



Published by:  
**O'Connor & Associates**

2000 N. Loop West, Suite 110  
Houston, TX 77018  
713.686.9955

# HOUSTON REAL ESTATE TRENDS

EDITED BY PATRICK O'CONNOR, MAI      \$199 PER YEAR      VOLUME 18 NUMBER 12      FEBRUARY 2004

## APARTMENTS

Overall multifamily occupancy has been declining over the past 2.5 years, dropping from 93.17% in mid-2001 to 89.37% at the end of 2003. The current occupancy level is the lowest in more than a decade, and with the large wave of new construction vacancy will continue to rise over the next year. Not all parts of town have been equally hit, as areas without significant levels of construction activity continue to prosper. These include **Greenway-Montrose**, **Bellaire-Southwest**, and **Kingwood**. In areas of higher construction, however, the lease-up of new properties continues to cannibalize existing product. Some of these new complexes will prosper, but overall recovery remains a few years out. While we project declining occupancy in 2004, occupancy should begin to recover by 2005.

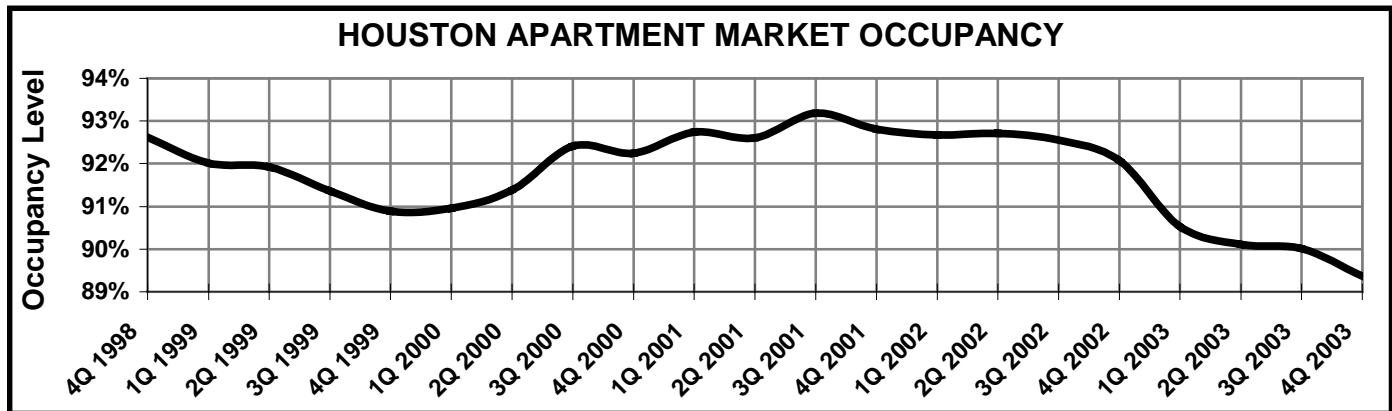
According to the O'Connor & Associates **4th Quarter 2003 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **89.37%** (Class A = 85.40%; Class B = 90.39%; Class C = 91.09%; Class D = 88.10%). Occupancy is down 2.69 points from the fourth quarter last year and 0.64 points from the past quarter. The overall monthly **rental rate** is **\$0.783 per square foot** (Class A = \$1.042; Class B = \$0.770; Class C = \$0.642; Class D = \$0.524). Overall rents are up \$0.014 from the fourth quarter last year and \$0.002 from the past quarter.

Note: The multifamily projects listed herein are followed by their representative identification number as they appear in O'Connor & Associates' **Houston Apartment Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- **Greater Coastal Management Co.** (713-877-8721) is developing **Northland Wood Apts. (0251T)** a 240-unit complex on 16 acres at the corner of Vickery Dr. and Beltway 8 in northeast Houston (374U). The apartment complex will feature pitched roofs and will be separately metered for electricity. One-, two-, and three-bedroom units will range from 645 to 1,100 square feet. In the two land sales, **Dennis Johnston** of **McDade, Smith, Gould, Johnston, Mason & Co.** represented the buyer, while **Elliot Gerstenhaber** of **Hunington Properties** represented the sellers, **Cory Gordonville** (12 acres) and **Mary Read Pardoe, Betty Ruth, and Jacob Glai**ch (4 acres).

- **Flournoy Development Co.** (706-324-4000) is building **Estancia at Shadowlake (0878M)**, a 300-unit complex located on 15.2 recently purchased acres along Shadowbriar south of Westheimer Rd. in west Houston (488V). Construction will begin in March 2004, with completion slated for June 2005. In the land sale, **Tom Johnson** and **Charlie Underwood** of **McDade, Smith, Gould, Johnston, Mason & Co.** represented the seller, **Specified Properties**.
- **Martin Fein Interests** (713-683-4800) is developing **Sierra at Fall Creek (0257M)**, a 252-unit complex on 13.3 acres on the south side of Beltway 8 between Mesa Rd. and Wilson Rd. in the **Fall Creek** subdivision in northeast Houston (375V). The 3-story Class A development will feature a stucco exterior with contemporary design elements, a slated roof, washers and dryers in each unit, and separately metered electricity. **Ziegler-Cooper Architect, Inc.** designed the complex.
- **NBC Holdings** (713-572-0177) and **The Randall Davis Co.** (713-526-3222) are converting the vacant 11-story **Kirby Building (1411T)** at 917 Main St. in the Central Business District (493L) into a 70-unit loft apartment project. Units will average 1,200 square feet and will include luxury finishes such as granite countertops. The building will be linked to the downtown tunnel system. Retail space in the **Kirby Building (INL 429)** will occupy 26,000 net square feet in the basement, 1<sup>st</sup> floor, and 2<sup>nd</sup> floor. **CVS Pharmacy** has leased 1<sup>st</sup> floor space.
- **Primrose Houston 7 Development, LLC** (972-490-1400) is planning **Wellford Courtyards (0692)**, a 125-unit senior housing project on 9.8 acres at the 5000-5100 blocks of Airline Dr. in north Houston (453F). Ninety of the units will be tax credit housing. In the land sale, **Robert Bailey** of **Gems Realty Co.** represented the buyer, while **James H. Glanville** of **Colliers International** represented the seller, **P.Y.S. Living Trust No. 1**.

The following chart illustrates historical apartment occupancy.



**Rockwell Management** (713-627-1100) purchased **Falls on Antoine Apts. (0312)**, a 348-unit complex located at 6101 Antoine in northwest Houston (411Y), from **MBS Management Services, Inc.** The 20-year-old complex is 94% with average rents at \$0.75 per square-foot. The complex features pitched roofs and is separately metered for electricity.

**Lehman Brothers** (212-526-7000) purchased **Woodland Meadows Apts. (7081B)**, a 248-unit complex at 25335 Budde Rd. in The Woodlands (251V) from **IMT Woodland Meadows, LP**. The 4-year-old Class A complex has average rents at \$0.91 per square-foot. The complex features pitched roofs and is separately metered for electricity.

**Bank of America Community Development Corp.** (503-279-2876) purchased **Lexington Trails (0494)**, a 200-unit affordable housing development located at 6300 W. Tidwell Rd. in northwest Houston (451B), from **Charter Mac**. The 31-year-old complex is 77% occupied with average rents at \$0.54 per square-foot. The complex features pitched roofs and is separately metered for electricity. The new owner plans to put approximately \$2 million into renovations. **David Fournier** and **Bill Miller** of **Holliday Fenoglio Fowler, LP** represented the seller.

**Taj Properties, LLC** purchased the **Sun Forest Apartments (4057)**, a 178-unit complex located at 420 Garland Dr. in Lake Jackson (884W), from **TVO Realty Partners**. The 25-year-old Class B complex is 93% occupied with average rents at \$0.91 per square-foot. The complex features pitched roofs and is separately metered for electricity. **M. Todd Marix**, **G. Craig LaFollette**, and **J. Todd Stewart** of **CB Richard Ellis** represented the seller.

# SINGLE-FAMILY HOUSING

**MLS** home sales increased in February, as 3,815 homes were sold, up from the 2,941 homes sold in January, according to the **Houston Association of Realtors (HAR)**. Sales for February 2004 were down 13% from February 2003. The median price of a used single-family home sold in February was \$130,960, up 1% from February of last year, while the average home price was \$171,456, was up 4% from the February 2003 level. *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.*

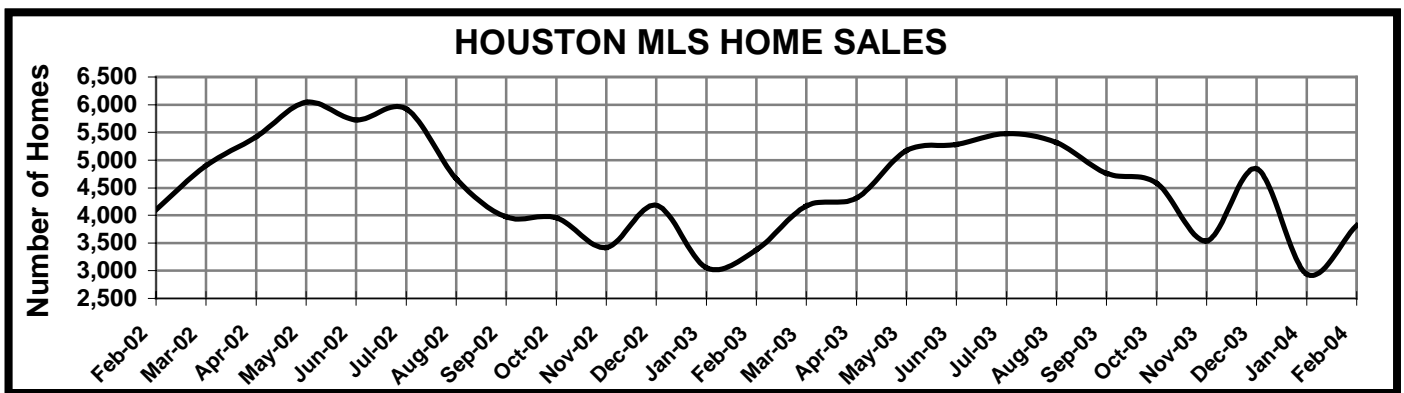
According to **American MetroStudy Corporation**, net sales of new homes increased in January to 2,605, or 31% percent above the January 2003 figure of 1,985. Realtor co-op sales represent 59.1% of net sales, up 0.5% from January 2003. Traffic is effectively unchanged from last year, from 29,618 in 2003 to 29,629 in January 2004. The inventory of completed speculative homes (2,380) is 36% above last year's inventory of 1,747 homes. There are 2,890 spec homes under construction, which is 18% over the 2003 number of 2,440. Overall, the 5,270 specs (both completed and under construction) represent a 26% increase over the 4,187 specs of one year ago. *Note: the 23 homebuilders in this survey account for approximately 61% of housing starts in Houston.*

Nationwide sales of new single-family homes decreased in January to a seasonally adjusted annual rate of 1,106,000, 1.7% below the December 2003 sales rate of 1,125,000, according to a release by the **U.S. Department of Commerce**. The median sales price was \$197,000. Single-family housing starts were at an annual rate of 1,903,000 in January, 7.9% below the December 2003 figure. Single-family housing completions were at an annual rate of 1,709,000 in January, 2.3% below the December 2003 figure.

The **National Association of Realtors (NAR)** released a report indicating that sales of existing condominiums and cooperatives, at 898,000 units in 2003, is up 9.5% from 2002, marking the highest sales level on record. The sales rate dropped 5.8% in 4<sup>th</sup> quarter 2003 to a seasonally adjusted annual rate of 914,000 units, but this is still 10.3% above the 4<sup>th</sup> quarter 2002 rate of 829,000 units. In the 4<sup>th</sup> quarter 2003, the median price for condominiums and cooperatives was \$174,700, up 14.9% from the previous year.

The **National Association of Home Builders' (NAHB)** monthly **Housing Market Index**, a measure of builder confidence, declined 3 points to 65 in February on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring sales of new single-family homes dropped 4 points to 72, and the index measuring sales expectations for the coming 6 months fell 3 points to 73.

The following chart illustrates historical MLS home sale activity.



Source: Houston Association of Realtors

**NBC Holdings** (713-572-0177) plans to construct a 32-story high-rise condominium project, dubbed **Shamrock Tower**, with about 250 residential condominium units atop 6 floors of office condominiums at the southeast corner of Main St. and Texas St. in the Central Business District (493L). Amenities will include on-site parking, tunnel access, a rooftop pool, a fitness and business center, and balconies in every unit. Prices of the units range from \$168,800 to \$1.2 million. Construction on the tower will begin once 30% of the units have been sold. **Keller Williams Realty** is marketing the condominiums.

**Group LSR** (713-840-8400) has begun selling the 120 units in **The Monaco**, a 31-story high-rise condominium project at 55 Briar Hollow Ln. between Memorial Park and the Galleria area (491R). Units will feature 9-, 10-, and 13-foot ceilings, 24" wine coolers, and fully concealed sprinkler systems. Prices range from \$338,000 to over \$4 million per unit. The building's 5<sup>th</sup> floor will feature a landscaped terrace with a pool, Jacuzzi, putting and croquet green, herb garden, gazebo, and fountains. Other amenities include a fitness center, terrace lounge, and a private dining room. Units are being marketed on [www.MonacoCondo.com](http://www.MonacoCondo.com). Construction is slated to begin in Fall 2004, with completion expected in Fall 2006.

**Fidelity Apartment Management Co.** (713-706-4000) is planning a 14-story condominium development on 48,875 square feet of recently purchased land at 1907 Baldwin St. and the intersection with Bagby St. in Midtown (493P). The developer plans to break ground in 8 months, but has not yet decided whether to have 92 units or 133 units in the project. In the land sale, **John Tuschman** represented the buyer, while **Charlie Underwood** of **McDade, Smith, Gould, Johnston, Mason & Co.** represented the seller, **TFSC Properties**.

**Sullivan Properties** (409-740-4200) and **Holliday Builders, Inc.** (409-762-5275) are constructing **Campeche Shores**, a 60-home subdivision on 8 acres near 99<sup>th</sup> street in Galveston (807G). The first phase, consisting of 30 townhomes, is slated for completion in Summer 2004. The second phase will contain some townhomes and some detached single-family homes, and is scheduled for completion before the end of 2004. Twenty acres will remain, but only 8 are developable due to wetlands restrictions.

**Ithaca Builders** plans to construct the **Blodgett Townhomes**, an 18-unit townhome development at 4701 Caroline St. in the Museum District (493X) on a site that is currently occupied by a vacant 9,460 net square foot radio station office building. The 0.72-acre site was purchased from **Prime Care Ambulance Service, Inc.** The 3-story units will each have 2,200 square feet and three bedrooms with 3.5 baths. Prices range from \$279,000 to \$295,000, but units will not be charged a maintenance fee.

The **Beacon Group** (713-777-7600) plans to construct **Union Square**, a 13-unit townhome development bounded by Washington Ave., Taylor St., and Union St. northwest of the Central Business District (493K). The units will sell for approximately \$200,000 each. The developer has already completed the **Patterson** townhome project, and is under contract on another Washington Ave. tract for a third development.

**New Urban Homes** (713-868-7226) and architect **Carloi DiNunzio** are partnering to develop **Rosewood Lofts**, 6 new 2-story townhomes on a 15,000 square-foot tract at the corner of Wheeler St. and Crawford in the Museum District (493X). The development will feature one- and two-bedroom units selling between \$142,000 and \$185,000. The Energy Star-certified townhomes will be constructed of concrete block, hardy siding, stucco, and metal roofs, and will incorporate significant landscaping. Construction is slated to begin in mid-summer of this year.

---

---

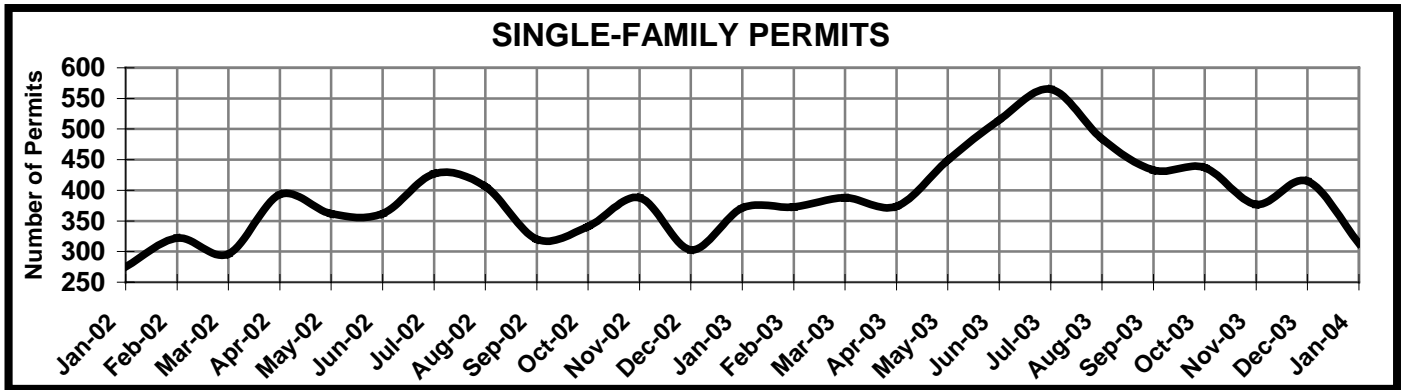
## PERMIT ISSUANCE

The **City of Houston** issued permits to build 313 private single-family houses and 7 private multifamily projects with 413 units. Demolition permits were issued for 134 private single-family houses and 2 private multifamily projects. In addition, 198 permits were issued for privately owned non-residential construction totaling \$45,875,960 and 11 permits were issued for public non-residential construction totaling \$707,000. Additions, alterations and conversions totaled \$84,826,539 for the private sector and \$12,332,974 for the public sector.

**Cost of Construction\***

	2002	2003	2004
Month of January	\$392,878,593	\$296,168,570	\$218,161,531
Year-to-Date	\$392,878,593	\$296,168,570	\$218,161,531

\* The figures in this section include all categories of buildings and non-building structures



Source: City of Houston

# OFFICE BUILDINGS

The Houston office market is still bleeding space, but the rate has decelerated to less precipitous levels. Although **ChevronTexaco's** pending consolidation into **1500 Louisiana** bodes well for downtown absorption and occupancy, the city's overall statistics are unlikely to see significant change as the result of the deal. What Houston needs is a large influx of jobs from outside the region, and in the coming month, **Citgo** will be poised to announce its decision on whether to move its headquarters to the Bayou City.

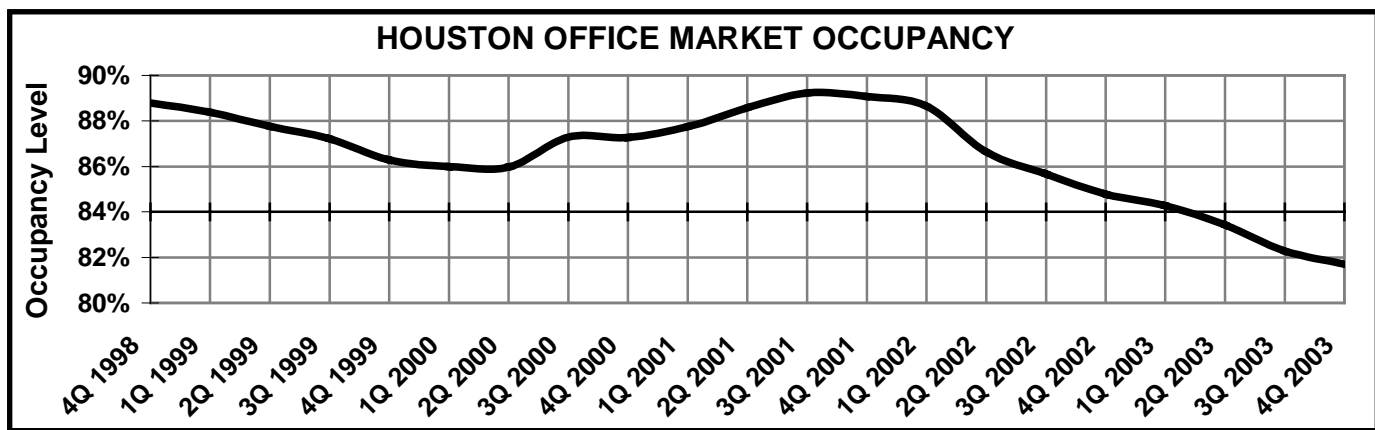
According to the O'Connor & Associates **4th Quarter 2003 Houston Office Data Program**, overall **occupancy** for Houston area multi-tenant office buildings is **81.71%** (Class A = 84.15%; Class B = 80.30%; Class C = 78.95%; Class D = 77.78%). Occupancy is down 3.00 points from the third quarter last year and 0.41 points from the past quarter. The overall annual multi-tenant office **rental rate** is **\$17.41 per square foot** (Class A = \$19.40; Class B = \$16.73; Class C = \$13.68; Class D = \$10.94). Overall rents are down \$1.00 from the third quarter last year and \$0.07 from the past quarter.

*Note: The office buildings listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates **Houston Office Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updates and published on a quarterly basis (contact us for more information).*

- **Sysco Corp.** (281-584-1390) plans to construct a 300,000 net square foot **Headquarters Building (WES 146)** on 40 acres in the **Enclave Business Park (488L)**. A proposed second phase of the development would add another 200,000 net square feet to the headquarters development located south of the Katy Frwy. between Dairy-Ashford Rd. and Eldridge Parkway. **Hines** and **HOK, Inc.** will probably develop and design the property, though deals have not yet been finalized.
- **St. Luke's Episcopal Health System (713-785-8537)** and **Richmond Medical Partners (832-358-8880)** will co-develop **St. Luke's Medical and Diagnostic Center – Cypress Woods (GNB 153)**, a 150,000 net square foot medical office building with a retail component as the first of three phases on an 80-acre site along FM 1960 across from Northgate Forest Dr. in northwest Houston (331U). Richmond Medical Partners has already begun construction on the building and will lease half of the space to other medical tenants when the building is completed in February 2005.

- Chicago-based **JMB Realty Co.** (713-651-7841) has retained **Morris Architects** to redesign **First City Tower's (CBD 019)** public spaces as part of the multimillion-dollar renovations that will take place. Improvements include granite pavers, landscaped planters, and a private garden for tenant use. The entrance columns will be clad with stainless steel, and a limestone sign will be placed at the corner of Fannin and Lamar streets. Interior finishes will be replaced in the lobby, with new wall panels and a new lighting system. First City Tower is a 1,333,312 net square foot Class A building at 1001 Fannin St. in the Central Business District (493Q).
- **BMC Software, Inc.** (713-918-8800) is postponing the sale of **BMC Software II (WES 109)** and **BMC Software IV (WES 001)** in the Westchase District (489U) due to a tight leasing market in the area and a less-than-favorable reception from investors. The 6-year-old Building II is 79% occupied with average rents at \$23.00 per square-foot, while the 3-year-old Building IV is 100% occupied.
- **Holliday Fenoglio Fowler, LP** (713-852-3500) arranged \$9.8 million in financing for the **Concourse at Westway (NNW 007)**. The 4-year-old fully-occupied 129,705 net square foot Class A building located at 4700 W. Sam Houston Parkway N. in northwest Houston (449G) is owned by **Faison Enterprises**. **Nationwide Life Insurance Co.** provided funds.

The following chart illustrates historical office occupancy.



**ChevronTexaco Corp.** (925-842-1000) has contracted to purchase **1500 Louisiana (CBD 108)**, the 1,156,636 net square foot tower in the Central Business District (493Q) completed by Enron in 2003, from **Intell Management & Investment Corp.** ChevronTexaco plans to sell **Chevron Tower (CBD 055)**, **2811 Hayes Rd. (WES 231)**, and **11111 S. Wilcrest (SW1 146)**, and will vacate 550,000 square feet in **Heritage Plaza (CBD 094)** and 50,000 square feet at **5959 Corporate Dr. (WES 126)**. About 500 employees will also be consolidated into the new Houston building from Midland, New Orleans, LA, and San Ramon, CA. As of publication, ChevronTexaco is still trying to secure a tax abatement from **Harris County** before closing on the property.

**Wells REIT, Inc.** (770-449-7800) purchased **Weatherford Center (GAL 047)**, a 259,971 net square foot building located at 515 Post Oak Blvd. in the Galleria area (491R), from **TA Realty Associates** for more than \$40 million (\$155 per square-foot). The 24-year-old Class A building is 100% occupied. **Rudy Hubbard** of **Transwestern Commercial Services** represented the seller.

**Franklin Street Partners** (877-489-2600) purchased **Eldridge Green (WES 118)**, a 247,956 net square foot building located at 1293 Eldridge Parkway in the Westchase District (488L), from **Eldridge Office Development, LP** for over \$35 million. The 5-year-old Class A building is 100% leased by **Aspen Technology**, although 99,036 square feet are available for sublease at asking rents of \$17.50 per square-foot.

**Twenty-Twenty Properties, Inc.** (972-991-4912) purchased **Clear Lake I (CLC 049)** and **Clear Lake II (CLC 045)**, two 100% leased Class B buildings totaling 129,311 net square feet, from **ING Clarion**. Clear Lake I is a 65,233 net square foot 19-year-old building at 1290 Hercules, and Clear Lake II is a 64,078 net square foot 20-year-old building at 1300 Hercules. **Susan Hill** of **NorthMarq Capital** arranged financing for the sale, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** and **Timothy Guy** of **ING Clarion** represented the seller.

**Texas Equity Partners, LLC** purchased **Briar Forest Crossing (WES 058)**, a 93,828 net square foot building located at 1300 W. Sam Houston Parkway S. in the Westchase District (489R), from **State Farm Insurance Co.** The 25-year-old Class B building is 77% occupied with average rents at \$19.00 per square-foot.

**MedClub Group, LLC** purchased **2601 W. Lake Houston Parkway (NE2 023)**, an 8-year-old 10,330 net square foot Class B medical office building on 1.91 acres in Kingwood (337B), from **CHRISTUS Medical Group**. **Robert S. Parsley** and **Roddy McAlpine** of **Colliers International** represented the seller.

**Universal Ensco, Inc.** leased 72,870 square feet in **Loop Central Two (GAL 156)**, a 197,603 net square foot building at 4848 Loop Central Dr. in the Galleria area (491Z), from **Kennedy-Wilson Properties** (713-334-1155). The 23-year-old Class B building is 38% occupied with average rents at \$18.00 per square-foot. **Rosemary Kogler** and **Brian McMackin** of **Lincoln Property Co.** represented the landlord, while **Scott Wegmann** and **Christopher Oliver** of **Cushman & Wakefield** represented the tenant.

**Parkway Properties, Inc.** (601-948-4091) inked two leases totaling approximately 60,000 square feet for **400 N. Sam Houston Parkway E. (GNB 030)**, a 222,793 net square foot building in the Greenspoint area (373S). **MMI Products** leased nearly 40,000 square feet, while the **Educational Commission for Foreign Medical Graduates** leased almost 20,000 square feet. The 22-year-old Class B building is 92% occupied with average rents at \$16.00 per square-foot. The building recently lost its 120,000 square-foot anchor tenant, **Burlington Resources**, to **Calpine Center (CBD 124)** in the Central Business District (493L). **Mark Preston** of **Moody Rambin Interests** and **Jayson Lipsey** of **Parkway Properties** represented the landlord in both leases, while **Chuck Goldstein** and **John Behm** of **Cresa Partners** represented **MMI Products** and **Joseph Peddie** and **Philip Price** of **Cushman & Wakefield** represented **Educational Commission for Foreign Medical Graduates**.

The **U.S. Postal Service** leased **NorthBelt Office Center III (GNB 152)**, a 55,700 net square foot office building located at 600 N. Sam Houston Parkway W. in the Greenspoint area (372N), from **Sarofim Realty Associates** (214-692-4200). The 2-year-old Class A building will be 100% occupied and had asking rents at \$13.50 per square foot. **Thomas W. Jacobs** of the **U.S. Postal Service** and **Dan Foster** and **Steve Burkett** of **The Staubach Co.** represented the tenant.

**Coats, Rose, Yale, Ryman & Lee** leased 52,553 square feet at **Three Greenway Plaza (GPL 020)**, a 518,578 net square foot building in Greenway Plaza (492X), from **Crescent Real Estate Equities** (713-840-1170). The 33-year-old Class A building is 87% occupied with average rents at \$22.50 per square foot. The tenant will move from **First City Tower (CBD 019)** at 1001 Fannin St. in the Central Business District (493Q) in April 2004. **Randy Strait** and **Warren Savery** of **Crescent Real Estate Equities** represented the landlord, while **Ron McWherter** and **Jay Cliburn** of **CBRE/Trione & Gordon** represented the tenant.

**Trizec Office Properties** (713-651-1515) has inked three leases totaling 43,592 square feet in **Continental Center I (CBD 072)**, a 1,108,479 net square foot building located at 1600 Smith St. in the Central Business District (493Q). **Southwest Bank of Texas** leased 23,271 square feet, while **Tana Exploration Co., LLC** leased 11,347 square feet, and **Stinnett, Thiebaud & Remington, LLP** leased 8,974 square feet. The 20-year-old Class A building is 90% occupied. **Paul Frazier**, **Margaret Sigur**, and **Gary Loh** of **Trizec Properties** represented the landlord, while **Kirk Pfeffer** of **Lonestar Alliance**, **Bob Parsley** and **John Parsley** of **Colliers International**, and **Brandi Gawlikowski** and **Rich Pancioli** of **Trammell Crow** represented the tenants.

**University of Phoenix** leased 41,284 square feet in **Loop Central One (GAL 157)**, a 178,263 net square foot building at 4888 Loop Central Dr. in the Galleria area (491Z), from **Kennedy-Wilson Properties** (713-334-1155). The 24-year-old Class B building is 81% occupied with average rents at \$17.50 per square-foot. **Rosemary Kogler** and **Brian McMackin** of **Lincoln Property Co.** represented the landlord, while **Mark Bailey** and **Brandi Gawlikowski** of **Trammell Crow Co.** represented the tenant.

**DMC Builders Co.** leased 23,771 square feet at **Woodway Center I (GAL 010)**, a 22-year-old 198,428 net square foot Class B building at 6363 Woodway in the Galleria area (491N), from **Unilev Capital Corp.** (713-850-7878). **Brad Lynch** of **Moody Rambin Interests** represented the landlord, while **David Price** of **Cresa Partners** represented the tenant.

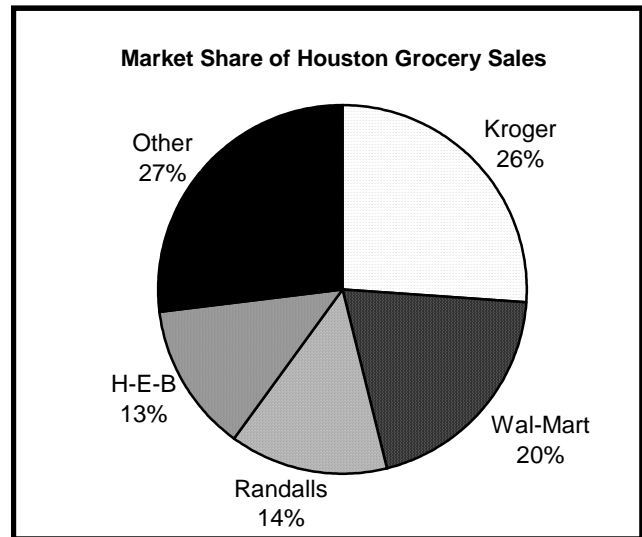
**Corinthian Colleges** leased 28,494 square feet in **Westwood Technology Center (SWF 094)**, a 536,000 net square foot building at 9700 Bissonnet St. in southwest Houston (530S), from a joint venture between **Provident Realty Advisors** (972-733-3399) and **Angelo, Gordon & Co.** for its fourth Houston-area campus. The 29-year-old former shopping mall is 90% occupied with asking rents at \$14.00 per square-foot. The tenant will open its new campus in mid-April 2004. **Steve Bryant** of **RM Crowe** represented the landlord, while **Don King** and **Ed Prejean** of **The Staubach Co.** represented the tenant.

## RETAIL CENTERS

Although **Kroger** has maintained its leading share, **H-E-B** and especially **Wal-Mart** have zealously and successfully expanded into the Houston grocery scene, putting the squeeze on **Randall's**. **Target's** grocery concept is also taking hold, while **Fiesta** continues to reliably serve its niche market.

Over the course of 2004, H-E-B will open 6 locations, and Kroger will open 4 new grocery stores. Wal-Mart has constructed 24 Supercenters or Neighborhood Markets, each of which stock groceries, over the past three years, and plans to open 4 new Supercenters in 2004.

The chart to the right, provided by **Wulfe & Co.**, illustrates the market shares of Grocery sales held by each of the largest chains in the Houston area.



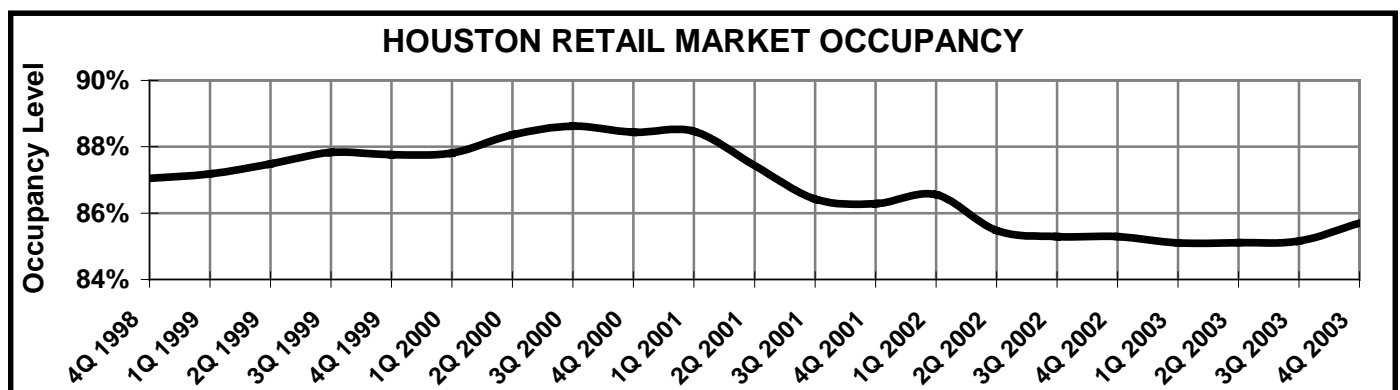
According to the O'Connor & Associates **4th Quarter 2003 Houston Retail Data Program**, overall **occupancy** for Houston area multi-tenant retail buildings is **85.70%** (Regional = 85.94%; Community = 82.41%; Neighborhood = 86.88%; Strip = 88.87%). Occupancy is up 0.41 points from the fourth quarter last year and up 0.54 points from the past quarter. The overall monthly multi-tenant retail **rental rate** is **\$1.50 per square foot** (Regional = \$3.01; Community = \$1.34; Neighborhood = \$1.05; Strip = \$0.95). Overall rents are up \$0.04 from the fourth quarter last year and are unchanged from the past quarter.

*Note: The retail centers listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates' **Houston Retail Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).*

- **Wal-Mart** (479-273-4000) plans to construct a 210,000 square foot **Wal-Mart Supercenter** on 25 recently purchased acres in the **Terramont Shopping Center (FNO 231)** at the corner of Woodlands Parkway and Branch Crossing Dr. in The Woodlands (215Z). In order to gain approval for the development, Wal-Mart agreed to use tan brick with stone accents, wood shutters, brick columns every 15 feet, and a covered sidewalk. Groundbreaking on the Wal-Mart Supercenter is expected before April, with completion slated for Spring 2005. In the land sale, **Brendan Lynch** of **CB Richard Ellis** represented the buyer, while **Greg Jordan** of **The Woodlands Operating Co.** represented the seller.
- **AmREIT** (713-850-1400) is planning the first phase of **The Gardens at Westgreen (FWE 280)**, a 61,000 net square foot retail center on 13 recently purchased acres at the corner of Katy Frwy. and Westgreen Blvd. in west Houston (486A). Construction is expected to begin in March 2004, with completion slated for September 2004.
- **Interfin Corp.** (713-840-8474) is planning **Uptown Park Phase II (NRW 297)**, a 20,000 square-foot addition to its retail center on the west side of Uptown Park Blvd., south of the **Montebello** condominium tower. Construction is slated to begin during Summer 2004.

- **Bissonnet Investment, Inc.** (713-466-8289) is planning a 15,000 net square foot retail center on 2 recently purchased acres at the southeast corner of Bissonnet and Eldridge Parkway in southwest Houston (528P). Construction is slated to begin in March 2004, with completion expected in October 2004. In the land sale, **Steve Mahood** of **Moody Rabin Interests** represented the buyer, while **Donnie Chang** of **ABC Advisors** represented the seller.
- **Walgreens Drug Stores** (847-914-2500) is planning a new 14,800 net square foot store on 1.775 recently purchased acres at the southwest corner of 61<sup>st</sup> St. and Stewart Rd. in Galveston (774W). The store is slated for completion in October 2004. Up until just recently, a defunct **Shell** station, **T-3 Quick Lube**, and **Golden Wok Chinese Café** occupied the site. The land was purchased from **Bennetta Pean**.
- **Circuit City Stores, Inc.** (804-527-4000) closed 19 underperforming stores, including the 32,246 net square foot location at **171 N. Sam Houston Parkway E. (FNO 134)** in Greenspoint (372V). The chain has no plans to relocate the shuttered stores.
- Carrollton-based **Gadzooks, Inc.** (927-307-5555) filed for Chapter 11 bankruptcy protection and plans to close 156 stores nationwide out of its 410-store portfolio, including its location at **West Oaks Mall (FWE 037)** in west Houston (488S).
- **Target Corp.** is planning to use a prototype format featuring wider aisles, larger dressing rooms, and brighter lights in its store in the new development planned by **Property Commerce** (713-860-0607) for **14302 FM 2920 (FNW 327)** in Tomball (288K). Target will also renovate its store at **4323 San Felipe (INL 145)** in the Galleria area (491R), adding a **Starbucks**, a new entryway, and expanding the pharmacy department. A store in Katy will receive similar renovations, both of which will be completed in Summer 2004.
- **Wulfe & Co.** (713-621-1700) has contracted to purchase **Fashion Square (NRW 069)**, a 43,350 net square foot shopping center at 1710 Post Oak Blvd. in the Galleria area (491Q), from **Raymond Brochstien**. The 41-year-old center is 94% occupied with average rents at \$2.33 per square-foot. Tenants include **Eatzi's Market & Bakery**, **Café Annie**, and **Blue Plate Bistro**.
- **Northmarq Capital, Inc.** (713-622-6300) has arranged financing for the **Silverlake Shopping Center (SOU 027)**, a 263,025 net square foot retail center at 3127 Silverlake Village Dr. in Pearland (613N). The 1-year-old center is 100% occupied with average rents at \$1.66 per square-foot. Tenants include **Michael's**, **PETSmART**, and **Pier 1 Imports**. **Roger Trapnell** of **Northmarq Capital, Inc.** arranged financing for the owner, **LASCO Development Corp.**
- **NAI Partners Commercial** (713-629-0500) has formed a Retail Division to focus on retail tenant representation, project leasing, and investment sales and development. **Kevin Sims** and **Stephen Schorr** have been hired to lead up the new division.

The following chart illustrates historical retail occupancy.



**Fidelis Realty Partners** (713-623-6800) purchased **Baybrook Square (FSE 057)**, a 319,197 net square foot retail center at the southwest corner of the Gulf Frwy. and W. Bay Area Blvd. in southeast Houston (618W), from **Lincoln National Life Insurance Co.** The 22-year-old center is 34% occupied with average rents at \$1.75 per square-foot. Fidelis is planning \$13 million in renovations, with **DSW Shoe Warehouse**, **Pier 1 Imports**, **Cargo**, **Mega Marshall's**, and a furniture store planned. Current tenants include **Al's Formal Wear**, **American Mattress**, and **Soundwaves**. **Service Merchandise**, **Palais Royal**, **Kids R Us**, and **Target** have vacated the shopping center.

**Wes Walters Realty** purchased **Commerce Park North (FNO 102)**, a 131,702 net square foot shopping center on 12 acres at 15757 North Frwy. in north Houston (332Y), from **CPN Partners, LP**. The 19-year-old center is 88% occupied with average rents at \$0.89 per square foot. Tenants include **AMC Theater**, **Bel Furniture**, and **Sears Homelife**. The new owner plans to invest \$250,000 in renovations. **Amir Moazami** of **Wes Walters Realty** represented the buyer, while **M. Bruce Jester** and **Johnnie D. Roberts** of **Henry S. Miller Commercial** represented the seller.

**Allday Leasing Company, Inc.** (713-975-0292) purchased **Hedwig Square (NRW 131)**, a 51,682 net square foot retail and professional center at 8800 Katy Frwy. in west Houston (490D), from **Turner Adreac Development**. The 36-year-old center is 98% occupied with average rents at \$1.33 per square-foot. Tenants include **HealthSouth Outpatient Services**, **Southwell's Hamburger Grill**, and **Houston Preventative Imaging**. **Bobby Orr** and **Bobby Rauch** of **Orr Commercial Realty** represented the buyer, while **David M. Butler** of **Colliers International** represented the seller.

**Kaldis Development Interests** (713-526-1802) purchased the 6,800 square-foot original **Antone's Sandwich Shop** and an 11,000 square-foot warehouse behind the restaurant at 807 Taft, west of the Central Business District (493J), from **Jolee, Inc.** The Antone's space will be leased to a single anchor tenant, while the warehouse space will be leased to smaller 1,200 to 5,000 square foot tenants. The building's façade will undergo renovations before tenants occupy the building, and should be completed in about 6 months. Kaldis will handle both leasing and management functions.

**Highway 6 Management, LLC** purchased **Crossroads Plaza (FNW 338)**, a 10,500 net square foot shopping center at 13141 FM 1960 in northwest Houston (368Z), from **Robalo Partners** in the down leg of a 1031 Exchange. The 100% leased retail center has just recently been completed, and boasted average asking rents at \$2.00 per square-foot. Tenants include **Smoothie King**, **Cingular Wireless**, and **Payday Advance**. **Jerry Goldstein** of **Marcus & Millichap** represented the seller.

**MTI College of Business & Technology** leased 33,650 square feet in **Hunting Bayou Shopping Center (NEA 073)**, a 137,265 net square foot center at 11420 East Frwy. in east Houston (496K), from **Quest Realty, Inc.** (281-955-7653). The 19-year-old center is 93% occupied with average rents at \$1.13 per square foot. Tenants include **Cinemark Theatre**, **24-Hour Fitness**, and **Hertz Local Edition**. **Bob Conwell** of **NewQuest Properties** represented the landlord.

**Dollar Tree Stores** leased 20,000 square feet in the **Pointwest Shopping Center (FRW 255)**, a 205,275 net square foot center at the southeast corner of the Katy Frwy. and S. Mason Rd. in west Houston (485D), from **Ainbinder Co.** (713-892-5600). The 3-year-old center is 22% occupied with average rents at \$1.33 per square-foot. Tenants include **Sweet Mesquite**, **Mattress Expo**, and **Warehouse Pool Supply**. **New Regional Planning** represented the landlord, while **Perry Zieben** of **Perry Zieben Realty Co.** represented the tenant.

---

---

## VACANT LAND

**NewQuest Properties** (281-477-4300) purchased 62 tracts of land in north and northwest Houston, north of Beltway 8, from **Patrick Thomas Properties**. The buyer will be the general partner and managing agent for the properties. NewQuest will develop some of the properties and market others for sale. NewQuest is well capitalized, and will be able to bring infrastructure to sites lacking the necessary utilities or amenities. Some of the tracts are located along major thoroughfares such as FM 1960, and the Northwest Frwy. The portfolio was valued at approximately \$40 million.

**Scenic Galveston** (409-744-4731) purchased 1,500 acres of coastal prairie at Virginia Point (772M) that adjoin the 1,000-acre **John M. O'Quinn Estuarial Corridor Preserve**, from the **University of Texas**. The new owners will restrict access to the shoreline except by classes, researchers, and birding groups, after having obtained prior approval.

**WMF Investments, Inc.** (281-480-9000) purchased 127 acres at the corner of FM 646 and FM 3436 in Galveston County (660R), from **Grace M. Saragusa**. The buyer is planning commercial and residential development on the site. **Pete Zamora** of **Alliance Commercial Investments** represented both parties.

**Dayton Rice Milling, Inc.** purchased 68.9 acres at the northeast corner of FM 1960 E. and FM 686 in west Liberty County (340B) from **PMB 156**. **Bill Heavin** and **Matthew Herring** of **Grubb & Ellis** and **Carrell T. Freman** represented the seller.

**KB Home** (888-524-6637) purchased 30.717 acres near the corner of Beltway 8 and Cullen Blvd. from **Godima, Ltd.** The buyer is planning a single-family development on the site, but plans have yet to be finalized. **Bill Heavin** and **Matthew Herring** of **Grubb & Ellis** represented the seller.

**John O Harris Interests** (281-487-6760) purchased 8.2 acres at the northeast corner of Fairmont Parkway and Lily St. in Pasadena (577G) from **JP Morgan Chase Bank, trustee**. **Marshall Clinckscases** of **MSC Properties** represented the buyer, while **Mike Wallace** and **Bill Byrd** of **Colliers International** represented the seller.

**Martin Marietta Materials** leased 43 acres along the east side of State Highway 3 in Texas City (700Q) from **Henderson Partners** (409-765-9410). The tenant will build a rail spur connecting with the Union Pacific line, and will use the property to store aggregate materials for concrete production. **Franklin Denson** of **Hankamer & Associates** represented the tenant.

---

---

## INDUSTRIAL FACILITIES

Times are still difficult, but look to shape up over the course of 2004, as fundamentals improve. The manufacturing sector remains something of a wild card, still shedding jobs overseas, but the long term outlook is solid. New industrial product in northwest Houston and around the Beltway quotes rents at 42% above the citywide average, but occupancy rates 26% below the citywide average indicate that demand for high-end product still lags.

According to the O'Connor & Associates **4th Quarter 2003 Houston Industrial Data Program**, overall **occupancy** for Houston area operating industrial facilities is **87.85%** (Flex = 86.41%; Bulk = 87.33%; Manufacturing = 92.13%). Occupancy is down 0.18 points from the third quarter, and down 0.50 points from the fourth quarter last year. The overall monthly **rental rates** remain flat at **\$0.38 per square foot** (Flex = \$0.44; Bulk = \$0.35; Manufacturing = \$0.29).

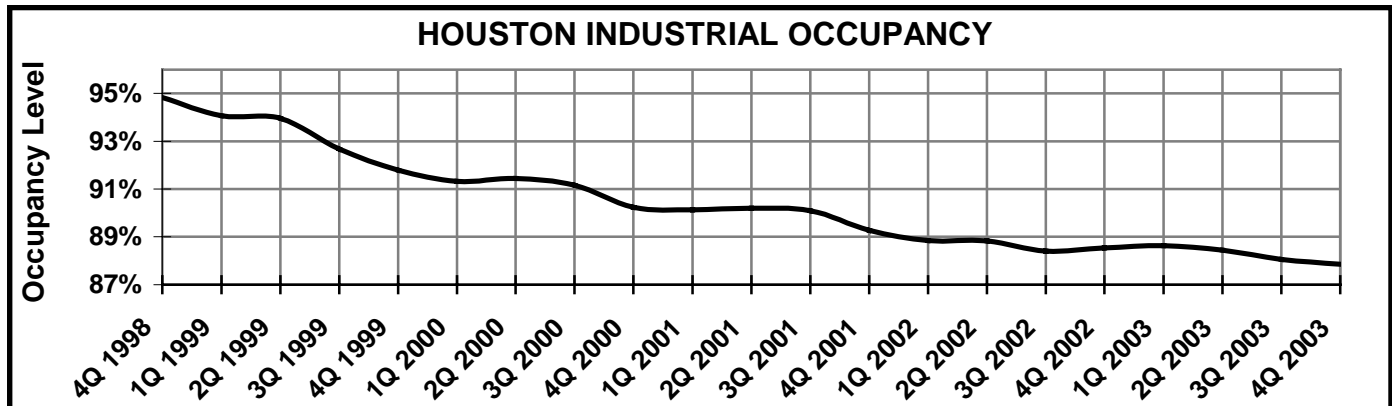
---

*Note: The industrial facilities listed herein are followed by their representative identification number as they appear in the O'Connor & Associates' **Houston Industrial Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).*

- **Wal-Mart** (479-273-4000) is planning a 2,000,000 net square foot distribution center in the **Cedar Crossing Business Park** at FM 1405 and Spur 55 in west Chambers County (542C). Construction is expected to begin in Summer 2004 with completion in Summer 2005. After completion, the **State of Texas** will purchase the 230-acre site and building, and will lease the facility to Wal-Mart for the following 30 years. Wal-Mart retains a multi-year option to buy an adjacent tract of land on which it could construct another million-square-foot facility.
- **Greensport Management** has contracted to purchase the **Greens Port Industrial Park (3615D)**, located at 1755 Federal Rd. in the Houston Ship Channel area (496Q), from **AK Steel Corp.** The facility contains over 2.5 million square feet on 610 acres fronting the ship channel. Originally built in 1941 as a steel plant, it was converted into a multi-tenant industrial park in 1983. Approximately \$11 million in improvements have been made since 2000. **B. Kelley Parker, III, John F. Littman,** and **Kenneth Page** of **Cushman & Wakefield** are representing the seller.

- **Katoen Natie Gulf Coast, Inc.** (713-675-9000) has completed the **Katoen Natie Polymers Terminal (4867M)** on 72 acres at 10925 State Highway 225 in La Porte (539L). The industrial complex consists of 581,000 square feet of distribution center space in two buildings, a 70,000 square-foot office/laboratory, 532,300 square feet of warehouse space in two buildings, a 3,680 square-foot office, and a 300-car rail yard. The \$75 million project was completed two years ahead of schedule.
- **ProLogis** (713-613-6934) is developing an 83,200 net square foot build-to-suit facility (**0725J**) on 6.3 acres in the **West by Northwest Industrial Park (410X)** for **Bunzl Distribution, Inc.** The facility will feature 30-foot clearance with dock-high loading, extra-large truck aprons, and trailer storage. Completion is slated for September 2004.

The following chart illustrates historical industrial occupancy.



**Macfarlan Realty Partners** (713-972-0162) purchased the **Innova Electronics Headquarters (0289H)**, a 100,200 net square foot office/warehouse facility at 8383 N. Sam Houston Parkway W. in northwest Houston (370W), from **Midway Development Company**. The 1-year-old single-tenant facility is 100% occupied. **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

**24-Hour Self Storage** (713-553-5151) purchased **5741 FM 646 East**, a 87,848 net square foot mini-warehouse facility on 8 acres in Dickinson (660P), from **Bay Storage**. The 380-unit facility's average rents are \$0.40 per square-foot. **Kersi Engineer** of **24-Hour Self Storage** represented the buyer, while **Barry Bradley** represented the seller.

**Simpkins Group** (713-963-0885) purchased the **Makita Distribution Facility**, a 80,030 net square foot single-tenant facility at 12701 Directors Dr. in Stafford (569J), from **Makita USA**, but the property has gone under contract to another as yet unnamed buyer. The vacant 10-year-old facility has asking rents at \$0.35 per square-foot. The facility features 24-foot clearance with dock-high loading. **Rob Bryant** of the **Simpkins Group** represented the buyer, while **Billy Gold** of **CB Richard Ellis** represented the seller.

**G.L. Soni** and **K.L. Soni** purchased **4030 Bluebonnet**, a 65,559 net square foot office/warehouse on 2.76 acres, as well as an adjacent 1.354-acre lot, in the **Greenbriar Southwest Business Park** in Stafford (569G), from **Progressive Manufacturing Corp.** The buyer is retrofitting the 22-year-old building for food & spice distribution. **Vernon McGaw** of **Greater Houston Commercial Properties** represented the buyer, while **Charles Herder** of **Colliers International** represented the seller.

**Hellenic Marine Properties** (713-678-8045) purchased **6502 Rusk St. (3444)**, a 30,000 net square foot warehouse on 1.7 acres in east Houston (494Y), from **Federated Industries, Inc.** The facility will be owner-occupied by shipping industry supplier **World Chandlaring International, Inc.**, a division of the buying company, after retrofitting of the building is complete. **Chris Kugle** of **NAI Partners Commercial** represented the buyer, while **Will Swanson** of **NAI Partners Commercial** represented the seller.

**VFL Energy** (713-466-9883) purchased **12431 Taylor Rd. (0524)** a 16,400 net square foot office/warehouse facility on 1.48 acres in northwest Houston (409J), from **Ameriforge Group**. The 17-year-old facility will be owner-occupied. **Cynthia Hill** of **Cynthia Hill Properties** represented the buyer, while **Saul Keeton** of **Colliers International** represented the seller.

**W.I. Moore, III** and **Barbara K. Moore** purchased **3232 McKinney St.**, a 25,514 net square foot warehouse located east of the Central Business District (494S), from **N.A. Land Company**. The 74-year-old facility has recently been vacated by its sole tenant. After asbestos abatement is completed, the owners will convert the structure to residential use. **Jerry Reel** of **John Byerly Properties** represented the buyer, while **Christopher S. Klien** of **Colliers International** represented the seller.

**M.L. Deer Construction Co.** (713-681-1100) purchased **11329 Todd Rd. (1550)**, a 15,470 net square foot single-tenant office/warehouse on 1.3 acres in west Houston (451P), from **Spec Building Materials**. The vacant 26-year-old facility has asking rents at \$0.52 per square-foot. The facility features 18-foot clearance with grade loading. **Tiffanie Purvis** of **M.L. Deer Construction** represented the buyer, while **James E. Foreman**, **Sandra F. Harris**, and **Beau Kaleel** of **Cushman & Wakefield** represented the seller.

**Midgard Mortgage Co., LLC (Allen Brady, Manager)** (713-869-3900) purchased **1020 Fennell (4633M)**, a 14,100 net square foot office/warehouse in southeast Houston (535B), from **Weatherford International**. The 54-year-old facility features 12- to 14-foot clearances with grade-level loading. **John Ferruzzo** and **Travis Land** of **NAI Partners Commercial** and **Jo-Lynne Busic** of **Weatherford International** represented the seller.

**Brooks & Sparks** (281-578-9595) purchased **21020 Park Row (1018M)**, an 11,405 net square foot office/warehouse in west Houston (446W), from **State Farm Insurance**. The 16-year-old single-tenant facility will be owner occupied. **Randy Sparks** represented the buyer, while **Todd Edmonds** and **Peggy Meredith** of **Colliers International** represented the seller.

**Xinghua Machine Corp.** (713-784-6644) purchased **12338 Hodges St. (4927A)**, a 10,560 net square foot warehouse in southwest Houston (570M), from **Wadco Precision, Inc.** The 18-year-old single-tenant facility features dock-high loading, and will be owner-occupied. **Melinda Huang** of **Metro Bank** arranged financing. **Andrew W. Sowell** of **Boyd Commercial** represented the buyer, while **Mike Bennett** of **Bennett Properties** represented the seller.

**SepraMet, Ltd.** leased **14820 Talcott (3665)** an 83,010 net square foot manufacturing facility in the **Jacintoport Industrial Park** in east Houston (497M), from **GSL Investments, Inc.** (713-772-1393). The 22-year-old facility is 100% occupied and has recently undergone a \$100,000 renovation. **David Toone** of **Pinpoint Commercial** represented the landlord, while **John M. Talhelm** and **Kevin A. Erck** of **Cushman & Wakefield** represented the tenant.

**Wyatt Field Services Co.** leased 63,000 square feet in **Northwest Point Distribution Center (0560C)**, a 126,000 net square foot facility at 10810 W. Little York Rd. in northwest Houston (409U), from **Principle Life Insurance Co.** (515-248-3944). The 6-year-old facility is 100% occupied with average rents at \$0.40 per square foot. The facility features 24-foot clearance with dock-high loading. **Walter H. Menuet, Jr.** of **Vantage Cos.** represented the landlord, while **Michael Palmer** and **Ron McWherter** of **CB Richard Ellis** represented the tenant.

**IEC, Inc.** leased **4514 Brittmoore Rd. (1083D)**, a 23-year-old 49,000 net square foot warehouse complex in northwest Houston (449C), from **Chapman & Cole** (713-975-6969). The tenant will occupy one 40,700 square-foot building in the first year, and then also occupy the 8,300 square-foot building at the start of the second year of the 5-year lease. **John Simmons** and **Billy Gold** of **CB Richard Ellis** represented the landlord, while **John Ferruzzo** and **Will Swanson** of **NAI Partners Commercial** represented the tenant.

**Comfort Supply, Inc.** leased 14,148 square feet in **Beltway 8 Business Park – Building 4 (3824O)**, a 133,000 net square foot office/warehouse at 10511 Kipp Way in southwest Houston (529U), from **Vantage Cos.** (713-780-8866). The 4-year-old facility is 100% occupied with average rents at \$0.42 per square-foot. The facility features 24-foot clearance with dock-high loading. **Walter H. Menuet, Jr.** of **Vantage Cos.** represented the landlord, while **Chris Caudill**, **Barrett Gibson**, and **John Ferruzzo** 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 28,000 jobs** to 2,080,200 in January 2004, according to the **Texas Workforce Commission**. The Trade, Transportation, & Utilities sector posted the greatest change, subtracting 12,200 jobs. This month's total is **7,000 jobs less** than the 2,087,200 jobs at this time last year. **Houston's unemployment rate**, at 6.7% is unchanged over the past year, while the statewide unemployment rate dropped from 6.7% in January 2003 to 6.7% in January 2004. Revised figures indicate that Houston lost 16,400 jobs in 2003.

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for February increased 0.6% from January, and are up 7.9% over February 2003. Excluding motor vehicles and parts sales, retail and food services sales were unchanged from January and up 7.3% from February 2003. Building material dealers have seen the greatest increase in sales over the past year, at 14.7%, while furniture and electronics stores have had 12.3% increases.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** declined to 87.3 in February 2004, down 9.1 points from 96.4 in January 2004. The **Index of Leading Economic Indicators** rose 0.5% in January 2004 to 115.0, marking its highest level on record. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

The **Bureau of Labor Statistics** reports that productivity increased at a seasonally adjusted annual rate of 2.7% in the non-farm business sector during 4<sup>th</sup> quarter 2003, down from the 9.5% increase in the 3<sup>rd</sup> quarter. The hours that all persons spent at work increased by a seasonally adjusted annual rate of 1.9% in 4<sup>th</sup> quarter, the largest increase since the 4<sup>th</sup> quarter of 1999.

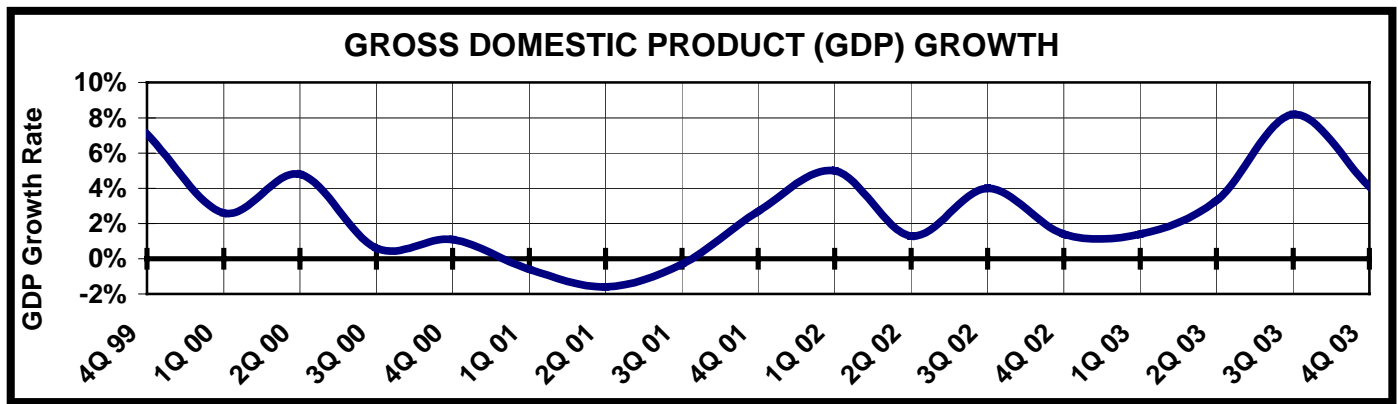
Personal income increased by \$18.4 billion, or 0.2%, and disposable personal income (DPI) increased \$67.8 billion, or 0.8%, in January 2004, according to the **Bureau of Economic Analysis**. Personal consumption expenditures (PCE) increased \$32.1 billion, or 0.4%. Meanwhile, the **U.S. Department of Labor** reports that the Consumer Price Index (CPI) rose 0.5% in January 2004, and is 1.9% higher than one year ago. The CPI indicates that prices excluding food and energy costs are stable.

The **Mortgage Bankers Association (MBA)** reports that the 30-year fixed-rate mortgage (FRM) averaged 5.49%, with an average of 1.39 points (including the origination fee), for the week ending February 25, 2004. Last year at this time, the 30-year FRM averaged 5.65%. The average for the 15-year FRM is 4.79%, with an average of 1.35 points (including the origination fee). A year ago, the 15-year FRM averaged 5.02%.

The **Baker Hughes** count of active domestic rotary rigs rose to 1,687 in February 2004, up 2% from 1,655 in December 2003, and 15% from 1,461 in January 2003. The rotary rig count is a census of the number of drilling rigs actually exploring for or developing oil or natural gas in the United States.

**Federal Reserve** chairman **Alan Greenspan** claims that American households are in "good shape" on the whole, having managed their debt well through mortgage refinancing and low interest rates. He also acknowledged that households own greater than \$14 trillion of real estate assets and that the increase in the value of real estate has, to a significant extent, offset the declines in the value of financial assets. In the Federal Reserve's semiannual monetary policy report to the **U.S. Congress**, Real GDP growth was projected to shift from 4.3% in 2003 to between 4% and 5.5% in 2004, with inflation shifting from 1.4% in 2003 to between 1% and 1.5% in 2004, and the unemployment rate falling from 5.9% in 2003 to between 5.25% and 5.5% in 2004.

Preliminary estimates released by the **Bureau of Economic Analysis** indicate that Real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 4.1% in the 4<sup>th</sup> quarter of 2003, down from 8.2% in the third quarter. The deceleration in real GDP growth reflects a deceleration in personal consumption expenditures, an acceleration in imports, and a deceleration in residential fixed investment that were partly offset by an upturn in private inventory investment and an acceleration in exports.



Source: Bureau of Economic Analysis

A survey conducted by **Bain & Co.** of Boston, MA for the **California Business Roundtable** indicates that of the 40% of California companies planning to move jobs out-of-state, approximately 25% of the outsourcers favor Texas, even over Asia, Canada, or India. The study cites a lax regulatory environment and intense marketing efforts by the State of Texas as an explanation for the findings

**Jason Saving**, a senior economist with the **Federal Reserve Bank of Dallas**, has stated that Texas' economy once again on par with the nation's economy, and that barring negative developments in technology, energy, or international trade with Mexico, the state economy looks to outperform the nation in the future. Business conditions are improving; consumer spending and confidence are rising, while new claims for unemployment are dropping, and employers are becoming more willing to hire.

Among U.S. cities with a population over 250,000, Houston has the 15<sup>th</sup> longest commute, with area employees spending 25.6 minutes per day in transit to and from work. New York City, Chicago, and Philadelphia require the longest commute times, on average, at 38.4 minutes, 32.7 minutes, and 30.3 minutes, respectively. The **U.S. Census Bureau** report indicates that the national average commute time is 24.4 minutes.

**SSA Marine** (206-654-3593) will begin developing the first phase of the **Texas City International Terminal**, a 125-acre project with 2,000 feet of berth, costing approximately \$200 million. Construction of the first phase, linked to Galveston Bay by a 45-foot deep channel, will take about 30 months to complete, with operations slated to commence in 2006. The terminal will have easy access to the Gulf Freeway and is only eight miles from the Galveston Bay seabuoy. Ultimately, the port facilities will span 400 acres, have 6,000 feet of berth, and will be capable of handling 2.45 million containers per year. The project is expected to create \$42 million in tax revenue and 28,000 jobs over the first 20 years of operation.

The 50-year-old **St. Luke's Episcopal Hospital** in the Texas Medical Center (532H) will be demolished in 2005 to make room for a new 10-story 100-bed patient care center as part of St. Luke's \$200 million expansion project. The new building will be constructed to take advantage of new technology that could not be integrated into the existing facilities, and will allow for an additional 16 floors to be added on top of the building in the future.

**Calpine Corp.** has agreed to purchase the 570-megawatt natural gas-fired **Brazos Valley Power Plant** near Richmond in Fort Bend County for approximately \$175 million in cash acquired from the recent sale of a power plant in central Texas. The sellers are a group of entities owned by a consortium of banks. The acquisition is still subject to Federal Trade Commission approval and bondholder consent.

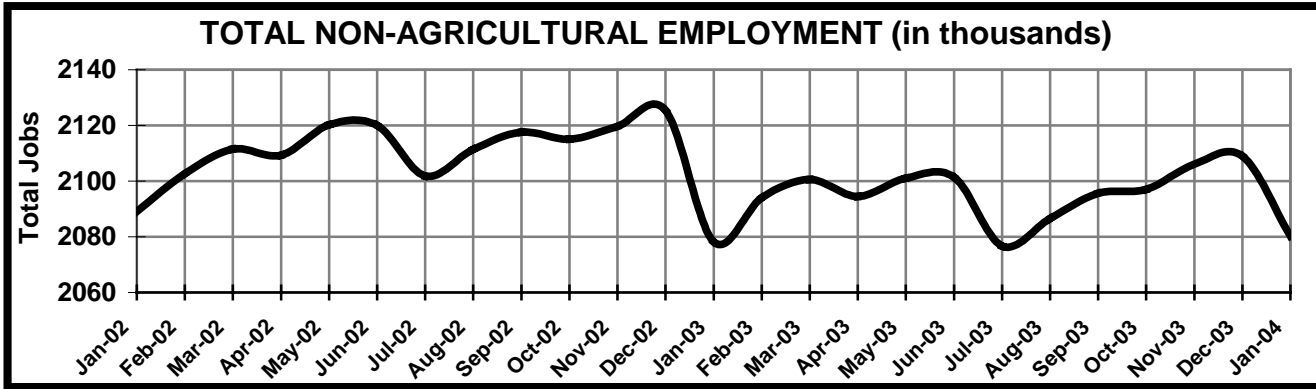
A subsidiary of San Antonio-based **USAA Real Estate** has purchased a majority interest in six **Doubletree Hotels** throughout the United States from **Wyndham International**. **Hilton Hotels Corp.** and **Metropolitan Life Insurance Co.** will retain ownership positions in the Doubletree portfolio. The **Doubletree Hotel – Allen Center** and **Doubletree Hotel – Post Oak** in Houston were included in the sale.

**Criterion Systems, Inc.** (713-771-0641) purchased the 125-room **Roadrunner Motor Inn** on 3.43 acres at 6855 Southwest Frwy. in southwest Houston (530H) from **59 South Hospitality**. **Billy Chen** of **Tai-Merica Real Estate Investments** represented both parties.

The **Midway Cos.** (713-629-5200) will develop a 130-room **Residence Inn by Marriott** on 3.5 acres at the southwest corner of Eldridge Parkway at Enclave Parkway in west Houston (488F). The 6-story business hotel will compete for business from corporations along the Energy Corridor.

**Mayor Bill White** has appointed **Ed Wulfe** of **Wulfe & Co.** to lead a task force reviewing the use of the **City of Houston's** real estate assets. The group will review and evaluate city-owned properties, make highest and best use recommendations, identify and prioritize opportunities to minimize operating costs, analyze leases on city-owned properties to other entities, and study terms and conditions of property leased by the city from other entities.

The following chart illustrates total non-agricultural employment.



Source: Texas Workforce Commission

Please direct any questions regarding content in the *Houston Real Estate Trends* to Richard Zigler at 713-686-9955 or [rzigler@poconnor.com](mailto:rzigler@poconnor.com)

---

# WHY O'CONNOR & ASSOCIATES?

---

## Accurate Data, Local Expertise



RETAIL ♦ OFFICE ♦ INDUSTRIAL ♦ MULTIFAMILY

Search our comprehensive property inventory to get the information you need!

Stay up-to-date with customized analysis that will help you better identify market trends!

Rely on us to help you improve performance at your properties!

- ♦ Market Studies
- ♦ Data Programs
- ♦ Publications
- ♦ Special Reports
- ♦ Appraisals
- ♦ Tax Reduction

Houston's only comprehensive commercial real estate data provider

Texas' largest property tax consultant

Texas' largest appraisal firm

Cost segregation (soon to be Texas' largest)



713-686-9955

[www.poconnor.com](http://www.poconnor.com)

To learn more about our products and services, contact Steven Cunningham or Richard Zigler!

---

## WE HOLD THE KEY TO SUCCESS

---