



Your Key to Real Estate Services

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APARTMENTS

Over the past year or so, as investors pounced upon Houston Class A properties that were available, the Class B and C markets were somewhat overlooked. This helped send prices for Class A properties through the roof, while price gains in the other classes were modest at best. However, activity in Classes B and C has picked up in recent months as the investment market takes stock of the relative bargains available, as well as the higher cap rates. One expert recently estimated that Houston Class B prices were just 35% of prices in Class A. However, that could soon change as demand for lower-priced properties picks up. Despite the Houston market's somewhat sluggish performance recently, nationwide investors still look favorably upon Houston as investment continues to shift into Sun Belt markets. Those looking for an easier way into the market will increasingly consider properties in Classes B and C, and the price gap between those classes and Class A is likely to narrow in the near future.

According to the O'Connor & Associates **Third Quarter 2006 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **89.75%** (Class A = 92.04%; Class B = 90.53%; Class C = 87.57%; Class D = 84.63%). Occupancy is down 0.53 points from the second quarter and down 0.66 points over the past year. The overall monthly **rental rate** is **\$0.828 per square foot** (Class A = \$1.093; Class B = \$0.812; Class C = \$0.687; Class D = \$0.593). Overall rents are up \$0.003 from the second 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 Co.** (713-781-5775) is planning **Alexan Voss (17474)**, a 376-unit Class A complex on the site of the recently-purchased **La Scala at Voss (2241)** from **Wentwood Capital Fund 1, LP**. Trammell Crow plans to raze the 38-year-old 142-unit Class C complex located at 7510 Burgoyne in the Galleria area (490V). Further details on the planned project were not available. In the sale of the existing complex, the buyer was represented in-house, while **Todd Stewart** of **CB Richard Ellis** represented the seller.

- **LMI Capital** (281-363-4920) arranged refinancing loans for three complexes in the Houston area. Financing was obtained on behalf of **Wayne Carter** for **Alpine Village (3791)**, a 50-unit complex located at 2402 Burke in Pasadena (537S). The 36-year-old complex is fully leased with average rents at \$0.63 per square foot. Financing was obtained on behalf of **RGJ Apartments, Inc.** for **Victoria Park (3042)**, a 389-unit complex located at 8600 South Course Dr. in west Houston (529Q). The 24-year-old complex is 92% occupied with average rents at \$0.74 per square foot. Financing was obtained on behalf of **Chancellor Properties** for **Westwood Fountains (3061)**, a 293-unit complex located at 9430 Concourse in southwest Houston (529R). The 25-year-old complex is 92% occupied with average rents at \$0.70 per square foot. **Jamie Mullin** of LMI Capital arranged financing for all three properties.
- According to the **National Multi Housing Council's Quarterly Survey of Apartment Market Conditions**, demand for apartments nationwide is rising. The survey's Market Tightness Index fell from 85 in the second quarter to 70 in the third quarter; however, any number above 50 indicates that conditions are improving. The Debt Financing Index jumped 34 points to 63 over the third quarter, while the Equity Financing Index gained 8 points to 58. The Sales Volume Index rose to 38 over the third quarter from 32 in the second quarter, as the slowdown in sales activity nationwide continued.

The following chart illustrates historical apartment rents.



Southern Cross Construction Co. purchased **Baybrook Village I, II, and III (4121, 4122, 16939)**, three Class B complexes totaling 776 units located at 2702 and 2801 W. Bay Area Blvd. in Webster (657C), from **Hudson Advisors**. The 26-year-old complexes are 95% occupied with average rents at \$0.77 and \$0.82 per square foot. The buyer was self-represented in the transaction, while **Craig LaFollette, Todd Marix, and Tre Banks** of **CB Richard Ellis** represented the seller.

GALP Sierra Vista, LP purchased **Sierra Vista (3241)**, a 511-unit Class B complex located at 5500 El Camino del Rey in southwest Houston (531B), from **StarPoint Properties, LLC**. The 24-year-old complex is 95% occupied with average rents at \$0.80 per square foot. The buyer was represented in-house, while **Craig LaFollette, Todd Stewart, Todd Marix, and Tre Banks** of **CB Richard Ellis** represented the seller.

Francis Property Management, Inc. (310-556-2274) purchased **Villages of Cypress Creek (4441)**, a 384-unit Class A complex located at 10300 Cypresswood Dr. in northwest Houston (369C), from **GenCap Partners**. The 5-year-old complex is 86% occupied with average rents at \$1.02 per square foot. **David Joachim** of **International Realty Concepts, Inc.** represented the buyer, while **Craig LaFollette, Todd Stewart, Todd Marix, and Tre Banks** of **CB Richard Ellis** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales decreased October, as 5,600 used homes were sold, down from the 5,954 homes sold in August, according to the **Houston Association of Realtors (HAR)**. Sales for October 2006 were up 7.3% from October 2005. The median price of a used single-family home sold in October was \$146,000, up 2.8% from October of last year, while the average home price was \$189,527, up 0.4% from the October 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 10% in October to 2,154 from 2,385 in September, and are down 14% from October 2005. Realtor co-op sales represent 65% of gross sales, up from 55% in October 2005. Traffic decreased 6% from last year to 26,971 in October 2006. The inventory of completed speculative homes (2,292) is up 14% from last year. There are 4,811 spec homes under construction, which is up 13% from 2005. Overall, the 7,103 specs (both completed and under construction) represent a 13% increase over 2005. *Note: the 24 homebuilders in this survey account for approximately 65% of housing starts in Houston.*

Nationwide sales of new single-family homes decreased in October to a seasonally adjusted annual rate of 1,004,000, 3.2% below the revised September sales rate of 1,037,000, and 25.4% below the revised October 2005 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$248,500. Privately owned housing starts were at a seasonally adjusted annual rate of 1,486,000 in October 2006, 28% below the October 2005 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 1,953,000 in October 2006, 0.7% below the October 2005 figure.

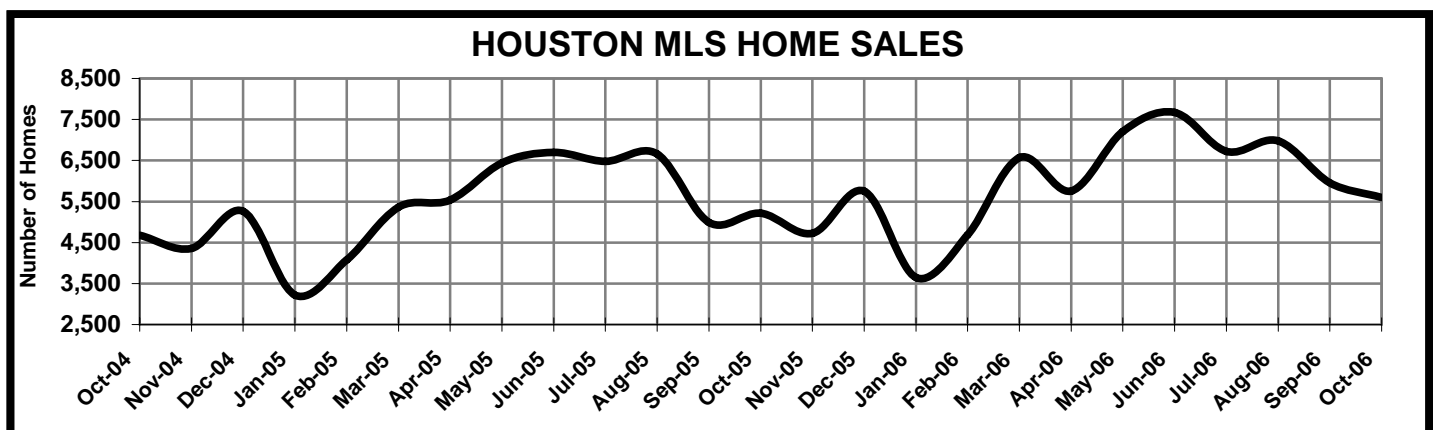
The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, increased in November to 33 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes increased 1 point to 33, the index measuring sales expectations for the coming six months increased 4 points to 46, while the index measuring the traffic of prospective buyers increased 3 points to 26.

According to the **National Association of Realtors (NAR)**, 518,000 existing homes were sold in October 2006, down 2.1% from 529,000 sold in September. The median sale price was \$221,000, a 3.5% decrease from sale prices a year ago.

According to a report by **RealtyTrac**, foreclosure activity nationwide was up over the third quarter. In the third quarter, 318,355 properties entered some stage of foreclosure, a 17% increase over the second quarter. The highest growth in foreclosure activity was in Detroit, Fort Lauderdale, and Denver. Most of the country's 100 largest metropolitan areas reported an increase in foreclosure activity; however, Houston foreclosures decreased 15% over the third quarter.

Toll Brothers, Inc. and **Beazer Homes USA, Inc.**, two luxury homebuilders, recently reported steep decreases in new orders and weak fourth-quarter results. Contracts for new homes at Toll Brothers are down 55% this quarter from a year ago, while new home contracts at Beazer are down 58% over the same time frame. Beazer reports a 44% decline in profit. Toll Brothers company executives attribute the lower numbers to a decline in buyer confidence.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Sunrise Senior Living (703-273-7500) is planning to develop **Sterling at Memorial Villages**, a 27-story, 166-unit seniors condominium development located along Voss Rd. between San Felipe and Woodway in west Houston (490R). The one-, two-, and three-bedroom units will range from 950 to 2,200 square feet in size, with prices starting in the high \$400,000s. Community amenities will include concierge services, dining rooms, a pool, and an emergency response system. Construction is scheduled to begin in 2007, with completion expected in June 2010.

The Woodlands Development Co. (281-719-6100) is developing **Village of Creekside Park**, a community on a 3,492-acre tract located at Kuykendahl Rd. and Gossling in The Woodlands (290R). Homes in the community will range in price from approximately \$200,000 to over \$3 million. Construction is scheduled to begin in the spring of 2007; the community is expected to have over 5,500 homes at full build-out.

Johnson Development Corp. (713-960-9977) is planning to develop **Woodforest**, a community on 2,500 acres located east of Honea Egypt Rd. between FM 2854 and FM 1488 in Conroe (185E), adjacent to **Woodforest Golf Club**. The community will feature walking trails and a recreation center. At full build-out, the community is expected to have approximately 4,700 homes. Prices will range from the mid-\$100,000s to over \$1 million. Builders will be selected in 2007, with construction beginning in 2008.

Newmark Homes (281-243-0100) is developing **Kelliwood Park**, a community featuring 99 homes located near Fry Rd. and Westheimer in Katy (485Z). Homes will range in size from 3,034 square feet to 4,570 square feet, with prices ranging from the upper \$300,000s to the \$500,000s. The homes will be built on 80-foot lots, and the development is adjacent to George Bush Park. Construction is under way, with full build-out expected in approximately 2 years.

Crown Team Texas (409-924-9421) is developing **The Village at Laguna Harbor**, a 14-unit condominium community located near 14th and Nelson streets on Bolivar Peninsula (741M). Homes will range in size from 600 to 800 square feet, with prices between \$225,000 and \$325,000. The community will feature a boathouse with 14 boat slips. Construction is under way, with completion slated for the end of 2007.

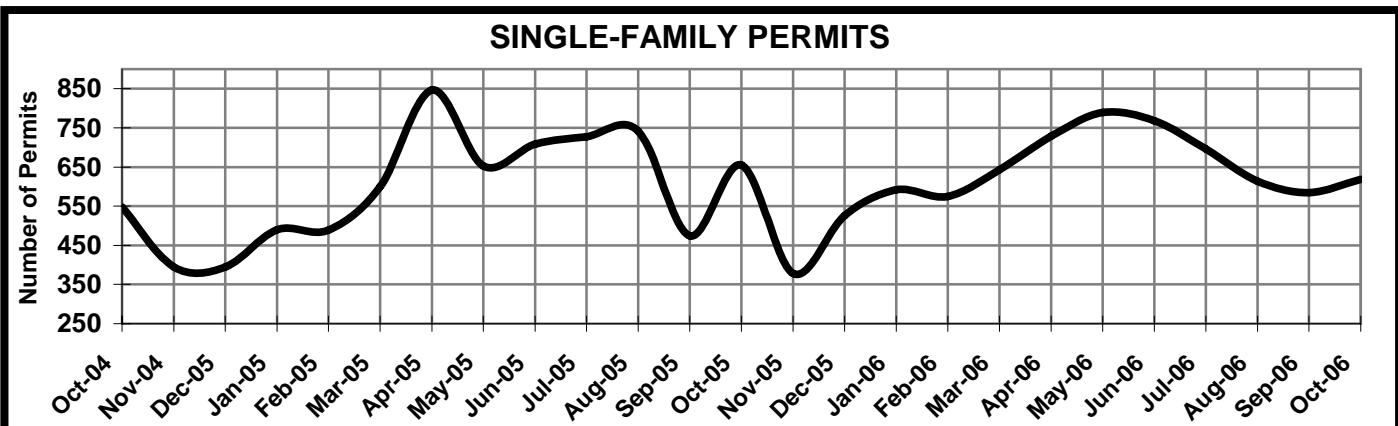
PERMIT ISSUANCE

The **City of Houston** issued permits to build 619 private single-family houses and 93 private multifamily buildings in October. Demolition permits were issued for 198 private single-family houses. In addition, 272 permits were issued for privately owned non-residential construction totaling \$112,626,282 and 13 permits were issued for public non-residential construction totaling \$1,232,706. Additions, alterations, and conversions totaled \$134,969,021 for the private sector and \$2,964,351 for the public sector.

Cost of Construction*

	2004	2005	2006
Month of October	\$389,048,264	\$404,089,921	\$484,856,552
Year-to-Date	\$2,999,725,442	\$3,436,311,976	\$4,053,597,883

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



OFFICE BUILDINGS

As occupancy has continued to climb, landlords have seized the opportunity to raise rents. Impressive occupancy increases over the third quarter were accompanied by sizable gains in rental rates. Overall rents increased \$0.45 per square foot over the quarter to \$19.24 psf. The Class A market led the pack, gaining \$0.64 psf to \$22.46 psf as a bustling economy increased demand for top-flight space. Class B rents increased \$0.27 psf over the quarter to \$17.51 psf, while Class C rents posted an increase of \$0.20 psf to \$14.00 psf. Even Class D rents ended their long decline, gaining \$0.11 psf over the quarter to \$11.38 psf. Rental rates are likely to continue on an upward trend in the near future, as strong demand inspires landlords to capitalize by charging new and existing users higher prices.

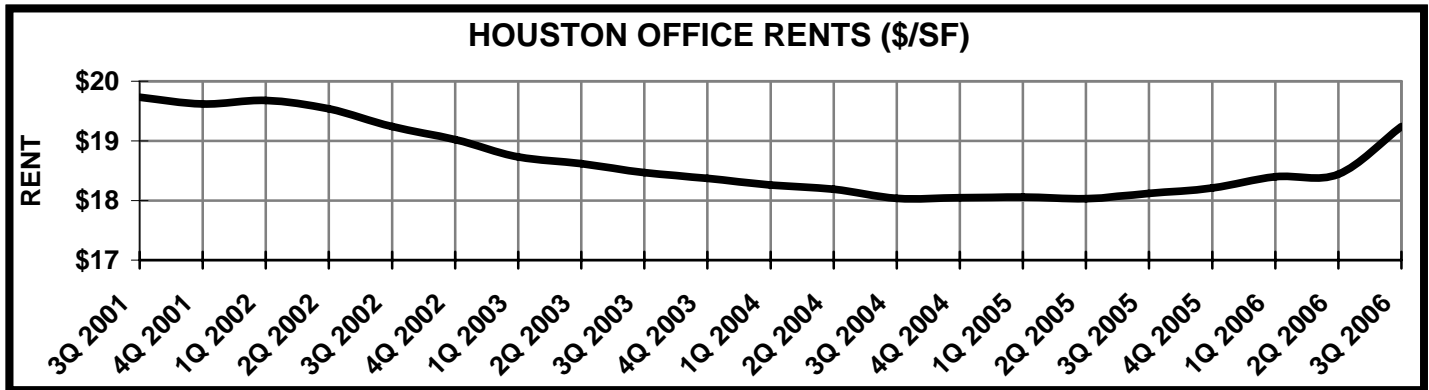
According to the O'Connor & Associates **Third Quarter 2006 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **85.76%** (Class A = 89.92%; Class B = 83.13%; Class C = 81.37%; Class D = 78.72%). The citywide annual multi-tenant office **rental rate** is **\$19.24 per square foot** (Class A = \$22.46; Class B = \$17.51; Class C = \$14.00; Class D = \$11.38).

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).

- **Equity Office Properties Trust** has agreed to be acquired by **The Blackstone Group** in a transaction valued at \$36 billion. Blackstone will pay \$20 billion, or \$48.50 per share, to Equity Office shareholders, and will assume \$16 billion in debt from Equity Office. The deal has been described as the largest takeover of a real estate firm in history. The deal is contingent upon approval by Equity Office shareholders. Equity Office owns 580 buildings in 16 states comprising more than 108,000,000 square feet of space. Equity Office's only Houston holding is **Parkwest Tower II (WES 012)**, a 350,000-square-foot building they are developing along Citywest Blvd. in Westchase (489V).
- **Granite Properties, Inc.** (713-781-8000) is planning to develop **Granite Westchase II (WES 152)**, a 318,000-square-foot office building located at 10350 Richmond Ave. in Westchase (489Z). The building, which will be constructed according to LEED guidelines, will include a parking garage. The building is 37% preleased; **Petrobras America, Inc.** has leased 70,000 square feet, while **Malone & Bailey, P.C.** has leased 47,000 square feet. Quoted rents at the building are \$20.00 per square foot. Construction is scheduled to commence in December 2006, with completion slated for the spring of 2008. **Bubba Harkins** of Granite Properties is handling leasing.
- **The Woodlands Development Co.** (281-719-6100), is developing **24 Waterway Ave. (TWC 090)**, a 308,000-square-foot building located in The Woodlands (449H). The building will include 268,000 square feet of Class A office space, as well as a 40,000-square-foot retail component (**FNO 286**). Rents for the office component are \$19.00 per square foot. Construction is under way, with completion scheduled for December 2007. **Dennis Conine** of **Binswanger, Conine, & Robinson** is handling office leasing, while **Chris Pitts** of **Page Partners** is handling retail leasing.
- A joint venture between **Radler Enterprises** (281-440-8595) and **Yancey-Hausman** (713-462-8802) is developing a 155,000-square-foot office building (**GNB 158**) in the **Beltway Lakes** development at Beltway 8 and Highway 249 in northwest Houston (370U). Quoted rental rates at the building are \$16.50 per square foot. Construction is scheduled to begin in February 2007, with completion expected at the end of the year. **David Carter** of Yancey-Hausman is handling leasing.
- **Dienna Nelson Augustine Co.** (713-686-1222) is planning to develop a 144,000-square-foot office building (**NNW 225**) located at 11210 Equity Dr. in northwest Houston (449H). The building is 50% preleased. Construction is scheduled to begin in December 2006, with a targeted completion of December 2007. **Pete Dienna** is handling leasing for Dienna Nelson Augustine.
- **Myers, Crow & Saviers, Ltd.** (713-465-8600) is developing **Northbelt Office Center V (GNB 157)**, a 135,000-square-foot office building located at 500 N. Sam Houston Pkwy. W. in north Houston (372U). The building, which will be the fifth building in **Greens Crossing Office Park**, will feature large floor plates. Quoted rental rates are \$14.50 per square foot. Construction on the building is underway, with completion slated for June 2007. **Greg Mondshine** is handling leasing.

- **The Work Organization** (713-851-3628) is planning to develop **Colonial Lakes Office Park**, a 48,000-square-foot office condominium development located at 4501 Cartwright Rd. in Missouri City (609B). The development will feature 64 for-sale office condominiums in 9 buildings. Unit sizes will range from 750 to 6,000 square feet, with prices at \$160 per square foot. Units will feature hardwood floors, loft ceilings, and granite countertops in kitchens. Construction is scheduled to begin in December, with an expected completion of summer 2007.

The following chart illustrates historical office rents.



Transwestern (713-270-7700) purchased an ownership interest in **1800 West Loop South (GAL 115)**, a 400,000-square-foot Class A building in the Galleria area (491R), from **Easton Group**. The 24-year-old building is 68% occupied with average rents at \$21.50 per square foot. Easton Group will continue to hold an ownership stake in the building, which Transwestern will now lease and manage.

RPD Catalyst, LLC (310-557-1311) purchased **Northwest One (NNW 086)**, a 125,000-square-foot Class B building located at 13100 Northwest Fwy. in northwest Houston (450D), from **Caldwell Watson Real Estate Group**. The 24-year-old building is 83% occupied with average rents at \$18.50 per square foot. The buyer was represented in-house by **Scott Dew**, while **Rudy Hubbard** and **Leah Gallagher** of **Transwestern** represented the seller. RPD Catalyst also purchased **Westchase One (WES 084)** and **Westchase Two (WES 085)**, two Class B office buildings totaling 141,000 square feet located at 3000 and 3100 Wilcrest in the Westchase District (489Y), from **Synermark Investments**. Westchase One is 80% occupied with average rents at \$16.00 per square foot, while Westchase Two is 44% occupied with average rents at \$14.25 per square foot. The buyer plans to renovate the buildings, and has retained **PM Realty Group** to handle leasing.

Andrews Kurth, LLP extended their lease for 223,000 square feet in **JP Morgan Chase Tower (CBD 057)**, a 1,683,000-square-foot Class A building located at 600 Travis in the Central Business District (493L), from **Prime Asset Management** (713-228-7261). Prime Asset Management also leased 100,000 square feet to **Winstead, Sechrest & Minick** in the same building. The 24-year-old building is 82% occupied with average rents at \$28.00 per square foot. In both leases, **Charles Gordon** and **Lance McCarthy** of **CB Richard Ellis** represented the tenant, while **David Kelley** and **Ronnie Martin** of **Hines** represented the landlord.

St. Paul Travelers Cos., Inc. leased 140,000 square feet in **Houston Intellicenter (NNW 220)**, a 150,000-square-foot building located at 4650 Westway Park Blvd. in northwest Houston (449H), from **Koill Development Co.** (214-696-1700). The building, which is proposed, is 99% preleased and has an expected completion of July 2007. **Tom Maloney** and **David Bale** of **The Staubach Co.** represented the tenant, while **Phil Arnett** and **Kyle Kelley** represented the landlord.

Gulf South Pipeline Co. leased 74,000 square feet in **9 Greenway Plaza (GPL 023)**, a 747,000-square-foot Class A building in southwest Houston (492X), from **Crescent Real Estate Equities Co.** (713-840-1170). The 28-year-old building is 46% occupied with average rents at \$20.25 per square foot. **Christopher Oliver** of **Cushman & Wakefield** represented the tenant, while the landlord was represented in-house by **Warren Savery** and **Rosemary Kogler**.

SPN Resources leased 35,000 square feet in **Three Northborough (GNB 060)**, a 156,000-square-foot Class B building located at 12707 North Fwy. in north Houston (372L), from **IRP/Lincoln Northborough Associates**. The 23-year-old building is 97% occupied with average rents at \$19.50 per square foot. **Christopher Klein** of **Colliers International** represented the tenant, while **J.P. Hutcheson** and **Kevin Wyatt** of **Lincoln Property Co.** represented the landlord.

Diamond McCarthy leased 23,000 square feet in **2 Houston Center (CBD 018)**, a 1,025,000-square-foot Class A building located at 909 Fannin in the Central Business District (493Q), from **Crescent Real Estate Equities Co.** (713-840-1170). The 32-year-old building is 94% occupied with average rents at \$24.14 per square foot. **Christopher Oliver** and **Trey Strake III** of **Cushman & Wakefield** represented the tenant, while the landlord was represented in-house by **Warren Savery** and **Rosemary Kogler**.

Mohle Adams leased 15,000 square feet in **Baker-Hughes Building (GPL 017)**, a 236,000-square-foot Class B building located at 3900 Essex Lane in the Greenway Plaza area (492S), from **Linbeck Corp.** (713-621-2350). The 23-year-old building is 44% occupied with average rents at \$19.50 per square foot. **Steve Jenkins** represented the tenant, while **Richard Barbles** and **Stewart Smith** of **Fuller Realty Partners** represented the landlord.

RETAIL CENTERS

While the news over the past month or so has been mostly positive for most retail outlets, it has not been much of a month for the world's largest retailer. Wal-Mart is expected to announce a decline in same-store sales for November, its first decline in over 10 years, and has forecast minimal same-store gains for December. In contrast, same-store sales at Target exceeded Wall Street expectations for November, while Federated Department Stores, parent of Macy's, far surpassed expected numbers. Wal-Mart is also facing an ongoing backlash from communities. San Diego recently passed a law that would prohibit Wal-Mart from building its Supercenter stores within the city limits. Citizens' groups nationwide continue to fight planned Wal-Mart stores; a planned store as part of a redevelopment of an aging retail center in Austin has drawn the ire of neighborhood residents. However, while the discouraging developments may mean Wal-Mart's uncanny record of success is ending or at least slowing, there is little reason to expect anything but positive results from the retail sector as a whole in the coming months.

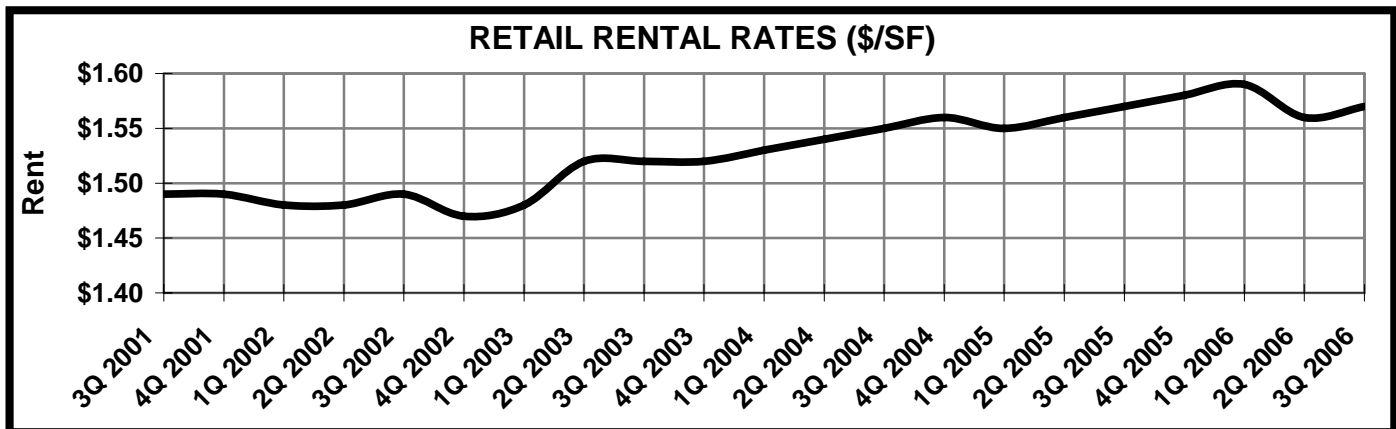
According to the O'Connor & Associates **Third Quarter 2006 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.51%** (Regional = 86.03%; Community = 86.45%; Neighborhood = 85.06%; Strip = 84.36%). Occupancy is down 0.06 points over the last quarter, and 0.88 points over in the past 12 months. The citywide monthly multi-tenant retail **rental rate** is **\$1.57 per square foot** (Regional = \$2.89; Community = \$1.52; Neighborhood = \$1.15; Strip = \$1.13). Overall rents are up \$0.01 from the first quarter, and unchanged from 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).

- **Cencor Realty Services** (713-781-7111) is planning to develop a 60,000-square-foot retail center (**FSE 386**) located at S. Egret Bay Blvd. and League City Parkway in League City (659Q), near the **Tuscan Lakes** development. The center, which will be anchored by **LA Fitness**, is 77% preleased with average rents at \$2.00 per square foot. Construction on the center is scheduled to begin in January, with completion expected during the second quarter of 2007. **James Namken** of **The Weitzman Group** is handling leasing.

- **Triyar Cannon Group** (310-475-1823) has placed its Texas malls, including 4 Houston-area malls, up for sale. The malls include: **Greenspoint Mall (FNO 009)**, a 1,706,000-square-foot mall located at 12300 North Fwy. in north Houston (372Q) that is 77% occupied; **Mall of the Mainland (FSE 097)**, a 782,000-square-foot mall located at 10000 Emmett F. Lowry Expressway in Texas City (700X) that is 68% occupied; **Pasadena Town Square (NSE 024)**, a 745,000-square-foot mall located at 171 Pasadena Town Square in Pasadena (536R) that is 86% occupied; and **San Jacinto Mall (NOE 116)**, a 1,128,000-square-foot mall located at 6801 Garth Rd. in Baytown (461X) that is 66% occupied. **Grubb & Ellis** is marketing the malls for sale.
- **Blum's Furniture** is planning to close its only location at 5927 Westheimer in west Houston. The store, which opened in 1972, is currently holding a going-out-of-business sale, and will close once all floor merchandise is sold. Owners Morris and Ann Blum do not plan to sell the building, and will instead lease it, citing a desire to preserve the building. **Wayne Bridgeford** of **Grubb & Ellis** is handling leasing for the 36,000-square-foot building, which has a quoted rent of \$0.77 per square foot.
- According to a report by the consulting firm of **Challenger, Gray & Christmas**, retailers will hire approximately 570,000 new employees for the holidays this year. Retailers added approximately 126,100 jobs in October, and the firm expects retailers to add about as many workers this November and December as they did over the same two-month period in 2005 as they are able to better estimate how heavy traffic will be during the holidays.
- The **2006 AOL Shopping/Zogby International Poll** ranks Houston 6th in projected online shopping nationwide during the holiday season. According to the poll, the average Houston online shopper plans to spend \$527.96 online this holiday season. The poll also found that 23% of consumers will spend more than half of their holiday shopping budget online, and that 24% of Houston shoppers plan to spend more money online this holiday season than last year. New York City was 1st on the list, as the poll projected that the average shopper there would spend nearly \$1,500 online this holiday season.

The following chart illustrates historical retail rents.



NewQuest Properties (713-468-0600) purchased **Westheimer Market Place (FWE 141)**, a 136,000-square-foot center located at 12523-12555 Westheimer in west Houston (488V), from **Regency Centers Corp.** and **Macquarie CountryWide Trust**. The 13-year-old center is 98% occupied with average rents at \$1.50 per square foot. The buyer was represented in-house by **Jay Sears**. In addition, **24 Hour Fitness** leased 60,000 square feet at the center.

Maggie Placer, LLC purchased a 20,000-square-foot retail building (**NNW 327**) located at 13902 Northwest Fwy. in northwest Houston (410Y), from **Granite Properties**. The year-old building is fully leased to **K&G Men's Warehouse**. **Steve King** of **CB Richard Ellis** represented the buyer, while **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

Burlington Coat Factory leased 80,000 square feet in a 101,000-square-foot former **Target (FNO 184)** at **Greens Crossroads Shopping Center**, located at 205 W. Greens Rd. in north Houston (372R), from **Schreer Management** (713-681-6000). The 24-year-old center is 81% occupied. **John Graul** represented the tenant, while **Shawn Ackerman** and **Jason Gaines** of **Henry S. Miller Commercial** represented the landlord.

Rio Northwest Entertainment leased 15,000 square feet in **Northwest Mall (NNW 098)**, a 895,000-square-foot mall located at 9500 Hempstead Rd. in northwest Houston (451Z), from **Glimcher Realty Trust** (614-621-9000). The 38-year-old center is 74% occupied with average rents at \$1.54 per square foot. **Wayne Bridgeford** of **Grubb & Ellis** represented the tenant, while the landlord was represented in-house by **Joe Stockwell**.

Harbor Freight Tools leased 15,000 square feet in **North 45 Plaza (NRN 003)**, a 132,000-square-foot center located at 10822-10990 North Fwy. in north Houston (372Z), from **New Plan Excel Realty Trust** (713-665-2511). The 31-year-old center is 86% occupied with average rents at \$2.98 per square foot. **Wayne Bridgeford** of **Grubb & Ellis** represented the tenant, while the landlord was represented in-house by **Christian Barraza**.

Kirkland's Home Outlet leased 14,000 square feet in **Westheimer Commons (FWE 045)**, a 250,000-square-foot center located at 12520-12586 Westheimer in west Houston (488V), from **New Plan Excel Realty Trust** (713-665-2511). The 22-year-old center is 77% occupied with average rents at \$1.10 per square foot. **Jack Breard** represented the tenant, while the landlord was represented in-house by **Kay Walker**.

Fallas Paredes leased 13,000 square feet in **5301 Telephone Rd. (SOU 007)**, a 31,000-square-foot center in south Houston (534R), from **Richard V. Adkins** (713-526-9600). The 51-year-old center is fully leased with average rents at \$0.65 per square foot. **Shawn Ackerman** and **Jason Gaines** of **Henry S. Miller Commercial** represented the tenant, while the landlord was self-represented in the transaction.

INDUSTRIAL FACILITIES

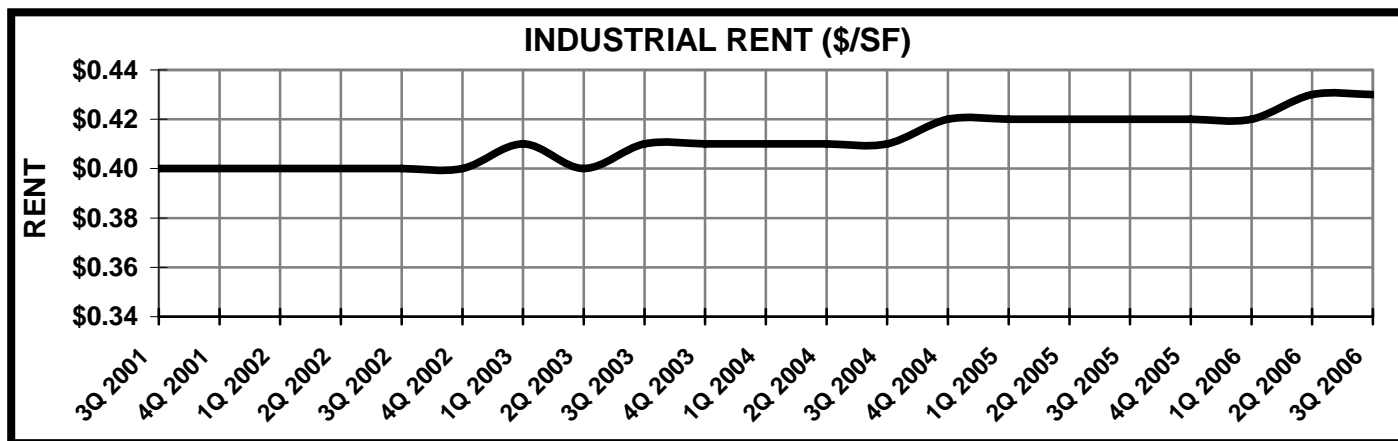
While the Houston industrial market has been a steady performer over the past two years, there are signs that the upward trend is coming to a close. Occupancy posted a substantial decline of 1.36 points over the third quarter, marking the first time in nearly two years occupancy has decreased. Sizable decreases in occupancy at warehouses and office/warehouse facilities were the major contributors to the overall decline. Experts have begun to point out that while certain areas of town remain strong, specifically areas near the Port of Houston, demand for industrial space in the area as a whole is tapering off. Furthermore, strong demand over the past two to three years had developers racing to build here, and projects are being delivered to market every month, raising fears that the market will become overbuilt. While the numbers are unlikely to drop too far, it appears that lower demand and a glut of new space will enable potential tenants to seek out good deals on industrial space.

According to the O'Connor & Associates **Third Quarter 2006 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.09%** (Flex = 87.71%; Bulk = 92.73%; Manufacturing = 93.55%, Service = 85.85%, Distribution = 88.30%, R&D = 95.30%). Occupancy is down 1.36 points from the last quarter, and down 0.53 points over the last year. The overall monthly **rental rates** remained flat at **\$0.43 per square foot** (Flex = \$0.45; Bulk = \$0.37; Manufacturing = \$0.35, Service = \$0.55, Distribution = \$0.40, R&D = \$0.61).

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).

- **Duke Realty** (713-353-3200) is developing two warehouses in the Houston area. One facility (**01360**), located at the intersection of Humble Westfield Rd. and Kenswick in north Houston (335S), in the **Houston Intercontinental Trade Center**, will have 158,000 square feet of space, while the other (**04750**), located near West Rd. and the Northwest Freeway in northwest Houston (409E), in **Westland Business Park**, will have 263,000 square feet of space. Rents at the Humble Westfield facility will be \$0.44 per square foot, while rents at the West Rd. facility will be \$0.38 per square foot. Both facilities will feature 28-foot clearance with dock-level loading. The West Rd. facility is scheduled to begin construction in December, with completion slated for June of 2007, while the Humble Westfield facility is expected to begin construction in February 2007, with completion slated for September 2007. **David Hudson** of Duke Realty is handling leasing.
- The **Port of Galveston** voted to end a lease with the **Port of Houston** at Galveston's Pier 10 container terminal. The Port of Houston agreed in 1997 to lease the terminal to use as a routing destination for its overflow cargo, with options to extend the lease to as long as 40 years. However, Galveston officials were unhappy with the deal, as the terminal has been sitting idle for years, creating no new jobs for longshoremen, and much of its equipment has fallen into disrepair. The Port of Houston is expected to approve the lease termination in December, after which Galveston plans to return the port to operation. Furthermore, the two ports plan to jointly develop a new container terminal on a 1,200-acre tract on Pelican Island, part of which is owned by the Port of Galveston, with the rest held by the Port of Houston.

The following chart illustrates historical industrial rents.



AMB Property II, LP (415-394-9000) purchased **JA Green International Cargo Center East (0412D)**, a 7-year-old, 558,000-square-foot distribution center located at 3340 A-D Greens Rd. in north Houston (374P); and **JA Green International Cargo Center (0411M)**, a 4-year-old, 334,000-square-foot office/warehouse facility located at 2928 A-D Greens Rd. in north Houston (374N), from **JA Green Development Co.** Both facilities are 93% occupied with average rents at \$0.62 per square foot. The facilities, which feature dock-level loading, will be managed and leased by **Stream Realty**.

Ross Nicholson purchased **Gemini Park (5288A)**, a 141,000-square-foot, 31-year-old office/warehouse facility located at 902 Gemini in southeast Houston (618U), and **903-905 Gemini (5289)**, a 41,000-square-foot, 36-year-old service center in southeast Houston (618T), from **Clear Lake Properties**. Both facilities are fully leased with average rents at \$0.50 per square foot. The facilities feature 17-foot clearance with dock-level loading. The buyer was self-represented in the transaction, while **John Ferruzzo** of **NAI Houston** represented the seller.

Myte Associates purchased **5520 Armour (3275)**, a 72,000-square-foot office/warehouse facility in southeast Houston (494Q), from **Trelltex, Inc.** The 51-year-old facility is fully leased. **Walker Barnett** of **Colliers International** represented the buyer, while **Clay Peeples** and **Dan Zoch** of **Boyd Commercial** represented the seller.

Weatherford US, LP (713-693-4000) purchased **7721 Pinemont (1339)**, a 68,000-square-foot office/warehouse facility located in northwest Houston (450H), from **American Alloy Steel**. Weatherford will occupy the 42-year-old facility. **Jay Jenckes** of **Grubb & Ellis** represented the buyer, while **Rob Stillwell** and **Bill Rudolf** of **Grubb & Ellis** represented the seller.

Cabot Properties (617-723-7400) purchased **Northwest Crossing Park (0564)**, a 62,000-square-foot office/warehouse facility located at 7701 W. Little York in northwest Houston (409T), from **Cadence McShane Corp.** The 5-year-old facility is 70% occupied with average rents at \$0.65 per square foot. The facility features 18-foot clearance with dock-level loading. **Rusty Tamlyn** and **Ralph Tullier** of **Trammell Crow Co.** represented the seller.

Whitestone Capital Group (713-270-0631) purchased **12810 Jess Pirtle (4180Y)**, a 19,000-square-foot office/warehouse facility in Sugar Land (568G), from **Brown Family Properties**. The 4-year-old facility, which features 15- and 20-foot clearance and grade-level loading, is owner occupied. The buyer was represented in-house by **Pat Miles**, while **Thad Hickman** and **Tyndall Yaap** of **Grubb & Ellis** represented the seller.

Centurion Holdings, LLC purchased **5810 Windfern (1258)**, a 12,000-square-foot warehouse located in northwest Houston (450B), from **Mesa Engineering, Inc.** The 22-year-old facility, which features 15-foot clearance and dock-high loading, will be owner occupied. **Mark Lehman** of **Grubb & Ellis** represented the buyer, while **Thad Hickman** and **Tyndall Yaap** of **Grubb & Ellis** represented the seller.

Midland Commodities leased a 163,000-square-foot warehouse located at **8790 Wallisville Rd. (3483)** in northeast Houston (495B), from **TA Associates Realty** (617-476-2700). Average rents at the 34-year-old facility, which features 24-foot clearance with dock-level loading, are \$0.28 per square foot. **Doyle Toups** of **Grubb & Ellis** represented the tenant, while **Jon Michael** and **Edward Bane** of **Holt Lunsford Commercial** represented the landlord.

Vintage Sports Cards leased 82,000 square feet in **410 S. Trade Center (0003A)**, a 185,000-square-foot office/warehouse facility in The Woodlands (218P), from **Sealy & Co.** (713-688-6300). The 26-year-old facility is fully leased with average rents at \$0.48 per square foot. **Bill Cole** represented the tenant, while **Edward Bane** of **Holt Lunsford Commercial** represented the landlord.

PFI leased 38,000 square feet in **Pine Forest Business Center 9 (1981A)**, a 151,000-square-foot office/warehouse facility located at 3552 Yale St. in north Houston (452R), from **Cabot Properties** (617-723-7400). The 32-year-old facility is fully leased. The facility features 20-foot clearance with dock-level loading. **Andrew Sowell** of **Boyd Commercial** represented the tenant, while **Cory Driskill** of **Trammell Crow Co.** represented the landlord.

Texas Pack Rat Houston leased 32,000 square feet in **9330 W. Airport Blvd. (5058M)**, a 128,000-square-foot distribution center in south Houston (570A), from **Holt Lunsford Commercial** (713-850-8500). The 2-year-old facility, which features 24-foot clearance with dock-level loading, is 65% occupied. **Conrad Bernard** of **Boyd Commercial** represented the tenant, while the landlord was represented in-house by **Edward Bane**.

Wayne Enterprises leased 29,000 square feet in **Bondesen Distribution Center (0595N)**, a 273,000-square-foot office/warehouse facility located at 10633 W. Little York in northwest Houston (409U), from **DCT Industrial Trust** (303-597-2400). The 5-year-old facility is fully leased with average rents at \$0.53 per square foot. The facility features 24-foot clearance with dock-level loading. **Jeff Venghaus** of **The Staubach Co.** represented the tenant, while **Walter Menuet** and **Ryan Cropper** of **Vantage Companies** represented the landlord.

Lane Home Furnishings leased 24,000 square feet at **Northwest Point Distribution Center Phase I (0582G)**, a 234,000-square-foot facility located at 7150 Business Park Dr. in northwest Houston (409U), from **Principal Life Insurance Co.** (515-248-3944). The 8-year-old property is fully leased with average rents at \$0.31 per square foot. The facility features 24-foot clearance with dock-level loading. **Jeff Venghaus** of **The Staubach Co.** represented the tenant, while **Edward Bane** of **Holt Lunsford Commercial** represented the landlord.

Upgrades By Design leased 22,000 square feet at **2030 W. Sam Houston Pkwy. N. (1107A)**, a 100,000-square-foot warehouse located in west Houston (449U), from **TA Associates Realty** (617-476-2700). The 26-year-old facility is fully leased with average rents at \$0.38 per square foot. **Jon Michael** of **Holt Lunsford Commercial** brokered the lease.

DHV Valve Co. leased 16,000 square feet at **10810 W. Little York (0560C)**, a 126,000-square-foot distribution facility located in northwest Houston (409U), from **Principal Life Insurance Co.** (515-248-3944). The 8-year-old facility is fully leased with average rents at \$0.31 per square foot. The facility features 24-foot clearance with dock-level loading. **Debra Nouhra** of **Prudential Gary Greene** represented the tenant, while **Edward Bane** of **Holt Lunsford Commercial** represented the landlord.

AWC leased 14,000 square feet in **Pinemont Center (1320D)**, a 70,000-square-foot office/warehouse facility located at 4727-4747 S. Pinemont in northwest Houston (450G), from **Sutherland Properties, Inc.** (713-627-2290). The 6-year-old facility is 85% occupied with average rents at \$0.40 per square foot. **Chris Kugle** of **NAI Houston** represented the tenant, while **Walter Menuet** and **Ryan Cropper** of **Vantage Companies** represented the landlord.

Worldwide Corporate Housing leased 13,000 square feet in **Bondesen Business Park (0595)**, a 119,000-square-foot office/warehouse facility located at 10642-10646 W. Little York in northwest Houston (409U), from **Vantage Companies** (713-780-4300). The 5-year-old facility is 73% occupied with average rents at \$0.68 per square foot. The facility features 16- and 24-foot clearance with dock-level loading. **Jarret Venghaus** of **The Staubach Co.** represented the tenant, while the landlord was represented in-house by **Walter Menuet** and **Ryan Cropper**.

Lone Star Overnight leased 10,000 square feet in **Beltway 8 Business Park 3 (3824M)**, a 74,000-square-foot office/warehouse facility located at 10501 Kipp Way in southwest Houston (529U), from **Vantage Companies** (713-780-4300). The 6-year-old facility is 67% occupied with average rents at \$0.42 per square foot. **Bill Ginder** of **Caldwell Watson Real Estate Group** represented the tenant, while the landlord was represented in-house by **Walter Menuet** and **Ryan Cropper**.

VACANT LAND

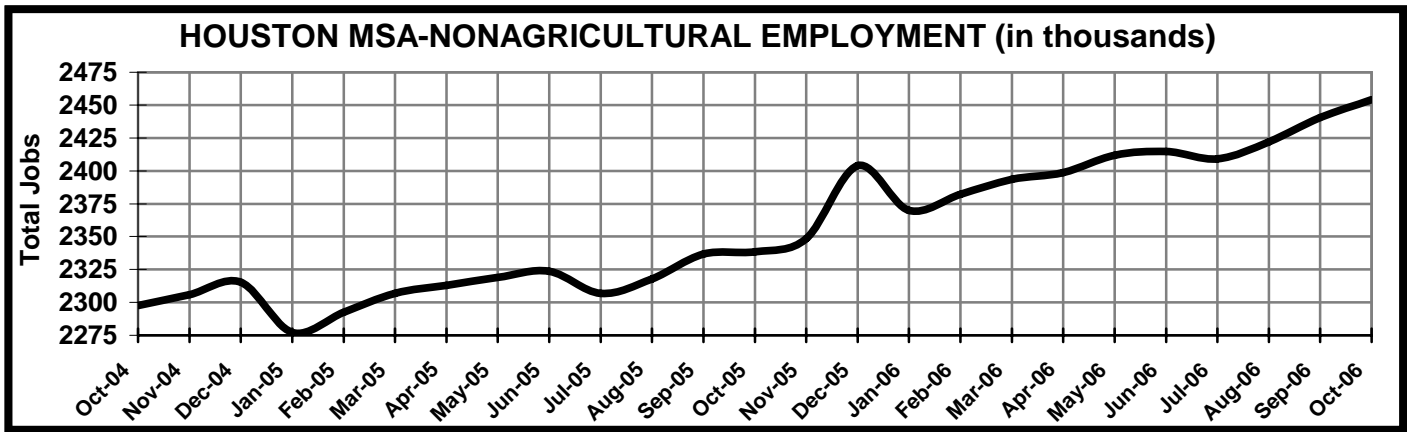
The **Aga Khan Foundation** purchased 11.3 acres of land along Allen Parkway and Montrose Blvd. just west of downtown (493J). The buyer plans to build an **Ismaili Center** on the property, including a prayer hall, classrooms, offices, and a social hall. The **Robinson Warehouse**, which is located on the property at 2323 Allen Parkway, is being demolished to make room for the project.

Landry's Restaurants (713-850-1010) has put the land formerly occupied by **Seahorse Motor Inn** at 3402 Seawall Blvd. in Galveston (774Z) back on the market, as a previous deal with a potential buyer fell through. Landry's plans to impose a no-compete clause on the buyer of the land, meaning the buyer will not be allowed to construct a full-service restaurant on the property.

ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **increased by 13,600 jobs** to 2,454,200 in October 2006, according to the **Texas Workforce Commission**. This month's total is **72,700 jobs more** than the 2,381,500 jobs at this time last year. Of nonagricultural employers, the Government sector posted the largest gain over the last month at 6,400 jobs, followed by the Trade, Transportation, & Utilities sector, with 3,600 jobs gained. Over the year, the Professional & Business Services sector has changed the most, adding 20,000 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 October 2006 were \$363.7 billion, a decrease of 0.2% from the previous month, but up 4.5% from October 2005. Retail trade sales were down 0.3% from September, but were 4.2% above last year's level. The largest annual sales increases were found in motor vehicles and parts dealers, where sales were up 10.1% from last year, and in nonstore retailers, where sales were up 8.6% from last year.

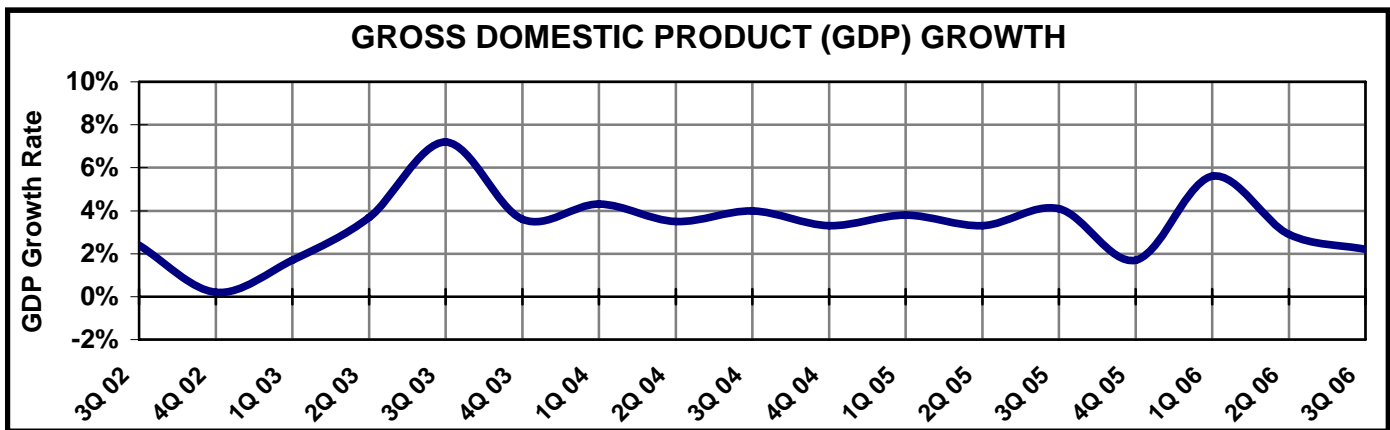
Personal income increased \$49.3 billion, or 0.4%, and Disposable Personal Income (DPI) increased \$33.1 billion, or 0.3%, in October 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$16.9 billion, or 0.2% in October 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers declined 0.5% in October 2006, and is 1.3% higher than October 2005. Food and beverages, medical care, and other goods and services posted the largest increases in price during October 2006.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to 105.4 in October 2006, down 0.4 points from 105.9, in September. 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 0.2% in October to 138.3. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production increased 0.2% in October after having decreased 0.6% in September, and is 4.9% higher than the October 2005 level. Output in the manufacturing sector declined 0.2% in October, output of utilities increased 4.1% over the month, while output at mines increased 0.6%. The rate of industrial capacity utilization was 82.2% in October, which represents a 0.1-point increase from the previous month, and a 2.0-point increase from the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.18% for the week ending November 22, 2006. One year ago, the 30-year FRM was at 6.28%. The average for the **15-year FRM** was 5.91% for the week ending November 22, 2006, up 0.10 points from one year ago.

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 2.2% in the third quarter of 2006, down from the 2.6% growth rate recorded in the second quarter of 2006. The increase in GDP during the third quarter was attributed to positive contributions from personal consumption expenditures, exports, equipment and software, nonresidential structures, and state and local government spending.



Source: Department of Commerce

The **U.S. Department of Commerce** reports that construction spending during October 2006 was estimated at a seasonally adjusted annual rate of \$1,178.4 billion, 1.0% below the revised September 2006 estimate. The October figure is 0.5% above the October 2005 estimate of \$1,172.6 billion. Private residential construction was at a seasonally adjusted annual rate of \$597.1 billion in October, 1.9% below the revised September estimate of \$608.8 billion, and 9.4% below the October 2005 estimate of \$659.3 billion.

The **Baker Hughes** count of active domestic rotary rigs is down from 1,744 in October to 1,697 in November. The rig count in November is up 13.8% from the November 2005 figure of 1,491 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

The **City of Galveston** is moving forward with plans to annex **Municipal Utility District No. 1**, which includes the West End communities of Pirates Cove and Pirates Beach. The city forged an agreement with the district in 1996 under which the district paid the city not to annex its property. However, the city plans to annex the property when the agreement expires at the end of the year, as the move would increase Galveston's property tax base by an estimated 10 percent. The city has held public hearings on the matter, and the decision will become official as soon as the Galveston City Council gives its final approval.

A group of Houston janitors who are members of the **Service Employees International Union** reached an agreement with several janitorial services firms to end their strike. The agreement provides janitors with pay raises in 2007, 2008, and 2009, paid holidays and vacation time, and a health insurance plan. The 5,300 janitors that are members of the union represent approximately 72% of janitorial staff in Houston.

According to the 2006 list of **Top Business Climates**, published by **Site Selection** magazine, Texas ranks among the top states in the nation to do business. Texas was ranked second in the nation, trailing only North Carolina. Rankings were determined by analyzing performance in terms of new and expanded business facility activity, as well as by a survey of corporate site seekers, who were asked to rank the top ten business climates. Ohio, Georgia and Tennessee were the other states making up the top five on the list.

The **Holiday Inn Houston Hobby Airport** recently reopened after a \$1 million renovation. The hotel, located at 8611 Airport Blvd., received guestroom upgrades including ergonomic desk chairs, as well as renovations to its restaurant, fitness center, and public spaces. The hotel, which offers 24-hour transportation to Hobby Airport, caters to mostly business travelers, as well as travelers whose flights have been delayed. The property was formerly known as the **Ramada Plaza Hobby Airport/Houston**.

Moody National Companies (713-977-7500) purchased a **Hampton Inn** located at 11333 Katy Fwy. in west Houston (489B) from **Mississippi Hospitality Development Co.** The 120-room hotel features a business center, meeting rooms, fitness center, and pool. **Aries Capital** represented the seller.

Among changes proposed by **North Star Destination Strategies**, a consulting firm hired by the **Galveston Island Convention and Visitors Bureau** to do a marketing study, was changing the name of the city to the City of Galveston Island. However, **Mayor Lyda Ann Thomas** has said she is against a name change, and according to the bureau, the change is not being considered. The bureau does plan to implement many of the study's proposals, including a new logo.

Construction has begun on **St. Luke's Sugar Land Hospital**, a 106-bed hospital located at the intersection of the Southwest Freeway and Highway 6 in Sugar Land, in **Lake Pointe Town Center**. The hospital will offer women's services, a pediatric unit, and comprehensive diagnostic and imaging services. Completion of the hospital is scheduled for 2008.

According to **PKF Consulting**, Houston hotel occupancy was down 11% in September compared to September 2005. A decline in occupancy was expected, as Houston hotel occupancy was bolstered by Hurricane Katrina evacuees last year.

Two Houston companies were recently recognized on **G.I. Jobs' 2006 Top Military-Friendly Employer List**. **KBR, Inc.** ranked 12th, while **FMC Technologies, Inc.** ranked 43rd. Texas' 10 companies on the list were more than any other state. Companies were evaluated on their efforts to recruit members of the military, policies for reserve and National Guard members called to active duty, and efforts to support veteran promotional programs.

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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