



Your Key to Real Estate Services

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HOUSTON REAL ESTATE TRENDS

EDITED by Kathryn Koepke

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APARTMENTS

While construction in the Houston apartment market was relatively low in 2005, activity has picked up once again. So far in 2006, 3,454 units have been delivered to market, with 11,795 units currently under construction. Heavy construction activity continues in the Far West sector, with 1,120 units under construction and 682 units proposed. The Woodlands area also has a healthy supply of product ready to come online, as 918 units are currently under construction. Prominent developers are leading the way. Camden is the most active developer in the market right now, with nearly 1,500 units under construction citywide. Sueba has almost 700 units in the works, while Trammell Crow is building two new developments containing 678 units. The high level of new construction will likely lead to further softness in the market, as weak demand was recorded in the second quarter, leading to a drop in occupancy, and demand will likely continue to be sluggish as Katrina evacuees vacate units.

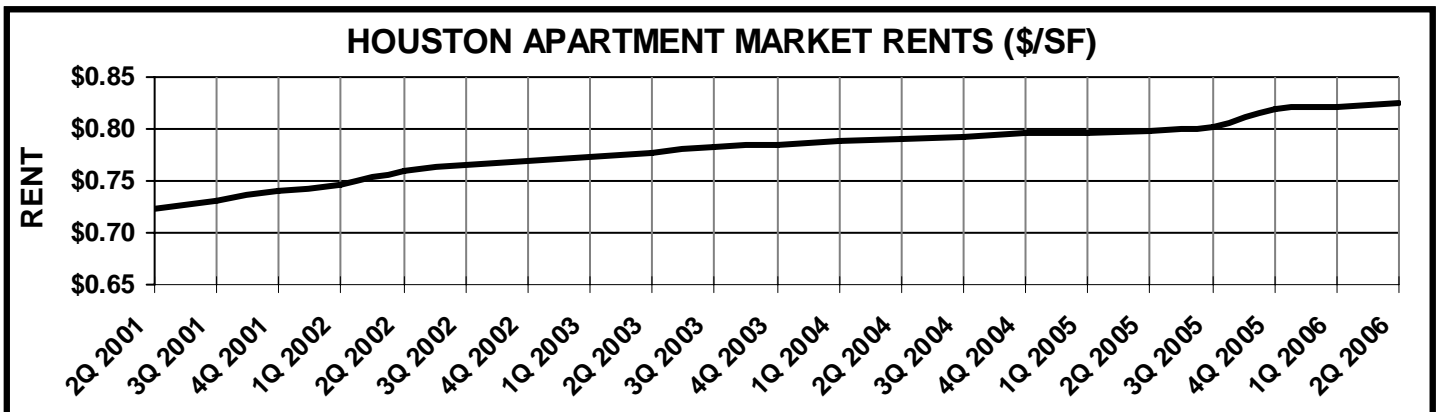
According to the O'Connor & Associates **Second Quarter 2006 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **90.29%** (Class A = 90.95%; Class B = 91.14%; Class C = 89.31%; Class D = 84.70%). Occupancy is down 0.79 points from the first quarter and up 3.40 points over the past year. The overall monthly **rental rate** is **\$0.825 per square foot** (Class A = \$1.087; Class B = \$0.809; Class C = \$0.685; Class D = \$0.590). Overall rents are up \$0.004 from the first quarter of 2006 and \$0.026 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).*

- **Trammell Crow Residential** (713-781-5775) is planning to develop **Alexan Post Oak (17405)**, a 390-unit complex located at 1111 Post Oak Blvd. in the Galleria area (491R). The complex will be built on the 4.6-acre site of the **Eleven-Eleven Post Oak** condominium development, which Trammell Crow recently purchased from a partnership led by **Tom Mudd** of **Westgreen Holdings**. The building will feature four floors of units on top of two floors of parking. Units will average 965 square feet in size, with rents averaging \$1.69 per square foot. Amenities will include 10-foot ceilings, granite countertops, stainless steel appliances, hardwood floors, and a multilevel clubhouse with Internet café, billiards room, and wine room/cigar bar. Completion is estimated for the third quarter of 2007. In the sale of the condominium complex, **Darrell Betts** and **Scot Farber** of **Grubb & Ellis** represented the seller.

- **Transfield Proprietary, Ltd.** (61-2-9475-5600) purchased **Century Campus Housing Management** from **Century Development**. Century Campus Housing manages more than 20,000 beds on 28 college campuses, and developed the first on-campus privatized student housing project in the United States in 1990 at the **University of Houston**. Transfield, which has experience in student housing in Australia and New Zealand, plans to use the acquisition to establish a presence in the United States. Century Development no longer owns any major local properties, and, according to owner **Richard Everett**, is winding down operations, although Everett will retain rights to the Century name.
- Correction Notice: In the June 2006 edition we incorrectly identified the type of loan arranged by LMI Capital for Windsor Park Apartments, as well as one of LMI's brokers. We apologize for any inconvenience. What follows is the corrected article: **LMI Capital** (281-363-4920) arranged a 10-year \$3 million cash-out refinancing loan on behalf of **BBL Investments, LLC** for **Windsor Park Apartments (4434)**, a 130-unit Class D complex located at 7900 Creekbend in southwest Houston (530Y). The 30-year-old complex is 95% occupied with average rents at \$0.66 per square foot. **Jamie Mullin** of LMI arranged the financing with funds provided by **Column Financial**.

The following chart illustrates historical apartment rents.



Crow Holdings (214-661-8000) purchased the **Estates at Memorial Heights (4428)**, a 437-unit Class A complex located at 616 Memorial Heights Dr. (493J), from the **Pauls Corp.** The 4-year-old complex is 90% occupied with average rents at \$1.35 per square foot. The buyer was self-represented in the transaction, while **Craig LaFollette** of **CB Richard Ellis** represented the seller.

Passco Cos. (949-442-1000) purchased **The Moorings (4301)**, a 201-unit Class A complex located at 601 Enterprise Ave. in League City (619U), from **Concierge Asset Management**. The 8-year-old complex is 93% occupied with average rents at \$1.04 per square foot. **Craig LaFollette** and **Todd Stewart** of **CB Richard Ellis** brokered the sale.

Gerardo Amaya (323-707-4785) purchased **Casa Bella Apartments (17403)**, a 29-unit Class C complex located at 8363 Park Place Blvd. in southeast Houston (535L), from **MTS Group, LLC**. The 42-year-old complex is fully leased. **Ricardo Valdez** of **RE/MAX Professional Group** represented the buyer, while **Robert Su** and **Gannon Baird** of **Marcus & Millichap** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales increased in June, as 6,587 used homes were sold, up from the 6,187 homes sold in May, according to the **Houston Association of Realtors (HAR)**. Sales for June 2006 were up 13.2% from June 2005. The median price of a used single-family home sold in June was \$150,000, up 8.3% from June of last year, while the average home price was \$205,946, up 12.0% from the June 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 decreased 7% in June to 2,940 from 3,172 in April, but are up 5% from June 2005. Realtor co-op sales represent 61% of gross sales, up from 54% in June 2005. Traffic increased 10% from last year to 33,948 in June 2006. The inventory of completed speculative homes (1,747) is 10% below last year's inventory. There are 4,411 spec homes under construction, which is up 13% from 2005. Overall, the 6,158 specs (both completed and under construction) represent a 5% 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 June to a seasonally adjusted annual rate of 1,131,000, 3.0% below the revised May sales rate of 1,166,000, and 11.1% below the revised June 2005 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$231,300. Privately owned housing starts were at a seasonally adjusted annual rate of 1,850,000 in June 2006, 11.0% below the June 2005 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 2,017,000 in June 2006, 2.0% above the June 2005 figure.

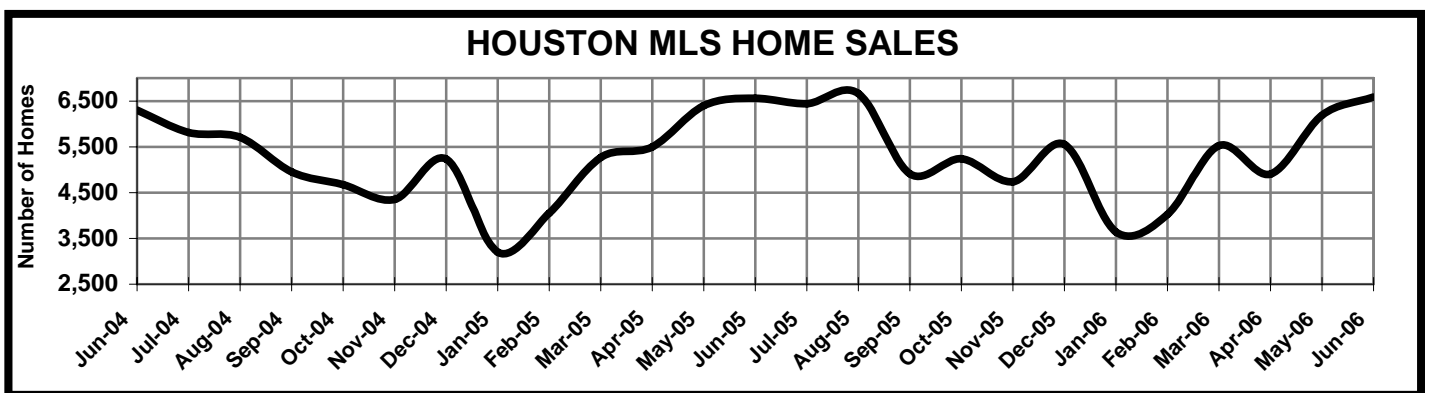
The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased in July to 39 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes decreased 4 points to 43, the index measuring sales expectations for the coming six months decreased 5 points to 46, while the index measuring the traffic of prospective buyers decreased 2 points to 27.

According to the **National Association of Realtors (NAR)**, 700,000 existing homes were sold in June 2006, up 9.0% from 642,000 in May. The median sale price was \$231,000, a 0.9% increase over sale prices a year ago.

The housing market in Houston's **River Oaks** neighborhood is experiencing a boom, according to a report by **Greenwood King Properties**. The number of River Oaks home sales was 28% higher in the first quarter of 2006 than in the first quarter of 2005. The median selling price increased to \$1.2 million from \$940,000 in 2005. Also, according to Greenwood King, homes are selling 26% faster on average, while available inventory in the neighborhood has decreased 6% since last year.

According to a report by **Kiplinger's**, the condominium market nationwide is experiencing a downturn. At \$222,000, the nationwide median condominium price is now lower than the median price for a single-family home, which is currently at \$222,700. The South and West have suffered the most; according to the **National Association of Realtors**, sales in those regions have decreased 14% in the past 12 months. The NAR expects overall condominium prices to increase 3% to 4% over 2006, compared to 6% for single-family homes.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Lamesa Properties, Ltd. (713-526-4311) is planning to develop a mixed-use project on a 4-acre tract bounded by Morningside, Dunstan, Kelvin, and Rice in the Rice Village area (532C). The project is slated to include approximately 250 condominiums, 50,000 square feet of office space (**BWU 038**), and 100,000 square feet of ground-level retail space (**INL 474**) in a six- or seven-story building. Buildings that currently occupy the tract will be demolished to make way for the new project. As part of the project, the developer plans to permanently close Bolsover St. between Morningside and Kelvin to create a pedestrian plaza. The project will be constructed in two phases, each being built in approximately 18 months, with construction on the first phase slated to begin in early 2007.

A joint venture between **PNL Cos.** (214-379-9000) and **Shelton Development** is planning to develop **Tamarron Lakes**, a community located off of FM 1463 between Interstate 10 and the proposed Westpark Tollway extension in Katy (484B), on 747 acres of land recently purchased from **700 Deerfield Katy, LP**. Plans for the community call for mostly homes, but 25 acres has been set aside for commercial development as well. The companies anticipate spending \$35 to \$40 million on infrastructure before selling individual tracts of land to developers. The buyer was represented by **Spencer Stone** of **Prime Tex Realty Group**, while **David Ward** of **David Ward Partners** represented the seller.

KB Home (310-231-4000) is planning to develop **WoodCreek Reserve**, a planned community featuring 244 homes located at FM 1463 and Kingsland Blvd. in Katy (484G). The community will feature home designs based on homes owned by **Martha Stewart**. However, homes will differ from those in other Martha Stewart communities in that they will feature brick exteriors and downstairs bedrooms, and will also be larger. Community amenities will include a pool and recreation center, a lake, and a 100-acre nature park. Homes will range from 2,600 to 5,100 square feet, with prices ranging from the high \$200,000s to the mid \$500,000s. Construction is scheduled to begin in the fall, with the first homes expected to be completed in January 2007.

Fidelity Management Co. (713-706-4000) is developing **The Edge Condominiums**, a 93-unit, seven-story condominium development located at 300 St. Joseph Pkwy. in Midtown (493P). The development will feature one-, two-, and three-bedroom units with sizes ranging from 927 to 2,073 square feet and prices ranging from \$192,500 to \$469,500. Amenities will include CAT-5 wiring for phone, fax, and Internet, extra sound insulation between units, and gated entry with security system. Construction is under way, with completion slated for the first quarter of 2007. **Jim Richards** of **Live Oak Capital** arranged a \$29 million construction loan for the development on behalf of Fidelity, with funds provided by **Regions Bank**.

iCityCondo, Inc. (888-266-3620) is developing **Melrose Park Condominiums**, an 18-24 unit development located at 1447 Heights Blvd. in the Heights (453W). The total number of units will depend on unit choices by buyers; some one-bedroom units may be combined into two-bedroom units. The project will involve renovating a 22-unit apartment complex on the site. Units will feature one and two bedrooms, ranging from 600 to 1,600 square feet, and priced from \$125,000 to \$330,000. Amenities will include granite countertops, track lighting, hardwood floors, and GE Profile appliances. Renovations to the building are under way, with a targeted completion of summer 2007.

Beaux Art Partners, Inc., a group led by developer **Terry Conrad**, is planning to develop **Beaux Art Condominiums**, a 15-unit development located at 2501 Postoffice St. in Galveston (774R). The homes, which will all feature two bedrooms and two bathrooms, will range from 1,744 to 2,372 square feet, with prices ranging from \$392,000 to \$774,000. Amenities will include 12-foot ceilings and assigned parking, and the building will conform to LEED standards. Construction is scheduled to begin in September, with completion slated for June 2007.

Centex Homes (214-981-5000) announced plans to begin building homes under two of its product lines, **Freedom Living** and **CityHomes**, in the Houston area. Freedom Living homes are designed for residents 55 and older, while the CityHomes line is built in urban areas. The first Houston-area Freedom Living homes will be built in the **Tuscan Lakes** community in League City, ranging from 1,500 to 2,600 square feet in size and from the high \$100,000s to the mid-\$200,000s in price. Centex is currently scouting locations for its first CityHomes project, but anticipates breaking ground on the first community in the fourth quarter of 2006, with plans for 10 to 12 more communities.

Christopher Sims Custom Homes (281-242-7900) is planning to build custom vacation homes to be sold at fractional ownership. The homes will be sold at 25% increments, allowing each owner use of the home for 13 weeks per year. Sims plans to build four homes each in the waterfront communities of **HarborWalk** in Hitchcock and **Beachtown** in Galveston. The HarborWalk homes will be 3,000 square feet in size, with each owner paying approximately \$270,000. The Beachtown homes will range from 2,700 to 3,500 square feet, with per-owner prices ranging from \$250,000 to \$300,000. Owners will split insurance costs, and owners will be able to buy shares from one another upon mutual agreement by all of the owners. Sims expects to build more than 20 such homes in the area over the next several years. The first home in HarborWalk is scheduled for completion in July, with a second slated for an August completion.

The **Galveston City Council** overturned the **Galveston Planning Commission's** approval of a 16-story, 219-unit condominium development proposed by **Don Jordan** of **Jordan Properties**. Jordan planned to build the development on a 28-acre tract along Eckert Dr. on Galveston's west side. Council members voting against the project cited opposition from neighboring property owners, as well as a failure by the planning commission to be diligent in arriving at a decision.

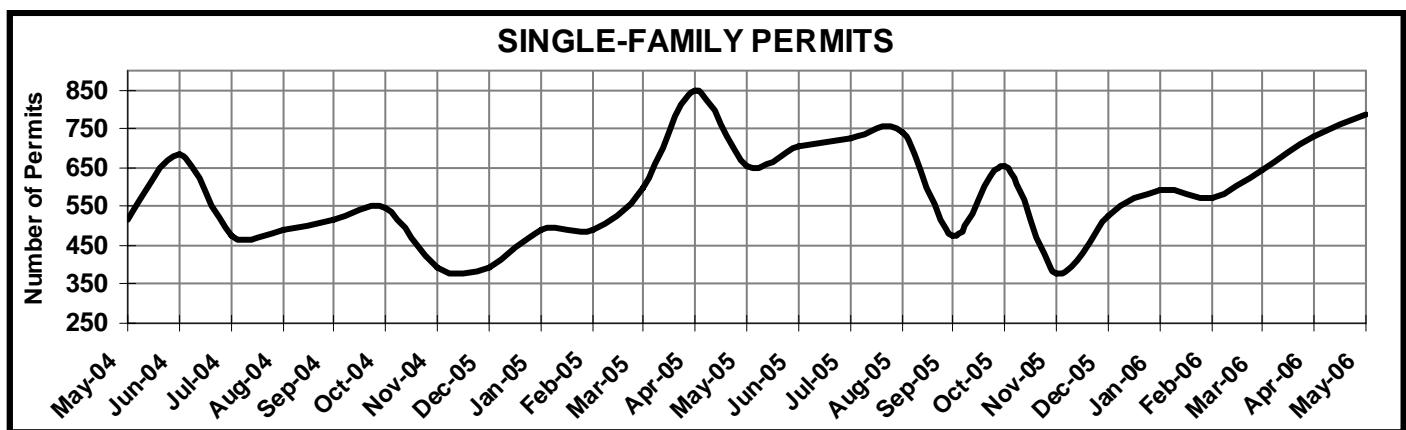
PERMIT ISSUANCE

The **City of Houston** issued permits to build 789 private single-family houses and 20 private multifamily buildings in May. Demolition permits were issued for 102 private single-family houses. In addition, 368 permits were issued for privately owned non-residential construction totaling \$116,338,378 and 13 permits were issued for public non-residential construction totaling \$12,136,693. Additions, alterations, and conversions totaled \$107,404,584 for the private sector and \$32,840,477 for the public sector.

Cost of Construction*

	2004	2005	2006
Month of May	\$301,262,151	\$292,803,757	\$464,276,763
Year-to-Date	\$1,479,072,132	\$1,641,921,462	\$1,973,808,568

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



OFFICE BUILDINGS

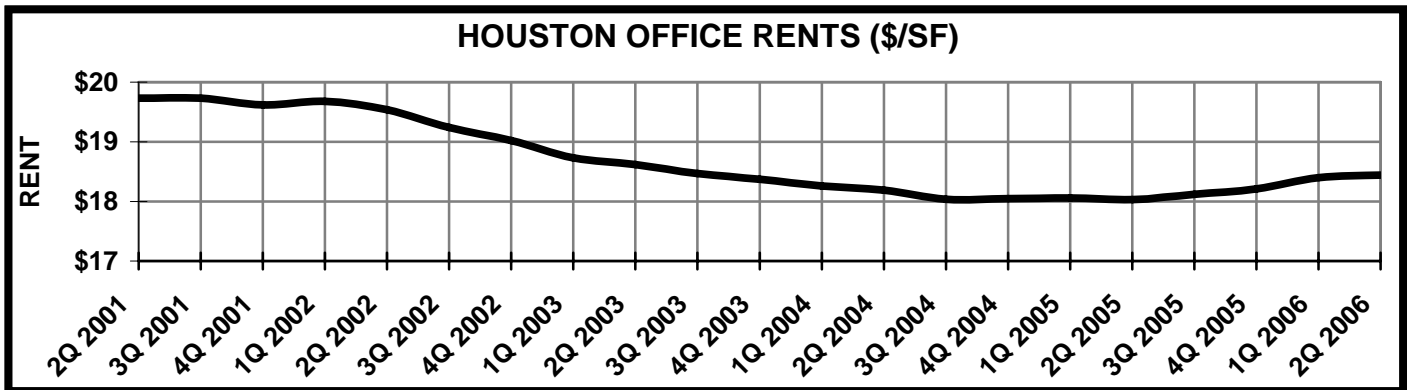
Occupancy in the Houston office market increased for the fifth straight quarter, gaining 0.40 points over the second quarter to 84.24%. Occupancy has increased 1.88 points over the last 12 months. **Class C** occupancy posted the largest increase over the quarter, gaining 0.59 points to 81.89%, while **Class A** occupancy gained 0.51 points to 87.02%. Class A occupancy has jumped 2.75 points since this time last year. While Class D was the only class to post a decrease in occupancy over the quarter, Class D occupancy has increased 1.24 points over the last year. The **Northeast 1** and **Southwest 2** sectors currently report the highest occupancies, at 96.56% and 94.25% respectively, while the lowest occupancy is found in the **Northwest** sector at 74.20%.

According to the O'Connor & Associates **Second Quarter 2006 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **84.24%** (Class A = 87.02%; Class B = 82.99%; Class C = 81.89%; Class D = 79.29%). The citywide annual multi-tenant office **rental rate** is **\$18.44 per square foot** (Class A = \$21.15; Class B = \$17.17; Class C = \$13.77; Class D = \$11.27). Overall rents are up \$0.38 from the second 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).

- **Trammell Crow Co.** (214-863-3000) acquired **Williford Property Group**, whose 13 employees will join Trammell Crow. The deal adds approximately 2 million square feet to the roughly 10 million square feet of office space that Trammell Crow previously leased and/or managed. **Jeff Williford**, owner of Williford Property Group, will assume duties as a senior vice president, overseeing Trammell Crow's office management operations.
- **CORE Real Estate** (713-400-1800) is planning to develop **17000 Katy Freeway (P10 051)**, a 174,000-square-foot office building located on 9.5 acres in the Park 10 area (447X). The three-story building will have approximately 800 parking spaces. Construction is scheduled to begin in September, with completion targeted for the second quarter of 2007. **Cody Armbrister** of **Trammell Crow Co.** will handle leasing.
- **The Signorelli Co.** (936-441-4505) is planning to develop **One Conroe Center (TWC 089)**, a 75,000-square-foot office building located at 235 Interstate 45 North in Conroe (187C). The building will feature a marble and granite lobby, as well as 310 parking spaces. Construction is slated to begin in late 2006. **Jay Legg** of **Lincoln Property Co.** will handle leasing for the building.
- **Stream Realty Partners, LP** (713-300-0300) has been retained to handle leasing at **5 Houston Center (CBD 123)**, a 581,000-square-foot Class A building located at 1401 McKinney St. in the Central Business District (493Q), by **Wells Real Estate Funds** (770-449-7800). The 4-year-old building is 96% occupied with average rents at \$29.50 per square foot.
- **Live Oak Capital** (713-993-1300) arranged \$8.8 million in financing on behalf of **TCP Realty Services** (214-634-4141) for **1900 St. James Place (GAL 091)**, a 141,000-square-foot building in the Galleria area (491P). The 33-year-old building is 62% occupied with average rents at \$14.50 per square foot. **David Aaronsen** of Live Oak arranged the financing, with funds provided by **American National Insurance Co.**
- **HFF** (713-852-3500) arranged \$49.187 million in refinancing on behalf of **National Office Partners, LP** (415-986-8200), a partnership between **Hines** and the **California Public Employees' Retirement System**, for **919 Milam (CBD 092)**, a 542,000-square-foot Class B building in the Central Business District (493L). The 50-year-old building is 90% occupied with average rents at \$19.00 per square foot. The building, formerly known as **910 Travis**, recently underwent a major renovation that included the construction of a 300-space on-site parking garage. Financing was secured by **Scott Galloway** and **Susan Hill** of HFF, with funds provided by **Wachovia Bank**.

The following chart illustrates historical office rents.



Fuller Realty Partners (713-850-8400) purchased **9990 Richmond (WES 036)**, a 188,000-square-foot Class B office complex located in the Westchase District (489Z), from **American Resurgens**. The 25-year-old, two-building complex is 83% occupied with average rents at \$16.50 per square foot. Also included in the sale was a 2.2-acre adjacent tract of vacant land. The buyer was represented in-house by **Steve Darnall**, while **Rusty Tamlyn, Ralph Tullier, and Mike Parker** of **Trammell Crow Co.** represented the seller.

Creekstone Partners (713-621-5300) purchased the **Greenrich Building (FOG 039)**, a 119,000-square-foot Class B building located at 6222 Richmond Ave. in the Galleria area (491W), from **Diapori Realty, Inc.** The 22-year-old building is 87% occupied with average rents at \$19.25 per square foot. **PNC Bank** provided \$6.95 million in acquisition financing for the building. Creekstone will handle leasing and management in-house.

Baker Hughes leased 114,000 square feet in **America Tower (MAP 007)**, a 945,000-square-foot building located at 2929 Allen Parkway just west of the Central Business District (492M), from **American General Realty Advisors** (713-831-2770). The 23-year-old building is 96% occupied with rental rates at \$25.00 per square foot. **Conrad Bernard** of **Boyd Commercial, LLC** and **Bill Romaine** of **NAI Houston** represented the tenant, while **Bill Stone** of **Cushman & Wakefield** represented the landlord.

Alliance Wood Group Engineering leased 110,000 square feet in **Parkview I (P10 023)**, a 112,000-square-foot Class A building located at 330 Barker Cypress in the Park 10 area (487A), from **KBS Realty Advisors** (949-417-6500). The 19-year-old building is fully leased with average rents at \$18.00 per square foot. **Mark O'Donnell** of **Studley Houston** represented the tenant, while **Doug Little** of **PM Realty Group** represented the landlord.

Targa Resources, Inc. leased 102,000 square feet in **Wells Fargo Plaza (CBD 053)**, a 1,721,000-square-foot building located at 1000 Louisiana in the Central Business District (493L), from **MetLife** (972-404-4350). The 24-year-old building is 87% occupied with average rents at \$22.00 per square foot. **Steve Burkett, Dan Bellow, and Ronnie Deyo** of **The Staubach Co.** represented the tenant, while **Kevin Wyatt** and **J.P. Hutcherson** of **Lincoln Property Co.** represented the landlord.

Delta General Agency Corp. leased 15,000 square feet in **Loop Central II (GAL 156)**, a 198,000-square-foot Class B building located at 4848 Loop Central in the Galleria area (491Z), from **Kennedy Wilson Properties** (713-334-1155). The 25-year-old building is 90% occupied with average rents at \$19.00 per square foot. **Louis Rosenthal** of **Jones Lang LaSalle** represented the tenant, while **Virgil Hydes** of **Lincoln Property Co.** represented the landlord.

RETAIL CENTERS

Some analysts believe that high gas prices have begun to impact the retail industry. June retail sales figures surpassed expectations for lower-priced department stores such as JC Penney and Kohl's, and were weak for specialty retailers such as Gap. Wal-Mart's June sales fell well short of analysts' forecasts, and its customers shopped less frequently, suggesting that gas prices are taking their toll. Speculation is that consumers are looking to recoup the extra money they are spending on gas, and head to department or discount stores instead of specialty chains, as they tend to offer lower-priced goods. However, upscale retailers, including Saks Fifth Avenue and Nordstrom, posted impressive June figures. It should be no surprise that the numbers indicate that the wealthy have the same spending patterns despite high gas prices, while middle- and lower-income households must cut back on their spending. It remains to be seen what the lasting effects of high energy prices will be; perhaps lower-priced department stores will enjoy a prolonged resurgence, or perhaps overall retail sales figures will fall as consumers continue to look for ways to cut costs.

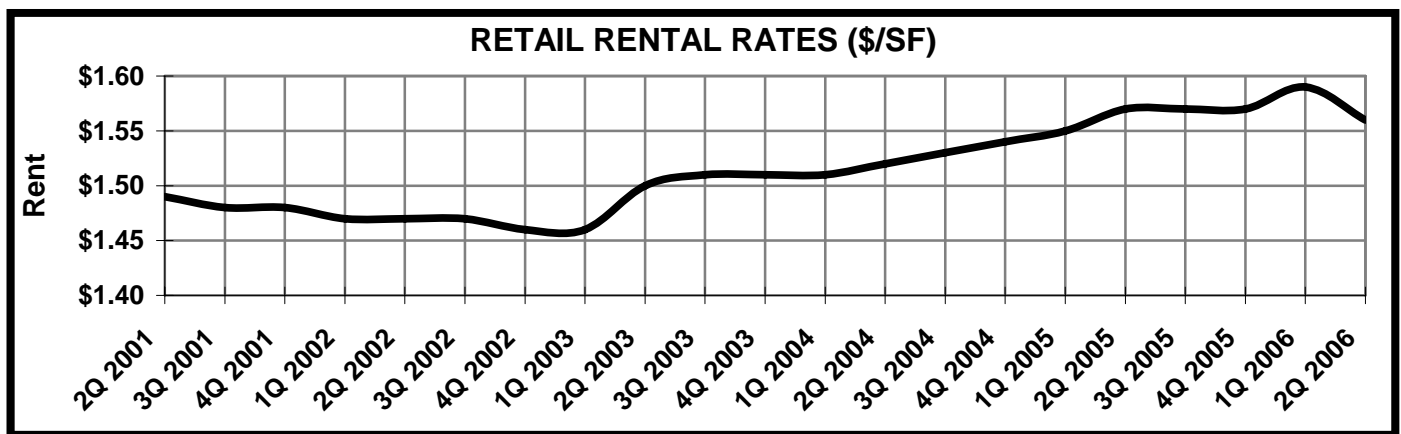
According to the O'Connor & Associates **Second Quarter 2006 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.67%** (Regional = 85.87%; Community = 86.93%; Neighborhood = 85.22%; Strip = 84.19%). Occupancy is down 0.42 points in the past 12 months, and is down 0.22 points over the last quarter. The citywide monthly multi-tenant retail **rental rate** is **\$1.56 per square foot** (Regional = \$2.88; Community = \$1.50; Neighborhood = \$1.15; Strip = \$1.13). Overall rents are down \$0.03 from the first quarter, and unchanged since this time 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).

- **Trademark Property Co.** (817-870-1122) is planning to develop **High Street**, a mixed-use development located at 4410 Westheimer just east of the West Loop (491V), on the site of the former **Central Ford** dealership. The development's ground floor will have 100,000 square feet of retail space (**INL 473**), with between 250 and 350 apartments (**17407**) on higher floors. Construction is scheduled to begin in the spring of 2007, with completion estimated for 2008. **Dana Hansen** of Trademark will handle leasing for the retail component.
- A joint venture between **Transwestern Commercial Services** (713-270-7700) and **WCF Development** (713-993-0123) is developing **Shadow Creek Ranch Town Center (SOU 336)**, a 610,000-square-foot center located at the intersection of Texas 288 and FM 518 in Pearland (613N). The center, which will be anchored by **H-E-B**, is 50% preleased with average rents at \$2.50 per square foot. Other tenants in the center will include **Academy**, **Amegy Bank**, and **Hobby Lobby**. Construction is under way on the center, which is slated for completion in the summer of 2007. **Will Deane** is handling leasing for Transwestern.
- **Interfin** (713-840-8474) has begun construction on **Vintage Park**, a mixed-use development located at Texas 249 and Louetta in northwest Houston (329U). Interfin has earmarked 84 acres of land purchased from **Hewlett Packard** for retail projects; the first phase (**FNW 138**), which is underway, will encompass approximately 500,000 square feet, and will include a 105,000-square-foot **H-E-B** grocery store. The retail development, intended to stand out from others in the area, will be made of materials including stucco and clay tile roofs, and will have cobblestone streets. Construction on the retail center is slated for completion in the summer of 2007. Future plans for the 460-acre development include single-family housing, apartments, office space, and a medical campus.
- **Capmark Finance, Inc.** (713-499-4000) obtained \$14.3 million in construction financing on behalf of **Midway Cos.** for **Kings Harbor Place (NEA 323)**, a mixed-use development located along Lake Houston Parkway at the San Jacinto River in northeast Houston (337G). The project's first phase, which is under construction, will encompass 66,000 square feet of retail and restaurant space, 14,000 square feet of office space, a parking garage, and a residential component with 36 condos and 33 brownstones. The retail component is 50% preleased with average rents at \$2.17 per square foot. **Brant Smith** of Capmark arranged the financing, with funds provided by **Regions Bank**.

- **iCap Realty Advisors** (713-888-4227) obtained a \$10 million refinancing loan on behalf of **West Oaks Plaza, Ltd.** for **West Oaks Plaza (FWE 046)**, a 162,000-square-foot center located at 2703 Highway 6 S. in west Houston (488W). The 22-year-old center is 90% occupied with average rents at \$1.00 per square foot. Tenants in the center include **Bollywood Cinema**. **Paul Gardaphe** of iCap arranged the financing, with funds provided by **Morgan Stanley Mortgage Capital**.
- Several retailers are occupying or have plans to occupy the space that formerly housed **Lord & Taylor** in **The Galleria (NRW 084)**, a 2,500,000-square-foot mall located at 5001 Westheimer in west Houston (491U). Three new restaurants will be among the 12 retailers that will take parts of the former store. The retailers will include **J.Crew**, **Papyrus**, **Oceanaire Seafood Room**, **Del Frisco's Double Eagle Steakhouse**, **Chico's**, and a two-story **Borders**. All of the new outlets are scheduled to open by the summer of 2007.
- According to a survey by **The NPD Group**, consumers are planning to begin back-to-school shopping later this year, and are planning to spend approximately the same amount of money as they did last year. In 2005, 43% of those surveyed had already begun back-to-school shopping by August 1, while 51% planned on shopping between August 1 and September 1. In contrast, 40% of shoppers this year started before August 1, with 56% planning on shopping between August 1 and September 1. Of consumers polled this year, 21% plan to spend less than they did last year on back-to-school shopping, 34% plan to spend more, and 43% plan to spend approximately the same amount.

The following chart illustrates historical retail rents.



Tom Foley purchased **Crossroads Plaza (FNW 338)**, a 16,000-square-foot center located at 13141 FM 1960 in northwest Houston (368Z), from **Robalo Resources, Inc.** The 4-year-old center is fully leased with average rents at \$2.00 per square foot. **Amadar DeLeon** of **DeLeon Realty** represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

Old Navy leased 16,000 square feet in **Memorial City Mall (NRW 003)**, a 1,883,000-square-foot mall located at 303 Memorial City in west Houston (490A), from **MetroNational** (713-984-1001). The 40-year-old mall is 92% occupied with average rents at \$2.75 per square foot.

INDUSTRIAL FACILITIES

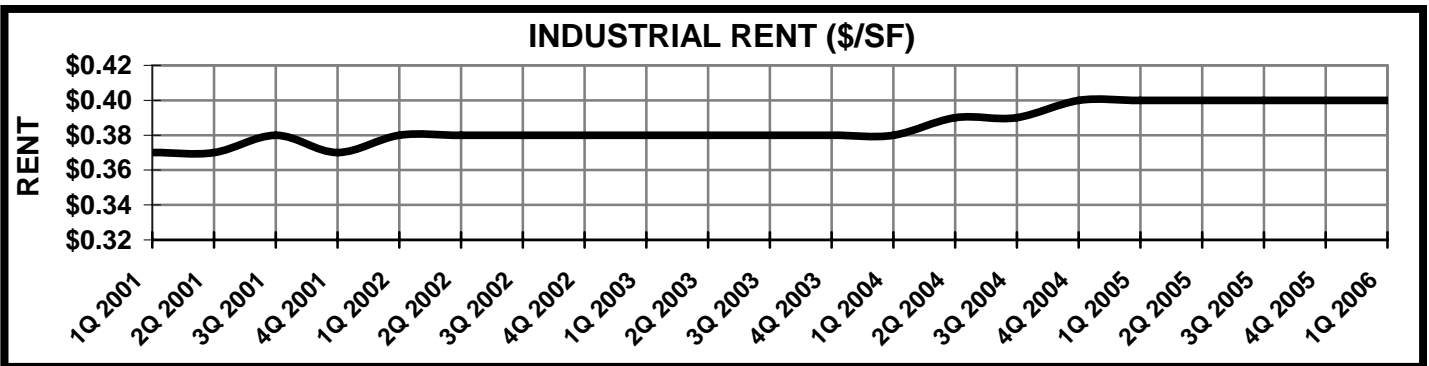
Demand to purchase space in the Houston industrial market is brisk. According to **Real Capital Analytics**, average sales prices for Houston-area industrial properties are up to \$47 per square foot (psf) in the first half of 2006 from \$41 psf last year. More users are looking to own their own space. Many users see owning their space as a way to build equity and cut down on costs, by not leasing space. Investors have driven up demand as well, as the strong market has made investing in industrial property very attractive, such as **Capital Commercial Investments Inc.** placing an educated bet on the Houston market with its purchase of the 408,000-square-foot former **Walgreens** distribution center, which it plans to divide into smaller spaces and lease. The tightening of the office market is good news for the industrial market as well, as office users looking to cut costs will more frequently look to flex space to fill their needs, a fact that is likely not lost on potential investors.

According to the O'Connor & Associates **First Quarter 2006 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.93%** (Flex = 89.44%; Bulk = 93.06%; Manufacturing = 93.62%). Occupancy is up 0.41 points from the last quarter, and up 1.02 points over the last year. The overall monthly **rental rates** remained flat at **\$0.40 per square foot** (Flex = \$0.46; Bulk = \$0.35; Manufacturing = \$0.33).

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

- The opening of the **Bayport** container terminal has been delayed until November. The terminal was expected to open in July, but was delayed due to a decision to build berths larger than originally planned, as well as implementation of security and communications enhancements and bad weather. The terminal, which began construction in June 2004, is expected to be ready for use November 1st.
- **BlueLinx Holdings, Inc.** (770-953-7000) obtained \$295 million in financing for a portfolio of industrial properties throughout the U.S., including a 158,000-square-foot facility (**3529B**) located at 650 Gellhorn Dr. in southeast Houston (495G). The 42-year-old property is owner occupied. Financing was arranged by **Greg Greene** of **CBRE | Melody**, with funds provided by **Wachovia Bank**.

The following chart illustrates historical industrial rents.



Fuller Realty Partners (713-850-8400) purchased **16400 Park Row (1048)**, a 128,000-square-foot office/warehouse facility located in west Houston (447Y), from **Reliability, Inc.** for \$4.85 million. The 21-year-old building, which previously housed Reliability's headquarters, is vacant. The buyer was self-represented in the transaction, while **Michael Hill** and **Marc Emde** of **Michael Hill Properties** represented the seller.

Transport Management Consultants, Inc. leased 236,000 square feet in **Southland Distribution Center 1 (4360)**, a 342,000-square-foot warehouse located at 2750 Holmes Rd. in south Houston (533S), from **ProLogis** (713-682-2292). The 29-year-old facility is fully leased with average rents at \$0.38 per square foot. **Bob Berry** of **The Staubach Co.** represented the tenant, while the landlord was represented in-house.

Curtis 1000 leased an 84,000-square-foot office/warehouse facility located at **5150 Blalock (1261)** in northwest Houston (450C) from **Valve Systems & Controls** (713-697-2900). Rents at the 24-year-old facility are \$0.30 per square foot. The facility features 20-foot clearance with dock-level loading. **Chuck Caturia** of **CB Richard Ellis** represented the tenant, while **Bill Rudolf** and **Gray Gilbert** of CBRE represented the landlord.

Chep USA leased 63,000 square feet in a 163,000-square-foot warehouse located at **9990 North Loop East (3490M)** from **TMT Properties, Inc.** The 6-year-old facility is 38% occupied with average rents at \$0.37 per square foot. **Greg Lance** of **Equis Corp.** represented the tenant, while **John Talhelm** and **Kevin Erck** of **Cushman & Wakefield** represented the landlord.

Wenaas AGS leased 50,000 square feet in **Stafford Park Business Center (4901M)**, a 278,000-square-foot office/warehouse complex located at 12211 Parc Crest Dr. in Stafford (569G), from **Trammell Crow Co.** (713-963-1000). The year-old complex is 49% occupied with average rents at \$0.49 per square foot. The facility features 24-foot clearance with dock-level loading.

Houston Shutters, LLC expanded its lease by 49,000 to 144,000 square feet in **OST Distribution Center (4264A)**, a 144,000-square-foot office/warehouse facility located at 7052 Grand Blvd. in south Houston (533K), from **Highfield Realty Capital, Inc.** (214-520-7171). The 26-year-old facility has average rents at \$0.36 per square foot. The facility features 18- to 22-foot clearance with dock-level loading. **Kit Dolan** of **Proterra Properties** brokered the lease.

VACANT LAND

Crescent Home Corp. (713-771-0400) purchased a 987-acre tract of land located off of Texas 288 just south of the **Brazoria County Airport** (857Q), from the **Texas General Land Office**. The land was formerly used as farmland for a state prison. Tentative plans for the land call for homes around the \$100,000 to \$150,000 range, as well as some commercial development.

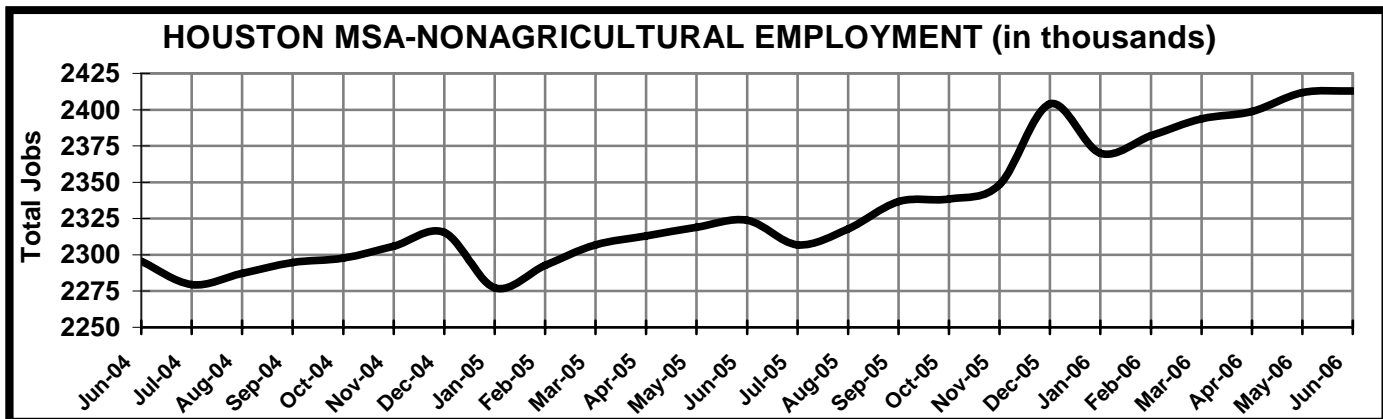
Lamar Consolidated Independent School District (832-223-0000) acquired a 140-acre tract of land near FM 762 and Crabb River Rd. in Rosenberg (606V), from the **George Foundation**. LCISD purchased 70 acres from the foundation for \$1.6 million, while the foundation donated the remaining 70 acres to the district. LCISD plans an educational complex on the site comprising a middle school, a junior high, and a high school. Under terms of the agreement, the district must begin construction within seven years of closing on the land, or the donated portion of the land reverts back to the foundation. Tentative plans call for the high school and junior high to be constructed in 2010 or 2011.

Omni Hotels (972-730-6664) purchased 11,967 square feet of land adjacent to the **Omni Houston Hotel** at 4 Riverway in the Galleria area (491L), from **American Ventures Realty Investors** for \$400,000. Omni plans to use the land to expand the hotel to include a 10,000-square-foot ballroom, a health club, and a spa. Construction on the improvements is scheduled to begin this fall and is expected to take approximately one year to complete.

ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **increased by 1,000 jobs** to 2,412,800 in June 2006, according to the **Texas Workforce Commission**. This month's total is **59,400 jobs more** than the 2,353,400 jobs at this time last year. Of nonagricultural employers, the Trade, Transportation, & Utilities sector posted the largest gain over the last month at 3,200 jobs, followed by the Leisure & Hospitality sector, with 2,400 jobs gained. Over the year, the Professional & Business Services sector has changed the most, adding 20,300 jobs.

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



Source: Texas Workforce Commission (TWC)

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for June 2006 were \$363.8 billion, a decrease of 0.1% from the previous month, and up 5.9% from June 2005. Retail trade sales were down 0.1% from May, and were 5.7% above last year's level. Gasoline station sales were up 20.4% from June 2005, and sales of nonstore retailers were up 12.3%.

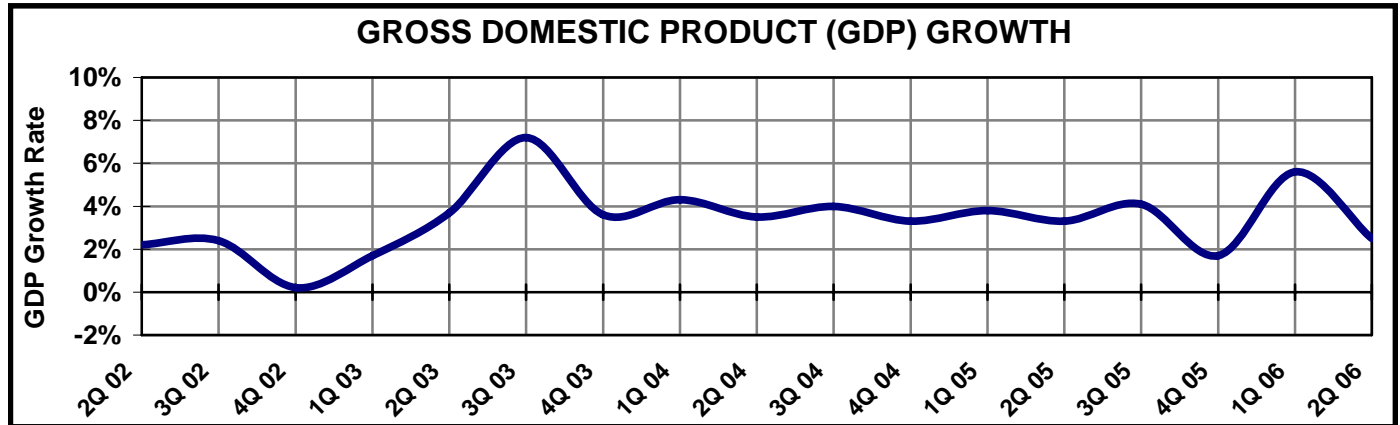
Personal income increased \$66.5 billion, or 0.6%, and Disposable Personal Income (DPI) increased \$53.2 billion, or 0.6%, in June 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$35.4 billion, or 0.4% in June 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.2% in June 2006, and is 4.3% higher than June 2005. Food and beverage, medical care, and other goods and services posted the largest increases in price during June 2006.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 106.5 in July 2006, up 1.1 point from 105.4, in June. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** increased 0.1% in June to 138.1. 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 0.8% in June after having decreased 0.1% in May, and is 4.5% higher than the June 2005 level. Utilities outputs increased in June, and are 1.2% lower than the May 2005 level. The rate of industrial capacity utilization was 82.4% in June, an increase of 0.6% from May, and is up 1.9% from last year.

The **Mortgage Bankers Association (MBA)** reports that the 30-year fixed-rate mortgage (FRM) averaged 6.69%, with an average of 1.07 points (including the origination fee), for the week ending July 21, 2006. Last year at this time, the 30-year FRM averaged 5.83%. The average for the 15-year FRM is 6.31%, with an average of 1.07 points (including the origination fee). A year ago, the 15-year FRM averaged 5.41%.

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 2.5% in the second quarter of 2006, down from the 5.6% growth rate recorded in the first quarter. The increase in GDP during the second quarter was largely attributed to increases in personal consumption expenditures, private inventory investment, nonresidential structures, and exports.



Source: Department of Commerce

The **U.S. Department of Commerce** reports that construction spending during June 2006 was estimated at a seasonally adjusted annual rate of \$1,217.3 billion, 0.3% above the May 2006 rate. The June figure is 6.8% above the June 2005 estimate of \$1,139.9 billion. Private residential construction was at a seasonally adjusted annual rate of \$641.6 billion in June, 1.0% below the revised May estimate of \$648.4 billion, and 0.1% below the June 2005 estimate of \$642.2 billion.

The **Baker Hughes** count of active domestic rotary rigs is up from 1,666 in June to 1,714 in July. The rig count in July is up 21.4% from the July 2005 figure of 1,412 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.

POTPOURRI

MetroNational (713-973-6400) is developing a 35-story hospital tower for **Memorial Hermann** on the hospital's Memorial City campus at Interstate 10 and Gessner Rd. (490A). Memorial Hermann will lease the 915,000-square-foot tower, which will be comprised of 15 floors of inpatient services, and 20 floors of outpatient services, doctor offices, and Memorial Hermann office space. The tower is under construction, with completion targeted for the spring of 2009. After construction on the new tower is complete, the nearby 278,000-square-foot **North Tower**, which currently houses hospital space, will be renovated into office space, with most of Memorial Hermann's administrative employees moving to the building sometime in 2010. MetroNational estimates that the new tower, along with renovations to the North Tower, will cost approximately \$335 million.

According to the **American Wind Energy Association's Second Quarter Market Report**, Texas is now the nation's leading generator of wind energy, having passed California over the second quarter. Texas now has 2,370 megawatts of wind energy capacity, enough to provide power for approximately 600,000 homes. California's wind energy capacity is 2,323 megawatts.

The **Texas Employee Confidence Index** increased 2.3 points in June to 60.7, a new high for the year. The index, which is conducted by **Harris Interactive** on behalf of **Spherion Corp.**, is up 1.5 points from June 2005. The report indicated that 28% of workers believe more jobs are available, up 6 points from May, and 81% believe it is unlikely their jobs will be eliminated in the next year, up 10 points from May. However, 33% of workers plan to look for a new job in the next 12 months, down 11 points from May, and 57% of workers expressed confidence in their ability to find a new job, compared to 65% in May.

The **Metropolitan Transit Authority of Harris County** has selected a route for the planned light rail line into the East End. The line will leave downtown Houston on Capitol Street, turning north onto Harrisburg, and proceeding along Harrisburg to the Magnolia Transit Center. Construction on the line is expected to begin in July 2007, with completion estimated for December 2010.

According to a report by **PKF Consulting**, Houston's hotel market has improved over the past year. From January through May 2006, average Houston hotel occupancy was 72.3%, while occupancy was 65.1% over the same period last year. The average daily room rate from January through May 2006 was \$100.99, an increase of 8.2% over last year.

Westmont Hospitality Group, Inc. (713-782-9100) purchased the **Doubletree Guest Suites Houston**, a 355-room hotel located at 5353 Westheimer Rd. in the Galleria area (491U), from **Cornerstone Real Estate Advisors, LLC**. Cornerstone owned the 25-year-old, 26-story hotel for more than 15 years. **Jeffrey Davis** and **Alan Tantleff** of **Jones Lang LaSalle Hotels** represented the seller.

Equity Inns, Inc. (901-754-7774) purchased the **SpringHill Suites Houston Hobby Airport**, a 122-room hotel located at 7922 Mosley Rd. in south Houston (575D), from **LinGate Hospitality**. The hotel, which was constructed in 1995, features rooms with separate sitting areas, as well as kitchen areas with microwaves and mini-fridges. LinGate will continue to manage the property.

Apple Seven Hospitality Texas, LP (804-344-8121) purchased a 129-room **Residence Inn** located at 1150 Eldridge Pkwy. in west Houston (488C) from **Midway Cos.** No brokers were involved in the sale of the year-old hotel.

Nationwide Health Properties, Inc. (949-718-4400) purchased **Hearthstone Assisted Living's** 32 nationwide locations, in a sale-leaseback transaction. Fifteen of the properties, which will continue to be managed by Hearthstone, are in Texas, with 5 in the Houston area. The communities provide rental units with assisted living services for the elderly. Hearthstone has also changed their name to **Hearthstone Senior Services**.

The **Asia Society Texas** is planning the **Asia House**, an arts and entertainment venue showcasing Asian culture. The venue, which is expected to cost approximately \$30 million, will be located on Southmore Blvd. between Caroline and Austin in the Museum District. Architect **Yoshio Taniguchi** will design the facility, which will include two art galleries, an auditorium and theater, and a gift shop, tearoom and bookstore. Groundbreaking is scheduled for summer 2007, with a targeted completion of summer 2009.

Echostar Communications plans to open a **Dish Network** customer service center in Alvin. The center will bring 600 new jobs to the area; 100 employees have already been hired, with the remainder to be hired by the end of the year. The facility will be Dish Network's 11th customer service center nationwide.

Fort Bend County has revised a lighting ordinance passed in 2004. The ordinance, intended to retain clear skies around the **George Observatory**, limits the amount of lighting allowed on some commercial developments, according to what zone they are located in. However, lighting regulations for zones were decided based on population, which some found illogical and inhospitable to development. The new ordinance's light regulations are related to a zone's proximity to the observatory.

The **University of Texas Medical Branch** has announced plans to eliminate 1,000 jobs. Hospital president **John Stobo** estimates that approximately 720 people will be laid off, with the remainder of the job cuts coming through retirement and attrition. UTMB initiated the job cuts after a report from an outside consultant determined that since the hospital services many uninsured patients, the hospital must operate at a budget surplus to support its mission of providing patient care, training health care professionals, and conducting research. Most of the employees being laid off are scheduled to be notified August 1st.

According to Houston's **Monster Local Employment Index**, reported by **Monster Worldwide, Inc.**, Houston online job demand fell in June. The index decreased one point in June to 111. However, the index names Houston as one of the top-performing markets year-over-year, due to strong growth in demand for construction, engineering, and transportation workers.

Sugar Land was recently ranked 3rd on **CNNMoney.com**'s 2006 list of **Best Places to Live**. The list ranks small cities according to criteria including good jobs, low crime, quality schools, open space, low home prices, and an abundance of activities and attractions. Sugar Land was praised for being diverse, having very reasonable home prices, and having an exemplary school system.

Forbes.com's annual list of **Best Cities for Singles** ranks Houston 34th of 40 of the largest metropolitan areas. Houston slipped 17 spots in 2006 after being ranked 17th in 2005. Denver-Boulder came in at No. 1, followed closely by Boston, with Austin at No. 8. The list ranks cities based on seven criteria: job growth, cost of living alone, culture per capita, nightlife per capita, number of singles, online dating, and coolness.

An annual study conducted by **SustainLane.com** names Houston as one of the cities most likely to experience a natural disaster in the nation. Of the country's 50 largest cities, Houston was ranked 43rd, with the 50th place ranking meaning the highest risk of natural disaster. Miami and New Orleans have the greatest risk, while Mesa, Arizona and Milwaukee have the lowest. The rankings took into account the risk of major flooding, catastrophic hail, hurricanes, and earthquakes.

U.S. News & World Report recognized several Houston hospitals on its 2006 America's Best Hospitals list. **The University of Texas M. D. Anderson Cancer Center** was ranked 2nd in the nation for cancer center hospitals. The hospital was also ranked 5th for gynecology. **Texas Children's Hospital** was ranked 5th in pediatrics, while the **Menninger Clinic** received a No. 6 ranking for psychiatry. The **Texas Heart Institute at St. Luke's Episcopal Hospital** was ranked 6th in heart and heart surgery. The rankings were compiled according to reputation, death rate, and care-related factors such as patient services.

Houston Community College-Northwest received a \$500,000 grant from the **Houston Katrina/Relief Fund**, to be used to provide job training and placement for 200 evacuees. The intensive 12-day training will teach skills such as customer service and computer skills, as well as personal motivation and workplace skills. Participants will also receive job placement assistance and will be evaluated for possible scholarships in HCC's other work force programs, including nurse's aide, bank teller, auto body repair, and construction training certificate programs. The first set of classes is scheduled to begin in August, with new classes beginning every four to five months.

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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