



# HOUSTON REAL ESTATE TRENDS

EDITED BY RICHARD ZIGLER

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## APARTMENTS

With continued heavy construction, we have yet to see much relief in the market in terms of occupancy rates, as average overall occupancy slid 0.38 points to 86.87% over the first quarter in 2005. Aside from Class A, which posted a gain of 1 point over the last quarter and 1.18 points over the last year, each Class posted significant quarterly and yearly losses. Class B occupancy fell 0.92 points over the quarter and 2.65 points over the last year, Class C declined 0.75 points over the last quarter and 2.99 points over the last year, and Class D decreased 0.18 points this quarter and is down 3.29 points since this time last year. Because of the losses, overall occupancy is at its lowest level on record.

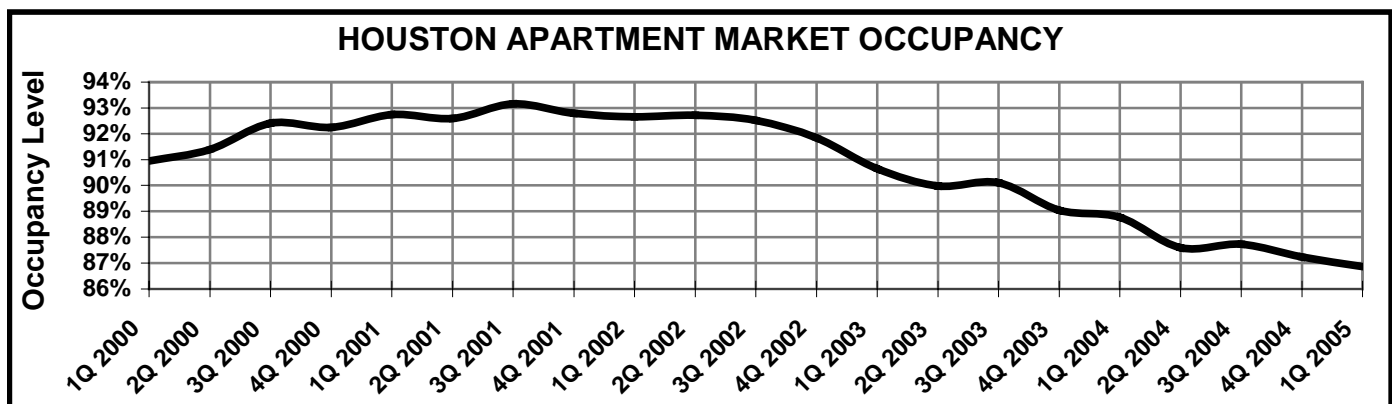
According to the O'Connor & Associates **First Quarter 2005 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **86.87%** (Class A = 86.63%; Class B = 87.57%; Class C = 86.65%; Class D = 83.20%). Occupancy is down 0.38 points from the fourth quarter and 1.91 points over the past year. The overall monthly **rental rate** is **\$0.797 per square foot** (Class A = \$1.052; Class B = \$0.777; Class C = \$0.651; Class D = \$0.548). Overall rents are up \$0.001 from the fourth quarter and \$0.009 over the past year.

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).

- **Catalina Development Co.** (720-529-5550) has broken ground on **The Lighthouse at Willowbrook Mall (0149M)**, a 336-unit complex located at 12330 N. Gessner Rd. (370N) across from **Willowbrook Mall**. The garden-style complex will feature 204 one-bedroom units, 120 two-bedroom units, and 12 three-bedroom units with sizes ranging from 708 square feet to 1,360 square feet. Monthly rent is expected to average \$1 per square foot. Completion of the property is expected by Spring 2006.
- **Orion Real Estate Services** (303-394-1566) is nearing completion of **Edgewater (4151M)**, a 228-unit apartment complex located in Lake Jackson (883G) at 514 That Way. The Class A complex overlooks Shy Pond and features a set-up for wireless Internet, boat garages, and a professional business center. Units at the property range in size from 742 to 1,319 square feet and rent from \$765 to \$1,225 per month. Completion of the property is expected by early August.

- **Commerce Equities** (281-922-6700) has announced plans to demolish the **Wilshire Village Apartments (1282)**, a 63-year-old 144-unit complex located at 1715 W. Alabama in the Montrose area (492V). **Matt Dilick**, a developer with the company, is working on plans for a 16-story high-rise apartment complex to be built in place of the Wilshire Apartments. Details about the project have yet to be finalized.
- The developers of the **Elder Street Artists Lofts (1410M)**, **Artspace** (612-465-0232) and **Avenue Community Development Corp.**, have received a \$50,000 grant from HGTV and the National Trust for Historic Preservation and will be featured on spots on HGTV to be aired between September and October 2006. The Artists Lofts is a project that is currently under construction, and involves the renovation of the old Jefferson Davis Hospital just west of the Central Business District (493G). The grant money will be used to make upgrades to the project not called for in the original plans. Pending a promised loan from the City of Houston, construction is expected to be completed before the end of the year.
- **The Baytown City Council** has approved the annexing of land for a proposed multi-family affordable housing complex, the **Bayview (0851M)**. The complex, being developed by **Galaxy Builders** (210-493-0550), will be located at the intersection of N. Main St. and Interstate 10 in Baytown (461X). The affordable housing project will feature 240 rent-restricted units. Construction of the property is expected to begin around the first of the year.
- **The Baytown Housing Authority** (281-420-8600) has closed on the purchase of the 169,479-square-foot San Jacinto Methodist Hospital located at 1105 Decker Drive in Baytown (501X). The Housing Authority plans to convert the vacant hospital into an affordable residential retirement community, tentatively named **Goose Creek Independent Retirement Community (1767)**. Provided the project receives financing and positive recommendations from a feasibility study, the retirement community is likely to be completed within two years.
- **Lutheran Social Services** (512-459-1000) has announced plans to build **The Village at Gleannloch Farms (0008N)**, a 130-unit retirement community restricted to those aged 62 and older, within the Gleannloch Farms subdivision in northwest Houston (289Y). The property will feature a fitness facility, arts studio, and walking trails. Unit sizes and rental rates have yet to be finalized.
- **HFF** (713-852-3500) arranged a five-year \$50.5 million refinancing package on behalf of **Equity Resources** (205-969-1131) for the **Villas at West Oaks (0876J)**, a 342-unit Class A complex built in 2003 at 15155 Richmond Ave. (487Z) and the **Lodge at Kingwood (7113M)**, a 312-unit Class A complex built in 1999 at 938 Kingwood Dr. (336A). Villas at West Oaks is 91% occupied with average rents of \$1.06-per-square-foot, while Lodge at Kingwood is 95% occupied with average rents of \$1.02-per-square-foot. **Cortney Cole** and **Scott Galloway** of **HFF** arranged the financing through **Bank America CMBS Capital Markets**.
- **Lawrence Mortgage, Inc.** (281-363-4920) arranged a five-year fixed rate loan at 5.63% interest with a 30-year amortization on behalf of **Realty Management, Inc.** (713-772-2801) for the **Rutledge Apartments (2201)**, a 68-unit Class B apartment complex at 4141 N. Braeswood in southwest Houston (532J). The 42-year-old complex is 88% occupied with average rents at \$0.62 per square foot. **Brandon Brown** out of Lawrence Mortgage's Woodlands' office helped arrange the financing.

The following chart illustrates historical apartment occupancy.



**Internacional Realty, Inc.** (713-975-8005) has obtained a \$23.3 million loan from **RAIT Investment Trust** in order to purchase the **Bellmeade Apartments (0140M)**, a 2-year-old 336-unit complex located at 10802 Legacy Park Dr. in northwest Houston (369Z) from **Worthing Companies**. The Class A complex is 79% occupied and has average rents of \$1.03 per square foot.

**Chancellor Properties, LLC** (713-953-0909) purchased the **Broadwater Apartment Homes (2916)**, a one-year-old 248-unit Class A complex from **Embry Partners, Ltd.** The complex is located at 5045 Crenshaw Rd. in Pasadena (577L) and is 98% occupied. Units at the property range in size from 779 to 1,323 square feet, and have average rents of \$0.97 per square foot. **Craig LaFollette, Todd Marix and Todd Stewart** of **CB Richard Ellis** brokered the transaction.

**DNT Global Star, LLC** purchased the **West Crosstimbers Apartments (0624)**, a 98-unit Class C complex at 500 W. Crosstimbers St. (452M), from **British American Properties**. The 33-year-old complex is 85% occupied with average rents at \$0.72 per square foot. The complex features flat roofs and is separately metered for electricity. Lubbock-based **Stellar Development & Management** (806-798-0888) will take over leasing and managing duties at the property.

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## SINGLE-FAMILY HOUSING

**MLS** home sales increased in April, as 5,495 used homes were sold, up from the 5,264 homes sold in March, according to the **Houston Association of Realtors (HAR)**. Sales for April 2005 were up 5% from April 2004. The median price of a used single-family home sold in April was \$136,980, up 1% from April of last year, while the average home price was \$188,087, up 7% from the April 2004 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** net sales of new homes decreased 1% in April to 3,136 from 3,163 in March, but are up 15% from April 2004. Realtor co-op sales represent 69% of net sales, up from 66% in April 2004. Traffic is up 1% from last year to 34,982 in April 2005. The inventory of completed speculative homes (2,063) is 7% above last year's inventory. There are 3,441 spec homes under construction, which is up 2% from 2004. Overall, the 5,504 specs (both completed and under construction) represent a 4% increase over 2004. *Note: the 27 homebuilders in this survey account for approximately 61% of housing starts in Houston.*

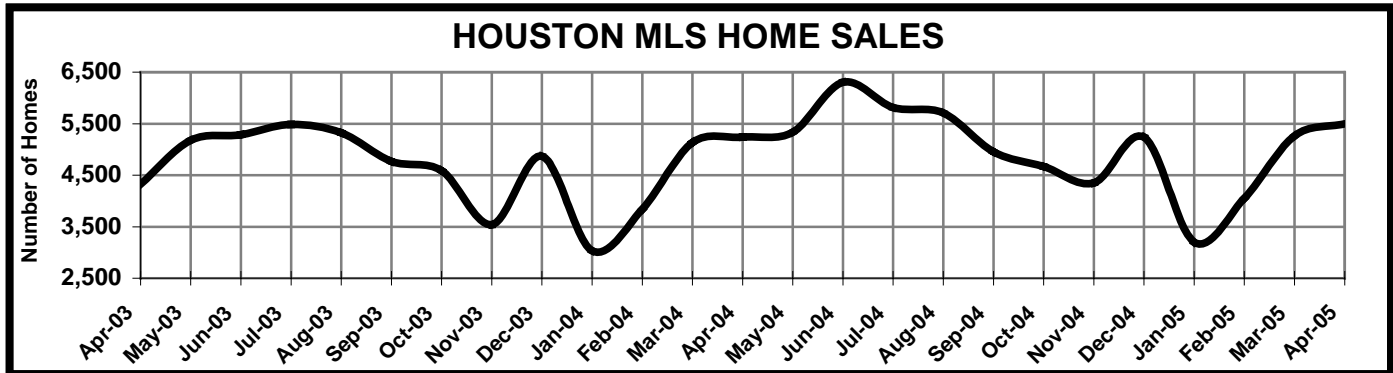
Nationwide sales of new single-family homes increased in April to a seasonally adjusted annual rate of 1,316,000, 0.2% above the revised March sales rate of 1,313,000, and 13.3% above the revised April 2004 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$230,800. Privately owned housing starts were at an annual rate of 2,038,000 in April 2005, 3.6% above the April 2004 figure. Privately owned housing completions were at an annual rate of 1,890,000 in April 2005, 3.4% below the April 2004 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, increased 3 points in May to 70 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes increased 3 points to 76, the index measuring sales expectations for the coming six months each increased 1 point to 77, while the index measuring the traffic of prospective buyers decreased 3 points to 53.

The **U.S. Department of Commerce** reports that first quarter homeowner vacancy rates were unchanged, at 1.8%, from the fourth quarter, but were up from 1.7% in the first quarter of 2004. The homeownership rate decreased by 0.1% over the last quarter, to 69.1%, but has increased from the first quarter 2004 rate of 68.6%.

The **U.S. Census Bureau** reported that the number of million-dollar homes in Texas nearly doubled from 2000 to 2003. In 2000 Texas had just 9,561 homes valued at more than \$1 million, and by 2003 there were 17,932 homes. Texas ranks eighth in the United States for the number of homes valued at over \$1 million. In first place was California with 281,455 homes valued above \$1 million.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

**Threshold Interests** (713-523-1122) has announced two proposed residential projects in Sugar Land, **Lake Pointe Vista** and the **Austin Tower Lofts**. Lake Pointe Vista is luxury mid-rise containing 36 units. The property is located at the intersection of Highway 6 and U.S. Highway 59 (568X). Lake Pointe will feature one-, two-, and three-bedroom units ranging in size from 1,200 to 2,400 square feet. Prices will start at \$305,000 and extend up to \$730,000. Construction is expected to begin by early 2006. Austin Tower Lofts is 12-story luxury high-rise containing 58 individual residences. It is located in Sugar Land Towne Square (568X), and will be Sugar Land's first luxury high-rise tower. In addition to four penthouses, the property will feature one- and two-bedroom units ranging in size from 1,000 to 1,550 square feet. Prices, excluding the penthouses, will range from \$239,000 to \$500,000. Construction is slated to begin by Fall 2005. A sales center is being set up at 15902 City Walk, which will allow potential customers to view finishes at the properties, as well as customize designs.

**Rain Properties** (713-629-8100), a partnership between **Mort Mehdi** and **David Suchowiecky**, will develop a 27-unit condominium building at 7134 Mapleridge in the Bellaire area (531F). The 4-story project will feature all two-bedroom two-bathroom units. Prices will start at \$250,000. Construction is expected to begin this November.

**Fretz Construction** (713-641-6777) has completed the renovation of Byrd's department store at the corner of Prairie and Main St. in the Central Business District (493L) into a five-unit condominium building. The building itself features a rooftop deck with Japanese-style landscaping, an audio system, video projection wall, and small kitchen with grill. The units are finished with wood floors, custom cabinets, granite counters, recessed lighting, and high ceilings. The average unit size is 1,868 square feet, with prices ranging from \$425,000 to \$720,000. Three of the five units have already sold.

**Choice Condominiums** (770-952-1500) purchased **The Bristol (1175A)**, a 20-year-old high-rise apartment complex in the Galleria area (491Y), from **GAR Associates IV, LP**. Choice will convert all of the property's 96 units into for-sale condominiums. Unit sizes range from 1,415 to 3,210 square feet. Prices for the units will start at \$340,000.

**Centex Homes** (713-335-5508) will begin construction on a new Houston subdivision this September, **Cypress Chase**. The neighborhood is located in northwest Houston (367D) on Cypress N. Houston Rd. between Huffmeister and Telge. Homes will be priced from \$110,000, and will range in size from 1,556 to 3,580 square feet. There will be approximately 150 homes once build out is completed.

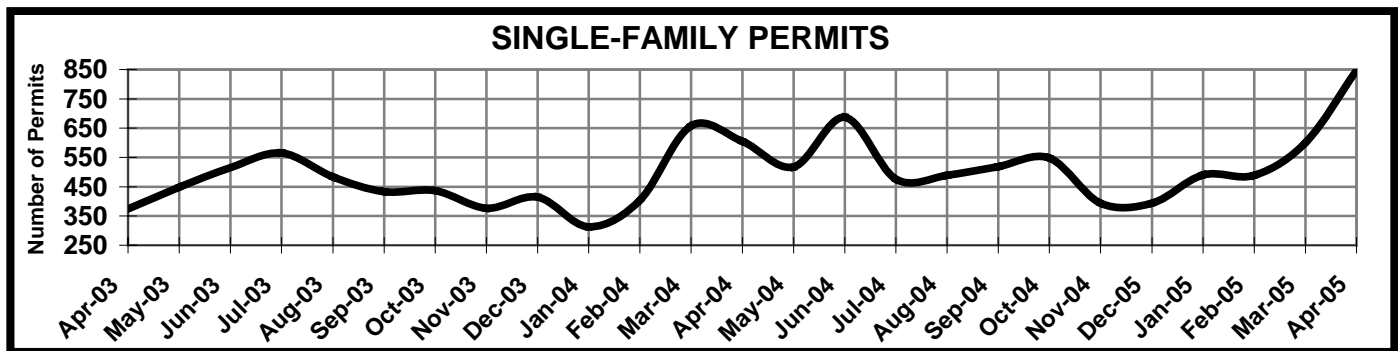
# PERMIT ISSUANCE

The **City of Houston** issued permits to build 847 private single-family houses and 11 private multifamily projects in April. Demolition permits were issued for 198 private single-family houses. In addition, 307 permits were issued for privately owned non-residential construction totaling \$79,991,683 and 14 permits were issued for public non-residential construction totaling \$9,400,600. Additions, alterations, and conversions totaled \$78,611,393 for the private sector and \$338,782,042 for the public sector.

## Cost of Construction\*

	2003	2004	2005
Month of April	\$185,199,917	\$329,384,170	\$312,247,295
Year-to-Date	\$1,272,602,216	\$1,177,809,981	\$1,349,117,705

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



# OFFICE BUILDINGS

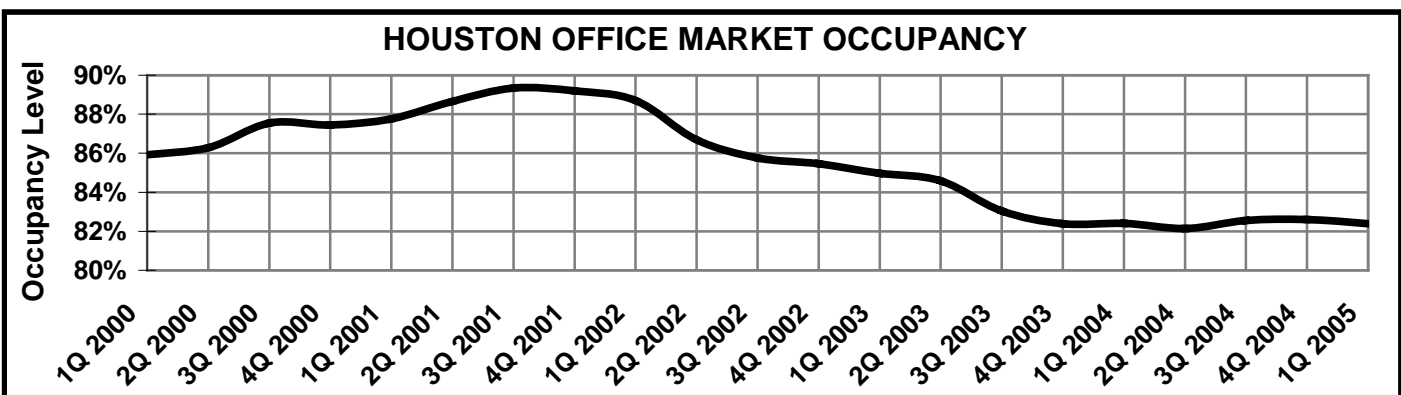
For an office market that has experienced ever-declining occupancy and rental rates over the last few years, it appears that the worst is finally over. This is the second consecutive quarter that the major office indicators showed signs of improvement; overall occupancy and average rental rates inched upwards, while quarterly and annual absorption are both positive. Although the heart of the Houston office market, the Central Business District, continues to struggle with vacancy hovering around 20%, it does appear that several companies are expanding into their shadow space, an early indicator of recovery.

According to the O'Connor & Associates **First Quarter 2005 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **82.39%** (Class A = 83.72%; Class B = 81.92%; Class C = 80.59%; Class D = 78.22%). Occupancy is up 0.20 points from the first quarter last year, and is up 0.04 points from the past quarter. The citywide annual multi-tenant office **rental rate** is **\$18.06 per square foot** (Class A = \$20.88; Class B = \$16.64; Class C = \$13.60; Class D = \$11.46). Overall rents are down \$0.20 from the fourth quarter last year, but are up \$0.01 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).

- The **Woodlands Operating Company** (281-719-6100) will break ground in June on **21 Waterway (TWC 068)** a 105,000-square-foot office building located in The Woodlands (251M) adjacent to the Woodlands Waterway Marriott Hotel and Convention Center. The building will feature approximately 10,000 square feet of retail/restaurant space on the first two floors, with the top five floors reserved for office space. Approximately 55% of the office space has been pre-leased at a quoted rental rate of \$17 per square foot. **Dennis Conine** of **Binswanger/Conine & Robinson** is in charge of leasing.
- **Panattoni Development Co.** (713-630-0311) has broken ground on **Beltway 8 Corporate Center III (NNW 213)**, a 129,500-square-foot Class A office building at 10500 Corporate Dr. (449G). **CB Richard Ellis** is in charge of leasing and managing the property. Space is quoted at \$23.50 per square foot. Completion is slated for late 2005.
- **Seismic Exchange Inc.** (504-581-7153) is adding a second 32,000-square-foot phase (**NNW 217**) to its 51,000-square-foot Class A office building (**NNW 216**) located just inside Beltway 8 off Capital Park Dr. (449H). The 6-year-old building serves as the company's regional headquarters. Construction on the building addition will begin before the end of the year.
- **The Medleh Group** (713-986-4800), a document services company, has broken ground on a 22,000-square-foot office building (**NNW 176**) at the southwest corner of Equity Park Drive and Westway Park Blvd. (449H). The building is being built to US Green Building Council LEED certification standards and will be owner-occupied. Construction is expected to be completed by Spring 2006.
- **MetroNational** (713-973-6400) will break ground next month on a 45,000-square-foot office building (**NNW 219**) off of Beltway 8 and Kempwood (449L). The building will be situated on two-acres of land located in front of Houston Christian High School.
- **Hilton Head Properties Inc.**, a firm that specializes in the acquisition and owner-financed sale of single-family housing and long-term investment in multifamily projects, has relocated its corporate headquarters from Dallas to Houston's **JP Morgan Chase Tower (CBD 057)**. The 23-year-old Class A building is located at 600 Travis in the Central Business District (493L). Occupancy at the Tower now stands at 95%, with average rents at \$22-per-square-foot.
- **KeyBank** (216-689-3000), a division of Cleveland-based KeyCorp, has arranged \$27.4 in construction and mini-perm financing for **Memorial Hermann Healthcare System** and **Trammell Crow Co.'s** joint venture, which involves the construction of two 125,000-square-foot medical office buildings, one off of the Grand Parkway (**SFC 071**) in Sugar Land (607F) and the other at 5602 Medical Center Dr. (**SW1 024**) in Katy (484G). Construction is expected to be completed by March 2006. Rents at the properties will range from \$22 to \$26-per-square-foot. **Mago Kaufman, Jean Kaufman, and Rich Harsch** worked on behalf of KeyBank to secure the financing.

The following chart illustrates historical office occupancy.



**Means-Knaus Partners** (713-355-9100) and **U.S. Advisor**, a tenant-in-common investor, purchased **2000 West Loop South (GAL 117)**, a 21-story 356,750-square-foot high-rise office tower, from **CMD Realty Investors, LP**. The 34-year-old Galleria area (491R) building is 91% occupied and has average rental rates of \$19.50 per square foot. Tenants include **Pace Entertainment, United Healthcare, and AMFM Operating**. An in-house broker represented **Means-Knaus**, the buyer, while **Jeff Hollinden** and **Robert Williamson** of **HFF** represented **CMD Realty Investors**, the seller.

**Cole Regents Park, Ltd.** purchased **Regents Park II & III (CLC 059)**, a 41,349-square-foot Class B office building in the Clear Lake area (618Q), from **CCI Regents Park, Ltd.** The 20-year-old property leases for \$13.50 per square foot and is fully occupied. Tenants include **United Space Alliance, Blackhawk Management Company,** and **Brackett Green USA.** **Susan Hill** of **HFF** secured the financing.

**Alvarez & Marsal** leased 30,000 square feet in the **Bank of America Center (CBD 071)**, a 22-year-old 1.5 million-square-foot building at 700 Louisiana in the Central Business District (493L), from **Hines** (713-223-1312). The property is 94% occupied and has average rental rates of \$22.82 per square foot. **John Burke** of **The Staubach Company** represented the tenant, while **Ronnie Martin** of **Hines** represented the landlord.

**Sanchez Oil & Gas Corp.** leased 26,848 square feet in **Heritage Plaza (CBD 094)**, a 1.2-million-square-foot office tower at 1111 Bagby St. in the **Central Business District (493Q)**, from **ING Clarion Realty Services** (212-883-2500). The 19-year-old Class A building is 45% occupied with current asking rents at \$12.00 per square foot. **Mike Boehler** and **David Bale** of **The Staubach Co.** represented the tenant, while the landlord was represented internally by **Chuck Kemp** of **ING Clarion,** and **Charles Giammalva** and **Brian McMackin** of **Lincoln Property Co.**

**Quorum Business Solutions Inc.** leased 24,614 square feet at the **ABB Lummus Building (WES 120)**, a 5-year-old Class A building located at 3010 Briarpark in west Houston (489Z). The 470,000-square-foot building is now fully occupied. **Kyle Kelley** of **CB Richard Ellis** represented the tenant, while **Dan Bellow,** **Mike Boehler,** and **Lucian Bukowski** of **The Staubach Company** represented the landlord, **ABB Lummus Global Inc.** (713-821-5000).

**Velocity Express** leased 20,608 square feet at **Corporate Plaza I (GPL 060)**, a 121,812-square-foot building located at 2600 Southwest Freeway in Greenway Plaza (492Y). The 34-year-old Class C building is 50% occupied and leases for an average of \$12.50 per square foot. **Ron McWherter** of **CB Richard Ellis** represented Velocity, while **Ace Schlameus** of **Grubb & Ellis** represented **Triyar Management** (713-529-1122), the landlord.

**Pride International Inc.** expanded its lease from 69,000 to 83,000 square feet at **San Felipe Plaza (GAL 134)**, a 959,000-square-foot building in the Galleria area (491P), from **Equity Office Properties** (312-466-3300). The 21-year-old Class A building is 94% occupied with average rents at \$21.00 per square foot. **Charles Fertitta Jr.** of **Moody Rambin Interests** represented the tenant, while **Steve Crawford** of **Equity Office Properties** represented the landlord.

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## RETAIL CENTERS

As Internet fever reached its peak in the late 1990s, technological seers foretold of the demise of traditional retailers. E-commerce was the future. Half a decade later, retail remains buoyant both locally and nationally, while the Internet bubble has burst. According to the **U.S. Department of Commerce,** e-commerce sales during the first quarter of 2005 amounted to \$19.8 billion, an increase of 6.4% from the fourth quarter, and an increase of 23.8 percent from the first quarter of 2004. Despite the impressive gains, e-commerce sales accounted for only 2.2% of total retail sales over the quarter. The statistic makes sense, as a study conducted by **ACNielsen** concluded that online retail shoppers are often researching purchases to be made offline. For every dollar spent online, the average web-to-store shopper spends \$1.60 offline at local retailers. Therefore, it is safe to assume that the shopping center is not likely to become extinct any time soon.

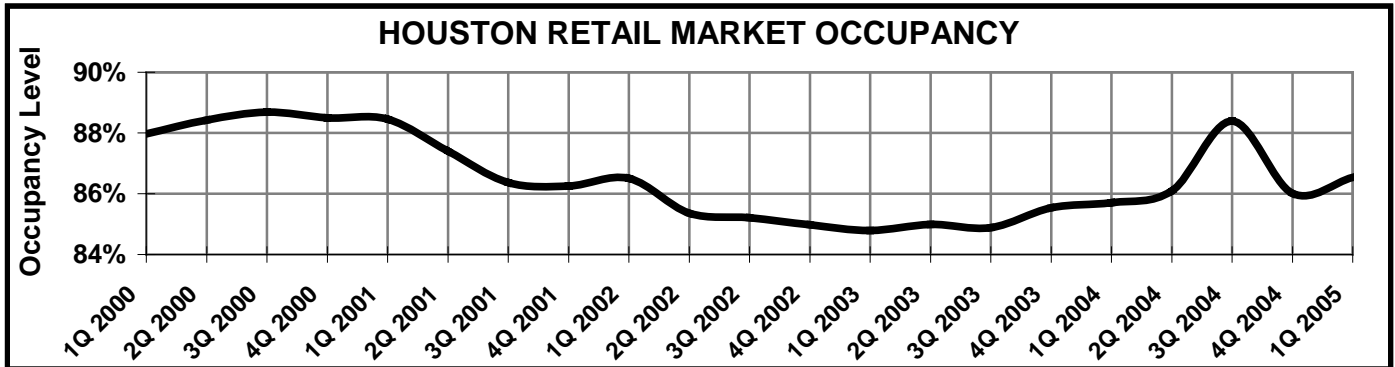
According to the O'Connor & Associates **First Quarter 2005 Houston Retail Data Program,** citywide **occupancy** for Houston area multi-tenant retail buildings is **86.54%** (Regional = 90.81%; Community = 84.05%; Neighborhood = 86.01%; Strip = 87.68%). Occupancy is up 0.44 points from the first quarter last year, but is down 0.08 points over the last quarter. The citywide monthly multi-tenant retail **rental rate** is **\$1.55 per square foot** (Regional = \$2.89; Community = \$1.46; Neighborhood = \$1.11; Strip = \$1.05). Overall rents are up \$0.04 from the first quarter last year and up \$0.01 over the last 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).

- **Target Corp.** (612-761-1549) in partnership with **Property Commerce** (713-860-0600) has announced plans for a new retail center, **Westheimer Town Center (NRW 312)**, at the southwest corner of Westheimer and Lazy Hollow in west Houston (490U). The center will include 26,000 square feet of retail space as well as a 128,766-square-foot **Target (NRW 306)**. Space in the center will lease for an average of \$2.08 per square foot. Construction is scheduled to begin by September, with completion expected by July 2006.
- **General Growth Properties** (312-960-5000) is planning a 120,000-square foot outdoor expansion for the First Colony Mall (FSW 081) in Sugar Land (568X). The expansion will include 80,000 square feet of retail space, and four 10,000-square-foot restaurant pad sites. Two restaurants, **Cheesecake Factory** and **Kona Grill**, have already signed on to lease two of the pad sites. Construction is expected to be completed by August 2006.
- **Peyton Cottrell Interests Inc.** (713-977-9696) is developing a 90,500-square-foot retail center (**FWE 317**) at the intersection of Interstate 10 and Barker Cypress Rd. (487A) in the Park 10 Regional Business Center. A 30,000-square-foot **Bally's Total Fitness** will anchor the center. Construction is expected to begin by summer with completion slated for late 2006.
- **Weaver, Davis & Jacob Realty Group, LLC** (713-621-7447) announced plans for the **Crossing at Sienna Ranch (FSW 309)**, a 120,000-square-foot mixed-use development in Missouri City within the master-planned community of Sienna Plantation. The development will be built in phases, with the first phase including 15,000 to 20,000 square feet of office condominiums and 15,000 square feet of retail space. Retail space will lease for an average of \$1.83 per square foot, while office condominium shell space will sell for an average of \$75 per square foot. Construction will begin during the fourth quarter of 2005, and be completed by spring of 2006.
- **MetroNational** (713-973-6400), owner of the **Memorial City Mall (NRW 003)**, is planning a lifestyle center that will eventually include a luxury hotel, apartments, townhomes, retail, a movie theater, restaurants, and an amphitheater in the Memorial City area (490A). MetroNational will also build a medical office and imaging center near the Memorial Hermann Memorial City Hospital. Construction is slated to begin within the next three years and to take seven years for completion.
- **Home Depot, Inc.** (770-433-8211) has announced the closing of 15 under-performing Expo Design Center stores across the country. Houston's two design centers, located at 7600 Westheimer (**NRW 222**) and 17355 Tomball Parkway (**FNW 218**), are both scheduled to be closed. Specific details on the timing of the store closings have yet to be released.
- **Lord & Taylor** (212-391-3344) has completed its withdrawal from the Houston market with the recent shuttering of the company's department store at **Memorial City Mall (NRW 003)**. The closure was the third and final one in the Houston area. The other two occurred in January at **Willowbrook Mall (FNW 022)** and at the **Galleria (NRW 084)**.
- **Midway Companies** (713-629-5200) has named its proposed development to be located on the 37-acre site of the mostly demolished **Town & Country Mall (FWE 054)**, **CityCentre – Town and Country**. Exact details of the project have yet to be made available, however, the development is expected to include a hotel, residential units, office buildings, open-air retail, parks, and pedestrian walkways.
- **Garden Ridge Corp.** (281-579-7901), the Houston-based retailer of patio furniture, pottery, and crafts, has received approval from a Delaware court to move forward with its reorganization plans, after the company filed for Chapter 11 bankruptcy in February 2004. The company, which operates five Houston area stores, will shift gears and focus on an everyday low-cost marketing strategy.
- **Live Oak Capital** (713-993-1300) arranged a 10-year loan at 5.56% interest with a 30-year amortization for the refinancing of **Centre at Greenway (INL 054)**, a 41,000-square-foot retail center at 3831 Richmond Ave. (492W) owned by **Greenberg & Co.** (713-778-0900). The seven-year-old center is 100% occupied with average rents at \$2.73 per square foot. **Greg Young** of Live Oak Capital arranged financing through **Lehman Brothers Bank FSB**.

- **L.J. Melody** (713-787-1900) arranged a 10-year loan in the amount of \$8.4 million for the refinancing of **Kirkwood Shopping Center (FRW 078)**, on behalf of **Southwestern Investment Advisors, LLC**. The 80,000-square-foot center was built in 1979 and is located at 11900 Westheimer in west Houston (489S). The property is 89% occupied and rents for \$1.46 per square foot. Tenants include **Oshman's**, **Half Price Books**, and **Spec's Liquor**. **Paul House**, **Tom Fish**, and **Adam Allen** of L.J. Melody arranged the financing through **Citigroup**.

The following chart illustrates historical retail occupancy.



**AmREIT, Inc.** (713-850-1400) paid \$68.8 million to purchase both phases of **Uptown Park (NRW 189 & NRW 297)**, the prominent Galleria area (491R) shopping center located at the northwest corner of Post Oak Blvd. and Loop 610, from **Interfin**. Phase I is the original 147,000-square-foot center built in 1999, while Phase II is the 22,000-square-foot expansion that is currently under construction. The property is 96% occupied and leases for an average of \$2.33 per square foot. Tenants at the original center include **Ann Taylor Loft**, **Uptown Sushi**, **McCormick and Schmick's**, and **Priscilla of Boston**. Space in Phase II will lease for an average of \$3.00 per square foot. Tenants already on hand include **David Brown Florist**, **Arturo's Uptown Grill**, and **Jose Eber Salon**.

**Levcor Inc.** (713-268-3716) purchased the vacant 209,000-square-foot J.C. Penney store (**NNW 105**) located in **Northwest Mall (NNW 098)** from **New York Technologies, LP**. Levcor is considering several possibilities for the site; one, being to renovate the space and lease it out, to either a large discount store or electronics outlet, and build 15,000 square feet of retail and restaurant space in the parking lot, or two, tearing down the vacant store and rebuilding more than 200,000 square feet of new retail space. It is also rumored that this purchase could serve as an entry point for Levcor to acquire and renovate the entire mall.

**Silvestri Investments** (713-785-6272) purchased **Fairbanks Shopping Center (NNW 008)**, a 92,293-square-foot retail center at 14121-14191 Northwest Freeway in northwest Houston (410Y), from **Fairbanks Plaza Center, LP**. The 24-year-old center is 90% occupied with average rents of \$1.00 per square foot. Tenants include **Kroger Food Store**, **Larry's Smokehouse**, and **Two Amigos**. **Jerry Goldstein** of **Marcus & Millichap** represented both parties involved in the transaction.

**Peter Eit Investments** (281-370-5717) purchased **Mainland Mall (FSE 362)**, a 68,800-square-foot retail center at 5210 FM 1765 in Texas City (737K), from **Weingarten Realty Investments**. The 37-year-old center is 81% occupied with average rents at \$0.88 per square foot. **Arlan's Market** anchors the center, and tenants include **America's Ace Cash**, **Family Dollar**, **H&R Block**, **Subway**, and **Check'n'Go**. **Mark McGinley** of **Tarrantino Properties** represented the buyer, while **Jerry Goldstein** of **Marcus & Millichap** represented the seller.

**Gellerosa, LP** purchased Phases I & II of **Coles Crossing Shopping Center (FNW 259 & FNW 275)**, located at 12320 Barker Cypress Rd. in northwest Houston (367L), from **SW Coles, LP**. The first phase is 18,143 square feet, was built in 2001, and is 96% occupied. The second phase is 23,929 square feet, was built in 2002, and is fully occupied. Space in the buildings leases for an average of \$1.58 per square foot. Tenants include **Hallmark**, **Today's Vision**, **Quizno's**, **Pilgrim Cleaners**, and **Curves for Women**. **Bryan Holker** and **Rob Crider** of **BD Holdings, Inc.** represented the buyer, while **George Cushing** and **Paula Foster** of **Grubb & Ellis** represented the seller.

**Blue Stone Real Estate** (617-244-4425) purchased **Sienna Market at Bees Creek (FSW 240)**, a 22,300-square-foot retail center at 4225 Sienna Parkway in Missouri City (610B), from **Sienna's Bees Creek Market, Ltd.** The one-year-old center is 96% occupied with average rents at \$1.79 per square foot. Tenants include **Sienna Market & Deli**, **Sienna Cleaners**, **Bees Creek Café**, and **Pepperoni's**. **Tucker Knight** and **Jim Hinton** of **HFF** represented the buyer and arranged \$4.75 million in acquisition financing through **Bears Stearns Commercial Mortgage**.

**Restaurant Depot**, a restaurant supply wholesaler, leased 75,000 square feet in the **Heights Shopping Center (INL 316)** located at the northeast corner of East T.C. Jester and W. 20<sup>th</sup> St. in the Heights area (452T). The 109,000-square-foot building was purchased by **Levcor** (713-268-3716) shortly after the K-Mart vacated the building in 2003. With the new lease the building is 69% occupied and leases for an average of \$0.83 per square foot.

## INDUSTRIAL FACILITIES

Gains in occupancy made in both Flex and Bulk space helped bring the overall Houston industrial occupancy level up 0.11 points over the last quarter to 90.51%. Flex space facilities recorded the largest gains, up 0.27 points over the last quarter to 88.03%, while Bulk space facilities gained 0.13 points. Although manufacturing facilities posted the highest occupancy level of all industrial types at 93.03%, it was the only type to record a quarterly drop in occupancy, losing 0.27 points.

According to the O'Connor & Associates **First Quarter 2005 Houston Industrial Data Program**, overall **occupancy** for Houston area operating industrial facilities is **90.51%** (Flex = 88.03%; Bulk = 91.28%; Manufacturing = 93.03%). Occupancy is up 0.11 points from the third quarter, and up 0.85 points over the last year. The overall monthly **rental rates** remained flat **\$0.40 per square foot** (Flex = \$0.45; Bulk = \$0.36; Manufacturing = \$0.33).

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's** (479-273-4000) **Baytown Distribution Complex (4900M & 4900N)** has finally begun operations. The property consists of two 2-million-sqaure-foot distribution buildings located at 5200 McKinney, E (542L) in the **Cedar Crossing Industrial Park**. The first building opened in May, while the second building opened in early June. The new distribution complex will receive more than 20% of Wal-Mart's total annual imports.
- **Dow Chemical Co.** (517-636-1289) announced that they will build a new chemical production facility in Freeport. The new facility will produce phenolic glycol ether, a component of the company's trademark product, Dowanol. Operations are expected to be up and running by the third quarter of 2006.

The following chart illustrates historical industrial occupancy.



**LIN Indrio, Inc.** purchased **750 Almeda Genoa Rd. (4990)**, a 232,000-square-foot warehouse facility in south Houston (572U), from **Larry and Linda Womack**. The facility was built in 1983 and has sat vacant since the Womacks closed operations of their company, **Dura Rack Inc.** LIN Indrio, Inc. plans on renovating the property, and will lease out space for \$0.25-per-square-foot. **Jeff Barbles** and **Rob Chandler** of **Marcus & Millichap** represented the buyer, while **Chris Caudill**, **John Ferruzzo**, and **Joel Michael** of **NAI Houston** represented the seller.

**Mission Grove Properties** (619-299-3311) purchased the **Wilcrest Business Park (3823)**, a 3-building 20,750-square-foot property located at 9900-10000 Wilcrest Dr. in southwest Houston (529U), from **9900 Wilcrest, LP**. The 20-year-old facility rents for an average of \$0.50-per-square-foot and is fully occupied by the following tenants: **Wright Car Care**, **Texas Woodwork**, and **JoshTom Woodwork**. **John Erthein** of **Marcus & Millichap** represented the buyer, while **Ross Cannizaro** of **Marcus & Millichap** represented the seller.

**Petroleum Analyzer Co., LP** leased 63,000 square feet at **Legacy Center 5 (02890)**, a 216,000-square-foot office/warehouse facility at 8802-8824 Fallbrook Dr. in north Houston (370W), from **Liberty Property Trust** (281-955-2000). The facility was built in 2003 and features 30' clearances with semi-dock level loading. Space in the fully occupied facility leases for an average of \$0.33 per square foot. **Andrew Mele** of **Liberty Property Trust** represented both parties involved in the transaction.

**Draka USA Corp.** extended and expanded their lease at **1610 Greens Rd. (0333A)** to 92,800 square feet. The office/warehouse building is located in the **Central Green Business Park** in north Houston (373P) and is owned by **Connecticut General Life Insurance Co.** (860-726-6000). The 3-year-old 118,000-square-foot facility is now fully occupied. **Mark Nicholas** of **The Staubach Co.** represented the tenant, while **David Hudson** of **Trammell Crow Co.** represented the landlord.

**Arnoni Aviation, Ltd.** leased 25,200-square-feet at **16445 Air Center Blvd. (0317B)**. The service center, owned by **Liberty Property, LP** (904-296-1776), is located in the **Central Green Industrial Park** in north Houston (373L). The facility is now fully leased. **Stephen Schneidau** of **Cushman & Wakefield** represented the tenant, while **Andrew Mele** of **Liberty Property Trust** represented the landlord.

**The Lakeland Group** (713-520-9500) inked two leases at their 41,000-square-foot office/warehouse facility located at **903-905 Gemini Ave. (5289)** in southeast Houston (618T). **Brand I.Q.** expanded their 10,000 square foot lease to 16,823 square feet, while **Environmental Monitoring Service**, an environmental testing firm, leased 7,444 square feet. Occupancy at the 35-year-old facility stands at 60%, with rental rates averaging \$0.55 per square foot. Both tenants used in-house representation, while the landlord was represented by **Darren O'Connor**, **John Ferruzzo**, and **Travis Land** of **NAI Houston**.

**Systronix Inc.** renewed their 16,199-square-foot lease for two years at **12502 Exchange Dr. (4902F)**, a 62,700-square-foot manufacturing facility located in Stafford (569J). The 24-year-old facility is owned by **CP Oakley, LLC** and is leased and managed by **CB Richard Ellis** (281-840-6500). The property is 85% occupied and leases for an average of \$0.74 per square foot. **Chris Caudill** and **Joel Michael** of **NAI Houston** represented the tenant, while **Steve King** of **CB Richard Ellis** represented the landlord.

# VACANT LAND

**NW Port Properties, LLC** (713-681-0930) purchased 23.5 acres near the intersection of Manchester St. and Loop 610 in southeast Houston (535C) from **Texas Port Properties**. The land is zoned for industrial development. **Doyle Troups** of **Grubb & Ellis** represented the buyer, while **C.A. Rousser** of the **Rousser Companies** represented the seller.

The **Woodlands Development Co.** (281-719-6100) has placed 100 acres of land up for sale at the intersection of Woodlands Parkway and FM 2978 in the Woodlands (215T). The land is situated at the western entrance of Terramont, a master-planned community of 650 homes. The land is earmarked for several retail developments, medical office buildings, and a multi-family development. Woodlands Development Co. is asking approximately \$15 per square foot for the land.

**Northeast Holdings** (713-691-0923) will auction off, through **Tranzon Venuebid**, 2.05 acres of land located at the intersection of Commerce and McKee St., adjacent to Minute Maid Ballpark, in the Central Business District (493M). A warehouse and parking lot is currently located on the property. The winning bidder will be assessed a fee of 5% of the sales price to cover advertising and Tranzon's commission.

# ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **increased by 6,700 jobs** to 2,312,600 in April 2005, according to the **Texas Workforce Commission**. This month's total is **26,200 jobs more** than the 2,286,400 jobs at this time last year. Of nonagricultural employers, the Natural Resources, Mining, and Construction sector posted the largest gain, at 3,000 new jobs. Over the year, the Leisure & Hospitality sector has changed the most, adding 6,100 jobs.

(#'s in thousands)	Apr-05	Mar-05	Apr-04	% Change from –	
				Mar-05	Apr-04
<b>United States</b>	148,274	147,745	146,260	↑ 0.36%	↑ 1.38%
<b>Texas</b>	11,162	11,093	10,961	↑ 0.62%	↑ 1.83%
<b>Houston MSA</b>	2,313	2,306	2,286	↑ 0.30%	↑ 1.18%

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for April 2005 were \$344.9 billion, an increase of 1.4% from the previous month, and up 8.6% from April 2004. Retail trade sales were up 1.4% from March, and were 8.7% above last year's level. Gasoline station sales were up 19.8% from April 2004 and sales of nonstore retailers were up 12.4%.

Personal income increased \$69.1 billion, or 0.7%, and Disposable Personal Income (DPI) increased \$45.7 billion, or 0.5%, in April 2005, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$53.6 billion, or 0.6% in April 2005. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.7% in April 2005, and is 3.5% higher than in April 2004. All categories of goods, aside from apparel, rose in price. The Energy index posted the highest increase.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 102.2 in May 2005, up 4.7 points from 97.5, in April. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** decreased 0.2% in April to 114.5. 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.

According to the **Federal Reserve**, industrial production decreased 0.2% in April after having increased 0.1% in March, however production is 3.1% higher than the April 2004 level. Manufacturing output remained unchanged in April, but is still 3.5% higher than the April 2004 level. The rate of industrial capacity utilization was 79.2% in April, a decrease of 0.2% from March, but up 1.2% from last year.

The **Mortgage Bankers Association (MBA)** reports that the 30-year fixed-rate mortgage (FRM) averaged 5.63%, with an average of 1.27 points (including the origination fee), for the week ending May 20<sup>th</sup>, 2005. Last year at this time, the 30-year FRM averaged 6.26%. The average for the 15-year FRM is 5.24%, with an average of 1.18 points (including the origination fee). A year ago, the 15-year FRM averaged 5.63%.

The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 3.5% in the first quarter of 2005, decelerating from a 3.8% growth rate in fourth quarter 2004, according to advance estimates. The deceleration in GDP during the first quarter was largely attributed to decelerations in equipment and software, Personal Consumption Expenditures, and acceleration of imports. Private inventory investment and increased exports offset the decelerations in other categories.

The **U.S. Department of Commerce** reports that construction spending during April 2005 was estimated at a seasonally adjusted annual rate of \$1.067 trillion, 0.5% above the revised March 2005 estimate. The April figure is 8.2% above the April 2004 estimate of \$986.4 billion. Private residential construction was at a seasonally adjusted annual rate of \$595.6 billion in April, 0.6% above the revised March estimate of \$592.3 billion, and 13.3% above the April 2004 estimate of \$525.9 billion.

The **Bureau of Labor Statistics** reported that seasonally adjusted productivity in the nonfarm business sector rose 2.6% in the first quarter of 2005, as output grew 3.6% and the hours of all persons worked increased by 1.0%. In the fourth quarter of 2004, productivity had risen 2.1%, reflecting increases in output and hours of 3.7% and 1.6%, respectively. In manufacturing, productivity increased 3.9% in the first quarter of 2005, as output increased 3.3% and hours of all persons fell 0.7%. This is the fourth consecutive quarter in which output has risen and hours have decreased for manufacturing.

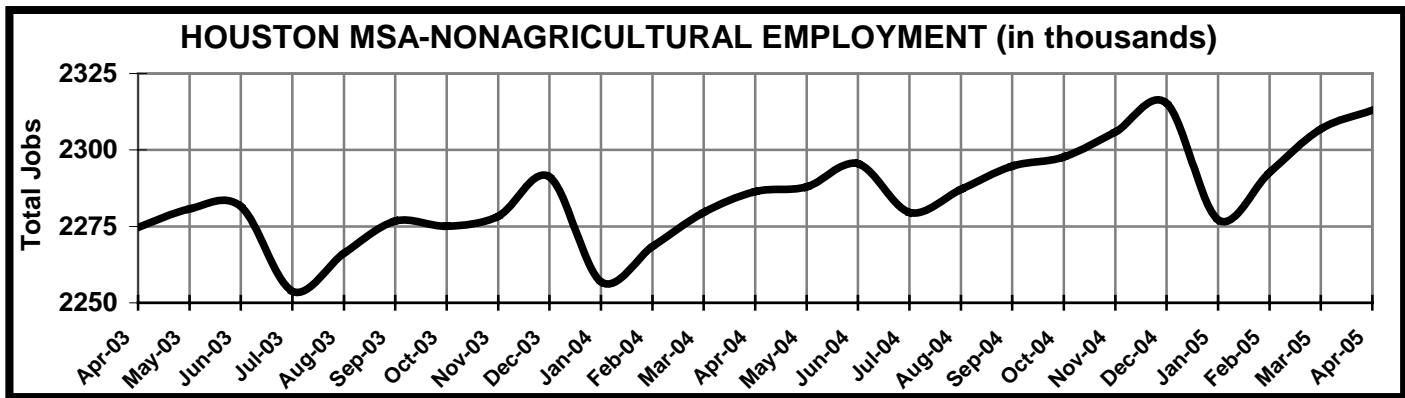
The **Baker Hughes** count of active domestic rotary rigs is down, from 1,334 in April to 1,319 in May, however the count is up 13% from 1,164 in May 2004. The rotary rig count is a census of the number of drilling rigs actually exploring for or developing oil or natural gas in the United States.

The **National Association of Purchasing Management – Houston, Inc.** reports that the local Purchasing Managers Index (PMI) of 60.8 in April increased slightly from 59.9 in March, where a score above 50 indicates generally improving conditions. Houston's PMI is down 2.6% from this time last year.

According to **Forbes**, Houston ranks 13<sup>th</sup> in the nation's best places for business list and careers among metropolitan areas. As a state, Texas scored well due to its highly educated labor force and relatively low cost of business, with seven cities in the top 20 on the Forbes list. Austin came in highest in Texas at 3<sup>rd</sup>, while Dallas took 19<sup>th</sup> place and Fort Worth 20<sup>th</sup>.

In a study conducted by **Inc. Magazine** on the "Best Places For Doing Business in America in 2005", the Galveston-Texas City area ranked number 160 out of 274 considered population centers. Galveston-Texas City beat out New York City at No. 184, San Francisco at No. 188, and Charleston, South Carolina at No. 182. The magazine's researchers found that the periphery areas, like Galveston-Texas City, have low business costs and favorable regulatory environments, which help them to better weather a tough economy in contrast to bigger cities.

The following chart illustrates total non-agricultural employment in the Houston MSA.



Source: Texas Workforce Commission (TWC)

## POTPOURRI

In order to prepare for the increased traffic expected by 2025, the **Texas Department of Transportation** is planning to expand the 7.8-mile stretch of Interstate 45 between FM 518 and FM 1746 to eight lanes, four traveling in each direction. New overpasses will be built at FM 518, Brittany Bay Blvd, FM 646, FM 517, Hughes Road, Holland Road, and FM 1764. Additionally, two and three-lane frontage roads will be constructed alongside the widened interstate.

**Texas Department of Transportation's** plans to create a toll road overpass on the Grand Parkway near Katy have been shelved. The proposed toll road was to cover the cost of additional lanes on the Highway. The abrupt cancellation is likely due to tremendous opposition from area residents.

According to the **Texas Transportation Institute's** 2005 Urban Mobility Report, Houston ranks fifth in terms of longest traffic delays during rush hour. The average delay per traveler in Houston is 63 hours per year. Los Angeles ranked number one with an average delay of 93 hours per year, San Francisco came in second with 72 hours, Washington D.C. was third with an average delay of 69 hours, and Atlanta was fourth with an average delay of 67 hours per motorist per year.

The **Uptown Development Authority** purchased the Hunan Oak Chinese restaurant located at the corner of San Felipe and Post Oak Blvd. in the Galleria area (491Q). The purchase of the 40-year-old restaurant is part of the Authority's plan to purchase 7 area land parcels in order to widen San Felipe St.

The **University of Texas Medical Branch at Galveston** (409-772-8699) has received approval from the federal government to build a \$167 million lab at the university's campus in Galveston (775K) for the study of infectious viruses, diseases, and bacteria. In order to prevent the pathogens from escaping the building, installed safety features include filters, backup power sources, and monitors. Construction will begin mid-May and will be completed by January 2008.

The **Leonard E. Merrel Center** (281-396-6055), a 145,000-square-foot arena located off of Interstate 10 and FM 1463 in Katy (484B) has completed construction. The multipurpose area was built as a cooperative venture between the City of Katy and the Katy Independent School District. The Center features portable basketball goals, a stage, motorized-retractable risers, a removable maple wood floor, large Daktronics LED screens and scoreboards, professional lighting and sound systems, as well as a fully equipped commercial kitchen. Sporting events, theatrical performances, banquets, trade shows, and graduations are some of the events the center expects to host.

Construction of a new 20,000-square-foot terminal, aircraft taxiways, and 100 hangers has begun at the **Sugar Land Regional Airport**, which is located at the intersection of Highway 6 and Highway 90 (567M). The new terminal will feature several amenities for the pilots' use, including an executive lounge, conference and meeting rooms, retail and data communications centers, sleeping quarters, offices, a television lounge, workout room, and showers. A customs department will also be added to the airport. Construction is expected to take one full year.

**Fort Bend County Commissioners** recently passed a new green space ordinance. The ordinance requires that subdivisions in the county designate ¼ acre of green space for every 100 lots, with the green space being at least 20 feet wide. Subdivisions with less than 100 lots are required to only have the ¼ acre of green space. Those subdivisions that have 1-acre+ lots are exempt from the ordinance.

**Landry's Inc.** (713-850-1010) has demolished the former Moody Civic Center in Galveston. Original plans for the two-acre site called for a 45,000-square-foot retail center, however, the company recently released a statement saying that final plans for the land have yet to be decided.

**Memorial Assistance Ministries** (713-468-8318), a nonprofit organization that helps individuals and families in need, has begun construction of a new building in the 1600 block of Blalock in west Houston (450T) where they will house their operations. The new 26,000-square-foot facility will include an emergency services center, a job bank, and their administrative offices. Construction will be completed by early 2006.

The **Port of Houston Authority** will create 3.2 acres of new wetlands at the Baytown Nature Center at 301 E. Schreck St. (500P). The wetlands are being built to compensate for wetlands that will be lost when construction is done on the Barbour's Cut Terminal to fix erosion problems.

The indoor portion of Galveston's **Schiltebahn Water Park** will open on December 10<sup>th</sup>. The indoor section will include a tube slides, speed slides, a children's activity pool, hot tub, and tidal wave river. The remainder of the park, which includes 15 acres of circling rivers, will open in the summer of 2006.

The **Texas State Legislature** passed a bill adopting the International Building Codes for all of Texas' new commercial real estate developments. The code is established by the International Code Council and covers all aspects of building design and construction. The bill now awaits approval from Gov. Rick Perry.

The **Produce Marketing Association** will hold its **Fresh Summit International Convention and Exposition** in Houston in 2012 and 2016. The convention is touted as the world's largest fresh fruit and vegetable event. Approximately 70,000 delegates from 70 countries will attend the convention.

Please direct any questions regarding content in the *Houston Real Estate Trends* to Richard Zigler at 713-686-9955 ext. 216 or [rzigler@poconnor.com](mailto:rzigler@poconnor.com)