



HOUSTON REAL ESTATE TRENDS

EDITED BY PATRICK O'CONNOR, MAI \$199 PER YEAR VOLUME 16 NUMBER 11 FEBRUARY 2003

APARTMENTS

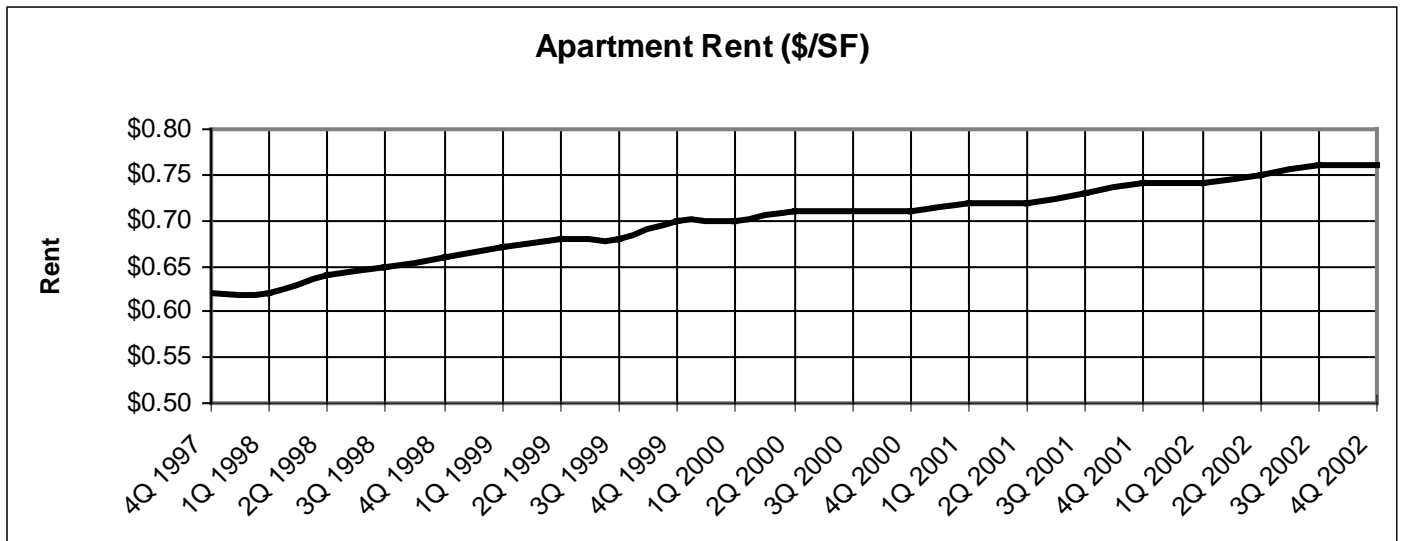
Flat rents, falling occupancy, and the lowest quarterly absorption total posted in seven years mark a dramatic softening in the Houston apartment market. Overall occupancy is down 0.36 points this quarter to 92.62%, as each Class posted a lower occupancy level compared to the previous quarter. Overall occupancy is at its lowest level in two years, although annual rent gains were up slightly compared to the previous year.

Overall demand for multifamily units continues to decline with only 4,610 units absorbed over the past 12 months. The bulk of this total was in early 2002. While Class D was the only class to post negative absorption for the year, Class B and Class C were the only classes to post positive totals this quarter.

According to the **O'Connor & Associates 4th Quarter 2002 Greater Houston Apartment Data Program**, average overall **occupancy** for Houston area multifamily projects is **92.62%** (**Class A = 90.64%**; **Class B = 93.62%**; **Class C = 93.32%**; **Class D = 87.82%**). The **overall multi-family rental rate is \$0.760 per square-foot per month**.

- **Archstone-Smith** has broken ground on the 376-unit **The Esplanade at One Hermann Museum Circle**. The \$24.7 million apartment complex will be located at the intersection of Ewing and Almeda. Completion is slated for first-quarter 2004.
- Minneapolis-based **NorthMarq Capital, Inc.**, arranged nearly \$5.4 million in funding for **Alexan Cinco Ranch Apartments**, a 312-unit complex located at 2500 South Mason Road in Katy. **Trammell Crow Residential** is developing the complex, which will include amenities such as a swimming pool, clubhouse, fitness center, and business center. Construction on the project should be completed by the summer.
- **Gables Residential** (713-784-4144) is constructing a 312-unit apartment complex on the old **Spectrum** theater site. The site is north of Westheimer Road on Augusta, near Fountainview. **Gables Augusta (1087M)** is set to open by the end of the year. Gables purchased the 4.2 acres of land there from a group led by **Jim Gillette**. **Dennis Johnston** of **McDade, Smith, Gould, Johnston & Co.** negotiated the transaction.

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.

Lynch Associates Real Estate, Inc (510-873-0745) purchased **The Mills Apartments (1881)**, a 708-unit complex, located at 10225 Bissonnet, from **SW Mills Partners, LP**. The 23-year-old Class B complex is 97% occupied with average rents at \$0.68 per square-foot. The southwest Houston (529V) complex features pitched roofs and is separated metered for electricity. **Cliff McDaniel** and **Jeff Ryan** of **Southwest Residential Partners** represented the seller.

American Realty Investment (281-820-0747), a group affiliated with the **Fidinam Company** purchased **Gables at Richmond Apartments (1013)**, located at 3400 Ocee, from **Claremont Cos**. The 405-unit Class B complex is 90% occupied with average rents at \$0.76 per square-foot. The complex is located on the northwest corner of Pagewood Lane and Ocee in west Houston (490X). The complex features pitched roofs and is separately metered for electricity.

Rao Polavarapu (713-771-6016) purchased **Falls of Westpark Apartments (1162)**, formerly named Westpark Gardens Apartments, from **Westpark GP, LLC**. The 27-year-old Class C complex is 92% occupied with average rents at \$0.69 per square-foot. The complex is located at 6130 Southwest Freeway in southwest Houston (491W). The 356-unit complex features pitched roofs and is master metered for electricity.

MBS Realty (504-836-5075) purchased **Cranbrook Forest Apartments (0166)**, a 261-unit complex located at 11875 Ella Blvd., from **GSSW**. The 20-year-old Class B complex is 97% occupied with average rents at \$0.70 per square-foot. The complex is located between Ella and Rankin in northwest Houston (372F). The complex is separately metered for electricity and features pitched roofs.

CNC Investments, Ltd. (281-444-1585) purchased **Forest Apartments (0067)**, a 192-unit complex, located at 22820 Imperial Valley, from **AIMCO**. The new owner plans to upgrade the interiors and exteriors of the 144 one-bedroom, 40 two-bedroom and 8 three-bedroom units. The 23-year-old Class B complex is 98% occupied with average rents at \$0.74 per square-foot. The complex is located between the North Freeway and Greenbrooks in north Houston (332L). The complex features pitched roofs and is separately metered for electricity.

Westwood Residential, Co. (214-273-2360) purchased **Chateaux Normandie Apartments (0838M)**, a 122-unit complex, located at 333 Normandy, from **Chateaux Normandie Apartments, LP**. The one-year-old Class A complex is 92% occupied with average rents at \$0.89 per square-foot. The northeast Houston (456Z) complex features pitched roofs and is separately metered for electricity.

TC Development, LLC (281-531-9296) purchased **The Crossing Apartments (2896)**, located at 3600 South Shaver in Pasadena (576C), from **Quintanilla Investments**. The 40-year-old Class C complex is 94% occupied with average rents at \$0.71 per square-foot. The complex features pitched roofs and is separately metered for electricity.

Houston Condominiums (713-790-7900) purchased **Weslayan Oaks Apartments (1312)**, a 84-unit complex, located at 4041 Law St. in West University (492W), from **Property Trust of America**. Houston Condominiums obtained a \$5.5-million loan and mezzanine financing from **Corus Bank** for the purchase of the complex. The new owners are planning to convert the complex into condos. The average unit of 840 square-feet will sell for about \$110,000.

Stathis Kafoglis purchased the 14-unit **Mandell Apartments (1351)**, located at 4121 Mandell, from **Raymond Lawrence, Mary Murphy, and Medicus D. Rentz Jr.** The 39-year-old complex had an asking price about \$605,000 (\$43,214 per unit). The complex is located in the Montrose area (492Z). **Kevin McCarthy** of **Hendricks & Partners** negotiated the transaction.

SINGLE-FAMILY HOUSING

MLS home sales decreased in January, as 3,053 homes were sold, down from the 4,967 homes sold in December, according to the **Houston Association of Realtors**. Sales for January 2003 were up less than 1% from the 3,026 homes sold in January 2002. The median price of a used single-family home sold in January was \$129,000, up 3.3% from \$124,900 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.*

According to **American Metro/Study Corporation**, net new home sales decreased to 1,910, or 5% under the February 2002 net sale figure of 2,020. Realtor co-op sales represent 57% of net sales, which is up from the February 2002 ratio of 50%. Traffic is up from last year, moving from 27,481 in 2002 to 32,158 in February 2003, a 17% increase. The inventory of completed speculative homes (1,599) is 52% above last year's inventory of 1,050 homes. There are 2,278 spec homes under construction, which is 3% over the 2002 number of 2,207. Overall, the 3,877 specs (both completed and under construction) represent a 19% increase over the 3,257 specs of one year ago. *Note: The 23 homebuilders in the survey account for 65% of the housing starts in Houston.*

Royce Homes and **LinGo Properties** are co-developing **SouthFork**, a 1,000-home subdivision. The 300-acre neighborhood is named after the ranch from the now-defunct "Dallas" television series. **Royce** president **John Speer** says the neighborhood's information center will be a replica of the house that belonged to the Ewing family on the popular 1980's television show. The center will have a sales office, a children's play area, private Realtor conference areas, and a satellite office for **Hammersmith Financial**, Royce's in-house lender. The new development is located in Pearland near State Highway 288 and County Road 59, near the **Silverlake** subdivision. SouthFork will have a ranch theme, featuring windmills, oil derricks, and live longhorns. The neighborhood will include several acres of lakes, a gazebo/fishing pier, a cabana/pavilion with pool, and picnic tables. Royce will construct all 1,000 homes in the SouthFork subdivision, Speer says, building under its **Espreo Homes, Royce Homes** and **XL Homes** brand names. Homes prices will start at \$130,000, and homes on the high end of the price range will be as large as 5,000 square feet. Lots will be 55-feet, 65-feet, and 80-feet in size.

American City-Vista, a joint venture between **Cisneros Communities Ventures** and Los Angeles-based **KB Home**, is developing **Victoria Park**. The 171-home subdivision is located near **Almeda Mall** in southeast Houston. Home prices range from \$86,000 to \$100,000. The houses are on narrow, 40-foot-wide lots packed on the 26-acre site. The houses will range from 1,067 square feet to 2,134 square feet.

Trend Development, Inc. is creating a 2,760-home master-planned community in Fort Bend County. The 1,300-acre **Long Meadow Farms** is named after **Jane Long**, an early Texas settler known as the "Mother of Texas." The farm and ranch land that will become Long Meadow Farms is located along the Grand Parkway, halfway between Interstate 10 and U.S. Highway 59. The site is about two miles south of where the Westpark Tollway will intersect the Grand Parkway once the tollroad is completed. The majority of the homes, which will range in price from \$100,000 to \$500,000, will be built beginning in 2004 by **David Weekley Homes, Newmark Homes, Trendmaker Homes, and MHI**. Developers plan to create trails and walkways along Oyster Creek, which runs through the property. Two recreational facilities and a pool are planned, as well. Trend Development will build out the community in seven phases, which are expected to take up to 10 years to complete.

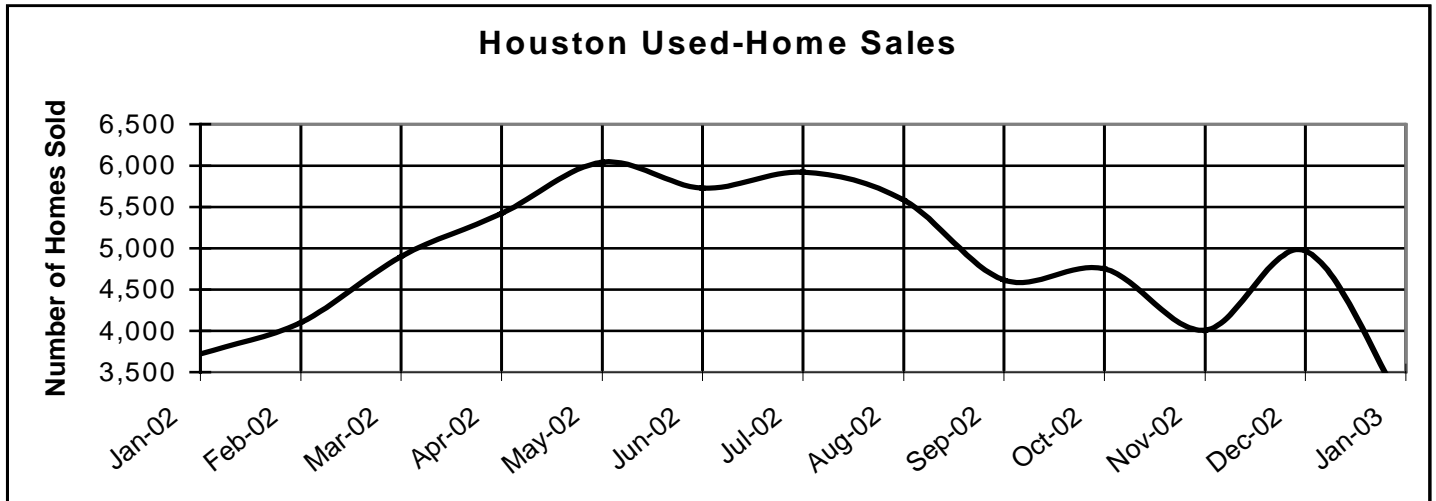
Houston-based **Perry Homes** plans a townhome community on the site of a decades-old mobile home park on Airline Drive, a few blocks south of Calvalcade, just north of the Heights. Perry Homes purchased about 5 acres of land, which is in the process of being cleared for what will be a 98-unit townhome community called **Parkside Square**. Construction on the new development is expected to begin in May with a one-year build-out plan, according to Perry Homes division president **Gordon Wakefield**. The new townhomes will be priced from \$120,000 to \$140,000.

The **City of Houston** has drafted the outlines of an "area plan" ordinance that would let certain neighborhoods craft their own development guidelines to reflect area features. These plans, subject to city approval, could vary from the city's general requirements for lot sizes, building setbacks, density, open space, parking, and other characteristics. The measure also would require developers who build commercial projects in single-family neighborhoods to add features, such as landscaping, that would reduce nuisances like noise and traffic.

Dallas-based **Terrabrook** is adding 4,000 homes to the existing 5,900 homes in **Cinco Ranch** near Katy. The 1,828 acres purchased for the additional homes lies to the west and southwest of the existing Cinco Ranch site. Home construction is expected to begin in late 2004 or early 2005. The expansion site includes a significant commercial component, with 180 acres reserved for commercial uses such as multifamily residential, retail centers, schools, and churches. With the added acreage it is estimated that the total market value of Cinco Ranch will exceed \$3 billion at buildout.

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, according to the **Commerce Department**. 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 given economic uncertainties.

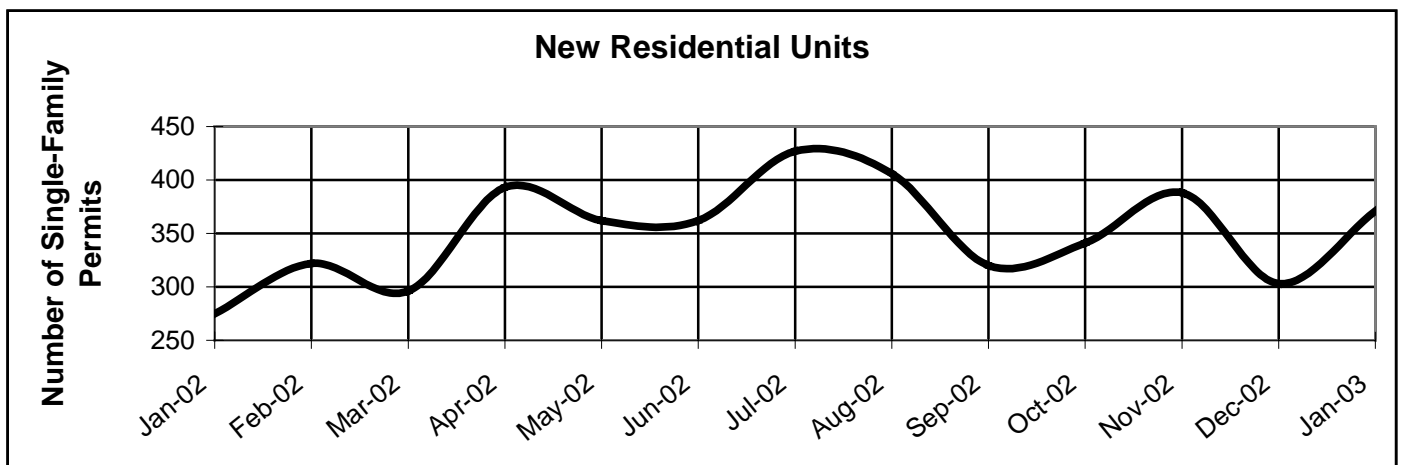
The following chart illustrates historical used-home sale activity.



PERMIT ISSUANCE

The City of Houston issued permits to build 371 houses and to demolish 135 houses in January 2003. Permits were issued to build 13 multi-family buildings (391 units). Permits for privately owned new non-residential construction totaled \$71,616,577. Public sector permits for new non-residential construction totaled \$33,022,169. Additions, alterations and conversions totaled \$94,839,407 for the private sector and \$5,961,225 for the public sector.

Total Building Permits, City of Houston				
	2001	2002	2003	
January	\$ 348,921,283	\$ 392,878,593	\$ 296,168,570	
Year-to-Date	\$ 348,921,283	\$ 392,878,593	\$ 296,168,570	



OFFICE BUILDINGS

The past year was rough on the local office market. A national recession, negligible local job growth, decreased capital spending, collapse of the energy-trading sector, and threat of war have combined to suppress demand for office space. While the Houston office market has not sunk to the depths of our neighbors 240 miles to the north, we certainly share in their pain.

Houston did not profit as greatly from the tech or telecom booms that energized Dallas and Austin in the late 1990s, a disappointment which was greatly lessened when those industries lost their momentum, but our position as the energy capital of the world is a little less exuberant than it was before the Enron debacle.

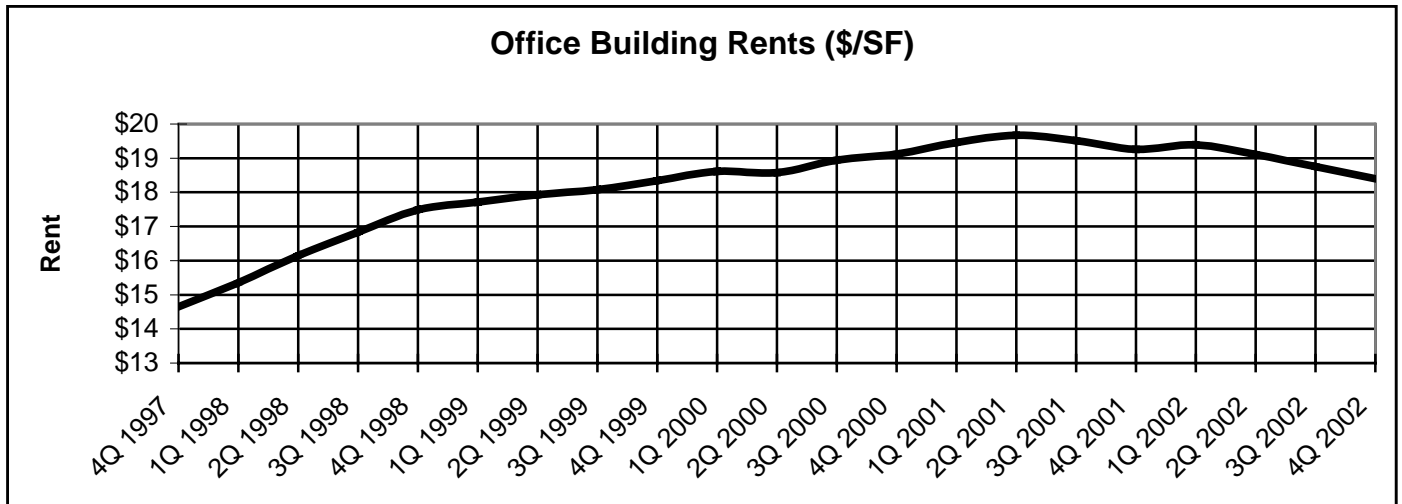
Enron, Dynegy, Arthur Andersen, and seemingly every other company that had even dreamt about energy trading no longer demand the millions of square feet of Downtown space that had pushed Class A vacancy in the Central Business District down to just over 2% 18 months ago. Vacancy for that market is nearing 15%, and will likely approach 20% before year-end 2003.

The situation is better in many of the suburban markets, although falling Downtown rents (and a continued soft Galleria market) have helped to suppress rental rate growth all over town. Wary tenants have shifted their focus to shorter leases, as the uncertain economic situation has shortened the horizon on which many companies have focused.

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.

- **Koger Equity** is spending \$12 million to renovate the lobbies, various interior space, and landscaping at the **Lakes on Post Oak (GAL 064, GAL 065, and GAL 066)** office complex. The three-building project sits next to a small lake just south of the Galleria at the intersection of Hidalgo and Post Oak Boulevard. Koger paid \$102 million (\$85 per square-foot) for the 1.2 million net square-foot property in 2002.
- **John Hansen Investment Builder** broke ground on a five-story, 30,000-square-foot office and retail project at **4119 Montrose Blvd.** The property is an extension of **The Campanile**, a small cluster of low- and mid-rise office and retail buildings the local developer constructed or renovated over the past two decades. The Mediterranean-style structure will contain four stories of office space atop ground-level retail. Hansen purchased the roughly 30,000 square-foot parcel late last year from **Mixed Emotions**, a company that at one time planned to build an art gallery on the site.

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.

In a partnership buyout **Cypressbrook Co.** purchased **Executive Plaza (GAL 002)**, a 306,208 net square-foot building, located at 4605-4645 Southwest Freeway, from **Cypress Office Holdings, Ltd.** The 32-year-old Class B building is 76% occupied with average rents at \$16.00 per square foot. The property is located on the southeast corner of the West Loop and Southwest Freeway south of the Galleria area (491Z).

CW Park Ten, LP, an affiliate of **Caldwell Watson**, purchased **1400 Broadfield (P10 043)** and **16420 Park Ten Place (P10 020)** from **PHL-OPCO, LP**. 1400 Broadfield is 99% occupied with average rents at \$16.50 per square-foot. The 20-year-old 105,450 net square-foot Class B building is located in west Houston (447Y). 16420 Park Ten Place is 91% occupied with average rents at \$16.75 per square-foot. The 39-year-old 85,338 net square-foot Class B building is located in west Houston (447Y).

California-based **Triple Net Properties, LLC** purchased two office buildings in The Woodlands (251G) from **The Woodlands Operating Company**. **Parkwood I (TWC 002)**, located at 10077 Grogan's Mill Rd., is a 99,749 net square-foot 20-year-old Class B building with average rents of \$19.50 and occupancy of 76%. **Parkwood II (TWC 029)**, located at 10055 Grogan's Mill Rd., is a 95,520 net square-foot 9-year-old Class B building with average rents of \$21.50 and occupancy of 100%.

Parsons Energy & Chemicals Group, Inc. renewed its 175,925 square-foot lease in **Greenway Plaza 5 (GPL 022)** from **Crescent RE Equities, Ltd.** (817-321-2100). The 29-year-old Class A building is 96% leased with average rents at \$21.50 per square-foot. **Louis B. Cushman** of **Cushman & Wakefield** represented the tenant, while **Randy Strait** and **Warren Savery** of **Crescent RE Equities, Ltd.** represented the landlord.

Houston-based **PentaSafe** has expanded its lease to 115,000 square-feet in **Park Tower North (GAL 108)**, located at 1233 West Loop South, from **TPMC Realty Corp** (713-963-9955). The additional space will accommodate the expanding company, which was acquired last year by **NetIQ Corp**. California-based NetIQ, which had been operating locally from a facility at **13939 Northwest Freeway (NNW 095)**, will move into PentaSafe's space in Park Towers. NetIQ plans to sell the Northwest Freeway property once it completes its relocation to the West Loop building. The 30-year-old Class A building is 95% occupied with average rents at \$24.00 per square-foot. The 243,320 net square-foot building is located in the Galleria area (491R).

Huntsman Chemical renewed its lease for 94,365 square-feet in **3040 Post Oak Blvd (GAL 065)** from **Koger Equity** (561-395-9666). The 20-year-old Class A building is 79% occupied with average rents of \$22.00 per square-foot. The 421,892 net square-foot building is located on the southwest corner of Hidalgo and Post Oak Blvd. in the Galleria area (491Y). **Randall Ridd** of **Golder Corp.** represented the tenant, while **Ronnie Martin** of **Hines** represented the landlord.

American Express Travel Related Services renewed its 66,332 square-foot lease in **Regency Center (WES 083)**, located at 2901 Wilcrest, from **CMD Realty Investors, Inc.** (312-726-3121). The 19-year-old Class B building is 92% occupied with average rents at \$18.75 per square-foot. The 156,680 net square-foot building is located between Westheimer and Meadowglen in the Westchase area (489Y).

Baker Hughes has expanded and renewed its lease to 55,751 square-feet in the **North Belt Atrium I (GNB 072)**, located at 15311 Vantage Pkwy. W., from **Praedium II Star Two, LP**. The 22-year-old Class B building is 100% occupied with average rents at \$13.00 per square-foot. The 118,372 net square-foot building is located east of the Hardy Tollway and north of Beltway 8 in the Greenspoint/North Belt area (373U). **Patrick Hicks** and **Patrick Burk** of **Trammell Crow Company** represented the tenant, while **Bill Romane** and **Randy Wilhelm** of **NAI Partners Commercial** represented the landlord.

Pulse EFT Association leased 55,000 square-feet in the **Chevron Tower (CBD 055)**, located at 1301 McKinney, from **Chevron, USA** (713-754-2959). The 20-year-old Class A building is 63% occupied with average rents at \$27.00 per square-foot. The building is located between Caroline and Austin in downtown Houston (493Q).

Burr Wolf leased 33,490 square-feet at **3800 Buffalo Speedway (GPL 011)** from **Crescent RE Funding, II, LP** (713-840-1170). The 27-year-old Class A building is 75% occupied with average rents at \$17.00 per square-foot. The firm will move from 3355 W. Alabama (GPL 005).

Leaders of Education America – Houston Campus, Inc. leased 32,460 square-feet in the **Westchase Commons Tech Center (WES 142 and WES 143)**, located at 3110-3120 Hayes Rd., from **Today Westchase Commons, LP** (972-407-9067). The 3-year-old Class C buildings are both 100% leased. The building at 3110 Hayes Rd. has 55,000 net square-feet with average rents at \$9.95 per square-foot. The building at 3120 Hayes Rd. has 51,200 net square-feet with average rents at \$12.50 per square-foot. **Chuck Goldstein** and **Jim Long** of **Strategis CRESA** represented the tenant, while **Walter Menuet** of **Vantage Cos.** represented the landlord.

ATP Oil & Gas Corp. expanded its lease to 22,000 square-feet in **Commerce Plaza Post Oak (GAL 040)**, located at 4600 Post Oak Place Dr., from **Unilev Management** (713-850-7878). The 30-year-old Class B building is 100% occupied with average rents at \$18.00 per square-foot. The 89,614 net square-foot building is located on the northeast corner of Post Oak Place and Post Oak Park in the Galleria area (491R). **Rich Enders** of **Senterra Real Estate** represented the tenant, while **Steve Rocher** of **Grubb & Ellis** represented the landlord.

Delta General Agency Corp. expanded its lease to 17,844 square-feet at **Loop Central III (GAL 155)**, located at 4828 Loop Central, from **W9/LWS II Real Estate, LP** (713-661-7800). The 20-year-old Class B building is 87% occupied with average rents at \$18.00 per square-foot. **Rosemary Kogler** and **Brian McMackin** of **Lincoln Property Co.** represented the landlord.

Claunch & Miller Inc. leased 14,240 square-feet in **Executive Plaza (GAL 002)**, located at 4605 Southwest Freeway, from **Cypress Office Holdings, Ltd.** The 22-year-old Class B complex is 76% occupied with average rents of \$16.00 per square-foot. The 306,208 net square-foot complex is located on the southeast corner of the West Loop and the Southwest Freeway south of the Galleria area (491Z). **Pat Burk** of **Trammell Crow Co.** represented the landlord.

Ratnala & Bahl has renewed a 13,560 square-foot lease in the **Kirkwood Atrium II (KFW 024)**, located at 11767 Katy Freeway, from **Koll Bren Schreiber Realty Advisors** (949-833-3030). The 21-year-old Class B building is 81% occupied with average rents at \$16.00 per square-foot. The 224,900 net square-foot building is located on the south side of the Katy Freeway and west of Kirkwood in west Houston (489A). **Bill Wolfe** of **Equis Corp.** represented the tenant, while **Wade Bowlin** and **Kim Grizzle** of **PM Realty Group** represented the landlord.

Malcolm Pirnie leased 10,288 square-feet at **1700 West Loop South (GAL 114)** from **CMD Properties, Inc.** (713-960-8710). The 26-year-old Class B building is 90% occupied with average rents at \$22.00 per square-foot. The 258,057 net square-foot building is located on the southwest corner of Hallmark St. and West Loop South in the Galleria area (491R).

RETAIL CENTERS

Greater Houston Retail absorption plunged into the red with a fourth quarter total of -516,072 SF. Driven primarily by the closing of second tier anchors, **Regional Malls** bore the brunt of the decline. The second round of **K-Mart** closings have begun to take effect, playing a significant role in the ongoing negative absorption experienced by **Community Centers**. Only **Neighborhood Centers** showed an increase for the quarter, modest though the gains may be. In spite of recent losses, absorption for the year remains positive for nearly all retail types. The exception is **Strip Centers**, which continue to do poorly in the present economy.

Last quarter, the performance of **Regional Malls** was the only factor that kept overall absorption in the black. That trend reversed for the fourth quarter, with an absorption total of -319,754 SF. The **Northeast** sector, with an absorption total of -304,224 SF, is responsible for the massive drop. The vacancy of **Service Merchandise** and **Palais Royal** in **San Jacinto Mall** are major contributors, but in-line retail space also accounts for a sizeable portion of the negative absorption.

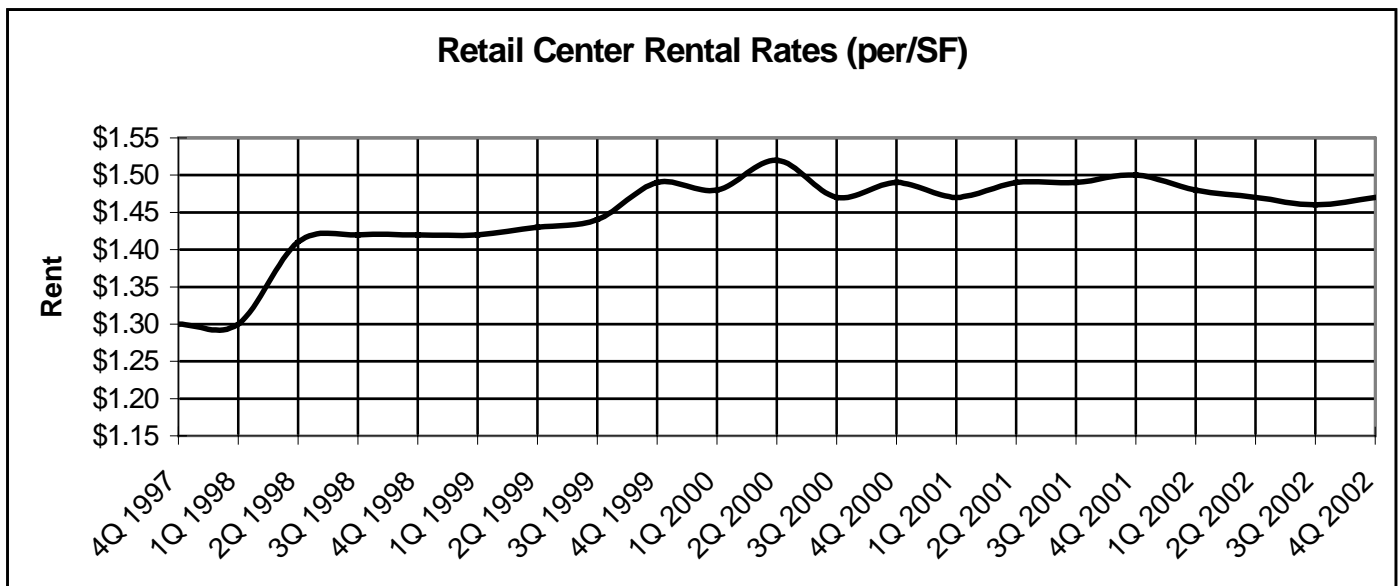
Community Center absorption totaled -215,526 SF in the fourth quarter, marking the third consecutive quarter of negative absorption. Despite these losses, there remains a respectable 12-month increase in absorption of 196,692 SF. The **Far Southwest** submarket posted the greatest losses for the quarter at -484,230 SF, while the **Near Southeast** posted the greatest gains at 174,040 SF.

According to the **O'Connor & Associates 4th Quarter 2002 Houston Area Retail Data Program**, overall **occupancy** for Houston area multi-tenant retail centers is **85.14%**, a decrease of 0.44 points from last quarter. Meanwhile, the **overall multi-tenant retail rental rate** slipped this quarter to **\$1.47 per square-foot per month**, down \$0.01 over this time last year.

- **Northmarq Capital, Inc.** (713-622-6300) arranged refinancing in the amount of \$6 million for the **Southside Village Shopping Center (INL 107)**, located at the southwest corner of Bellaire and Stella Link in southwest Houston (532E). The 17-year-old 80,134 net square-foot center is 69% occupied with average rents at \$1.28 per square-foot. Tenants include **Best Care Clinic**, **OptionCare**, and **Baylor Credit Union**. Northmarq also arranged \$2.2 million in financing for **2520 Research Forest Dr.**, a 20,658 net square-foot center located in The Woodlands. **John Burke** of **Northmarq Capital** arranged the financing.
- A partnership of Houston Texans cornerback **Aaron Glenn** and **WDJ Interests (Glenn/WDJ Partnership Group)** is developing three shopping centers in Fort Bend County. The first will be **Mason Centre**, a 13,000 square-foot project, which will be located on Mason Road in the Cinco Ranch area. The second will be **Lakeside Plaza**, a 15,500 square-foot center at the corner of Texas 6 and U.S. 59 in Sugar Land. The third will be **Lexington Square**, a 55,000 square-foot center at the corner of Lexington Boulevard and Austin Parkway.
- **Circuit City Stores, Inc.** is closing its Houston-area service center, located at **4000 Greenbriar Drive** in Stafford, by the end of July 2003. The Virginia-based electronics company is closing 10 of its 17 service centers nationally as a cost-cutting initiative aimed at improving customer service. The retailer also plans to lay off an average of three employees at each store. There are 12 Houston-area Circuit City stores.

- **Brooks Brothers** will leave the **Park Shops in Houston Center (INL 068)** and consolidate its Houston operation at the **Galleria**. Brooks Brothers moved to the Park Shops in 1987 after operating at 1300 Main since 1972. **Ed Wulfe**, president of **Wulfe & Co.**, said Houston Center's developer, **Crescent Real Estate Equities**, plans to make the Park Shops more of an entertainment and dining complex. The east side of downtown near the Park Shops will soon have an expanded convention center, a new basketball arena, hotel, and other attractions.
- The **City of Conroe** has hired **The Buxton Co.** in an attempt to bring new retailers to the city as part of a plan to boot the city's revenues. Sites under consideration 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. A K-Mart site at South Loop 336 may also be included in the marketing effort, since the discounter is scheduled to close the store by early spring.
- **Williams-Sonoma** is opening a **Grand Cuisine** store a few doors down from its current location at 4076 Westheimer in **Highland Village (INL 047)**. The company will move from its current 6,000 square-foot location into a 13,000 square-foot space formerly occupied by **Norton Ditto**. The new store is expected to open in early fall of this year.

The following chart illustrates historical retail center rental rates.



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Kimco Realty, in a joint venture with **GE Capital**, purchased **Northwest Market Place (NNW 214)**, located at the intersections of Hollister and Fairbanks N Houston in northwest Houston (450D), from **Granite Properties**. The 183,106 net square-foot center is 94% occupied with average rents at \$1.50 per square-foot. Tenants in the one-year-old center include **Office Depot**, **Ross Dress for Less**, **Old Navy**, **Famous Footwear**, and **Pier One**.

TriYar, Inc. purchased the foreclosed **Commons @ Deerbrook (NEA 026)**, located on the corner of FM 1960 East and U.S. Highway 59 in northeast Houston (335U), from **GMAC Commercial Mortgage**. The 20-year-old 166,000 net square-foot center is 60% occupied with average rents at \$1.13 per square-foot. Tenants include **Bookstop**, **Olive Garden**, and **It's a Stitch**. **Jerry Goldstein** of **Marcus & Millichap** represented both parties in the transaction.

Shoe Carnival has leased 12,905 square-feet in **Champions Village Center (FNW 002)**, located on the southwest corner of FM 1960 and Champions Forest Dr., from **Weingarten Realty Investors** (713-866-6000). The 30-year-old 407,000 net square-foot center is 93% occupied with average rents of \$1.75 per square-foot. Tenants in the northwest Houston (370D) center include **Randall's**, **Stein Mart**, and **Barnes & Noble**. **Adam Schiller** and **Geoff Henrion** of **Staubach Co.** represented the tenant, while **Henry Peterman** of **Weingarten Realty** represented the landlord.

Dallas-based **Tuesday Morning** leased 12,132 square-feet in the **NASA Value Center (FSE 109)**, located at the southwest corner of NASA Road One and the Gulf Freeway, from **Fiesta Mart, Inc** (713-865-5555). The 14-year-old 421,816 square-foot retail center is 93% occupied with average rents of \$1.05 per square-foot. Tenants include **Garden Ridge Pottery** and **Wal-Mart**. **Greg Bracchi** of **Staubach Co.** represented the tenant, while **Charles Scoville** of **United Equities** represented the landlord.

Alabama-based **Compass Bank** has inked a ground lease for 43,773 square-feet to build a bank in **Antoine Town Center (NNW 012)**, located at SH 249 and Antoine Dr. in northwest Houston (411B), from **NewQuest Properties**. The bank will open its 11th Houston branch at the location. **Kroger** is the anchor tenant in the 116,251 net square-foot center. **Thad Davis** of **Ted Davis & Associates** represented the tenant, while **Heather Nguyen** of **NewQuest Properties** represented the landlord.

VACANT LAND

Tres Bayou Farms, LP purchased 8,278 acres at FM 2004 and Hall Bayou from **IP Farms**. The land was a part of a sealed bid land sale in Brazoria County. The land was once used to commercially produce rice. **B. Kelley Parker, III, John F. Littman, and Frank Stanley** of **Cushman & Wakefield** represented the seller.

Alamo Cement Company II, Ltd. purchased 88 acres at the Houston Ship Channel and Federal Raod from **Gunter Kreissel**. **C.A. Rousser** of **The Rousser Companies** represented the buyer, while **B. Kelley Parker, III, John F. Littman, and Frank Stanley** of **Cushman & Wakefield** represented the seller.

CET, Ltd purchased 72.6 acres of land between Rankin and Farrell Roads from **Interplaz, Ltd.** **Tom Condon, Jr.** of **Betz Commercial Brokerage, Inc.** represented the seller.

Harris Park Partners purchased 17.6 acres at Airtex and Blue Ash from **37.2 CP North, LP.** **Todd Edmonds** of **Colliers International** represented the buyer, while **Stephen Stranski** of **McCallister Company** represented the seller.

Sewell Interests Meadowhill purchased 36.9 acres at Falvel Road near FM 2920 in Spring from **HD Chang.** **John Mills** of **Mills & Co.** represented the buyer, while **Michael Taetz, Todd Edmonds, and Cody Smoot** of **Colliers International** represented the seller.

Clyde Moody and Norman and Johnnie Roberts purchased 30.03 acres of land on Cypresswood Drive from **Dorothy Stramblad.** **Roddy McAlpine** and **Christopher Klein** of **Colliers International** represented the buyer, while **Ed Taravella** of **Taracorp** represented the seller.

Perry Homes purchased 26 acres on the northwest corner of South Dairy Ashford and High Star from **ANREM Corporation.** **Darin Gosda** of **Betz Commercial Brokerage** represented both parties.

Austin Investments purchased 10.8 acres at FM 2920 and Spring Cypress from **Fred Caldwell, Trustee.** **Todd Edmonds** of **Colliers International** represented the buyer, while **Keith Grouthaus** of **Caldwell Watson** represented the seller.

Doable Investments purchased 9 acres at Schiller and Highway 6 from **Baker Hughes.** **Charles H. Herder** and **Cappy Ricks** of **Colliers International** handled the transaction.

JBMG, Ltd. purchased 6.5 acres located on the northeast corner of Hardy Tollroad and Northgate from **Centex Land Holdings, LP.** **Todd Edmonds** of **Colliers International** represented both parties.

W.R. Wagner Family, Ltd. purchased 6.32 acres at Central Green Blvd. and Central Park from **Houston Central Green, LP.** **John McCumbridge** of **Trammell Crow Company** represented the buyer, while **B. Kelley Parker, III, John F. Littman,** and **Frank Stanley** of **Cushman & Wakefield** represented the seller.

JSRW purchased 1.7 acres in the **Interbelt North Business Center** from **Midway Interbelt Partners, LP.** **John Ferruzzo** of **NAI Partners Commercial** represented the buyer, while **John Duffie** of **Midway Companies** represented the seller.

GSL Investments purchased 1.5 acres in **Rayford Business Park** from **Fuller Realty Partners.** **Ed Farris** of **Farris & Assoc.** represented the buyer, while **Steve Darnall, Bill Smith** and **Stewart Smith** of **Fuller Realty Partners** represented the seller.

Jeff Shankman, ex-president of **Enron Global Markets**, purchased a 15,000 square-foot tract of land at 4411 Montrose Blvd., north of U.S. Highway 59. Shankman, an avid arts patron who helped purchase contemporary art for Enron, is planning to build a high-end art gallery. Construction on the building should begin within the next month, with an estimated completion date sometime this summer. **Peter Zweig** of **Monotech International** is developing the building using a new method of construction he developed called the "monotech building system." The building system involves a special blend of polymers that form the framework for a building's structure which are both bulletproof and waterproof. The design has previously been applied to Formula One race cars, airplanes and boats. Visually, Monotech buildings look like they are made of concrete or high-end stucco. In addition to the gallery project, Shankman was recently recruited to take over as CEO of Monotech International.

INDUSTRIAL FACILITIES

The local industrial market continues to contract. **Office/warehouse** occupancy dropped 0.24 points to 85.06% and is down 2.19 points from this time last year. The **Far Northeast** sector at 65.74% and the **Far North** sector at 67.31% posted the lowest occupancy levels this quarter. The highest occupancies were found in the **Central Business District** at 97.07% and in the **Mid North** sector at 94.07%.

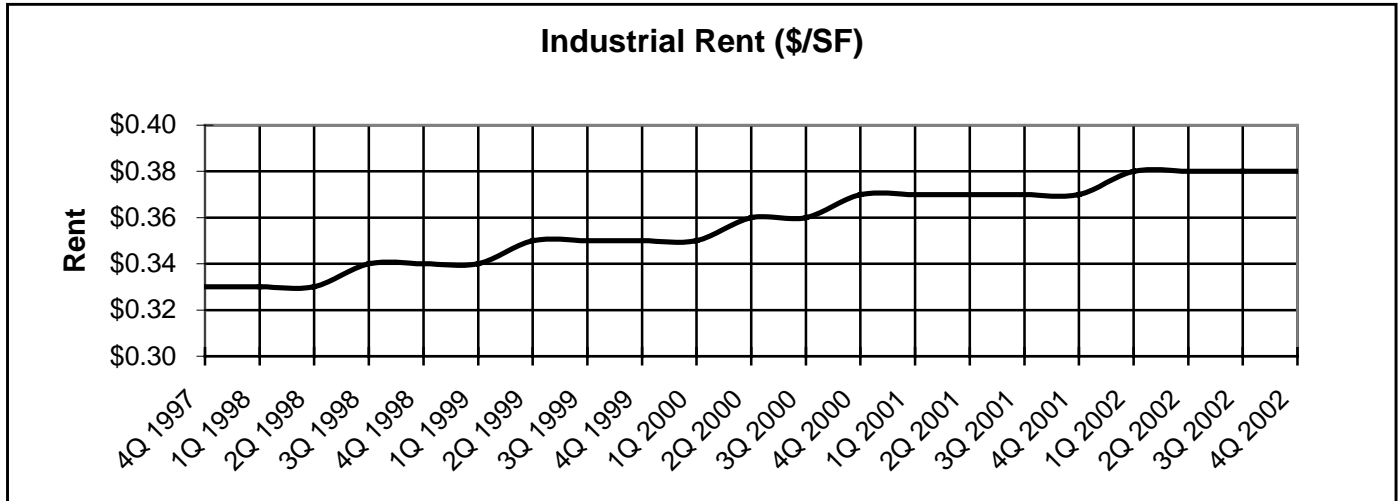
Manufacturing Facilities posted a 0.42-point decline, ending this quarter with an occupancy at 85.12%. The **Near North** sector at 55.65% and the **Near West** sector at 59.95% posted the lowest occupancy levels. The **Near Southwest** sector at 100% and the **Far North** sector at 99.30% posted the highest occupancies this quarter.

Despite a 0.60-point increase this quarter to 84.72%, **Warehouse** occupancy is down 0.37 points from this time last year. The highest occupancies this quarter were posted in the **Far Southeast** at 96.28% and in the **Far South** at 93.80%. The **Far Northeast** posted the lowest occupancy this quarter at 65.74%.

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**.

- **Clay Development Construction** is developing a 25,000 net square-foot facility in the **Tanner Freeport Business Park (1074M)**, located at 5530 Brittmoore, for **Bright Lite Signs, Inc.** The build-to-suit warehouse is located in northwest Houston (449C).

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.*

California-based **99 Cents Only** has purchased the former **Albertson's** distribution warehouse located at Colonial Parkway and Grand Parkway for \$23 million (\$28.75 per square-foot). The 800,000 square-foot facility will distribute goods to its planned retail stores in Texas. 99 Cents Only plans to open 15 Houston-area stores by the end of the year, with the first scheduled to open in June. The retailer has designs on opening 40 local stores and 150 in the state within the next three to six years. The publicly traded company reported \$4.8 million in sales-per-average-store in 2002, with sales-per-square-foot of more than \$300.

Liberty Property Trust (610-647-7300) purchased **Legacy Center 1 (0289L)**, a 463,090 net square-foot facility located at 8845 Fallbrook Dr., from **Prudential**. The 2-year-old northwest Houston (370W) office/warehouse is 60% occupied. The facility features 24-30 foot clearance and dock high loading.

GSL Industrial Partners, LP (713-772-1393) purchased a 67,000 net square-foot manufacturing facility, located at **8655 Golden Spike Ln (0650B)**, from **TCP/Praedium Industrial Portfolio, LP**. The 6-year-old northwest Houston (410D) facility is fully leased.

Stephen J. Dwyer, Charles W. Will, Susan K. Dwyer, and Pamela L. Andrews purchased, the **Mobile Mini-Storage**, which will be renamed **Storage Solutions**, at 5601-5603 Treaschwig Road from **David C. Christian** and **Ann Shaw Frueger**. The 2-year-old 45,850 net square-foot north Houston (334A) facility is 94% occupied. **Neil Simpson** of **Western States Brokerage, LLC** represented the buyer, while **Tom Condon, Jr.** of **Betz Commercial Brokerage, Inc.** represented the seller.

D. Pete Snyder purchased the **Coastal Foods, Inc.** facility, located at 14212 Interdrive West, from **Commercial Holdings Inc.** The 11-year-old facility is 100% occupied with average rents at \$0.30 per square-foot. The 25,000 net square-foot facility features 22-foot clearance. **Jeff Naquin** of **William C. Jennings Co.** represented the buyer, while **David Butler** of **Colliers International** represented the seller.

Oceaneering International, Inc. purchased a 16,075 net square-foot facility, located at **11915 FM 529 (0554)**, from **AFD Industries, Inc.** The 16-year-old northwest Houston (409P) facility is 100% occupied. **Bill Rudolph** of **CB Richard Ellis** represented the seller.

John Hartnack purchased a 15,000 net square-foot warehouse, located at **15151 Henry (0384)**, from **Flowserve US, Inc.** The 25-year-old facility is fully leased and features 24-foot clearance and grade-level loading. **Chris Kugle** of **NAI Partners Commercial** represented the buyer, while **John Ferruzzo** of **NAI Partners Commercial** represented the seller.

A&L Trucking Co. leased 88,000 square-feet at **701 Plastics Ave. (3304)** from **PAC Realty Trust**. The 23-year-old southeast Houston (494Q) warehouse is fully leased with average rents at \$0.33 per square-foot. **B. Kelley Parker, III, John F. Littman,** and **Frank Stanley** of **Cushman & Wakefield** represented the tenant, while **John M. Talhelm** and **Kevin A. Erck** of **Cushman & Wakefield** represented the landlord.

Hillyard, Inc. leased 13,500 square-feet in **Northwest Industrial Park #4 (1225)**, located at 9555 Baythorne Dr., from **Kurl Le Investments**. The one-year-old northwest Houston (450B) warehouse is 72% occupied. **Stephen Schneidau** of **Cushman & Wakefield** represented the tenant, while **Steve Hazell** of **Insite Commercial RE** represented the landlord.

Veritrust, Inc. leased 13,050 square-feet in the **Hempstead Distribution Center 2 (1642B)** at 2030 Afton from **ProLogis Trust (713-682-2292)**. The 20-year-old 113,298 net square-foot warehouse is fully leased with average rents at \$0.35 per square-foot. The northwest Houston (451U) facility features 22-foot clearance and grade-level loading. **Chris Kugle** of **NAI Partners Commercial** represented the tenant.

ECONOMIC & FINANCIAL NEWS

The number of wage and salary jobs in the 6-county Houston area decreased by 34,600 jobs to 2,082,400 in January 2003, according to the **Texas Workforce Commission**. Trade posted the largest decrease of 16,000 jobs. This month's total is 6,700 jobs less than the 2,089,100 jobs at this time last year. **Houston's unemployment rate** increased to 6.5% in January, while the statewide unemployment rate increased to 6.8%.

Houston lost 13,300 jobs in 2002, a drop of 0.6%. Earlier this year the **Texas Workforce Commission** reported Houston gained 4,500 jobs, a 0.2% increase, between December 2001 and December 2002. The earlier numbers were the commission's estimates. The revisions are based on the actual payroll tax reports that employers file with the agency. The revisions shatter the myth that Houston has been doing better than the national economy. Houston started out the year performing better than the U.S. economy, but by September the tide had turned, according to **Barton Smith**, director of the **Institute for Regional Forecasting** at the **University of Houston**. In the last three months of 2002, Houston was losing more jobs on a percentage basis than the U.S. economy. The Labor Department reported that the nation's jobless rate increased a tenth of a percentage point to 5.8% in February, the result of 308,000 job losses.

The number of rigs searching for oil and gas worldwide is up since February 2002, according to Houston-based oil services firm **Baker Hughes, Inc.** In the United States, the number of rigs in operation rose from 825 in February 2002 to 907 in February 2003. The number of rigs exploring for oil and gas in Canada was up from 433 in February 2002 to 554 rigs in February 2003. The number of rigs in Latin America was down 8 to 215 rigs. The total North American rig count rose by 203 to 1,461 rigs. The number of rigs worldwide searching for oil and gas rose by 239, to 2,213 rigs, between February 2002 and February 2003.

EOTT Energy Partners, LP has emerged from bankruptcy, and the onetime affiliate of **Enron Corp.** has severed its ties to the bankrupt energy trader as part of its reorganization plan. Operating as a new entity under the name of **EOTT Energy, LLC**, the company will own the limited partnerships through which EOTT Energy's business is conducted. The reorganization plan also called for a significant reduction in debt and the restructuring of finances.

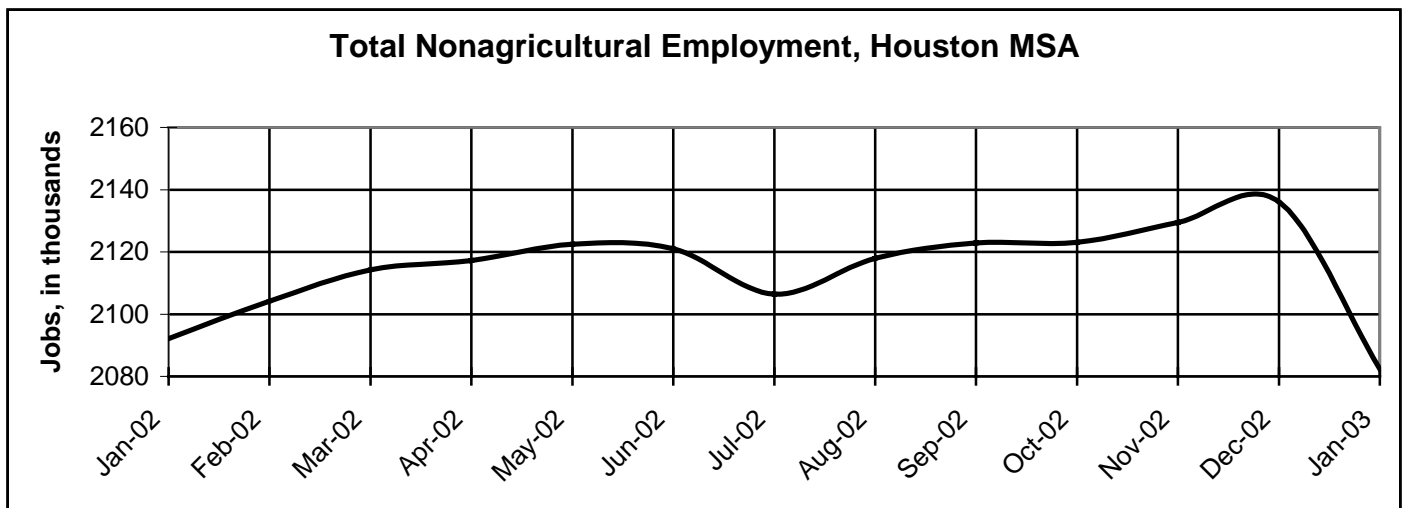
Bankruptcy filings jumped to a record high last year in a tepid economy, gaining 5.7% over 2001, according to the **American Bankruptcy Institute**. The record-setting pace of new personal bankruptcies is expected to continue this year, said **Samuel Gerdano**, executive director of the American Bankruptcy Institute. The data compiled by the Administrative Office of the U.S. Courts show that new bankruptcy filings in 2002 totaled 1,577,651, up 5.7% from 1,492,129 in 2001. While total filings increased, the number of business bankruptcies actually fell to 38,540 from 40,099 in 2001. In the last three months of 2002, total filings soared 8.3% to a record 395,129, up from 364,921 in the fourth quarter of 2001.

The **Metropolitan Transit Authority** approved a \$3.1 million contract for improvements on Main Street between Blodgett and Calumet. **Contractor Technology, Inc.** is expected to start the work March 2003 and complete it in December 2003. Work will include street reconstruction, sidewalk, traffic signal, and bus shelter improvements. The project, one of many on streets used by Metro buses, is unrelated to the rail line Metro is building along Main.

Los Angeles-based real estate firm **CB Richard Ellis** is buying **Insignia Financial Group, Inc.** for \$415 million in a deal that will create the world's largest commercial property management company. The deal is slated to close in June and is subject to CB's receipt of financing, as well as shareholder and regulatory approvals. Upon closing, the combined company will operate as CB Richard Ellis with 16,000 employees in 47 countries. CB Richard Ellis said that the combined company is expected to generate \$90 billion in annual sales and leasing transactions and manage more than \$13 billion in assets.

The **University of Texas Health Science Center** at Houston received approval from **The UT Board of Regents** to move forward with the architectural plans and design for a new building for the **Institute of Molecular Medicine for the Prevention of Human Diseases**. The university plans to break ground on the IMM's new home by the end of 2003. Designed by the Missouri firm of **Berkebile Immenschuh Nelson McDowell Architects** and **Burt Hill Kosar Rittelmann Associates** from Pennsylvania, the seven-story building will be located on a lot adjacent to the **University Center Tower** at 7000 Fannin St. The IMM building will consist of two wings, one for technology and administrative offices and one for core research labs, with at least 65%, or 137,000 square-feet, of the useable space devoted to actual research. According to Rives Taylor, university architect for the UT Health Science Center at Houston, the high percentage of research space exceeds the UT System standard of 60% for research buildings and will enable the IMM to generate even more research dollars. The design features energy-efficient innovations such as sun screens and natural gas-powered micro-turbines. The two-wing structure of the building also will contribute to a lower energy cost for climate control. The first floor of the building will house a 200-seat auditorium and an atrium for public events. The plans also feature a faculty conference suite and a room designed for collaborative discussion and discovery of scientific ideas.

The following chart illustrates total nonagricultural employment.



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