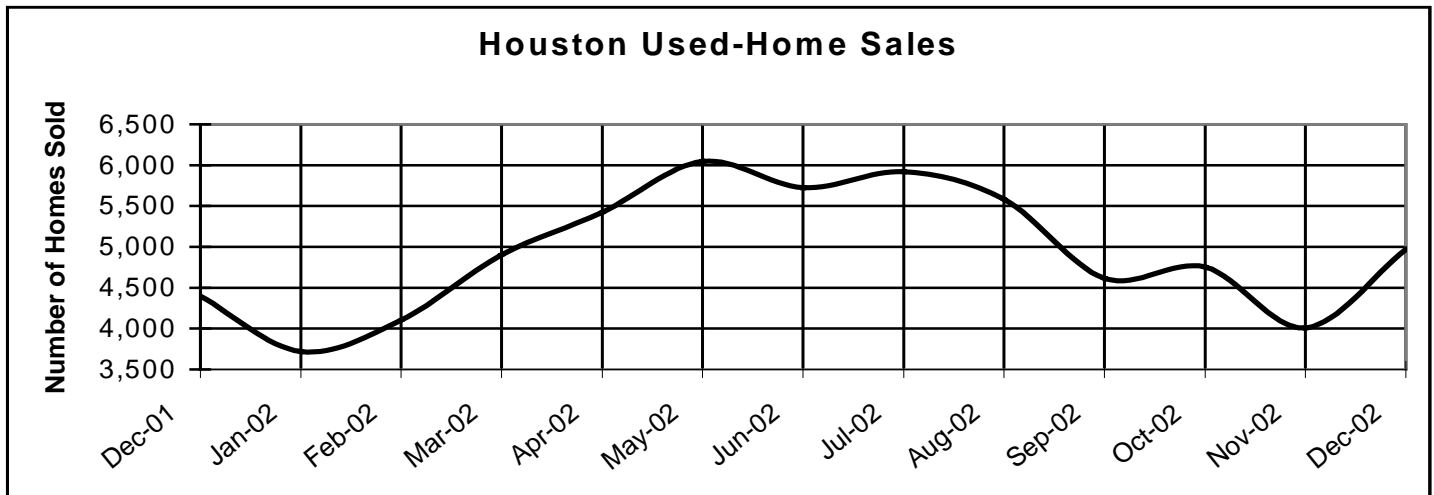
Royce Homes is developing **Royal Palms** on Westheimer near the Beltway. Royal Palms is similar to a miniature version of the adjacent **Royal Oaks**. The two residential projects are each enclosed by an imposing red brick wall and lined with trees. The two communities differ in home price and amenities. Home prices in Royal Palms will range from \$200,000 to \$280,000 and the only community amenity will be small parks spread throughout the community. Homes will range in size from 1,800 square-feet to more than 3,000 square-feet. In Royal Oaks, custom home sites are priced for as much as \$950,000, which in some cases does not include the house itself.

Hall Financial Group provided \$4 million in funding for a second mortgage to **Tremont Tower, LLP**. **Jorge Casimiro, Tom Thibodeau, and Amad Al-Banna** are developing the eight-story, 76-unit condominium project at 3311 Yupon St in the Montrose area. The \$17.4 million project is slated for completion in November 2003. Designed by Houston-based architect **Irving Philipis**, Tremont Tower will feature mid-rise condominiums priced from the \$170,000s to more than \$600,000.

Aubrey Farb is developing **Sherwood Park**, a 28-lot gated community which will be constructed on Sherwood Forest Drive, west of the Beltway and north of Interstate 10. Custom home builders will construct houses starting at 2,500 square-feet. Home prices will range from \$350,000 to \$450,000. The land for Sherwood Park was purchased in November 2001 for \$725,000. Construction will begin in March 2003.

Beazer Homes (713-849-5017) is developing a single-family community located at FM 529 and Spencer Road, west of Barker Cypress. Infrastructure development will begin in May 2003. The 450-home community will be developed in three 150-lot sections. Prices will start in the low \$100,000's with lot sizes ranging from 1,600 square-feet to 1,700 square-feet. Beazer Homes purchased the 83 acres of land from **Jim-Hydie Corp**. **David Gerber** of **Gerber Realty** represented the buyer in the transaction.

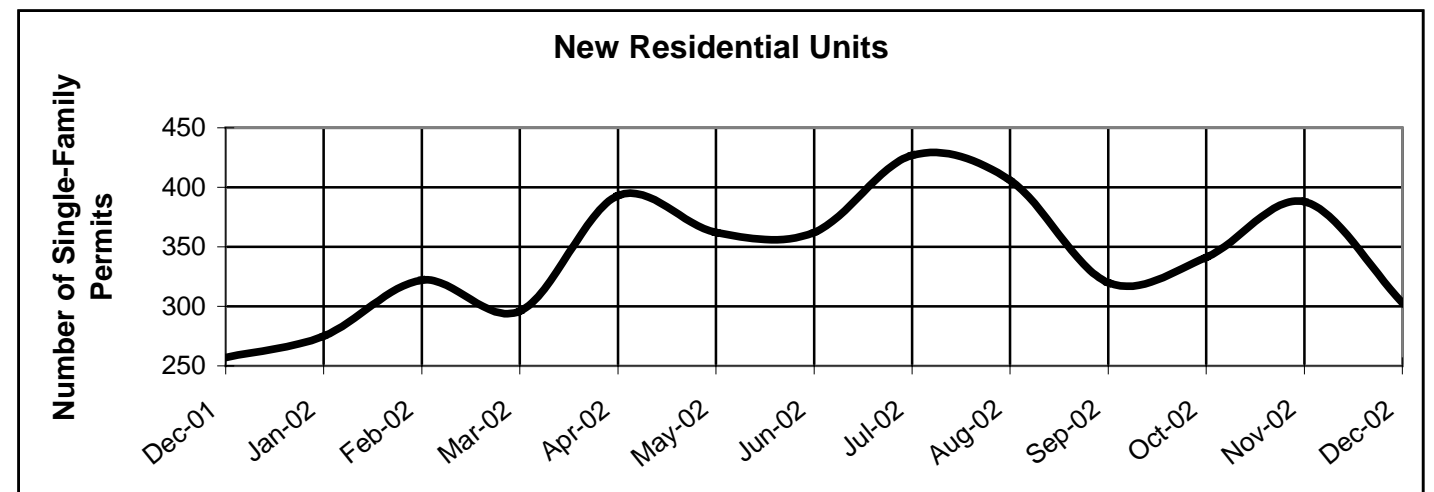
The following chart illustrates historical used-home sale activity.



PERMIT ISSUANCE

The City of Houston issued permits to build 303 houses and to demolish 149 houses in December 2002. Permits were issued to build 65 multi-family buildings (1,736 units). Permits for privately owned new non-residential construction totaled \$63,020,552. Public sector permits for new non-residential construction totaled \$11,863,300. Additions, alterations and conversions totaled \$77,320,696 for the private sector and \$8,513,996 for the public sector.

Total Building Permits, City of Houston			
	2000	2001	2002
December	\$ 342,664,202	\$ 221,978,992	\$ 311,845,546
Year-to-Date	\$ 4,104,598,751	\$ 3,916,031,536	\$ 3,612,100,030



OFFICE BUILDINGS

Overall multi-tenant rental rates fell \$0.35 per square-foot (psf) to \$18.40 psf this quarter. Average rents have decreased each quarter since first quarter 2002 and are now 4.5% lower than this time one year ago. Class A rents have fallen most dramatically, and are down 7.4% from this time last year.

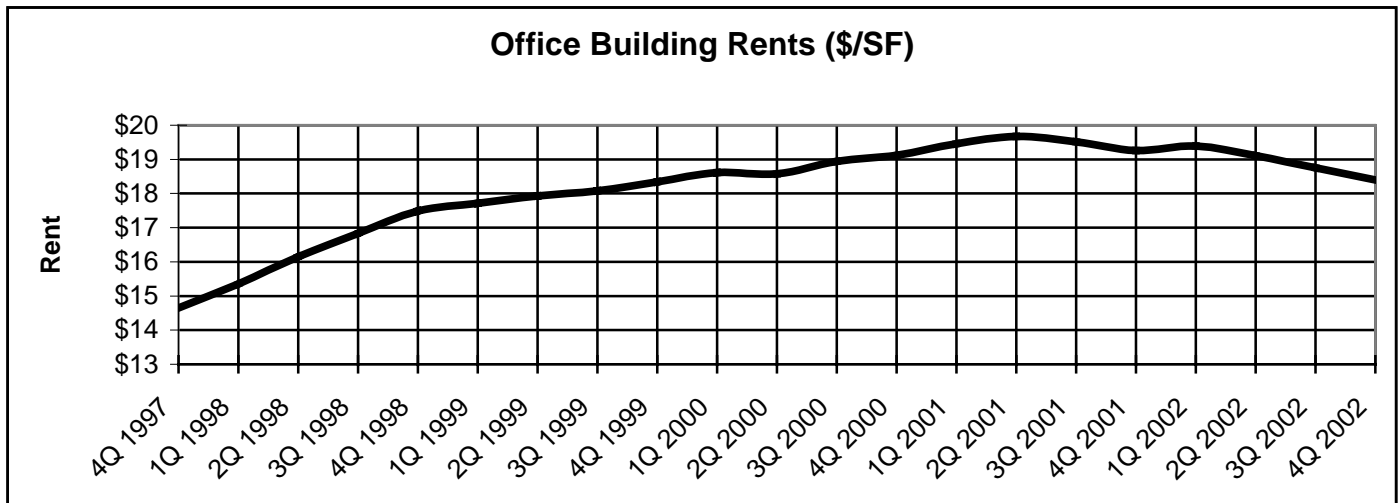
Class A rents fell \$0.67 psf to \$21.52 psf, the largest drop of any class this quarter. The gap between Suburban rents and the Central Business District is decreasing, as the Central Business District no longer posts the area's highest rents.

As landlords continue to aggressively try to fill space rental concessions will likely continue to predominate throughout much of 2003. Free rent, no parking charge, larger tenant improvement allowance, moving allowances, and other inducements will be used to chase tenants, particularly in the Central Business District, Westchase, Greenway Plaza, and the Galleria sectors. Landlords are left to persevere and hope for more lucrative deals after the increasingly popular short-term leases expire and the economy rebounds.

According to the **O'Connor & Associates 4th Quarter 2002 Houston Area Office Data Program**, overall **occupancy** for Houston area multi-tenant office buildings is **85.58%** (**Class A = 89.56%**; **Class B = 83.01%**; **Class C = 82.20%**; and **Class D = 80.45%**). Meanwhile, the **overall multi-tenant office building rental rate is \$18.40 per square-foot per year**, a decrease of \$0.86 psf over a year ago.

- **Cypress Office Holdings, Ltd.** sold its interest in **Executive Plaza (GAL 002)** located at 4605-4645 Southwest Freeway in southwest Houston (491Z). **Cypressbrook Co.** and **Bridgewood Property Co.** now share full ownership of the five buildings. The 31-year-old Class B buildings are 70% occupied with average rents at \$16.00 per square-foot.
- **The Lionstone Group**, a Houston real estate investment firm, secured a \$75 million equity commitment from the **Oregon Public Employees Retirement Fund (OPERF)** to acquire high-occupancy, multi-tenant office buildings in the U.S. The equity commitment, which will be leveraged up to 65%, provides a buying power of up to \$220 million and OPERF could commit another \$50 million to take the leveraged buying power as high as \$360 million. Twenty-two U.S. office submarkets have been targeted as priorities, including Houston.

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.

Younan Properties purchased a 68,520 net square-foot building at **810 Highway 6 (KFW 014)**, from **Michael Stevens Interests**. The 23-year-old Class B building is 40% occupied with average rents at \$15.50 per square-foot. The building is located in west Houston (488E). **Tom Bousquet** of **CB Richard Ellis** represented the buyer, while **Logan Brown** of **Grubb & Ellis** represented the seller.

Houston Mark I Properties (713-722-8880) purchased a 60,000 net square-foot building, located at **950 Echo Lane (KFE 002)**, from **TIAA Realty, Inc.** The 23-year-old Class A building is 75% occupied with average rents at \$19.50 per square-foot.

Computer Graphics purchased a 21,518 net square-foot building, located at **4949 West 34th Street (NNW 015)**, from **Cambridge Properties**. The 24-year-old Class D building is 99% occupied with average rents at \$12.00 per square-foot. The property is located on the southeast corner of 34th Street and Kingswood in northwest Houston (451Q). **Julie Bowlin** of **JBC Realty** represented the buyer, while **Mark Lehman** of **Grubb & Ellis** represented the seller.

U.S. Physical Therapy leased 37,000 square-feet in **Briar Forest Crossing (WES 058)**, located at 1300 Sam Houston Parkway West, from **State Farm Life Ins** (309-766-2311). The 23-year-old Class B building is 45% occupied with average rents at \$19.00 per square-foot.

Multiphase Solutions, Inc. leased 20,582 square-feet in **Two Park Ten Place (P10 008)**, located at 16300 Katy Freeway, from **Koll Bren Schreiber Realty Advisors**. The 19-year-old Class C building is 49% occupied with average rents at \$16.00 per square-foot. The 57,784 net square-foot building is located between Park Ten Blvd. and the Katy Freeway in west Houston (447Y). **Eric Anderson** of **Transwestern Commercial** represented the tenant, while **Doug Little** of **PM Realty Group** represented the landlord.

Hoyer Odfjell leased 11,167 square-feet in the **McDonnell-Douglas Tower (CLC 048)**, located at 16055 Space Center Blvd., from **CCI 16055, Ltd** (713-622-7714). The 17-year-old Class B building is 46% occupied with average rents at \$17.38 per square-foot. The 138,555 net square-foot building is located between Space Center Blvd. and Bay Area Blvd. in the Clear Lake (618L) area. **Coy Davidson** and **Robert Parsley** of **Colliers International** represented the tenant, while **Dena Wren** of **CB Richard Ellis** represented the landlord.

RETAIL CENTERS

The citywide average retail rental rate fell again, marking the third straight quarter that the overall rate has suffered a decline. The average rental rate dropped \$0.01 in quarter three to \$1.46 psf, which is \$0.03 below the level posted at this time last year.

This is the lowest the overall rental rate has been since tumbling to \$1.45 psf at the end of 2000. As per usual, the average rental rate trends are largely guided by fluctuations within the Regional Mall category, which has suffered a decline in rents of \$0.18 over the last 12 months.

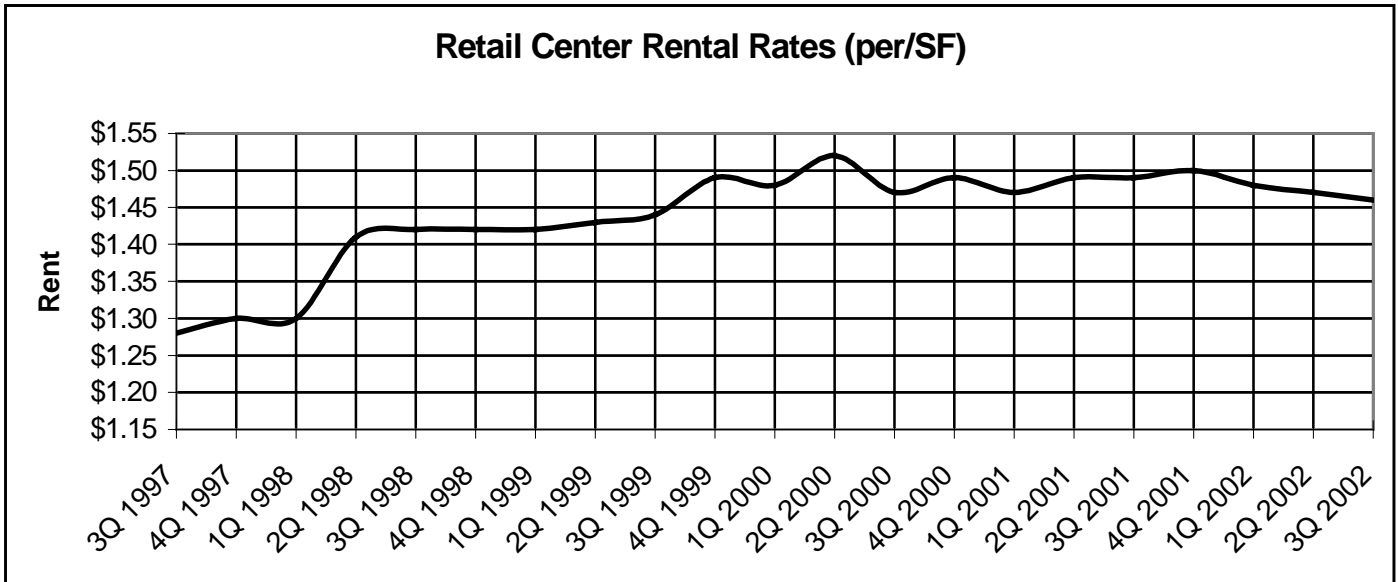
Regional Mall rents are primarily responsible for the decline in overall rents, dropping \$0.07 psf this quarter to \$3.07 psf. The highest Regional Mall rental rate can be found in the **Near West** (2 centers) at \$6.04 psf, while the low was reported in the **Near Northwest** (2 centers) at \$1.83 psf.

Average **Community Center** rents remained steady this quarter at \$1.31 psf. Although rents are \$0.03 lower now than at this time last year, no news is good news as Community Center rents opened the year at \$1.29 psf.

According to the **O'Connor & Associates 3rd Quarter 2002 Houston Area Retail Data Program**, overall **occupancy** for Houston area multi-tenant retail centers is **85.69%**, a decrease of 0.32 points from last quarter. Meanwhile, the **overall multi-tenant retail rental rate** slipped this quarter to **\$1.46 per square-foot per month**, down \$0.03 over this time last year.

- **Rice Epicurean Market** is closing its 17,000 square-foot store located at 2500 Rice Blvd. (INL 076) because of its size and age. The chain has struggled to develop the 2500 Rice Blvd. location like its other 32,000 square-foot Epicurean locations. The decision to close was made because it was not cost effective to make the needed repairs on the 42-year-old store without making it bigger. Rice Epicurean Market opened its first store 65 years ago under the name **Rice Boulevard Food Market** and was located at 2501 Rice Blvd. In 1960 the grocer moved to its current located at 2500 Rice Blvd.
- Much ado at the **Marq-E Entertainment Center (NRW 193)**, located on Interstate 10 and Silber. **Banana Joe's Island Party** is closing, after less than three months in business. **Surfer's Paradise Grill & Bar** closed and will reopen as **Big Island Tropical Grill** with a new menu. Also **Cold Stone Creamery** is planning to open a store in the former **Maggie Moos Ice Cream** space, which should open in March 2003. **Mrs. Fields Cookies** also will open up a sweets shop in Marq E in the next two months. General Contractor **Cadence McShane Corp.** is building a new eight-story parking garage at the entertainment complex. The engineer and architect, **Walter P. Moore & Associates**, is designing the parking structure to reflect the contemporary look of the surrounding structures. The garage will consist of 1,400 parking spaces and will be completed in September 2003.
- **H-E-B** has opened a 90,000-square-foot store, its largest in the Houston-area, on the corner of Beechnut and Beltway 8. The store features a 25,000-square-foot seafood market, a drug store, a floral shop, a pharmacy, and a full-service photo department. In anticipation of the opening, the two nearby H-E-B Pantry stores, located at Corporate Drive at Beechnut and Bellaire at Kirkwood, closed in Jan 2003.
- **Rickshaw Restaurant** is converting its bar area into a global lounge named **Bambú**. Aside from the international feel of the lounge, the lounge has a series of themed cocktail hours and a midnight sushi offering. The lounge is located at 2810 Westheimer.
- **Regency Centers** and **H-E-B** formed **Regency Woodlands/Kuykendahl Retail Ltd.** to build a 136,000 square-foot, grocery-anchored center in The Woodlands. They have already acquired 39 acres at the southwest corner of Woodlands Parkway and Kuykendahl Road. They plan a 78,132 square-foot H-E-B store, 57,845 square-foot of inline space, and seven pad sites. Construction will begin in May 2003 and delivery is planned for the second quarter of 2004.
- Fort Worth-based **Trademark** has finalized the purchase of the last 20 acres needed to complete **Market Street** in The Woodlands. The 34-acre mixed-use project will consist of a two-story, 26,000 square-foot **Borders Books & Music** and a 78,000 square-foot specialty **H-E-B**, to be called **The Woodlands Market**. The grocery market will incorporate some of the key elements from H-E-B's Central Market concept store, including a Cafe on the Run with indoor and outdoor seating.
- Struggling Michigan based **K-Mart** is closing all 17 of its area stores, dumping more than 1 million square-feet on the market. The bankrupt retailer will close as many as 318 stores nationwide by March 2003. This is the second time in less than a year that K-mart has closed scores of stores. After this round of store closings this spring, K-mart will be left with about 1,500 stores nationwide.
- **Auchan** will close its two Houston hypermarkets, its only remaining U.S. stores. The two Auchans are located in west Houston at the Sam Houston Tollway and in the Gulfgate area.
- **Sunhill Group** plans to redevelop the 4.27-acre **Jack Tar Hotel** site into a retail and restaurant complex. The new owners purchased Galveston's famous site from **Bunker Hill Developments, Inc.** **Jeff Scarborough** of **Scarborough Real Estate** represented the buyer, while **Christopher D. Winters** of **Colliers International** represented the seller.
- Houston-based **Retail Properties Group** (713-316-9702) will break ground on **Cypresswood Landing**, located at the southeast corner of Cypresswood and Stuebner Airline in the Champions area. The group is planning a 33,000 square-foot strip center on the nine-acre site that will consist of mostly restaurants.

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.*

Houston-based **MetroNational** purchased a vacant retail box in west Houston that housed the now-defunct Service Merchandise. The 90,000 square-foot store is west of the Memorial Hermann Memorial City hospital campus. MetroNational paid \$5 million for the property, which will be part of an ongoing redevelopment effort. **Randy Nerren** represented **MetroNational**, while **Karen Mitchell** of Dallas-based **Developers Diversified Realty** represented the seller.

Calx, Ltd, a subsidiary of **Simi Investment Co.** (713-799-1676), purchased **610 Main Shopping Center (NSW 110)**, located on the corner of 610 South and Main Street, from **Hale/Associates**. The 25-year-old 34,071 net square-foot center is 66% occupied with average rents at \$0.78 per square-foot. Tenants in the southwest Houston (532T) center include **Beneficial Finance**, **Martial Arts Studio**, and **Main St. Chinese**.

New York-based **Smith & Wollensky** steak restaurant leased 12,000 square-feet in the **Highland Village Shopping Center (INL 047)**, located between Wesleyan and the railroad tracks, from **Highland Village Holding, Inc.** (713-850-3100). The site was formerly home to Anthony's restaurant and will undergo extensive renovation. The new restaurant will have approximately 350 seats on two levels, including a large balcony with outdoor seating and an indoor/outdoor bar.

VACANT LAND

BP Amoco Corporation purchased 3,844 acres at FM 2004 and Chocolate Bay from **IP Farms, Inc.** The sale was a sealed bid land sale in Brazoria County. **David L. Cook** and **Jeff G. Peden** of **Cushman & Wakefield** represented the buyer, while **B Kelley Parker, III, John F. Littman,** and **H. Frank Stanley** of **Cushman & Wakefield** represented the seller.

Houston Community College System purchased 30 acres of land at Sienna Springs Blvd. and Sienna Parkway in Fort Bend County from **Sienna/Johnson.** **David L. Cook** and **Jeff G. Peden** of **Cushman & Wakefield** and **William A. McDade, Tricia L. Progue,** and **Todd A. Mason** of **McDade, Smith, Gould, Johnston & Company** represented the buyer in the negotiations.

Peabody, Inc. purchased 12.28 acres at Main Street near Holmes Road from **Kelly Reynolds,** Trustee et. al. **James E. Foreman, Sandra F. Harris,** and **Beau L. Kaleel** of **Cushman & Wakefield** handled the negotiations.

Chickadee Properties purchased 9 acres at North Houston Rosslyn from **KRM Properties.** **Bill Rudolf** of **CB Richard Ellis** represented the buyer, while **David L. Cook, Todd Mason,** and **Jeff Peden** of **Cushman & Wakefield** represented the seller.

Scottos Collection purchased 7.13 acres at FM 2094 and Twin Oaks Blvd. in League City from **JAB Development Corporation.** **Bob Zannelli** of **Zann Commercial Brokerage** represented the buyer, while **James E. Foreman, Sandra F. Harris,** and **Beau L. Kaleel** of **Cushman & Wakefield** represented the seller.

An institutional investment group led by **Clarion Partners** purchased a 1.8-acre parcel at Bagby and Dallas, for \$16 million (\$20.41 psf), from the **Blaffer** family. Clarion plans to build a multilevel parking garage, possibly with some ground-level retail space. If the market recovers from its downturn, then Clarion might consider building an office tower there in a few years.

Domain purchased the last 2-acre tract at the corner of Broadfield Boulevard and the Katy Freeway in Park 10 for a showroom. **Michael Richker** of **Richker Properties** represented the buyer, while **David Hightower** of **Wolff Co.** represented the seller.

Bo's Place purchased 1.5 acres on Buffalo Speedway north of the proposed West Bellfort from the **American Heart Association.** The land will be used for its' corporate headquarters. **Kirk Pfeffer** of **LoneStar Alliance** represented the buyer, while **David Schwarz, III** of **McDade, Smith, Gould, Johnston & Company** represented the seller.

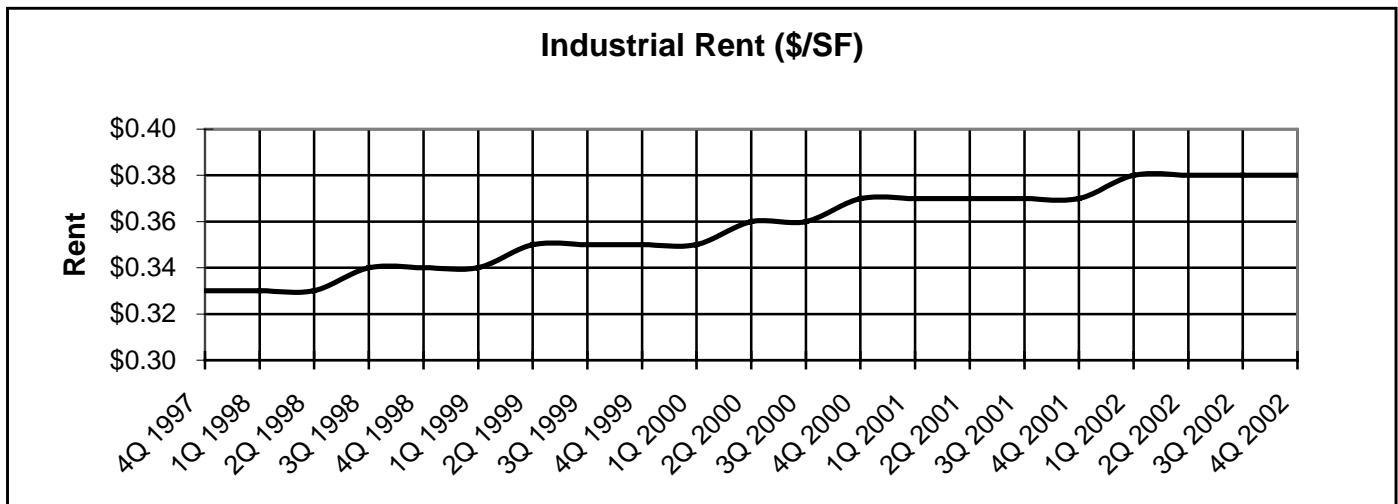
INDUSTRIAL FACILITIES

Overall industrial occupancy increased 0.16 points to 84.87% this quarter, however it is down 0.95 points from this period one year ago. Office/Warehouse and Manufacturing Facilities were hit the hardest with 0.24-point and 0.42-point losses respectively. Over the past year Warehouse and Office/Warehouse occupancy is up 0.37 points and 2.19 points respectively, while Manufacturing Facilities occupancy is down 0.58 points.

Overall industrial rental rates remained flat at \$0.38 per square-foot (psf) this quarter. Average rents are \$0.01 psf higher than rents posted this time one year ago. Warehouse rents rose \$0.01 psf to \$0.34 psf this quarter and are up 6.25% from this time last year. Office/Warehouse rents remained flat throughout the year. Manufactory Facility rents gained \$0.01 psf earlier this year, but returned to 4Q 2001 levels this quarter at \$0.30 psf.

According to the **O'Connor & Associates 4th Quarter 2002 Houston Area Industrial Data Program**, overall **occupancy** for Houston area operating industrial facilities is **84.86%**, while the overall multi-tenant industrial **rental rate** is **\$0.38 per square-foot**.

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.*

Emser leased 112,000 square-feet at **9835 Genard (1242H)**, a 417,350 net square-foot facility, from **First Industrial** (312-344-4300). The 22-year-old distribution center is 27% occupied. The northwest Houston (450B) facility features 25-foot clearance and dock-high loading. **Pollard Gallipp** of **Cypressbrook Co.** represented the tenant in the negotiations.

Iron Mountain Information Management leased **Pine Forest Business Park 10 (1878)**, located at 3900 Distribution, from **Billingsley Co.** (214-754-1700). The 23-year-old 53,232 net square-foot facility is fully leased. The North Houston (452R) facility features 22-foot clearance and dock-high loading. **James E. Foreman, Sandra F. Harris, and Beau Kaleel** of **Cushman & Wakefield** represented the tenant, while **David Hudson** of **Trammell Crow Co.** represented the landlord.

O2 Wireless Solutions leased 42,101 square-feet in **Fairbanks Center (1290W)**, located at 4300 Windfern, from **Vantage Companies** (713-780-4300). The 3-year-old 103,040 net square-foot office/warehouse is 100% occupied with average rents at \$0.44 per square-foot. The northwest Houston (449M) facility features 24-foot clearance and dock-high loading.

Rugby Building Products leased 23,025 square-feet in **Pine Forest Business Park 7 (1879)** located at 599 Garden Oaks, from **Billingsley Co.** (214-754-1700). The 27-year-old office warehouse is 74% occupied with average rents at \$0.38 per square-foot. The 125,349 net square-foot facility features 22-25 foot clearances and dock-high loading. **Gray Gilbert** of **CB Richard Ellis** represented the tenant, while **David Hudson** of **Trammell Crow Co.** represented the landlord.

Discover Gymnastics leased 22,000 square-feet in **Corporate Center Shepherd (2656M)**, located at 747 N. Shepherd in north Houston (492D), from **Warehouse Associates** (713-461-9696). The 3-year-old warehouse is 96% occupied with average rents at \$0.55 per square-foot. The 235,467 net square-foot facility features grade level loading.

Alliance Printing and Graphics leased a 20,040 net square-foot office/warehouse, located at **5225 Hollister Dr. (1334)**, from **Archway Properties** (713-645-6677). The 26-year-old northwest Houston (450H) facility is 100% occupied. The facility features grade-level loading and 9-foot clearance. **David Carter** of **Yancey Hausman** represented the tenant, while **Donald E. Dennis** of **Archway Properties** represented the landlord.

Framecrafters, Inc. leased 17,400 square-feet in the **Hempstead Distribution Center 2 (1642B)**, located at 2030 Afton, from **Security Capital Industrial Trust**. The 16-year-old 113,298 net square-foot facility is 100% occupied. The northwest Houston (451U) facility features 22-foot clearance and grade level loading.

Two new leases were signed at **14335 Interdrive West (0430H)** from **JADL 525**. **Sargent Manufacturing** leased 7,545 square-feet at 14335-C Interdrive and **Tricor America** leased 5,000 square-feet at 14335-B Interdrive. The 12-year-old 23,180 net square-foot office/warehouse is 100% occupied with average rents at \$0.50 per square-foot. The north Houston (374W) facility features 14 to 16 foot clearances and grade-level loading. **Barrett Gibson** and **John Ferruzzo** of **NAI Partners Commercial** represented the tenant in the Sargent Manufacturing deal, while **David Schwarz, III** of **McDade, Smith, Gould, Johnston & Company** represented the landlord in both transactions.

Philips Medical Systems leased 10,880 square-feet at **9555 Baythorne (1225M)** from **Kur-Le Development**. The one-year-old warehouse is 38% occupied. The 28,576 net square-foot building is located in northwest Houston (450B). **Stephen Schneidau** of **Cushman & Wakefield** represented the tenant, while **Beau Kaleel** and **Sandra Harris** of **Cushman & Wakefield** represented the landlord.

Challenge Office Products leased 5,760 square-feet in **Wayside Business Park A-G (4538)**, located at 4400 South Wayside, from **Port of Galveston, Ltd.** The 28-year-old facility is 68% occupied with average rents at \$0.46 per square-foot. **Corey Ferguson** of **Staubach Co.** represented the tenant, while **Alexander Reilly** and **David Boyd** of **Boyd Page** represented the landlord.

ECONOMIC & FINANCIAL NEWS

The **number of wage and salary jobs** in the 6-county Houston area **increased by 7,300** jobs to 2,136,000 in December 2002, according to the **Texas Workforce Commission**. Trade posted an increase of 6,700 jobs. This month's total is 4,500 jobs greater than the 2,131,500 jobs at this time last year. **Houston's unemployment rate** decreased to 5.4% in December, while the statewide unemployment rate decreased to 5.7%.

Texas Transportation Commission approved financing of the Katy Freeway expansion. A toll road will be built down the middle of the interstate. Environmental studies on parts of the massive expansion project are ongoing, but ground-breaking will start later this year. The pact approved by the state's three powerful highway commissioners will pay for a large portion of the \$1 billion project through a partnership with the **Harris County Toll Road Authority**. The state's design calls for two toll lanes in each direction from the West Loop to Texas 6, plus four through lanes and three frontage lanes, making 18 through lanes plus the entrances and exits. The stretch now has 10 lanes, as well as a high-occupancy vehicle lane down the middle. From Texas 6 to the county line at the city of Katy, there will be no toll lanes. Instead, plans call for new diamond lanes for buses and multioccupant vehicles. **The Katy Corridor Coalition**, a local group that opposes the state's plans for the freeway, has filed a lawsuit to stall the project. The coalition is against the current freeway design and has its own design for the Freeway. The coalition's plan, which has been derided by state highway department supporters and county officials, has less space for additional lanes and more for green space. It also calls for officials to sink several miles of the interstate and to plant thousands of trees to filter out air pollution.

Construction has begun to convert an old movie theater located at 12030 I-10 East Freeway into a new 13,250-square-foot education facility. The **Texas School of Business** will open a fourth Houston area campus the end of January 2003.

Fred Caldwell, president of **Caldwell Watson Real Estate Group**, was elected the 2003 president of the **Houston Chapter of the Society of Industrial and Office REALTORS® (SIOR)**. He will serve on the **Society's Council of Chapter of Presidents**. The Society's Houston chapter also elected **Conrad Bernard**, of **Boyd Page, Inc.** as vice president and **Michael J. Taetz**, principal and director of **Colliers International**, as treasurer and secretary.

Nayosha Ltd. plans to construct a 64-room hotel on 1.56 acres of land. Construction of **Wingate Inn & Suites**, which will be located at Interstate 10 and Market Place Drive, is expected to begin in early 2003 with a projected completion date of January 2004.

The District, formerly known as **Brazos Transit District**, will debut its new service between the **Sawdust Park & Ride** and the Greenspoint area. The new service will make about 10 stops along Greenspoint Boulevard and Greens Road, including a connection to the **Greenspoint Flyer** that serves **Bush Intercontinental Airport**. Fares are \$2 for a one-way ticket. In addition to the park and ride service, The District will offer a shuttle between the Sawdust Park & Ride and the Town Center area. The cost is \$0.50 for a one-way trip.

In **Freddie Mac's Primary Mortgage Market Survey**, the 30-year fixed-rate mortgage (FRM) averaged 5.85%, with an average 0.6 point, for the week ending January 3, 2003, down from 5.93% last week. Last year at this time, the 30-year FRM averaged 7.14%. The 30-year FRM has not been this low since Freddie Mac began tracking it in 1971, and when compared to figures from the **Federal Housing Finance Board**, it has not been this low since the early 1960s. A year ago, the 15-year FRM averaged 6.62%. The 15-year FRM meets the lowest level ever recorded in Freddie Mac's weekly survey. One-year Treasury-indexed adjustable-rate mortgages (ARMs) averaged 4.06% for the first week of January, with an average 0.7 point, slightly higher than the last week of December 2002 average of 4.01%. At the same time last year, the one-year ARM averaged 5.26%.

The **University of Texas System** cancelled its plans to build a \$22 million mental health outpatient facility, after months of unsuccessful efforts to change the minds of residents in a South MacGregor neighborhood. The school intended to build the facility on the **Wright Morrow Estate** at 3028 S. MacGregor Way after buying the 4-acre site more than a year ago. It would have been close to the **Harris County Psychiatric Center**, owned by UT, on South MacGregor and Texas 288. The UT system bought the estate in August 2001 for \$2.3 million. The proposed 85,000 square-foot, four-story building would have included two parking floors for 144 vehicles. The home would have been converted to a community meeting hall.

Conoco Phillips is closing 80% of its U.S. company-owned service stations this year as it concentrates on oil and gas exploration. The move will result in an estimated \$1.3 billion charge against fourth-quarter earnings, the first since the merger of Conoco and Phillips Petroleum. According to analysts, the stations sold would consist mostly of older Phillips and Tosco stations and will probably number about 2,000. Conoco Phillips has about 2,500 company-owned outlets in the United States and another 1,200 overseas. The company is expected to raise \$1.5 billion to \$2 billion through the sale of the stations.

Container volume at the **Port of Houston** surged 10% in 2002, setting a record for volume and total tonnage, according to the port authority. Total container volume hit 1.15 million TEUs, or 20-foot equivalent units, compared with 1.05 million TEUs in 2001, port statistics showed. Most of the container activity was at the port's Barbour's Cut terminal, where 1.06 million TEUs were recorded in 2002, compared with 912,000 in 2001. In terms of tonnage, total container tonnage for the year was about 10.8 million tons, compared with about 10.1 million tons a year earlier. Port Chairman Jim Edmonds said that despite the increased container volume and tonnage, the rate of container growth at the port is slowing. Port officials have been using the lack of capacity issue to try to bolster their argument for a new container terminal. The port is moving forward with plans for the proposed \$1.2 billion Bayport container and cruise terminal, which remains under review by the Army Corps of Engineers.

The U.S. economy slowed dramatically in the final quarter of last year, growing at an annual rate of just 0.7%, the smallest increase since 1993. The meager rise in gross domestic product in the fourth quarter of 2002 came after the economy grew at a respectable 4% rate in the third quarter, the **Commerce Department** reported. The fourth quarter was the worst quarter for GDP in 2002. It also marked the weakest showing since the economy actually shrank at a 0.3% rate in the third quarter of 2001 as the country was mired in its first recession in a decade.

Construction spending jumped by 1.2% in December, as low interest rates catapulted home building to an all-time monthly high level. The over-the-month increase pushed the value of all construction projects to a seasonally adjusted annual rate of \$858.3 billion and followed a sizable 0.9% gain in November, the **Commerce Department** reported. December's increase marked the biggest gain in 10 months. Home building has been the main source of strength for the overall construction market. In December, spending on all residential projects rose to a record \$434.6 billion on an annualized basis, representing a 2.9% increase from the previous month. The housing market has been one of the economy's few bright spots. Sales of both new homes and previously owned homes hit record highs in 2002, as some of the lowest mortgage rates seen in decades proved too good for people to pass up. While the residential side has been strong, the commercial side of the construction market has remained weak, reflecting reluctance by businesses to make big commitments in capital spending, including new factories and other buildings.

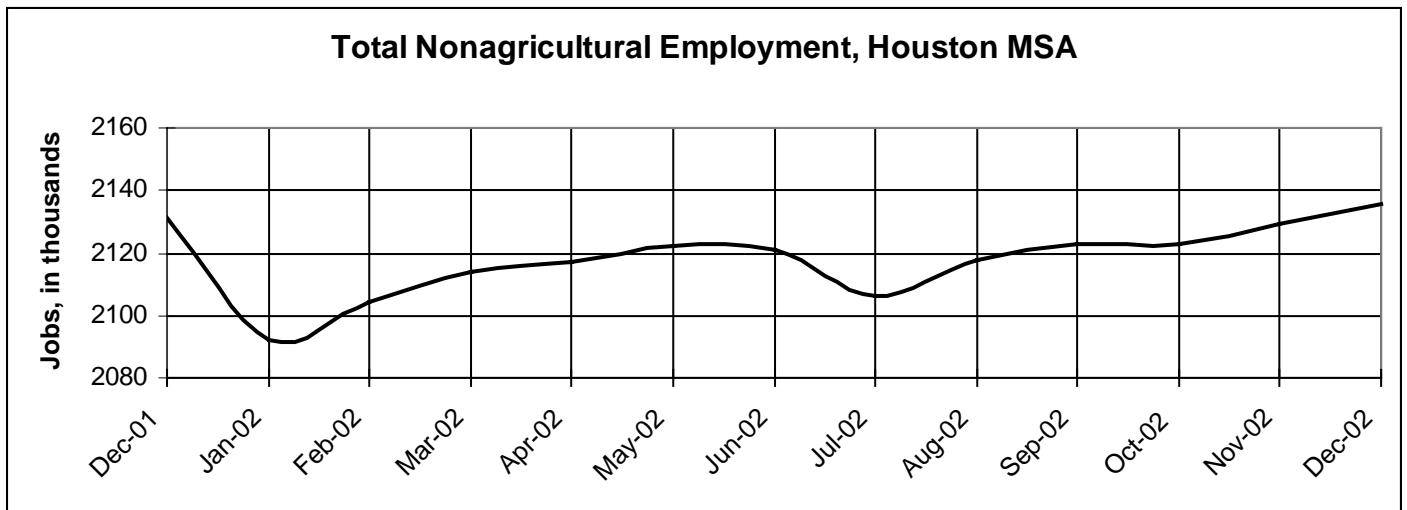
The **National Association of Home Builders** convention indicated that home designs are changing as Americans look for new informal spaces to gather inside and outdoors and seek more privacy. New developments in home design include oversized laundry rooms and larger kitchens, while the extra large master bath suite is slowly being replaced by his-and-her bathrooms. After years of home sizes steadily increasing, the average home constructed in the nation last year measured 2,310 square feet, a slight decrease from 2,325 square feet in 2001.

Media reports indicate that **CB Richard Ellis** has agreed to buy **Insignia Financial Group** in a \$400-million deal that would create what is being touted as the world's biggest real estate brokerage firm. CBRE currently has around 10,000 employees in more than 250 offices across 47 countries and Insignia has more than 6,200 people in 95 offices across the world. Insignia is a New York Stock Exchange-listed company with total revenues in excess of \$735 million. The deal also sees the reunification of the Richard Ellis Brand. Insignia retained the rights to the name in the UK and continued to trade as Insignia Richard Ellis, while CBRE, which owned the rights to the name everywhere else in the world, operated there as CB Hillier Parker. CB acknowledges talks are ongoing, but insists that no deal has been reached.

Star State Investments will begin construction on **Houston Super Speedway** in Brazoria County. The track, which hopes to host **NASCAR** and **Indy Racing League** events, will sit on 2,800 acres southeast of Houston near Alvin along Texas 288 and FM 1462. About 1,300 acres and \$100 million will be devoted to completing the 1.2-mile oval track. There are also plans to build a regional conference center, hotel, and golf course on the site, which could push the total price tag above \$300 million. The complex will include a 75,000-seat grandstand and between 50 and 60 luxury suites. A proposed second phase will increase capacity to 150,000 permanent seats.

The **City of Conroe** has hired **The Buxton Co.** in an attempt to bring new retailers to the city. The city will team with the Dallas-based firm, which specializes in identifying and marketing potential retail sites, as part of a plan to boot the city's revenues. **Craig Lonon**, Conroe city administrator, says the city's sales tax revenue has been off recently, and the City Council is looking for ways to increase the city's revenues aside from property taxes. Sites being considered for the nationwide marketing effort are at League Line Road and Interstate 45; FM 3083 and I-45; Loop 336 and Texas 105 West; and Texas 105 East about four blocks east of I-45, which is the site of an old Ford dealership.

The following chart illustrates total nonagricultural employment.



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