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HOUSTON REAL ESTATE TRENDS

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APARTMENTS

Historic levels of construction continue to outpace market demand, which has been following a downward trend over the past three years. Demand was strong enough in 2000 and 2001 to capture the high level of new units; however, in 2003 the level of construction exceeded absorption. This imbalance will continue to grow. While the number of new units in 2003 was high, demand was at the lowest level in over a decade. Nearly 19,000 units are currently under construction. While we anticipate positive absorption in 2004 and even stronger demand in 2005, excess supply will remain.

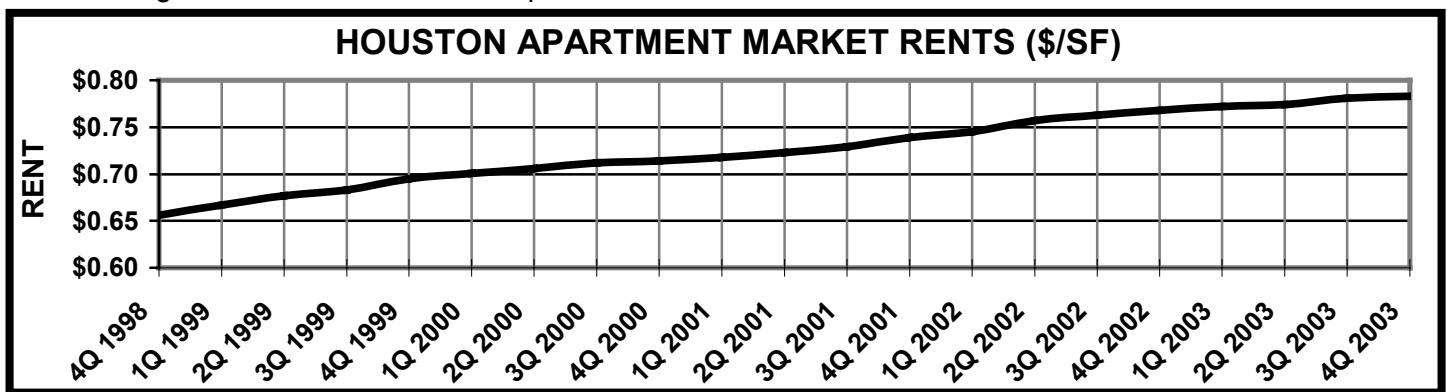
According to the O'Connor & Associates **4th Quarter 2003 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **89.37%** (Class A = 85.40%; Class B = 90.39%; Class C = 91.09%; Class D = 88.10%). Occupancy is down 2.69 points from the fourth quarter last year 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).

- The **Morgan Group, Inc.** (713-361-7200) is developing **Estates at Sterling Ridge (7034)**, a 254-unit complex on 10 acres at the northwest corner of Woodlands Parkway and Lake Woodland Dr. in the Woodlands (216X). The complex will feature one-, two-, and three-bedroom units, averaging 1,004 square feet at an average rental rate of \$1,100 per month. The first units will be delivered in January 2005. The complex will be sold post-stabilization to the California Public Employees' Retirement System (CalPERS).

- Dallas-based **Provident Realty Advisors, Inc.** (972-733-3399) is developing **Providence at Veterans Memorial (0157M)**, a 238-unit affordable housing project at the intersection of Veterans Memorial and Gears Rd. in northwest Houston (371Q). The development will feature multiple two-story townhouse-style buildings, stucco and stone accents, individual covered entries, and pitched roofs. **CharterMac** and **Related Capital Co.** provided \$22.6 million in debt and equity financing.
- **Creekstone Cos.** has launched an affiliate firm, **Creekstone Partners**, to acquire and manage Class A and B multifamily assets throughout the country. The company plans to acquire up to 20 properties by the end of this year, totaling approximately \$500 million with each property at a minimum of 150 units. Locally, Creekstone is planning to build a 248-units Class A complex on Silber Rd. (491C), formerly Cameron Iron Works land, much of which has been redeveloped into the MarqE Entertainment Center.
- **LJ Melody & Co.** (713-458-7200) arranged permanent fixed-rate financing for **Jackson Hill (1203M)**, a 316-unit Class A complex located at 320 Jackson Hill in the Allen Parkway corridor (492M), owned by **Finger Cos.** The year-old complex is 94% occupied with average rents at \$1.35 per square foot. The property features pitched roofs and is separately metered for electricity. **Cigna Investments** provided funds. **Tom Melody, Tom Fish, and Paul House** of L J Melody & Co. secured financing.
- **HFF** (713-852-3500) arranged permanent fixed-rate financing for the **Dakota Lofts (1412A)**, a 51-unit, Class A loft project at 711 William St. in the Central Business District (493M), owned by **Randall Davis Co.** The project is 96% occupied with average rents at \$1.52 per square foot. The property features a contemporary art gallery, fitness center, and a private rooftop lounge for viewing the downtown skyline. **JP Morgan Mortgage Capital** provided funds. **Brant C. Smith** of HFF arranged the financing.

The following chart illustrates historical apartment rental rates.



Trimark Realty Investments, Inc. (972-690-7108) purchased **Woodlake Townhomes (0973)**, a 315-unit complex located at 2600 Westerland Dr. in west Houston (490T), from **Walden Residential**. The 28-year-old complex is 92% occupied with average rents at \$0.87 per square foot. The property features both pitched and flat roofs and is separately metered for electricity.

Germany-based **San Melia Acquisitions, LP** purchased **San Melia (2389M)**, a 252-unit complex located at 8383 El Mundo in south Houston (533N), from **Sueba USA, Inc.** The 2-year-old complex is 76% occupied with average rents at \$1.12 per square foot. The complex features pitched roofs and is separately metered for electricity.

Cres Management (816-756-0220) purchased **Village Greens Apartments (3001)**, a 232-unit complex located at 2305 Bay Area Blvd. in southeast Houston (618L), from **Spartan Management Group**. The 26-year-old complex is 80% occupied with average rents at \$0.85 per square foot. The complex features pitched roofs and is separately metered for electricity.

FSC Realty, LLC (310-278-2434) purchased **Greenbriar Chateau Apartments (1327)**, a 145-unit complex located at 4100 Greenbriar south of the Southwest Freeway (492Y), from **Allied Realty**. The 34-year-old complex is 93% occupied with average rents at \$1.06 per square foot. The complex features flat roofs and is separately metered for electricity. **James Hearn** of **Hendricks & Partners** 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.*

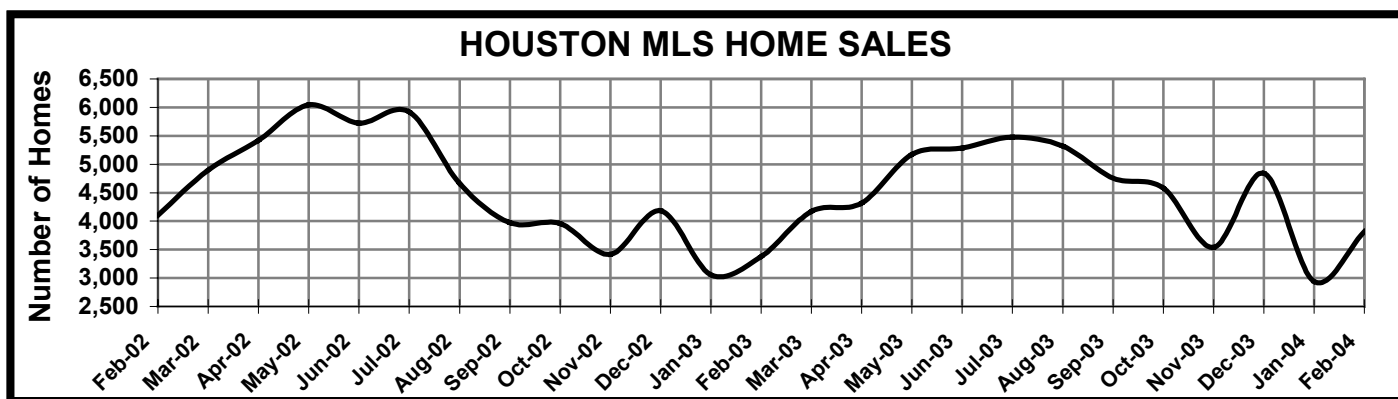
According to **American MetroStudy Corporation**, net sales of new homes increased in February to 2,715 or 31% above the February 2003 figure of 2,073. Realtor co-op sales represent 63% of net sales, up 53% from February 2003. Traffic is up from last year, from 33,06 in 2003 to 36,986 in January 2004. The inventory of completed speculative homes (2,173) is 23% above last year's inventory of 1,773 homes. There are 3,171 spec homes under construction, which is 29% over the 2003 number of 2,454. Overall, the 5,344 specs (both completed and under construction) represent a 26% increase over the 4,227 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 increased in February to a seasonally adjusted annual rate of 1,163,000, 5.8% above the January 2004 sales rate of 1,099,000, according to a release by the **U.S. Department of Commerce**. The median sales price was \$205,500. Single-family housing starts were at an annual rate of 1,855,000 in February, 13.1% above the February 2003 figure. Single-family housing completions were at an annual rate of 1,448,000 in February, 0.3% above the January 2004 figure.

The **National Association of Home Builders' (NAHB)** monthly **Housing Market Index**, a measure of builder confidence, remained unchanged from 64 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 2 points to 69, and the index measuring sales expectations for the coming 6 months fell 3 points to 70.

The **Office of Federal Housing Enterprise Oversight's** House Price index shows average U.S. home prices increased 7.97% from the 4th quarter 2002 to the 4th quarter 2003. In the 4th quarter 2003, home prices appreciated 3.67%. However, due to the increasing inventory in Texas, home prices appreciated only 2.63% for all of 2003, the second smallest appreciation in the country.

The following chart illustrates historical MLS home sale activity.



Source: Houston Association of Realtors

Asbury Place Development, Ltd. (713-864-9444) plans to construct **Orion**, two towers of luxury condominiums totaling 158 units on 9 acres at the intersection of Asbury Place and Memorial Dr. east of Memorial Park (492L). The two 37-story towers will contain units averaging 3,700 square feet with a median price of \$1.1 million. Units will feature marble floors, onyx countertops, an outdoor sitting room with a barbeque grill and refrigerator, and a computerized monitoring system of household operations such as lights and fireplaces. **Clarion Realty Group** will handle the marketing, and construction is expected to begin once 50% of the units in the first tower are sold.

Mark Harvie (713-681-3792) plans to construct **Boulevard Lofts**, a 39-unit condominium development on 1.5 acres at 141 Heights Blvd. in the Heights (493E). The project will have three floors of one- and two-bedroom condominiums atop two levels of parking. Units will range from 1,200 square feet to 1,970 square feet with pre-construction prices starting at \$190,000. Units will feature balconies, granite countertops, stainless steel appliances, and computer network wiring.

Market Center Management (409-771-5276) is transforming 215 25th St. into the **Mechanic Street Lofts**, a luxury loft project with ground level retail in Galveston (774M). The project will have 10 units that average 2,400 square feet, with stained concrete floors, granite countertops, and garage parking. Pre-construction prices were approximately \$250,000, and units will be ready for residents in May.

The Texas City-La Marque area is experiencing a housing boom with an estimated 3,500 homes under construction or in the planning stages of development, with eight subdivisions in Texas City and three subdivisions in La Marque, the largest of which are **Pelican Harbor** and **Rain Song**. Pelican Harbor, located off of Loop 197 North (702Z), has 500 lots under development for 1,946 square-foot to 2,754 square-foot homes ranging from \$160,000 to \$300,000 by **Lennar Homes** (281-875-1000). Rain Song, located off Mall of the Mainland Parkway, has 660 lots under development for homes ranging from \$90,000 to \$150,000 by **Parkside Builders** and **Ryland Homes** (713-856-2822).

The Rouse Co. (410-992-6000) is planning **Bridgelands**, a master-planned community with a lake system that features bridges connecting neighborhoods located along House Hahl Rd, south of US Highway 290 in northwest Houston (365M). The 9,000-acre community is projected to have 19,000 homes and townhomes on 6,000 acres, with 900 acres for multifamily and commercial development. Another 3,000 acres will be set aside roads, open land, and the lake system. Land sales will begin in 2005.

HHEJR, Inc. (281-440-7900) is planning to develop **Northcrest Village**, a 720-home development on 206 acres at the intersection of Kuykendahl and FM 2920 in Spring (290R). **D.R. Horton** and **Kimball Homes** have contracted to buy all of the lots and will begin construction on homes priced \$150,000 to \$225,000 in Spring 2005.

KB Home Lone Star LP (281-668-3800) plans to develop **Autumn Glen**, a 260-home development on a 30.7-acre recently purchased tract of land located at S. Sam Houston Parkway E. and Cullen Blvd. in south Houston (573Z). Home prices will range from \$90,000 to \$130,000 on 45-foot lots. In the land sale, **Bill Heavin** and **Matthew Herring** of **Grubb & Ellis** represented the seller, **Godima, Ltd.**

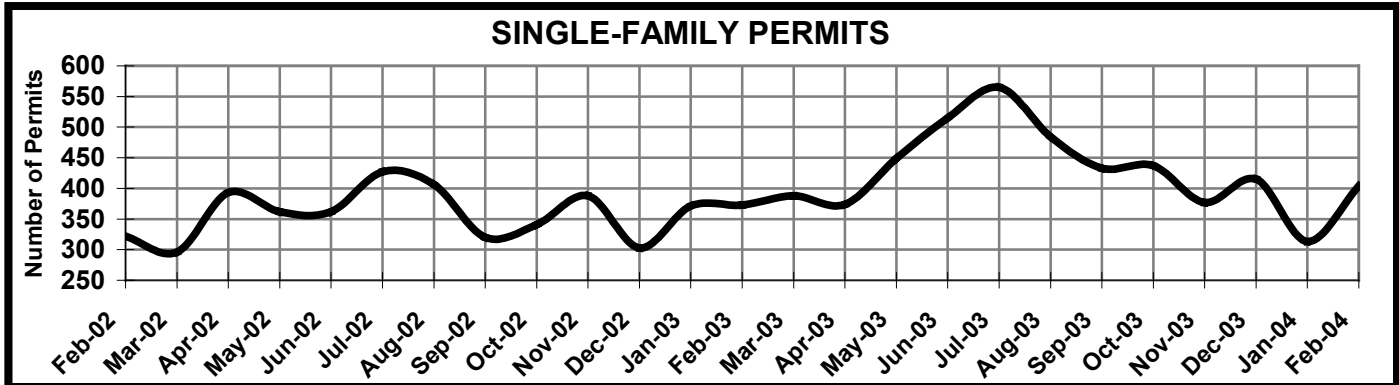
PERMIT ISSUANCE

The **City of Houston** issued permits to build 404 private single-family houses and 12 private multifamily projects with 270 units. Demolition permits were issued for 135 private single-family houses and 5 private multifamily projects. In addition, 211 permits were issued for privately owned non-residential construction totaling \$72,420,564 and 2 permits were issued for public non-residential construction totaling \$423,000. Additions, alterations and conversions totaled \$101,389,607 for the private sector and \$544,465 for the public sector.

Cost of Construction*

	2002	2003	2004
Month of February	\$161,179,157	\$371,273,032	\$312,550,714
Year-to-Date	\$554,057,750	\$667,441,602	\$530,712,245

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



Source: City of Houston

OFFICE BUILDINGS

With job growth finally on the rise and construction activity on the decline, better times are on the horizon for the Houston office market. The job market turned the corner in the second half of 2003, bringing overall job growth into the black for the year. While this will not immediately translate into increased demand for office space, it appears that the worst is over. It remains a tenant's market, but it should be less so by the end of the year.

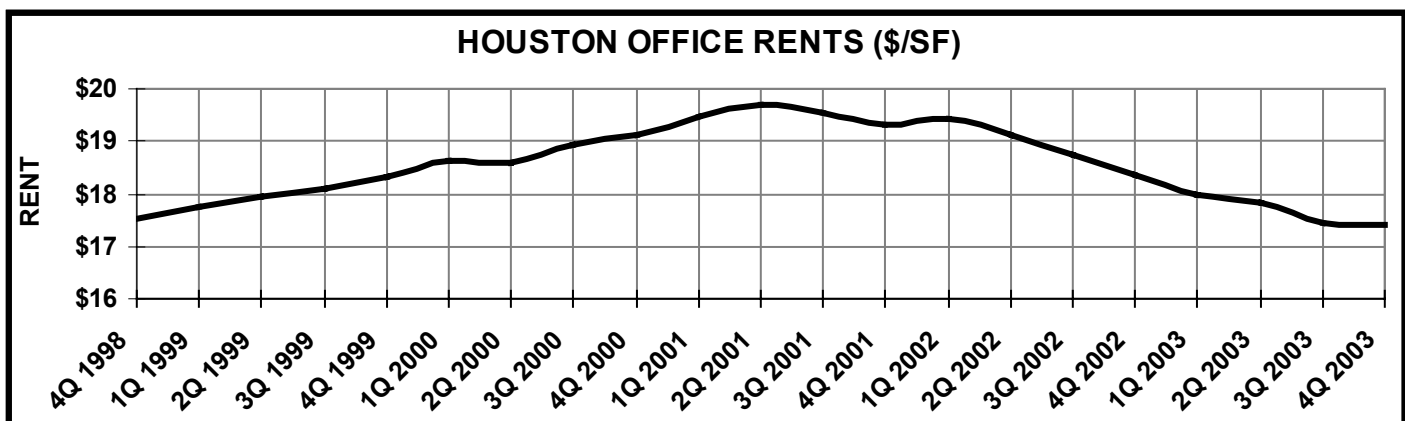
According to the O'Connor & Associates **4th Quarter 2003 Houston Office Data Program**, overall **occupancy** for Houston area multi-tenant office buildings is **81.71%** (Class A = 84.15%; Class B = 80.30%; Class C = 78.95%; Class D = 77.78%). Occupancy is down 3.00 points from the third quarter last 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 updated and published on a quarterly basis (contact us for more information).*

- **Crescent Real Estate Equities** may exercise their right to first offer or refusal to buy **Chevron Tower (CBD 055)** at 1301 McKinney in the Central Business District (493Q), a purchase that would fully integrate all five buildings in the Houston Center complex under the same ownership. Chevron Tower was originally built as 3 Houston Center. The news comes in the wake of **ChevronTexaco's** announcement to purchase 1500 Louisiana, and dispose of four of their seven Houston office buildings.
- The **Texas Department of Transportation** or TxDOT (713-802-5000) is planning a new \$32 million complex on 10 acres on Washington Ave. just north of intersection of Interstate 10 and Washington Ave. (492B). The first phase will be a 112,000 square-foot office building as well as a 12,000 square-foot concrete and soil testing laboratory and parking garage. The second phase will include the demolition, construction, and some renovation to the current complex at 7721 Washington Ave., across the street for the new site. The agency is currently in the process of selecting a developer to build the facility to lease to TxDOT with the option to buy within 30 years. The developer will be chosen by July 22, and **Carter & Burgess** has been retained as project manager.

- **Sadler Clinic** (936-760-8528) is planning to build a 41,000 square-foot medical facility at **17191 St. Luke's Way (TWC 066)** in The Woodlands (217R). The facility will have 27 specialty physicians and laboratory services. Construction on the two-story building is slated to begin in April and is to be completed in October 2004.
- **Panattoni Development Co.** (713-630-0311) plans to construct a third building in the **Beltway 8 Corporate Centre (NNW 001)** on a 10-acre site in the west Houston business park (449H). Construction could begin as early as fall on the new building, which will be much like the two existing 102,500 net-square foot buildings. **Morris Architects** will design the building and **Panattoni Construction Inc.** will handle construction.
- **Moody Rambin Interests** (713-773-5590) will handle leasing for the **Park Tower North (GAL 108)** and **Park Tower South (GAL 109)**, a pair of Class A office buildings at 1233 West Loop and 1333 West Loop, respectively, in the Galleria area (491R). Park Tower North is a 243,320 net-square-foot, 21-year-old building with 98% occupancy and average rents at \$21.00 per square foot. Park Tower South is a 243,164 net-square-foot, 23-year-old building with 59% occupancy and average rents at \$21.00 per square foot. The buildings underwent extensive renovations in 2000.
- **Williford Property Group** (713-621-1237) and **Cushman & Wakefield** (713-963-2841) will handle management and leasing, for **One Bering Park (GAL 019)** and **Two Bering Park (GAL 020)**, located at 750 and 800 Bering Dr. in the Galleria area (491R). One Bering Park is a 114,196 net-square-foot, 23-year-old Class B office building with 98% occupancy and average rents at \$15.50 per square foot. Two Bering Park is a 92,496 net-square-foot, 25-year-old Class B office building with 87% occupancy and average rents at \$15.50 per square foot. The pair was recently purchased by **750 Bering Group, LLC** (713-659-1221).
- **L.J. Melody & Co.** (713-787-1900) arranged \$33.4 million in permanent fixed-rate financing for **One (KFW 057)** and **Two Eldridge Place (KFW 059)**. The pair of Class A office buildings are located at 777 and 757 Eldridge Parkway in west Houston (488G) are owned by **KBS Realty Advisors**. **Northwestern Mutual** provided funds.

The following chart illustrates historical office rental rates.



ChevronTexaco Corp. (925-842-1000) has closed on the purchase of **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 secured a tax break from the City of Houston but was denied any tax abatement from Harris County. By next year, the building will be fully occupied by ChevronTexaco. **Tim Relyea** of **Cushman & Wakefield** represented the buyer.

Lexington Corporate Properties Trust (212-692-7200) acquired two fully leased Houston-area office buildings as part of a four-property portfolio purchase from **Dana Commercial Credit Corp.** **10001 Richmond Ave. (WES 039)** is a 28-year-old, 554,385 net-square-foot building in the Westchase area (489Z). **12645 W. Airport (SFC 043)** is a 6-year-old, 176,000 net-square-foot building in Sugar Land (568D).

Miami-based **Easton Group** (305-593-2222) purchased **1800 West Loop (GAL 115)**, a 399,777 net-square-foot building in the Galleria area (491R), from **Crescent Real Estate Equities** for \$28.2 million (\$75 per square foot). The 22-year-old Class A building is 72% occupied with average rents at \$18.50 per square foot. A trio of leases totaling 12,585 square feet were signed just before the sale. **Darrell Betts of Grubb & Ellis** represented the buyer, while **Jeff Hollinden of HFF** represented the seller.

Triple Net Properties (714-667-8252) purchased **Cyberonics Plaza (CLC 115)**, a 144,325 net-square-foot building located at 100 Cyberonics in the Clear Lake area (618L), from **BGK Investments**. The 18-year-old Class A building is 100% occupied. **Rusty Tamlyn and Ralph Tullier of Trammell Crow Co.** represented the seller.

Hartman Management (713-468-2222) purchased **16010 Barker's Point Ln. (KFW 003)**, a 120,651 net-square-foot building located in west Houston (488A), from **Transwestern Commercial Services**. The 20-year-old Class B building is 93% occupied with average rents at \$18.75 per square foot. **John Crossin and Julian Kwok of Hartman Management** represented the buyer, while **Rudy Hubbard and Randy Peterson of Transwestern Commercial Services** represented the seller.

1135 Edgebrook LLC purchased **1135 Edgebrook (SOE 127)**, a 11,628 net-square-foot building located in southeast Houston (576E), from **C O Properties No. 3**. The Class C building is 100% occupied. **Marshall Clinkscales of MSC Properties, Inc.** represented the seller.

TXU Energy sub-leased 55,000 square feet in **Lake Point Plaza (SFC 007)**, a 1,185,000 net-square-foot building at 1 Fluor Daniel Dr. in Sugar Land (568T), from **Maxxam Properties, Inc.** (713-795-7600). The 20-year-old building is 100% occupied, with sublease space available at \$18.75 per square foot. **Giannai LaBarba, Bill Mohr, and John Shaunfield of Mohr Partners** represented the tenant.

RETAIL CENTERS

Although the retail market performed well in 2003, construction is expected to slow in the coming year, according to an annual survey by Wulfe & Co. We can expect to see 3.06 million square feet of new retail space open this year, but will continue to see a number of empty big boxes left behind by the successes of Wal-Mart and Target's new super-store formats and by the failures of Garden Ridge Pottery, Albertson's, and K-Mart as they fled the local retail market. How will these big boxes be filled? Some will be broken down into multi-tenant formats; unconventional retail tenants such as colleges and churches will fill others; and yet others will be retrofitted for another big-box tenant. Regardless, retail fundamentals will likely remain strong and support another healthy year for the market.

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.

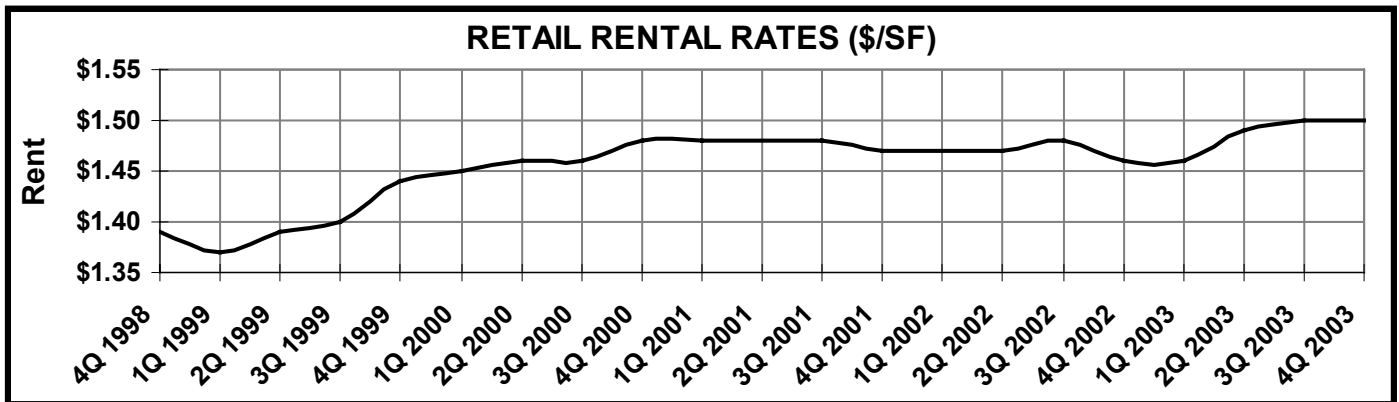
*Note: The retail centers listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates' **Houston Retail Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is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

- **CVS Corp.** (401-765-1500) agreed to purchase 1,260 **Eckerd** stores in Texas and Florida, including more than 100 Eckerd's stores in the Houston area, as well as Eckerd's mail-order business and Pharmacy Benefit Management, for approximately \$2.15 billion. The purchase makes CVS the largest U.S. pharmacy chain, surpassing **Walgreens** with more than 5,000 stores. CVS plans to spend approximately \$350,000 per store, totaling \$440 million, for re-branding and making technological and aesthetic upgrades.

- **Gateway Computer** announced plans to close 188 company-operated computer retail stores, including three Houston-area locations. Locations at **7885 FM 1960 W (FNW 0211)**, **12850 Memorial Dr. (FWE 055)**, and **19050 Gulf Frwy. (FSE 028)** are set to close April 9.
- **Footstar, Inc.** filed for Chapter 11 bankruptcy protection and plans to close all of its 88 **Just for Feet** locations, including four Houston-area stores. Houston-area locations include **12200 Gulf Frwy. (NSW 116)**, **8373 Westheimer (NWE 194)**, **17780 Tomball Parkway (FNW 219)**, and **6900 Southwest Frwy. (NSW 189)**.
- **Dillard's Inc.** (281-486-0700) has unveiled their largest Texas store in the re-opening of the remodeled department store in **Baybrook Mall (FSE 029)**. The new store is 320,000 square feet, with the women's, men's, children's, and home furnishing departments consolidated into one store. Previously, the departments were split between two stores in the mall when Dillard's bought the old Macy's location. The new location will carry new and expanded merchandise lines in efforts to modernize the department store.
- **Life Time Fitness** (952-947-0000) plans to open two Houston area 150,000 square-foot fitness centers before the end of the year. The first center located at **7717 Willowchase Blvd. (FNW 339)** in northwest Houston (370E) is slated to open by August. The second center located at **1331 Highway 6 (FSW 262)** in Sugar Land (568S) is planned for late fall. Over the next 2 years, the company expects to open a total of 8 locations in the Houston area.
- **Fry's Electronics** is constructing a 145,500 square-foot store (**FSE 334**) at the intersection of Interstate 45 and Kobyashi in Webster (658F). The store is slated for completion in Fall 2004.
- **84 Lumber Co.** (724-223-8400) has begun construction a 50,000 square-foot store on 9.9 recently purchased acres located along Greenland Dr. in the Greenbriar Business Park in Stafford purchased from the **Pierce Hardy Partnership Ltd.** The company is planning a 3,200 square foot retail and 18,390 square foot warehouse development on another 16.2 recently purchased acres along US Highway 225 in Deer Park purchased from **Grisham Tolar Properties**. Another 10 acres is contracted to purchase from the same seller at the intersection of US Highway 290 and Telge Rd. **Braxton Brockenbough** of **Weitzman Group** represented the buyer, while **B. Kelley Parker** of **Cushman & Wakefield** represented Grisham Tolar Properties in the land sale.
- **Cencor Realty Services** (713-781-7111) has broken ground on **Eagle Ranch Shopping Center (FNW 341)**, a 93,000 net-square-foot retail center at the intersection of Fry Rd. and W. Little York Rd. in northwest Houston (406Y). A **Kroger Signature** will anchor the development. Construction is slated for completion in September.
- **AmREIT** (713-850-1400) has begun construction on the first phase of **The Gardens at Westgreen (FWE 280)**, a 61,000 net-square foot retail center on 13 acres at the corner of Katy Frwy. and Westgreen Blvd. in west Houston (486A). Construction is slated for completion is October 2004.
- **NewQuest Properties** (281-477-4300) and **Wile Interests** (281-355-9100) are co-developing **Windmere Village (FNW 340)**, a 25,000 net-square-foot retail center located at the intersection of N. Eldridge Parkway and FM 1960 W. in northwest Houston (368Z). The center is intended to be the third phase of Eldridge Town Center, a retail center totaling 225,791 net-square-feet with anchor tenants **Kroger Signature**, **Kohl's**, and **Petco**. **Pei Wei Asian Diner** has contracted to lease 4,000 square feet in the new center.
- **Concorde Realty** (713-789-3600) has begun construction on the second phase of **Fairfield Country Shops (FWE 285)**, a 11,000 net-square-foot retail center located at 15202 Mason Rd. in Cypress (326T). The unanchored multi-tenant center is slated for completion in June 2004
- **Mr. Jim's Pizza** (972-267-5467) signed a multi-development agreement with **BMK, LP** to open at least 30 new restaurants in Houston over the next 10 years. Mr. Jim's Pizza has more than 70 locations in the Dallas/Fort Worth area. BMK will choose the pace of the development, but no locations have been specified.

- **Q10/Kinghorn, Driver, Hough & Co.** (713-871-5859) has arranged financing for **The Gardens Shopping Center (FNO 232)**, a 58,000 net-square-foot retail center at 15125-15175 North Frwy. in north Houston (372C). The recently constructed center is 52% occupied and 90% leased with average rents at \$2.50 per square foot. Tenants include **Slick Willie's, Boudreaux's Cajun Kitchen, Marble Slab, Texadelphia, Tokyohana,** and **Wing-N-More.** **Ray Marshall of Q10/Kinghorn, Driver, Hough & Co.** arranged financing for the owner, **Gardens I-45 Ltd.** **Thrivent Financial for Lutherans** provided funds.
- **HFF** (713-852-3500) has arranged financing for 2 retail centers. **5110 Buffalo Speedway (INL 306)**, is a 10,060 net-square foot retail center just south of Greenway Plaza (492X). The recently constructed center is 100% occupied. Tenants include **Kinko's, Berryhill Tamales, Pei Wei Asian Diner, Nigro Dermatology,** and **Lovett Homes.** **Wallace Reid of HFF** arranged financing for the owner, **Sage Interests, Inc.** **Highland Knoll (FWE 283)** is a 16,800 net-square-foot retail center located at 2020 Fry Rd. in west Houston (446X). The multi-tenant center is fully occupied with average rents at \$1.33 per square foot. Tenants include **Dapper Dan Cleaners, Great Clips, Village Pizza,** and **State Farm Insurance.** **Tucker Knight of HFF** arranged the financing for the owner, **New Regional Planning.** **LaSalle National Bank** provided funds.

The following chart illustrates historical retail rental rates.



Weingarten Realty Investors (713-866-6000) purchased **First Colony Commons (FSW 135)**, a 410,047 net-square foot retail center at 15201-15555 Southwest Frwy. in Sugar Land (568U), from **TKF Retail, Ltd.** The 12-year-old center is 94% occupied with average rents at \$1.75 per square foot. Tenants include **Babies 'R Us, Home Depot, Michael's, Office Depot,** and **Conn's Appliances.** **Rusty Tamlyn and Ralph Tullier of Trammell Crow Co.** represented the seller.

AmREIT (713-850-1400) purchased **West Road Plaza (NRN 026)**, a 347,609 net-square-foot retail center at 10241 North Frwy. in north Houston (412C), from **AIG, Inc.** and **Bart McClendon.** The 11-year-old center is 29% occupied with average rents at \$0.83 per square foot. Tenants include **Fry's Electronics, Payless Shoesource, Whataburger,** and **Taco Bell** as well as vacant boxes left by **K-Mart** and a **Compaq** outlet store. **Martin Bronstein and Ronnie Hecht of Situs Cos.** represented AIG, Inc.

BH Properties (310-820-8838) purchased **San Jacinto Plaza (NEA 111)**, a 124,704 net-square foot retail center at 5607 Uvalde in northeast Houston (457T), from **Choice Group.** The 25-year-old center is 12% occupied with average rents at \$1.00 per square foot. **BH Properties** plans to spend at least \$1 million to ready the center for repositioning. Current tenants include **Payless Shoes, Family Dollar,** a local government office, a hair salon, and a nail salon.

Philips Edison & Co. (410-528-0670) purchased **Quail Valley Shopping Center (FSW 122)**, an 117,782 net-square-foot retail center at 1661 Cartwright in Missouri City (610B), from **Martin Fein Interests.** The 21-year-old center is 90% occupied with average rents at \$1.05 per square foot. Tenants include **Food Aroma, Radio Shack, Goodyear Tire, Houston Community College, Walgreen's,** and **MacDonald's.** **George Cushing and Paula Foster of Grubb & Ellis** represented the seller.

Shih Chung Wang Irrevocable Trust, Et. al (323-252-1732) purchased **Edgebrook Plaza (NSE 057)**, a 100,710 net-square-foot retail center at 10500-10545 Gulf Frwy. in south Houston (576E), from **New Plan Excel Realty Trust**. The 30-year-old center is 96% occupied with average rents at \$1.13 per square foot. Current tenants include **Payless Shoesource**, **Walgreen's**, and **Office Depot**. **George Cushing** and **Paula Foster** of **Grubb & Ellis** represented the seller.

Commrealty (281-893-1188) purchased **Gulfbrook Plaza I & II (NSE 062)**, a 75,000 net-square-foot shopping center at 10701 Gulf Frwy. in southeast Houston (576J), from **Jack Turk Properties**. The 22-year-old center is 100% occupied with average rents at \$0.60 per square foot. Tenants include **Figure World** and **Affordable Furniture**. **Jerry D. Goldstein** of **Marcus & Millichap** represented the seller.

Academy Crossroads Houston (713-222-9000) purchased an **Academy Sport & Outdoors Store (FNW 278)**, a 75,000 net-square-foot single tenant retail store at 19720 Northwest Frwy. in northwest Houston (408C), from **Robalo Partners**. The store was built in 2001. **Steve Dome** and **Tim Ferguson** of **NAI Partners Commercial** represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

Allday Leasing Co. (713-975-0292) purchased **Hedwig Square (NRW 131)**, a 51,682 net-square-foot retail center located at 8800 Katy Frwy. in west Houston (490D), from **Tuner Andreac Development**. The 36-year-old center is 98% occupied with average rents at \$1.33 per square foot. Tenants include **Memorial Clinic Association**, **Onecare**, and **Sunbelt National Bank**. **Bobby Orr** and **Bobby Raunch** of **Orr Commercial Realty** represented the buyer, while **David Butler** of **Colliers International** represented the seller.

San Francisco based-**Lehmann Venture I** purchased **Portofino Plaza (FNO 228)**, a 37,500 net-square-foot retail center located north of the 346,441 net-square foot **Portofino Center (FNO 181)** at 19073 Interstate 45 in Shenandoah (332B), from **Portofino Plaza LP** for \$8.1 million. The 2-year-old center is 85% occupied with average rents at \$1.83 per square foot. **Chris Peters**, **David Wolfe**, and **Chris Kostanecki** of **Marcus & Millichap**, while **Bradley Bailey** of **Marcus & Millichap** represented the seller.

Inwood Corp. purchased **Bear Creek Professional Center (FWE 113)**, a 23,190 net-square-foot building located at 4520 State Highway 6 in west Houston (448E). The 22-year-old retail center is 85% occupied, mostly by medical tenants with average rents at \$0.87 per square foot. **Jerry D. Goldstein** of **Marcus & Millichap** represented the seller.

11522 Katy (713-942-0734) purchased **11522 Kay Frwy. (FWE 286)**, a 23,000 net-square-foot single tenant retail building in west Houston (489A), from **Everitt Family**. **William Taber** of **Taber Real Estate Co.** represented the seller.

P.C. Improvements (905-682-6401) purchased **Texas City Shopping Center (FSE 337)**, an 18,825 net-square-foot retail center at 3321-3327 Palmer Hwy in Texas City (737D), from **Jim R. Smith Co.** The 14-year-old center is 100% leased. Tenants include **Walgreen's**, **Papa John's Pizza**, and **Hollywood Video**. **Gus Lagos** of **Grubb & Ellis** represented the buyer, while **George Cushing** and **Paula Foster** of **Grubb & Ellis** represented the seller.

Barnes & Nobles leased 25,000 square feet at **Copperfield Village (FNW 151)**, a 151,352 net-square-foot retail center at 7055 Highway 6 in northwest Houston (408N), from **Weingarten Realty Investors** (713-866-6913). The 20-year-old center is 100% occupied with average rents at \$0.92 per square foot.

VACANT LAND

Dayton Rice Milling, Inc. (281-852-4180) purchased 68.9 acres at the northeast corner of FM 1960 and FM 686 (340B) from **Hoang Khai, Et al. Bill Heavin** and **Matthew Herring** of **Grubb & Ellis** and **Carrell T. Freman** represented the seller.

Warehouse Associates purchased 10 acres near the intersection of Fannin and Holmes Rd. (532Z), from **Management & Investment Services of Texas, Inc. Thad Hickman, Tyndall Yaap,** and **Jay Jenckes** of **Grubb & Ellis** represented the seller.

Louis Macey (713-960-0690) purchased 5 acres for the development of an office/warehouse facility at the intersection of West Airport and South Gessner (570F) from **Robert Mousa, Trustee. Ellis Antone** of **Ellis Antone & Co. Realtors** represented both parties.

Dimitru & Nitica Hurgoiu (281-448-5206) purchased 5 acres along Big John Rd. near Texas 249 (411H) from **Franklin Marker, III. Kyle Fox** of **Caldwell Watson** represented both parties.

Emuna Enterprises, LP purchased 4.2 acres at 22021 Interstate 45 in Spring (292P) from **Cemex. Mark Lehman** of **Grubb & Ellis** represented both parties.

Speed Stop Food Stores, Ltd. purchased 3.22 acres at the northeast corner of US Highway 59 and State Highway 36 in Rosenberg (604Y), from **Great Texas Foods Corporation. Marshall Clinkscales** of **MSC Properties, Inc.** represented the seller.

INDUSTRIAL FACILITIES

Speculative construction in high demand areas of Houston has brought large amounts of inventory on the market and depressed occupancy levels. Although some areas, particularly in northwest Houston and around the Beltway, are overbuilt, the long-term outlook far outpaces the short-term prognosis and the new space should be absorbed.

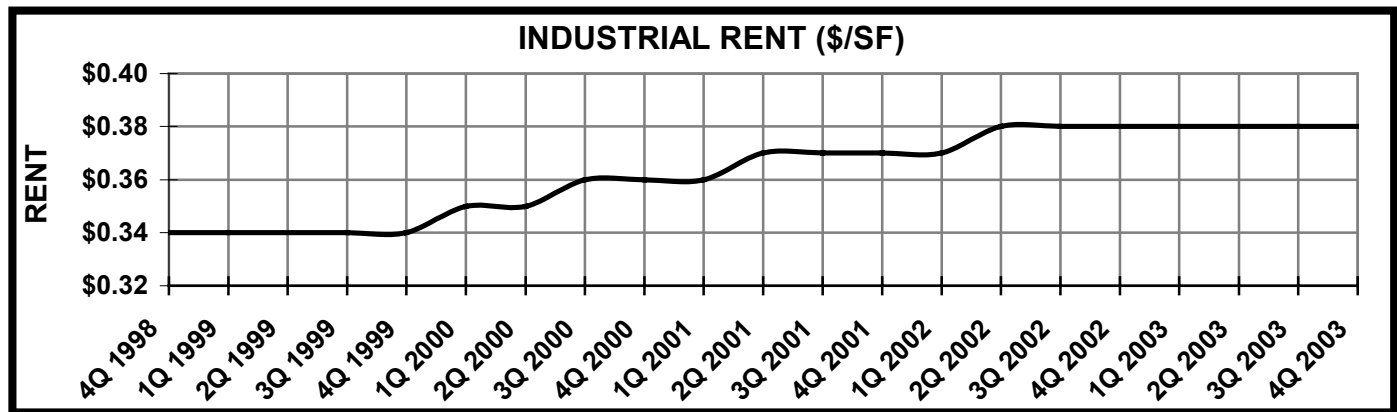
According to the O'Connor & Associates **4th Quarter 2003 Houston Industrial Data Program**, overall **occupancy** for Houston area operating industrial facilities is **87.85%** (Flex = 86.41%; Bulk = 87.33%; Manufacturing = 92.13%). Occupancy is down 0.18 points from the third quarter, and down 0.50 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).*

- Developers **Gordon Westergren, Scott Monroe, and Frank DeLape** have assembled 90 acres and have another 176 acres under contract near the Houston Ship Channel to develop the **Texas Import/Export Business Park**. Construction is slated for May on the 750,000 net-square-foot park, with the first of the three 250,000 square-foot buildings to deliver in November. **Frontier Logistics** (281-471-9655) will be an operating partner, developer, and the park's first tenant. Rental rates are estimated at \$0.34 per square foot, and buildings will feature 28-foot clearance. The developers recently purchased 13 acres at the 1500th block of Powell (580E), from **LaPorte 81, 82, and 115, Ltd. Doyle Toups** of **Grubb & Ellis** represented both parties in the land sale.

- **Trammell Crow Co.** (713-963-1034) plans to develop the **Stafford Park Business Center (4901M)**, a trio of build-to-suit office/warehouse facilities totaling 272,000 net-square-feet at the northwest corner of Airport Blvd. and Murphy Rd. in Stafford (596G). The project is slated to begin in mid to late 2004.

The following chart illustrates historical industrial rental rates.



Sealy & Co. (318-222-8700) purchased 5 fully occupied, industrial facilities from **TA Associates**. **Pine Forest Business Park (1823)**, located at 401 W. Crosstimbers in north Houston (452M), is a 170,558 net-square-foot warehouse with average rents at \$0.34 per square foot. **Silber #1 (1721)**, located at 1200 Silber Rd. in west Houston (451Y), is a 184,500 net-square-foot office/warehouse facility with average rents at \$0.30 per square foot. **West Beltway (1105)**, located at 1801 W. Sam Houston Parkway N. in west Houston (449U), is a 111,896 net-square-foot office/warehouse facility with average rents at \$0.33 per square foot. **Minimax 2 (1957A)**, located at 1501 Greengrass Dr. in west Houston (452W), is a 91,156 net-square-foot warehouse with average rents at \$0.30 per square foot. **Minimax 3 (1955)**, located at 1401 Greengrass Dr. in west Houston (452W), is a 128,033 net-square-foot warehouse with average rents at \$0.30 per square foot. **Brian Carlton** of **HFF** arranged acquisition and mezzanine financing for Sealy & Co.

A&L Valve & Fitting (713-643-4400) purchased **8550 Hansen Rd. (5091M)**, a 127,000 net-square-foot manufacturing facility in south Houston (575C), from **Watts Regulator**. Watts Regulator then leased back 60,000 square feet. The 31-year-old facility features 30-foot clearance and dock high loading. **Grady Farris** of **Houston Industrial Brokerage** represented the buyer, while **Clay Peoples** of **Boyd Commercial** represented the seller/tenant.

EastGroup Properties (601-354-3555) purchased **Kirby Business Center (4244)**, a 125,904 net-square-foot distribution facility at 9350 South Point Dr. (532Y), from **Kern Associates LP**. The 24-year-old facility is 100% occupied and features 24-foot clearance and dock-high loading.

Hussion Family Partnership, Ltd. (281-242-9620) purchased **11611 Tanner Rd. (1068D)**, an 82,546 net-square-foot warehouse facility in northwest Houston (449B), from **Tanner Road Properties, Ltd.** The 10-year-old facility is 88% occupied. **Doug Nicholson** of **Grubb & Ellis** represented the buyer, while **Jack Butera** of **Brown, Butera & MacDougall, Inc.** represented the seller.

Triangle Fastener (412-321-5000) purchased **5210 Brittmoore Rd. (1070)**, a 17,520 net-square-foot manufacturing facility in northwest Houston (449C), from **Del Real Family Ltd. Partnership**. The 19-year-old single tenant facility features 24-foot clearance with grade-level loading. **John Ferruzzo** of **NAI Partners Commercial** represented the buyer, while **Joe MacDougall** of **Brown, Butera, & MacDougall, Inc.** represented the seller.

Draka USA renewed and expanded a lease to total 54,400 square feet at **Central Greens Business Park I (0333A)**, a 118,912 net-square-foot office/warehouse facility at 1610 Greens Rd. in north Houston (373P), from **Trammell Crow Co.** (713-693-1000). The 3-year-old facility is 68% occupied with average rents at \$0.36 per square foot. **David Hudson** of **Trammell Crow Co.** represented the landlord, while **Mark Nicholas** of **The Staubach Co.** represented the tenant.

Applera renewed a lease for 50,028 square feet in the **Freeport Business Center (4902U)**, a 150,800 net-square-foot type facility at 13215 N Promenade Blvd. in Stafford (569Q), from **Bailard, Biehl & Kaiser Freeport, LP**. The 5-year-old facility is 54% occupied with average rents at \$0.43 per square foot. **Brain Gammill of Transwestern Commercial Services** represented the landlord, while **Mark Nicholas of The Staubach Co.** represented the tenant.

Interior Exterior Building Supply, LP leased a 17,000 net-square-foot building in the **Northwoods Industrial Park (0533A)**, located at 12249 FM 529 #W in northwest Houston (409N), from **Texas Development Co.** (713-937-0303). The 15-year-old facility is 100% occupied with average rents at \$0.32 per square foot. The facility features 35-foot clearance and truck-well loading. **Steve Marmion of Texas Development Co.** represented the landlord, while **Alexander G. Reilly of Boyd Commercial** represented the tenant.

Custom Blinds & Draperies leased 19,980 square feet at **3900 Polk Ave. (INL 426)**, a 52-year-old single-tenant warehouse southeast of the Central Business District (494S), from **Adkins Mortgage Company** (713-526-9600). **Barry Smith** represented the landlord, while **Bob Conwell of NewQuest Properties** represented the tenant.

ECONOMIC & FINANCIAL NEWS

The **number of wage and salary jobs** in the 6-county Houston area **increased by 11,500 jobs** to 2,092,400 in February 2004, according to the **Texas Workforce Commission**. The Government sector posted the greatest change, adding 5,700 jobs. This month's total is **1,600 jobs less** than the 2,094,400 jobs at this time last year. **Houston's unemployment rate**, at 6.2% is down from 6.5% over the past year, while the statewide unemployment rate dropped from 6.8% in February 2003 to 6.1% in February 2004.

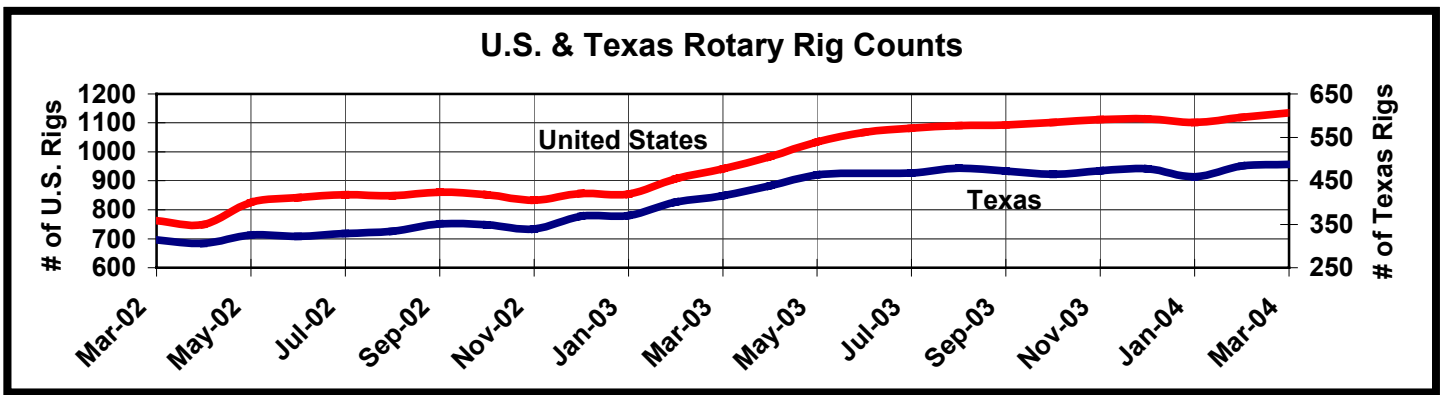
The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** declined to 88.3 in March 2004, down 0.2 points from 88.5 in February 2004. The **Index of Leading Economic Indicators** remained unchanged in February 2004 to 115.1, marking its highest level on record. The index 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.

Personal income increased \$34.1 billion, or 0.4%, and Disposable Personal Income (DPI) increased \$30.2 billion, or 0.4%, in February 2004, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$17.3 billion, or 0.2% in February 2004. Meanwhile, the **U.S. Department of Labor** reports that the Consumer Price Index (CPI) increased 0.5% in February. 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 1.29 points (including the origination fee), for the week ending March 26, 2004. Last year at this time, the 30-year FRM averaged 5.91%. The average for the 15-year FRM is 4.75%, with an average of 1.31 points (including the origination fee). A year ago, the 15-year FRM averaged 5.21%.

According to the **Federal Reserve**, industrial production rose 0.7% in February, and is 2.7% higher than the 2003 February level. Capacity utilization for the total industry was 76.6% in February, up 0.66% from January.

The **Baker Hughes** count of active domestic rotary rigs increased to 1,135 in March 2004, up 3.1% from January 2004 and up 1.4% from February 2004. 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.



Source: Baker Hughes

According to the Houston branch of the **Federal Reserve**, export business and a resurgence in the energy industry in 2004 will likely boost local job growth. The Fed also projects job growth of 2 to 2.5% this year and 2.5% growth in 2005. The depreciation of the dollar has boosted exports, and high crude oil and natural gas prices have spurred drilling, all of which are good signs for prospective job growth in Houston.

According to the **US Census Bureau**, Americans are moving at the lowest rates in over 50 years. From 2002 to 2003, 14% of the population reported moving, a much smaller percentage than the 20% who reported moving in 1948 when the Census Bureau began collecting information on movers. The Midwest and the Northeast reported a net loss of people while the South and the West each reported net gains.

According to the **National Association of Realtor's** chief economist, **David Lereah**, slow recovery in the job market deters pressure on interest rates to rise, keeping homes sales active. Interest rates are not expected to pick up until later this year when unemployment rates drop to around 5.4%.

U-Haul & Co. released in their 2003 national migration trend report, citing Houston as the third most popular destination for movers, behind Atlanta and Dallas. The report is compiled from over 1.68 million U-Hauls transactions in all of 2003 of movers traveling more than 50 miles. The data is not calculated in percentages and is therefore not reflective of overall growth.

The University of Texas M.D. Anderson Cancer Center, the **City of Houston**, and the **U.S. Department of Defense** are working on a plan to relocate a military **Joint Reserve Base at Ellington Field** near the Texas Medical Center. Under the plan, the city would donate land to Ellington Field and land near the Medical Center could be annexed from the Department of Defense for an expansion of the University of Texas Research Park. The move would protect Ellington Field from possible closure and benefit the city with increased jobs in the research park as a result of the developments. The plan calls for completion by 2009.

Harris County Flood Control District released 5 preliminary maps out of the 22 new flood plain maps, likely to be identical to the maps to official **FEMA** maps. The most notable change was evident in the Brays Bayou watershed, which is 48% larger than previous maps and cuts across heavily urbanized areas home to more than 600,000 people. Other maps released include those for Goose Creek/Spring Gully, Luce Bayou, Jackson Bayou, and the San Jacinto River. Harris County officials will enforce the new flood plain maps if a proposal to adopt the new flood plain boundaries as "the best available data" is adopted by the Commissioners Court. The approved proposal would entail stricter requirements for development within newly defined 100-year flood plains, and those no longer in a flood plain would be exempt from the new regulations. **FEMA** is expected to grant preliminary approval of the maps in May, but the maps would not take effect until the appeals process is complete, which could take as long as a year.

Citgo Petroleum delayed the announcement as to whether or not to relocate its corporate headquarters to Houston. Having the fourth largest gasoline dealer headquartered in Houston would bring in 1,000 jobs. The latest deadline was the end of March, but company officials express that the complexity of the decision makes it difficult to adhere to a specific date. Company executives still must present the proposal to relocate to the **Petroloes de Venezuela** board for approval.

The **Texas Energy Center**, located in Sugar Land, received a \$3.6 million grant from the **Texas Enterprise Fund** in order to bring additional jobs and employers to the state. In the terms of the grant, the Texas Energy Center is committed to creating 1,500 new jobs in Texas by 2009 and to maintain these jobs through 2019. Also, the Texas Energy Center must invest \$20 million in new construction in its headquarters in Sugar Land. The Texas Energy Center is modeled after the Texas Medical Center, in that it is a both public and private sector companies working together to promote Texas as a national and international leader in energy. The purpose of the grant is to defray initial rental costs of companies moving to the Energy Center.

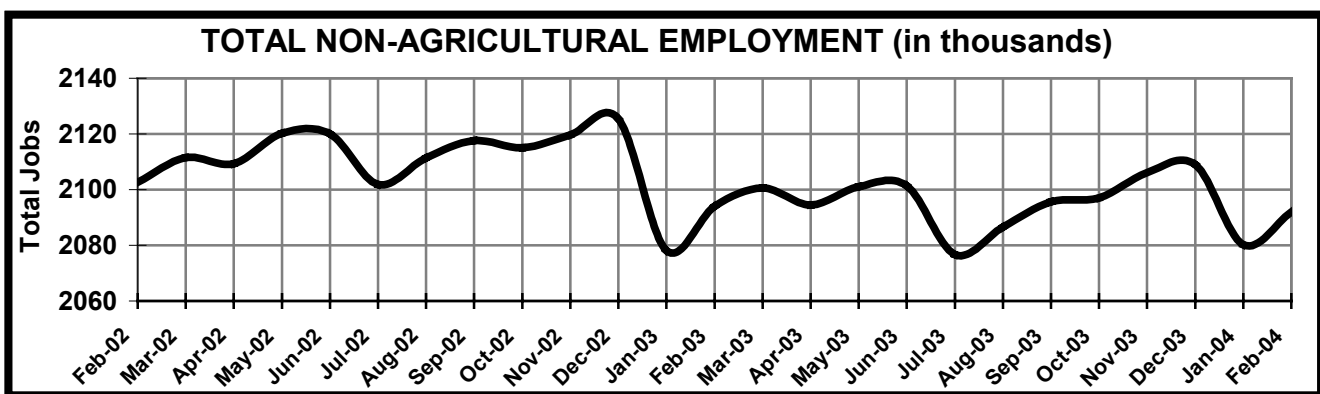
MetroNational Investment Corp., an investment subsidiary created by MetroNational, will focus on acquisitions in all submarkets of Houston and Austin, keeping the assets separate from existing holdings of MetroNational. Newly acquired real estate will be diverse, including existing office, retail, and multifamily projects, as well as vacant land for the development of office, build-to-suits, retail and mixed-use projects. The subsidiary has no limit for spending nor any specified number of properties to acquire.

Q10 Capital, LLC has announced its formation as a national mortgage-banking firm, owned and operated by twelve founding independent member companies, of which, Houston-based **Kinghorn, Driver, Hough & Co.** is a member. Q10 Capital will provide financing for both national and local property owners and developers, as each company is autonomous with access to capital and financing for multi-state properties.

Richard Nelson and **John Duffie** announced the formation of their new firm, **Nelson/Duffie Interests**, which will invest in and develop properties in Houston. The company will seek mostly smaller to mid-sized deals, though no cap on the size of the investments is set and the partners will use their own money in the investments.

Memorial Hermann Healthcare System has executed a contract on a tract of land at the intersection of Interstate 10 and Grand Parkway, which was selected as the site for a replacement hospital and physician office building for its Katy campus. Construction is expected to begin in late 2004 and is slated for completion in 2006.

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

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