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HOUSTON REAL ESTATE TRENDS

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Hurricane Katrina brought devastation to much of the Gulf Coast and catastrophic flooding to the city of New Orleans. We extend our deepest condolences to all those affected by this tragic disaster and we encourage everyone to donate to the relief organization of their choice, be it donations of goods, time, or money.

The Houston real estate community has made generous donations in efforts to provide families with homes and businesses with offices. We expect that the thousands displaced from New Orleans will result in spikes in occupancy levels for Houston, particularly in the multifamily and hotel sectors, long-term effects for Houston will be lesser, as our guests from the east make long-term plans for their futures, with many hopefully able to return home in the months and years ahead.

APARTMENTS

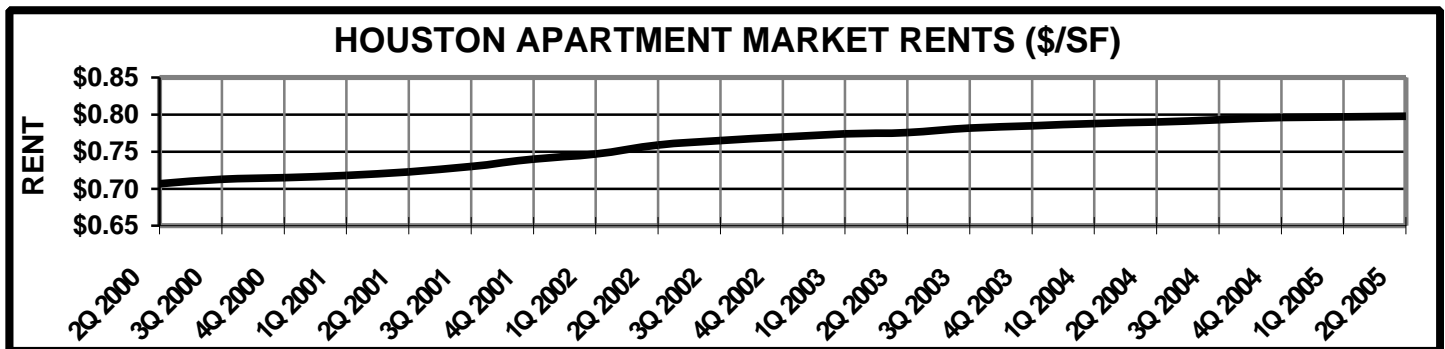
Multifamily demand continues to accelerate, with 3,823 units absorbed over the quarter. Absorption remains heavily driven by the Class A market, where 2,305 units were absorbed over the last quarter and 9,301 units have been absorbed over the last year. Class B also contributed to the gains, as 1,565 units were absorbed over the quarter, marking its strongest performance since the third quarter of 2001. Despite slight losses in the Class C & D markets, overall quarterly absorption is at its highest level since the third quarter of 2001.

According to the O'Connor & Associates **Second Quarter 2005 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **87.26%** (Class A = 87.70%; Class B = 88.09%; Class C = 86.42%; Class D = 83.03%). Occupancy is up 0.40 points from the first quarter and down 0.35 points over the past year. The overall monthly **rental rate** is **\$0.798 per square foot** (Class A = \$1.051; Class B = \$0.778; Class C = \$0.654; Class D = \$0.549). Overall rents are up \$0.001 from the first quarter and \$0.008 over the past year.

Note: The multifamily projects listed herein are followed by their representative identification number as they appear in the 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 **Internal Revenue Service** has approved a waiver giving the **Texas Department of Housing and Community Affairs** permission to temporarily suspend income restrictions and the prohibition of transient housing requirements for housing tax credit units. The suspension allows owners of tax credit properties to provide shelter to those left homeless because of Hurricane Katrina.
- **Phillips Development and Realty, LLC** (919-954-1700) in partnership with **Wood Partners** will develop **Mosaic**, two 393-unit residential towers at the southeast corner of Alameda Rd. and Hermann Dr. in the Texas Medical Center (533B). One tower will be designated as a rental property (**2325**), while the other tower will be designated as for-sale condominium units. The towers will share a yoga room, rooftop pool, outdoor terrace, and community bar and kitchen. Units will average 986 square feet in size and will rent for an average of \$1.97 per square foot. The condominium units will sell for \$180,000 to \$1 million. There will also be 22,500 square feet of retail space (**INL 422**) included on-site. The rental tower is expected to begin construction in October, while the condominium tower is scheduled to begin construction in April of 2006.
- **Greystar Real Estate Capital Partners** (713-966-5000) has placed **1111 Post Oak Blvd. (1066D)**, a 195-unit Class B apartment complex in the Galleria area (491R), up for sale at an asking price of \$17 million (more than \$80 per square foot). The 37-year-old complex is 90% occupied and has average rents of \$1.00 per square foot. The property is situated on 4.6 acres across from the **Uptown Park (NWE 189)** shopping center and **1200 Post Oak (1066B)**. Brokers listing the property for sale anticipate the property will be redeveloped by whomever purchases it.
- **EF&A Funding** (520-760-0936) arranged a ten-year fixed rate loan in the amount of \$9.4 million on behalf of **Hudson Property Associates** for the **Castlewood Apartments (0598)**, a 334-unit Class C apartment complex located at 7100 Westview in northwest Houston (451Y). The 34-year-old complex is 98% occupied with average rents at \$0.77 per square foot.
- The **National Multi Housing Council's (NMHC)** quarterly **Survey of Apartment Market Conditions** shows that for the period between April 2005 and July 2005, the Market Tightness Index rose to 80, where a score above 50 means more respondents saw improving conditions than worsening conditions. The Sales Volume Index continues to post record levels, at 66. The Equity Financing Index declined to 61 and the Debt Financing Index declined to 53.

The following chart illustrates historical apartment rental rates.



Colonial Capital Partners (719-599-0999) purchased **Mandalay at Shadowlake (0877M)**, a 294-unit Class A complex at 12430 Oxford Park Dr. in west Houston (488V), from **Westwood Residential** for \$21.3 million (\$72,450 per unit). The complex completed construction earlier this year and is 98% occupied. Rents start at \$545 for a 470-square-foot one-bedroom unit and \$995 for a 1,025-square-foot two-bedroom unit. **David Mitchell** and **Matt Rotan** of **Apartment Realty Advisors** represented both parties in the transaction.

Venterra Realty (281-554-6900) purchased **Village of Briar Forest Apartments (0876M)**, a 240-unit Class A complex located at 14504 Briar Forest Dr. in west Houston (488J), from **Metro Property Management**. The 6-year-old complex is 90% occupied with average rents at \$0.96 per square foot. **Courtney Cole** off **HFF** arranged the financing on behalf of Venterra through **GE Real Estate**.

Hilton Head Properties (832-615-8040) purchased **Flamingo Terrace Apartments (0780)**, a 137-unit Class D property at 7430 Schuller Dr. in north Houston (454J), from **Favill Funding Int., LP**. The 35-year-old complex is 60% occupied with average rents at \$0.42 per square foot. The property features pitched roofs and is separately metered for electricity.

SINGLE-FAMILY HOUSING

MLS home sales decreased in July, as 6,440 used homes were sold, down from the 6,559 homes sold in June, according to the **Houston Association of Realtors (HAR)**. However, sales for July 2005 were up 10.8% from July 2004. The median price of a used single-family home sold in July was \$145,500, up 6.6% from July of last year, while the average home price was \$195,372, up 9.3% from the July 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.*

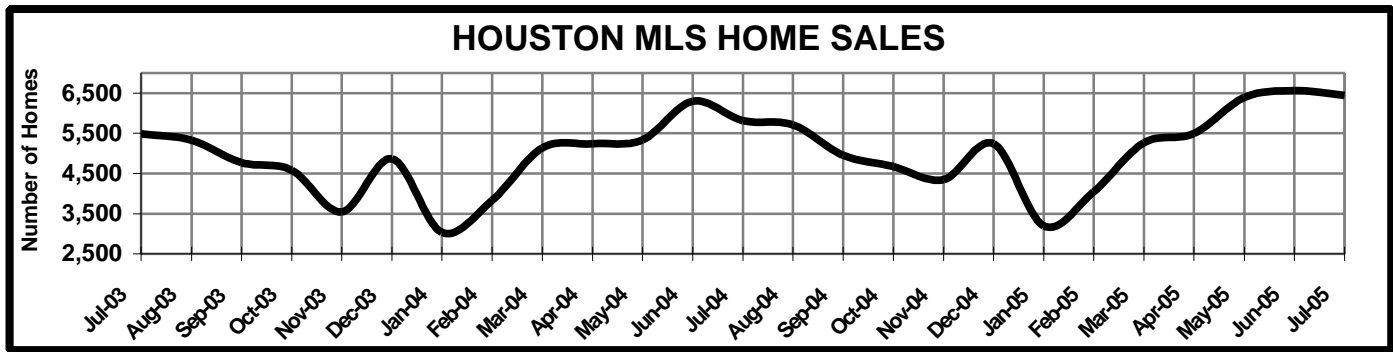
According to **American MetroStudy**, net sales of new homes increased 11% in July to 3,063 from 2,790 in June, and are up 30% from July 2004. Realtor co-op sales represent 75% of net sales, up 17% from July 2004. Traffic is down 6% from last year to 34,463 in July 2005. The inventory of completed speculative homes (1,895) is 9% above last year's inventory. There are 4,024 spec homes under construction, which is up 2% from 2004. Overall, the 5,919 specs (both completed and under construction) represent a 4% increase over 2004. *Note: the 24 homebuilders in this survey account for approximately 61% of housing starts in Houston.*

Nationwide sales of new single-family homes increased in July to a seasonally adjusted annual rate of 1,410,000, 6.5% above the revised June sales rate of 1,324,000, and 27.7% above the revised July 2004 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$203,800. Privately owned housing starts were at an annual rate of 2,042,000 in July 2005, 2.8% above the July 2004 figure. Privately owned housing completions were at an annual rate of 1,833,000 in July 2005, 2.9% below the July 2004 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased 3 points in August to 67 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 decreased 4 points to 72, the index measuring sales expectations for the coming six months remained unchanged at 77, while the index measuring the traffic of prospective buyers declined 5 points to 50.

According to the **National Association of Realtors (NAR)**, used homes sales in August were at a seasonally adjusted annual rate of 7.16 million, a 2.6% decrease from the July 2005 level. The median sale price was \$218,000, a 14.1% increase over sale prices a year ago. NAR reports home prices in the Houston-Baytown-Sugar Land MSA rose 2.4% from the second quarter of 2004 to the second quarter of 2005. During that same timeframe homes in the Dallas-Fort Worth-Arlington MSA rose 5.7%, while homes in El Paso rose 13.4%, the highest increase of all the Texas area MSAs. The highest appreciation rates in the nation were found in the Phoenix-Mesa-Scottsdale MSA, where home prices rose 47.0%.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Will Perry of WC Perry Properties, Inc. (281-313-7000) has announced plans to develop **Gateway Med Center**, two hotel-condominium towers with a combined total of 200 units, a 450,000-square-foot medial office building (**MED 096**), and 40,000-square-feet of retail and restaurant space on a 9-acre tract of land on N. MacGregor east of Highway 288 near the Texas Medical Center (533F). The community will include waterfalls, a park, and tree-line walkways. Construction of the hotel-condos will not begin for another year, as an hotelier partner has yet to be finalized. Construction of the retail and medical office building is expected to begin by the summer of 2006. Perry is the son of homebuilder Bob Perry.

Randall Davis Co. (713-526-3222) in partnership with **James Coney Island** (713-932-1500) are in discussions to develop **Cosmopolitan**, a 20-story 90-unit condominium tower at 1600 Post Oak Blvd. in the Galleria area (491Q). The site is the current home of a James Coney Island restaurant, which would be demolished in order to make way for the new condominium development. Specific details relating to the project have yet to be released.

Prida Construction (866-733-4853) is planning to build a second phase of **Ocean Grove Condominiums** at 9420 Seawall Blvd. in Galveston (807L). Phase I, which is currently under construction, is an 11-story tower with 54 units. All units have sold out. Phase II will include 100 units. Construction on Phase II is expected to begin in January of 2006.

Paul Cheng of Revalen Corp. will develop **Aliana**, a 2,000-acre master-planned mixed-use development off of the Grand Parkway and Harlem Rd. in Fort Bend County (526Y) on the site of a former prison farm. The project will include 6,000 homes, a town center with retail shops and restaurants, at least one upscale hotel, and over 1 million square feet of office space. Construction on the first homes is slated to begin in January of 2006. Full build-out of the homes is expected to take 10 to 15 years, while complete build-out of the entire development is expected to take 20 years.

Frey Development Company (281-531-8000) will develop **Saltgrass Crossing**, a 257-home single-family community at the southeast corner of FM 1765 and FM 2004 in La Marque (736K). Homes in the community will start in the low \$100,000's.

Hahnfield Witmer Davis (713-840-1001) has broken ground on **Armandwilde**, an 89-home townhome community off of Nasa Parkway on Space Center Blvd. in the Clear Lake area (618M). The community will feature a waterside infinity-edge swimming pool, area park, walking paths, and tropical landscaping. Homes in the community will range in size from 2,100 to 2,900 square feet and in price from \$260,000 to \$450,000. Full build-out is expected by 2008.

Stiffel-Schwab (713-467-3555) is developing **Creekside Villas of Memorial**, a 65-home gated community in Spring Valley north of I-10 between Wirt Rd. and Bingle Rd. (451W). The garden homes will be built in a Mediterranean style on small size lots. Prices for the 3,000 to 6,000-square-foot homes start at \$500,000. Construction of the first homes has already begun, and completion of the community is expected within two years.

Fedro Custom Homes (409-744-8400) has begun construction on **Magnolia Court**, a 58-home subdivision off of 72nd, 73rd, and 74th between Heard Ln. and Jones Dr. in Galveston (773Z). Homes in the community will range in size from 1,600 to 2,400 square feet, and will be priced from \$170,000 to \$240,000. The first homes are slated for completion by March of 2006.

Juliet Homes (713-222-9600) plans to break ground within the month on **Fleur Garden Estates**, a 40-home gated community located at 6353 Richmond Ave. south of the Galleria area (491W). Homes will range in size from 1,640 to 2,101 square feet with prices starting at \$279,000. Construction is expected to be completed by the end of the year.

Business partners **Robert Deering, Richard Darrah, and John Putman** have completed the conversion and renovation of the historic **Galveston Electric Co.** building at 2116 Church St. in Galveston (775N) into a 7-unit condominium complex. Original architectural amenities such as the brass stair railings and marble staircases were preserved, while new electrical, plumbing, and mechanical systems, hardwood floors, tiled bathroom floors, and marble kitchen counters were added to the property. Units average 1,100 square feet in size, and are priced from \$79,000 to \$295,000. Two of the seven units have already been sold.

Burroughs Family Land, LLC (979-297-1184) has received approval of a requested motion to rezone a tract of land near Highway 288 and FM 2004 (883C) from commercial to residential use. This will add 10.5 acres to Burroughs' 67-acre adjacent tract, where the company plans to develop **Brazos Crossing**, a 140-home single-family residential development. Burroughs will submit plans to the Richwood Council in September for approval of Phase I of the subdivision, which will include 42 homes ranging in size from 1,200 to 1,700 square feet. Providing the plans are approved, construction is scheduled to begin in early 2006.

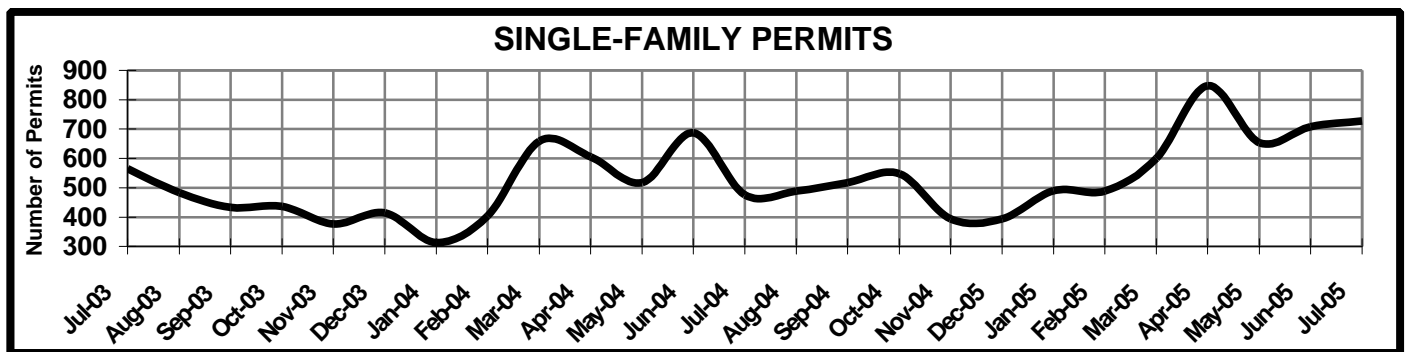
PERMIT ISSUANCE

The **City of Houston** issued permits to build 727 private single-family houses and 27 private multifamily projects in July. Demolition permits were issued for 149 private single-family houses. In addition, 275 permits were issued for privately owned non-residential construction totaling \$119,068,452 and 26 permits were issued for public non-residential construction totaling \$3,500,128. Additions, alterations, and conversions totaled \$63,366,630 for the private sector and \$5,471,412 for the public sector.

Cost of Construction*

	2003	2004	2005
Month of July	\$265,355,531	\$349,993,564	\$383,952,047
Year-to-Date	\$2,163,832,930	\$2,093,182,423	\$2,409,854,904

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



OFFICE BUILDINGS

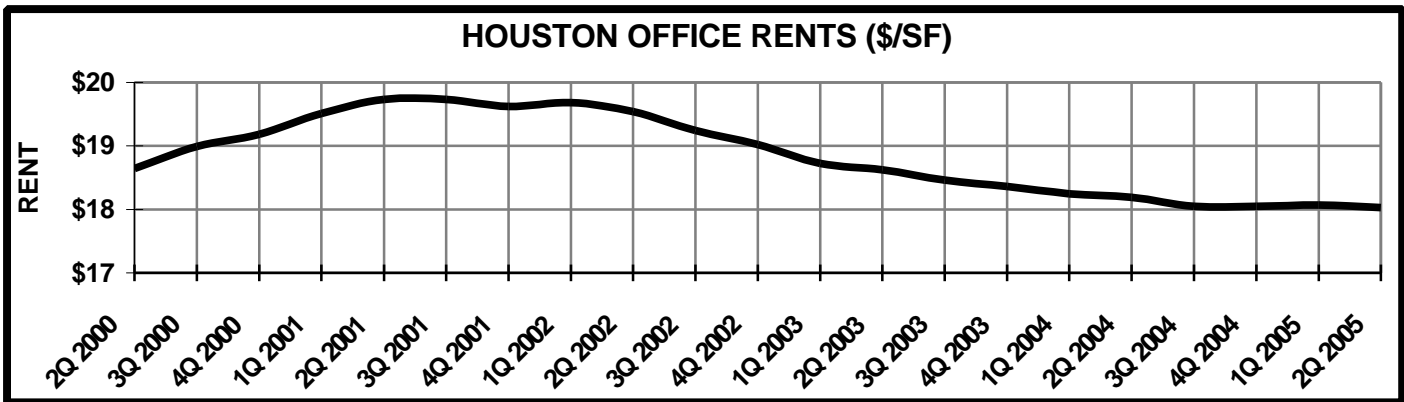
Overall occupancy again recorded modest increases over the quarter, picking up 0.13 points to 82.52%, and is at its highest level in more than a year. The increase came largely as a result of strong gains in Class A occupancy, accompanied by more humble gains in Classes B and D. Class A occupancy increased 0.35 points over the quarter, and at 83.95% is 0.25 points above last year's level. Class B posted a 0.04-point increase over the quarter, bringing occupancy up to 81.97%, while Class D recorded a 0.02-point increase in occupancy to 78.21%. The Class C market, which was the only category to post a decrease in occupancy over the quarter, dropped 0.29 points to 80.66%.

According to the O'Connor & Associates **Second Quarter 2005 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **82.52%** (Class A = 83.95%; Class B = 81.97%; Class C = 80.66%; Class D = 78.21%). Occupancy is up 0.55 points from the second quarter last year, and is up 0.13 points from the past quarter. The citywide annual multi-tenant office **rental rate** is **\$18.03 per square foot** (Class A = \$20.82; Class B = \$16.68; Class C = \$13.61; Class D = \$11.51). Overall rents are down \$0.16 from the second quarter last year, and are down \$0.06 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).

- **Harry M. Green Interests, Inc.** (713-953-9800) will develop **Three Sugar Creek Center (SFC 039)**, a 157,000-square-foot office building at the intersection of Sugar Creek Blvd. and Century Square Blvd. in Sugar Land (568M). Construction will begin in the third quarter of 2005, with completion slated for the fourth quarter of 2006.
- **Washington Group International** (208-386-5000) will relocate the company's headquarters for oil, gas, and petrochemical operations from Denver to Houston. Washington plans to hire 200 engineering and technical employees over the course of the year. In addition, Omaha-based **Kiewit Energy Group, Inc** (281-517-8900) relocated the headquarters for their oil and gas division from Kansas City, MO to Houston. Their new offices are at 7906 W. Sam Houston Parkway N.

The following chart illustrates historical office rental rates.



Following the recent acquisition of the 1.5-million-square-foot **Heritage Plaza (CBD 094)**, **Goddard Investment Group** sold off two Houston area properties totaling 280,000 square feet. **2200 West Loop South, LP**, a partnership between **Corporate Capital & Development**, **Corrigan Properties, Inc.**, and **Fuller Realty Partners** (713-850-8400), has purchased **2200 West Loop South (GAL 119)**, a 205,000-square-foot Class B building in the Galleria area (491V). The 31-year-old property is currently 71% occupied and leases for an average of \$18.00 per square foot. Fuller Realty will take over the leasing and management duties at the property. The buyers used in-house representation, while **David Chuoke** of **Cushman and Wakefield** represented the seller. **Park Row-Houston Investment Company, LLC** (512-478-6620) purchased **17171 Park Row (P10 021)**, a 23-year-old 75,000-square-foot building in west Houston (447X). The Class B building is 86% occupied with average rents at \$14.75 per square foot. The buyers used in-house representation, while **John Dailey** of **PM Realty Group** represented the seller.

Younan Properties, Inc. (818-703-9600) sold two Houston area office properties. **Enfield Properties** purchased **Energy Corridor Plaza (KFW 014)**, a 70,000-square-foot building located at 810 Highway 6 S. in west Houston (488E). The 25-year-old building is 70% occupied and leases for an average of \$13.50 per square foot. **David Greenberg** of **Greenberg & Co.** represented the buyer, while Younan used in-house representation. And, **Pomeroy Family Trust** purchased the **Parkway Medical Plaza (NE2 014)**, a 60,000-square-foot medical office building at 150 W. Parker Rd. in north Houston (413W). The 33-year-old Class B property is 80% occupied and rents for an average of \$16.50 per square foot. **Sky Pulford** of **ReMax International** represented the buyer, while Younan used in-house representation.

RPD Catalyst (310-557-1311) purchased **Ashford on the Bayou (WES 013)**, a 22-year-old Class B building located at 10041 Dairy Ashford in the Westchase area (488M), from **Ashford Loop Associates, LP**. **David Aaronson** of **Live Oak Capital** (713-993-1300) arranged acquisition and renovation financing while funds were provided by **NewStar Financial**. **Allied Waste Industries, Inc.** recently leased 28,000 square feet in the 132,000-square-foot Class B building, which is currently 52% leased, with a quoted rental rate of \$15.00 per square foot. **Mike Bohler** and **Bruce Feen** of **The Staubach Co.** represented the tenant, while **Michael Martin** of **PM Realty Group** represented the landlord.

Bank of America Corporation signed a 10-year lease extension for 252,900 square feet of space at the **Bank of America Center (071 CBD)**, located at 700 Louisiana St. in the Central Business District (493L), from **Hines** (713-223-1312). The 1.5 million-square-foot Class A building was built in 1983. The property is 81% occupied and has average rental rates of \$22.00 per square foot. **David Anderson**, **Anthony Fritsche**, **Brandi McDonald**, and **Joe Cicardo** of the **Trammell Crow Co.** represented the tenant, while **Ronnie Martin** and **Rush Durkin** of **Hines** represented the landlord.

Mosbacher Energy Co. renewed a 23,788-square-foot lease at the **JP Morgan Chase Building (CBD 041)**, an 808,000-square-foot Class B building located at 712 Main St. in the Central Business District (493L), from **JP Morgan Chase** (713-216-6331). The 76-year-old building is 92% occupied with average rents at \$16.00 per square foot. **Edward Prejan** and **Steve Burkett** of **The Staubach Co.** represented the tenant, while **John Spafford** of **PM Realty Group** represented the landlord.

Pegasus International, Inc. leased an additional 20,485 square feet of space at **One Eldridge Place (KFW 057)**, a 532,000-square-foot building located at 777 N. Eldridge Parkway in west Houston (488G), from **KBS Realty Advisors** (949-417-6500). Pegasus now leases a total of 61,455 square feet in the 21-year-old Class A property. The lease brings occupancy up to 80%; space in the building leases for an average of \$23.50 per square foot. **Jon Silberman** of **NAI Houston** represented the tenant, while **Doug Little** of **PM Realty Group** represented the landlord.

The Marker Group, Inc., renewed a 20,133-square-foot lease at **13105 Northwest Freeway (NNW 088)** from **BGK Texas Property Management** (713-862-3333). The 311,000-square-foot office building was built in 1983 and is 75% occupied with average rents at \$17.50 per square foot. **Brad Marnitz** of **NAI Houston** represented the tenant, while **Carl Swierc** of **BGK** represented the landlord.

Corporate Office Centers leased 20,000 square feet in the **Marina View Building (CLC 136)**, a 169,000-square-foot Class A building located at 2600 South Shore Blvd. in League City (619Y), from **American National Insurance Company** (409-766-6548). The year-old building is 93% occupied with average rents at \$23.00 per square foot.

Short Jenkins Kamin, LLP leased 15,537 square feet at **Two Greenway Plaza (GPL 019)**, a 220,000-square-foot Class B office building, from **Crescent Real Estate Equities** (713-840-1170). The 36-year-old building is 92% occupied with average rents at \$17.00 per square foot. **Scot Ison** and **Temple Brown** of **Axis Property Advisors** represented the tenant, while **Warren Savery** of Crescent represented the landlord.

RETAIL CENTERS

The long awaited plans for the three-block tract of downtown land purchased by famed developers **Geoff Jones** and **Bill Denton** in late 2004 have finally been revealed. The lot, which is bounded by Dallas to the north, Polk to the south, Main to the west, and Caroline to the east, is the proposed home of **Houston Pavilions**, a mixed-use project that would include 365,000-square-feet of retail space, a 194,000-square-foot office tower, and a 200-unit condominium tower. The developers have made it clear, however, that plans will not move forward until the city and county grant the project a tax break in the form of an expanded tax increment reinvestment zone, or TIRZ designation. Large-scale developments such as this promise to bring people, as well as pocketbooks, back to downtown.

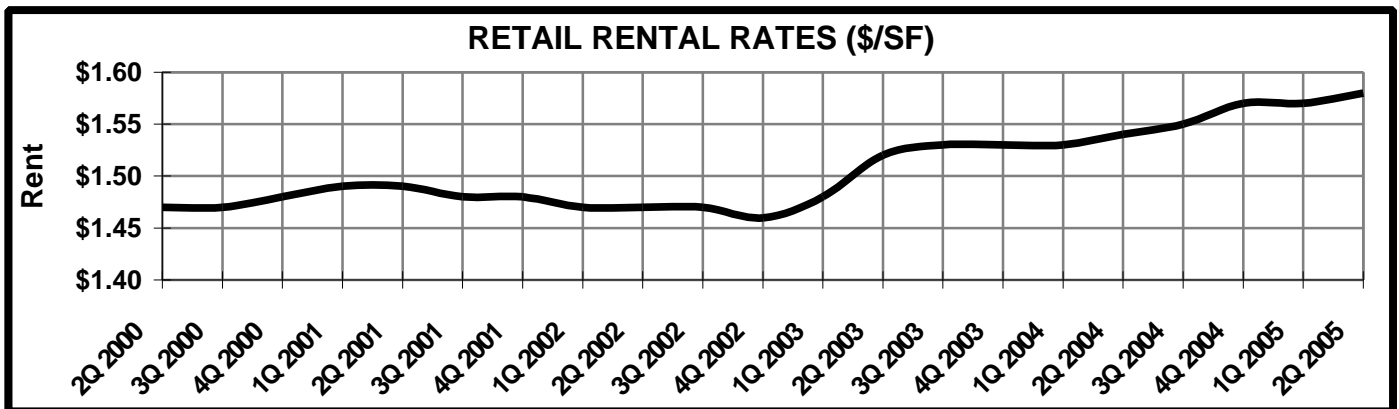
According to the O'Connor & Associates **Second Quarter 2005 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.87%** (Regional = 87.94%; Community = 84.22%; Neighborhood = 85.81%; Strip = 86.49%). Occupancy is down 0.39 points from the second quarter last year, and is down 0.28 points over the last quarter. The citywide monthly multi-tenant retail **rental rate** is **\$1.58 per square foot** (Regional = \$3.06; Community = \$1.48; Neighborhood = \$1.12; Strip = \$1.08). Overall rents are up \$0.04 from the second 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).

- **JC Penney Department Store** (972-431-1000) announced that they will close their **Mall of the Mainland (FSE 097)** store located in Texas City (700X) this October. Currently, Mall of the Mainland is 90% occupied and has a quoted rental rate of \$1.00 per square foot. Operations will be shifted to the new 93,000-square-foot store being built at the **Baybrook Mall (FSE 029)** in Friendswood (617Z), which will officially open this Fall.
- **Trademark Property Co.** (817-870-1122) is currently negotiating a long-term ground lease for six acres currently occupied by **Central Ford Dealership** at 4410 Westheimer Rd. half a mile inside Loop 610 (491V). Once the dealership relocates to their new site at Highway 288 and FM 518 (613N), Trademark plans to develop the land into a high-end mixed-use project. Details have not been finalized, however, the project will likely include specialty retail space, a residential development, and office space.
- **AMReit** (713-850-1400) will develop two new retail centers in The Woodlands. **Terramont Center (FNO 260)** will be a 24,000-square-foot multi-tenant strip center at the southeast corner of Woodlands Parkway and FM 2978 (215T). Construction is slated to begin by the end of the year, with completion expected by August 2006. The second property, **Village of College Park (FNO 261)**, will be a 16,000-square-foot strip center on College Park Dr. just east of Windsor Hill Dr. (217Q). The property is expected to begin construction by the end of the year, with completion expected by May 2006.
- **84 Lumber Co.** (724-222-8600) will build a new facility at 11203 Galveston Rd. (**FSE 019**) in southeast Houston (577S). This will be 84 Lumber's sixth Houston area location. A construction timeline, as well as exact details of the new building, have yet to be determined.

- **CDC Houston** (281-480-5066) is constructing a 22,000-square-foot building on a pad site at its **Baybrook Passage (FSE 219)** shopping center located at 19425 Gulf Freeway in Webster (618W). A Borders Bookstore will occupy the new building, which is expected to be completed by late October. CDC recently completed construction on the 180,000-square-foot Baybrook Passage center, which is 97% occupied with average rents at \$2.29 per square foot. Tenants include **Best Buy, Cold Stone Creamery, Pei Wei, and Wells Fargo Bank.**
- **Caldwell Watson Real Estate Group** (713-690-0000) has completed construction of **Stone Gate Commons (FNW 408)**, a 21,000-square-foot strip center at the southeast corner of Barker Cypress and Queenston in northwest Houston (367Q). The center is located at the entrance of the Stone Gate subdivision. The property is 50% leased and has a quoted rental rate of \$1.67 per square foot.
- **Vista Equities Group** (281-531-5300) has completed construction on two Houston area retail centers, **The Plazas at Lake Houston Parkway (NEA 218)** and **The Plazas at Westway Park (FNW 368)**. The Plazas at Lake Houston Parkway is a 14,000-square-foot center located at 20121 Lake Houston Parkway in northeast Houston (337U). The Plazas at Westway Park is a 12,600-square-foot center located at 4410 Westway Park Blvd. in northwest Houston (449G). In addition, Vista has broken ground on another retail center, **The Plazas at Alden Bridge (FNO 259)**, a 22,000-square-foot center at the intersection of Alden Bend and Research Forest Dr. in The Woodlands (216Q).
- **Live Oak Capital** (713-993-1300) arranged permanent financing for **Village Place (FNW 308)**, a 22,000-square-foot strip center located at 5650 Kirby Dr. in northwest Houston on behalf of **University Court** (713-666-7784). The property is fully leased. **John Fenoglio** of Live Oak arranged the financing and funds were provided by **Jefferson-Pilot Life Insurance Company.**

The following chart illustrates historical retail rental rates.



Sunhill International (713-571-8850) has attracted several new tenants to their recently constructed **Piazza Blanca (FSE 358)** development located at the intersection of Broadway and Seawall Blvd. in Galveston (775P). **Chili's Grill & Bar** will open on a 50,000-square-foot pad site, while **Carlos 'N Charlie's** restaurant and bar will also build and occupy a pad site at the property. In addition, Sunhill has also received commitments from **Custom Tackle**, a locally based tackle shop, and **Smoothie King**. Currently, the 80,000-square-foot retail center is only 21% occupied by a single tenant, **IBC Bank**. Space in the retail center leases for an average of \$1.75 per square foot.

Bed, Bath & Beyond leased 30,000 square feet in **Cypress Towne Center (FNW 352)**, a 314,000-square-foot center located at the intersection of Highway 290 and Spring Cypress Rd. in the Cypress area (367E), from **Kimco Realty Corporation** (214-720-0559). The recently completed center is 89% occupied with average rents at \$2.21 per square foot. The new Bed, Bath & Beyond store is expected to open next month. **Steven Lieberman** of **Retail Connection** represented the tenant, while **Clay Trozzo** of **Property Commerce** represented the landlord.

INDUSTRIAL FACILITIES

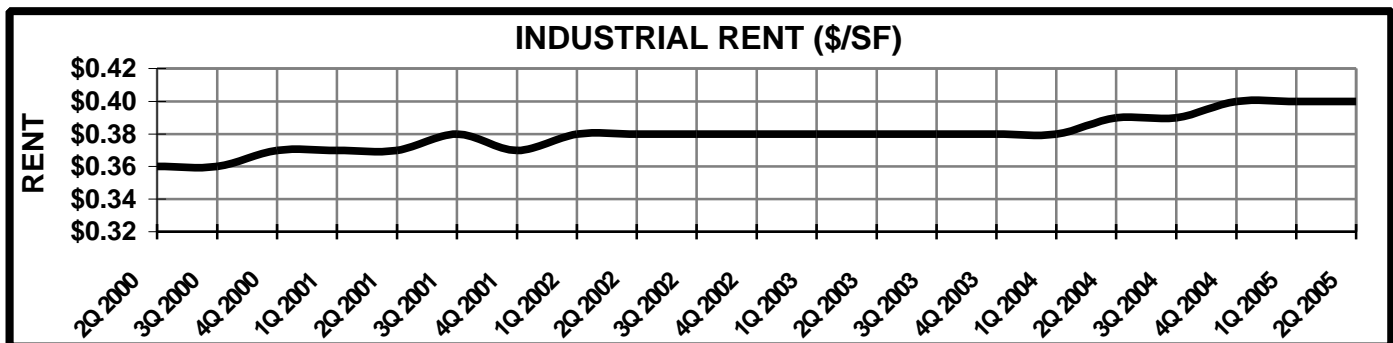
After a brief pause in 2004, occupancy in Houston's industrial sector has once again begun to climb. Overall occupancy rose 0.60 points to 91.24% in the second quarter, and is up 0.85 points from the same time one year ago. The Flex and Bulk categories have been the main contributors to the recent recovery, and are the only two categories to post increasing occupancy this quarter. Flex space posted a second straight quarter of increasing in occupancy, gaining 0.77 points to 88.94%, while Bulk occupancy increased 0.70 points to 91.93%, its highest level in over five years. Manufacturing occupancy, though still the highest of the three categories with occupancy at 93.62%, posted a quarterly loss of 0.08 points.

According to the O'Connor & Associates **Second Quarter 2005 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.24%** (Flex = 88.94%; Bulk = 91.93%; Manufacturing = 93.62%). Occupancy is up 0.60 points from the last 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).

- **Liberty Property Trust** (904-296-1776) has begun construction on **Central Green VIII (0306)**, an 80,000-square-foot office/warehouse facility at 1646 Rankin Rd. in north Houston (373G). The multi-tenant spec property has a quoted rental rate of \$0.65 per square foot and is expected to be completed by the end of the year.
- **Scholl Forest Industries** (713-329-5300) broke ground on a 66,000-square-foot manufacturing facility (**0837**) at 6200 N. Houston Rosslyn Rd. in northwest Houston (441X). The owner-occupied facility is slated for completion in January of 2006.
- **Cypressbrook Company** (281-364-1777) plans to develop a new industrial complex at the corner of Air Center Blvd. and Rankin Rd. in north Houston (373L). The complex will consist of one 52,000-square-foot office/warehouse building at **1704 Rankin Rd. (0344)** and one 140,000-square-foot warehouse building at **16684 Air Center Blvd. (0345)**. Both buildings will feature 24' clearances with dock and semi-dock loading capabilities. Construction on the buildings is expected to begin next month, with completion slated for Summer 2006.

The following chart illustrates historical industrial rental rates.



Colglazier Properties (210-821-5644) purchased **8017 Pinemont Dr. (1341A)**, a 111,000-square-foot office/warehouse facility in northwest Houston (450H), from **Hempstead D.C. Partners**. The 6-year-old complex is fully leased. **John Ferruzzo** and **Joel Michael** of **NAI Houston** represented the buyer, while the seller used in-house representation.

Golden Mattress Co., Inc. (562-949-1088) purchased **9655 W. Tidwell Rd. (1255)**, an 80,000-square-foot warehouse facility in northwest Houston (450B), from **Asset One Investors, LLC**. The 32-year-old facility will be owner occupied. **Chris Caudill** and **Joel Michael** of **NAI Houston** represented the buyer, while **Bill Rudolf** of **CB Richard Ellis** represented the seller.

LB Longer Enterprises, LLC (713-623-0499) purchased **16023 Interstate 10 (3684)**, a seven-building 64,000-square-foot office/warehouse facility in east Houston (498G), from **Braun Enterprises**. The 23-year-old facility is 68% leased and has a quoted rental rate of \$0.38 per square foot. **Rob Chandler** and **Jeff Barbles** of **Marcus & Millichap** brokered the transaction on behalf of both parties.

5731 HW, LLC (713-672-9416) purchased **5731 Harvey Wilson Dr. (3131A)**, a 45,000-square-foot warehouse facility in southeast Houston (494L), from **Palms Properties, LLC**. The 50-year-old property is fully occupied. An attorney with **FizerBeck** represented the buyer, while **Charles Herder** of **Colliers International** represented the seller.

Long Interests, LP (713-464-2731) purchased **3200 Brookfield (4986M)**, a 23,000-square-foot research and development facility in south Houston (572P), from **Chentura Corp.** The 32-year-old facility will be owner occupied. **Jeff Trevino** of the **Michael Group** represented the buyer, while **Doug Bates** of **Henry S. Miller** represented the seller.

Smith-Glover Investments, Inc. (713-223-3300) purchased **1511 W. 34th St. (1844M)**, a 17,000-square-foot office/warehouse facility in northwest Houston (452P), from **First Bank of Central Texas**. The 30-year-old facility will be owner-occupied. **Chris Kugle** of **NAI Houston** represented the buyer, while **Debbie Richardson** of **Michael Berry Properties** represented the seller.

Mitrowski Welding Equipment, LTD (713-943-8032) purchased **2409 Albright Dr. (4781)**, a 15,000-square-foot manufacturing facility in southeast Houston (536X), from **Glen Graef** and **Lynette Palmer**. The 31-year-old facility will be owner occupied. **Justin Tunnel** of the **National Realty Group, Inc.** represented the buyer, while **Will Swanson** and **John Ferruzzo** of **NAI Houston** represented the sellers.

Hercules Tire & Rubber Company renewed and expanded their lease to 67,500 square feet at **Main Park Service Center (4232 & 4234A)**, a 654,000-square-foot office/warehouse facility located at the intersection of Willowbend and South Main in south Houston (532W), from **Heitman Capital Management** (312-346-0369). The 25-year-old facility is currently 91% occupied and leases for an average of \$0.48 per square foot. **Rand Stephens** of **Studley Houston** represented the tenant, while **Darryl Noon** of **Transwestern Commercial Services** represented the landlord.

John Waters leased a 17,800-square-foot warehouse facility located at **5722 Plainview Dr. (4602)** in south Houston (534U) from **Navisa, Inc** (713-644-1443). Waters has the option to purchase the building within the first six months of occupancy. **Conrad Bernard** of **Boyd Commercial** represented the tenant, while **Travis Land** and **John Ferruzzo** of **NAI Houston** represented the landlord.

VACANT LAND

ExxonMobil Corp. (972-444-1107) donated 35 acres of land at the intersection of the Gulf Freeway and Scarsdale in southeast Houston (576Z) to a private group that plans to build a Veterans Museum. The museum will honor veterans of all branches of the military. Construction is expected to begin sometime within the next three years.

Eastbourne Investments, Wellington Development Co., and Fidelis Realty Partners, Ltd. (713-623-6800) purchased 12.3 acres at the corner of FM 529 and Fry Rd. in northwest Houston (406Q) from **DKD 529 III, LP**. Retail will likely be developed on the newly acquired property, however, exact plans have yet to be finalized. Both the buyers and seller used in-house representation in the sale.

Telge/Tuckerton Park, LP purchased 5.5 acres at near the intersection of Telge Rd. and Tuckerton Rd. in northwest Houston (408A) from **Aberdeen Business Park, Ltd.** **Steve Adkisson** of **The National Realty Group** represented the buyer, while **John Talhelm** and **Kevin Erck** of **Cushman and Wakefield** represented the seller.

FOCUS ON HEALTHCARE

The **University of Texas M.D. Anderson Cancer Center** (713-792-6161) will build a 730,000-square-foot office building (**MED 015**) at 1800 Holcombe Blvd. in the Medical Center (533E). The 21-story building, named **Faculty Center Tower**, will house the **Research Medical Library** in addition to various faculty and academic departmental offices. Construction is expected to begin this November, with completion slated for Spring 2008.

Memorial Hermann Healthcare Systems (713-448-5555) in partnership with **Trammel Crow Co.** have broken ground on a 137,000-square-foot medical office building (**SWF 115**) at the intersection of U.S. Highway 59 and Beechnut Ave. in southwest Houston (530K). The property is unique in that it offers physicians the opportunity to purchase equity in the property. Construction is scheduled for completion by July 2006. In addition, Memorial Hermann has also completed construction of **Memorial Hermann Southeast Professional Building II (SOE 141)**, a 100,000-square-foot medical office building located at 11920 Astoria Blvd. in southeast Houston (616H). **Mac Haik Healthcare, LTD** will lease and manage the property. Space in the office building leases for an average of \$18.50 per square foot.

Construction has begun on **The Brown Foundation Institute of Molecular Medicine for the Prevention of Human Disease**. The 229,000-square-foot lab facility will be located at 1825 Pressler St. near the Texas Medical Center (532H). Fayez S. Sarofim donated \$25 million to the facility in order to advance stem cell research. Construction is expected to be completed in early 2006.

The **University of Texas Medical Branch at Galveston** (409-772-8699) has broken ground on the **Galveston National Labrotory**, a 174,000-square-foot facility on the university's campus in Galveston (775K). The \$167 million lab will be one of the nations' top facilities for the study of infectious viruses, diseases, and bacteria. Construction is expected to be completed by June 2008.

Thomas J. Pisula, a private investor, has announced plans to develop the **Six Pines Medical Center (TWC 262)** and the **Pineroft Medical Center (TWC 079)** on two recently purchased tracts of land in The Woodlands from **The Woodlands Development Company**. Six Pines Medical Center will consist of a 39,000-square-foot medical office building at the intersection of Six Pines Rd. and Research Forest Dr. (251M). Construction has already begun on the property and completion is scheduled for May 2006. Pineroft Medical Center, located on the northwest corner of Pineroft Dr. and Medical Plaza Dr. (251D), will include three medical office buildings: a 26,000-square-foot building, a 48,000-square foot building, and a 23,000-square-foot building. Construction on the first two buildings is scheduled to begin in the fourth quarter of 2005 with completion expected by the fall of 2006, while the third building will begin construction in early 2006 with expected completion by early 2007. The **Jeff Beard Company** (281-367-2220) will handle the leasing and managing duties at the properties.

The Kelsey-Seybold Clinic (713-442-0000) opened its new 69,000-square-foot **Spring Medical and Diagnostic Center** at 15655 Cypress Woods Medical Dr. in northwest Houston (331U). Specialists in the fields of dermatology, gastroenterology, surgery, urology, pulmonary, and sports medicine are located at the new clinic. The clinic is equipped to provide on-site diagnostic services, MRI and CT Scans, and digital radiology services.

Medical Commons (615-371-6191) broke ground on **Pearland Medical Center (SOE 142)**, a medical center campus located on FM 518 at Highway 90 in Pearland (616X). The campus will consist of a 30,000-square-foot clinical facility, which will feature an ambulatory surgery center, a diagnostic imaging center, an emergency and urgent care center, and a 50,000-square-foot medical office building.

The Betz Cos. (281-873-4444) is nearing completion of **Eagle Springs Professional Center (NE2 024)**, a 26,000-square-foot medical office building located at 5510 Atascocita Rd. in Humble (377A). Space in the building will lease for an average of \$18.00 per square foot. Construction is expected to be completed by the end of September.

GP Medical Ventures, LLC (615-665-1223) is considering constructing a new medical office building in conjunction with its 120,000-square-foot **Town & Country Hospital Medical Offices (KFW 095)**, which is currently under construction at the northwest corner of Interstate 10 and Beltway 8 in west Houston (489C). Town & Country Hospital Medical Offices, which will be connected to the future 105-bed **Town & Country Hospital**, is expected to be completed in October. The property is already fully leased, which has prompted GP Medical to consider the second medical office building for the property site.

ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **decreased by 17,000 jobs** to 2,306,400 in July 2005, according to the **Texas Workforce Commission**. However, this month's total is **26,800 jobs more** than the 2,279,600 jobs at this time last year. Of nonagricultural employers, the Government sector posted the largest loss over the last month, as 16,000 jobs were lost. The Professional & Business Services sector posted the largest gain, at 800 new jobs. Over the year, the Natural Resources, Mining, & Construction sector has changed the most, adding 9,600 jobs.

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for July 2005 were \$357.0 billion, an increase of 1.8% from the previous month, and up 10.3% from July 2004. Retail trade sales were up 1.9% from June, and were 10.7% above last year's level. Gasoline station sales were up 20.3% from July 2004 and sales of motor vehicle and parts dealers were up 17.9%.

Personal income increased \$29.3 billion, or 0.3%, and Disposable Personal Income (DPI) increased \$27.2 billion, or 0.3%, in July 2005, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$85.7 billion, or 1.0% in July 2005. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.5% in July 2005, and is still 3.2% higher than July 2004. All categories of goods, aside from apparel, rose in price.

The latest **Conference Board Survey** indicates that the Consumer Confidence Index increased to 105.6 in August 2005, up 2.0 points from 103.6 in July. 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 increased 0.1% in July to 138.3. 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 increased 0.1% in July, and is 3.0% higher than the July 2005 level. Manufacturing output increased in July, and is 3.0% higher than the July 2004 level. The rate of industrial capacity utilization was 79.7% in July, a decrease of 0.1% from June, but up 1.2% from last year.

The **Mortgage Bankers Association (MBA)** reports that the 30-year fixed-rate mortgage (FRM) averaged 5.73%, with an average of 1.21 points (including the origination fee), for the week ending August 26th, 2005. Last year at this time, the 30-year FRM averaged 5.78%. The average for the 15-year FRM is 5.36%, with an average of 1.19 points (including the origination fee). A year ago, the 15-year FRM averaged 5.13%.

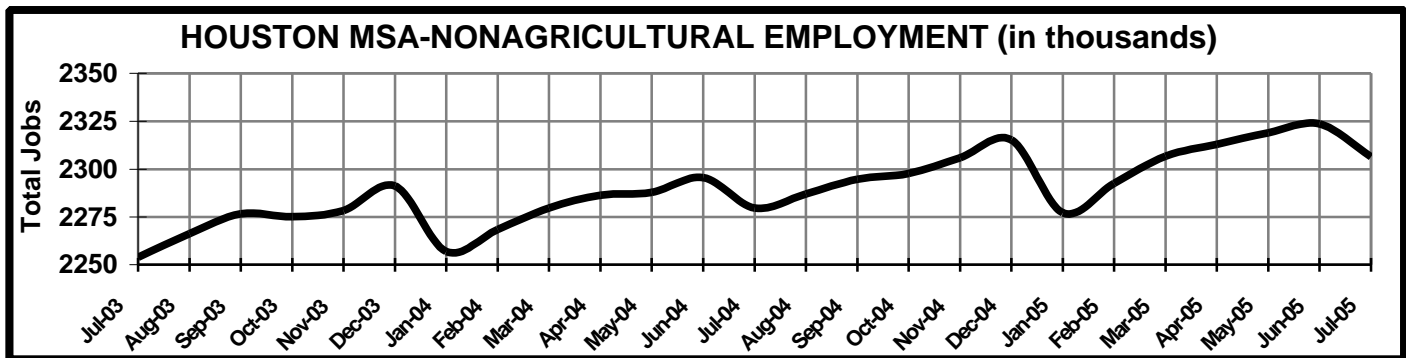
The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 3.3% in the second quarter of 2005, according to advance estimates, down from the 3.8% growth rate recorded in the first quarter of 2005. The increase in GDP during the second quarter was largely attributed to increases in Personal Consumption Expenditures, private inventory investment, residential fixed investment, equipment and software, and acceleration of imports.

The **U.S. Department of Commerce** reports that construction spending during July 2005 was estimated at a seasonally adjusted annual rate of \$1,099 billion, unchanged from the June 2005 rate. The July figure is 6.0% above the July 2004 estimate of \$1,038 billion. Private residential construction was at a seasonally adjusted annual rate of \$615.8 billion in July, 0.2% above the revised June estimate of \$614.6 billion, and 8.5% above the July 2004 estimate of \$567.7 billion.

The **Baker Hughes** count of active domestic rotary rigs is up from 1,309 in June to 1,349 in July. The rig count in July is up 9.23% from the July 2004 figure of 1,235 rigs. 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 **Federal Reserve** boosted the target for the federal funds rate by 0.25% to 3.50% at their August session, marking the tenth consecutive increase. The funds rate is the interest that banks charge each other for overnight loans and is the Federal Reserve's most potent tool for influencing the economy.

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



Source: Texas Workforce Commission (TWC)

POTPOURRI

Results of **Administaff's Business Confidence Survey**, which survey's a random sampling of CEOs, CFOs, and other high level executives of companies that are Administaff clients, indicate that businesses are optimistic about the second half of 2005. Over three-fourths of the respondents believed their companies met or exceeded growth expectations for the first half of 2005, and roughly half predicted their companies would grow at a faster rate over the next half of the year. In addition, 45% of respondents said their companies will increase hiring over the second half of 2005, 35% will continue with the same workforce, while only 13% are expecting to downsize.

According to the **Census Bureau**, Texas has officially become the fourth state where minority residents make up the majority of the population. The latest population estimates indicate that Texas' minority population stands at 50.2%. The other states with majority minority populations are Hawaii (77%), New Mexico (57%), and California (56%). The District of Columbia also has a majority minority population.

InterContinental Hotels Group (770-604-8248) has begun renovating the former Regency Park Senior Living Facility at 5160 Hidalgo in the Galleria area (491U) into a 132-room **Hotel Indigo**, Intercontinental's boutique hotel concept. Hotel rooms will feature wood flooring, high ceilings, and spacious walk-in showers and will average \$100 per night. A café, wine bar, and exercise room will be located on the property. As part of the hotel's concept, the background including the music, scents, and decoration changes each quarter. The new hotel is expected to open by mid-October.

The **Sam Houston Hotel** located at 1117 Prairie in the Central Business District (493L) will be officially relaunched as the **Alden Houston Hotel** next month. Alden Hotel is the latest concept of owner **Smith Management Co.** The Houston location will keep the same furnishings as before, however all of the Texas history themed artwork will be removed from the property in order to make way for more contemporary decorations.

Hilton Hotel Corp. (310-205-4656) has broken ground on an 11-story 162-room **Homewood Suites** hotel at 2950 Sage in the Galleria area (491U). The rooms will all be residential-style suites. Construction is slated for completion in February of 2006.

Houston was selected by the **National Senior Games Association** to host the **2011 Summer National Senior Games**, also known as the Senior Olympics. Some of the sporting events include archery, badminton, basketball, bowling, swimming, golf, track and field, and shuffleboard. Although exact venues have yet to be decided, it is likely that the events will be held at the George R. Brown Convention Center, Reliant Center, local college and university facilities, and various parks around Houston. Seniors age 50 and older are eligible to compete in the games.

Commuter Rail Partners, a private partnership between **Fluor Enterprises, Inc., Bombardier, Turner Collie and Braden, Inc., Vinson & Elkins, Lehman Brothers,** and **Merrill-Lynch**, presented a proposal to the Stafford City Council to build a 27-mile commuter rail line from Fannin St. in Houston to Rosenberg. The estimated \$400-million project will be privately funded. Provided TxDot approves the plans, construction would likely begin within one year. It is expected the project would take three years to be completed and become operational.

Governor Rick Perry signed a new law that limits the expanse of the eminent domain ruling recently approved by the U.S. Supreme Court. The law states that mom and pop businesses and residential property must be willingly sold to developers, rather than being seized for private development in the name of public interest. Further Perry stated that the government should only exercise eminent domain "in cases where the property is vital to achieving a compelling public good like the construction of schools, public roads, or utility lines." The new law also establishes a special commission to further study the eminent domain issue.

The **Texas Department of Transportation** canceled a planned vote by the **Transportation Policy Council**, which screens Houston area proposals for federal road funding, on the widening of the Interstate 45 North by three additional lanes. The vote was called off after complaints from Woodland Heights and Near Northside area residents. TxDot is now looking at other options for Interstate 45, including adding elevated lanes on the freeway or adding a tunnel section to the freeway. TxDot is also considering the possibility of expanding the Hardy Toll Rd.

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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