



Your Key to Real Estate Services

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HOUSTON REAL ESTATE TRENDS

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APARTMENTS

The Houston apartment market slowed its pace over the last quarter, posting a negative 1,190 units of absorption, marking the first quarter of negative absorption in more than a year. Apartment occupancy fell substantially over the first quarter, losing 0.72 points, but is still up 4.74 points from the first quarter of 2005. Classes A and D apartments experienced the largest decreases in occupancy dropping 1.92 and 2.11 points, respectively, over the quarter. Despite lackluster performance in absorption and occupancy, rental rates continued to increase, posting a \$0.03 per square foot (psf) gain. At \$0.821 psf, rents are \$0.028 higher than levels at this time last year. Classes A and C posted the largest increases in rental rates at \$0.0146 and \$0.022, respectively, from the first quarter of 2005.

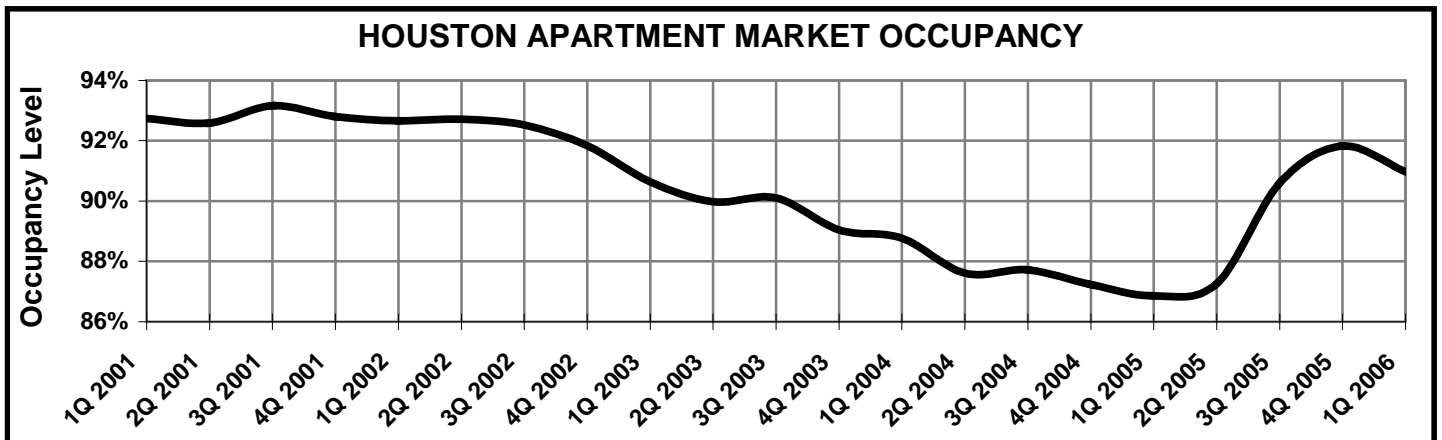
According to the O'Connor & Associates **First Quarter 2006 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **90.98%** (Class A = 91.42%; Class B = 91.82%; Class C = 90.47%; Class D = 83.98%). Occupancy is down 0.72 points from the fourth quarter and up 4.74 points over the past year. The overall monthly **rental rate** is **\$0.821 per square foot** (Class A = \$1.088; Class B = \$0.803; Class C = \$0.680; Class D = \$0.586). Overall rents are up \$0.03 from the fourth quarter of 2005 and \$0.028 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 **ApartmentLink Online Data** 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).*

- **Sueba** (713-747-7333) is developing a 265-unit yet unnamed (**17294**) apartment complex located at 2401 Gessner in west Houston (490S), on land purchased from **ExxonMobil Corp.** Units will range in size from 1,008 to 1,635 square feet with rental rates ranging from \$1.40 to \$1.50 per square foot. Units will feature granite counter tops and crown molding. The complex will also feature a media room with stadium seating and a large screen for movies. Construction of the complex is slated to begin in July. **SouthHampton Management** (713-747-6601) will manage the property.

- The **National Multi-Housing Council's Quarterly Survey's Market Tightness Index** measured 83, on a scale where any number greater than 50 indicates that conditions are improving. The first quarter of 2006 marked the fourth consecutive quarter above 80, and the 11th consecutive quarter above 50, which implies an improvement in demand. The **Debt Financing Index** dropped to 21, where a number below 50 indicates that debt financing conditions are worsening. First Quarter 2006 marked the lowest level for this index since January 2000 and is the third lowest level on record, showing that borrowing conditions have worsened over the past months. The **Sales Volume Index** fell to 35, the second quarter in a row to come in below 50, meaning there are more markets with lower sales volume of apartment properties than there are markets with higher sales volume. The **Equity Financing Index** also dropped to 50, revealing little or no change in equity finance conditions from the previous quarter. NMHC also surveyed the impact on apartment markets by those who have been displaced by Hurricane Katrina. 68% of those surveyed reported little impact, while 8% indicated that occupancy was significantly higher.

The following chart illustrates historical apartment occupancy.



Summit Asset Management (334-954-4458) purchased **Village Park (1751)**, a 418-unit Class B apartment complex located at 8701 Hammerly in west Houston (450V), from **Aspen Square Management**. The 30-year-old property is 96% occupied with average rental rates at \$0.80 per square foot. The complex features flat roofs and is individually metered for electricity. The buyer was self-represented, while **Douglas Lockwood of Grubb & Ellis** represented the seller. Summit will manage the property.

Kent and Pretam Fuqua (626-793-8788) purchased **Tanglewood Square (2938)**, a 52-unit Class C apartment complex located at 3201 Garth Rd. in Baytown (501P), from **Wolverine Management**. The 38-year-old property is 95% occupied with average rental rates at \$0.52 per square foot. The complex features pitched roofs and is individually metered for electricity. The buyers were self-represented, while **Jeff Eisenhardt and Kevin McCarthy of Hendricks & Partners** represented the seller. **Michael Thompson of BMC Capital** arranged \$1.27 million in financing for the acquisition of the property.

Valva Texas Properties, LLC (713-784-8686) purchased **Ken Mar Apartments (3718)**, a 30-unit Class C apartment complex located at 910 Main St. in Pasadena (536L), from **Ken Mar Apartments, LLC**. The 43-year-old property is 95% occupied with average rental rates at \$0.66 per square foot. The complex features flat roofs and is individually metered for electricity. **Scott Gray of Scott Gray Commercial Real Estate** represented the buyer, while the seller was self-represented. **Keith Van Arsdale of BMC Capital** arranged \$648,000 in financing for the acquisition of the property.

SINGLE-FAMILY HOUSING

MLS home sales increased in March, as 5,529 used homes were sold, up from the 4,020 homes sold in February, according to the **Houston Association of Realtors (HAR)**. Sales for March 2006 were up 22.9% from March 2005. The median price of a used single-family home sold in March was \$136,990, up 7.0% from March of last year, while the average home price was \$180,211, up 7.4% from the March 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.*

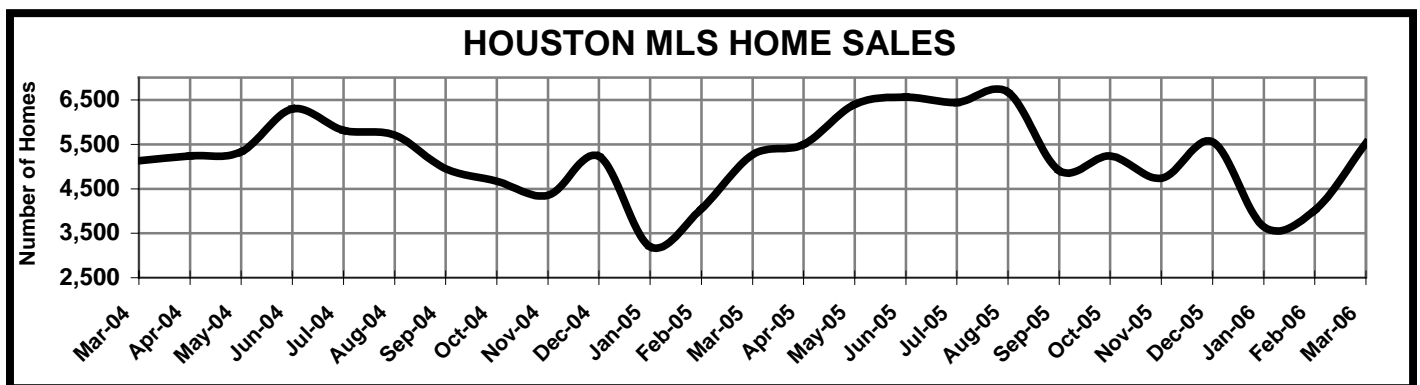
According to **American MetroStudy**, net sales of new homes increased 5% in March to 3,443 from 3,263 in February, and are up 5% from March 2005. Realtor co-op sales represent 59% of net sales, up from 56% in March 2005. Traffic increased 12% from last year to 36,456 in March 2006. The inventory of 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 March to a seasonally adjusted annual rate of 1,213,000, 13.8% above the revised February sales rate of 1,066,000, but were 7.2% below the revised March 2005 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$224,200. Privately owned housing starts were at an annual rate of 1,960,000 in March 2006, 6.9% above the March 2005 figure. Privately owned housing completions were at an annual rate of 2,218,000 in March 2006, 23.4% above the March 2005 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased in April to 50 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 5 points to 54, the index measuring sales expectations for the coming six months decreased 4 points to 58, while the index measuring the traffic of prospective buyers decreased 1 point to 39.

According to the **National Association of Realtors (NAR)**, 555,000 existing homes were sold in March 2006, up 38.4% from 401,000 in February. The median sale price was \$217,000, a 7.8% increase over sale prices a year ago.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Garson Silvers (832-228-0884) is planning to develop **El Lago Marina Condominiums**, a 230-unit condominium project located at 4011 and 4321 NASA Parkway in El Lago (619R), a small community in the Clear Lake area. The project will include a tower with 175 units, a 44-room boutique hotel, and 10,000 square feet of retail. A second smaller building will include another 55-units as well as additional retail space. Unit sizes and prices, as well as construction plans have yet to be determined, though the developer hopes to begin construction on the smaller building with in a year.

Lester & Associates, led by **Jim Walker** (281-451-7703), is developing **Coral Bay**, a 210-unit condominium development located at 18401 Egret Bay Blvd. in Webster (618Z). The units will range in size from 850 to 1,700 square feet and in price from \$159,000 to \$289,000. The development will feature a clubhouse, billiard rooms, theater, and under ground parking. The near-by Cow Bayou will be dredged and will house boat docks for residents. Construction is slated to begin this summer and is expected to be completed within 8 months.

Turnberry Associates (305-937-6262) is planning to develop **Turnberry Tower**, a 180-unit condominium project just south of The Galleria and west of the Water Wall (491U), on land owned by **Walton Street Capital, LLC**. The project is expected to reach up to 42 stories with luxury units starting at \$500,000. Turnberry will announce development plans shortly and begin marketing once the city approves of a temporary sales office. The company has already executed a 1,500 square foot lease in **Lakes on Post Oak (GAL 065)**, over looking the site, to serve as a construction office.

MetroNational (713-973-6400) is developing **920 Memorial City Way**, a townhome and condominium project east of Memorial City Mall in west Houston (490B). Development plans call for 16 townhomes and 106 condominiums with units ranging in size from 1,140 to 3,000 square feet and are priced from \$285,000 to \$850,000. Construction is slated to begin in May and be completed by the end of 2007.

K Team Interests (409-771-4373) is developing **Moody Plaza**, a 35-unit luxury condominium development at the site of **Medical Arts Building**, located at 302 21st St. in Galveston (775J), recently purchased from **Galveston Lofts Acquisitions Partners**. The unit sizes start at 1,700 square feet and are priced from \$425,000. The development will also feature a fitness center and a rooftop garden. Demolition has already begun on the Medical Arts Building, though completion dates for the condos have yet to be determined.

Friendswood Development Co. (713-436-6951) has broken ground on **West Ranch**, a 1,500-home community spanning 766 acres across FM 518 between Bay Area Blvd. and FM 528 in Friendswood (657P). Homes in the community are priced from \$220,000 to \$600,000. A 20-acre town center is also planned for the community that will include retail space. Sales offices are slated to open in the fall, with the community fully built-out by 2013.

Lennar (281-291-7848) is developing the second phase of **Searidge**, a 60-home community just off Todville Rd. in Seabrook (620G). Homes in phase two range from 2,000 to 2,700 square feet and are priced from \$179,000 to \$206,000. Construction is slated to begin in November.

Crown Team Texas (904-924-9421) is planning a May 25th grand opening of **Laguna Harbor**, a 113-home development located on the Gulf Intracoastal Waterway between 17th and 23rd streets on the Bolivar Peninsula (741G). The 80-acre community includes 50 cove lots, 37 estate lots, and 26 harbor homes, all with private boat slips and direct access to the bay.

Frank Liu of **Lovett Homes** and **Lovett Commercial Realty** (832-553-6000) is planning to develop **Leeland Square Subdivision**, a five-home community on a 75,000-square-foot lot, bound by Leeland, San Jacinto, and Pease in the Central Business District (493Q), recently purchased from **Ray Allison** of **Prudential Gary Green**. Sizes and pricing for the homes, each on its own lot, as well as construction dates, have to be determined.

The **TIRZ 14** board has approved \$6.3 million in reimbursements for **Billy and Todd Sullivan** (409-744-5555), who are developing **Evia**, a neighborhood in west Galveston with home prices starting at \$325,000. The developers will be reimbursed for infrastructure improvements they make in the 2,000-acre tax increment reinvestment zone surrounding the Galveston Airport on the city's west side. The \$6.3 million includes \$1.4 million for extending 99th St, \$1 million for the development of streets within Evia, nearly \$600,000 for parks, and \$366,000 for storm sewers.

The city of **El Lago**, a community just west of Seabrook, voted in favor of a zoning change along NASA Parkway (formerly NASA Road 1), between Kirby and Bayou View (619M). The change will allow developers to build up to 40 units per acre and buildings up to 250 feet in height, approximately 20 stories. The change comes in the wake of several high-rise condominium projects planned for the area, including **Endeavor** a 30-story, 80-unit development by N Sky Living located at 4821 NASA Parkway, just west of the El Lago area. According to the Mayor of El Lago, **Brad Emel**, a 20-story building could increase the city's tax base by 20 to 25%.

Lovett Commercial Realty's (832-553-6000) East End retail development has been put on hold. In 2004, Lovett acquired 16.5 acres of industrial use land at Harrisburg and Lockwood east of downtown (494T), with plans to develop retail, grocery, and restaurants. Though the once mainly industrial area is filled with an abundance of residential development, retailers have yet to commit to occupy space in the transitioning area. Lovett is not abandoning plans for development any time soon, and say they will go forward with the project when the right tenants come along. Though specific plans for the overall development have yet to be determined, more immediate plans could include a smaller retail development at the corner of Harrisburg and Lockwood to get things moving.

Construction of two 36-story condominium developments by **Drake Development** on East Beach is temporarily on hold. The delays are tied to title clarity of the 35 acres of land Drake intends to purchase for development. The current owners, entities led by **Frank Shaefer**, are involved in a legal battle regarding previously breached joint venture agreements to develop the land. Upon title clearance, development will likely continue as planned.

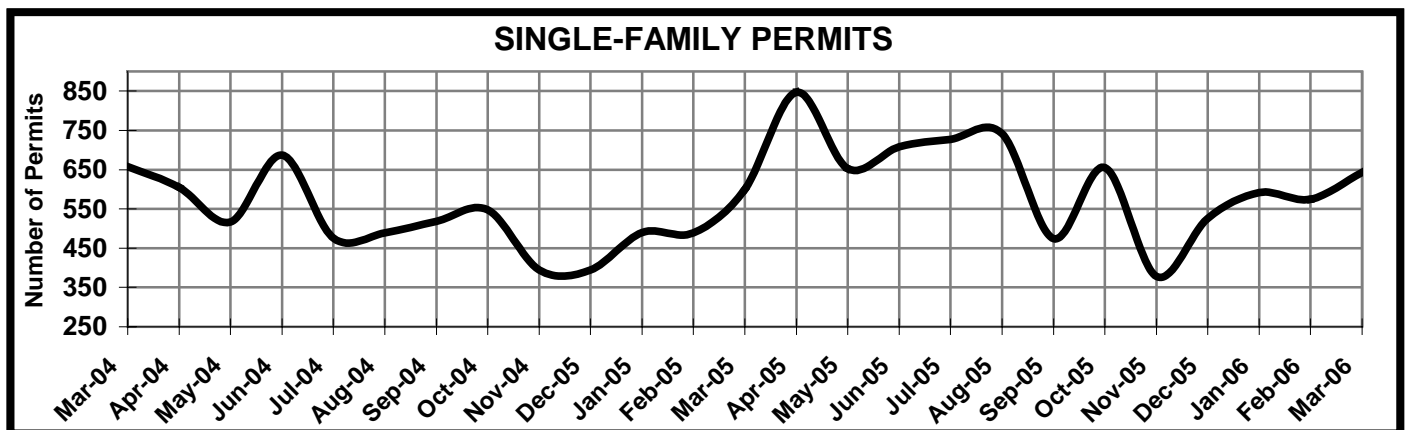
PERMIT ISSUANCE

The **City of Houston** issued permits to build 643 private single-family houses and 20 private multifamily buildings in March. Demolition permits were issued for 130 private single-family houses. In addition, 316 permits were issued for privately owned non-residential construction totaling \$205,992,853 and 24 permits were issued for public non-residential construction totaling \$12,940,452. Additions, alterations, and conversions totaled \$83,182,814 for the private sector and \$24,612,552 for the public sector.

Cost of Construction*

	2004	2005	2006
Month of March	\$384,864,396	\$363,239,831	\$471,838,693
Year-to-Date	\$728,225,641	\$1,036,870,410	\$1,107,909,958

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



OFFICE BUILDINGS

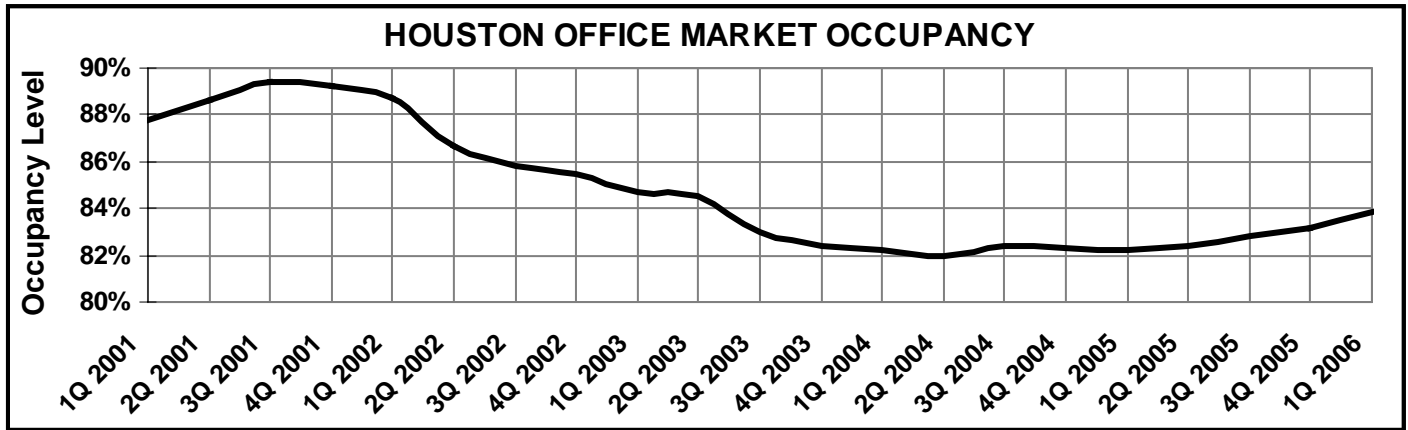
It appears that Houston's economy wasn't as bleak as everyone thought, according to the **Texas Workforce Commission's** recently released revised 2005 employment numbers. Houston area year-end employment growth figures for 2005 were revised upward to reflect a gain of 3.2% or 74,700 jobs, which is nearly double the originally reported 2005 year-end gain of 1.8% or 42,500 jobs. Job growth was recorded across the board as all sectors experienced gains. A high percentage of the gains can be attributed to the energy sector, which made a comeback in a big way in 2005. Year-end growth in energy dependent employment in 2005 was 14,000 jobs or 4.7%, the highest annual gain since before 1988. Although many consumers are up in arms over the skyrocketing gas prices and record energy industry profits, those closely associated with Houston's office market are finally breathing a sigh of relief, as the strengthening of Houston's energy sector has translated to improvements in the office market.

According to the O'Connor & Associates **First Quarter 2006 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **83.85%** (Class A = 86.49%; Class B = 82.05%; Class C = 81.33%; Class D = 79.41%). The citywide annual multi-tenant office **rental rate** is **\$18.40 per square foot** (Class A = \$21.38; Class B = \$16.94; Class C = \$13.78; Class D = \$11.42). Overall rents are up \$0.30 from the first 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).

- **Myers, Crow & Saviers** (713-465-8600) is developing **Oak Park Office Center II (SW1 079)**, a 206,400-square-foot office building located at 6380 Rogerdale just off Beltway 8 in southwest Houston (529G). The building, which is slated for completion this summer, is being built to US Green Building Council LEED certification standards. **Greg Pell** of **Lincoln Property Company** will manage the building, while **Greg Mondshine** of Myers, Crow & Saviers will handle the leasing.
- **Cousins Properties** (972-432-3600) has been retained by **Goddard Investment Group** (404-442-5500) to manage and lease **Heritage Plaza (CBD 094)**, a 1.4 million-square-foot Class A building located at 1111 Bagby in the Central Business District (493Q). The 20-year-old building is 65% leased with rents at \$23.66 per square foot. **Ken Pool** of Cousins will handle the management, while **Mark Dickenson** of Cousins will handle the leasing.
- **Moody Rambin Interests** (713-773-5590) has been retained by **Hartman Management** (713-467-2222) to handle the leasing at five of their Houston area buildings: 121,000-square-foot **10610 Barkers Point Lane (KFW 003)** in west Houston (488A); 183,000-square-foot **Westheimer Central Plaza (WES 067)** at 11200 Westheimer in west Houston (489T); 110,000-square-foot **3100 Timmons Ln. (GPL 071)** near Greenway Plaza (492S); and two buildings totaling 57,000 square feet at the **Preserve at North Loop (NNW 055)** in north Houston (452S).
- **Live Oak Capital** (713-993-1300) arranged permanent financing on behalf of **8400, Ltd.** (281-664-8441) for the **Cable Lock Building (CPQ 135)**, a 40,000-square-foot office building located at 8400 N. Sam Houston Parkway W. in northwest Houston (370W). The 2-year-old building is 90% leased with rents at \$20.50 per square foot. **David Aaronson** of Live Oak arranged the financing with funds provided by **Jefferson Pilot Financial Insurance Company** of Greensboro, NC.
- **NorthMarq Capital** (713-622-6300) arranged a \$3.25 million partial recourse bridge loan on behalf of **Interstate Terra Development, Inc.** (281-292-2100) for **Grogan's Office Building (TWC 043)**, a 30,000-square-foot Class B building located at 9400 Grogan's Mill Rd. in The Woodlands (251H). The 5-year-old building is 80% leased with rents at \$24.25 per square foot. **John Burke** of NorthMarq arranged the financing with funds provided by **Silvergate Bank** of LaJolla, CA.

The following chart illustrates historical office occupancy.



American Spectrum (713-706-6200) purchased two Houston area office buildings: a 26-year-old 72,000-square-foot building located at **2855 Mangum (NNW 044)** in northwest Houston (451R), from **Boxer Properties**, which is 86% occupied with average rental rates at \$14.00 per square foot; and a 94,000 square foot building located at **14741 Yorktown Plaza Dr. (NNW 223)** in northwest Houston (410S), from **FMC Technologies** in a sale/lease-back transaction. **Debbie Largent** of American Spectrum will manage the buildings, while **Bill McGrath** of American Spectrum will handle the leasing.

WP Carey & Co. (212-492-1100) purchased four properties from **UTEX Industries** in a sale/leaseback transaction. A 26-year-old 55,000-square-foot Class D office building located at **10810 Old Katy Rd. (KFW 038)** in west Houston (489C) will continue to serve as UTEX's headquarters. A 56,000-square-foot industrial facility located at **116 Industrial Court** in Conroe (158X), along with two additional facilities totaling 219,000-square-feet in Weimar and Odessa, will continue to serve as UTEX's manufacturing facilities.

Milan Properties West (323-802-1742) purchased two west Houston properties from **Clay Development**: a 30-year-old 58,000-square-foot Class D office building located at **11302 Tanner Rd. (NOW 027)** (449B), which is fully leased by **Aqua Services Corporation**; and a 6-year-old 20,000-square-foot industrial facility located at **5151 Tacoma (1072B)** in the **Brittmoore Tanner Business Park** (449C), fully leased by **United Rentals**. **Stacy Davis** of Milan represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

Weatherford International and **FMC Technologies** have leased a total of 114,000 square feet in **World Houston Plaza (GNB 017)**, a 216,000-square-foot Class A office building located at 15710 John F. Kennedy Blvd. in north Houston (374P), from **KBS Realty Advisors** (949-417-6500). Weatherford leased 84,000 square feet and was represented by **Sanford Criner** and **Craig Beyer** of **CB Richard Ellis**, while FMC leased 30,000 square feet and was represented by **Elliott Hirshfeld** and Sanford Criner of CB Richard Ellis. The 20-year-old building is 85% occupied with rental rates averaging \$20.50 per square foot. **Michelle Wogan** of **Transwestern Commercial Services** represented the landlord in the transactions.

Intec Engineering renewed an 82,000-square-foot lease at **Intercontinental Center (GNB 016)**, a 195,000-square-foot office building located at 15600 John F. Kennedy Blvd. near **Bush Intercontinental Airport** (374T), from **Thomas Properties Group** (213-613-1900). The 23-year-old building is 85% leased with average rents at \$18.50 per square foot. **Steve Hesse**, **Clare Flesher**, and **Mark Pillsbury** of **CB Richard Ellis** represented the tenant, while **Chip Colvill** of **Colvill Office Properties** and **David Baker** of **Transwestern Commercial Services** represented the landlord.

Dashiell Corporation leased 54,000 square feet in the **12301 Kurland Building (SOE 148)**, a 246,000-square-foot Class B building located at the intersection of the Gulf Freeway and Beltway 8 in south Houston (576V), from **Capital Commercial Investments, Inc.** (512-472-6990). The 30-year-old building is 25% leased with average rents at \$17.50 per square foot. **Charlie Neuhaus** and **Anthony Fritsche** of **Trammell Crow Co.** represented the tenant, while **Eric Anderson** of **Transwestern Commercial Services** represented the landlord.

Correction Notice: In the March 2006 edition, we incorrectly identified the owner of **Medical Towers**. We apologize for any inconvenience. What follows is the corrected article: A partnership between **US Advisors** (949-429-6600) and **Means-Knaus, LLC** (713-355-9100) purchased **Medical Towers (MED 055)**, also known as the **Baylor College of Medicine Faculty Center**, a 155,000-square-foot office building located at 1709 Dryden Rd. in the Texas Medical Center (532H), from **Diva Corp.** The 52-year-old building is fully occupied. Diva Corp. will continue to manage and lease the building. The buyer used in-house representation, while **Jim Savage, Jeff Hollinden, and Robert Williamson** of **HHF** represented the seller.

RETAIL CENTERS

The Houston retail market took a step back over the last quarter, posting a negative 429,215 square feet (SF) of absorption, marking the first quarter of negative absorption in 12 quarters. Still-robust construction combined with substantial move-outs, most notably **Mervyn's**, contributed to the softness. Annual absorption remains positive at over 1.5 million SF. Retail occupancy also fell substantially over the first quarter, losing 0.61 points and falling below 86% for the first time in two years. Average occupancy, at 85.95%, is at its lowest level in two years. Every market sector posted a decrease in occupancy, with Regional Malls taking the biggest hit, losing more than 2 points. Despite lackluster performance in absorption and occupancy over the last quarter, rental rates continued to increase, posting a \$0.01 per square foot (psf) gain. At \$1.59 psf, rents are \$0.04 higher than levels at this time last year and are at the highest level on record. The highest rents continue to be found in close-in parts of the city, while large amounts of newly constructed centers are driving up rents in some suburban areas.

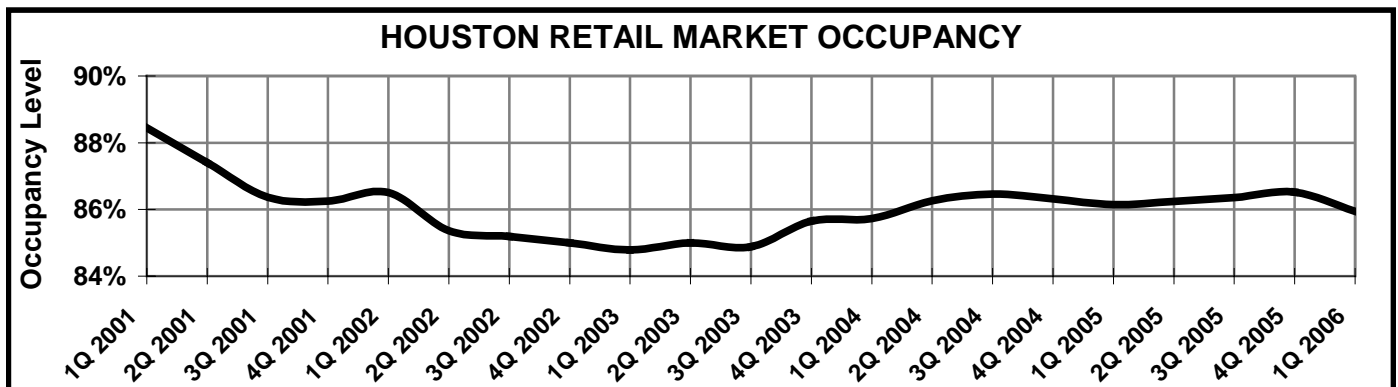
According to the O'Connor & Associates **First Quarter 2006 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.95%** (Regional = 86.76%; Community = 86.87%; Neighborhood = 85.40%; Strip = 84.70%). Occupancy is down 0.41 points from the first quarter last year, and is down 0.61 points over the last quarter. The citywide monthly multi-tenant retail **rental rate** is **\$1.59 per square foot** (Regional = \$3.04; Community = \$1.50; Neighborhood = \$1.14; Strip = \$1.13). Overall rents are up \$0.04 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).

- **Midway Cos.** (713-629-5200) is developing phase one of **CityCentre (FWE 329)** with a total of 501,500 square feet including retail space, a 100,000-square-foot fitness center, and a 40,000-square-foot movie theater located at the intersection of Sam Houston Tollway and the Katy Freeway on part of the site of the now-demolished Town & Country Mall (489D). The square-footage will be spread over 15 separate buildings in an open-air style. Future plans for the development also include a 240-room hotel and 40 residential brownstones. Infrastructure work is slated to begin this summer, with the retail portion completed by the summer of 2007.
- **Santikos Theaters** (210-496-1300) is planning to develop **Silverado Station (FNW 420)**, a 200,000-square-foot center located at the northwest corner of Highway 249 and Northpoint Blvd. in Tomball (328H). The center will include a 100,000-square-foot 5,000-seat movie theater with 19 screens featuring an IMAX screen. Occupying the additional 100,000 square feet will be a mixture of retailers and restaurants. Construction dates for the center have yet to be released.
- **Triyar Companies** (281-421-3908) is planning to develop **The Renaissance**, an open-air concept shopping and dining plaza, on parking space between the Sears and vacant JC Penny at **Greenspoint Mall (FNO 009)** located at the North Freeway and Sam Houston Parkway in north Houston (372R). Along with the new plaza, the vacant JC Penny is expected to be converted to a 12- to 15-screen cinema. Other plans for the mall include updating the exteriors and interior flooring, as well as adding a new entrance to the mall from Greenspoint Dr. Construction of The Renaissance is slated to begin in early 2007 and is expected to take a few years to complete.

- **Lucky Strike** (818-933-3752) has signed on with **Houston Pavilions (INL 465)**, a mixed-use project being developed by **Entertainment Development Group** (818-991-2964) downtown (493Q). The bowling alley will occupy 25,000 square feet and will include a restaurant, billiard tables, and a private lounge. Houston Pavilions will include approximately 365,000-square-feet of retail space, a 194,000-square-foot office tower, and a 200-unit condominium tower. Construction of Houston Pavilions is slated to begin in the spring of 2007.
- **Brass Armadillo Malls**, led by **David Briddle** and **Larry Gottula**, (515-282-0082), are developing **The Brass Armadillo (FNO 002)**, a 237,000-square-foot antique mall at the recently vacated **Garden Ridge** located at 431 Airtex Dr. in north Houston (372D). The mall will include a food court, as well as a 10,000-square-foot outdoor farmer's market, and is slated to open this August.
- **Garden Ridge** (281-579-7901) is planning a store in the 134,000-square-foot vacant **Great Indoors (FNW 262)**, located at 12605 Gessner, just off Highway 249 in northwest Houston (370J), which is owned by **Sears Holding Corp.** (847-286-2500). Renovations are underway and the store is slated to open later this year. **Darin Gosda** of **Betz Cos.** represented Garden Ridge in the lease, while **Dean Lane** and **Matt Reed** of **NewQuest Properties** represented Sears.
- **BPI Realty** (281-530-0900) is developing **Summit Plaza (INL 470)**, a 33,735-square-foot center located on the Southwest Freeway in the Greenbriar area (492W). The center is 50% pre-leased with asking rents at \$3.33 per square foot. Tenants will include **Whitney Bank**, **Post Oak Grill**, **Starbucks**, **Potbelly Sandwich**, and **Jamba Juice**. **Luke Durrett** of **BPI Realty** is handling the leasing of the center, which is slated for completion in November.
- **Tora Real Estate Investments** led by **Dr. Ramesh Sadeghian** (281-496-2526) is developing **Airtex Plaza (FNO 276)**, a 25,000-square-foot center located on the North Freeway just south of Airtex in north Houston (372C). The center is 25% pre-leased with asking rents at \$2.00 per square foot. **Tony Pour** of **S.E. Covington** will handle management and leasing for the center, which is slated for completion this fall.
- According to recent analysis from **Thomas Financial**, retailers have seen a decidedly robust spring sales season. Despite soaring gas prices and a rise in unemployment, consumers have led retailers to numbers far above what analysts expected for the month of April. Of the 48 retailers that have reported numbers, 63% were above estimates, 2% on the mark, and 35% below. Discount and teen driven stores have led the market in same-store sales gains. **Wal-Mart** and **Cost Co.** beat the estimates posting 1.1% and 1.5% above their anticipated 5.7% and 5.5% gains, respectively. Wal-Mart execs noted the month of April saw strong sales of toys, including traditional toys, outdoor games, electronics, video games, media, as well as cotton candy. **Abercrombie & Fitch** posted 9.1% higher than expected sales gain at 17%, while **Pacific Sunwear** also shows an impressive 8.8% above the 5.2% they were expected to gain. **Gap**, who has been posting steady declines, came back with 1.7% less in losses than the 4.7% originally projected. According to experts, the increase in sales, and types of sales, were largely attributed to the late Easter holiday, which fell 3 weeks later than last year.

The following chart illustrates historical retail occupancy.



Abrams Willowbrook, LP purchased **Willowbrook Shopping Center (FNW 313)**, a 163,000-square-foot center located at the southwest corner of Highway 249 and FM 1960 in northwest Houston (370J), from **Gulf Coast Commercial Group**. The 5-year-old center is 96% occupied with rental rates at \$1.92 per square foot. Tenants include **Circuit City, PetSmart, REI, Golf Galaxy, Ethan Allen, Pier 1 Imports, 59 Diner, Starbucks,** and **Texas Land & Cattle Steakhouse**. The buyer was self-represented, while **George Cushing, Paula Foster,** and **Wendy Vandeventer** of **Grubb & Ellis** represented the seller. **Heather Nguyen** of **NewQuest Properties** will handle the leasing.

Southwest Investment Group (303-534-1040) purchased **Dickinson Village Shopping Center (FSE 100)**, an 88,000-square-foot center located at 3410 Gulf Freeway in Dickinson (699F), from **Weingarten Realty Investors**. The 25-year-old center is fully leased and anchored by **Kroger**. Other tenants include **Family Dollar, Sherwin-Williams Paints, Curves, Pizza Hut, T-Mobile,** and **Rent-a-Center**. The buyer was self-represented, while **George Cushing, Paula Foster,** and **Wendy Vandeventer** of **Grubb & Ellis** represented the seller in the transaction. Southwest will manage and lease the center.

OTEC purchased a 28,000-square-foot center located at **5301 Richmond Ave. (NRW 320)** in west Houston (491Y), from **Rice, VP**. The center is fully leased to **Wachovia Bank**. **Nick Alford** of **Burnham Real Estate** represented the buyer, while **Jaine Bouterrie** of **Huntington Properties** represented the seller.

L & K Yorktown Center, LP (818-846-9888) purchased **Center at Yorktown (FNW 411)**, a 22,000-square-foot center located at 5571 Highway 6 North in northwest Houston (408W), from **KM Realty Advisors**. The year-old center is 86% leased with average rental rates at \$1.84 per square foot. Tenants include **Bad Ass Coffee Company** and **Photo Express**. **James Bell** of **Marcus & Millichap** brokered the transaction. **Ace Schlameus** of **Grubb & Ellis** will handle the leasing of the center.

Rich J W Investment Company (310-547-3326) purchased an 11,000-square-foot center located at **19222 Gulf Freeway (FSE 377)** in southeast Houston (617V), from **Baybrook 1.1, LP**. The 3-year-old center is fully leased to **Verizon Wireless** and **The Men's Warehouse**. **Dennis Vaccaro** of **Faris Lee Investments** brokered the transaction.

Barnes & Noble leased 29,000 square feet in **Pearland Town Center (SOU 333)**, a 700,000-square-foot center that will be developed at FM 518 and Highway 288 in Pearland (613N), from **CBL & Associates Properties, Inc.** (423-855-0001). Construction is slated to begin in the fall of 2006 and completed by 2008.

Mardel Christian Book Store leased 25,000 square feet in **Center at Baybrook (FSE 056)**, a 464,000-square-foot center located at 19801 Gulf Freeway in Webster (618W), from **Kimco Realty** (832-242-6913). The 22-year-old center is 88% leased with average rental rates at \$1.01 per square foot. Other tenants in the center include **Hobby Lobby, Sports Authority, Stein Mart, Bed Bath & Beyond, The Chair King,** and **Thomas Furniture Gallery**. Hobby Lobby also leased an additional 10,000 square feet at the center.

Correction Notice: In the March 2006 edition, we incorrectly identified the leasing company of three properties owned by **CDC-Houston Inc**. We apologize for any inconvenience. What follows is the corrected article: **PM Realty Group** (713-209-5808) was retained by **CDC-Houston, Inc.** (281-480-5066) to handle management at three Houston area retail centers and additional pad sites located at the Gulf Freeway and Bay Area Boulevard (618W): **Baybrook Gateway Shopping Center (FSE 150)** with 250,000 square feet and tenants including **Barnes & Noble** and **Michaels**; **Baybrook Passage/Landing (FSE 219)** with 180,000 square feet and tenants including **Best Buy** and **Café Express**; **Baybrook Village (FSE 103)** with 184,000 square feet and tenants including **PetSmart, Linens & Things,** and **Marshall's**. Occupancies in the buildings range from 85% to being fully leased and average rents range from \$0.83 to \$2.50 per square foot. **Michael Thum** of **Woodmont Company** will continue to handle leasing at the centers.

INDUSTRIAL FACILITIES

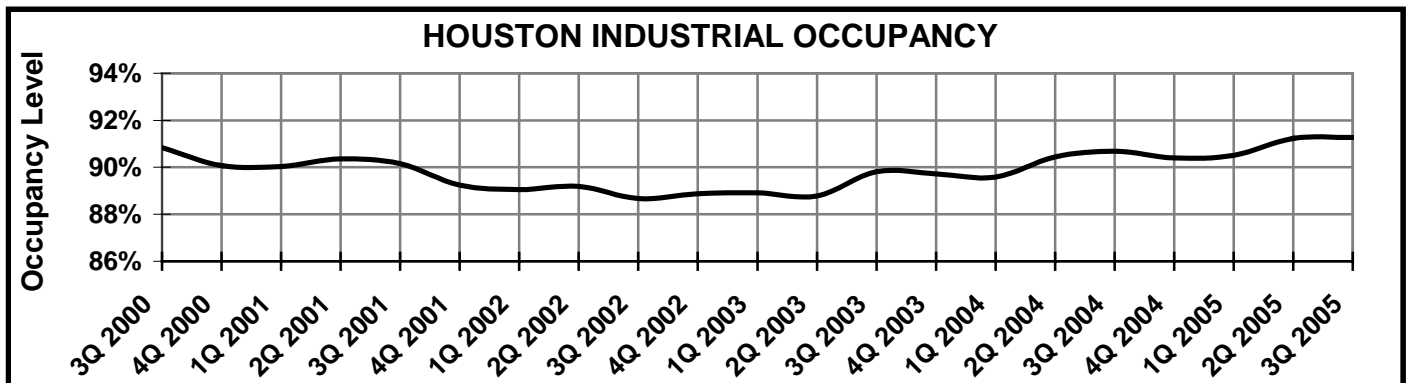
Overall Houston industrial market occupancy rose by 0.25 points to 91.52% in the fourth quarter, and is up 0.99 points from the same time one year ago. After a brief pause in 2004, occupancy has once again begun to climb. The Bulk and Flex categories have been the main contributors to the recovery over the past year. Overall industrial rents remained flat over the quarter at \$0.40 per square foot (psf). However, Bulk and Manufacturing facilities each saw a \$0.01 increase in rental rates. Flex space continues to command the highest average rents at \$0.46 psf.

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).

- **Global Geophysical Services** (713-972-9200) is developing a 51,000-square-foot office/warehouse facility on 17.9 acres of land located at S. Gessner (**4180L**) just off Highway 90A in the **Beltway Crossing Business Park** in Missouri City (570N). Construction of the facility, which will serve as the company's headquarters and consolidate their three other facilities, is slated to begin this summer and completed by the end of March 2007.
- **Midway Cos.** (713-629-5200) has recently completed a 20,000-square-foot office/warehouse facility located at **10750 Cash (4902Y)** in the **Freeport Southwest Business Park** in Stafford (569L) on behalf of **Tornier USA** (281-494-7900). The facility will be fully occupied by Tornier and serve as their corporate headquarters.

The following chart illustrates historical industrial occupancy.



GSL Industrial, Ltd. (713-952-7000) and **AEW Capital Management** (617-261-9000) purchased **1111 Gillingham (4180T)**, a 488,000-square-foot office/warehouse facility located in the **Sugar Land Business Park** (568G), from **Suntron Corp.** The 11-year-old facility is 51% leased with average rental rates at \$0.55 per square foot. **John Wilson** of GSL represented the buyer, while **Bob Berry** of **The Staubach Co.** represented the seller. **Tucker Night** and **Steve Henderson** of **HFF** provided the financing for the acquisition, and **Beau Kaleel** of **Cushman & Wakefield** will market the remaining space available for lease.

KTR Capital Partners (212-527-9900) purchased **Interwood Business Center (0431B)**, a two-building office/warehouse facility totaling 192,000 square feet located at the intersection of John F. Kennedy Blvd. and Heathrow Forest Parkway in north Houston (374X), from **Midway Cos. & AEW Capital Management**. The 7-year-old facility is 90% leased. **Don Chase** of KTR represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller. Midway Cos. will continue to manage the facility, while **Faron Wiley** of Trammell Crow Co. will handle the leasing.

MarinoWare Industries, Inc. (908-757-9000) purchased five manufacturing buildings totaling 167,000 square feet located at **10101 Bay Area Blvd. (5249)** in Pasadena (581S), from **SLSC Realty, LP**. The 49-year-old buildings will be fully occupied by MarinoWare.

Right Brain Productions purchased **NASA One Business Center (5298)**, a six-building office/warehouse facility totaling 112,000 square feet located at 100 E. NASA Road 1 near Highway 3 in Clear Lake (618Y), from **Weingarten Realty**. The 27-year-old facility is 79% occupied with average rental rates at \$0.85 per square foot. **Steve King** of **CB Richard Ellis** represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

Boeing purchased **Boeing Product Support Center (5233W)**, a 52,000-square-foot facility located at 13150 Space Center Blvd. in southeast Houston (578W), from **Shee Atika Holding Houston, LLC**. The 6-year-old facility is fully leased to Boeing. **Ron Lachman** represented the buyer, while **Monte Lowery** of **Marcus & Millichap** represented the seller.

Sunny Sky Products North America, Ltd. (713-683-9399) purchased a 30,000-square-foot office/warehouse facility located at **4580 Blalock Rd. (1298M)** in northwest Houston (450G), from **Vantage Cos.** The 2-year-old facility will be fully occupied by Sunny Sky. **John Ferruzzo** and **Travis Land** of **NAI Houston** represented the buyer, while **Bill Rudolf** and **Gray Gilbert** of **CB Richard Ellis** represented the seller.

Robert Locker purchased a 20,000-square-foot office/warehouse facility located at **14223 Interdrive East (0429N)** in the **Interbelt North Business Center** in north Houston (374W) from **Commercial Holdings Ltd.** The 15-year-old facility is fully leased. **David Butler** of **Colliers International** represented the seller.

Temple Electronics Co. (713-649-8175) purchased an 11,000-square-foot warehouse located at **8484 Scranton St. (5093A)** in southeast Houston (575G) from **Charles Hill Jr.** The 11-year-old facility will be fully occupied by Temple Electronics. **Jeanette Holt** of **Qualified Properties** represented the buyer, while **Doug Bates** of **Henry S. Miller** represented the seller.

Lone Star Sealcoat Supply, Inc. leased 15,000 square feet at **14041 Chrisman Rd. (0393)** in north Houston (373Y) from **Chrisman Realty Group** (713-541-0066). The 21-year-old facility is fully leased with average rental rates at \$0.33 per square foot. **Tim Warren** of **Cypressbrook Company** represented the tenant, while **Mike Spears** of **The National Realty Group** represented the landlord.

VACANT LAND

Angel/Mclver Interests (936-756-6337) is under contract to purchase the 104-acre AstroWorld site, located just south of the South Loop between Kirby and Fannin in south Houston (532V), from **Six Flags**. The amusement park closed in October of 2005 and demolition of the amusement park was completed in March 2006. **Cushman & Wakefield** and **The Staubach Co.** were marketing the property, which is under contract at a reported \$77 million.

Blue Diamond Group, LLC (909-598-0240) purchased 3 acres of land located at 5200 Navigation Blvd. in central Houston (494Q) from **Solwest, LLC**. A 29,000-square-foot industrial facility (3297) that sits on the land will be demolished for future residential development. Preliminary plans call for townhomes, though details have not yet been released. The buyer was self-represented, while **Mark Lehman** of **Grubb & Ellis** represented the seller.

ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **increased by 10,000 jobs** to 2,393,700 in March 2006, according to the **Texas Workforce Commission**. This month's total is **71,100 jobs more** than the 2,322,600 jobs at this time last year. Of nonagricultural employers, the Leisure & Hospitality sector posted the largest gain over the last month at 3,700 jobs, followed by the Professional & Business sector, with 2,400 jobs gained. Over the year, the Professional & Business Services sector has changed the most, adding 18,900 jobs.

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for March 2006 were \$361.0 billion, an increase of 0.6% from the previous month, and up 7.9% from March 2005. Retail trade sales were up 0.7% from February, and were 7.9% above last year's level. Gasoline station sales were up 13.6% from March 2005, and sales of building material and garden equipment and supplies dealers were up 14.1%.

Personal income increased \$88.8 billion, or 0.8%, and Disposable Personal Income (DPI) increased \$78.4 billion, or 0.8%, in March 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$51.8 billion, or 0.6% in March 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.4% in March 2006, and is 3.4% higher than March 2005. Energy costs, Apparel costs, and Transportation costs posted the largest increases in price during March 2006.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 109.6 in April 2006, up 2.1 points from 107.5, in March. This is the highest level since May 2002 (110.3). The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** decreased 0.5% in February to 138.4. 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 0.6% in March after having increased 0.5% in February, and is 4.5% higher than the March 2005 level. Utilities output increased in March, but remained unchanged from the March 2005 level. The rate of industrial capacity utilization was 81.3% in March, an increase of 0.3% from February, and is up 1.8% from last year.

The **Mortgage Bankers Association (MBA)** reports that the 30-year fixed-rate mortgage (FRM) averaged 6.57%, with an average of 1.18 points (including the origination fee), for the week ending April 28, 2006. Last year at this time, the 30-year FRM averaged 5.74%. The average for the 15-year FRM is 6.19%, with an average of 1.18 points (including the origination fee). A year ago, the 15-year FRM averaged 5.31%.

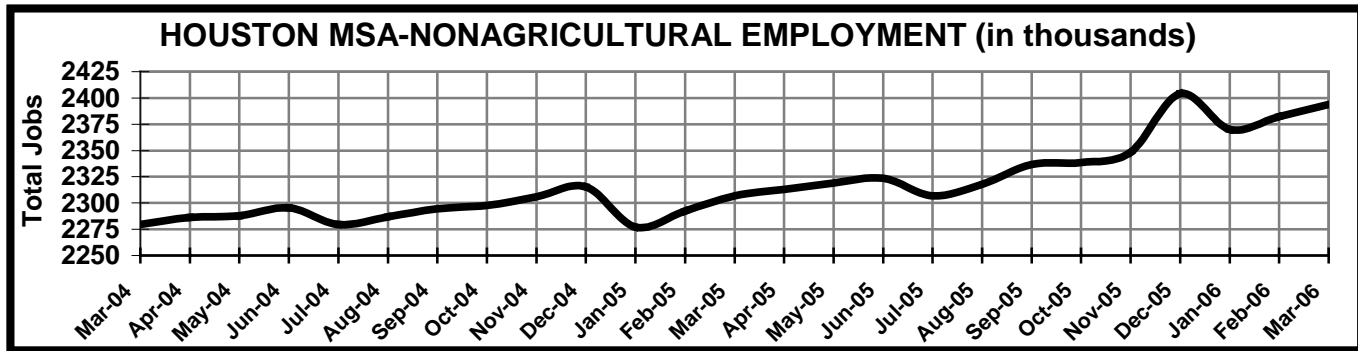
The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 4.8% in the first quarter of 2006, up from the 1.7% growth rate recorded in the fourth quarter of 2005. The increase in GDP during the first quarter was largely attributed to increases in Personal Consumption Expenditures, equipment and software, exports, and federal government spending.

The **U.S. Department of Commerce** reports that construction spending during March 2006 was estimated at a seasonally adjusted annual rate of \$1,199.1 billion, 0.9% above the February 2006 rate. The March figure is 8.4% above the March 2005 estimate of \$1,106.4 billion. Private residential construction was at a seasonally adjusted annual rate of \$672.9 billion in February, 0.8% above the revised February estimate of \$662.6 billion, and 8.6% above the March 2005 estimate of \$619.7 billion.

The **Baker Hughes** count of active domestic rotary rigs is up from 1,576 in March to 1,608 in April. The rig count in April is up 21.4% from the April 2005 figure of 1,325 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 5.00% at its May meeting. The move marked the 16th consecutive quarter-point increase since June 2003, when the federal funds rate stood at a 46-year low of 1.00%.

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



Source: Texas Workforce Commission (TWC)

POTPOURRI

According to **Harris County Tax Assessor-Collector Paul Bettencourt** market values on single-family homes have increased 7% over the year, up 4% from 2005, but is still lower than the 12% increases seen in 2001. Increasing home values pose a problem during property tax season. Though fewer than 40,000 homes decreased in value, approximately 155,333 of the 932,000 homes in Harris County are expected to increase the full 10% this year. Half of the homes are expected to see no change in property value and rest will see less than 10% increases. More than one third of the homes in the county increased the full amount in 2001 and 2002. As home prices continue to increase, so will the taxes. According to Bettencourt, evacuees and businesses relocating to homes in the Houston area have been a contributor to the increase in home prices, thus causing an increase in taxes. For senior citizens and other on fixed incomes, the heavy taxes have become an increasing burden. However, some relief is possibly in sight. The state legislature, currently in a special session, is trying to develop a new structure for school financing which would alleviate some property tax burdens. Unfortunately, there is less optimism for multi-family and commercial properties. Multifamily homes and apartment complexes have seen an average of more than 21% in property values, while office buildings and properties in the Galleria, Greenway Plaza, and Central Business District have seen even higher increases. On average, values rose approximately 27% this year.

The **Houston Downtown Park Conservancy** has released plans for the 11.8-acre park being developed adjacent to the **George R. Brown Convention Center**. The land, currently occupied by parking lots, will be developed with an outdoor amphitheater, two restaurants, a putting green, a large lawn, and a pond. The park will also include other water features, including an interactive fountain, and a "mist tree" for children and joggers. The lawn space, dubbed the Great Lawn, will be bordered by the two restaurants, and will be a space where visitors are encouraged to play games or use recreationally. A belowground parking garage will also be developed to replace the existing parking lots. **Schiller Del Grande Restaurant Group** has been selected by the conservancy to design and operate the two new restaurants in the park. One of the restaurants will be a "destination restaurant" and the other will follow Schiller's casual, self-serve style, such as **Café Express**, though it is not likely that the restaurants will not carry any of the restaurant group's existing names. Schiller will also oversee an event and banquet area as well as casual food cart services.

A new 23-acre segment of **Buffalo Bayou Walk** is set to open June 10. The **Sabine-to-Bagby Promenade**, in downtown Houston (493K), will feature dramatic artistic lighting and interpretive signage and will be accessible by 12 new entry ways that lead from downtown streets to the bayou. The section, anchored by **Hobby Center for the Performing Arts**, **Bayou Place**, and **Sabine Lofts**, is part of the **Buffalo Bayous Partnership's Buffalo Bayou and Beyond Master Plan**. The \$15 million project is slated to take 20 years for completion.

Turnberry Group, LLC purchased the **La Quinta Inn and Suites**, a 76-room hotel located at 18828 Highway 249 in the Willowbrook area of northwest Houston (369H), from **Prosperity Lodging**. The 2-year-old hotel sits on 2 acres. **Michael Yu** of **Marcus & Millichap** brokered the transaction.

Moody National Cos. (713-977-7500) purchased the **Courtyard by Marriott/Fairfield Inn**, a 316-room hotel located at 3131 W. Loop in the Galleria area (288K), from **LNR Property Corp.** The 40-year old hotel, a former Holiday Inn, sits on 3.9 acres. The buyer was self-represented, while **Lisa Hankamer** and **Bert Stevens** of **CB Richard Ellis** represented the seller.


Prudential Gary Greene, Realtors has acquired **Galveston County Realtors**. The acquisition follows last October's merge of **Prudential Galveston**, **Prudential Tiki**, and **Gary Greene Realtors** into Prudential Gary Greene's operations. The company also has offices on Jamaica and Pirates Beach in Galveston. **Marilyn Winters**, founder of Galveston County Realtors, will resign her managing duties to **Gary Greene** and will return to a focus on sales.

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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