



Your Key to Real Estate Services

Published by:
O'Connor & Associates

2200 N. Loop West, Suite 200
Houston, TX 77018
713.686.9955

HOUSTON REAL ESTATE TRENDS

EDITED BY KATHRYN KOEPKE

\$199 PER YEAR

VOLUME 20 NUMBER 12

FEBRUARY 2006

APARTMENTS

Apartment sales in Greater Houston were especially brisk in 2005, as more than 200 properties traded hands, and 2006 appears to be off to an active start. Some of the areas that saw the most activity include Southwest Houston where at least 26 properties sold in 2005, the Champions/FM 1960 area where 20 sales were recorded over the year, and the Inner Loop approximately 30 properties sold in 2005. It's not surprising that Inner Loop properties were highest in demand. Investor interest was notably strong inside the Loop, in particular in the Museum District and Medical Center, where properties traded for prices well in excess of \$100,000 per unit. And as job growth in the Medical Center (and also in downtown and the Galleria) continues to expand, the residential acquisition prospects will only get brighter.

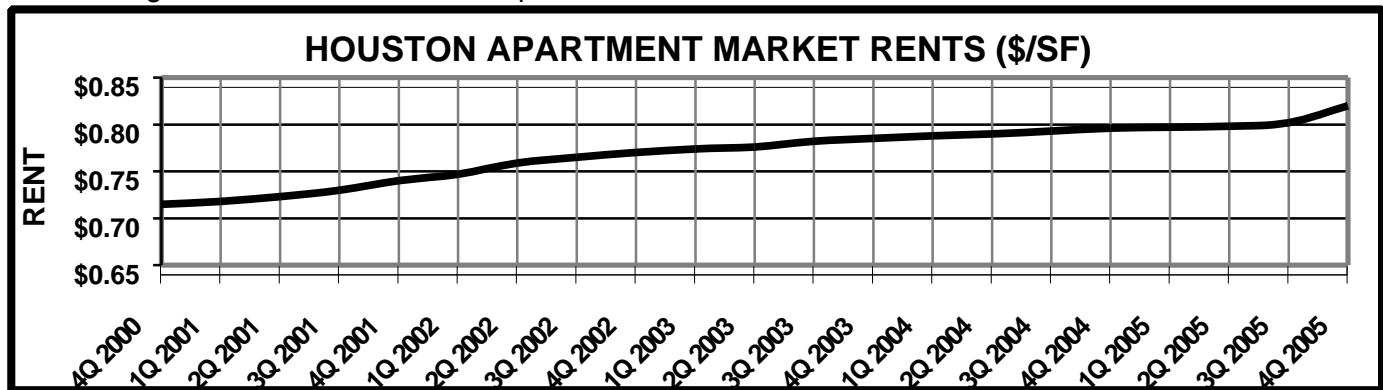
According to the O'Connor & Associates **Fourth Quarter 2005 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **91.83%** (Class A = 93.38%; Class B = 92.50%; Class C = 90.51%; Class D = 86.09%). Occupancy is up 1.14 points from the third quarter and 4.55 points over the past year. The overall monthly **rental rate** is **\$0.817 per square foot** (Class A = \$1.073; Class B = \$0.789; Class C = \$0.669; Class D = \$0.565). Overall rents are up \$0.016 from the third quarter and \$0.021 over the past year.

Note: The multifamily projects listed herein are followed by their representative identification number as they appear in the new O'Connor & Associates **Apartment Data Online** platform and are provided for subscriber cross-referencing. *The property information contained within this database is updated on a monthly basis and accessible over the web (please contact us for more details).*

- **Simmons Vedder & Co.** (713-626-9102) and **Fidelis Realty Partners** (713-623-6800) are developing a residential and retail project located on Old Spanish Trail near Reliant Park in southwest Houston (532L). The yet unnamed development will include 300 apartments over four stories atop 17,000 square feet of ground level retail. Unit types and rental rates for the apartments (**17220**) have yet to be released. The retail portion, **Kirby Commons (INL 467)**, will be managed and leased by Fidelis with asking rental rates averaging \$2.71 per square foot. Construction of the project is slated to begin in the first quarter of 2007.

- **The Property Group** (713-977-1772) is developing **Canal Place Apartments (17185)**, a 200-unit complex located at 2104 Canal St. just east of downtown (493M). One-, two-, and three-bedroom units will range in size from 697 to 1,377 square feet with rental rates expected to average \$0.91 per square foot. 150 of the units are restricted to tenants earning 60% or less of the area median income. The six-story complex will feature two levels of parking, a swimming pool, fitness and business center, a children's playground, balconies, granite countertops, and tile flooring. Construction on the complex began in January and is slated for completion early in 2007. Pre-leasing is slated to begin in the summer of 2006.
- **The Wilshire Village Apartments (2542)** located at 1715 W. Alabama and Dunlavy in the Museum District (492V), which has been on the **Greater Houston Preservation Alliance's** list of endangered historic places for years, has been added to the **Preservation Texas 2006** list. The owner of the 65-year-old 144-unit complex, **Commerce Equities** (713-528-6765), announced plans in 2005 to demolish the apartments to make way for a new high-rise residential project. Construction dates have yet to be scheduled.
- **Brazoria County** has reopened their waiting list for Section 8 vouchers. In 2001, the list was closed with nearly 500 people seeking vouchers. Over 1,000 applications were handed out when the list reopened March 1st. **HUD** will assign the county between 50 and 100 vouchers, which will be distributed by a computerized lottery method.

The following chart illustrates historical apartment rents.



The Bascom Group (949-955-0888) purchased two Houston area apartment complexes. **The Waterford at Clear Lake (4059)**, a 400-unit complex located at 801 E. Nasa Rd. 1 in Webster (618U), was purchased from **Crimi Mae** in a foreclosure sale. The 23-year-old Class B complex is 76% leased with average rental rates at \$0.81 per square foot. **Greystar Management Services** will manage the property. **Huntington Green (1423)**, a 264-unit complex located at 13100 Stonefield in north Houston (372B), was purchased from the **Hayman Company**. The 24-year-old Class B complex is 82% leased with rental rates averaging \$0.72 per square foot. **Greystone Asset Management** will manage the property. Bascom was represented in-house by **Chad Sanderson** in both sales. **Todd Marix** of **CB Richard Ellis** represented Hayman in the sale of Huntington.

CNC Investments (281-444-1585) purchased two Houston-area complexes from **Don Mullins Interests**. **Cherry Creek Apartments (1708)** is a 274-unit, fully-leased Class B complex located at 5801 Hollister in northwest Houston (450D) with rents averaging \$0.72 per square foot. **Winchester Place (1578)** is a 256-unit, 99% occupied Class B complex located at 10910 Gold Point Dr. in northwest Houston (409F) with rents averaging \$0.85 per square foot. CNC will manage the properties. **David Mitchell** of **Apartment Realty Advisors** represented the seller in the transaction.

PASSCO Companies (949-442-1000) purchased **Alanza Brook (16183)**, a 336-unit Class A apartment complex, formerly called Alta Brook, located at 3030 Dunvale Rd. in west Houston (490Y), from **Wood Partners**. The year-old property is 95% leased with average rental rates at \$0.98 per square foot. The buyer was represented in-house by **Gary Goodman**, while **Ed Cummins** of **Hendricks & Partners** represented the seller. **Greystar Management Services** will manage the property.

Prescott Capital Management, LLC (212-843-8071) and **TVO Realty Partners** (915-778-7500) purchased **The Blenheim (1316)**, a 156-unit complex located at 1007 Cypress Station Dr. in north Houston (332J), from **Gross Investments**. The 6-year-old Class A complex is 90% leased and has rental rates averaging \$1.00 per square foot. **Jeff Pattersen** of **Apartment Realty Advisors** brokered the transaction. **EPT Management** (713-627-3330), a subsidiary of TVO, will manage the property.

Victory Apartments, LLC purchased **Victory Apartments (3541)**, a 78-unit Class C apartment complex located at 2606 Beatty in south Houston (534G), from **Kathleen Fowler**. The 35-year-old property is fully leased with average rental rates at \$0.88 per square foot. The complex features pitched roofs and is master-metered for electricity. **Dan McDunn** of **Marcus & Millichap** (Portland) represented the buyer, while **Robert Su** and **Sheri Carey** of **Marcus & Millichap** (Houston) represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales decreased in January, as 3,641 used homes were sold, down from the 5,557 homes sold in December, according to the **Houston Association of Realtors (HAR)**. Sales for January 2006 were up 13.2% from January 2005. The median price of a used single-family home sold in January was \$138,110, up 4.4% from January of last year, while the average home price was \$179,160, up 4.4% from the January 2005 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 23% in January to 2,730 from 2,212 in December, and are up 15% from January 2005. Realtor co-op sales represent 55% of net sales, up from 51% in January 2005. Traffic decreased 7% from last year to 28,763 in January 2006. The inventory of completed speculative homes (2,103) is 2% below last year's inventory. There are 4,063 spec homes under construction, which is up 21% from 2005. Overall, the 6,164 specs (both completed and under construction) represent a 9% increase over 2005. *Note: the 24 homebuilders in this survey account for approximately 61% of housing starts in Houston.*

Nationwide sales of new single-family homes decreased in January to a seasonally adjusted annual rate of 1,233,000, 5.0% below the revised December sales rate of 1,298,000, but were 3.3% above the revised January 2005 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$238,100. Privately owned housing starts were at an annual rate of 2,276,000 in January 2006, 4.0% above the January 2005 figure. Privately owned housing completions were at an annual rate of 1,971,000 in January 2006, 4.7% above the January 2005 figure.

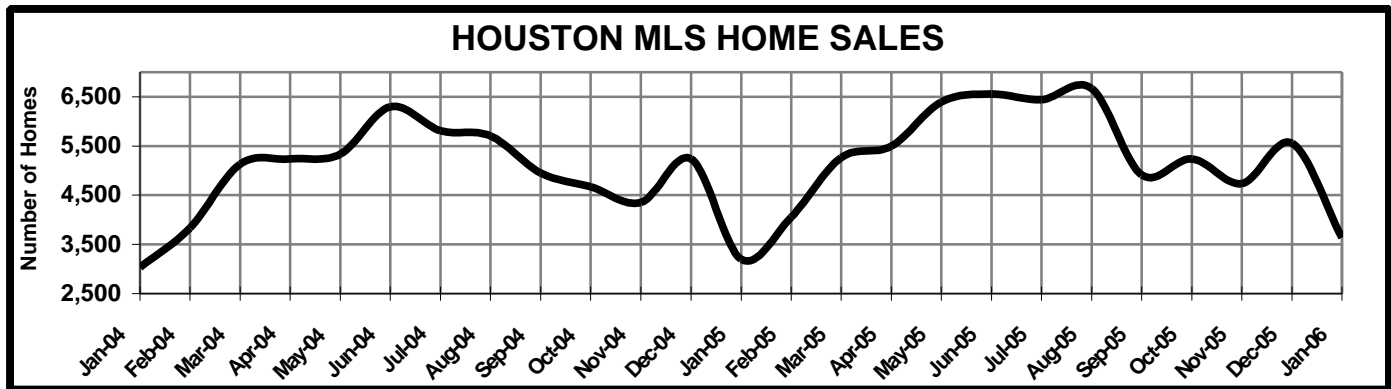
The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, remained unchanged in February, for the third consecutive month, at 57 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes was unchanged at 62, the index measuring sales expectations for the coming six months decreased 1 point to 65, while the index measuring the traffic of prospective buyers decreased 1 point to 40.

According to a survey recently conducted by the **National Association of Home Builders**, builders reported that 20% of builders have experienced more home order cancellations than six months ago while 4% report that the increases in cancellations are significant. 15% of the trade group cited job losses as the cause of buyer cancellations. Allowed to elaborate on the cause for cancellation, 45% of builders reported a buyer inability to sell their existing home, and one third reported buyers not being able to qualify for financing as mortgage rates continue to rise. 72% of builders surveyed have yet to report an increase in cancellations. New signed contracts also fell 21% from the previous year.

According to the **National Association of Realtors (NAR)**, 371,000 existing homes were sold in January 2006, down 29.6% from 527,000 in November. The median sale price was \$211,000, an 11.6% increase over sale prices a year ago. Despite three consecutive months of decreasing sales to end the year, 2005 marked the fifth straight year of record-setting existing home sales.

The Woodlands, a 27,000-acre wooded project north of Houston developed by **George Mitchell**, ranked number one in new homes sales for the state of Texas for the seventeenth consecutive year. The Woodlands also ranked 6th in the nation with 1,515 new homes sold in 2005.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Post Properties (972-851-3255) is converting all 143 units in the 15-story tower at **Post Midtown Square (2670)**, located at 302 Gray in Midtown (493N), into condominiums and will be known as **Rise**. Studio, one-bedroom, two-bedroom, and penthouse lofts will be available. They range in size from 580 to 4,800 square feet. Asking prices range from the high \$100,000's to \$1 million. Rise will feature courtyards, controlled access parking, skyline views, and a rooftop swimming pool. **Al Coker & Associates** will manage the conversion and marketing of the condos.

MDA Holdings (713-975-0300) began demolition of **River Oaks Center (GPL 029)** to make way for their **2727 Kirby** condominium development in the River Oaks area (492U). The 30-story project is expected to include 96 units, with one-, two-, and three-bedroom homes averaging 1,280 square feet and priced around \$450 per square foot. Construction of the condos is slated to begin in April.

N Sky Living (281-326-1200) will break ground on **Endeavor**, a 30-story, 80-unit condominium development located at 4821 Nasa Pkwy. in Pasadena (618V), in March of this year. 60% of the condos, which range in size from 1,352 to 5,500 square feet and in price from \$340,000 to \$2.5 million, have been pre-sold.

The Woodlands Development Co. (281-719-6100) is developing **East Shore**, a 260-acre residential project along Lake Woodlands (251G). The development will be comprised of several smaller communities designed to establish a more urban feel and encourage residents to walk to nearby shops and restaurants. The development will include a mix of condominium and single-family homes. East Shore, which is projected to have up to 4,000 homes, will also feature a 22-acre island in **Lake Woodlands** that will include a boathouse, fitness-center, swimming pool, and kayak rentals. Several communities within East Shore are underway. **Hanfield Witmer Davis** is developing the 36-townhome community **Park Place Brownstones**. The townhomes range from 2,400 to 3,300 square feet and are priced from \$400,000 to \$600,000. Construction dates for the homes have yet to be released. **Village Builders** (281-830-8664) have begun construction on **Wyngate Terrace**, a townhome community featuring 55 townhomes ranging in size from 2,400 to 2,800 square feet and in price from \$400,000 to \$500,000. The first homes of are expected to be delivered starting in November. The **Southern Coast** section of East Shore, an 18-acre residential development with frontage on Lake Woodlands, also has communities in the planning and development stages. **McVaugh Custom Homes** (713-682-2777) is developing **Oasis Point Townhomes & Condominiums**. The community will feature 54 condos in a trio of three-story condominium buildings and 56 townhomes. The condos will range in size from 2,000 to 2,600 square feet and are priced from \$450,000 to \$700,000. The townhomes will range from 2,400 to 3,600 square feet in size and are priced from \$350,000 to \$600,000. **McGuyer Homebuilder, Inc.** (713-952-6767) will develop 21 townhomes ranging in size from 2,500 to 2,800 square feet and are priced from \$350,000. Construction of Southern Coast is slated to begin this summer and is expected to take two years to complete.

Land Tejas (713-783-6702) purchased 3,350 acres of land on both sides of the Gulf Freeway in Texas City (699V) from **Lon/Tex** for the development of **Lago Mar**. The community is expected to have around 7,000 homes upon its completion in an estimated 15 years. Homes will range in price from \$100,000 to \$400,000 and will be situated around lakes, a recreation center, and water park. 500 acres of land are reserved for commercial use, which is expected to include an outdoor retail center at the intersection of Holland Rd. and the Gulf Freeway. Roadwork is slated for immediate construction with homes following in 2007.

Chalet Construction, Inc. (713-466-6011) and **Jolly Properties, Inc.** (281-444-5646) are developing **Meigs Field Airport Subdivision**, located off Muschke Rd. near FM 2920 in Tomball (286T). The 97-acre development will feature 66 homes on two streets lining both sides of the subdivision's own 4,700-foot-long runway. Each home has its own private hanger for either single or twin-engine planes. Lots are priced at \$90,000 with custom homes built by Chalet Construction starting at \$300,000. Construction is slated to begin in April.

Grota Homestead, originally Germantown, located in the area bound by Interstate 45, Houston Ave. and Woodland Park east of Woodland Heights (493C), has been added to the **Greater Houston Preservation Alliance's** list of endangered historic places and the **Preservation Texas 2006** list. The neighborhood, developed between 1890 and 1920, has been plagued by freeway construction beginning in the 1960's and is in jeopardy again with the proposed expansion of Interstate 45. Dates and finalized plans have yet to be released for the \$2.1 billion I-45 expansion.

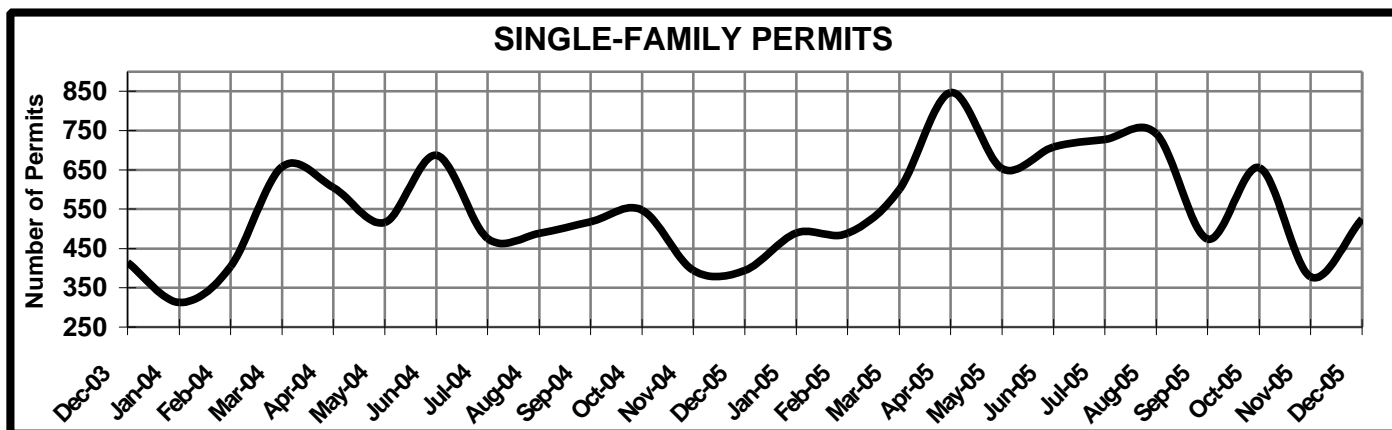
PERMIT ISSUANCE

The **City of Houston** issued permits to build 526 private single-family houses and 23 private multifamily buildings in December. Demolition permits were issued for 148 private single-family houses. In addition, 207 permits were issued for privately owned non-residential construction totaling \$43,477,193 and 11 permits were issued for public non-residential construction totaling \$1,144,600. Additions, alterations, and conversions totaled \$92,423,811 for the private sector and \$125,521,904 for the public sector.

Cost of Construction*

	2003	2004	2005
Month of December	\$259,756,888	\$389,048,264	\$372,052,601
Year-to-Date	\$3,056,182,840	\$2,999,725,442	\$4,118,136,568

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



OFFICE BUILDINGS

It's no secret that the downtown office market continues to be plagued by average vacancies painfully close to 20% and stagnant rents. With the thought that things will improve in the near future, investors acquired several downtown properties, notably **EPCO, Inc.'s** acquisition of **1100 Louisiana**, a building in which they have subsequently occupied 300,000 square feet. Also, **Wells Real Estate Funds** paid the highest per-square-foot price in the Houston office market's history (\$286 psf) for **5 Houston Center**. Perhaps investors were onto something because 503,000 square feet of new lease space was announced in February and an additional 65,000 square feet of renewed and expanded lease space signed. Strong job growth has many experts predicting a healthy 2006 for the Houston office market overall, and positive fourth quarter numbers indicate the market is moving in the right direction as downtown occupancy appears to be regaining its strength.

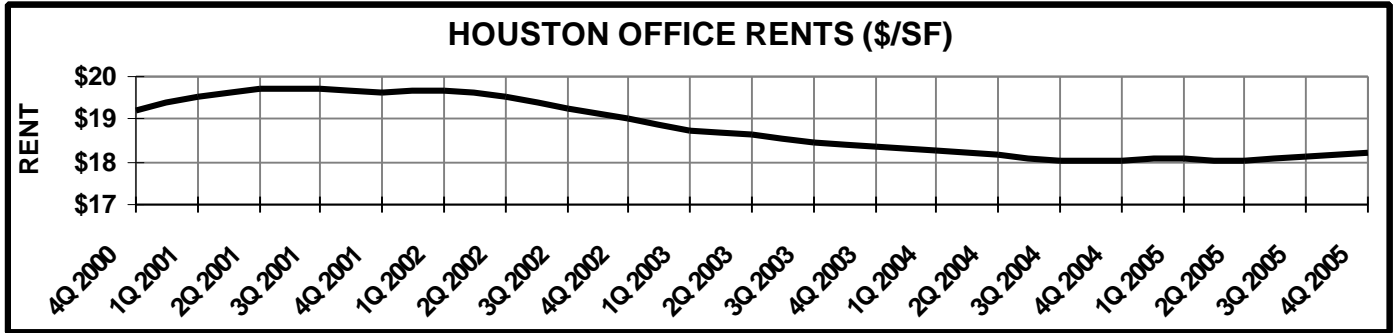
According to the O'Connor & Associates **Fourth Quarter 2005 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **82.85%** (Class A = 84.55%; Class B = 82.11%; Class C = 80.79%; Class D = 80.79 %). The citywide annual multi-tenant office **rental rate** is **\$18.21 per square foot** (Class A = \$21.07; Class B = \$16.81; Class C = \$13.76; Class D = \$11.46). Overall rents are up \$0.13 from the fourth quarter last year.

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).

- **Spire Realty Group** (713-223-8200) has demolished **William Penn (CBD 039)**, a 65,000-square-foot office building located at 1423 Texas Ave. in the Central Business District (493R). The 83-year-old building was not feasible as a renovation. There are no immediate plans for the two-acre site, which is currently being used for parking.
- **Louisiana Place (CBD 061)**, owned by **RS Investments Real Estate Group** (415-591-2700), has undergone a name change and is now known as **Total Plaza**. **Price Waterhouse** is the 847,000-square-foot building's largest tenant occupying 154,740 square feet; however, as **Total Petrochemicals USA, Inc.** has a longer term on their 151,518-square-foot lease, they exercised their naming rights. The 35-year-old building is 82% occupied with rents averaging \$20.00 per square foot.
- **IRP/Lincoln Northborough** (713-654-8883) has placed **Three Northborough (GNB 060)**, a 156,000-square-foot office building located at 12707 North Freeway in north Houston (372L), up for sale. The 23-year-old building is 86% occupied with average rental rates at \$17.00 per square foot. **Jeff Hollinden** and **Robert Williamson** of **HFF** are marketing the property.
- **Jacobs Engineering** (713-669-2200) is developing a 300,000-square-foot office building located at **5985 Rogerdale (WES 151)** in southwest Houston (529C), adjacent to their existing office building at **5995 Rogerdale (WES 145)**. Construction on the building began in October and is slated for completion in December 2007. The building will be fully occupied by Jacobs.
- **PM Realty Group** (713-209-5800) is developing **CyFair Professional Building (NOW 051)**, a 60,000-square-foot medical office building next to **Cypress Fairbanks Medical Center** located at the intersection of Steepletop Dr. and FM 1960 in northwest Houston (369W). Construction is slated to begin in the spring and completion is estimated for the fall. **Glenna Duke** and **Rhonda Huff** of PM Realty will lease and manage the building.
- **Coastal Bend Property Development** (281-648-1268) is developing **One Edgewood Place (SOE 153)**, a 42,000-square-foot office building located at FM 2351 and Woodland Trail in Friendswood (616Z). Suites ranging from 1,500 to 20,000 square feet are available. Construction dates for the development have yet to be released. Coastal Bend will manage and lease the building.

- **NorthMarq Capital** (713-622-6300) arranged \$18.5 million in financing on behalf of **Goddard Investment Group** (404-442-5500) for a 121,000-square-foot Class A office building located at **11451 Katy Freeway (KFW 074)** in west Houston (489A) occupied by the **University of Phoenix**. The 7-year-old building is 81% leased with rents at \$22.50 per square foot. **Bill Luedemann** of NorthMarq arranged the financing through **Lahman Brothers** in New York.

The following chart illustrates historical office rents.



FSP Phoenix Tower, LP (877-686-9496) purchased **Phoenix Tower (GPL 080)**, a 629,000-square-foot office building located at 3200 Southwest Freeway in the Greenway Plaza area (492X), from **Peak Phoenix Tower, LP**, an entity of **Hines**. The 22-year-old building is 92% occupied with rental rates averaging \$19.00 per square foot. **Paula Bruns** of **Hines** will continue to lease the building, while **Don Emerson**, also with Hines, will manage the building.

Commercial Developments International (212-899-4570) purchased **Northborough Tower (GNB 075)**, a 208,000-square-foot building located at 100 Glenborough Dr. in north Houston (372Q), from **Equity Office Properties**. The 23-year-old Class A building is fully leased. The buyer used in-house representation, while **Robert E. Williamson** of **HFF** represented the seller. **David Baker** of **Transwestern Commercial Services** will oversee the leasing of the building, and **Patrick Grimes**, also of Transwestern, will manage the building.

Younan Properties, Inc. (818-703-9600) purchased **Norfolk Tower (GPL 036)**, a 207,000-square-foot building located at 2211 Norfolk St. in west Houston (492Y), from **ING Clarion**. The 24-year-old Class B building is 75% occupied with average rents at \$19.00 per square foot. The buyer was represented in-house by **Brian Hennessey**, while **John Dailey** of **PM Realty Group** represented the seller.

American Spectrum Realty, Inc. (713-706-6278) purchased **Fountainview Tower IV (GAL 029)**, a 174,000-square-foot building located at 2401 Fountainview in west Houston (491T), from **Insite Realty Partners**. The 25-year-old Class B building is 85% occupied with average rents at \$17.00 per square foot. The buyer, who will manage and lease the building, was self-represented in the transaction, while **Logan Brown** of **Grubb & Ellis** represented the seller.

ChevronTexaco leased 465,000 square feet in **Continental Center I (CBD 072)**, a 1,300,000-square-foot Class A office building located at 1600 Smith in the Central Business District (493Q), from **Trizec Properties** (713-651-1515). The 22-year-old building is 99% occupied with rental rates averaging \$22.00 per square foot. **Tim Relyea** of **Cushman & Wakefield** represented the tenant, while **Paul Frazier** and **Paul Layne** of **Trizec** represented the landlord.

Enbridge leased an additional 38,000 square feet in **1100 Louisiana (CBD 029)**, a 1,300,000-square-foot Class A building in the Central Business District (493Q), from **EPCO, Inc.** (713-880-6500). Enbridge now leases a total of 190,000 square feet of the 26-year-old building, which is fully-leased with average rents at \$22.83 per square foot. **Charles R. Gordon** and **Kyle Kelley** of **CB Richard Ellis** represented the tenant, while **Ronnie Martin**, **Clark Davis**, and **Paula Burns** of **Hines** represented the landlord.

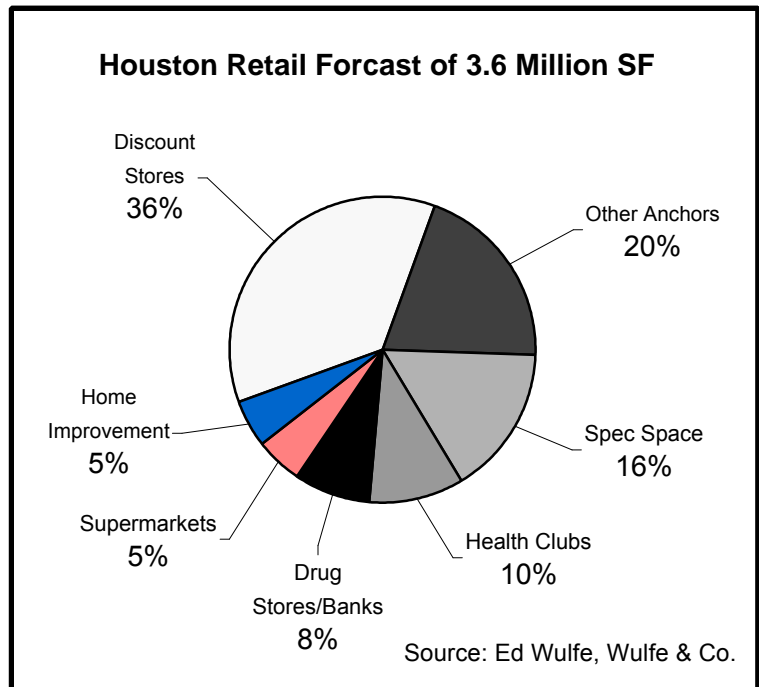
JP Morgan Chase renewed a 35,000-square-foot lease in **1301 Fannin (CBD 090)**, a 78,000-square-foot Class A building in the Central Business District (493Q), from **AGBRI Fannin, LP** (858-678-8500). The 22-year-old building is 87% occupied with rents averaging \$20.00 per square foot. **Mark Russell** and **Steve Beigel** of **Studley Houston** represented the tenant, while **Louis Rosenthal** of **Jones Lang LeSalle** represented the landlord.

Kinder Morgan, Inc. renewed and expanded their lease by 30,000 square feet to total 214,000 square feet in **One Allen Center (CBD 010)**, a 993,000-square-foot Class A office building located at 500 Dallas in the Central Business District (493Q), from **Trizec Properties** (713-651-1515). The 34-year-old building is 85% leased with average rents at \$21.50 per square foot. **Aaron Howes** and **Kyle Kelly** of **CB Richard Ellis** represented the tenant, while **Paul Frazier** of **Trizec** represented the landlord.

Occidental Oil & Gas Corp. renewed and expanded their lease by 30,000 square feet to total 383,000 square feet in **5 Greenway Plaza (GPL 022)**, an 880,000-square-foot Class B office building (492X), from **Crescent Real Estate Equities Co.** (713-840-1170). The 33-year-old building is 91% leased with rental rates averaging \$20.25 per square foot. **Charles Gordon** and **Lance McCarthy** of **CB Richard Ellis** represented the tenant, while **Randy Strait** of **Crescent** represented the landlord.

RETAIL CENTERS

According to predictions from **Ed Wulfe** of **Wulfe & Co.** at O'Connor & Associates Retail Forecast Luncheon, 3.6 million square feet of retail space will open in 2006, a 14.2% increase in the amount of new space built in the two previous years. Wulfe predicts that discount retailers, including **Wal-Mart** and **Target**, will make up 36% of the new construction in 2006. The two retailers are also dominating the grocery market so much so that **Kroger** and **H-E-B** are both planning only one new store each. 10% of new construction will go towards fitness clubs, including **LA Fitness**, **Bally's**, and **24 Hour Fitness**. Drugstores and banks will make up an additional 8% of the new construction. Wulfe also predicts that in the coming years, new developments will focus on mixed-use urban projects including a combination of residential, retail, office, entertainment, and hotel space. Two such projects already in the pipeline include Wulfe's own redevelopment of Fashion Square and Pavilion on Post Oak and the Houston Pavilions project downtown. Wulfe also stated that in the coming year, only 16% of new retail space will be speculative, a "conservative and prudent" decision, indicating a healthy market.

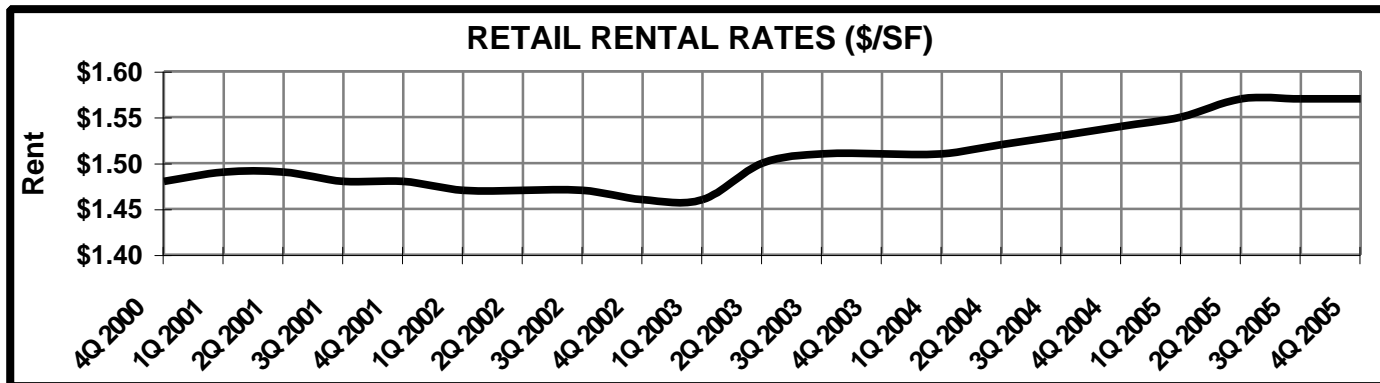


According to the O'Connor & Associates **Fourth Quarter 2005 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **86.52%** (Regional = 88.67%; Community = 86.92%; Neighborhood = 85.70%; Strip = 85.46%). Occupancy remained unchanged from the fourth quarter last year, and is up 0.05 points over the last quarter. The citywide monthly multi-tenant retail **rental rate** is **\$1.57 per square foot** (Regional = \$2.98; Community = \$1.49; Neighborhood = \$1.14; Strip = \$1.11). Overall rents are up \$0.01 from the fourth quarter last year.

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).

- **Triyar Companies** (281-421-3908) is developing **The Commons at San Jacinto** at the site of the vacant wing of **San Jacinto Mall (NEA 116)** located at 6801 Garth Rd. in Baytown (461X). Triyar plans to raze the wing, which formerly housed **Montgomery Ward** and **Beall's**, to develop a 200,000-square-foot open-air concept shopping and dining plaza. The Commons are slated to open in the fourth quarter of 2007. Triyar is planning a similar development for the **Greenspoint Mall (FNO 009)** as well, although details are not yet available.
- **Vistas Equities Group** (281-531-5300) has broken ground on the first phase of **LaCenterra at Cinco Ranch (FWE 279)**, a 380,000-square-foot mixed-use center at 23501 Cinco Ranch Blvd. in Katy (485B). Phase one, which began construction in January and is slated for completion in December, includes 160,000 square feet of retail space and 80,000 square feet of office space. Retail tenants include **Cold Stone Creamery**, **Talbots**, and **Merle Norman**. Phase two of the development, which will include 140,000 square feet of retail space below residential lofts, is slated to begin construction in March of 2007. **Vista Management** will manage the space, while **Page Partners** will lease the retail portions and **Trammell Crow Co.** will lease the office space.
- **The Woodlands Development Company** (281-719-6100) has begun construction on three mixed-use buildings in the **The Woodlands Town Center (252E)**. The largest of the three, **25 Waterway (FNO 272)**, is a 14,000-square-foot building with two levels of parking atop a level of retail located at the intersection of Waterway and Lake Robbins. Adjacent is **1599 Lake Robbins (FNO 273)** is a 10,000-square-foot two-story building housing one level of office space atop ground level retail. **1701 Lake Robbins (FNO 274)** is a 12,123-square-foot building fully leased to **Fidelity Investments** and **Taco Milagro**, located at the intersection of Lake Robbins and Six Pines Dr. Construction began on the buildings in February and is slated for completion this summer.
- **Canyon Partners** (214-691-0318) is developing **Lake Jackson Marketplace (FSE 374)**, an 83,500-square-foot retail center located at 210 Oyster Creek (Highway 332) in Lake Jackson (883L). The center will be anchored by a 69,000-square-foot **Kohl's** and will include 14,500 square feet of inline retail space as well as an additional 21,000 square feet of pad sites. Construction on the site is slated to begin next month, with the completion of Kohl's slated for November.
- **Barnes & Noble** (212-633-3489) is planning a store in the 125,000-square-foot expansion of **First Colony Mall (FSW 081)**, a one million-square-foot mall located at 16535 Southwest Freeway in Sugar Land (568X). The 10-year-old mall, which is owned by **General Growth Properties** (312-960-5000), is 98% occupied with average rents at \$2.20 per square foot. Construction dates and an opening for the store have yet to be released.
- Five **Krispy Kreme** (216-921-6900) franchise stores are closing in the Houston area: **930 Main St.** in the Central Business District (493Q), **5930 Richmond Ave.** in west Houston (491X), **12403 Westheimer** in west Houston (488V), **6127 Highway 6** in Missouri City (528E), and **510 W. Bay Area Blvd.** in Webster (618T). The owner of the Houston franchises, **Lone Star Doughnuts** (281-495-7800), will re-open each of the locations as **Jumble's Dough Factory & Coffee Bar** in March.
- **Dillard's** (501-771-4100) is closing its 123,000-square-foot store at **Pasadena Town Square (NSE 024)**, a 745,000-square-foot mall located at 171 Pasadena Town Square in Pasadena (536R). The store is slated to close in March. A new tenant has not yet been lined up, though **Triyar Companies** (281-241-3908), the mall's owner, says they are aggressively marketing the space.
- **HFF** (713-852-3500) arranged for an \$8.75 million, fixed-rate refinancing loan on behalf of **Cencor Realty Services** (713-781-7111) for **The Crossing at 518 (SOU 300)**, a 183,000-square-foot retail center located at Highway 288 and FM 518 in the Pearland (613N). The year-old center is 97% leased with average rental rates at \$2.08 per square foot. **Mark West** of HFF arranged the financing.

The following chart illustrates historical retail rents.



Kimco Realty (214-720-0559) purchased **Copperwood Village Shopping Center (FNW 333, 332, 246)**, a 350,000-square-foot center located at the intersection of Highway 6 and FM 529 in northwest Houston (408N), from **Gulf Coast Commercial Group**. The 10-year-old center is 98% occupied with rents averaging \$2.04 per square foot. Tenants include **Old Navy, Michaels, Petco, Pier 1 Imports, Bed Bath & Beyond, Office Max, Famous Footwear, and Palais Royal**. The buyer used in-house representation, while **Paula Foster** and **George Cushing** of **Grubb & Ellis** represented the seller.

CKC, LLC purchased **The Commons at Kings Crossing (NOE 335)**, a 22,000-square-foot center located at 2714 W. Lake Houston Pkwy. in Kingwood (337B), from **2714 West Lake Houston Parkway, LP**. The center is 93% occupied with average rental rates at \$1.45 per square foot. Tenants include **Countrywide Home Loans, Apple Tree Kids, and Texsun Pool Service and Supply**. **Christopher D. Winters** and **Roddy McAlpine** of **Colliers International** represented the seller.

USA Health & Fitness (281-485-8555) leased 15,000 square feet in **The Gulfway Plaza at La Marque (FSE 110)**, a 175,000-square-foot center, previously named the Outlet Shops at La Marque, located at 11001 Delaney St. in La Marque (736P), from **Sugar Oak Management Services, LLC** (703-471-7332). The 16-year-old center is 90% occupied. Anchor tenants in the center include a **VF Factory Outlet** and **WestPoint Pepperell**. The tenant used in-house representation, while **Craig Domin** of **Realtek Real Estate Services** represented the landlord.

INDUSTRIAL FACILITIES

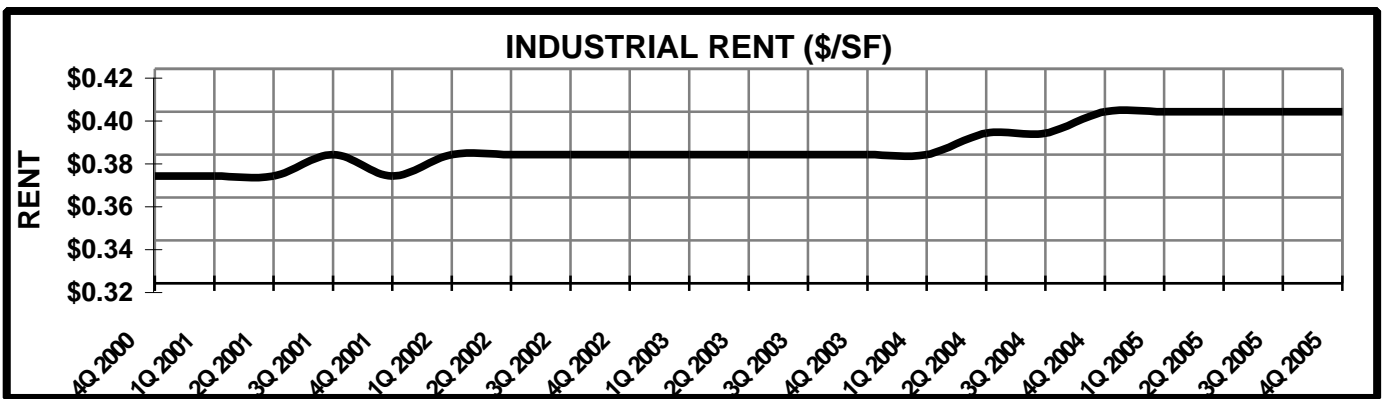
Over 4 million square feet of industrial space was added to the Houston area in 2005, and an additional 1.5 million square feet are currently under construction. The southwest market contributed 26 new buildings amassing to over 1.8 million square feet, followed by the northwest with 35 buildings and over 1.1 million square feet. The southern market, specifically the Port of Houston, currently has over 560,000 square feet of industrial space under construction. According to **Colliers International**, several sections of Beltway 8 are also expected to see significant growth in 2006. In particular, the section between Highway 249 and the North Freeway is projected to produce nearly 1 million square feet of new industrial space, while a little further down the road, the section spanning between North Freeway and the Eastex Freeway is expected to develop four new projects, including one with over 500,000 square feet. And with 11 consecutive quarters of positive absorption, the industrial market is still going strong.

According to the O'Connor & Associates **Fourth Quarter 2005 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.52%** (Flex = 89.99%; Bulk = 91.98%; Manufacturing = 93.29%). Occupancy is up 0.25 points from the last quarter, and up 0.99 points over the last year. The overall monthly **rental rates** remained flat at **\$0.40 per square foot** (Flex = \$0.46; Bulk = \$0.36; Manufacturing = \$0.32).

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).

- **StoneBridge Real Estate Development & Investments** (713-439-1151) is planning to develop up to 320,000 square feet of warehouse space near the intersection of Clay Rd. and Hempstead Highway in northwest Houston (450H) on 10.5 acres of land recently purchased from **Transwestern Commercial Services**. Plans call for six to eight warehouses, ranging in size from 20,000 to 40,000 square feet, available for sale or lease. **Chris Kugle** of **NAI Houston** represented the buyer in the land purchase, while **Brian Gammill** of Transwestern represented the seller. Chris Kugle and **Travis Land** of NAI Houston will handle leasing for the property.
- **Cadence McShane Corp.** (713-681-8500) has completed the construction of **Central Green Building #8 (0306)**, a 79,600-square-foot industrial building on 7.5 acres in the **Central Green Business Park**, located at 1646 Rankin Rd. in north Houston (373G), owned and developed by Liberty Property Trust.

The following chart illustrates historical industrial rents.



First Industrial Realty Trust, Inc. (713-681-0885), purchased a 663,000-square-foot distribution center located at **8800 City Park Loop Dr. (2272A)** in northeast Houston (455Y), from **Michelin North America, Inc.** Michelin leased back the 12-year-old facility for 10 years. **Troy MacMane** of **First Industrial Realty** represented the buyer, while **Doug Nicholson, John Nicholson, Thad Hickman, and Tyndall Yaap** of **Grubb & Ellis** represented the seller.

North East Trade Center, Ltd. led by **Dan Weinberg**, purchased **Northeast Trade Center (2256, 2257)**, a pair of office/warehouse facilities totaling 252,000 square feet located at 5407-5411 Mesa in northeast Houston (455Q), from the **Barsky Family, Ltd.** The 26-year-old facilities are fully leased. The buyer used in-house representation, while **Rob Stillwell** and **Doyle Toups** of **Grubb & Ellis** represented the seller.

Bourguignon Family, LP (714-396-7319) purchased the **CVS Distribution Center (0002T)**, a 113,000-square-foot facility located in **The Woodlands Trade Center (218N)**, from **The Woodlands Development Co.** and **Midway Companies**. The warehouse is fully leased to CVS. **David Bourguignon** of **Coldwell Banker Commercial** represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

La Porte Spencer Storage, LP (713-621-5156) purchased **La Porte Self Storage**, an 83,000-square-foot self-storage facility located at **2915 N. 23rd St.** in La Porte (540W), from **WPT Properties**. The 547-unit facility is 73% leased. **Tucker Knight** of **HFF** arranged a \$1.84 million, 10-year, 5.58% fixed-rate securitized loan for the buyer through **LaSalle Bank**.

Desert Palms Mobile Village, LLC (310-378-2434) purchased **Nations Storage (4838W)**, a 76,000-square-foot self-storage facility located at 22300 Highway 249 in northwest Houston (329P), from **Colony Associates, LLP**. The 7-year-old facility is 88% occupied. **Kenneth Hitchcock** of **Hitchcock Commercial Investments** represented the buyer, while **Don Clements** of **Marcus & Millichap** represented the seller.

LBJ Four Seasons Center, LLC purchased **Four Season Business Park (0496D, 0496E)**, a pair of office/warehouse facilities with a total of 63,000 square feet located at 6830 N. Eldridge Pkwy. in northwest Houston (408V), from **Four Seasons Center, LP**. The 8-year-old facilities are fully leased with average rents at \$0.52 per square foot. **Pasha Darvishian** of **Marcus & Millichap** (Newport Beach) represented the buyer, while **Monte Lowery** of **Marcus & Millichap** (Houston) represented the seller.

Colonnade Events leased a 69,000-square-foot office/warehouse facility at **7930 Blankenship (1503)** in west Houston (451N) from **ProLogis** (713-682-2292). The 36-year-old facility has average rental rates at \$0.37 per square foot. **Jim Vann** of **Moody Rambin Interests** represented the tenant while **Kyle Patterson** of **ProLogis** represented the landlord.

Hunton Distribution Group leased 60,000 square feet at **Gateway at Central Green (0333, 0333A)**, a 2-building, 236,000-square-foot distribution center located at 1606 Greens Rd. in north Houston (373P), from **Dividend Capital Trust, Inc.** (303-228-2200). The 5-year-old facility is fully leased with average rents at \$0.35 per square foot. **Joel Michael** of **NAI Houston** represented the tenant, while **David Hudson** of **Trammell Crow Co.** represented the landlord.

ThyssenKrupp Materials, Inc. leased a 36,000-square-foot warehouse at **Bondesen North Business Park (0595M)**, a five-building industrial park totaling 215,000 square feet located at 10648 W. Little York Rd. in northwest Houston (409U), from **Vantage Companies** (713-780-8866). The recently completed facility is 17% leased with rental rates averaging \$0.56 per square foot. **Jim Stark** of **CB Richard Ellis** represented the tenant, while the landlord used in-house representatives **Walter Menuet** and **Ryan Cropper**.

ScrapComputer.com leased 13,000 square feet at the **North Freeway Business Center (2075)**, a pair of warehouses totaling 213,000 square feet located at 6829 Fulton St. in north Houston (453P), from **Billingsley Co.** (214-754-1700). The 26-year-old facility is 95% occupied. **Jay Jenckes** of **Grubb & Ellis** represented the tenant, while **Steve Hazel** of **Insite Realty Partners** represented the landlord.

Surplus Buyer, LP leased 12,500 square feet in **I-10 Office Park (2384)**, a 153,000-square-foot office/warehouse facility located at 1105 Upland Dr. in west Houston (489B), from **Hartman Commercial Properties** (713-467-2222). The 29-year-old building is 90% leased. **Brian Harbuck** of **Hartman Management** represented the landlord in the transaction.

VACANT LAND

MediStar Corp. (713-266-8990) purchased 11 acres of land at the corner of Ardmore and Alice Streets near the Texas Medical Center (533K) from **Schlumberger Technology Corp.** **MediStar**, a medical facilities developer, has yet to release plans for the site. **Sam Sheff** of **Grubb & Ellis** represented the buyer, while **Mark Russell** of **Studley Houston** represented the seller.

HK Clear Lake Properties, LLC (281-364-1707), led by **Dr. Kirk Kanady**, purchased 8.6 acres of land at the intersection of Highway 3 and FM 1959 in Clear Lake (577X) from **Dr. Randhir Sinha**. There are no immediate plans for the site, but a medical office building is likely. **Rob Stillwell** of **Grubb & Ellis** brokered the transaction.

Finger Construction Company (713-867-7009) executed a 99-year ground lease for 1.4 acres of land located at **1400 McKinney** in the Central Business District (493Q) from **Park Blocks, Ltd.**, and entity belonging to former **Houston Rockets** star **Hakeem Olajuwon**. Plans for the site have yet to be released, although **Marvy Finger** stated the land is best suited for residential development.

ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **decreased by 33,400 jobs** to 2,370,700 in January 2006, according to the **Texas Workforce Commission**. This month's total is **79,400 jobs more** than the 2,291,300 jobs at this time last year. Of nonagricultural employers, the Trade, Transportation, & Utilities sector posted the largest loss over the last month at 17,100 jobs lost, followed by the Government sector, with 5,100 jobs lost. Over the year, the Professional & Business Services sector has changed the most, adding 20,400 jobs.

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for January 2006 were \$365.4 billion, an increase of 2.3% from the previous month, and up 8.8% from January 2005. Retail trade sales were up 2.3% from December, and were 8.5% above last year's level. Gasoline station sales were up 22.7% from January 2005, and sales of building material and garden equipment and supplies dealers were up 14.7%.

The **U.S. Department of Commerce** reports that estimated seasonally adjusted quarterly e-commerce sales totaled \$22.9 billion over the fourth quarter, up 3.3% from the third quarter and up 23.4% from the fourth quarter of 2004.

Personal income increased \$75.2 billion, or 0.7%, and Disposable Personal Income (DPI) increased \$50.2 billion, or 0.5%, in January 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$76.7 billion, or 0.9% in January 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.8% in January 2006, and is 4.0% higher than January 2005. Energy costs and Transportation costs posted the largest increases in price during January 2006.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to 101.7 in February 2006, down 5.1 points from 106.8, in January. 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 1.1% in January to 140.1. 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 0.2% in January after having increased 0.9% in December, and is 3.1% higher than the January 2005 level. Manufacturing output increased in January, and is 4.5% higher than the January 2005 level. The rate of industrial capacity utilization was 80.9% in January, an increase of 0.2% from December, and is up 1.7% from last year.

The **Mortgage Bankers Association (MBA)** reports that the 30-year fixed-rate mortgage (FRM) averaged 6.18%, with an average of 1.19 points (including the origination fee), for the week ending February 24, 2006. Last year at this time, the 30-year FRM averaged 5.61%. The average for the 15-year FRM is 5.84%, with an average of 1.24 points (including the origination fee). A year ago, the 15-year FRM averaged 5.10%.

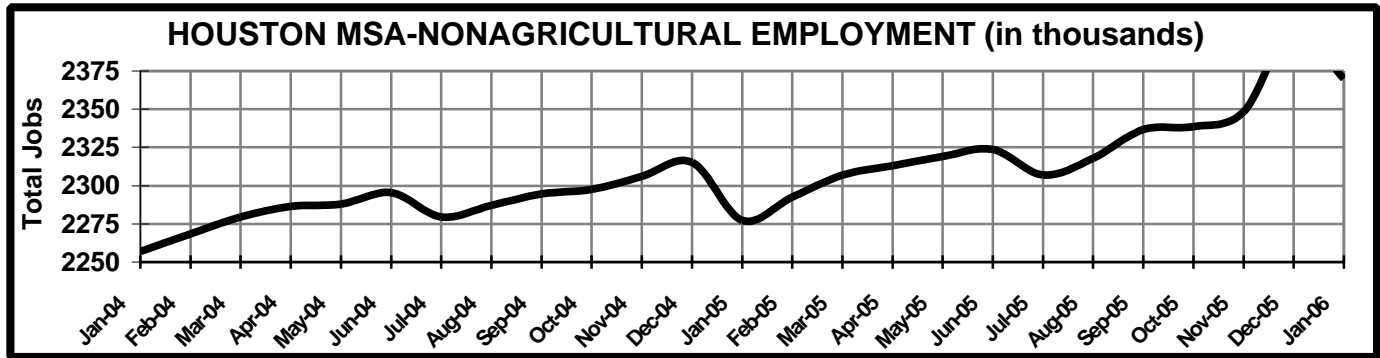
The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 1.6% in the fourth quarter of 2005, down from the 4.1% growth rate recorded in the third quarter of 2005. The increase in GDP during the fourth quarter was largely attributed to increases in Personal Consumption Expenditures, exports, equipment and software, and residential fixed investment.

The **U.S. Department of Commerce** reports that construction spending during January 2006 was estimated at a seasonally adjusted annual rate of \$1,163.4 billion, 0.2% above the December 2005 rate. The January figure is 7.4% above the January 2005 estimate of \$1,083.7 billion. Private residential construction was at a seasonally adjusted annual rate of \$649.9 billion in January, 0.1% above the revised December estimate of \$649.5 billion, and 6.5% above the January 2005 estimate of \$610 billion.

The **Baker Hughes** count of active domestic rotary rigs is up from 1,487 in January to 1,543 in February. The rig count in February is up 17% from the February 2005 figure of 1,281 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** increased the federal funds rate a quarter-point to 4.5% at its January meeting. The move marked the 14th consecutive quarter-point increase since June 2004, when the federal funds rate stood at a 46-year low of 1%.

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



Source: Texas Workforce Commission (TWC)

POTPOURRI

The **Federal Reserve Bank of Dallas** released a new report indicating strong economic growth for Texas. According to the report, employment in Texas rose two percent in 2005, the largest increase since the year 2000, and is predicted to grow even faster in 2006. The report also predicted that Texas' manufacturing and technology companies will continue to climb out of their recessions, and due to drilling demand, an increase in demand for energy services and landowner royalty payments, energy will remain an asset. It is also predicted that rebuilding efforts from the recent hurricanes will reduce any possible slow down in construction activity.

The **American Disaster Preparedness Foundation** ranked the City of Houston in 2nd place with a B average in the study of emergency preparedness. 30 metropolitan areas in the U.S. were graded on their performance in nine areas for the study. Houston received the best grade in management, but the infrastructure and public education categories received the lowest grades. While the City of Phoenix scored the highest grade, a B+, New York and Jacksonville tied Houston for 2nd place. Other cities in Texas were also graded: San Antonio posted 13th with a C average, followed by Austin in 14th place with a C, Dallas came in at 15th with a C, and El Paso trailed in 26th place with a D+ average. Nationwide, the study revealed that the West Coast and Florida were the most prepared while the Midwest region was the least prepared. All cities did an unsatisfactory job of aiding the elderly, the disabled, and the poor, and the public disaster education programs ranged from weak to non-existent. The Illinois-based nonprofit organization concluded that, although there are many complaints about the systems, funding for emergency programs is the main setback in the cities preparedness.

According to **PKF Consulting**, the average hotel occupancy rate for the city of Houston rose 7.7% in 2005 to 68.6%. The revenue per available room also increased, by 12.7%, to \$62.87 from 2004. The increase in numbers can largely be attributed the effects of Hurricane Katrina.

The **Southwest Houston Redevelopment Authority**, a board formed in 1999 to govern **Tax Increment Reinvestment Zone (TIRZ) 20**, began the initial contractor selection for the inaugural improvements of their zone. The area includes Sharpstown and the Chinatown business districts. The first project slated is a \$3.5 million overhaul of the Fondren and Bellaire Blvd. intersection. Plans include four new left-turn lanes, street and landscape improvements, custom transit shelters, and traffic lights. The project also aims to improve the storm water drainage and flooding issues of Fondren near the Southwest Freeway. Within the next five years, \$6.2 million will be allocated to three more major intersection renovations, a gateway intersection installment, and access management improvements to Bellaire Blvd. \$26.2 million has been allocated to long term projects including eight additional renovations to intersections, two more gateway installations, lane additions, hike-and-bike paths, and additional storm water drainage improvements to Bellaire Blvd. and Fondren.

Site Selection Magazine ranked Houston at 3rd place on their list of top metropolitan areas for new and expanded facilities with 214 projects announced in 2005. Houston moved up three places from their 6th place ranking in 2004. Houston's contributions in creating jobs, opportunity, and wealth also earned the city the **Governor's Cup** award for the 2nd year in a row.

Expansion Magazine ranked Houston 19th on the list of the U.S's 50 hottest regions for corporate location. These locations are the described as the cities site consultant's clients find most attractive for relocation or expansion. Topping the list was Nashville for the 2nd year in a row. Texas cities ranking in the top ten include Dallas, ranked number 4, and followed by San Antonio, ranking number 5. Austin ranked one slot above Houston, at 18, while Longview also made the list, ranking number 30. Business climate, workforce quality, operating costs, incentive programs, and the ease of working with local political and economic development officials were all factors taken into consideration for the survey.

Courtesy Chevrolet located at 7777 Katy Freeway has closed due to the expansion of I-10. **Texas Department of Transportation** secured one acre of the four-acre lot for the expansion. The owners of the dealership do not have plans to open a new dealership elsewhere, while plans for the remainder of the land have yet to be released.

Ray Hankamer of Hankamer & Assoc. (713-789-7060) is marketing for sale the 120-room **Hampton Inn and Suites** located at 1715 Old Spanish Trail near the Texas Medical Center (532M). The 5-story, 7-year-old hotel features a swimming pool, weight room facility, and easy access to the Metro Light Rail. The hotel is listed at an asking price of \$9 million.

The **Houston Public Library Central Library** branch located at **500 McKinney** in the Central Business District (493L) has begun the **Central Library Renovation Project**. This will be the first renovation of the 30-year old **Central Library Jesse H. Jones** building. The \$14.9 million project aims to update the library's IT infrastructure, rebuild the plaza, expand the children's and teen's service areas, and add 34,000 square feet of public space. Within the library, the escalators will be replaced with a grand staircase, an additional elevator will be added, the carpet and furniture will be replaced, and the building will be brought up the new building codes and ADA standards. A civic art project facing the plaza will replace the **Claes Oldenburg** red sculpture, **Geometric Mouse X**, which has been permanently moved to the corner of McKinney and Smith in front of the **Julia Ideson Building**. The Houston Public Library administrative personnel will also be moved to the Julia Ideson Building to allow more space for the Children's and Teen's Departments, which will now be located on the fourth floor. The Central Library branch will close April 3 and is slated to reopen at the end of 2007. Circulation services for the Central Library will continue to be provided at **HPL Express Downtown**, while service alternatives will be provided with increased hours at four regional branches: Collier at 6200 Pinemont, Henington-Alief at 7979 S. Kirkwood, Park Place at 8145 Park Place, and Scenic Woods at 10677 Homestead.

Please direct any questions regarding content in the *Houston Real Estate Trends* to Kathryn Koepke at 713-686-9955 or kkoepke@poconnor.com



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